Second Quarter 2014 Report

Making a Difference in People's Lives

ConvaTec

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Risk factors

Investing in our Company involves risk. You should carefully consider the discussion of risk factors beginning on page 47 of our Annual Report for the year ended December 31, 2013, which is available on our website. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. There have been no material changes to these risk factors, other than noted below.

Material weaknesses in internal control over financial reporting

In preparing our consolidated financial statements as of and for the year ended December 31, 2013, we identified control deficiencies in the design and operation of our internal control over financial reporting that together constituted material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. The material weaknesses identified related to the corporate governance and oversight of the financial reporting process, the lack of transition planning related to a workforce reduction, and revenue recognition. As such, our controls over financial reporting were not designed or operating effectively. We have taken steps to begin remediating these material weaknesses as of the date of the issuance of our condensed consolidated financial statements for the three and six month periods ended June 30, 2014, and expect to continue to take additional actions in connection with the remediation process. However, we can give no assurances that the measures we take will remediate the material weaknesses identified or that any additional material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting.

Management's discussion and analysis of financial condition and results of operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our Condensed Consolidated Financial Statements and related notes beginning on page F-1 of this report. For additional context with which to understand our financial condition and results of operations, see the MD&A beginning on page 15 of our Annual Report for the year ended December 31, 2013, as well as the Condensed Consolidated Financial Statements and related notes contained therein (the "2013 Annual Report"). The 2013 Annual Report is available on our website.

Forward-looking statements

This MD&A and other sections of this report contain "forward-looking statements" as defined by the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These statements include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These forward-looking statements may include, without limitation, statements regarding: the impact of global and local operating economic conditions on our financial results; the anticipated effect of a new tax on medical devices; the impact of health reform and new regulations on our business and our ability to offset any related pricing pressures; anticipated seasonal fluctuations in our results of operations; the effect of pending and future lawsuits, claims, proceedings and investigations, including those relating to environmental regulations, on our results of operations, cash flows, financial condition or liquidity; expectations regarding the adequacy of our cash and cash equivalents and other sources of liquidity for ongoing operations; expectations regarding investment plans and capital expenditures; projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; management's goals and objectives; and other similar matters that are not historical facts. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Please consider the disclosure of risk factors beginning on page 47 of the 2013 Annual Report along with page 2 of this Quarterly Report for a discussion of some of these risks and uncertainties.

Overview

We are a global medical products and technologies company, with leading market positions in ostomy care, wound therapeutics, continence and critical care, and infusion devices. Our products provide a range of clinical and economic benefits, including infection prevention, protection of vulnerable skin, improved patient outcomes and reduced total cost of care.

Ostomy Care Our Ostomy Care franchise includes devices and accessories for people with an ostomy (a surgically-created opening or "stoma" where bodily waste is discharged), commonly resulting from colorectal cancer, inflammatory bowel disease, bladder cancer and other causes.

Wound Therapeutics Our Wound Therapeutics franchise includes advanced wound dressings and skin care products. These dressings and products are used for the management of acute and chronic wounds, such as those resulting from traumatic injury, burns, surgery, diabetes, venous disease, immobility and other factors.

Continence and Critical Care Our Continence and Critical Care ("CCC") franchise includes devices and products used in intensive care units and hospital settings. The franchise also includes products for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes.

Infusion Devices Our Infusion Devices franchise, previously referred to as Infusion Devices/Industrial Sales, provides disposable infusion sets to manufacturers of insulin pumps for diabetes and similar pumps used in continuous infusion treatments for other conditions (e.g., Parkinson's disease). In addition, the franchise supplies a range of products to hospitals and the home health care sector.

Key factors influencing our results of operations

Our results of operations have been, can be or will be affected by the following factors.

The economic environment and regulatory reform

Our results of operations are affected not only by global economic conditions but also by local operating and economic conditions, which can vary substantially by market. Certain macroeconomic events, such as adverse conditions in the global economy, can have a more wide-ranging and prolonged impact on the general business environment and thus materially and adversely affect us.

The health care industry is subject to various government-imposed regulations and cost containment programs, which could have far reaching impacts on our business. Increasing per capita health care consumption in developed markets as a result of increased longevity, increased incidence of chronic illnesses, defensive medicine and other factors have driven health care reforms in many countries where we sell our products. Combined with a slow recovery from the global recession and government austerity programs, health care reforms have generally been accelerated in an effort to reduce overall health care spending. As a result, there has been an increased emphasis on primary care and prevention as well as technologies that improve health outcomes, cost effectiveness and the efficiency of care. Payment incentives that reward "quality of care" rather than "quantity of care" are becoming more common.

In the United States ("U.S."), reforms mandated by the Affordable Care Act ("ACA") have, among other things, placed increased downward pressure on hospital profitability as a result of increased regulation and risk of payment penalties. This pressure, in turn, could reduce consumption of our products, require us to provide higher evidence of the benefits of new technologies and create increased group purchasing organization ("GPO") pricing pressures. Some of these impacts, like GPO pricing, are spread over several years due to multi-year contracts.

The ACA expanded the Competitive Bidding Program for Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) for medical devices sold in retail settings outside of the hospital. The expansion of this program to most of the largest metropolitan areas beginning in July 2013 accelerates consolidation of the retail supplier market. None of the products manufactured by ConvaTec are in categories included in the Competitive Bidding Program, although a small number of products sold by ConvaTec's retail operations are impacted by the program. Impacts as a result of supplier consolidation are also possible as a result of the program. The ACA has also imposed a 2.3% excise tax on medical device manufacturers' domestic sales beginning January 1, 2013. We believe that many of ConvaTec's products meet the "retail exemption" requirements of the Facts and Circumstances Tests, as outlined in the final rule issued by the Internal Revenue Service ("IRS") and are, thus, exempt from the tax. Further, the final rule also defines a "Safe Harbor" for certain classes of devices categorized as prosthetic devices under the U.S. Social Security Act. We have determined the ostomy products category is included in the proposed IRS Safe Harbor regulations and is thereby also excluded from the tax.

In the United Kingdom ("U.K."), decentralization of large portions of the National Health Service ("NHS") is encouraging new business and contracting models involving economic decision makers. Reforms creating internal and external market forces on health care delivery, shifting care "closer to home" to less expensive settings and increasing focus on prevention and management of chronic disease are changing the landscape in which we sell. While the increased focus on quality and efficiency provides selling opportunities for our products with strong value messages for care providers and prescribers, this focus has yet to fully filter through to procurement bodies which still largely base decisions solely on price.
Sovereign debt issues and health care reforms in certain European countries are triggering government payers to implement cost cutting measures that result in reduced recognition of brand differences for medical technologies in reimbursement schemes, reduced consumption, slower uptake of innovations and higher clinical and health economic evidence requirements. Also, governmental procurement processes in certain countries are shifting away from regional tenders to national tenders. This shift increases pressure for obtaining contracts and on pricing.

We continue to monitor the potential impact of global economic conditions as well as government health care reform and the related impact on pricing discounts, creditworthiness of our customers and our ability to collect outstanding receivables from our customers. Currently, we believe the general economic environment will not have a material impact on our liquidity, cash flow or financial flexibility. Further, we believe our development of enhanced and innovative product offerings provides customers with strategic business solutions to help improve quality of care, patient outcomes and total cost of care. We believe that our product offerings are aligned with the current direction of health care policies and, as such, will be viewed positively by health care providers.

For further information regarding the potential impact of health care reform on our business, please refer to "Risk Factors".

Innovation and new products

Our business strategy includes development of innovative products that address unmet customer needs and differentiate us from our competitors. In addition to new product development, our Research and Development ("R&D") team strives to optimize the life cycles of innovative products in our existing portfolio by enhancing key features and leveraging technologies across our franchises. Looking forward, we remain committed to producing a pipeline of innovative products to continue to support our growth strategies and may supplement our internal development efforts with targeted scouting initiatives for innovative late stage or developed products in relevant areas of our business where we see opportunities for accelerating commercial growth. Our investment expense in R&D during the three months ended June 30, 2014 and 2013 was $8.8 million and $6.6 million, or 2.0% and 1.5% of net sales, respectively. The split of our R&D expense by franchise changes over time dependent on the quantity, type and stage of development of projects in the pipeline.

International and foreign exchange

We market our products in more than 100 countries and have 11 manufacturing operations located in eight countries throughout the world. Due to the global nature of our business, our revenue and expenses are influenced by foreign exchange movements. Increases or decreases in the value of the U.S. dollar compared to other currencies will affect our reported results as we translate those currencies into U.S. dollars.

Acquisitions

We may selectively pursue complementary acquisitions which would allow us to expand our scope and scale to further enhance our offering to our customers.

On January 1, 2014, we acquired all of the voting interest in Symbius Medical, LLC ("Symbius"), a national home medical supply company which provides urological and other medical supplies nationally, as well as durable medical equipment on a regional basis. Consideration for the acquisition totaled $44 million and is subject to further working capital adjustments. Of the consideration paid, $3.5 million was funded into escrow, primarily to satisfy potential future indemnity obligations. The addition of Symbius extends the Company's ability to serve customers directly.

Seasonality

The end-use of our products are generally not seasonal in nature because ostomy appliances, wound dressings, hospital related products and infusion sets are non-elective, chronic related use products that are used on a routine basis by end users. However, in any given year our sales may be weighted toward a higher percentage in the second half of the year. We believe this trend may be impacted by the following factors: (i) distributor buy-in prior to the winter holiday season; (ii) increased purchases from certain U.S. customers and GPOs to achieve certain contractual volume rebates or to use their allowable allotments under U.S. health care programs; (iii) annual discretionary price increases in the U.S. that have typically been made effective during the fourth quarter of the year, thereby resulting in increased purchases prior to the effective dates of such increases; and (iv) reimbursement practices impacting purchasing trends such as in Ostomy Care, in which customers in the U.S. can purchase up to three months of ostomy supplies in one month and customers in Japan are given vouchers twice a year for the purchase of Ostomy care products.

Results of operations

The following table sets forth our historical net sales and expense items for each of the periods indicated.

(in millions of $)	For the Three Months ended June 30, 2014	For the Three Months ended June 30, 2013	For the Six Months ended June 30, 2014	For the Six Months ended June 30, 2013
Net sales[1][2]	**$ 438.2**	**$ 427.8**	**$ 874.3**	**$ 804.2**
Cost of goods sold	204.4	187.6	416.5	362.6
Gross profit	**233.8**	**240.2**	**457.8**	**441.6**
Selling and marketing expenses	103.6	97.0	202.8	183.7
General and administrative expenses	47.2	50.7	102.1	101.5
Research and development expenses	8.8	6.6	16.5	12.9
Operating income	**74.2**	**85.9**	**136.4**	**143.5**
Interest expense	115.0	111.1	230.1	222.6
Foreign exchange loss (gain)	10.4	0.9	11.9	(6.7)
Other expense (income), net	0.1	(0.1)	0.2	(1.1)
Loss before income taxes	**(51.3)**	**(26.0)**	**(105.8)**	**(71.3)**
Provision for income taxes	8.1	10.6	17.4	13.2
Net loss	**$ (59.4)**	**$ (36.6)**	**$ (123.2)**	**$ (84.5)**

(1) Net sales are comprised of sales of our products net of rebates and discounts.
(2) During the three months ended June 30, 2014, we recorded a deduction of $6.8 million from net sales to correct a non-material error in our previously reported financial results for the three months ended March 31, 2014. The error related to an under-accrual at March 31, 2014 for prime vendor chargebacks.

Net sales and Operations

Comparison of the three months ended June 30, 2014 and June 30, 2013

Net sales by franchise

We analyze our net sales by franchise. Net sales are comprised of the sales of our products net of returns, sales incentives and chargebacks. The following table sets forth our historical net sales by franchise for the three and six months ended June 30, 2014 and 2013. The table also presents the percentage change on a reported and constant exchange rate basis. Net sales on a constant exchange rate basis are a non-GAAP financial measure and should not be viewed as a replacement of GAAP results. Such a measure is presented because we believe it enables us to focus on the actual performance related changes in the results of operations from period to period without the effects of exchange rates.

In the first quarter of 2014, we modified our management and reporting of our Infusion Devices franchise. As a result of this change, and to better align our disclosures with current franchise management, certain sales that were previously part of our Infusion Devices franchise are now included in our CCC franchise. For comparability purposes, we have reclassified similar amounts for the prior period presented. For the three months ended June 30, 2013, $5.0 million has been reclassified from Infusion Devices to CCC.

(in millions of $)	Three Months ended June 30, 2014	2013	Percentage change As reported	Percentage change At constant exchange rate
Net sales by franchise				
Ostomy Care	$ 146.4	$ 154.7	-5.4%	-7.2%
Wound Therapeutics	133.4	127.4	4.7%	2.7%
Continence & Critical Care	86.1	79.7	8.0%	7.2%
Infusion Devices	72.3	66.0	9.5%	7.7%
Total net sales[1]	**$ 438.2**	**$ 427.8**	**2.4%**	**0.7%**

(1) During the three months ended June 30, 2014, we recorded a deduction of $6.8 million from net sales to correct a non-material error in our previously reported financial results for the three months ended March 31, 2014. The error related to an under-accrual at March 31, 2014 for prime vendor chargebacks.

Ostomy Care net sales

Net sales in our Ostomy Care franchise for the three months ended June 30, 2014 were $146.4 million, a decrease of $8.3 million, or approximately 5.4%, from $154.7 million for the three months ended June 30, 2013. At a constant exchange rate, Ostomy Care net sales decreased 7.2% due principally to decreased volume in EMEA, Asia Pacific, and the error correction of the first quarter.

Wound Therapeutics net sales

Net sales in our Wound Therapeutics franchise for the three months ended June 30, 2014 were $133.4 million, an increase of $6.0 million, or approximately 4.7%, from $127.4 million for the three months ended June 30, 2013. At a constant exchange rate, Wound Therapeutics net sales increased 2.7%, driven mainly by new products particularly in EMEA, partially offset by the first quarter error correction.

Continence & Critical Care net sales

Net sales in our CCC franchise for three months ended June 30, 2014 were $86.1 million, an increase of $6.4 million, or approximately 8.0%, from $79.7 million for the three months ended June 30, 2013. At a constant exchange rate, CCC net sales increased 7.2%. The increase in net sales was primarily related to incremental sales from the Symbius acquisition and increased demand, partially offset by the error correction in the first quarter.

Infusion Devices net sales

Net sales in our Infusion Devices franchise for the three months ended June 30, 2014 were $72.3 million, an increase of $6.3 million, or approximately 9.5%, from $66.0 million for the three months ended June 30, 2013. At a constant exchange rate, Infusion Devices net sales increased 7.7% primarily driven by volume growth.

Costs and expenses

The following is a summary of costs and expenses.

(in millions of $)	Three Months ended June 30, 2014	2013	Percentage of net sales 2014	2013
Operating costs and expenses:				
Cost of goods sold	$ 204.4	$ 187.6	46.6%	43.8%
Selling and marketing	103.6	97.0	23.6%	22.7%
General and administrative	47.2	50.7	10.8%	11.9%
Research and development	8.8	6.6	2.0%	1.5%
Total operating costs and expenses	**$** 364.0	**$** 341.9	83.1%	79.9%

Other costs and net expenses:		
Interest expense	$ 115.0	$ 111.1
Foreign exchange loss	10.4	0.9
Other expense (income), net	0.1	(0.1)
Provision for income taxes	8.1	10.6

In our discussion below, we may make mention of certain costs and expenses on a constant exchange rate basis. Costs and expenses on a constant exchange rate basis is a non-GAAP financial measure and should not be viewed as a replacement of GAAP results. Such a measure is presented because we believe it enables us to focus on the actual performance related changes in the results of operations from period to period without the effects of exchange rates.

Operating costs and expenses

Cost of goods sold

Cost of goods sold is primarily comprised of manufacturing and production costs, including raw materials, labor, overhead and processing costs and any freight costs borne by us in the transport of goods to us from suppliers. Cost of goods sold for the three months ended June 30, 2014 was $204.4 million, an increase of $16.8 million from $187.6 million for the three months ended June 30, 2013. As a percentage of net sales, cost of goods sold increased to 46.6% for the three months ended June 30, 2014 from 43.8% for the three months ended June 30, 2013.

Gross profit (net sales less cost of goods sold) decreased $6.4 million, or 2.7%, for the quarter and gross margin (gross profit as a percentage of net sales) was 53.4% in the three months ended June 30, 2014 as compared with 56.1% for the three months ended June 30, 2013. Gross margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the three months ended June 30, 2014 was 61.3%, as compared with 63.8% in the same prior year period. The decrease in gross margin is primarily due to pricing actions, product mix, and the correction of the $6.8 million first quarter error described above.

Selling and marketing

Selling and marketing expenses consisted of advertising, promotion, marketing, sales force, and distribution costs. Selling and marketing expenses were $103.6 million and $97.0 million for the three months ended June 30, 2014 and 2013, respectively. As a percentage of net sales, selling and marketing expenses were 23.6% for the three months ended June 30, 2014 as compared to 22.7% for the three months ended June 30, 2013. At a constant exchange rate, selling and marketing expenses increased $4.8 million primarily due to targeted sales initiatives and incremental costs associated with the Symbius acquisition.

General and administrative expenses

General and administrative ("G&A") expenses consisted of executive management, human resources, finance, information management, legal, facilities and other costs. G&A expenses for the three months ended June 30, 2014 were $47.2 million, a decrease of $3.5 million, or approximately 6.9%, from $50.7 million for the three months ended June 30, 2013. As a percentage of net sales, G&A expenses were 10.8% for the three months ended June 30, 2014, compared to 11.9% for the three months ended June 30, 2013. At a constant exchange rate, G&A expenses decreased $4.0 million due to executed cost savings initiatives.

Research and development expenses

R&D expenses consisted of product development and enhancement costs incurred within a centralized R&D function. Our R&D expenses for the three months ended June 30, 2014 were $8.8 million, an increase of $2.2 million from $6.6 million for the three months ended June 30, 2013. As a percentage of net sales, R&D expenses were 2.0% for the three months ended June 30, 2014, compared to 1.5% for the three months ended June 30, 2013. At a constant exchange rate, R&D expenses increased $1.8 million. Increases in spending for the three months ended June 30, 2014, compared to the same prior year period, were primarily related to an increase in regulatory compliance costs. R&D spending reflects a mix of internal development efforts and in-sourcing initiatives. Internal development efforts also include life cycle management of our existing technologies and products to maximize the value of our strategic brands.

Other costs and net expenses

Interest expense

Our interest expense for the three months ended June 30, 2014 was $115.0 million, an increase of $3.9 million from $111.1 million for the three months ended June 30, 2013. The compounding effect of accrued interest resulted in a year over year increase in interest expense, partially offset by lower interest rates on our term loans as a result of the refinancing transactions completed during the third quarter of 2013.

Foreign exchange loss

Foreign exchange loss is comprised of net gains and losses resulting from the re-measurement or settlement of transactions that are denominated in a currency that is not the functional currency of a transacting company subsidiary. For the three months ended June 30, 2014, the foreign exchange loss amounted to $10.4 million, an increase of $9.5 million from $0.9 million for the three months ended June 30, 2013. The foreign exchange activity during both comparative periods was primarily driven by intercompany activities, including loans transacted in non-functional currencies. Additionally the foreign exchange loss was impacted by a $2.2 million charge related to our adoption of highly-inflationary accounting for our Venezuela subsidiary.

Provision for income taxes

The provision for income taxes was $8.1 million and $10.6 million for the three months ended June 30, 2014 and 2013, respectively. The decrease in the provision for income taxes was driven by a change in profit mix among jurisdictions carrying varying tax rates.

Net loss

As a result of the above, net loss increased $22.8 million to a net loss of $59.4 million for the three months ended June 30, 2014, compared to a net loss of $36.6 million for the three months ended June 30, 2013.

Comparison of the six months ended June 30, 2014 and June 30, 2013

Net sales by franchise

We analyze our net sales by franchise. Net sales are comprised of the sales of our products net of returns, sales incentives and chargebacks. The following table sets forth our historical net sales by franchise for the six months ended June 30, 2014 and 2013. The table also presents the percentage change on a reported and constant exchange rate basis. Net sales on a constant exchange rate basis are a non-GAAP financial measure and should not be viewed as a replacement of GAAP results. Such a measure is presented because we believe it enables us to focus on the actual performance related changes in the results of operations from period to period without the effects of exchange rates.

In the first quarter of 2014, we modified our management and reporting of our Infusion Devices franchise. As a result of this change, and to better align our disclosures with current franchise management, certain sales that were previously part of our Infusion Devices franchise are now included in our CCC franchise. For comparability purposes, we have reclassified similar amounts for the prior period presented. For the six months ended June 30, 2013, $9.0 million has been reclassified from Infusion Devices to CCC.

	Six Months ended June 30,		Percentage change	
(in millions of $)	**2014**	**2013**	**As reported**	**At constant exchange rate**
Net sales by franchise				
Ostomy Care	$ 296.8	$ 294.2	0.9%	0.0%
Wound Therapeutics	276.8	244.7	13.1%	11.8%
Continence & Critical Care	178.3	152.3	17.1%	16.9%
Infusion Devices	122.4	113.0	8.3%	6.5%
Total net sales	**$ 874.3**	**$ 804.2**	**8.7%**	**7.7%**

Ostomy Care net sales

Net sales in our Ostomy Care franchise for the six months ended June 30, 2014 were $296.8 million, an increase of $2.6 million, or approximately 0.9%, from $294.2 million for the six months ended June 30, 2013. At a constant exchange rate, Ostomy Care net sales were essentially flat. Increases in the Americas were offset by declines in EMEA and Asia Pacific.

Wound Therapeutics net sales

Net sales in our Wound Therapeutics franchise for the six months ended June 30, 2014 were $276.8 million, an increase of $32.1 million, or approximately 13.1%, from $244.7 million for the six months ended June 30, 2013. At a constant exchange rate, Wound Therapeutics net sales increased 11.8%. The increase in net sales is primarily related to growth in new products in our EMEA and Americas markets.

Continence & Critical Care net sales

Net sales in our CCC franchise for six months ended June 30, 2014 were $178.3 million, an increase of $26.0 million, or approximately 17.1%, from $152.3 million for the six months ended June 30, 2013. At a constant exchange rate, CCC net sales increased 16.9%. The increase in net sales is mainly attributable to growth in demand in all major regions, coupled with incremental sales from the Symbius acquisition.

Infusion Devices net sales

Net sales in our Infusion Devices franchise for the six months ended June 30, 2014 were $122.4 million, an increase of $9.4 million, or approximately 8.3%, from $113.0 million for the six months ended June 30, 2013. At a constant exchange rate, Infusion Devices net sales increased 6.5% primarily driven by volume growth.

Costs and expenses

The following is a summary of costs and expenses.

(in millions of $)	Six Months ended June 30, 2014	2013	Percentage of net sales 2014	2013
Operating costs and expenses:				
Cost of goods sold	$ 416.5	$ 362.6	47.6%	45.1%
Selling and marketing	202.8	183.7	23.2%	22.8%
General and administrative	102.1	101.5	11.7%	12.6%
Research and development	16.5	12.9	1.9%	1.6%
Total operating costs and expenses	**$** 737.9	**$** 660.7	84.4%	82.2%

Other costs and net expenses:		
Interest expense	$ 230.1	$ 222.6
Foreign exchange loss (gain)	11.9	(6.7)
Other expense (income), net	0.2	(1.1)
Provision for income taxes	17.4	13.2

In our discussion below, we may make mention of certain costs and expenses on a constant exchange rate basis. Costs and expenses on a constant exchange rate basis is a non-GAAP financial measure and should not be viewed as a replacement of GAAP results. Such a measure is presented because we believe it enables us to focus on the actual performance related changes in the results of operations from period to period without the effects of exchange rates.

Operating costs and expenses

Cost of goods sold

Cost of goods sold is primarily comprised of manufacturing and production costs, including raw materials, labor, overhead and processing costs and any freight costs borne by us in the transport of goods to us from suppliers. Cost of goods sold for the six months ended June 30, 2014 was $416.5 million, an increase of $53.9 million from $362.6 million for the six months ended June 30, 2013. As a percentage of net sales, Cost of goods sold increased to 47.6% for the six months ended June 30, 2014 from 45.1% for the six months ended June 30, 2013.

Gross profit (Net sales less Cost of goods sold) increased $16.2 million, or 3.7%, and gross profit margin (Gross profit as a percentage of Net sales) was 52.4% in the six months ended June 30, 2014 as compared with 54.9% for the six months ended June 30, 2013. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the six months ended June 30, 2014 was 60.2%, as compared with 63.1% in the same prior year period. The margin decline was primarily due to pricing actions, a voluntary recall of our Flexi-Seal Control product, and an inventory revaluation, partially offset by the cost savings realized from manufacturing productivity initiatives.

Selling and marketing

Selling and marketing expenses consisted of advertising, promotion, marketing, sales force, and distribution costs. Selling and marketing expenses were $202.8 million and $183.7 million for the six months ended June 30, 2014 and 2013, respectively. As a percentage of net sales, Selling and marketing expenses were 23.2% for the six months ended June 30, 2014 as compared to 22.8% for the six months ended June 30, 2013. At a constant exchange rate, Selling and marketing expenses increased $17.6 million primarily due to targeted sales initiatives and incremental costs associated with the Symbius acquisition.

General and administrative expenses

General and administrative ("G&A") expenses consisted of executive management, human resources, finance, information management, legal, facilities and other costs. G&A expenses for the six months ended June 30, 2014 were $102.1 million, an increase of $0.6 million, or approximately 0.6%, from $101.5 million for the six months ended June 30, 2013. As a percentage of net sales, G&A expenses were 11.7% for the six months ended June 30, 2014, compared to 12.6% for the six months ended June 30, 2013. At a constant exchange rate, G&A expenses remained constant.

Research and development expenses

R&D expenses consisted of product development and enhancement costs incurred within a centralized R&D function. R&D spending reflects a mix of internal development efforts and in-sourcing initiatives. Internal development efforts may also include life cycle management of our existing technologies and products to maximize the value of our strategic brands. Our R&D expenses for the six months ended June 30, 2014 were $16.5 million, an increase of $3.6 million from $12.9 million for the six months ended June 30, 2013. As a percentage of net sales, R&D expenses were 1.9% for the six months ended June 30, 2014, compared to 1.6% for the six months ended June 30, 2013. At a constant exchange rate, R&D expenses increased $3.0 million. Increases in spending for the six months ended June 30, 2014, compared to the same prior year period, were primarily related to an increase in regulatory compliance costs. R&D spending reflects a mix of internal development efforts and in-sourcing initiatives. Internal development efforts also include life cycle management of our existing technologies and products to maximize the value of our strategic brands.

Other costs and net expenses

Interest expense

Our Interest expense for the six months ended June 30, 2014 was $230.1 million, an increase of $7.5 million from $222.6 million for the six months ended June 30, 2013. The compounding effect of accrued interested resulted in a year over year increase in interest expense, partially offset by lower interest rates on our term loans as a result of the refinancing transactions completed during the third quarter of 2013.

Foreign exchange loss (gain)

Foreign exchange loss (gain) is comprised of net gains and losses resulting from the re-measurement or settlement of transactions that are denominated in a currency that is not the functional currency of a transacting company subsidiary. For the six months ended June 30, 2014, the foreign exchange loss amounted to $11.9 million compared to a foreign exchange gain of $6.7 million during the six months ended June 30, 2013. The foreign exchange activity during both comparative periods was primarily driven by intercompany activities, including loans transacted in non-functional currencies. Additionally the foreign exchange loss was impacted by a $2.2 million charge related to our adoption of highly-inflationary accounting for our Venezuela subsidiary.

Other expense (income), net

Other expense (income) represents gains and losses on transactions that are non-operating in nature, including any (gains)/losses on the sale of businesses or long-lived assets. Other expense, net for the six months ended June 30, 2014 was $0.2 million, while other income, net for the six months ended June 30, 2013 was $1.1 million. The $1.1 million gain related to proceeds received as a result of the demutualization of an insurance provider.

Provision for income taxes

During the six months ended June 30, 2014, we recorded a provision for income taxes of $17.4 million on pre-tax loss of $105.8 million, compared to a provision for income taxes of $13.2 million on pre-tax loss of $71.3 million, during the comparable prior year period. The increase in tax expense was primarily driven by a change in profit mix among jurisdictions carrying varying tax rates.

Net loss

As a result of the above, net loss increased $38.7 million to a net loss of $123.2 million for the six months ended June 30, 2014, compared to a net loss of $84.5 million for the six months ended June 30, 2013.

EBITDA and Adjusted EBITDA

We believe that EBITDA ("Earnings before Interest, Taxes, Depreciation and Amortization") and Adjusted EBITDA are useful indicators of our ability to incur and service our indebtedness and can assist investors and other parties to evaluate us. It should be noted that our definition of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by other companies. We believe that Adjusted EBITDA as a supplementary non-GAAP financial measure may be used to meaningfully evaluate a company's future operating performance and cash flow. In addition, Management also uses EBITDA and Adjusted EBITDA to assess and measure our operating performance. Accordingly, this information has been disclosed to permit a more complete and comprehensive analysis of our operating performance, consistent with how our business performance is evaluated by Management.

We define EBITDA as the net (loss) earnings for the respective period before provision (benefit) for income taxes, other expense (income), net, foreign exchange loss (gain), interest expense, and depreciation and amortization. Adjusted EBITDA represents EBITDA as adjusted (i) to include realized foreign exchange gains or losses and (ii) to exclude costs or gains that are excluded by management in assessing the operating performance of the business, such as asset impairment, non-cash stock compensation and other non-cash items, as well as certain cash items such as restructuring expenses. EBITDA and Adjusted EBITDA are not measurements of financial performance under GAAP, are not audited and should not replace measures of liquidity or operating profit that are derived in accordance with GAAP. The following table reconciles net loss to EBITDA and provides a further reconciliation of EBITDA to Adjusted EBITDA for the three and six months ended June 30, 2014 and 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions of $)	**2014**	**2013**	**2014**	**2013**
Net loss	**$ (59.4)**	**$ (36.6)**	**$ (123.2)**	**$ (84.5)**
Provision for income taxes	8.1	10.6	17.4	13.2
Other expense (income), net	0.1	(0.1)	0.2	(1.1)
Foreign exchange loss (gain)	10.4	0.9	11.9	(6.7)
Interest expense	115.0	111.1	230.1	222.6
Depreciation and amortization	48.3	47.4	96.6	94.3
EBITDA	**$ 122.5**	**$ 133.3**	**$ 233.0**	**$ 237.8**
Adjustments:				
Other[(a)]	5.0	4.9	13.6	8.7
Total adjustments	5.0	4.9	13.6	8.7
Realized foreign exchange (loss) gain	(3.3)	(2.4)	(3.9)	(2.1)
Adjusted EBITDA[(1)]	**$ 124.2**	**$ 135.8**	**$ 242.7**	**$ 244.4**

(a) Amounts in 2014 and 2013 include, but are not limited to, the following expense or income items: (i) transaction costs in connection with business development and financing activities, (ii) restructuring expenses, (iii) asset impairments and (iv) non-cash stock compensation expenses.

Liquidity and capital resources

As of June 30, 2014 and December 31, 2013, our cash and cash equivalents were $139.6 million and $271.4 million, respectively. Additionally, as of June 30, 2014, we had $248.9 million of availability under the Revolving Credit Facility. We believe that our business has strong cash flow generation characteristics. Our strengths include the recurring, non-discretionary nature of our products, our diverse product offering and geographic footprint, and our strong market positions of our leading brands. We believe that our existing cash on hand, combined with our operating cash flow and available borrowings under the Credit Facilities will provide sufficient liquidity to fund current obligations, working capital and capital expenditure requirements, as well as future investment opportunities.

Historically, the non-elective nature of our product offerings has resulted in significant recurring cash inflows. A principal use of our operating cash has been to make interest payments on our long-term debt. For the six months ended June 30, 2014 and 2013, we generated net cash flows from operating activities, net of interest payments, of $8.1 million and $66.6 million, respectively. Total interest payments were $135.6 million and $110.2 million for the six months ended June 30, 2014 and 2013, respectively.

Pursuant to the Third Amendment to the Credit Agreement dated August 5, 2013, and pursuant to Section 7.6 of both the Senior Secured Notes and Senior Notes Indentures dated December 22, 2010 (collectively, the "Indentures"), the Cumulative Growth Amount, in the case of the Third Amendment Credit Agreement, and the similarly calculated basket under the Limitation on Restricted Payments covenant, in the case of the Indentures, was $109.1 million as of December 31, 2013.

Financing and Financing Capacity

On August 12, 2013, CFI, a subsidiary of the Parent and sister entity to CHB, successfully completed a $900.0 million PIK Notes offering, at an offering price of 99.0%, after adjustment for original issue discount. The net proceeds from the offering were used to repay preferred equity certificates ("PECs") of the Parent in the amount of $873.1 million and to pay additional related fees and expenses. The PIK Notes mature on January 15, 2019 and are subject to cash interest payments of 8.25% every January 15 and July 15, commencing on January 15, 2014. PIK interest, if cash interest is not elected to be paid, will accrue at 9.00% per annum. All interest owed will be paid by CFI directly to the holders of the PIK Notes. The PIK Notes are recorded on the balance sheet of CFI, whose financial information is ultimately consolidated by the Parent. The PIK Notes are non-recourse to CHB and thus exclusively the obligation of the Parent.

In order to fund CFI's interest expense on the PIK Notes, it is anticipated that CHB will distribute certain accrued PEC interest to the Parent. The PECs allow for distribution of interest to the extent permitted by our restricted payment capacity, a specified leverage ratio and other provisions outlined in our debt agreements. During the six months ended June 30, 2014, we made a payment of $31.5 million of accrued PEC interest to the Parent. We anticipate that it will fund semi-annual cash interest payments to the Parent going forward. The cash interest payments are incremental to the interest due on our long term debt and will reduce our operating cash flows going forward. The timing of our cash interest payments to the Parent will be on January 15 and July 15, commencing on January 15, 2014. As of June 30, 2014, the current portion of accrued PEC interest on the consolidated balance sheet of CHB was $34.2 million. We expect to pay this amount to the Parent in the third quarter of 2014. The Parent had a similar liability recorded as of June 30, 2014 for its interest obligation under the PIK Notes. For further information regarding the differences between the consolidated financial statements of CHB and the Parent, please refer to the "Reconciliation to the Parent's Financial Statements" within this Quarterly Report.

Our long term debt consists of Secured Notes and the Credit Facilities Agreement (the "Credit Facilities"), as amended during the third quarter of 2013. As of June 30, 2014, we had total debt outstanding, excluding capital leases and other obligations, of $2,888.5 million, net of $3.1 million of unamortized original issue discount.

As of June 30, 2014, borrowings outstanding under the Secured Notes, due 2017, were EUR 300.0 million ($410.8 million) and borrowings outstanding under the Senior Notes, due 2018, were $745.0 million and EUR 250.0 million ($342.3 million). Borrowings under the Secured Notes bear interest of 7.375% per annum. Borrowings under the U.S. Dollar Senior Notes bear interest of 10.5% per annum, while the Euro Senior Notes bear interest of 10.875%, per annum. Interest is payable on both the Secured Notes and Senior Notes on June 15 and December 15 of each year. The Secured Notes and Senior Notes may be prepaid and are subject to a premium if payment is made prior to December 15, 2015.

The Credit Facilities consist of (i) U.S Dollar and EURO term loans (the "Term Loan Facilities") due 2016, (ii) a revolving credit facility due 2015 (the "Revolving Credit Facility"), (iii) and incremental unfunded term facilities (the "Incremental Term Facilities").

On August 5, 2013, we executed an amendment to our Credit Facilities Agreement. The amendment provides for a reduction in the applicable margins and floors on the EURIBOR and LIBOR base rates of our EURO and U.S. Dollar

Term Loan Facilities, as well as a reduction of the floor on Alternate Base Rate ("ABR") borrowings. In addition, the calculation of the amount available for restricted payments, capital expenditures, investments and prepayments of certain indebtedness have been modified. The repricing of the term loans became effective on September 28, 2013 ("the Repricing"). The details regarding the changes in each of the applicable interest rates are discussed further below.

Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros are $770.5 million and EUR 455 million ($623.0 million), respectively as of June 30, 2014. The Term Loan Facilities are payable in equal quarterly installments in an aggregate annual amount equal to approximately 1% of the original principal amount of the Term Loan Facilities. In addition, the $500.0 million and EUR 550.0 million term loan facilities are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments occur prior to September 28, 2012 and November 6, 2013, respectively, to refinance, replace or substitute all or a portion of the term loans with indebtedness having a lower effective yield. The Term Loan Facilities will mature on December 22, 2016.

The Revolving Credit Facility of $250.0 million is available through its maturity date in certain currencies at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and for our general corporate purposes. The Revolving Credit Facility also allows for up to $40.0 million letters of credit issuances as well as $25.0 million for same-day borrowings, referred to as swingline loans. There were no borrowings outstanding under the Revolving Credit Facility at June 30, 2014. Letters of credit outstanding under the Revolving Credit Facility totaled approximately $1.1 million and $0.8 million at June 30, 2014 and December 31, 2013, respectively. We had $248.9 and $252.9 million of availability under the Revolving Credit Facility at June 30, 2014 and December 31, 2013, respectively.

The Incremental Term Facilities are unfunded commitments and are available in an amount up to $400.0 million (net of any issuance of secured notes issued after the closing date) in either U.S. Dollars and/or Euros provided that a certain leverage ratio is not exceeded and we satisfy certain requirements, including: no default or event of default, pro forma compliance with financial covenants, minimum borrowing amounts of $15.0 million and a maturity date and weighted average life-to-maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities. Additionally, should the yield on the Incremental Term Facilities exceed the yield on the Term Loans Facilities by more than 0.50%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Incremental Term Facilities shall be 0.50% below the yield on the Term Loan Facilities. There were no amounts funded or drawn under the amended Incremental Term Facilities as of June 30, 2014.

Borrowings and commitments under the Credit Facilities, including the Term Loan Facilities, are subject to full or partial mandatory prepayments from the proceeds of asset sales above a specified threshold, the issuance or incurrence of debt and from excess cash flow retained in the business. The amount and timing of the mandatory prepayments are subject to certain criteria. During the second quarters of 2014 and 2013, we made mandatory prepayments of $73.5 million and $45.1 million, respectively, for excess cash retained in the business. Both the 2014 and 2013 mandatory prepayments were applied against the remaining quarterly installments due under the Term Loan Facilities, in accordance with the terms outlined in the Credit Facilities Agreement.

Borrowings under the Credit Facilities Agreement bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or Alternate Base Rate ("ABR"). EURIBOR interest is associated with the EUR borrowings; LIBOR interest is associated with U.S. Dollar borrowings, while ABR, EURIBOR or LIBOR interest rates may apply to outstanding borrowings under the Revolving Credit Facility. ABR, as defined and amended in the Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. ABR is subject to an initial margin of 3.25% on borrowings under the Revolving Credit Facility and 2.00% on Dollar Term Loan ABR borrowings. Additionally, at no time can the ABR be less than 2.00% per annum. As a result of the Repricing, EURIBOR and LIBOR borrowings are subject to an initial margin of 3.25% and 3.00%, respectively, and a floor of 1.00%. The margins on our EURIBOR and LIBOR interest rates may increase by 25 basis points if there is a decline in our corporate credit rating.

Under the original terms of the Credit Facilities Agreement, the margin on both EURIBOR and LIBOR loans was 4.25%, subject to a floor of 1.50% to 1.75% on EURIBOR loans and a floor of 1.50% on LIBOR loans. In the third quarter and fourth quarters of 2012, we refinanced both the EURO and U.S. Dollar Term Loan Facilities, whereby the margin on the

EURIBOR and LIBOR borrowings was reduced to 4.00% and 3.75%, respectively. The floor was also reduced to 1.25% for both EURIBOR and LIBOR borrowings. Our borrowing arrangements contain a number of financial and non-financial covenants. We were in compliance with all covenants as of June 30, 2014.

Cash flows

The following table sets forth consolidated cash flow data for the six months ended June 30, 2014 and 2013:

	For the Six Months ended June 30,	
(in millions of $)	**2014**	**2013**
Net cash provided by operating activities	$ 8.1	$ 66.6
Net cash used in investing activities	(66.3)	(13.8)
Net cash used in financing activities	(73.8)	(45.1)
Effect of exchange rate changes on cash and cash equivalents	0.2	(8.0)
Net change in cash and cash equivalents	(131.8)	(0.3)
Cash and cash equivalents at beginning of period	271.4	129.4
Cash and cash equivalents at end of period	$ 139.6	$ 129.1
Supplemental cash flow information		
Income taxes paid	$ 16.5	$ 11.8
Interest paid	$ 135.6	$ 110.2

Cash flows from operating activities

Net cash provided by operating activities was $8.1 million and $66.6 million for the six months ended June 30, 2014 and 2013, respectively. The $58.5 million decrease in our operating cash flow was primarily driven by a decrease in current liabilities of $46.2 million for the six months ended June 30, 2014 compared to same period in the prior year.

Cash flows from investing activities

For the six months ended June 30, 2014 and 2013, net cash used in investing activities was $66.3 million and $13.8 million, respectively. The $52.5 million increase in cash used in investing activities was primarily due to the acquisition of Symbius for a net cash purchase price of $42.5 million.

Cash flows from financing activities

For the six months ended June 30, 2014 and 2013, net cash used in financing activities was $73.8 million and $45.1 million, respectively. During the second quarters of both 2014 and 2013, we made mandatory prepayments on our Term Loan Facilities of $73.5 million and $45.1 million, respectively, for excess cash retained in the business based on the terms of our Credit Facilities.

Contingent liabilities

We have been involved in certain lawsuits, claims, proceedings and investigations that are currently pending or have been concluded in the last three years. In accordance with the accounting guidance related to contingencies, we record accruals for such contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. These matters involve intellectual property, commercial, or environmental, health and safety matters.

There can be no assurance that there will not be an increase in the scope of the pending matters or that any future lawsuits, claims, proceedings, or investigations will not be material. Management continues to believe that during the next few years, the aggregate impact, beyond current reserves, of these and other legal matters affecting us is not likely to be material to our results of operations and cash flows, or our financial condition and liquidity. See "Our business – Legal Proceedings" in our 2013 Annual Report for further discussion. Changes to legal proceedings that were disclosed in the 2013 Annual Report have not had a significant impact to the financial statements through June 30, 2014.

We are also a party to proceedings and other matters under various national, state and local environmental laws, and from time to time we incur the costs of investigating and/or remediating contamination resulting from past industrial activity at current or former company sites, or at waste disposal or reprocessing facilities operated by third parties.

With respect to environmental matters for which we are responsible under various national, state and local laws, we typically estimate potential costs based on information obtained from the U.S. Environmental Protection Agency, or counterpart state agencies, other national environmental agencies and/or studies prepared by independent consultants, including total estimated costs for the site and the expected cost-sharing, if any, with other "potentially responsible parties," and we accrue liabilities when they are probable and reasonably estimable. As of June 30, 2014, we do not expect to incur, and there have been no material costs for investigation and remediation for any sites for which we may be responsible, including liabilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and for other remedial obligations.

See "Our business – Environmental Matters" in our 2013 Annual Report for further discussion. There have not been significant changes to the environmental matters as of June 30, 2014.

Other Matters

On June 24, 2014, Unomedical, a ConvaTec company, received a Warning Letter from the FDA related to an inspection of our Michalovce, Slovakia manufacturing plant in February 2014. In the letter, the Agency raised concerns with certain manufacturing processes and controls at the facility. After being informed of these concerns following the February inspection, we took prompt action to address all issues. We provided updates, including documented evidence of corrective actions, to the FDA in April and June 2014. The corrective actions we took are substantially complete but require follow-up inspection by the FDA and ongoing monitoring. We will continue to work with the FDA to ensure that our actions fully address the Agency's concerns and close out the letter as quickly as possible.

As a result of a routine inspection, we received a warning letter from the FDA dated May 24, 2013. The warning related to complaint handling and other quality management systems at our Skillman, New Jersey facility. Resources have been added to address the FDA concerns in a timely manner. We have engaged third-party consultants to develop remediation procedures and are working closely and cooperatively with the FDA to alleviate its concerns. We believe that these efforts will be adequate to address the issues raised in the warning letter.

Contractual obligations

We are obligated to make future payments under various contracts such as debt agreements (including scheduled cash interest payments), operating lease agreements, and unconditional purchase obligations. A discussion of these contractual obligations is included in the 2013 Annual Report. There have not been significant changes to these contractual obligations as of June 30, 2014.

Capital expenditures

Our capital expenditures were $23.5 million and $15.1 million for the six months ended June 30, 2014 and 2013, respectively.

For the twelve month period ending December 31, 2014, we estimate our capital expenditures to be approximately $52.0 million, which primarily relate to productivity improvements and capacity expansion. The remaining expenditures will include routine plant and facility enhancements.

Critical accounting policies

Critical accounting policies are those that require application of management's subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. See Note 2 – Significant Accounting Policies, included in our 2013 Annual Report, for the critical accounting policies that we believe requires subjective and/or complex judgments and that may have an impact on the financial statements, including the periods reported herein. The most significant assumptions are employed in estimates used in acquisition purchase price allocations, determining values of intangible assets, restructuring charges and accruals, sales rebates, chargebacks and return accruals, legal contingencies, tax assets and tax liabilities, stock-based compensation costs, retirement and postretirement benefits (including the actuarial assumptions), as well as in estimates used in applying our revenue recognition policy. There have been no significant changes to the accounting policies disclosed in our December 31, 2013 Audited Consolidated Financial Statements contained within the 2013 Annual Report nor has there been any change to our assessment of which accounting policies would be considered critical accounting policies except as described below.

Impact of Foreign Currency Translation - Venezuela Currency

In January 2014, the Venezuela government announced that the Comisión de Administracion de Divisas ("CADIVI") would be replaced by the government-operated National Center of Foreign Commerce (the "CENCOEX"), and indicated that the Sistema Complementario de Administración de Divisas ("SICAD") market would continue to be offered as an alternative foreign currency exchange. Additionally, a parallel foreign currency exchange system has been developed, SICAD II, which started functioning on March 24, 2014 and for the second quarter of 2014, the SICAD II exchange market had an average transaction rate to the Company of approximately 50 Bolivars per U.S. Dollar (the "SICAD II Rate"). The SICAD II market allows companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose.

Due to the continued deterioration in the Venezuela currency, during the second quarter of 2014, the Company elected to exchange Bolivars for U.S. Dollars to the extent permitted through the CENCOEX, SICAD and SICAD II markets based on its ability to participate in those markets. As a result, the Company considered its specific facts and circumstances in order to determine the appropriate rate of exchange to translate ConvaTec Venezuela's financial statements. Based on the Company's assessment of factors, including of its legal ability and intent to continue to participate in the SICAD II exchange market to import finished goods into Venezuela, the Company determined that it was appropriate to utilize the SICAD II Rate of 50 Bolivars per U.S. Dollar to translate Convatec Venezuela's balance sheet as of June 30, 2014.

As a result of the change from the official rate of 6.3 Bolivars per U.S. Dollar to the SICAD II Rate on June 30, 2014, the Company was required to re-measure all of ConvaTec Venezuela's monetary assets and liabilities at the rate of 50 Bolivars per U.S. Dollar as of June 30, 2014. Non-monetary assets and liabilities continue to be measured at their historical rates. The Company recorded a foreign currency loss of $2.2 million in the second quarter of 2014 as a result of the required re-measurement of ConvaTec Venezuela's balance sheet. As Venezuela was designated as a highly inflationary economy effective January 1, 2010, the Company reflected this foreign currency loss in earnings as component of other expense in the condensed consolidated statement of operations for the three and six month periods ended June 30, 2014.

Quantitative and qualitative disclosure about market risk

We are, in the normal course of business, exposed to a variety of market risk, including foreign exchange rate risk and interest rate risk. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance. Accordingly, we generally attempt to use natural hedges within our foreign currency activities to minimize foreign exchange risk. We have not entered into any transactions in derivative financial instruments for trading purposes. A discussion and analysis of our market risk is included in the 2013 Annual Report. There have been no significant changes to these market risks as of June 30, 2014. See the Economic Environment and Regulatory Reform section shown earlier in this report for further discussion.

Reconciliation to the Parent's Financial Statements

In connection with the PIK Notes offering, we are required to present a summary of the primary financial statement reconciliation differences between CHB and the Parent. Please refer to the "Presentation of financial information" and "Recent developments" in the beginning of the MD&A as well as "Financing and Financing Capacity" under "Liquidity and capital resources" for further information regarding the PIK Notes and our financial presentation requirements. We believe that the Condensed Consolidated Financial Statements of CHB, prepared in accordance with U.S. GAAP, fairly represent the operating activities of the Parent, with the exception of the differences discussed below.

Prior to the PIK Notes offering, the primary differences between the consolidated financial statements of CHB and the Parent for each period were related to the management fees paid to the Equity Sponsors, the accumulated value of the loan between CHB and the Parent resulting from the management fees paid, the amount of accrued interest on this loan, as well as minor foreign currency and tax related differences. The management fee, including other related fees, results in $3.0 to $4.0 million of incremental general and administrative expenses per year on the Parent's consolidated statement of operations. Further differences resulting directly from the PIK Notes offering include incremental long-term debt on the Parent's consolidated balance sheet along with an incremental amount of capitalized deferred financing fees associated with the issuance of the PIK Notes, an incremental amount of mandatorily redeemable preferred equity certificates liability on the balance sheet of CHB, differences in related interest expense and foreign currency remeasurement gain and losses, generated from an on-lending arrangement of a long-term-investment nature. This on-lending arrangement was created between CFI and the Parent in the amount of $900.0 million, specifically as a result of the PIK Notes offering. Further details regarding the differences noted on each of the respective financial statements are as follows:

Condensed Consolidated Balance Sheets (Unaudited)

As of June 30, 2014, Total Assets and Total Liabilities combined with Stockholder's Deficit differed by $6.7 million on the Parent's Condensed Consolidated Balance Sheet, as compared to the balance sheet of CHB. The differences are confined to the following line items:

	Parent June 30, 2014	CHB June 30, 2014	Differences
Assets			
Cash and cash equivalents	$ 140.0	$ 139.6	$ 0.4
Receivables, net of allowances	309.9	309.8	0.1
Prepaid expenses and other current assets	57.1	56.6	0.5
Other assets	99.6	107.3	(7.7)
Total Assets Difference			**$ (6.7)**
Liabilities and Stockholder's Deficit			
Accrued expenses and other current liabilities	$ 289.9	$ 254.1	$ 35.8
Long-term debt	3,780.6	2,888.6	892.0
Other liabilities	87.0	66.2	20.8
Mandatorily redeemable preferred equity certificates	2,216.1	3,140.5	(924.4)
Retained deficit	(2,545.6)	(2,494.4)	(51.2)
Accumulated other comprehensive income (net of tax)	138.3	118.0	20.3
Total Liabilities and Stockholder's Deficit Difference			**$ (6.7)**

Condensed Consolidated Statements of Operations (Unaudited)

For the three and six months ended June 30, 2014, the total net loss for the Parent was $66.6 million and $126.7 million, as compared to a total net loss for CHB of $59.4 million and $123.2 million. The total difference for the six month period of $3.5 million is primarily related to management and other fees and interest expense recorded in the Parent's Condensed Consolidated Statement of Operations.

Condensed Consolidated Statements of Cash Flows (Unaudited)

As of June 30, 2014, total cash and cash equivalents on the Parent's Consolidated Balance sheets was $140.0 million, as compared to total cash and cash equivalents on CHB's of $139.6 million. There were no material differences in total net cash provided by operating activities, net cash used in investing activities, or net cash used in financing activities for the six months ended June 30, 2014.

Glossary

AQUACEL®	ConvaTec advanced wound dressing, utilizing Hydrofiber Technology
AQUACEL® Ag	ConvaTec silver-based antimicrobial advanced wound dressing, utilizing Hydrofiber Technology
chronic wound	Complex wounds that are caused by repeated insults which do not heal rapidly in the absence of interventional therapies, and which include pressure, venous, arterial, and diabetic foot ulcers
DuoDERM®	ConvaTec brand of hydrocolloid dressing that provides a moist wound healing environment and self-adheres to the skin through ConvaTec's patented Durahesive Technology
effluent	Effluent generally refers to the feces or urine coming out of the body through an artificial opening such as a stoma
ESTEEM®	ConvaTec brand for a One-Piece Ostomy System, closed-end or drainable pouch, with upgraded features similar to those found on two-piece systems
exudate	Fluid, cells or cellular debris that has filtered from the circulatory system into a lesion or area of inflammation and deposited in tissues or on tissue surfaces and leaking out of the wound
Flexi-Seal® fecal management system or FMS	ConvaTec brand of fecal containment device designed to safely and effectively contain and divert liquid fecal matter to protect patients' wounds from fecal contamination and reduce risk of skin breakdown and the spread of infection
foam	Typically, polyurethane-based dressing with foam-like feel used for wounds with moderate to heavy exudates
GAAP	Accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP")
hydrocolloid	Dressing containing a polymeric hydrocolloid material which dissolves, gels, swells (or exhibits some combination of these actions) upon interaction with water to provide a moist wound healing environment. Hydrocolloid dressings are typically used for wounds with light to moderate exudates
Hydrofiber® Technology	ConvaTec proprietary technology based on the unique gelling properties of Hydrofiber materials; serves as the basis of the AQUACEL®, AQUACEL Ag, and Versiva® XC® products
One-Piece Ostomy System	A system that combines as a single, integrated unit the skin barrier surrounding the stoma and the pouch collecting the effluent
ostomy	A surgical procedure in which an opening for the passage of feces or urine is created through the abdominal wall in patients with decreased small intestine, colon, rectum or bladder function
skin barrier (wafer)	The adhesive-backed barrier connecting to the ostomy pouch in either an integrated unit (one-piece ostomy system) or as a separate piece (two-piece ostomy system), which serves to secure the pouch to the body and surround the stoma opening, protecting the skin around the stoma from toxic effluent
Two-Piece Ostomy System	ConvaTec proprietary two-piece ostomy system; includes both closed-end, drainable and urostomy pouches
urostomy	A surgically created opening in the abdominal wall to divert urine to the exterior. This can be done by either diverting, using a part of the urinary tract or via a loop of the ileum
urostomy pouches	Ostomy pouches collecting urine only, and which possess a special valve or spout which adapts to either a leg bag or night drain tube for overnight urine collection

Index to financial statements

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Condensed Consolidated Balance Sheets
(in Millions, except share and per share data)
(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 139.6	$ 271.4
Receivables, net of allowances of $40.0 in 2014 and $40.8 in 2013	309.8	308.2
Inventories, net	273.1	253.7
Prepaid expenses and other current assets	56.6	62.0
Total Current Assets	779.1	895.3
Property, plant and equipment, net of accumulated depreciation of $264.6 in 2014 and $247.4 in 2013	293.7	281.6
Goodwill	1,180.5	1,183.3
Other intangible assets, net	2,056.7	2,097.9
Other assets	107.3	103.7
Total Assets	4,417.3	4,561.8
Liabilities and Stockholder's Deficit		
Current Liabilities:		
Accounts payable	$ 96.3	$ 101.2
Short-term portion of long-term debt	0.2	73.6
Accrued preferred equity certificates interest - Short Term	34.2	28.7
Accrued expenses and other current liabilities	157.8	212.2
Total Current Liabilities	288.5	415.7
Long-term debt	2,888.6	2,892.9
Mandatorily redeemable preferred equity certificates	1,765.8	1,772.4
Accrued preferred equity certificates interest	1,374.7	1,296.2
Deferred income taxes	269.2	257.5
Other liabilities	66.2	59.6
Total Liabilities	6,653.0	6,694.3
Commitments and contingencies (Note 14)		
Stockholder's Deficit:		
Preferred stock- EUR 1 ($1.25) par value as of June 30, 2014 and December 31, 2013; 20,000 shares issued and outstanding at June 30, 2014 and December 31, 2013	-	-
Common stock- EUR 1 ($1.25) par value as of June 30, 2014 and December 31, 2013; 112,157,883 shares issued and outstanding at June 30, 2014 and December 31, 2013	140.7	140.7
Retained deficit	(2,494.4)	(2,367.4)
Accumulated other comprehensive income (net of tax)	118.0	94.2
Total Stockholder's Deficit	(2,235.7)	(2,132.5)
Total Liabilities and Stockholder's Deficit	$ 4,417.3	$ 4,561.8

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Condensed Consolidated Statements of Operations
(in Millions)
(Unaudited)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Net sales[1]	$ 438.2	$ 427.8	$ 874.3	$ 804.2
Cost of goods sold	204.4	187.6	416.5	362.6
Gross profit	233.8	240.2	457.8	441.6
Selling and marketing expenses	103.6	97.0	202.8	183.7
General and administrative expenses	47.2	50.7	102.1	101.5
Research and development expenses	8.8	6.6	16.5	12.9
Operating income	74.2	85.9	136.4	143.5
Interest expense	115.0	111.1	230.1	222.6
Foreign exchange loss (gain)	10.4	0.9	11.9	(6.7)
Other expense (income), net	0.1	(0.1)	0.2	(1.1)
Loss before income taxes	(51.3)	(26.0)	(105.8)	(71.3)
Provision for income taxes	8.1	10.6	17.4	13.2
Net loss	$ (59.4)	$ (36.6)	$ (123.2)	$ (84.5)

(1) During the three months ended June 30, 2014, the Company recorded a deduction of $6.8 million from net sales to correct a non-material error in our previously reported financial results for the three months ended March 31, 2014. The error related to an under-accrual at March 31, 2014 for prime vendor chargebacks.

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Loss
(in Millions)
(Unaudited)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2014	2013	2014	2013
Net loss	$ (59.4)	$ (36.6)	$ (123.2)	$ (84.5)
Foreign currency translation, including a tax expense of $.9 and a tax benefit $5.6 for the three months ended June 30, 2014 and 2013 and a tax expense of $.6 and tax benefit of $1.8 for the six months ended June 30, 2014 and 2013	25.3	(35.6)	23.9	(3.1)
Other	0.1	(0.1)	0.1	1.0
Total Comprehensive Loss	$ (34.0)	$ (72.3)	$ (99.2)	$ (86.6)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in Millions)
(Unaudited)

	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net loss	$ (123.2)	$ (84.5)
Charges to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	96.4	94.3
Non-cash interest expense, net	86.6	108.1
Amortization of deferred financing fees and original issue discount	5.9	4.9
Change in operating assets and liabilities, net of businesses acquired:		
Receivables, net	3.4	(5.8)
Inventories, net	(15.9)	(33.2)
Accounts payable and other accrued expenses	(56.5)	(10.3)
Income taxes	0.4	1.4
Other, net	11.0	(8.3)
Net cash provided by operating activities	**8.1**	**66.6**
Cash flows from investing activities:		
Purchase of business, net of cash acquired	(42.5)	-
Additions to property, plant and equipment and capitalized software	(23.5)	(15.1)
Other investing activities, net	(0.3)	1.3
Net cash used in investing activities	**(66.3)**	**(13.8)**
Cash flows from financing activities:		
Debt repayments to third parties	(73.8)	(45.1)
Net cash used in financing activities	**(73.8)**	**(45.1)**
Effect of exchange rate changes on cash and cash equivalents	**0.2**	**(8.0)**
Net change in cash and cash equivalents	**(131.8)**	**(0.3)**
Cash and cash equivalents at beginning of the period	**271.4**	**129.4**
Cash and cash equivalents at end of the period	**$ 139.6**	**$ 129.1**
Supplemental cash flow information		
Income taxes paid	$ 16.5	$ 11.8
Interest paid	$ 135.6	$ 110.2

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Business Description

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB). The Company considers the U.S. dollar to be its functional currency. These financial statements should be read in conjunction with the Company's Audited Consolidated Financial Statements contained in the 2013 Annual Report for the fiscal year ended December 31, 2013.

Business Description

The Company develops, manufactures and markets innovative medical technologies, in particular products for ostomy management, advanced chronic and acute wound care, continence care, sterile single-use medical devices for hospitals, and infusion sets used in diabetes treatment infusion devices. Principal brands include Natura®, SUR-FIT®, Esteem®, AQUACEL®, DuoDERM®, Versiva® XC®, Flexi-Seal®, and Unomedical. These products are marketed worldwide, primarily to hospitals, medical professionals, and medical suppliers. The Company relies on an internal sales force, and sales are made through various distributors around the world. The Company manufactures these products in the United States ("U.S."), the United Kingdom ("U.K."), the Dominican Republic, Denmark, Slovakia, Mexico, Belarus, and Malaysia.

The Company, through its wholly owned subsidiary, 180 Medical Holdings, Inc. ("180 Medical"), also distributes disposable, intermittent urological catheters to customers in the U.S.

Immaterial Correction of an error

During the three month period ended June 30, 2014, the Company recorded an additional charge of $6.8 million for prime vendor chargebacks which arose and should have been recorded in the three month period ended March 31, 2014. The adjustment resulted in a reduction of net sales and accounts receivable for the three and six month period ended June 30, 2014, respectively. The Company has deemed the correction to be immaterial however, the correction of this out of period adjustment impacts the results of operations, cash flows, and stockholders' deficit for the three and six month period ended June 30, 2014.

2. Significant Accounting Policies

Basis of Consolidation

Significant accounting policies are those that require application of management's subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Presented within the section entitled "Significant Accounting Policies" of the Company's 2013 Audited Consolidated Financial Statements contained in the 2013 Annual Report are the Company's critical accounting policies that the Company believes require subjective and/or complex judgments that may have an impact on the financial statements, including the periods reported herein. Such critical accounting policies include revenue recognition, sales rebates, chargebacks and returns, inventory valuation, goodwill and other indefinite-lived intangible assets, impairment of long-lived assets, income taxes, foreign currency translation and transactions, and loss contingencies. There have been no significant changes to the accounting policies disclosed in the December 31, 2013 Audited Consolidated Financial Statements nor has there been any change to the Company's assessment of which accounting policies would be considered critical accounting policies except as described below.

Impact of Foreign Currency Translation - Venezuela Currency

In January 2014, the Venezuela government announced that the Comisión de Administracion de Divisas ("CADIVI") would be replaced by the government-operated National Center of Foreign Commerce (the "CENCOEX"), and indicated that the Sistema Complementario de Administración de Divisas ("SICAD") market would continue to be offered as an alternative foreign currency exchange. Additionally, a parallel foreign currency exchange system has been developed, SICAD II, which started functioning on March 24, 2014 and for the second quarter of 2014, the SICAD II exchange market had an average transaction rate to the Company of approximately 50 Bolivars per U.S. Dollar (the "SICAD II Rate"). The SICAD II market allows companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose.

Due to the continued deterioration in the Venezuela currency, during the second quarter of 2014, the Company elected to exchange Bolivars for U.S. Dollars to the extent permitted through the CENCOEX, SICAD and SICAD II markets based on its ability to participate in those markets. As a result, the Company considered its specific facts and circumstances in order to determine the appropriate rate of exchange to translate ConvaTec Venezuela's financial statements. Based on the Company's assessment of factors, including of its legal ability and intent to continue to participate in the SICAD II exchange market to import finished goods into Venezuela, the Company determined that it was appropriate to utilize the SICAD II Rate of 50 Bolivars per U.S. Dollar to translate Convatec Venezuela's balance sheet as of June 30, 2014.

As a result of the change from the official rate of 6.3 Bolivars per U.S. Dollar to the SICAD II Rate on June 30, 2014, the Company was required to re-measure all of ConvaTec Venezuela's monetary assets and liabilities at the rate of 50 Bolivars per U.S. Dollar as of June 30, 2014. Non-monetary assets and liabilities continue to be measured at their historical rates. The Company recorded a foreign currency loss of $2.2 million in the second quarter of 2014 as a result of the required re-measurement of ConvaTec Venezuela's balance sheet. As Venezuela was designated as a highly inflationary economy effective January 1, 2010, the Company reflected this foreign currency loss in earnings as component of other expense in the condensed consolidated statement of operations for the three and six month periods ended June 30, 2014.

Recently Issued Accounting Standards

In May 2014, the FASB ("Financial Accounting Standards Board") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and the IASB has issued IFRS 15, *Revenue from Contracts with Customers*. The issuance of these documents completes the joint effort by the FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS. The new guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017. Early application is only permitted to the extent it is aligned with public entities effective date, but not earlier. The Company will continue to evaluate this newly issued guidance.

In July 2013, the FASB ("Financial Accounting Standards Board") issued new accounting guidance entitled, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The provisions of the rule require an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Exceptions to this rule exist when the carryforward, or tax loss, is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes. When those circumstances are present, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new financial statement presentation provisions relating to this update are prospective and effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. As this standard impacts presentation requirements only, the adoption of this guidance is not expected to have a material impact

on the Company's Condensed Consolidated Financial Statements.

In March 2013, the FASB ("Financial Accounting Standards Board") issued updated guidance titled, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. Under the new guidance, an entity must recognize cumulative translation adjustments in earnings when it ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets resided. However, when an entity sells either a part or all of its investment in a consolidated foreign entity, an entity is to recognize cumulative translation adjustments in earnings only if the parent no longer has a controlling financial interest in the foreign entity as a result of the sale. In the case of sales of an equity method investment that is a foreign entity, a pro rata portion of cumulative translation adjustments attributable to the equity method investment are to be recognized in earnings upon sale of the equity method investment. In addition, cumulative translation adjustments are to be recognized in earnings upon a business combination achieved in stages such as a step acquisition. The amendments are effective prospectively for reporting periods beginning after December 15, 2014. The Company does not expect the adoption of this new guidance to have a material impact on the Company's Condensed Consolidated Financial Statements.

3. Acquisitions

In accordance with the Company's business strategy to selectively pursue strategic and complementary acquisitions, the Company has acquired the business, as described below. The acquisition is included in the Condensed Consolidated Financial Statements from the acquisition date.

On January 1, 2014, the Company through its subsidiary, 180 Medical, acquired all of the voting interest in Symbius Medical, LLC ("Symbius"), a national home medical supply company. Symbius is a company which provides urological and other medical supplies nationally, as well as durable medical equipment on a regional basis. The addition of Symbius extends the Company's ability to serve customers directly. Consideration for the acquisition totaled $44 million and is subject to further working capital adjustments. Of the consideration paid, $3.5 million was funded into escrow, primarily to satisfy potential future indemnity obligations. The transaction has been accounted for in accordance with the acquisition method.

The preliminary purchase price allocation of the acquisition resulted in the following:

Cash and cash equivalents	$ 1.3
Receivables, net	4.7
Inventories, net	1.5
Prepaid expenses and other current assets	0.5
Property, plant and equipment, net	1.1
Other intangible assets	17.7
Goodwill	21.3
Total assets acquired	48.1
Current liabilities	(4.1)
Total liabilities assumed	(4.1)
Net assets acquired	$ 44.0

The fair value of the financial assets acquired includes trade receivables with a fair value of $4.7 million. The gross accounts receivable is $6.8 million, of which $2.1 million is expected to be uncollectible.

The goodwill from the acquisition consists of $1.3 million arising from assembled workforce and the remaining $20 million from synergies and economies of scale which are expected from the combined operations of 180 Medical and Symbius. Goodwill of $17 million is deductible for tax purposes.

Refer to Note 9 - Other Intangible Assets for the amounts assigned to the other intangible assets by type. The preliminary purchase price allocation is subject to revisions as additional information is obtained about the facts and circumstances that

existed as of the acquisition date. Any revisions may have an impact on the financial statements.

Acquisition Escrows

Pursuant to the acquisition agreements related to acquisitions from 2012 and the Symbius acquisition, the Company has funded various escrow accounts, primarily to satisfy potential pre-acquisition indemnity and tax claims arising subsequent to the respective acquisition dates. Additionally, a certain acquisition agreement required the Company to fund into escrow $0.8 million in estimated contingent consideration tied to the achievement of specified future performance metrics. As of June 30, 2014 and December 31, 2013, the current portion of the escrows amounted to $15.0 million and $21.0 million, respectively, and the noncurrent portion amounted to $1.1 million and $1.4 million, respectively. Corresponding liabilities of $16.4 million and $16.7 million have been recorded to accrued expenses and other current liabilities for the current portion and $1.4 million and $1.3 million, for the noncurrent portion at June 30, 2014 and December 31, 2013, respectively. Other liabilities for the noncurrent portion, representing payments due to the sellers of the acquisitions, assuming no pre-acquisition indemnity claims arise subsequent to the respective acquisition dates. On May 27, 2014, the Company executed a release and settlement agreement related to the escrow established for the former stockholders of Boston Medical Devices, Inc. In conjunction with the release and settlement agreement, the Company released the remainder of the escrow funds in the amount of $2.9 million.

4. Related Parties

The Parent maintains an agreement with its Equity Sponsors (the "Management Agreement"), whereby the Equity Sponsors provide certain management advisory services. For services rendered by the Equity Sponsors, an annual fee of $3.0 million is payable in equal quarterly installments. The Company also pays other specified fees on behalf of the Parent, in accordance with the Management Agreement. The accompanying Condensed Consolidated Balance Sheets include a receivable from the Parent recorded in other assets in the amount of $23.6 million and $21.0 million as of June 30, 2014 and December 31, 2013, respectively. The receivable is inclusive of accrued interest on the outstanding balance.

Additionally, the Company loans money to Cidron Healthcare Limited in connection with the repurchase of Management Equity Plan units. The loan is governed by an agreement where the maximum aggregated loan amount in any given fiscal year cannot exceed $5.0 million. Interest on the loan accrues at 7.0% per annum. The outstanding loan and interest shall be due and payable at the option of Cidron Healthcare Limited. As of June 30, 2014 and December 31, 2013, the total outstanding loan amount of $6.4 million and $6.3 million, respectively. This loan is recorded as equal and offsetting amounts within stockholder's equity. See Note 12 – Employee Stock Benefit Plans for further discussion regarding the Management Equity Plan.

5. Restructuring

2014 Activities

During the three and six months ended June 30, 2014, the Company recorded pre-tax charges of $2.9 million and $8.9 million, respectively, for business restructuring activities primarily related to termination benefits for involuntary workforce reductions. As disclosed in the 2013 Annual Report, the Company announced that all business activities performed at the facility in Skillman, New Jersey would be transferred to other ConvaTec sites around the world, as part of office space consolidation. These costs were recorded in general and administrative expenses in the Condensed Consolidated Statements of Operations.

2013 Activities

During the three and six months ended June 30, 2013, the Company recorded pre-tax charges of $0.4 million and $1.5 million, respectively, for business restructuring activities. These costs were recorded in general and administrative expenses in the Condensed Consolidated Statements of Operations.

Roll-forward

Restructuring charges and spending against liabilities associated with prior and current actions are as follows:

	Employee Termination Liability	
	Six months ended June 30	
	2014	2013
Balance at January 1	$ 2.3	$ 5.5
Charges	8.9	1.6
Spending	(7.3)	(5.7)
Changes in estimate	-	(0.1)
Balance at June 30	$ 3.9	$ 1.3

Liabilities above are included in accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

6. Income Taxes

The Company conducts business in various countries throughout the world and is subject to tax in numerous jurisdictions. Accordingly, the Company must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations. The Company's income tax benefit or expense is based on an annual effective tax rate forecast, including estimates and assumptions that could change during the year. The application of the requirements for accounting for income taxes in interim periods, after consideration of the valuation allowance, causes a significant variation in the typical relationship between income tax expense and pre-tax accounting income.

The Company's effective tax rate for each of the three months ended June 30, 2014 and 2013 was (15.8)% and (40.8)%, respectively. The Company's effective tax rate for each of the six months ended June 30, 2014 and 2013 was (16.4)% and (18.5)%, respectively. The effective rates during the 2014 and 2013 comparative periods deviated from the U.S. Statutory rate of 35.0% primarily as a result of unfavorable permanent adjustments for valuation allowances recorded in connection with deferred tax assets principally in Luxembourg, the U.S. and the U.K. that are not likely to be realized.

The Company files federal, state, and foreign income tax returns in many jurisdictions in the United States and abroad. For federal income tax purposes, the statute of limitations is open for 2008 and onwards.

The Company records liabilities related to uncertain tax positions in accordance with the income tax guidance which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company does not believe any of its uncertain tax positions will have a material adverse effect on the Condensed Consolidated Financial Statements, although an adverse resolution of one or more of these uncertain tax positions in any period could have a material impact on the results of operations for that period.

7. Inventories

The major categories of inventories follow:

	June 30, 2014	December 31, 2013
Finished goods	$ 176.6	$ 167.4
Work in process	35.8	29.9
Raw and packaging materials	60.7	56.4
Inventories, net	$ 273.1	$ 253.7

8. Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable net assets of businesses acquired. The following is a summary of the change in goodwill in total:

	Total
Balance as of January 1, 2014	$ 1,183.3
Current year acquisition	21.3
Changes in foreign exchange rates	(24.1)
Balance as of June 30, 2014	$ 1,180.5

Goodwill of $21.3 million was acquired in connection with the 2014 acquisition of Symbius, representing the excess of the consideration transferred over the fair value of identifiable net assets acquired at the acquisition date. See Note 3 – Acquisitions for further details.

Goodwill is tested for impairment, to the extent a qualitative assessment determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, using a two-step process on an annual basis or more frequently if events or changes in circumstances indicate that a potential impairment may exist. The Company performs its annual goodwill impairment test in the fourth quarter of each year. There were no events or changes in circumstances in the first six months of 2014 leading to an additional impairment test.

9. Other Intangible Assets

As of June 30, 2014 and December 31, 2013, other intangible assets consisted of the following:

June 30, 2014	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
Amortized Intangible Assets:				
Patents, Trademarks, and Licenses	18 years	$ 2,066.2	$ (677.3)	$ 1,388.9
Technology	17 years	261.4	(88.9)	172.5
Capitalized Software	8 years	77.8	(49.6)	28.2
Contracts and customer relationships	14 years	263.5	(59.4)	204.1
Non-compete agreement	5 years	6.2	(1.9)	4.3
Trade Names	10 years	4.8	(0.6)	4.2
Unamortized Intangible Assets:				
Trade Names		254.5	-	254.5
Total intangibles assets		$ 2,934.4	$ (877.7)	$ 2,056.7

December 31, 2013	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
Amortized Intangible Assets:				
Patents, Trademarks, and Licenses	18 years	$ 2,043.0	$ (610.8)	$ 1,432.2
Technology	17 years	256.6	(78.1)	178.5
Capitalized Software	8 years	77.3	(46.4)	30.9
Contracts and customer relationships	16 years	250.0	(53.2)	196.8
Non-compete agreement	5 years	3.5	(1.2)	2.3
Trade Names	10 years	4.8	(0.6)	4.2
Unamortized Intangible Assets:				
Trade Names		253.0	-	253.0
Total intangibles assets		$ 2,888.2	$ (790.3)	$ 2,097.9

The preliminary fair values and associated useful lives assigned to intangible assets by type, relating to the acquisition of Symbius are as follows:

	Weighted Average Useful Life	Cost
Amortized Intangible Assets:		
Patents, Trademarks, and Licenses	3 years	$ 0.4
Contracts and customer relationships	4 years	13.0
Non-compete agreement	5 years	2.7
		16.1
Unamortized Intangible Assets:		
Trade Names	Indefinite lived	1.6
Total intangibles assets		$ 17.7

See Note 3 – Acquisitions for further discussion. The determination of fair value of the intangible assets in the table above is considered a Level 3 valuation technique. See Note 13 – Fair Value Measurement for further details.

Foreign currency translation, primarily related to intangible assets denominated in the British pound sterling, resulted in an increase in the gross carrying amount of intangible assets of $28.1 million for the six months ended June 30, 2014. Amortization expense for intangible assets for the three months ended June 30, 2014 and 2013 was $39.3 million and $38.5 million, respectively. Amortization expense for intangible assets for the six months ended June 30, 2014 and 2013 was $78.5 million and $77.1 million, respectively.

10. Long – Term Debt

The table below depicts the total obligation outstanding for each component of Long – term debt:

	June 30, 2014	December 31, 2013
Credit Facilities Agreement:		
Term Loan Facilities	$ 1,393.5	$ 1,469.1
Original Issue Discount ("OID")	(3.1)	(3.8)
Credit Facilities, net of discount	1,390.4	1,465.3
7.375% Secured Notes	410.8	412.3
10.5% U.S. Dollar Senior Notes	745.0	745.0
10.875% Euro Senior Notes	342.3	343.6
Capital Lease Obligations	0.3	0.3
Total Debt	2,888.8	2,966.5
Less: Current Portion of Long-Term Debt	(0.2)	(73.6)
Total Long-Term Debt	$ 2,888.6	$ 2,892.9

The Credit Facilities Agreement

The Credit Facilities Agreement consists of (i) U.S. Dollar and EURO term loans (the "Term Loan Facilities") due 2016, (ii) a revolving credit facility due 2015 (the "Revolving Credit Facility"), (iii) and incremental unfunded term facilities (the "Incremental Term Facilities") (collectively, the "Credit Facilities").

On August 5, 2013, the Company executed an amendment to the Credit Facilities Agreement. The amendment provides for a reduction in the applicable margins and floors on the EURIBOR and LIBOR base rates of the EURO and U.S. Dollar Term Loan Facilities, as well as a reduction of the floor on Alternate Base Rate ("ABR") borrowings. In addition, the calculation of the amount available for restricted payments, capital expenditures, investments and prepayments of certain indebtedness has been modified. The repricing of the term loans became effective on September 28, 2013 ("the Repricing"). The details regarding the changes in each of the applicable interest rates are discussed further below.

The execution of the amendment and related Repricing required the consent of the lenders in each of the Company's Term Loan Facilities. While the majority of the lenders of both the EURO and U.S. Dollar term loans consented to the terms of the amendment and the related Repricing, it was determined that certain individual lenders had extinguished their lending positions. The Company will continue to amortize the remaining unamortized deferred financing fees and original issue discount, associated with the Term Loan Facilities. Additionally, in connection with the Repricing, the Company incurred fees of approximately $9.6 million. Of this amount, $8.0 million was capitalized as deferred financing fees, and $1.6 million was expensed and included within general and administrative expenses in the Condensed Consolidated Statement of Operations.

Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros are $770.5 million and EUR 455 million ($623.0 million) at June 30, 2014 and $804.0 million and EUR 483.9 million ($665.1 million) at December 31, 2013. The Term Loan Facilities will mature on December 22, 2016.

The Revolving Credit Facility of $250.0 million is available through its maturity date in certain currencies at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and general corporate purposes of the Company. The original offering price of the $250.0 million revolving credit facility was 98.5%, after adjustment for an OID. The Revolving Credit Facility allows for up to $40.0 million of letter of credit issuances as well as $25.0 million for borrowings on same-day notice, referred to as the swingline loans. There were no borrowings outstanding under the Revolving Credit Facility as of June 30, 2014 or December 31, 2013, respectively. Letters of credit

outstanding under the revolving credit facility totaled $1.1 million and $0.8 million at June 30, 2014 and December 31, 2013, respectively. Availability under the Revolving Credit Facility, after deducting both the outstanding letters of credit and amounts withdrawn, total $248.9 million and $252.9 million as of June 30, 2014 and December 31, 2013, respectively.

OID is being amortized to interest expense, using the effective interest method, over the terms of the related outstanding borrowings. During the three months ended June 30, 2014 and 2013, total amortization expense relating to OID was $0.4 million, respectively. During the six months ended June 30, 2014 and 2013, total amortization expense relating to OID was $0.7 million, respectively.

The Incremental Term Facilities, as amended, are unfunded commitments and are available in an amount up to $400.0 million (net of any issuance of secured notes issued after the closing date) in either U.S. Dollars and/or Euros provided that a certain leverage ratio is not exceeded and the Company satisfies certain requirements, including: no default or event of default, pro forma compliance with financial covenants, minimum borrowing amounts of $15.0 million and a maturity date and weighted average life-to-maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities. Additionally, should the yield on the Incremental Term Facilities exceed the yield on the Term Loans Facilities by more than 0.50%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Incremental Term Facilities shall be 0.50% below the yield on the Term Loan Facilities. There were no amounts funded or drawn under the amended Incremental Term Facilities as of June 30, 2014.

Borrowings under the Credit Facilities Agreement bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or Alternate Base Rate ("ABR"). EURIBOR interest is associated with the EUR borrowings; LIBOR interest is associated with U.S. Dollar borrowings, while ABR, EURIBOR or LIBOR interest rates may apply to outstanding borrowings under the Revolving Credit Facility. ABR, as defined and amended in the Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. ABR is subject to an initial margin of 3.25% on borrowings under the Revolving Credit Facility and 2.00% on Dollar Term Loan ABR borrowings. Additionally, at no time can the ABR be less than 2.00% per annum. As a result of the Repricing, EURIBOR and LIBOR borrowings are subject to an initial margin of 3.25% and 3.00%, respectively, and a floor of 1.00%. The margins on the Company's EURIBOR and LIBOR interest rates may increase by 25 basis points if there is a decline in its corporate credit rating.

Under the original terms of the Credit Facilities Agreement, the margin on both EURIBOR and LIBOR loans was 4.25%, subject to a floor of 1.50% to 1.75% on EURIBOR loans and a floor of 1.50% on LIBOR loans. In the third quarter and fourth quarters of 2012, we refinanced both the EURO and U.S. Dollar Term Loan Facilities, whereby the margin on the EURIBOR and LIBOR borrowings was reduced to 4.00% and 3.75%, respectively. The floor was also reduced to 1.25% for both EURIBOR and LIBOR borrowings.

Borrowings and commitments under the Credit Facilities, including the Term Loan Facilities, are subject to full or partial mandatory prepayments from the proceeds of asset sales above a specified threshold, the issuance or incurrence of debt and from excess cash flow retained in the business. The amount and timing of the mandatory prepayments are subject to certain criteria. During the second quarters of 2014 and 2013, the Company made mandatory prepayments of $73.5 million and $45.1 million, respectively, for excess cash retained in the business. Both the 2014 and 2013 mandatory prepayments were applied against the remaining quarterly installments due under the Term Loan Facilities, in accordance with the terms outlined in the Credit Facilities Agreement. As a result, there will be no quarterly installment payments due until the Term Loan Facilities mature on December 22, 2016.

Borrowings under the Credit Facilities Agreement are secured by substantially all of the Company's assets. Any loan advances made under the Incremental Term Facilities will rank *pari passu* with the Term Loan Facilities and the Revolving Credit Facility.

Secured Notes and Senior Notes

The Secured Notes consist of EUR 300.0 million ($410.8 million at June 30, 2014 and $412.3 million at December 31,

2013) senior secured notes (the "Secured Notes") due December 15, 2017. Borrowings outstanding under the Secured Notes were EUR 300.0 million ($410.8 million as of June 30, 2014 and $412.3 million as of December 31, 2013). Borrowings under the Secured Notes bear interest of 7.375% per annum. Interest on the Secured Notes will be payable semi-annually in arrears from the issue date or from the most recent interest payment date to which interest has been paid or provided for, whichever is the later. Interest is payable on each Secured Note on June 15 and December 15 of each year.

The Senior Notes consist of $745.0 million and EUR 250.0 million ($342.3 million at June 30, 2014 and $343.6 million at December 31, 2013) senior notes (the "U.S. Dollar Senior Notes" and the "Euro Senior Notes") due December 15, 2018 (collectively the "Senior Notes"). Borrowings outstanding under the Senior Notes were $745.0 million and EUR 250.0 million ($342.3 million at June 30, 2014 and $343.6 million at December 31, 2013). Borrowings under the U.S. Dollar Senior Notes bear interest of 10.5% per annum. Borrowings under the Euro Senior Notes bear interest of 10.875% per annum. Interest on the Senior Notes is payable semi-annually in arrears from the issue date or from the most recent interest payment date to which interest has been paid or provided for, whichever is the later. Interest is payable on each Secured Note on June 15 and December 15 of each year.

The Secured Notes and Senior Notes may be prepaid and are subject to a premium if payment is made prior to December 15, 2015. Mandatory redemption of the Secured Notes and Senior Notes is not required prior to their stated maturity dates. The Secured Notes rank pari passu in right of payment with all existing and future indebtedness that are not subordinated in right of payment to the Secured Notes. The Secured Notes are secured on a first priority basis by liens on all assets that secure the obligations of the borrowers under the Credit Facility. The Senior Notes are unsecured obligations of the Company and are guaranteed on a senior basis by the Company. They rank pari passu in right of payment with all of the Company's existing and future obligations that are not subordinated in right of payment to the Senior Notes.

The total capitalized deferred financing fees, net of accumulated amortization, was $40.6 million and $45.8 million as of June 30, 2014 and December 31, 2013, respectively. Deferred financing fees are included in other assets in the accompanying Condensed Consolidated Balance Sheets and are being amortized to interest expense over the terms of the underlying borrowings using the effective interest method. Total amortization expense related to deferred financing fees amounted to $2.6 million and $2.1 million during the three months ended June 30, 2014 and 2013, respectively. Total amortization expense related to deferred financing fees amounted to $5.2 million and $4.2 million during the six months ended June 30, 2014 and 2013, respectively

Accrued interest related to the Company's outstanding debt obligations was $6.5 million and $7.2 million as of June 30, 2014 and December 31, 2013, respectively, and is recorded in accrued expenses and other current liabilities. Interest expense for the three months ended June 30, 2014 and 2013, associated with the Credit Facilities, Secured Notes and Senior Notes, was $51.7 million and $54.9 million, respectively. Interest expense for the six months ended June 30, 2014 and 2013, associated with the Credit Facilities, Secured Notes and Senior Notes, was $103.7 million and $110.2 million, respectively. The weighted average interest rate for borrowings under the Company's outstanding debt obligations was approximately 7.0% for the six months ended June 30, 2014 and approximately 7.5% for the six months ended June 30, 2013.

The Company's borrowing arrangements contain a number of covenants. The more significant financial covenants include certain ratios and a limitation on capital expenditures. The Company was in compliance with all financial covenants as of June 30, 2014.

The aggregate maturities of debt obligations as of June 30, 2014 are as follows:

Years Ending December 31,		
2014	$	0.2
2015		-
2016		1,393.6
2017		410.8
2018		1,087.3
Thereafter		-
Total	$	2,891.9

11. Mandatorily Redeemable Preferred Equity Certificates

In connection with the Company's initial capitalization, the Company issued Series 1, 2 and 3 preferred equity certificates ("PECs") for an aggregate amount of EUR 1,289.7 million. The PECs are mandatorily redeemable by the Company in 2047 or upon liquidation (which entails voluntary or involuntary liquidation, insolvency, dissolution, or winding up of the affairs of the company), or the Company has the option to voluntarily redeem any or all of the PECs, into cash, equity shares, new PECs or property that have an aggregate fair market value equal to the face value plus accrued unpaid dividends. The Company shall also redeem part or all of the PECs, if prior to the maturity date, part or all of the amounts that the Company lent to a subsidiary from the proceeds of these PECs are paid back by the subsidiary. If only part of the intercompany obligation is paid back by the subsidiary, then the PECs will be redeemed at an amount equal to lesser of (a) the pro rata portion of nominal principal and yield used to finance that portion of the subsidiary's obligation, or, (b) the maximum portion of these PECs that may be prepaid from the net proceeds from the subsidiary. The PECs can only be redeemed to the extent the Company will not become insolvent after making such payment. The PECs have been classified as debt as the PEC holders control a majority of the board of directors and, therefore, control the redemption rights. Further, under Luxembourg law, the PECs are considered debt instruments.

PECs have priority over the common and preferred stock in the distribution of dividends. PECs are entitled to a dividend equivalent ranging from approximately 7% to 9% of the par value per annum on a cumulative basis. PEC dividends accrue monthly and compound on an annual basis. Mandatorily Redeemable Preferred Equity Certificates and accrued interest was $3,174.7 million and $3,097.3 million at June 30, 2014 and December 31, 2013, respectively. Total dividends expensed during the three months ended June 30, 2014 and 2013 were $60.6 million and $54.1 million, respectively, which were classified as interest expense in the accompanying Condensed Consolidated Statements of Operations. Total dividends expensed during the six months ended June 30, 2014 and 2013 were $120.7 million and $108.1 million, respectively. The PECs allow for distribution of interest to the extent permitted by our restricted payment capacity, a specified leverage ratio and other provisions outlined in our debt agreements. During the six months ended June 30, 2014, the Company made a payment of $31.5 million of accrued PEC interest to the Parent. The Company anticipates that it will fund semi-annual cash interest payments to the Parent going forward. The cash interest payments are incremental to the interest due on our long term debt and will reduce our operating cash flows going forward. The timing of the Company's cash interest payments to the Parent will be on January 15 and July 15, commencing on January 15, 2014. As of June 30, 2014, the current portion of accrued PEC interest on the consolidated balance sheet was $34.2 million. The Company expects to pay this amount to the Parent in the third quarter of 2014. No payments were made in the corresponding period in 2013. The variance between the cumulative balances of accrued dividends and cumulative dividends expensed is due to fluctuations in the foreign currency exchange rates. PECs are subordinate to borrowings under the Credit Facilities, Secured Notes, and Senior Notes, as well as present and future obligations of the Company whether secured or unsecured. The holders of the PECs do not have voting rights in respect to the Company by reason of ownership of the PECs. The Series 3 PECs cannot be transferred without prior consent of the Company or pursuant to the Company's third party debt agreements.

12. Employee Stock Benefit Plans

The Company's Parent grants share-based compensation awards to employees under the Annual Equity Program ("AEP"), the Management Executive Plan ("MEP") and the Management Incentive Plan ("MIP"). The accounting standard relating to stock based compensation requires that the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective, and requires entities to apply a fair value-based measurement method in accounting for share-based payment transactions. The Company grants share-based

compensation awards which vest over a specified period or upon a liquidity event, such as a change of control or an initial public offering. The fair value of share-based compensation awards issued to employees is measured on the date of grant and expense is recognized over the vesting period or upon a liquidity event, depending upon the specific terms of the individual award. Certain features of share-based awards require the awards to be accounted for as liabilities as opposed to equity. Liability awards are required to be updated to fair value at the end of each reporting period until settlement. Generally, unvested awards are forfeited for no consideration upon termination of employment. No awards may be transferred other than under specified limited circumstances which generally are to family members for estate planning purposes.

The fair value of each award is estimated on the date of grant using the Black-Scholes pricing model. The fair value for awards accounted for as liabilities is remeasured at each reporting date. Expected volatilities are based on historical volatilities of comparable companies. The risk-free interest rate is based on the weighted-average of U.S. Treasury strip rates over the contractual term of the awards. The expected term of the awards granted represents the period of time that awards are expected to be outstanding.

Annual Equity Program

The AEP allows for the issuance of units ("AEP Units") to employees for shares of common stock. The Company's Parent is authorized to grant up to 1.0 million AEP Units to purchase common stock under the AEP, representing 2.0% of the common stock in the Company's Parent. AEP Units are granted at the allocable fair market value of a share of stock on the date of grant and vest upon a liquidity event, as such no share-based compensation has been recognized for the AEP units during the three and six months ended June 30, 2014 and 2013, respectively.

Management Executive Plan

The MEP allows for the issuance of units ("MEP Units") by the Company's Parent to employees for shares of common stock in the Parent. The Company's Parent is authorized to issue up to 1.0 million MEP Units to purchase common stock under the MEP, representing 8.0% of the common stock in the Company's Parent. MEP Units are granted at the allocable fair market value of a share of stock on the date of grant and vest over five years or upon a liquidity event.

Management Incentive Plan

The MIP allows for the issuance of units ("MIP Units") to employees for common stock and PEC's of the Company's Parent. The Company's Parent is authorized to grant up to 3.0 million MIP Units under the Plan, representing 0.3% of the common stock and 0.4% of the PECs in the Company's Parent. MIP Units are granted at the allocable fair market value of a share of stock or PECs on the date of grant and vest upon a liquidity event, as such no share-based compensation has been recognized for the MIP units during the three and six months ended June 30, 2014 and 2013, respectively.

During the six months ended June 30, 2014 there were 138,500 AEP units and zero, MEP or MIP units granted. The Company recognized total share-based compensation expense for all plans of $1.2 million and $0.8 million for the three months ended June 30, 2014 and 2013, respectively. The Company recognized total compensation expense for all plans of $3.9 million and $1.7 million for the six months ended June 30, 2014 and 2013, respectively.

13. Fair Value Measurements

The Company applies the guidance related to fair value measurements for its financial assets and financial liabilities reported or disclosed at fair value. In addition, the Company applies certain provisions of the standard relating to its non-financial assets and liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The Company's financial instruments and the methods used to determine fair value consist of the following:

- Cash and cash equivalents, receivables, accounts payable and certain accrued expenses – Carrying amounts approximate fair value due to the short-term maturities of these assets and liabilities.

- Preferred equity certificates – Carrying amounts approximate fair value due to the holders' ability to redeem the instruments at face value at issuance.

To increase consistency and comparability in fair value measures, the accounting standard relating to fair value measurements established a three-level fair value hierarchy to prioritize inputs used in valuation techniques between observable inputs that reflect quoted prices in actives markets, inputs other than quoted market prices with observable market data, and unobservable data (e.g., the company's own data). The guidance requires disclosures detailing the extent to which companies measure assets and liabilities at fair value, the methods and assumptions used to measure fair value and the effect of fair value measurements on earnings. Accordingly, the Company has applied the following valuation techniques to measure fair value:

Level 1 - Quoted market prices in active markets for identical assets or liabilities

Level 2 - Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs)

Level 3 - Unobservable inputs in which there is a little or no market data, which require the reporting entity to develop its own assumptions

The following table summarizes those financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

		Recurring Fair Value Measurements		
June 30, 2014	**Total**	**Level 1**	**Level 2**	**Level 3**
Liabilities:				
Contingent consideration associated with acquisitions	$ 1.3	$ -	$ -	$ 1.3

		Recurring Fair Value Measurements		
December 31, 2013	**Total**	**Level 1**	**Level 2**	**Level 3**
Liabilities:				
Contingent consideration associated with acquisitions	$ 1.3	$ -	$ -	$ 1.3

In accordance with the accounting guidance related to business combinations, contingent consideration is recognized at fair value at the end of each reporting period. The Company recorded $1.3 million related to the initial fair value assessment of contingent consideration for certain 2012 acquisitions in other liabilities on the Condensed Consolidated Balance Sheets. The aforementioned contingent consideration is calculated using a discounted cash flow technique. Level 3 unobservable inputs include probability assessments of the respective acquisitions achieving the targeted performance metrics, as outlined in the acquisition agreements. For the six months ended June 30, 2014, no adjustments to the initial estimates were required. There were no transfers between the levels of the fair value hierarchy or any additional activity other than the initial recognition of the contingent consideration.

There were no other financial assets or financial liabilities measured at fair value on a recurring or a nonrecurring basis as of June 30, 2014.

14. Commitments and Contingencies

Legal Proceedings

In accordance with the accounting guidance related to Contingencies, the Company records accruals for loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Legal costs related to litigation matters are expensed as incurred.

In the ordinary course of business, the Company is subject to various legal proceedings and claims, including, for example, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. In addition, the Company operates in an industry susceptible to patent legal claims. At any given time, in the ordinary course of business, the Company may be involved as either a plaintiff or defendant in patent infringement actions. If a third party's patent infringement claim were to be determined against the Company, the Company might be required to make significant royalty or other payments or might be subject to an injunction or other limitation on its ability to manufacture or distribute one or more products. If a patent owned by or licensed to the Company were to be determined to be invalid or unenforceable, the Company might be required to reduce the value of the patent on the Company's Condensed Consolidated Balance Sheets and to record a corresponding charge, which could be significant in amount. There are various lawsuits, claims, proceedings and investigations which are currently pending involving the Company.

The Company believes that it has adequately accrued for all legal matters or, for matters not requiring accrual, believes that it will not have a material adverse impact on the results of operations, financial position or cash flows based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur, which could materially and adversely impact the Company's results of operations or cash flows in a particular reporting period. In addition, based on the information available currently, the Company does not believe that any of these proceedings and claims would have a material adverse effect on its business, results of operations, financial condition and/or liquidity. Changes to legal proceedings that were disclosed in the 2013 Annual Report have not had a significant impact to the financial statements through the six months ended June 30, 2014.

Environmental Proceedings

The Company is a party to proceedings and other matters under various state, Federal and foreign environmental laws, and from time to time incurs the costs of investigating and/or remediating contamination resulting from past industrial activity at current or former company sites, or at waste disposal or reprocessing facilities operated by third parties.

With respect to Environmental matters for which the Company is responsible under various state, Federal and foreign laws, the Company typically estimates potential costs based on information obtained from the U.S. Environmental Protection Agency (EPA), or counterpart state agency and/or studies prepared by independent consultants, including total estimated costs for the site and the expected cost-sharing, if any, with other "potentially responsible parties", and the Company accrues liabilities when they are probable and reasonably estimable. There have been no significant changes to the environmental proceedings disclosed in the Company's Audited Consolidated Financial Statements contained in the 2013 Annual Report for the fiscal year ended December 31, 2013.

Other Matters

On June 24, 2014, Unomedical, a ConvaTec company, received a Warning Letter from the FDA related to an inspection of our Michalovce, Slovakia manufacturing plant in February 2014. In the letter, the Agency raised concerns with certain manufacturing processes and controls at the facility. After being informed of these concerns following the February inspection, we took prompt action to address all issues. We provided updates, including documented evidence of corrective actions, to the FDA in April and June. The corrective actions we took are substantially complete but require follow-up inspection by the FDA and ongoing monitoring. We will continue to work with the FDA to ensure that our actions fully address the Agency's concerns and close out the letter as quickly as possible.

As a result of a routine inspection, we received a warning letter from the FDA dated May 24, 2013. The warning related to complaint handling and other quality management systems at our Skillman, New Jersey facility. Resources have been added to address the FDA concerns in a timely manner. We have engaged third-party consultants to develop remediation procedures and are working closely and cooperatively with the FDA to alleviate its concerns. We believe that these efforts will be adequate to address the issues raised in the warning letter.

15. Subsequent Events

The Company has evaluated subsequent events through August 14, 2014, the date the financial statements were available to be issued.