

Mallinckrodt plc
Form 10-Q
August 07, 2014

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

FORM 10-Q

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

For the quarterly period ended June 27, 2014

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

For the transition period from _____ to _____

Commission File Number: 001-35803

Mallinckrodt public limited company
(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction of
incorporation or organization)
Damastown, Mulhuddart
Dublin 15, Ireland
(Address of principal executive offices) (Zip Code)

98-1088325
(I.R.S. Employer
Identification No.)

Telephone: +353 1 880-8180
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

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

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
Ordinary shares, \$0.20 par value - 58,573,909 shares as of August 1, 2014

MALLINCKRODT PLC
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MALLINCKRODT PLC

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

(unaudited, in millions, except per share data)

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net sales	\$653.1	\$570.0	\$1,751.1	\$1,659.3
Cost of sales	368.8	304.2	948.6	886.5
Gross profit	284.3	265.8	802.5	772.8
Selling, general and administrative expenses	221.3	166.9	561.6	474.4
Research and development expenses	42.7	44.8	123.1	122.4
Separation costs	1.8	44.2	6.6	70.6
Restructuring charges, net	23.8	11.3	53.5	17.9
Gains on divestiture and license	(0.9)	(0.8)	(14.7)	(2.2)
Operating income (loss)	(4.4)	(0.6)	72.4	89.7
Interest expense	(22.7)	(9.4)	(44.9)	(9.6)
Interest income	0.3	—	1.1	0.1
Other (expense) income, net	0.1	2.1	(0.9)	2.3
Income (loss) from continuing operations before income taxes	(26.7)	(7.9)	27.7	82.5
Provision for (benefit from) income taxes	(2.4)	19.8	(6.1)	55.9
Income (loss) from continuing operations	(24.3)	(27.7)	33.8	26.6
Income (loss) from discontinued operations, net of income taxes	0.2	(0.2)	(0.7)	(1.3)
Net income (loss)	\$(24.1)	\$(27.9)	\$33.1	\$25.3
Basic earnings (loss) per share (Note 7):				
Income (loss) from continuing operations	\$(0.42)	\$(0.48)	\$0.58	\$0.46
Loss from discontinued operations	—	—	(0.01)	(0.02)
Net income (loss)	\$(0.41)	\$(0.48)	\$0.57	\$0.44
Basic weighted-average shares outstanding	58.5	57.7	58.2	57.7
Diluted earnings (loss) per share (Note 7):				
Income (loss) from continuing operations	\$(0.42)	\$(0.48)	\$0.57	\$0.46
Loss from discontinued operations	—	—	(0.01)	(0.02)
Net income (loss)	\$(0.41)	\$(0.48)	\$0.56	\$0.44

Diluted weighted-average shares outstanding	58.5	57.7	59.0	57.7
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See Notes to Condensed Consolidated and Combined Financial Statements.

MALLINCKRODT PLC
 CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited, in millions)

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net income (loss)	\$ (24.1	) \$ (27.9	) \$ 33.1	\$ 25.3
Other comprehensive income (loss), net of tax				
Currency translation adjustments	(0.9	) (6.6	) (2.9	) (14.8
Unrecognized gain (loss) on derivatives, net of \$-, \$-, \$(0.1) and \$- tax	0.2	(3.4	) 0.4	(7.4
Unrecognized gain (loss) on benefit plans, net of \$(2.2), \$(2.4), \$(2.1) and \$(1.3) tax	4.8	3.6	4.5	1.9
Total other comprehensive income (loss), net of tax	4.1	(6.4	) 2.0	(20.3
Comprehensive income (loss)	\$ (20.0	) \$ (34.3	) \$ 35.1	\$ 5.0

See Notes to Condensed Consolidated and Combined Financial Statements.

MALLINCKRODT PLC
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (unaudited, in millions, except share data)

	June 27, 2014	September 27, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$327.9	\$ 275.5
Accounts receivable, less allowance for doubtful accounts of \$7.2 and \$4.6	437.8	400.8
Inventories	398.3	403.1
Deferred income taxes	357.7	171.1
Prepaid expenses and other current assets	128.6	134.4
Total current assets	1,650.3	1,384.9
Property, plant and equipment, net	1,000.0	997.4
Goodwill	854.2	532.0
Intangible assets, net	1,663.4	422.1
Other assets	255.5	220.2
Total Assets	\$5,423.4	\$ 3,556.6
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$14.4	\$ 1.5
Accounts payable	125.3	120.9
Accrued payroll and payroll-related costs	76.4	66.5
Accrued branded rebates	21.6	34.6
Accrued and other current liabilities	400.9	376.7
Total current liabilities	638.6	600.2
Long-term debt	2,201.3	918.3
Pension and postretirement benefits	97.7	108.0
Environmental liabilities	60.9	39.5
Deferred income taxes	772.6	310.1
Other income tax liabilities	123.7	153.1
Other liabilities	200.2	171.8
Total Liabilities	4,095.0	2,301.0
Shareholders' Equity:		
Preferred shares, \$0.20 par value, 500,000,000 authorized; none issued and outstanding	—	—
Ordinary A shares, €1.00 par value, 40,000 authorized; none issued and outstanding	—	—
Ordinary shares, \$0.20 par value, 500,000,000 authorized; 58,593,973 and 57,713,873 issued; 58,561,112 and 57,713,390 outstanding	11.7	11.5
Ordinary shares held in treasury at cost, 32,861 and 483	(1.9) —
Additional paid-in capital	1,141.5	1,102.1
Retained earnings	66.6	33.5
Accumulated other comprehensive income	110.5	108.5
Total Shareholders' Equity	1,328.4	1,255.6
Total Liabilities and Shareholders' Equity	\$5,423.4	\$ 3,556.6

See Notes to Condensed Consolidated and Combined Financial Statements.

MALLINCKRODT PLC
 CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
 (unaudited, in millions)

	Nine Months Ended	
	June 27, 2014	June 28, 2013
Cash Flows From Operating Activities:		
Net income	\$33.1	\$25.3
Loss from discontinued operations, net of income taxes	0.7	1.3
Income from continuing operations	33.8	26.6
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	158.7	102.2
Share-based compensation	14.4	11.4
Deferred income taxes	(20.5	) 7.5
Non-cash restructuring charge	2.6	—
Other non-cash items	17.3	(4.3
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable, net	(25.7	) (137.9
Inventories	(7.5	) 12.3
Accounts payable	(29.0	) (8.9
Income taxes	(46.9	) 39.8
Accrued and other liabilities	53.0	(24.8
Other	17.9	(17.7
Net cash provided by operating activities	168.1	6.2
Cash Flows From Investing Activities:		
Capital expenditures	(80.1	) (110.5
Acquisitions and intangibles, net of cash acquired	(1,303.2	) (88.1
Restricted cash	4.1	—
Other	8.7	0.1
Net cash (used in) investing activities	(1,370.5	) (198.5
Cash Flows From Financing Activities:		
Issuance of external debt	1,296.8	898.1
Repayment of external debt	(30.1) —
Repayment of capital leases	(1.1	) (1.0
Excess tax benefit from share-based compensation	5.2	3.4
Debt financing costs	(32.2	) (12.0
Net transfers to parent	—	(515.9
Proceeds from exercise of share options	19.9	—
Repurchase of shares	(1.9) —
Other	—	0.1
Net cash provided by financing activities	1,256.6	372.7
Effect of currency rate changes on cash	(1.8) —
Net increase in cash and cash equivalents	52.4	180.4
Cash and cash equivalents at beginning of period	275.5	—
Cash and cash equivalents at end of period	\$327.9	\$180.4

See Notes to Condensed Consolidated and Combined Financial Statements.

MALLINCKRODT PLC
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 (unaudited, in millions)

	Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Number	Par Value	Number	Amount				
Balance at September 27, 2013	57.7	\$11.5	—	\$—	\$1,102.1	\$33.5	\$ 108.5	\$ 1,255.6
Net income	—	—	—	—	—	33.1	—	33.1
Currency translation adjustments	—	—	—	—	—	—	(2.9)	(2.9)
Change in derivatives, net of tax	—	—	—	—	—	—	0.4	0.4
Minimum pension liability, net of tax	—	—	—	—	—	—	4.5	4.5
Share options exercised	0.6	0.1	—	—	25.1	—	—	25.2
Vesting of restricted shares	0.3	0.1	—	—	(0.1)	—	—	—
Share-based compensation	—	—	—	—	14.4	—	—	14.4
Repurchase of shares	—	—	—	(1.9)	—	—	—	(1.9)
Balance at June 27, 2014	58.6	\$11.7	—	\$(1.9)	\$1,141.5	\$66.6	\$ 110.5	\$ 1,328.4

See Notes to Condensed Consolidated and Combined Financial Statements.

MALLINCKRODT PLC

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(unaudited, dollars in millions, except per share data and where indicated)

1. Background and Basis of Presentation

Background

Mallinckrodt plc, and its subsidiaries (collectively, "Mallinckrodt" or "the Company"), is a global company that develops, manufactures, markets and distributes both branded and specialty generic pharmaceuticals, active pharmaceutical ingredients ("API") and diagnostic imaging agents. These products are found in almost every hospital, standalone diagnostic imaging center or pharmacy in the United States ("U.S.") and the Company has a commercial presence in approximately 65 countries. The Company believes its extensive commercial reach and formulation expertise, coupled with its ability to navigate the highly regulated and technical nature of its business, have created compelling competitive advantages that it anticipates will sustain future revenue growth.

The Company conducts its business in the following two segments:

- Specialty Pharmaceuticals produces and markets branded and specialty generic pharmaceuticals and API, comprised of medicinal opioids, synthetic controlled substances, acetaminophen and other active ingredients; and
- Global Medical Imaging develops, manufactures and markets contrast media and delivery systems ("CMDS") and radiopharmaceuticals (nuclear medicine).

On June 28, 2013, the Pharmaceuticals business of Covidien plc ("Covidien") was transferred to Mallinckrodt plc, thereby completing its legal separation from Covidien ("the Separation"). On July 1, 2013, Mallinckrodt plc began regular way trading on the New York Stock Exchange under the ticker symbol "MNK."

Basis of Presentation

The accompanying unaudited condensed consolidated and combined financial statements reflect the consolidated financial results of the Company as an independent, publicly-traded company for the three and nine months ended June 27, 2014 and the consolidated financial position as of June 27, 2014 and September 27, 2013. The three and nine months ended June 28, 2013 reflect the combined results of operations of the Pharmaceuticals business of Covidien. The unaudited condensed consolidated and combined financial statements have been prepared in U.S. dollars and in accordance with accounting principles generally accepted in the U.S. ("GAAP"). The preparation of the unaudited condensed consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from those estimates. The unaudited condensed consolidated and combined financial statements include the accounts of the Company, its wholly-owned subsidiaries and entities in which they own or control more than fifty percent of the voting shares, or have the ability to control through similar rights. The results of entities disposed of are included in the unaudited condensed consolidated and combined financial statements up to the date of disposal and, where appropriate, these operations have been reflected as discontinued operations. Divestitures of product lines not representing businesses have been reflected in operating income. All intercompany balances and transactions have been eliminated in consolidation and, in the opinion of management, all normal recurring adjustments necessary for a fair presentation have been included in the interim results reported. The fiscal year-end balance sheet data were derived from audited consolidated financial statements, but do not include all of the annual disclosures required by GAAP; accordingly, these unaudited condensed consolidated and combined financial statements should be read in conjunction with the Company's audited annual consolidated and combined financial statements included in its Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("the SEC") on December 13, 2013.

The Company's unaudited condensed combined financial statements for the three and nine months ended June 28, 2013 may not be indicative of its future performance and do not necessarily reflect the results of operations and cash flows that would have been had it operated as an independent, publicly-traded company during that period. The unaudited condensed combined financial statements for the three and nine months ended June 28, 2013 include

expense allocations for certain functions provided by Covidien, including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, employee benefits and incentives, insurance and share-based compensation. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating expenses, headcount or other measures. The amounts allocated were \$14.1 million and \$39.6 million during the three and nine months ended June 28, 2013, respectively, and were included within selling, general and administrative expenses. Management considers the bases on which the expenses were allocated to reasonably reflect the utilization of services provided to, or the benefit received by, the Company; however, the allocations may not reflect the expense the Company would have incurred as an independent, publicly-traded company during that period. Following the Separation, the Company has performed these functions using its own resources or purchased services, certain of which

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are being provided by Covidien during a transitional period pursuant to a transition services agreement dated June 28, 2013, between Mallinckrodt and Covidien, particularly in relation to areas outside the U.S. The terms and prices on which such services are rendered may not be as favorable as those that were allocated to the Company by Covidien. The Company expects to substantially reduce the level of service provided by Covidien by the end of fiscal 2014, primarily resulting from the implementation of the Company's information systems in certain jurisdictions outside the U.S.

Fiscal Year

The Company reports its results based on a "52-53 week" year ending on the last Friday of September. The third fiscal quarters of 2014 and 2013 ended on June 27, 2014 and June 28, 2013, respectively. Fiscal 2013 consisted of 52 weeks and ended on September 27, 2013. The three and nine months ended June 27, 2014 refers to the thirteen and thirty-nine week periods ended June 27, 2014 and the three and nine months ended June 28, 2013 refers to the thirteen and thirty-nine week periods ended June 28, 2013.

2. Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-11 in December 2011, "Disclosures about Offsetting Assets and Liabilities," which was clarified in January 2013 by ASU 2013-01 "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." This guidance provides new disclosure requirements about instruments and transactions eligible for offset in the statement of financial position, as well as instruments and transactions subject to an agreement similar to a netting agreement, to enable users of financial statements to understand the effects or potential effects of those arrangements on an entity's financial position. The guidance was effective for the Company in the first quarter of fiscal 2014. The adoption did not have a material impact on the Company's financial condition, results of operations and cash flows.

FASB issued ASU 2013-02, "Reporting Amounts Classified out of Accumulated Other Comprehensive Income," in February 2013. This guidance requires an entity to present, either on the face of the statement of income or separately in the notes to the financial statements, the effects on net income of significant amounts reclassified out of each component of accumulated other comprehensive income, if those amounts are required to be reclassified to net income in their entirety in the same reporting period. For other amounts not required to be reclassified to net income in their entirety, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. The guidance was effective for the Company in the first quarter of fiscal 2014. The adoption did not have a material impact on the Company's financial condition, results of operations and cash flows.

FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," in July 2013. This update provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists, to eliminate diversity in practice in the presentation of unrecognized tax benefits in those instances. Except in certain circumstances, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. This guidance is effective for the Company in the first quarter of fiscal 2015. The Company is assessing the impact of the pronouncement.

FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," in April 2014. Under the new guidance, only disposals representing a strategic shift in a company's operations and financial results should be reported as discontinued operations, with expanded disclosures. In addition, disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify as a discontinued operation is required. This guidance is effective for the Company in the first quarter of fiscal 2016, with early adoption permitted. The Company did not have any recent significant disposals. The Company will assess the impact of the pronouncement to prospective disposals, if applicable, disclosures in future filings and the potential early adoption of the standard.

FASB issued ASU 2014-09, "Revenue from Contracts with Customers," in May 2014. The issuance of ASU 2014-09 and International Financial Reporting Standards ("IFRS") 15, "Revenue from Contracts with Customers," completes the joint effort by FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and IFRS. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, applying the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance is effective for the Company in the first quarter of fiscal 2018. Early adoption is not permitted for public companies. The Company will assess the impact of the pronouncement.

3. License of Intellectual Property

The Company was involved in patent disputes with a counterparty relating to certain intellectual property relevant to extended-release oxymorphone. In December 2013, the counterparty agreed to pay the Company an upfront cash payment of \$4.0 million and contractually obligated future payments of \$8.0 million through July 2018, in exchange for the withdrawal of all claims associated with the intellectual property and a license to utilize the Company's intellectual property. The Company has completed the earnings process associated with the agreement and recorded an \$11.7 million gain, included within gains on divestiture and license, during the nine months ended June 27, 2014.

4. Acquisitions

Business Acquisitions

Questcor Pharmaceuticals

On April 5, 2014, the Company entered into an Agreement and Plan of Merger ("the Merger Agreement") with Questcor Pharmaceuticals, Inc. ("Questcor"), a high-growth biopharmaceutical company, pursuant to which the Company has agreed to acquire Questcor for approximately \$6.0 billion (based on the closing price of the Company's ordinary shares on August 1, 2014) ("the Questcor Merger"). Questcor shareholders will receive \$30.00 per share in cash and 0.897 ordinary shares of the Company for each share of Questcor common stock owned. The Company has entered into debt financing commitments that, together with cash on hand, are expected to be sufficient to provide the funds necessary to consummate the transaction, as discussed further in Note 21. Questcor is focused on the treatment of patients with serious, difficult-to-treat autoimmune and rare diseases. Questcor's primary product, H.P. Acthar® Gel (repository corticotropin injection), is an injectable drug that is approved by the U.S. Food and Drug Administration ("FDA") for the treatment of 19 indications, including nephrotic syndrome, rheumatology related conditions, multiple sclerosis and infantile spasms. Questcor also supplies specialty contract manufacturing services to the global pharmaceutical and biotechnology industry through its wholly-owned subsidiary, BioVectra Inc. The acquisition is expected to provide a strong and sustainable platform for future revenue and earnings growth within the Company's Specialty Pharmaceuticals segment. Subject to customary closing conditions, the transaction is currently expected to be completed shortly after the shareholder meetings of the Company and Questcor, which are both scheduled for August 14, 2014. Acquisition costs included in the consolidated condensed statements of income for the three and nine months ended June 27, 2014 were \$16.6 million and \$17.5 million, respectively, and were included within selling, general and administrative expenses. The Company anticipates incurring additional acquisition costs throughout the remainder of fiscal 2014. For further information on the acquisition of Questcor, refer to the Company's Form S-4 filed with the SEC on July 11, 2014.

Cadence Pharmaceuticals

On March 19, 2014, the Company acquired all of the outstanding common stock of Cadence Pharmaceuticals, Inc. ("Cadence"), a biopharmaceutical company focused on commercializing products principally for use in the hospital setting, for total consideration of \$14.00 per share in cash, or approximately \$1.3 billion. The acquisition was primarily funded through a \$1.3 billion senior secured term loan credit facility, as further discussed in Note 11. Cadence's sole product, OFIRMEV® (acetaminophen) injection ("Ofirmev"), is a proprietary intravenous formulation of acetaminophen for the management of mild to moderate pain, the management of moderate to severe pain with adjunctive opioid analgesics and the reduction of fever. The acquisition of Cadence ("the Cadence Acquisition") adds a growth product to the Specialty Pharmaceuticals product portfolio and provides the Company an opportunity to expand its reach into the adjacent hospital market, in which Cadence had established a presence. The following amounts represent the preliminary allocation of the fair value of the identifiable assets acquired and liabilities assumed, including preliminary goodwill and intangible assets, and the related deferred tax balances. The Company expects to complete its valuation analysis and finalize deferred tax balances as of the acquisition date no later than the fourth fiscal quarter of 2014. The changes in the purchase price allocation and preliminary goodwill based on the final valuation may include, but are not limited to, changes in deferred income taxes, intangible assets and inventory.

Cash and cash equivalents	\$43.2
Inventory	21.0
Intangible assets	1,300.0
Goodwill	322.2
Other assets, current and non-current ⁽¹⁾	18.0
Deferred tax liabilities, net	(296.4)
Other liabilities, current and non-current ⁽²⁾	(78.8)
Net assets acquired	\$1,329.2

(1) This amount includes \$14.7 million of accounts receivable, which is also the gross contractual value.

(2) This amount includes \$30.0 million of pre-existing Cadence debt, which the Company repaid upon completion of the acquisition.

Intangible assets acquired consist of the following:

	Amount	Amortization Period
Completed technology	\$1,300.0	8 years

The completed technology intangible asset relates to Ofirmev, the rights to which have been in-licensed from Bristol-Myers Squibb Company ("BMS"). The fair value of the intangible asset was determined using the income approach, which is a valuation technique that provides an estimate of the fair value of the asset based on market participant expectations of the cash flows an asset would generate. The cash flows were discounted at a 13.0% rate. For more information on the BMS license agreement, refer to "License Agreement" below. Based on the Company's preliminary estimate, the excess of purchase price over net tangible and intangible assets acquired resulted in goodwill, which represents the assembled workforce, anticipated synergies and the tax-free nature of the transaction. The goodwill is not deductible for U.S. income tax purposes. All assets acquired are included within the Company's Specialty Pharmaceuticals segment.

The condensed consolidated statements of income for both the three and nine months ended June 27, 2014 included net sales of \$53.2 million and \$58.5 million, respectively, and \$57.6 million and \$66.6 million losses from continuing operations before income taxes, respectively. These amounts reflect the operating results and amortization expenses of Cadence since the date of acquisition. Acquisition costs included within the condensed consolidated statements of income for the nine months ended June 27, 2014 were \$17.6 million, respectively, and were included within selling, general and administrative expenses.

The following unaudited pro forma information presents a summary of the combined results of operations of the Company and of Cadence for the three and nine months ended June 27, 2014 and June 28, 2013 as if the acquisition had occurred on October 1, 2012, along with certain pro forma adjustments. These pro forma adjustments consist primarily of:

- non-recurring costs related to the step-up in fair value of acquired inventory and transaction costs related to the acquisition of Cadence;
- increased amortization expense related to the completed technology intangible asset acquired in the acquisition of Cadence;
- increased interest expense to reflect the variable rate term loan and revolving credit facility entered into in connection with the acquisition of Cadence (utilizing the interest rate in effect at March 28, 2014 of 3.50%), including interest and amortization of deferred financing costs and original issue discount; and
- the related income tax effects.

The following unaudited pro forma information has been prepared for comparative purposes only and is not necessarily indicative of the results of operations as they would have been had the acquisition occurred on the assumed date, nor is it necessarily an indication of future operating results. In addition, the unaudited pro forma

information does not reflect the cost of any integration activities, benefits from any synergies that may be derived from the acquisition or revenue growth that may be anticipated.

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net sales	\$653.1	\$594.7	\$1,816.8	\$1,724.8
Net (loss)	(18.2	) (61.9	) (20.8	) (97.7
Basic (loss) per share	\$(0.31	) \$(1.07	) \$(0.36	) \$(1.69
Diluted (loss) per share	(0.31	) (1.07	) (0.36	) (1.69

CNS Therapeutics

On October 1, 2012, the Company acquired all the outstanding equity of CNS Therapeutics, Inc. ("CNS Therapeutics"), a specialty pharmaceuticals company focused on developing and commercializing intrathecal products for site-specific administration to the central nervous system to treat neurological disorders and intractable chronic pain, for total consideration of \$95.0 million. The total consideration was comprised of an upfront cash payment of \$88.1 million (net of cash acquired of \$3.6 million) and the fair value of contingent consideration of \$6.9 million. This contingent consideration, which could potentially total a maximum of \$9.0 million, is discussed further in Note 18. All assets acquired are included within the Company's Specialty Pharmaceuticals segment. The acquisition of CNS Therapeutics expanded the Company's branded pharmaceuticals portfolio and supports the Company's strategy of leveraging its therapeutic expertise and core capabilities in manufacturing, regulatory and commercialization to serve patients. With the acquisition, the Company now offers products for use in the management of severe spasticity of cerebral or spinal origin with a research and development pipeline of an additional presentation and concentration of GABLOFEN® (baclofen injection) ("Gablofen"), as well as other investigational pain products for intrathecal administration.

The condensed consolidated statements of income for the three and nine months ended June 27, 2014 contained \$8.7 million and \$24.1 million, respectively, of net sales of intrathecal products. The condensed combined statements of income for the three and nine months ended June 28, 2013 contained \$7.5 million and \$20.8 million, respectively, of net sales of intrathecal products. Acquisition and integration costs included in the periods presented were not material.

License Agreement

Bristol-Myers Squibb

As part of the Cadence Acquisition, the Company acquired the exclusive development and commercialization rights to Ofirmev in the U.S. and Canada, as well as the rights to the patents and technology, which were originally in-licensed by Cadence from BMS in March 2006. BMS sublicensed these rights to Cadence under a license agreement with SCR Pharmatop S.A. ("Pharmatop"), and the Company has the right to grant sublicenses to third parties. Under this license agreement, the Company may be obligated to make future milestone payments of up to \$25.0 million upon the achievement of certain levels of net sales. In addition, the Company is obligated to pay royalties on sales of the product.

5. Restructuring and Related Charges

During fiscal 2013, the Company launched a restructuring program designed to improve its cost structure ("the 2013 Mallinckrodt Program"). The 2013 Mallinckrodt Program includes actions across both segments, as well as within corporate functions. The Company expects to incur charges of \$100.0 million to \$125.0 million under this program as the specific actions required to execute on these initiatives are identified and approved, most of which are expected to be incurred by the end of fiscal 2016.

Prior to the Separation, Covidien initiated restructuring programs, which also applied to its Pharmaceuticals business. Restructuring actions associated with acquisitions made prior to the Separation are included within Other programs below. These programs were substantially completed as of September 27, 2013.

Net restructuring and related charges by segment were as follows:

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Specialty Pharmaceuticals	\$11.8	\$7.0	\$14.5	\$13.6
Global Medical Imaging	10.6	5.1	37.2	6.4
Corporate	1.8	—	2.3	—
Restructuring and related charges, net	24.2	12.1	54.0	20.0
Less: accelerated depreciation	(0.4	) (0.8	) (0.5	) (2.1
Restructuring charges, net	\$23.8	\$11.3	\$53.5	\$17.9

Net restructuring and related charges were comprised of the following:

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
2013 Mallinckrodt Program	\$23.0	\$—	\$53.9	\$—
Other programs	1.2	12.1	0.1	20.0
Total programs	24.2	12.1	54.0	20.0
Less: non-cash charges, including accelerated depreciation	(0.4	) (0.7	) (3.1	) (2.1
Total charges expected to be settled in cash	\$23.8	\$11.4	\$50.9	\$17.9

The following table summarizes cash activity for restructuring reserves, substantially all of which related to employee severance and benefits, with the exception of \$8.5 million related to consulting costs associated with restructuring initiatives:

	2013 Mallinckrodt Program	Other Programs	Total
Balance at September 27, 2013	\$ 14.9	\$10.6	\$25.5
Charges	55.6	1.8	57.4
Changes in estimate	(4.3	) (2.2	) (6.5
Cash payments	(31.6	) (6.2	) (37.8
Currency translation and other (1)	(0.9	) (0.9	) (1.8
Balance at June 27, 2014	\$33.7	\$3.1	\$36.8

(1) Represents the reclassification of pension and other postretirement benefits from restructuring reserves to pension and postretirement obligations.

Net restructuring and related charges, including associated asset impairments, incurred cumulative to date related to the 2013 Mallinckrodt Program were as follows:

Specialty Pharmaceuticals	\$16.7
Global Medical Imaging	46.8
Corporate	5.3
	\$68.8

Substantially all of the restructuring reserves were included in accrued and other current liabilities on the Company's unaudited condensed consolidated balance sheets.

6. Income Taxes

The Company recognized an income tax benefit of \$2.4 million on a \$26.7 million loss from continuing operations before income taxes for the three months ended June 27, 2014 and income tax expense of \$19.8 million on a \$7.9 million loss from continuing operations before income taxes for the three months ended June 28, 2013. The Company recognized an income tax benefit of \$6.1 million on \$27.7 million of income from continuing operations before income taxes the nine months ended June 27, 2014 and income tax expense of \$55.9 million on \$82.5 million of income from continuing operations before income taxes for the nine months ended June 28, 2013.

The effective tax rates were impacted by the Cadence Acquisition, Questcor Merger and the Separation. The rates for the three and nine months ended June 27, 2014 are impacted by the inclusion of an \$11.2 million and \$32.3 million, respectively, tax benefit associated with the Cadence Acquisition, including financing and acquisition costs and amortization of the acquired intangible asset. The rates for the three and nine months ended June 27, 2014 are also impacted by recognizing no tax benefit associated with \$16.6 million and \$17.5 million, respectively, of Questcor Merger transaction costs. With regard to the Separation, during the three months ended June 27, 2014, the Company received a \$0.4 million tax benefit on \$1.8 million of separation costs compared with a \$1.7 million tax benefit on \$44.2 million of separation costs for the three months ended June 28, 2013. During the nine months ended June 27, 2014, the Company received a \$1.5 million tax benefit on \$6.6 million of separation costs compared with a \$3.0 million tax benefit on \$70.6 million of separation costs for the nine months ended June 28, 2013. These impacts on the effective tax rate for the three and nine months ended June 27, 2014 were magnified by the level of income (loss) from continuing operations before income taxes. Furthermore, the Company's effective tax rate for the three and nine months ended June 28, 2013 reflected the business as historically managed by Covidien, rather than as an independent, publicly-traded company.

The acquisition of Cadence resulted in a preliminary net deferred tax liability increase of \$296.4 million. Significant components of this increase include \$499.6 million of deferred tax liability associated with the Ofirmev intangible asset, \$196.2 million of deferred tax asset associated with federal and state net operating losses, \$5.8 million of deferred tax assets associated with federal and state tax credits, and a \$7.3 million valuation allowance related to the uncertainty of the utilization of certain deferred tax assets.

The Company's unrecognized tax benefits, excluding interest, totaled \$111.2 million at June 27, 2014 and \$100.1 million at September 27, 2013. The net increase of \$11.1 million primarily resulted from net increases to prior period tax positions of \$20.4 million and current year activity of \$0.7 million, partially offset by reductions to unrecognized tax benefits as a result of settlements of \$0.2 million and the lapse of the applicable statutes of limitation of \$9.8 million. Included within the \$111.2 million of total unrecognized tax benefits at June 27, 2014, there are \$96.6 million of unrecognized tax benefits which if favorably settled would benefit the effective tax rate. The total amount of accrued interest related to these obligations was \$54.8 million at June 27, 2014 and \$62.1 million at September 27, 2013. During the three months ending June 27, 2014 the Company made a \$35.9 million advanced payment to the Internal Revenue Service ("IRS") in connection with the proposed settlement of certain tax matters for 2005 through 2007. This payment was comprised of \$27.3 million of tax and \$8.6 million of interest. The Company does not yet consider the unrecognized tax benefits associated with the proposed settlement as being effectively settled.

It is reasonably possible that within the next twelve months, as a result of the resolution of various federal, state and foreign examinations and appeals and the expiration of various statutes of limitation, the unrecognized tax benefits will decrease by up to \$56.1 million and the amount of interest and penalties will decrease by up to \$24.6 million.

7. Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income by the number of weighted-average shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted-average shares outstanding and, if dilutive, potential ordinary shares outstanding during the period. Potential ordinary shares represents the incremental ordinary shares issuable for restricted share units and share option exercises. The Company calculates the dilutive effect of outstanding restricted share units and share options on earnings (loss) per share by application of the treasury stock method.

The computations of basic and diluted earnings (loss) per share assumes that the number of shares outstanding for periods prior to June 28, 2013 was equal to the number of ordinary shares of Mallinckrodt outstanding on June 28, 2013, immediately following the distribution of one ordinary share of Mallinckrodt for every eight ordinary shares of Covidien. The dilutive effect of the Company's share-based awards that were issued as a result of the conversion of Covidien share-based awards in connection with the Separation, the initial equity awards granted to certain of the Company's executives on July 1, 2013 and any other Company grants made since the Separation have been included in the computation of diluted earnings per share for the three and nine months ended June 27, 2014, weighted appropriately for the portion of the period they were outstanding.

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Weighted-average shares for basic earnings (loss) per share	58.5	57.7	58.2	57.7
Effect of share options and restricted shares	—	—	0.8	—
Weighted-average shares for diluted earnings (loss) per share	58.5	57.7	59.0	57.7

The computation of diluted earnings per share for the three months ended June 27, 2014 excludes 3.4 million shares of equity awards because the effect of including such shares would have been anti-dilutive due to the net loss for the period. Had these awards not been anti-dilutive, they would have resulted in dilution of 1.0 million for the three months ended June 27, 2014.

The computation of diluted earnings per-share for the nine months ended June 27, 2014 excludes less than 0.1 million shares of equity awards because the effect of including such shares would have been anti-dilutive.

8. Inventories

Inventories were comprised of the following at the end of each period:

	June 27, 2014	September 27, 2013
Raw materials and supplies	\$80.6	\$ 68.8
Work in process	177.8	191.5
Finished goods	139.9	142.8
	\$398.3	\$ 403.1

9. Property, Plant and Equipment

The gross carrying amount and accumulated depreciation of property, plant and equipment at the end of each period was as follows:

	June 27, 2014	September 27, 2013
Property, plant and equipment, gross	\$1,945.1	\$ 1,873.7
Less: accumulated depreciation	(945.1)	(876.3)
Property, plant and equipment, net	\$1,000.0	\$ 997.4

Depreciation expense for property, plant and equipment was \$30.4 million and \$26.3 million during the three months ended June 27, 2014 and June 28, 2013, respectively, and \$82.8 million and \$75.5 million during the nine months ended June 27, 2014 and June 28, 2013, respectively. Depreciation expense included depreciation on demonstration equipment of \$1.9 million and \$1.0 million for the three months ended June 27, 2014 and June 28, 2013, respectively, and \$3.9 million and \$2.7 million for the nine months ended June 27, 2014 and June 28, 2013, respectively.

Demonstration equipment was included within other assets on the unaudited condensed consolidated balance sheets.

10. Goodwill and Intangible Assets

The carrying amount of goodwill by segment for the periods presented was as follows:

	Specialty Pharmaceuticals	Global Medical Imaging	Total
Goodwill at September 27, 2013	\$ 312.3	\$219.7	\$532.0
Acquisitions	322.2	—	322.2
Goodwill at June 27, 2014	\$ 634.5	\$219.7	\$854.2

The gross carrying amount and accumulated amortization of intangible assets at the end of each period were as follows:

	June 27, 2014		September 27, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable:				
Completed technology	\$1,749.2	\$259.2	\$449.2	\$196.6
Licenses	201.1	88.8	191.1	79.3
Trademarks	7.9	4.0	7.9	3.8
Other	7.2	3.6	—	—
Total	\$1,965.4	\$355.6	\$648.2	\$279.7
Non-amortizable:				
Trademarks	\$35.0		\$35.0	
In-process research and development	18.6		18.6	
Total	\$53.6		\$53.6	

On March 19, 2014, the Company completed the Cadence Acquisition and acquired a \$1.3 billion completed technology intangible asset relating to Cadence's sole product, Ofirmev, the rights to which have been in-licensed from BMS. For more information on the intangible asset, acquisition and BMS license agreement, refer to Note 4. In March 2014, the Company obtained approval from the FDA for XARTEMIS™ XR (oxycodone HCl and acetaminophen) extended-release tablets (CII), resulting in a milestone payment of \$10.0 million. In January 2014, the Company purchased royalty rights associated with EXALGO® (hydromorphone HCl) extended-release tablets (CII) for \$7.2 million.

Intangible asset amortization expense was \$51.6 million and \$8.9 million during the three months ended June 27, 2014 and June 28, 2013, respectively, and \$75.9 million and \$26.6 million during the nine months ended June 27, 2014 and June 28, 2013, respectively. The estimated aggregate amortization expense on intangible assets owned by the Company is expected to be as follows:

Remainder of fiscal 2014	\$51.4
Fiscal 2015	200.2
Fiscal 2016	198.4
Fiscal 2017	196.9
Fiscal 2018	188.2

11. Debt

Debt was comprised of the following at the end of each period:

	June 27, 2014	September 27, 2013
Current maturities of long-term debt:		
Term loan	\$ 13.0	\$ —
Capital lease obligation	1.4	1.4
Loan payable	—	0.1
Total current debt	14.4	1.5
Long-term debt:		
Term loan	1,283.9	—
3.50% notes due April 2018	300.0	299.9
9.50% debentures due May 2022	10.4	10.4
8.00% debentures due March 2023	8.0	8.0
4.75% notes due April 2023	598.2	598.2
Capital lease obligation	0.8	1.8
Total long-term debt	2,201.3	918.3
Total debt	\$ 2,215.7	\$ 919.8

In March 2014, in connection with the Cadence Acquisition, Mallinckrodt International Finance S.A. ("MIFSA") and Mallinckrodt CB LLC ("MCB"), each a wholly-owned subsidiary of the Company, entered into senior secured credit facilities consisting of a \$1.3 billion term loan facility due 2021 ("the Term Loan") and a \$250.0 million revolving credit facility due 2019 ("the Revolver") (collectively, "the Facilities"). The Facilities are fully and unconditionally guaranteed by Mallinckrodt plc, certain of its direct or indirect wholly-owned U.S. subsidiaries and each of its direct or indirect wholly-owned subsidiaries that owns directly or indirectly any such wholly-owned U.S. subsidiary (collectively, "the Guarantors"). The Facilities are secured by a security interest in certain assets of MIFSA, MCB and the Guarantors. The Facilities contain customary affirmative and negative covenants, which include, among other things, restrictions on the Company's ability to declare or pay dividends, create liens, incur additional indebtedness, enter into sale and lease-back transactions, make investments, dispose of assets and merge or consolidate with any other person. In addition, the Revolver contains a financial covenant that may limit the Company's total net leverage ratio, which is defined as the ratio of (i) the Company's consolidated debt, less any unrestricted cash and cash equivalents, to (ii) the Company's adjusted consolidated EBITDA, as defined in the credit agreement. The Facilities bear interest at LIBOR plus a margin based on the Company's total net leverage ratio, and the Term Loan is subject to a minimum LIBOR level of 0.75%. Interest payment dates are variable based on the LIBOR rate utilized, but the Company generally expects interest to be payable every 90 days. The Term Loan requires quarterly principal amortization payments in an amount equal to 0.25% of the original principal amount of the Term Loan payable on the last day of each calendar quarter, which commenced on June 30, 2014, with the remaining balance payable on the due date, March 19, 2021. The Company incurred an original issue discount of 0.25%, or \$3.3 million, associated with the Term Loan. The Revolver contains a \$150.0 million letter of credit provision, of which none had been issued as of June 27, 2014. Unused commitments on the Revolver are subject to an annual commitment fee determined by reference to the Company's public debt rating, which was 0.375% as of June 27, 2014, and the fee applied to outstanding letters of credit is based on the interest rate applied to borrowings. As of June 27, 2014, the applicable interest rate on outstanding borrowings under the Revolver would have been approximately 3.00%; however, there were no outstanding borrowings. As of June 27, 2014, the applicable interest rate for the Term Loan was 3.50% and outstanding borrowings totaled approximately \$1.3 billion.

In conjunction with entering into the Revolver in March 2014, MIFSA terminated the \$250.0 million five-year senior unsecured revolving credit facility entered into in March 2013.

In April 2013, MIFSA issued and sold in a private placement \$300.0 million aggregate principal amount of 3.50% senior unsecured notes due April 2018 and \$600.0 million aggregate principal amount of 4.75% senior unsecured notes due April 2023 (collectively, "the Notes"). In connection with the initial offering, MIFSA entered into a registration rights agreement with the initial purchasers in which MIFSA agreed, among other things, to register the Notes under the Securities Act of 1933, as amended, within one year of the issuance of the Notes. On January 16, 2014, MIFSA filed the registration statement relating to the exchange of the initial unregistered Notes for registered Notes, which was declared effective by the SEC on March 5, 2014, and the initial unregistered Notes were exchanged for registered Notes in April 2014. The Notes are subject to an indenture which contains customary affirmative and negative covenants. Mallinckrodt plc has fully and unconditionally guaranteed the Notes on an unsecured and unsubordinated basis. MIFSA pays interest on the Notes semiannually in arrears on April 15 and October 15 of each year.

As of June 27, 2014, the Company was, and expects to remain, in compliance with the provisions and covenants associated with the Term Loan, the Revolver, the Notes and its other debt agreements.

12. Retirement Plans

The net periodic benefit cost for the Company's defined benefit pension plans was as follows:

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Service cost	\$1.3	\$1.2	\$3.8	\$3.6
Interest cost	4.9	4.6	14.8	13.7
Expected return on plan assets	(6.1	) (7.4	) (18.3	) (22.1
Amortization of net actuarial loss	2.2	3.0	6.4	9.0
Amortization of prior service (credit) cost	(0.2	) 0.1	(0.5	) 0.4
Plan settlements	2.6	5.4	2.9	5.4
Net periodic benefit cost	\$4.7	\$6.9	\$9.1	\$10.0

The net periodic benefit credit for the Company's postretirement benefit pension plans for the three months ended June 27, 2014 and June 28, 2013 was \$1.7 million and \$1.6 million, respectively, and \$5.3 million and \$4.7 million for the nine months ended June 27, 2014 and June 28, 2013, respectively. The components of the credit were not material.

During the nine months ended June 28, 2013, Covidien made a \$37.5 million voluntary contribution to the Company's pension plans. The Company may elect to make voluntary contributions to its defined benefit pension plans or its postretirement benefit plans during fiscal 2014.

13. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows:

	Currency Translation	Unrecognized Gain (Loss) on Derivatives	Unrecognized Gain (Loss) on Benefit Plans	Accumulated Other Comprehensive Income
Balance at September 27, 2013	\$158.6	\$ (7.3	) \$ (42.8	) \$ 108.5
Other comprehensive loss before reclassifications	(2.9	) —	3.2	0.3
Amounts reclassified from accumulated other comprehensive income	—	0.4	1.3	1.7
Net current period other comprehensive (loss) income	(2.9	) 0.4	4.5	2.0
Balance at June 27, 2014	\$155.7	\$ (6.9	) \$ (38.3	) \$ 110.5

The following summarizes reclassifications out of accumulated other comprehensive income for the three and nine months ended June 27, 2014:

	Amount Reclassified from Accumulated Other Comprehensive Income		Line Item in the Unaudited Condensed Consolidated Statement of Income
	Three Months Ended June 27, 2014	Nine Months Ended June 27, 2014	
Amortization of unrealized gain on derivatives	\$0.2	\$0.5	Interest expense
Income tax provision	—	(0.1)	) Provision for income taxes
Net of income taxes	0.2	0.4	
Amortization of pension and post-retirement benefit plans:			
Net actuarial loss	2.2	6.4	(1)
Prior service credit	(2.5)	) (7.4)	) (1)
Plan settlements	2.6	2.9	(1)
Total before tax	2.3	1.9	
Income tax provision	(0.7)	) (0.6)	) Provision for income taxes
Net of income taxes	1.6	1.3	
Total reclassifications for the period	\$1.8	\$1.7	

(1) These accumulated other comprehensive income components are included in the computation of net periodic benefit cost. See Note 12 for additional details.

14. Transactions with Former Parent Company

Prior to the completion of the Separation on June 28, 2013, the Company was part of Covidien and, as such, transactions between Covidien and the Company were considered related party transactions. These intercompany transactions were included in the unaudited condensed combined financial statements for the three and nine months ended June 28, 2013, and were considered to be effectively settled for cash at the time the transactions were recorded. The continuing relationship between Covidien and the Company is primarily governed through agreements entered into as part of the Separation, including a separation and distribution agreement, a tax matters agreement and a transition services agreement. These agreements were filed with the SEC as Exhibits 2.1, 10.1 and 10.3, respectively, to the Company's Current Report on Form 8-K filed on July 1, 2013. For further discussion on these agreements and other historical related party transactions, refer to the Company's Annual Report on Form 10-K filed with the SEC on December 13, 2013.

Sales and Purchases

During the three months ended June 27, 2014 and June 28, 2013, the Company sold inventory to Covidien in the amount of \$11.7 million and \$13.5 million, respectively, which is included in net sales in the unaudited condensed consolidated and combined statements of income. During the nine months ended June 27, 2014 and June 28, 2013, the Company sold inventory to Covidien in the amount of \$34.9 million and \$39.4 million, respectively. The Company also purchases inventories from Covidien. The Company recognized cost of sales from these inventory purchases of \$5.1 million and \$9.6 million during the three months ended June 27, 2014 and June 28, 2013, respectively, and \$24.4 million and \$31.6 million during the nine months ended June 27, 2014 and June 28, 2013, respectively.

Allocated Expenses

As discussed in Note 1, the unaudited condensed combined financial statements for the three and nine months ended June 28, 2013 included expense allocations for certain functions provided by Covidien, including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, employee benefits and incentives, insurance and share-based compensation. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating expenses, headcount or other measures. The amounts allocated were \$14.1 million and \$39.6 million during the three and nine months ended June 28, 2013, and were included within selling, general and administrative expenses.

Balance Sheet Impacts

Subsequent to the Separation, the Company and Covidien maintain an ongoing relationship in which each party may provide services to the other party, including the distribution of goods. As a result of these relationships, the unaudited condensed consolidated balance sheets as of June 27, 2014 and September 27, 2013 included \$59.8 million and \$62.2 million, respectively, of amounts due to the Company from Covidien, within prepaid expenses and other current assets, and \$59.3 million and \$79.3 million, respectively, of amounts the Company owes Covidien, included within accrued and other liabilities.

15. Guarantees

In disposing of assets or businesses, the Company has historically provided representations, warranties and indemnities to cover various risks and liabilities, including unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities related to periods prior to disposition. The Company assesses the probability of potential liabilities related to such representations, warranties and indemnities and adjusts potential liabilities as a result of changes in facts and circumstances. The Company believes, given the information currently available, that their ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

In connection with the sale of the Specialty Chemicals business (formerly known as Mallinckrodt Baker) in fiscal 2010, the Company agreed to indemnify the purchaser with respect to various matters, including certain environmental, health, safety, tax and other matters. The indemnification obligations relating to certain environmental, health and safety matters have a term of 17 years from the sale, while some of the other indemnification obligations have an indefinite term. The amount of the liability relating to all of these indemnification obligations included in other liabilities on the Company's unaudited condensed consolidated balance sheets as of June 27, 2014 and September 27, 2013 was \$16.6 million and \$20.1 million, respectively, of which \$13.9 million and \$17.2 million, respectively, related to environmental, health and safety matters. The value of the environmental, health and safety indemnity was measured based on the probability-weighted present value of the costs expected to be incurred to address environmental, health and safety claims made under the indemnity. The aggregate fair value of these indemnification obligations did not differ significantly from their aggregate carrying values at June 27, 2014 and September 27, 2013. As of June 27, 2014, the maximum future payments the Company could be required to make under these indemnification obligations was \$71.4 million. The Company was required to pay \$30.0 million into an escrow account as collateral to the purchaser, of which \$19.4 million and \$23.5 million remained in other assets on the unaudited condensed consolidated balance sheets at June 27, 2014 and September 27, 2013, respectively.

The Company has recorded liabilities for known indemnification obligations included as part of environmental liabilities, which are discussed in Note 16. In addition, the Company is liable for product performance; however, the Company believes, given the information currently available, that their ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

The Company is required to provide the U.S. Nuclear Regulatory Commission financial assurance demonstrating its ability to fund the decommissioning of its Maryland Heights, Missouri radiopharmaceuticals production facility upon closure, though the Company does not intend to close this facility. The Company has provided this financial assurance in the form of a \$57.2 million in surety bonds.

In addition, as of June 27, 2014, the Company had a \$21.1 million letter of credit to guarantee decommissioning costs associated with its Saint Louis, Missouri plant. As of June 27, 2014, the Company had various other letters of credit and guarantee and surety bonds totaling \$31.8 million.

In addition, the separation and distribution agreement entered into with Covidien at the Separation provides for cross-indemnities principally designed to place financial responsibility of the obligations and liabilities of the Company's business with the Company and financial responsibility for the obligations and liabilities of Covidien's remaining business with Covidien, among other indemnities.

16. Commitments and Contingencies

The Company is subject to various legal proceedings and claims, including patent infringement claims, product liability matters, environmental matters, employment disputes, contractual disputes and other commercial disputes, including those described below. The Company believes that these legal proceedings and claims likely will be resolved over an extended period of time. Although it is not feasible to predict the outcome of these matters, the Company believes, unless indicated below, given the information currently available, that their ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

Governmental Proceedings

On November 30, 2011 and October 22, 2012, the Company received subpoenas from the U.S. Drug Enforcement Administration requesting production of documents relating to its suspicious order monitoring programs. The Company is complying as required by the terms of the subpoenas. While it is not possible at this time to determine with certainty the outcome of these proceedings, the Company believes, given the information currently available, that their ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

Patent/Antitrust Litigation

Tyco Healthcare Group LP, et al. v. Mutual Pharmaceutical Company, Inc. The Company filed a patent infringement suit in the U.S. District Court for the District of New Jersey against Mutual Pharmaceutical Co., Inc., et al. (collectively, "Mutual") on March 20, 2007 pursuant to procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984, after Mutual submitted an Abbreviated New Drug Application ("ANDA") to the FDA seeking to sell a generic version of the Company's 7.5mg RESTORIL™ sleep aid product. Mutual also filed antitrust and unfair competition counterclaims. The patents at issue have since expired or been found invalid. On January 18, 2013, the trial court issued an opinion and order granting the Company's motion for summary judgment regarding Mutual's antitrust and unfair competition counterclaims. On May 1, 2013, Mutual appealed this decision to the U.S. Court of Appeals for the Federal Circuit and oral arguments were heard on February 6, 2014. On August 6, 2014, the Federal Circuit issued a split decision, affirming the trial court in part and remanding to the trial court certain counterclaims for fact-finding. While it is not possible at this time to determine with certainty the ultimate outcome of the counterclaims, the Company believes, given the information currently available, that their ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

'222 and '218 Patent Litigation: Perrigo Company and Exela Pharma Sciences, LLC. In August 2011, Cadence, a subsidiary of the Company, and Pharmatop, the owner of the two U.S. patents licensed exclusively by Cadence, filed suit in the U.S. District Court for the District of Delaware against Perrigo Company, and its subsidiary, Paddock Laboratories, LLC (collectively, "Perrigo") and Exela Pharma Sciences, LLC, Exela PharmaSci, Inc. and Exela Holdings, Inc. (collectively, "Exela"). The lawsuit followed the notices that Cadence received in July 2011 from each of Exela and Perrigo concerning their filings of ANDAs containing a Paragraph IV patent certification with the FDA for a generic version of Ofirmev. In the lawsuit, Cadence alleged that Perrigo and Exela infringed U.S. Patent Nos. 6,028,222 ("the '222 patent") and 6,992,218 ("the '218 patent") by filing their ANDAs seeking approval from the FDA to market a generic version of Ofirmev prior to the expiration of these patents. The '222 and '218 patents are listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. The patent infringement lawsuit was filed within 45 days of receipt of the pertinent notice letter, thereby triggering a stay of FDA approval of the Perrigo ANDA and the Exela ANDA until the earlier of the expiration of a 30-month period, the expiration of the '222 and '218 patents, the entry of a settlement order or consent decree stating that the '222 and '218 patents are invalid or not infringed, a decision in the case concerning infringement or validity that is favorable to Perrigo or Exela, or such shorter or longer period as the court may order. Each of Perrigo and Exela filed an answer in the case that asserted, among other things, non-infringement and invalidity of the asserted patents, as well as certain counterclaims.

Cadence settled with Perrigo and the case against Perrigo was dismissed in November 2012. In connection with the settlement and license agreement entered into in November 2012, Perrigo was granted the exclusive right of first refusal to negotiate an agreement with Cadence to market an authorized generic of Ofirmev in the U.S. in the event that Cadence elects to launch an authorized generic version of the product. The license agreement also provides that, if Cadence enters into an agreement for Perrigo to market an authorized generic of Ofirmev during the license period, Perrigo would purchase the product exclusively from Cadence. Cadence would receive product costs plus an administrative fee, as well as a royalty payment based on the net profits achieved by Perrigo from the sale of the authorized generic product. Additionally, Cadence granted Perrigo the non-exclusive right to market a generic

intravenous acetaminophen product in the U.S. under Perrigo's ANDA after December 6, 2020, or earlier under certain circumstances. The FTC or the DOJ could seek to challenge Cadence's settlement with Perrigo, or a competitor, customer or other third-party could initiate a private action under antitrust or other laws challenging the settlement with Perrigo. Any such challenge could be both expensive and time consuming and may render the settlement agreement unenforceable.

A bench trial for the lawsuit with Exela was held and the court ruled in favor of Cadence in November 2013 and found that Exela's ANDA for a generic version of Ofirmev infringed the '222 and '218 patents. An appeal of the decision in favor of Cadence was filed by Exela on December 20, 2013. It is not possible at this time to predict the outcome of this appeal. An adverse outcome could result in the launch of one or more generic versions of Ofirmev before the expiration of the last of the listed patents on June 6, 2021 (or December 6, 2021 if pediatric exclusivity is granted), which could adversely affect the Company's ability to successfully maximize the value of Ofirmev and have an adverse effect on our financial condition, results of operations and cash flows.

'222 and '218 Patent Litigation: Fresenius Kabi USA, LLC, Sandoz, Inc. and Wockhardt USA LLC. In January 2013, Cadence filed suit in the U.S. District Court for the Southern District of California against Fresenius Kabi USA, LLC ("Fresenius") following receipt of a December 2012 notice from Fresenius concerning its submission of a NDA containing a Paragraph IV patent certification with the FDA for a generic version of Ofirmev. In February 2013, Cadence filed suit in the U.S. District Court for the Southern District of California against Sandoz, Inc. ("Sandoz") following receipt of a December 2012 notice from Sandoz concerning its submission of an ANDA containing a Paragraph IV patent certification with the FDA for a generic version of Ofirmev. In October 2013, Cadence filed a motion to amend its complaint against Sandoz to join Sandoz AG, Neogen International N.V., APC Pharmaceuticals, LLC, and DIACO S.p.A. (together with Sandoz, "the Sandoz Parties") to the lawsuit against Sandoz due to the involvement of each of these companies with the preparation of the Sandoz ANDA and related matters.

In the lawsuits against Fresenius and the Sandoz Parties, which were consolidated for purposes of discovery and other pretrial proceedings in the Southern District of California, Cadence alleged that Fresenius and the Sandoz Parties each infringed the '222 and '218 patents by filing a NDA, in the case of Fresenius, or an ANDA, in the case of the Sandoz Parties, seeking approval from the FDA to market a generic or competing NDA versions of Ofirmev prior to the expiration of these patents. Both Fresenius and the Sandoz Parties filed answers in the Southern District of California asserting, among other things, non-infringement and invalidity of the asserted patents, as well as certain counterclaims. Both the Fresenius and Sandoz lawsuits were filed within 45 days of receipt of the respective notice letters, thereby triggering a stay of FDA approval of the Fresenius NDA and the Sandoz ANDA until the earlier of the expiration of a 30-month period, the expiration of the '222 and '218 patents, the entry of a settlement order or consent decree stating that the '222 and '218 patents are invalid or not infringed, a decision in the case concerning infringement or validity that is favorable to Fresenius and/or the Sandoz Parties, or such shorter or longer period as the court may order.

In August 2014, Cadence entered into a settlement agreement, license agreement and supply agreement with Fresenius. The settlement agreement includes a stipulation by the parties requesting dismissal with prejudice of the lawsuit filed by Cadence relating to the NDA filed by Fresenius. Under the terms of the license agreement, Cadence granted to the holder of the Fresenius NDA and its affiliates the non-exclusive right to market an intravenous acetaminophen product in the U.S. under the Fresenius NDA beginning December 6, 2020, or earlier under certain circumstances. Under the supply agreement, Fresenius will develop, manufacture and supply commercial quantities of Ofirmev if certain regulatory approvals are obtained. As a result of these agreements we recorded an \$11.5 million charge during the third quarter of fiscal 2014.

In January 2014, Cadence entered into a settlement agreement and a binding term sheet for a license agreement with the Sandoz Parties. The settlement agreement includes a stipulation by the parties requesting dismissal with prejudice of the lawsuit filed by Cadence relating to the ANDA filed by Sandoz. Under the terms of the license, Cadence granted to the holder of the Sandoz ANDA and its affiliates the non-exclusive right to market a generic intravenous acetaminophen product in the U.S. under the Sandoz ANDA beginning December 6, 2020, or earlier under certain circumstances. Cadence also agreed that in the event that it determines to launch an authorized generic version of Ofirmev (i.e., a generic version marketed under its NDA) in the U.S. and Perrigo elects not to exercise its right of first refusal to become the distributor of the authorized generic version of the product, Cadence will grant a similar right of first refusal to the holder of the Sandoz ANDA on substantially the same terms as those previously granted to Perrigo. In December 2013, Cadence received a notice from Wockhardt USA LLC ("Wockhardt"), stating that Wockhardt filed an ANDA containing a Paragraph IV patent certification with the FDA for a generic version Ofirmev. This notice stated that the Paragraph IV patent certification was made with respect to both the '222 patent and the '218 patent. Cadence filed suit against Wockhardt Limited, Wockhardt BIO AG and Wockhardt on January 22, 2014 in the U.S. District Court of Delaware and on January 23, 2014 in the U.S. District Court of New Jersey. In March 2014, Cadence entered into a settlement agreement and a license agreement with Wockhardt. The settlement agreement includes a stipulation by the parties requesting dismissal with prejudice of the lawsuit filed by Cadence relating to the ANDA filed by Wockhardt. Under the terms of the license agreement, Cadence granted to the holder of the Wockhardt ANDA and its affiliates the non-exclusive right to market a generic intravenous acetaminophen product in

the U.S. under the Wockhardt ANDA beginning December 6, 2020, or earlier under certain circumstances. The Company intends to vigorously enforce its intellectual property rights relating to Ofirmev to prevent the marketing of infringing generic products prior to the expiration of the Cadence patents. The '222 patent expires in August 2017 (or February 2018 if pediatric exclusivity is granted) and the '218 patent expires in June 2021 (or December 2021 if pediatric exclusivity is granted). Should we not be able to enforce our intellectual property rights relating to Ofirmev, this could result in the launch of one or more generic versions of Ofirmev before the expiration of the last of the listed patents, which could adversely affect the Company's ability to successfully maximize the value of Ofirmev and have an adverse effect on its financial condition, results of operations and cash flows.

'222 and '218 Patents: Ex Parte Reexamination. In September 2012, Exela filed with the U.S. Patent and Trademark Office ("USPTO") a Request for Ex Parte Reexamination of the '222 patent. In December 2012, Cadence received notice that the USPTO had granted the Request for Reexamination. The reexamination process is provided for by law and requires the USPTO to consider the scope and validity of the patent based on substantial new questions of patentability raised by a third party or the USPTO. In February 2013, Cadence and Pharmatop filed, with the USPTO, a patent owner's statement commenting on the reexamination request, and in April 2013, Exela filed comments in response to the patent owner's statement. In a non-final, initial office action issued by the USPTO in August 2013, the USPTO rejected certain claims of the '222 patent. A response to the first office action was filed in November 2013. A supplemental amendment and response was filed in February 2014 and a next office action was issued in March 2014. An amendment and response was filed in May 2014.

In addition, in January 2014, an unidentified third party filed, with the USPTO, a Request for Ex Parte Reexamination of the '218 patent. The reexamination request was granted on March 14, 2014.

All of the claims of the '222 and '218 patents remain valid and in force during the reexamination proceedings. Because Cadence and Pharmatop believe that the scope and validity of the patent claims in these patents are appropriate and that the USPTO's prior issuances of the patents were correct, the Company, in conjunction with Cadence and Pharmatop, will vigorously defend these patents. It is not possible, at this time, to determine with certainty whether Cadence, Pharmatop and us will ultimately succeed in maintaining the scope and validity of the claims of these patents during reexamination. If any of the patent claims in these patents ultimately are narrowed during prosecution before the USPTO, the extent of the patent coverage afforded to Ofirmev could be impaired, which could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

'218 Patent Litigation: Exela Pharma Sciences, LLC. In April 2012, Exela filed suit against David J. Kappos and the USPTO in the U.S. District Court for the Eastern District of Virginia for declaratory judgment seeking a reversal of the USPTO's decision not to act on a petition by Exela to vacate the USPTO's April 2003 order reviving the international application for the '218 patent. The lawsuit followed the USPTO's rejection of Exela's petition to the USPTO filed in November 2011, which sought to vacate the April 23, 2003 order granting Pharmatop's petition to revive the '218 patent. The USPTO determined that Exela lacked standing to seek such relief. Exela also seeks declaratory judgment that the USPTO's rules and regulations that allow for revival of abandoned, international patent applications under the "unintentional" standard are invalid, and seeks similar relief in connection with one or more counterclaims it has filed in the Delaware litigation. Cadence's motion to intervene in this lawsuit was granted in October 2012. In December 2012, the district court dismissed the case with prejudice as barred by the applicable statute of limitations. In February 2013, Exela appealed the district court's decision to the Court of Appeals for the Federal Circuit. The Court of Appeals heard oral argument on the appeal in February 2014. A decision by the Court of Appeals in favor of Exela could ultimately result in the invalidation of the '218 patent, which could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Pricing Litigation

State of Utah v. Actavis US, Inc., et al. The Company, along with numerous other pharmaceuticals companies, are defendants in this matter which was filed May 8, 2008, and is pending in the Third Judicial Circuit of Salt Lake County, Utah. The State of Utah alleges, generally, that the defendants reported false pricing information in connection with certain drugs that are reimbursable under Medicaid, resulting in overpayment by state Medicaid programs for those drugs, and is seeking monetary damages and attorneys' fees. The Company believes that it has meritorious defenses to these claims and is vigorously defending against them. While it is not possible at this time to determine with certainty the outcome of the case, the Company believes, given the information currently available, that its ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

Environmental Remediation and Litigation Proceedings

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites, including those described below. The ultimate cost of site cleanup and timing of future cash outlays is difficult to predict, given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. The Company concluded that, as of June 27, 2014, it was probable that it would incur remedial costs in the range of \$43.8 million to \$111.7 million. The Company also concluded that, as of June 27, 2014, the best estimate within this range was \$67.2 million, of which \$6.3 million was included in accrued and other current liabilities and the remainder was included in environmental liabilities on the unaudited condensed consolidated balance sheet at June 27, 2014.

Crab Orchard National Wildlife Refuge Superfund Site, near Marion, Illinois. The Company is a successor in interest to International Minerals and Chemicals Corporation ("IMC"). Between 1967 and 1982, IMC leased portions of the Additional and Uncharacterized Sites ("AUS") Operable Unit at the Crab Orchard Superfund Site ("the Site") from the government and manufactured various explosives for use in mining and other operations. In March 2002, the Department of Justice, the U.S. Department of the Interior and the U.S. Environmental Protection Agency ("EPA") (together, "the Government Agencies") issued a special notice letter to

General Dynamics Ordnance and Tactical Systems, Inc. ("General Dynamics"), one of the other potentially responsible parties ("PRPs") at the Site, to compel General Dynamics to perform the remedial investigation and feasibility study ("RI/FS") for the AUS Operable Unit. General Dynamics negotiated an Administrative Order on Consent ("AOC") with the Government Agencies to conduct an extensive RI/FS at the Site under the direction of the U.S. Fish and Wildlife Service. General Dynamics asserted in August 2004 that the Company is jointly and severally liable, along with approximately eight other lessees and operators at the AUS Operable Unit, for alleged contamination of soils and groundwater resulting from historic operations, and has threatened to file a contribution claim against the Company and other parties for recovery of its costs incurred in connection with the RI/FS activities being conducted at the AUS Operable Unit. The Company and other PRPs who received demand letters from General Dynamics have explored settlement alternatives, but have not reached settlement to date. The Company and other PRPs are awaiting completion of the RI/FS by General Dynamics before the initiation of formal PRP negotiations to address resolution of these alleged claims. While it is not possible at this time to determine with certainty the ultimate outcome of this case, the Company believes, given the information currently available, that the final resolution of all known claims, after taking into account amounts already accrued, will not have a material adverse effect on its financial condition, results of operations and cash flows.

Mallinckrodt Veterinary, Inc., Millsboro, Delaware. The Company previously operated a plant in Millsboro, Delaware ("the Millsboro Site") that manufactured various animal healthcare products. In 2005, the Delaware Department of Natural Resources and Environmental Control found trichloroethylene ("TCE") in the Millsboro public water supply at levels that exceeded the federal drinking water standards. Further investigation to identify the TCE plume in the ground water indicated that the plume has extended to property owned by a third party near the Millsboro Site. The Company, and another former owner, assumed responsibility for the Millsboro Site cleanup under the Alternative Superfund Program administered by the EPA. The Company and another PRP have entered into two AOCs with the EPA to perform investigations to abate, mitigate or eliminate the release or threat of release of hazardous substances at the Millsboro Site and to conduct an Engineering Evaluation/Cost Analysis to characterize the nature and extent of the contamination. The Company, along with the other party, continues to conduct the studies and prepare remediation plans in accordance with the AOCs. While it is not possible at this time to determine with certainty the ultimate outcome of this matter, the Company believes, given the information currently available, that the ultimate resolution of all known claims, after taking into account amounts already accrued, will not have a material adverse effect on its financial condition, results of operations and cash flows.

Coldwater Creek, Saint Louis County, Missouri. The Company is named as a defendant in numerous tort complaints filed between February 2012 and June 2014 with numerous plaintiffs pending in the U.S. District Court for the Eastern District of Missouri. These cases allege personal injury for alleged exposure to radiological substances present in Coldwater Creek in Missouri. Plaintiffs allegedly lived in various locations in Saint Louis County, Missouri near Coldwater Creek. Radiological residues which may have been present in the creek have been remediated by the U.S. Army Corps of Engineers. The Company believes that it has meritorious defenses to these complaints and is vigorously defending against them. The Company is unable to estimate a range of reasonably possible losses for the following reasons: (i) the proceedings are in early stages; (ii) the Company has not received and reviewed complete information regarding the plaintiffs and their medical conditions; and (iii) there are significant factual issues to be resolved. While it is not possible at this time to determine with certainty the ultimate outcome of these cases, the Company believes, given the information currently available, that the ultimate resolution of all known claims will not have a material adverse effect on its financial condition, results of operations and cash flows.

Lower Passaic River, New Jersey. The Company and approximately 70 other companies comprise the Lower Passaic Cooperating Parties Group ("the CPG") and are parties to a May 2007 AOC with the EPA to perform a RI/FS of the 17-mile stretch known as the Lower Passaic River Study Area ("the River"). The Company's potential liability stems from former operations at Lodi and Belleville, New Jersey. In June 2007, the EPA issued a draft Focused Feasibility Study ("FFS") that considered interim remedial options for the lower 8-miles of the river, in addition to a "no action" option. As an interim step related to the 2007 AOC, the CPG voluntarily entered into an AOC on June 18, 2012 with the EPA for remediation actions focused solely at mile 10.9 of the River. The Company's estimated costs related to the

RI/FS and focused remediation at mile 10.9, based on interim allocations, are immaterial and have been accrued. On April 11, 2014, the EPA issued its revised FFS, with remedial alternatives to address cleanup of the lower 8-mile stretch of the River, which also included a "no action" option. The EPA estimates the cost for the alternatives range from \$365.0 million to \$3.2 billion. The EPA's preferred approach would involve bank-to-bank dredging of the lower 8-mile stretch of the River and installing an engineered cap at a discounted, estimated cost of \$1.7 billion. Based on the issuance of the EPA's revised FFS, the Company recorded a \$23.1 million accrual in the second quarter of fiscal 2014 representing the Company's estimate of its allocable share of the joint and several remediation liability resulting from this matter. Despite the issuance of the revised FFS, there are many uncertainties associated with the final agreed upon remediation and the Company's allocable share of the remediation. Given those uncertainties, the amounts accrued may not be indicative of the amounts for which the Company is ultimately responsible and will be refined as events in the remediation process occur.

Products Liability Litigation

Beginning with lawsuits brought in July 1976, the Company is also named as a defendant in personal injury lawsuits based on alleged exposure to asbestos-containing materials. A majority of the cases involve product liability claims based principally on allegations of past distribution of products containing asbestos. A limited number of the cases allege premises liability based on claims that individuals were exposed to asbestos while on the Company's property. Each case typically names dozens of corporate defendants in addition to the Company. The complaints generally seek monetary damages for personal injury or bodily injury resulting from alleged exposure to products containing asbestos. The Company's involvement in asbestos cases has been limited because it did not mine or produce asbestos. Furthermore, in the Company's experience, a large percentage of these claims have never been substantiated and have been dismissed by the courts. The Company has not suffered an adverse verdict in a trial court proceeding related to asbestos claims and intends to continue to defend these lawsuits. When appropriate, the Company settles claims; however, amounts paid to settle and defend all asbestos claims have been immaterial. As of June 27, 2014, there were approximately 11,800 asbestos-related cases pending against the Company.

The Company estimates pending asbestos claims and claims that were incurred but not reported and related insurance recoveries, which are recorded on a gross basis in the unaudited condensed consolidated balance sheets. The Company's estimate of its liability for pending and future claims is based on claims experience over the past five years and covers claims either currently filed or expected to be filed over the next seven years. The Company believes that it has adequate amounts recorded related to these matters. While it is not possible at this time to determine with certainty the ultimate outcome of these asbestos-related proceedings, the Company believes, given the information currently available, that the ultimate resolution of all known and anticipated future claims, after taking into account amounts already accrued, along with recoveries from insurance, will not have a material adverse effect on its financial condition, results of operations and cash flows.

Asset Retirement Obligations

The Company has recorded asset retirement obligations for the estimated future costs primarily associated with legal obligations to decommission facilities within the Global Medical Imaging segment, including the facilities located in Petten, the Netherlands and Maryland Heights, Missouri. Substantially all of these obligations are included in other liabilities on the unaudited condensed consolidated balance sheets. The following table provides a summary of the changes in the Company's asset retirement obligations:

Balance at September 27, 2013	\$50.6
Accretion expense	2.4
Currency translation	0.2
Balance at June 27, 2014	\$53.2

The Company believes, given the information currently available, that any potential payment of such estimated amounts will not have a material adverse effect on its financial condition, results of operations and cash flows.

Industrial Revenue Bonds

The Company exchanged title to \$27.4 million of its plant assets in return for an equal amount of Industrial Revenue Bonds ("IRB") issued by Saint Louis County. The Company also simultaneously leased such assets back from Saint Louis County under a capital lease expiring December 2025, the terms of which provide it with the right of offset against the IRBs. The lease also provides an option for the Company to repurchase the assets at the end of the lease for nominal consideration. These transactions collectively result in a ten-year property tax abatement from the date the property is placed in service. Due to right of offset, the capital lease obligation and IRB asset are recorded net in the unaudited condensed consolidated balance sheets. The Company expects that the right of offset will be applied to payments required under these arrangements.

Tax Matters

The income tax returns of the Company and its subsidiaries are periodically examined by various tax authorities. The resolution of these matters is subject to the conditions set forth in the tax matters agreement entered into between the Company and Covidien ("the Tax Matters Agreement"). Covidien has the right to administer, control and settle all U.S. income tax audits for periods prior to the Separation. While it is not possible at this time to determine with certainty the ultimate outcome of these matters, the Company believes, given the information currently available, that established liabilities are reasonable and that the ultimate resolution of these matters will not have a material adverse effect on its financial condition, results of operations and cash flows.

With respect to certain tax returns filed by predecessor affiliates of the Company and Covidien, the IRS has concluded its field examination for the years 1997 through 2000 and has proposed tax adjustments. Several of the proposed adjustments could also affect both Covidien's and the Company's income tax returns for years after 2000. Certain of the IRS's proposed adjustments have been appealed, and all but one of the matters associated with the proposed tax adjustments have been resolved. The unresolved proposed adjustment asserts that substantially all of the predecessor affiliates' intercompany debt originating during the years 1997 through 2000 should not be treated as debt for U.S. federal income tax purposes, and has disallowed interest deductions related to the intercompany debt and certain tax attribute adjustments recognized on the U.S. income tax returns. This matter is subject to the Company's \$200.0 million liability limitation for periods prior to September 29, 2012, as prescribed in the Tax Matters Agreement. While it is not possible at this time to determine with certainty the ultimate outcome of this matter, the Company believes, given the information currently available, that it will not have a material adverse effect on its financial condition, results of operations and cash flows.

Acquisition-Related Litigation

Several purported class action lawsuits have been filed in February 2014 and March 2014 by purported holders of Cadence common stock in connection with the Company's acquisition of Cadence, including in the Delaware Court of Chancery (consolidated under the caption *In re Cadence Pharmaceuticals, Inc. Stockholders Litigation*), and in California State Court, San Diego County (*Denny v. Cadence Pharmaceuticals, Inc., et al.*, *Militello v. Cadence Pharmaceuticals, Inc., et al.*, and *Schuon v. Cadence Pharmaceuticals, Inc., et al.*). The actions bring claims against, and generally allege that, the board of directors of Cadence breached their fiduciary duties in connection with the acquisition by, among other things, failing to maximize shareholder value, and the Delaware and Schuon actions further allege that Cadence omitted to disclose allegedly material information in its Schedule 14D-9. The lawsuits also allege, among other things, that the Company aided and abetted the purported breaches of fiduciary duty. The lawsuits seek various forms of relief, including but not limited to, rescission of the transaction, damages and attorneys' fees and costs. On March 7, 2014, following expedited discovery, the parties in the consolidated Delaware action entered into a Memorandum of Understanding ("the MOU"), which sets forth the parties' agreement in principle for a settlement of those actions. The settlement contemplated by the MOU will include, among other things, a release of all claims relating to the Company's acquisition of Cadence as set forth in the MOU. The settlement is subject to a number of conditions, including, among other things, final court approval following notice to the class. There have been no substantive proceedings in any of the California actions. On July 29, 2014, the Militello case was voluntarily dismissed without prejudice. While it is not possible at this time to determine with certainty the ultimate outcomes of these matters, the Company believes, given the information available to it today, that they will not have a material adverse effect on its financial condition, results of operations and cash flows.

Since the announcement of the merger with Questcor on April 7, 2014, several putative class actions have been filed by purported holders of Questcor common stock in connection with our proposed acquisition of Questcor (*Hansen v. Thompson, et al.*, *Heng v. Questcor Pharmaceuticals, Inc., et al.*, *Buck v. Questcor Pharmaceuticals, Inc., et al.*, *Ellerbeck v. Questcor Pharmaceuticals, Inc., et al.*, *Yokem v. Questcor Pharmaceuticals, Inc., et al.*, *Richter v. Questcor Pharmaceuticals, Inc., et al.*, *Tramantano v. Questcor Pharmaceuticals, Inc., et al.*, *Crippen v. Questcor Pharmaceuticals, Inc., et al.*, *Patel v. Questcor Pharmaceuticals, Inc., et al.*, and *Postow v. Questcor Pharmaceuticals, Inc., et al.*). The actions were consolidated on June 3, 2014. The consolidated complaint names as defendants, and generally alleges that, the directors of Questcor breached their fiduciary duties in connection with the acquisition by, among other things, agreeing to sell Questcor for inadequate consideration and pursuant to an inadequate process. The consolidated complaint also alleges that the Questcor directors breached their fiduciary duties by failing to disclose purportedly material information to shareholders in connection with the merger. The consolidated complaint also alleges, among other things, that we aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks various forms of relief, including but not limited to, an order enjoining the shareholder vote relating to the acquisition, rescission of the transaction if consummated, damages and attorney's fees and costs. In addition, plaintiffs in a prior-pending derivative litigation, *In re Questcor Pharmaceuticals, Inc. Shareholder Derivative Litigation*, pending in

the U.S. District Court for the Central District of California, filed an application to lift the stay of that action in order to file an amended complaint alleging that the board of directors of Questcor breached their fiduciary duties in connection with the acquisition. On May 16, 2014, the plaintiffs voluntarily withdrew their motion. Questcor believes that the standing of the plaintiffs in the Derivative Action will likely be terminated upon the closing of the Merger. On July 29, 2014, the defendants reached an agreement in principle with the plaintiffs in the consolidated actions, and that agreement is reflected in a memorandum of understanding. In connection with the settlement contemplated by the memorandum of understanding, Questcor agreed to make certain additional disclosures related to the proposed transaction with the Company, which are contained in the Company's Current Report on Form 8-K filed with the SEC on July 30, 2014. Additionally, as part of the settlement and pursuant to the memorandum of understanding, the Company agreed to forbear from exercising certain rights under the Merger Agreement with Questcor, as follows: the four business day period referenced in Section 5.3(e) of the Merger Agreement will be reduced to three business days. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval. In the event that the parties enter into a stipulation of settlement, a hearing will be scheduled at which the California Superior Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims

in all actions that were or could have been brought challenging any aspect of the proposed transaction, the Merger Agreement, and any disclosures made in connection therewith, including the definitive joint proxy statement/prospectus relating to the Questcor acquisition, pursuant to terms that will be disclosed to shareholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that they shall negotiate in good faith regarding the amount of attorney's fees and expense that shall be paid to plaintiffs' counsel in connection with the actions. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the California Superior Court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated.

While it is not possible at this time to determine with certainty the ultimate outcomes of these matters, the Company believes, given the information available to it today, that they will not have a material adverse effect on its financial condition, results of operations and cash flows. For further information on the Company's proposed merger with Questcor, see Note 4.

Other Matters

The Company is a defendant in a number of other pending legal proceedings relating to present and former operations, acquisitions and dispositions. Given the information currently available, the Company does not expect the ultimate resolution of these proceedings, either individually or in the aggregate, to have a material adverse effect on its financial condition, results of operations and cash flows.

17. Derivative Instruments

The Company is exposed to certain risks relating to its business operations. Foreign currency option and forward contracts are used to manage the foreign exchange exposures of operations outside the U.S. Swap contracts on commodities historically have been periodically entered into to manage the price risk associated with forecasted purchases of commodities used in the Company's manufacturing processes. Risks that relate to interest rate exposure are managed by using derivative instruments, such as interest rate lock contracts. Changes in the fair value of the derivative financial instruments are recognized in the Company's earnings unless specific hedge criteria are met.

Foreign Exchange Exposure

The Company has foreign exchange exposure on the translation of the financial statements and on transactions denominated in foreign currencies. The Company's policy allows for the use of various forward and option contracts to manage foreign currency exposures on accounts and notes receivable, accounts payable, intercompany loans, intercompany cash pooling arrangements and forecasted transactions that are denominated in certain foreign currencies.

The location and amount of the net gain (loss) on foreign exchange forward and option contracts not designated as hedging instruments was recorded as follows:

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Cost of sales	\$(0.3)	\$1.2	\$(0.7)	\$1.7
Selling, general and administrative	—	(0.1)	0.3	—
Other (expense) income, net	(4.2)	—	1.5	—
	\$(4.5)	\$1.1	\$1.1	\$1.7

Foreign currency gains included within net income for the three months ended June 27, 2014 was \$1.7 million and a loss of \$7.6 million for the nine months ended June 27, 2014 compared with losses for the three and nine months ended June 28, 2013 were \$2.9 million and \$3.4 million, respectively.

The fair value of foreign exchange forward and option contracts were included in the following captions of our unaudited condensed consolidated balance sheets at the end of each period:

	June 27, 2014	September 27, 2013
Prepaid expenses and other current assets	\$—	\$ 0.9
Accrued and other current liabilities	0.2	1.4

Commodities Exposure

Prior to the Separation, Covidien entered into gas commodity swap contracts on behalf of the Company, which were accounted for as cash flow hedges. As of June 27, 2014, there were no outstanding gas commodity swap contracts; however, the Company may utilize such contracts in the future to mitigate price risk associated with its forecasted commodity purchases. The amounts of the net losses on these contracts recorded during the three and nine months ended June 28, 2013 were as follows:

	Three Months Ended	Nine Months Ended
Cost of sales	\$0.1	\$0.3
Selling, general and administrative	0.2	0.8
	\$0.3	\$1.1

Interest Rate Exposure

MIFSA entered into three forward interest rate lock contracts in March 2013 and April 2013, each with a \$300.0 million notional value and designated as cash flow hedges, against the risk of variability in market interest rates in advance of its anticipated issuance of its ten-year fixed rate senior notes due April 2023. Each interest rate lock contract was considered to be highly effective and the \$7.6 million loss resulting from their settlements was recorded in accumulated other comprehensive income. As of June 27, 2014, \$6.8 million of this loss remains in accumulated other comprehensive income and will be amortized to interest expense over the remaining term of the ten-year notes.

18. Financial Instruments and Fair Value Measurements

Fair value is defined as the exit price that would be received from the sale of an asset or paid to transfer a liability, using assumptions that market participants would use in pricing an asset or liability. The fair value guidance establishes a three-level fair value hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs used in measuring fair value. The levels within the hierarchy are as follows:

Level 1— observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2— significant other observable inputs that are observable either directly or indirectly; and

Level 3— significant unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions.

The following tables provide a summary of the significant assets and liabilities that are measured at fair value on a recurring basis at the end of each period:

	June 27, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Debt and equity securities held in rabbi trust	\$35.9	\$23.6	\$12.3	\$ —
Foreign exchange forward and option contracts	—	—	—	—
	\$35.9	\$23.6	\$12.3	\$ —
Liabilities:				
Deferred compensation liabilities	\$14.6	\$—	\$14.6	\$ —
Contingent consideration	7.0	—	—	7.0
Foreign exchange forward and option contracts	0.2	0.2	—	—
	\$21.8	\$0.2	\$14.6	\$ 7.0
	September 27, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Debt and equity securities held in rabbi trust	\$ 35.3	\$22.6	\$12.7	\$ —
Foreign exchange forward and option contracts	0.9	0.9	—	—
	\$ 36.2	\$23.5	\$12.7	\$ —
Liabilities:				
Deferred compensation liabilities	\$ 13.5	\$—	\$13.5	\$ —
Contingent consideration	6.9	—	—	6.9
Foreign exchange forward and option contracts	1.4	1.4	—	—
	\$ 21.8	\$1.4	\$13.5	\$ 6.9

Debt and equity securities held in rabbi trust. Debt securities held in the rabbi trust primarily consist of U.S. government and agency securities and corporate bonds. When quoted prices are available in an active market, the investments are classified as level 1. When quoted market prices for a security are not available in an active market, they are classified as level 2. Equity securities held in the rabbi trust primarily consist of U.S. common stocks, which are valued using quoted market prices reported on nationally recognized securities exchanges.

Foreign exchange forward and option contracts. Foreign currency option and forward contracts are used to economically manage the foreign exchange exposures of operations outside the U.S. Quoted prices are available in an active market; as such, these derivatives are classified as level 1.

Deferred compensation liabilities. The Company maintains a non-qualified deferred compensation plan in the U.S., which permits eligible employees of the Company to defer a portion of their compensation. A recordkeeping account

is set up for each participant and the participant chooses from a variety of funds for the deemed investment of their accounts. The recordkeeping accounts generally correspond to the funds offered in the Company's U.S. tax-qualified defined contribution retirement plan and the account balance fluctuates with the investment returns on those funds.

Contingent consideration. In October 2012, the Company recorded contingent consideration of \$6.9 million upon the acquisition of CNS Therapeutics. This contingent consideration, which could potentially total a maximum of \$9.0 million, is primarily based on whether the FDA approves another concentration of Gablofen on or before December 31, 2016. The fair value of the contingent payments was measured based on the probability-weighted present value of the consideration expected to be transferred using a discount rate of 1.0%. There were no changes to the initial estimate of the fair value of the consideration during the nine months ended June 27, 2014.

Balance at September 27, 2013	\$6.9
Accretion expense	0.1
Balance at June 27, 2014	\$7.0

Financial Instruments Not Measured at Fair Value

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and the majority of other current assets and liabilities approximate fair value because of their short-term nature. The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts and other investments it may hold from time to time, with an original maturity to the Company of three months or less, as cash and cash equivalents (level 1). The fair value of restricted cash is equivalent to its carrying value of \$20.0 million and \$24.0 million as of June 27, 2014 and September 27, 2013, respectively (level 1), substantially all of which is included in other assets on the unaudited condensed consolidated balance sheets. The Company's life insurance contracts are carried at cash surrender value, which is based on the present value of future cash flows under the terms of the contracts (level 3). Significant assumptions used in determining the cash surrender value include the amount and timing of future cash flows, interest rates and mortality charges. The fair value of these contracts approximates the carrying value of \$69.1 million and \$67.7 million at June 27, 2014 and September 27, 2013, respectively. These contracts are included in other assets on the unaudited condensed consolidated balance sheets.

The carrying value of the Company's loan payable approximates fair value due to its short term nature. Since the quoted market prices for the Company's Term Loan, 8.00% and 9.50% debentures are not available in an active market, they are classified as level 2 for purposes of developing an estimate of fair value. The Company's 3.50% notes and 4.75% notes are classified as level 1, as quoted prices are available in an active market for these notes. The following table presents the carrying values and estimated fair values of the Company's long-term debt, excluding capital leases, as of the end of each period:

	June 27, 2014		September 27, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loan payable	\$—	\$—	\$0.1	\$0.1
Term loan	1,296.9	1,301.0	—	—
3.50% notes due April 2018	300.0	299.8	299.9	293.7
9.50% debentures due May 2022	10.4	14.3	10.4	14.3
8.00% debentures due March 2023	8.0	10.3	8.0	10.2
4.75% notes due April 2023	598.2	587.3	598.2	568.5

Concentration of Credit and Other Risks

Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of accounts receivable. The Company does not require collateral from customers. A portion of the Company's accounts receivable outside the U.S. includes sales to government-owned or supported healthcare systems in several countries, which are subject to payment delays. Payment is dependent upon the financial stability of those countries' economies and the creditworthiness of their national economies and governments.

The Company routinely evaluates all government receivables for potential collection risks associated with the availability of government funding and reimbursement practices. The Company has not incurred any significant losses on government receivables; however, if the financial condition of customers or the countries' healthcare systems continue to deteriorate such that their ability to make payments is uncertain, additional allowances may be required in future periods.

The Company's accounts receivable, net of allowance for doubtful accounts, in Spain and Italy, which the Company has been closely monitoring, at the end of each period were as follows:

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	June 27, 2014	September 27, 2013
Spain	\$10.7	\$ 9.2
Italy	10.4	12.6

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Net sales to customers in Spain and Italy totaled \$12.5 million and \$13.4 million for the three months ended June 27, 2014 and June 28, 2013, respectively, and \$37.2 million and \$39.7 million for the nine months ended June 27, 2014 and June 28, 2013, respectively.

The following table shows net sales attributable to distributors that accounted for 10% or more of the Company's total net sales:

	Three Months Ended		Nine Months Ended		
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013	
Cardinal Health, Inc.	22	% 16	% 19	% 19	%
McKesson Corporation	24	% 7	% 18	% 13	%
Amerisource Bergen Corporation	11	% 10	% 11	% 8	%

The following table shows accounts receivable attributable to distributors that accounted for 10% or more of the Company's gross accounts receivable at the end of each period:

	June 27, 2014	September 27, 2013	
Cardinal Health, Inc.	21	% 18	%
McKesson Corporation	29	% 22	%
Amerisource Bergen Corporation	13	% 14	%

The following table shows net sales attributable to products that accounted for 10% or more of the Company's total net sales:

	Three Months Ended		Nine Months Ended		
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013	
Optiray™ (CMDS)	12	% 16	% 13	% 15	%
Acetaminophen products (API)	8	% 11	% 8	% 10	%

Molybdenum-99 ("Mo-99") is a key raw material in the Company's Ultra-Technekow™ DTE technetium generators that are sold by its Global Medical Imaging segment. There are only eight suppliers of this raw material worldwide. The Company has agreements to obtain Mo-99 from three nuclear research reactors and relies predominantly upon two of these reactors for its Mo-99 supply. Accordingly, a disruption in the commercial supply or a significant increase in the cost of this material from these sources could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

19. Segment Data

Selected information by business segment was as follows:

	Three Months Ended		Nine Months Ended	
	June 27, 2014	June 28, 2013	June 27, 2014	June 28, 2013
Net sales:				
Specialty Pharmaceuticals	\$414.3	\$308.6	\$1,048.1	\$913.2
Global Medical Imaging	227.1	247.9	668.1	706.7
Net sales of operating segments ⁽¹⁾	641.4	556.5	1,716.2	1,619.9
Other ⁽²⁾	11.7	13.5	34.9	39.4
Net sales	\$653.1	\$570.0	\$1,751.1	\$1,659.3
Operating income:				
Specialty Pharmaceuticals	\$125.6	\$94.8	\$344.5	\$234.8
Global Medical Imaging	11.2	13.5	25.9	81.5
Segment operating income	136.8	108.3	370.4	316.3
Unallocated amounts:				
Corporate and allocated expenses ⁽³⁾	(63.6	) (43.7	) (161.5	) (109.4
Intangible asset amortization	(51.6	) (8.9	) (75.9	) (26.6
Restructuring and related charges, net ⁽⁴⁾	(24.2	) (12.1	) (54.0	) (20.0
Separation costs	(1.8	) (44.2	) (6.6	) (70.6
Operating loss	\$(4.4	) \$(0.6	) \$72.4	\$89.7

(1) Amounts represent sales to external customers.

(2) Represents products that were sold to Covidien, our former parent company, which is discussed in Note 14.

(3) Includes administration expenses and certain compensation, environmental and other costs not charged to the Company's operating segments.

Includes restructuring-related accelerated depreciation of \$0.4 million and \$0.8 million for the three months ended

(4) June 27, 2014 and June 28, 2013, respectively, and \$0.5 million and \$2.1 million for the nine months ended June 27, 2014 and June 28, 2013, respectively.

20. Condensed Consolidating and Combining Financial Statements

In November 2012, MIFSA was formed as a 100%-owned subsidiary of Covidien in connection with the Separation. MIFSA is a holding company established to own, directly or indirectly, substantially all of the operating subsidiaries of the Company, to issue debt securities and to perform treasury operations. At the time of the Separation, MIFSA became a 100%-owned subsidiary of Mallinckrodt plc.

MIFSA is the borrower under the Notes, which are fully and unconditionally guaranteed by Mallinckrodt plc. The following information provides the composition of the Company's comprehensive income, assets, liabilities, equity and cash flows by relevant group within the Company: Mallinckrodt plc as guarantor of the Notes, MIFSA as issuer of the Notes and the operating companies that represent assets of MIFSA. There are no subsidiary guarantees related to the Notes.

Set forth below are the unaudited condensed consolidating financial statements for the three and nine months ended June 27, 2014 and as of June 27, 2014 and September 27, 2013, and the unaudited condensed combining financial statements for the three and nine months ended June 28, 2013. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions between or among Mallinckrodt plc, MIFSA and the other subsidiaries. Unaudited condensed consolidating and combining financial information for Mallinckrodt plc and MIFSA, on a standalone basis, has been presented using the equity method of accounting for subsidiaries.

MALLINCKRODT PLC
CONDENSED CONSOLIDATING BALANCE SHEET

As of June 27, 2014

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$0.4	\$ 125.1	\$202.4	\$—	\$327.9
Accounts receivable, net	—	—	437.8	—	437.8
Inventories	—	—	398.3	—	398.3
Deferred income taxes	—	—	357.7	—	357.7
Prepaid expenses and other current assets	0.5	0.2	127.9	—	128.6
Intercompany receivable	5.3	—	10.1	(15.4)	—
Total current assets	6.2	125.3	1,534.2	(15.4)	1,650.3
Property, plant and equipment, net	—	—	1,000.0	—	1,000.0
Goodwill	—	—	854.2	—	854.2
Intangible assets, net	—	—	1,663.4	—	1,663.4
Investment in subsidiaries	1,305.1	4,530.9	—	(5,836.0)	—
Intercompany loan receivable	26.3	—	1,148.1	(1,174.4)	—
Other assets	—	40.3	215.2	—	255.5
Total Assets	\$1,337.6	\$4,696.5	\$6,415.1	\$(7,025.8)	\$5,423.4
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current maturities of long-term debt	\$—	\$ 13.0	\$ 1.4	\$—	\$ 14.4
Accounts payable	0.4	0.1	124.8	—	125.3
Accrued payroll and payroll-related costs	0.1	—	76.3	—	76.4
Accrued branded rebates	—	—	21.6	—	21.6
Accrued and other current liabilities	0.6	21.3	379.0	—	400.9
Intercompany payable	8.1	2.0	5.3	(15.4)	—
Total current liabilities	9.2	36.4	608.4	(15.4)	638.6
Long-term debt	—	2,182.2	19.1	—	2,201.3
Pension and postretirement benefits	—	—	97.7	—	97.7
Environmental liabilities	—	—	60.9	—	60.9
Deferred income taxes	—	—	772.6	—	772.6
Other income tax liabilities	—	—	123.7	—	123.7
Intercompany loans payable	—	1,174.4	—	(1,174.4)	—
Other liabilities	—	—	200.2	—	200.2
Total liabilities	9.2	3,393.0	1,882.6	(1,189.8)	4,095.0
Shareholders' equity	1,328.4	1,303.5	4,532.5	(5,836.0)	1,328.4
Total Liabilities and Shareholders' Equity	\$1,337.6	\$4,696.5	\$6,415.1	\$(7,025.8)	\$5,423.4

MALLINCKRODT PLC
CONDENSED CONSOLIDATING BALANCE SHEET

As of September 27, 2013

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$1.2	\$56.5	\$217.8	\$—	\$275.5
Accounts receivable, net	—	—	400.8	—	400.8
Inventories	—	—	403.1	—	403.1
Deferred income taxes	—	—	171.1	—	171.1
Prepaid expenses and other current assets	1.0	—	133.4	—	134.4
Intercompany receivable	2.7	—	12.2	(14.9)	—
Total current assets	4.9	56.5	1,338.4	(14.9)	1,384.9
Property, plant and equipment, net	—	—	997.4	—	997.4
Goodwill	—	—	532.0	—	532.0
Intangible assets, net	—	—	422.1	—	422.1
Investment in subsidiaries	1,266.1	2,520.4	—	(3,786.5)	—
Intercompany loan receivable	—	2.4	409.6	(412.0)	—
Other assets	—	11.2	209.0	—	220.2
Total Assets	\$1,271.0	\$2,590.5	\$3,908.5	\$(4,213.4)	\$3,556.6
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current maturities of long-term debt	\$—	\$—	\$1.5	\$—	\$1.5
Accounts payable	0.1	—	120.8	—	120.9
Accrued payroll and payroll-related costs	0.1	—	66.4	—	66.5
Accrued branded rebates	—	—	34.6	—	34.6
Accrued and other current liabilities	0.6	18.3	357.8	—	376.7
Intercompany payable	12.2	—	2.7	(14.9)	—
Total current liabilities	13.0	18.3	583.8	(14.9)	600.2
Long-term debt	—	898.1	20.2	—	918.3
Pension and postretirement benefits	—	—	108.0	—	108.0
Environmental liabilities	—	—	39.5	—	39.5
Deferred income taxes	—	—	310.1	—	310.1
Other income tax liabilities	—	—	153.1	—	153.1
Intercompany loans payable	2.4	409.6	—	(412.0)	—
Other liabilities	—	—	171.8	—	171.8
Total liabilities	15.4	1,326.0	1,386.5	(426.9)	2,301.0
Shareholders' equity	1,255.6	1,264.5	2,522.0	(3,786.5)	1,255.6
Total Liabilities and Shareholders' Equity	\$1,271.0	\$2,590.5	\$3,908.5	\$(4,213.4)	\$3,556.6

MALLINCKRODT PLC
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
For the three months ended June 27, 2014
(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Net sales	\$—	\$—	\$653.1	\$—	\$653.1
Cost of sales	—	—	368.8	—	368.8
Gross profit	—	—	284.3	—	284.3
Selling, general and administrative expenses	7.0	0.2	214.1	—	221.3
Research and development expenses	—	—	42.7	—	42.7
Separation costs	0.5	—	1.3	—	1.8
Restructuring charges, net	0.2	—	23.6	—	23.8
Gains on divestiture and license	—	—	(0.9	) —	(0.9)
Operating (loss) income	(7.7)	(0.2)	3.5	—	(4.4)
Interest expense	—	(24.2)	1.5	—	(22.7)
Interest income	—	—	0.3	—	0.3
Other income (expense), net	6.1	—	(6.0)	—	0.1
Intercompany interest and fees	(2.9)	—	2.9	—	—
Equity in net income of subsidiaries	(19.6)	4.8	—	14.8	—
Income (loss) from continuing operations before income taxes	(24.1)	(19.6)	2.2	14.8	(26.7)
Income tax expense (benefit)	—	—	(2.4)	—	(2.4)
Income (loss) from continuing operations	(24.1)	(19.6)	4.6	14.8	(24.3)
Loss from discontinued operations, net of income taxes	—	—	0.2	—	0.2
Net income (loss)	(24.1)	(19.6)	4.8	14.8	(24.1)
Other comprehensive loss, net of tax	4.1	4.1	3.9	(8.0)	4.1
Comprehensive income (loss)	\$(20.0)	\$(15.5)	\$8.7	\$6.8	\$(20.0)

MALLINCKRODT PLC
 CONDENSED COMBINING STATEMENT OF COMPREHENSIVE INCOME
 For the three months ended June 28, 2013
 (unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Combined
Net sales	\$—	\$—	\$570.0	\$—	\$570.0
Cost of sales	—	—	304.2	—	304.2
Gross profit	—	—	265.8	—	265.8
Selling, general and administrative expenses	0.1	—	166.8	—	166.9
Research and development expenses	—	—	44.8	—	44.8
Separation costs	1.7	0.3	42.2	—	44.2
Restructuring charges, net	—	—	11.3	—	11.3
Gains on divestiture and license	—	—	(0.8)	) —	(0.8)
Operating income	(1.8)	) (0.3)	) 1.5	—	(0.6)
Interest expense	—	(9.0)	) (0.4)	) —	(9.4)
Interest income	—	—	—	—	—
Other income (expense), net	—	—	2.1	—	2.1
Intercompany interest and fees	—	—	—	—	—
Equity in net income of subsidiaries	(26.1)	) (16.8)	) —	42.9	—
Income from continuing operations before income taxes	(27.9)	) (26.1)	) 3.2	42.9	(7.9)
Income tax expense	—	—	19.8	—	19.8
Income from continuing operations	(27.9)	) (26.1)	) (16.6)	) 42.9	(27.7)
Loss from discontinued operations, net of income taxes	—	—	(0.2)	) —	(0.2)
Net income	(27.9)	) (26.1)	) (16.8)	) 42.9	(27.9)
Other comprehensive loss, net of tax	(6.4)	) (6.4)	) (3.0)	) 9.4	(6.4)
Comprehensive income	\$(34.3)	) \$(32.5)	) \$(19.8)	) \$52.3	\$(34.3)

MALLINCKRODT PLC
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
For the nine months ended June 27, 2014
(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Net sales	\$—	\$—	\$1,751.1	\$—	\$1,751.1
Cost of sales	—	—	948.6	—	948.6
Gross profit	—	—	802.5	—	802.5
Selling, general and administrative expenses	18.9	0.4	542.3	—	561.6
Research and development expenses	—	—	123.1	—	123.1
Separation costs	1.9	—	4.7	—	6.6
Restructuring charges, net	0.2	—	53.3	—	53.5
Gains on divestiture and license	—	—	(14.7	) —	(14.7
Operating (loss) income	(21.0	) (0.4	) 93.8	—	72.4
Interest expense	—	(47.5	) 2.6	—	(44.9
Interest income	—	—	1.1	—	1.1
Other income (expense), net	29.1	—	(30.0	) —	(0.9
Intercompany interest and fees	(6.9	) —	6.9	—	—
Equity in net income of subsidiaries	31.9	79.7	—	(111.6) —
Income from continuing operations before income taxes	33.1	31.8	74.4	(111.6	) 27.7
Income tax (benefit) expense	—	(0.1	) (6.0	) —	(6.1
Income from continuing operations	33.1	31.9	80.4	(111.6	) 33.8
Loss from discontinued operations, net of income taxes	—	—	(0.7	) —	(0.7
Net income	33.1	31.9	79.7	(111.6	) 33.1
Other comprehensive loss, net of tax	2.0	2.0	1.6	(3.6	) 2.0
Comprehensive income	\$35.1	\$33.9	\$81.3	\$(115.2	) \$35.1

MALLINCKRODT PLC
 CONDENSED COMBINING STATEMENT OF COMPREHENSIVE INCOME
 For the nine months ended June 28, 2013
 (unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Combined	
Net sales	\$—	\$—	\$1,659.3	\$—	\$1,659.3	
Cost of sales	—	—	886.5	—	886.5	
Gross profit	—	—	772.8	—	772.8	
Selling, general and administrative expenses	0.1	—	474.3	—	474.4	
Research and development expenses	—	—	122.4	—	122.4	
Separation costs	1.7	0.3	68.6	—	70.6	
Restructuring charges, net	—	—	17.9	—	17.9	
Gains on divestiture and license	—	—	(2.2) —	(2.2)
Operating income	(1.8	) (0.3	) 91.8	—	89.7
Interest expense	—	(9.0) (0.6) —	(9.6)
Interest income	—	—	0.1	—	0.1	
Other income (expense), net	—	—	2.3	—	2.3	
Intercompany interest and fees	—	—	—	—	—	
Equity in net income of subsidiaries	27.1	36.4	—	(63.5) —	
Income from continuing operations before income taxes	25.3	27.1	93.6	(63.5	) 82.5
Income tax expense	—	—	55.9	—	55.9	
Income from continuing operations	25.3	27.1	37.7	(63.5	) 26.6
Loss from discontinued operations, net of income taxes	—	—	(1.3) —	(1.3)
Net income	25.3	27.1	36.4	(63.5	) 25.3
Other comprehensive loss, net of tax	(20.3) (20.3) (12.9) 33.2	(20.3)
Comprehensive income	\$5.0	\$6.8	\$23.5	\$(30.3	) \$5.0

MALLINCKRODT PLC
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the nine months ended June 27, 2014
(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:					
Net cash (used in) provided by operating activities	\$9.9	\$(39.2)	\$197.4	\$—	\$168.1
Cash Flows From Investing Activities:					
Capital expenditures	—	—	(80.1)	—	(80.1)
Acquisitions and intangibles, net of cash acquired	—	—	(1,303.2)	—	(1,303.2)
Intercompany loan investment	(26.3)	—	(114.5)	140.8	—
Repayment of intercompany loan investment	—	2.4	—	(2.4)	—
Investment in subsidiary	—	(1,300.0)	—	1,300.0	—
Restricted cash	—	—	4.1	—	4.1
Other	—	—	8.7	—	8.7
Net cash (used in) investing activities	(26.3)	(1,297.6)	(1,485.0)	1,438.4	(1,370.5)
Cash Flows From Financing Activities:					
Issuance of external debt	—	1,296.8	—	—	1,296.8
Repayment of external debt	—	—	(30.1)	—	(30.1)
Repayment of capital leases	—	—	(1.1)	—	(1.1)
Debt financing costs	—	(32.2)	—	—	(32.2)
Excess tax benefit from share-based compensation	—	—	5.2	—	5.2
Proceeds from exercise of share options	19.9	—	—	—	19.9
Purchase of treasury shares	(1.9)	—	—	—	(1.9)
Advances from intercompany borrowings	—	140.8	—	(140.8)	—
Payment on intercompany borrowings	(2.4)	—	—	2.4	—
Capital contribution	—	—	1,300.0	(1,300.0)	—
Net cash provided by (used in) financing activities	15.6	1,405.4	1,274.0	(1,438.4)	1,256.6
Effect of currency rate changes on cash	—	—	(1.8)	—	(1.8)
Net increase in cash and cash equivalents	(0.8)	68.6	(15.4)	—	52.4
Cash and cash equivalents at beginning of period	1.2	56.5	217.8	—	275.5
Cash and cash equivalents at end of period	\$0.4	\$125.1	\$202.4	\$—	\$327.9

MALLINCKRODT PLC
 CONDENSED COMBINING STATEMENT OF CASH FLOWS
 For the nine months ended June 28, 2013
 (unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Combined
Cash Flows From Operating Activities:					
Net cash (used in) provided by operating activities	\$—	\$(7.5)	) \$13.7	\$—	\$6.2
Cash Flows From Investing Activities:					
Capital expenditures	—	—	(110.5)	) —	(110.5)
Acquisition, net of cash acquired	—	—	(88.1)	) —	(88.1)
Intercompany loan investment	—	—	(371.9)	) 371.9	—
Restricted cash	—	—	—	—	—
Other	—	—	0.1	—	0.1
Net cash (used in) investing activities	—	—	(570.4)	) 371.9	(198.5)
Cash Flows From Financing Activities:					
Issuance of external debt	—	898.1	—	—	898.1
Repayment of capital leases	—	—	(1.0)	) —	(1.0)
Debt financing costs	—	(12.0)	) —	—	(12.0)
Excess tax benefit from share-based compensation	—	—	3.4	—	3.4
Net transfers from (to) parent	—	(1,200.1)	) 684.2	—	(515.9)
Intercompany loan borrowings	—	371.9	—	(371.9)) —
Other	—	—	0.1	—	0.1
Net cash provided by (used in) financing activities	—	57.9	686.7	(371.9)	) 372.7
Effect of currency rate changes on cash	—	—	—	—	—
Net increase in cash and cash equivalents	—	50.4	130.0	—	180.4
Cash and cash equivalents at beginning of period	—	—	—	—	—
Cash and cash equivalents at end of period	\$—	\$50.4	\$130.0	\$—	\$180.4

21. Subsequent Events

Questcor Merger Financing Transactions

In July 2014, Mallinckrodt Securitization S.À.R.L. ("Mallinckrodt Securitization"), a wholly-owned special purpose subsidiary of the Company, entered into a \$160.0 million accounts receivable securitization facility ("the Receivable Securitization"). Mallinckrodt Securitization may, from time to time, obtain up to \$160.0 million in third-party borrowings secured by certain receivables. The borrowings under the Receivable Securitization are to be repaid as the secured receivables are collected. Loans under the Receivable Securitization will bear interest (including facility fees) at a rate equal to one month LIBOR rate plus a margin of 0.80%. Unused commitments on the Receivables Securitization are subject to an annual commitment fee of 0.35%. The Receivable Securitization agreements contain customary representations, warranties, and affirmative and negative covenants. The size of the securitization facility may be increased to \$300.0 million upon approval of the third-party lenders.

In July 2014, MIFSA and MCB entered into an agreement which will result in the private placement of \$900.0 million aggregate principal amount of 5.75% of senior unsecured notes due August 1, 2022 ("the 2022 Notes"). The 2022 Notes will be subject to an indenture which will contain customary affirmative and negative covenants. The 2022 Notes will be guaranteed by each of MIFSA's and MCB's subsidiaries that guarantees our senior secured credit facilities.

MIFSA and MCB, each a subsidiary of the Company, expect to complete a \$700.0 million senior secured term loan facility that will be due March 19, 2021 ("the New Term Loan") and structured as an incremental tranche under the credit agreement governing our existing Term Loan and Revolver (collectively with the New Term Loan, represent the Senior Secured Credit Facilities). The New Term Loan is expected to bear interest at LIBOR plus a margin based on the Company's total net leverage ratio, with a minimum LIBOR level of 0.75%. Interest payment dates will be variable based on the LIBOR rate utilized, but the Company generally expects interest to be payable every 90 days. The New Term Loan is expected to require quarterly principal amortization payments in an amount equal to 0.25% of the original principal amount on a quarterly basis, commencing on December 31, 2014, with the remaining balance payable on the due date, March 19, 2021. Other terms and conditions are expected to be generally consistent with the Facilities, except that Mallinckrodt plc is not a guarantor under the New Term Loan.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated and combined financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs and involve risks, uncertainties and assumptions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those discussed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K filed with the United States ("U.S.") Securities and Exchange Commission ("the SEC") on December 13, 2013 and within Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.

We own or have rights to use the trademarks and trade names that we use in conjunction with the operation of our business. One of the more important trademarks that we own or have rights to use that appears in this Quarterly Report on Form 10-Q is "Mallinckrodt," which is a registered trademark or the subject of pending trademark applications in the U.S. and other jurisdictions. Solely for convenience, we only use the TM or ® symbols the first time any trademark or trade name is mentioned in the following discussion. Such references are not intended to indicate in any way that we will not assert, to the fullest extent permitted under applicable law, our rights to our trademarks and trade names. Each trademark or trade name of any other company appearing in the following discussion is, to our knowledge, owned by such other company.

Overview

We are a global company that develops, manufactures, markets and distributes both branded and specialty generic pharmaceuticals, active pharmaceutical ingredients ("API") and diagnostic imaging agents. These products are found in almost every hospital, standalone diagnostic imaging center or pharmacy in the U.S. and we have a commercial presence in approximately 65 countries. We believe our extensive commercial reach and formulation expertise, coupled with our ability to navigate the highly regulated and technical nature of our business, have created compelling competitive advantages that we anticipate will sustain future revenue growth.

We conduct our business in the following two segments:

- Specialty Pharmaceuticals produces and markets branded and specialty generic pharmaceuticals and API, comprised of medicinal opioids, synthetic controlled substances, acetaminophen and other active ingredients; and
- Global Medical Imaging develops, manufactures and markets contrast media and delivery systems ("CMDS") and radiopharmaceuticals (nuclear medicine).

For further information on our business and products, refer to our Annual Report on Form 10-K filed with the SEC on December 13, 2013.

Significant Events

Separation from Covidien

On June 28, 2013, the Pharmaceuticals business of Covidien plc ("Covidien") was transferred to Mallinckrodt plc, thereby completing its legal separation from Covidien ("the Separation"). On July 1, 2013, Mallinckrodt plc began regular way trading on the New York Stock Exchange under the ticker symbol "MNK."

Our unaudited condensed consolidated and combined financial statements reflect the consolidated financial results of Mallinckrodt plc and its subsidiaries as an independent, publicly-traded company for the three and nine months ended June 27, 2014 and the consolidated financial position as of June 27, 2014 and September 27, 2013. The three and nine months ended June 28, 2013 reflect the combined results of operations of the Pharmaceuticals business of Covidien. Our unaudited condensed combined financial statements for the three and nine months ended June 28, 2013 may not be indicative of our future performance and do not necessarily reflect the results of operations and cash flows that would have been had we operated as an independent, publicly-traded company during that period. The unaudited condensed combined financial statements for the three and nine months ended June 28, 2013 include expense allocations for certain functions provided by Covidien, including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, employee benefits and

incentives, insurance and share-based compensation. These expenses were allocated to us on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating expenses, headcount or other measures. The amounts allocated were \$14.1 million and \$39.6 million during the three and nine months ended June 28, 2013, respectively, and were included within selling, general and administrative expenses. Management considers the bases on which the expenses were allocated to reasonably reflect the utilization of services provided to, or the benefit received by, us; however, the allocations may not reflect the expense we would have incurred as an independent, publicly-traded company during that period. Following the Separation, we have performed these functions using our own resources or purchased services, certain of which are being provided by Covidien during a transitional period pursuant to a transition services

agreement dated June 28, 2013, between Mallinckrodt and Covidien, particularly in relation to areas outside the U.S. The terms and prices on which such services are rendered may not be as favorable as those that were allocated to us by Covidien.

Acquisition of Cadence Pharmaceuticals

On March 19, 2014, we acquired all of the outstanding common stock of Cadence Pharmaceuticals, Inc. ("Cadence"), a biopharmaceutical company focused on commercializing products principally for use in the hospital setting, for total consideration of \$14.00 per share in cash, or approximately \$1.3 billion. The acquisition was primarily funded through a \$1.3 billion variable rate senior secured term loan credit facility, as further discussed below. Cadence's product, OFIRMEV® (acetaminophen) injection ("Ofirmev"), is a proprietary intravenous formulation of acetaminophen for the management of mild to moderate pain, the management of moderate to severe pain with adjunctive opioid analgesics and the reduction of fever. The acquisition of Cadence adds a growth product to the Specialty Pharmaceuticals product portfolio and provides us an opportunity to expand our reach into the adjacent hospital market, in which Cadence established a presence.

Pending Acquisition of Questcor Pharmaceuticals

On April 5, 2014, we entered into a definitive merger agreement to acquire Questcor Pharmaceuticals, Inc. ("Questcor"), a high-growth biopharmaceutical company, for approximately \$6.0 billion. Questcor shareholders will receive \$30.00 per share in cash and 0.897 ordinary shares of Mallinckrodt plc for each share of Questcor common stock owned. We have entered into debt financing commitments that, together with cash on hand, are expected to be sufficient to provide the funds necessary to consummate the transaction. We expect that the financing will primarily consist of a combination of a senior secured term loan facility and senior notes. Questcor is focused on the treatment of patients with serious, difficult-to-treat autoimmune and rare diseases. Questcor's primary product, H.P. Acthar® Gel (repository corticotropin injection), is an injectable drug that is approved by the U.S. Food and Drug Administration ("FDA") for the treatment of 19 indications, including nephrotic syndrome, rheumatology related conditions, multiple sclerosis and infantile spasms. Questcor also supplies specialty contract manufacturing services to the global pharmaceuticals and biotechnology industry through its wholly-owned subsidiary, BioVectra Inc. The acquisition is expected to provide a strong and sustainable platform for future revenue and earnings growth within our Specialty Pharmaceuticals segment. Subject to customary closing conditions, the transaction is currently expected to be completed shortly after the shareholder meetings of the Company and Questcor, which are both scheduled for August 14, 2014.

Debt Financing

In March 2014, in connection with the acquisition of Cadence, Mallinckrodt International Finance S.A. ("MIFSA") and Mallinckrodt CB LLC ("MCB"), each a wholly-owned subsidiary of Mallinckrodt plc, entered into senior secured credit facilities consisting of a \$1.3 billion variable rate senior secured term loan facility due 2021 ("the Term Loan") and a \$250.0 million revolving credit facility due 2019 ("the Revolver"). The Term Loan requires quarterly principal amortization payments in an amount equal to 0.25% of the original principal amount of the Term Loan, payable on the last day of each calendar quarter, which commenced on June 30, 2014. The Revolver contains a \$150.0 million letter of credit provision. We incurred an original issue discount of 0.25%, or \$3.3 million, associated with the Term Loan, and debt financing costs of \$32.2 million.

License of Intellectual Property

We were involved in patent disputes with a counterparty relating to certain intellectual property relevant to extended-release oxymorphone. In December 2013, the counterparty agreed to pay us an upfront cash payment of \$4.0 million and contractually obligated future payments of \$8.0 million through July 2018, in exchange for the withdrawal of all claims associated with the intellectual property and a license to utilize our intellectual property. We have completed the earnings process associated with the agreement and recorded an \$11.7 million gain, included within

gains on divestiture and license, during the nine months ended June 27, 2014.

Nuclear Imaging

In November 2012, the High Flux Reactor ("HFR") in Petten, the Netherlands, one of two primary reactors we utilize to irradiate targets as part of our Molybdenum 99 ("Mo-99") processing operation experienced an unscheduled shutdown. Mo-99 is a key raw material in our Ultra-Technekow™ DTE technetium generators that are sold via our Global Medical Imaging segment. We were able to receive increased target irradiations at two other reactors and purchased additional Mo-99 from other sources to continue meeting customer orders; however, the additional Mo-99 we procured from alternative sources came at significantly higher costs. The reactor resumed production in June 2013.

In October 2013, the HFR experienced another unscheduled shutdown. In addition, our own Mo-99 processing facility in Petten, the Netherlands also experienced a shutdown. The HFR resumed production of medical isotopes and irradiation of materials in February 2014 and the Mo-99 processing facility resumed production in April 2014. We believe profitability of our Global Medical Imaging segment may improve, primarily in the fourth quarter, once we satisfy the significantly higher cost procurement commitments that we entered into during the shutdowns. Ongoing increased raw material and manufacturing costs will very likely limit our ability to return the Global Medical Imaging segment to historical operating margins.

Lower Passaic River Environmental Reserve

On April 11, 2014, the U.S. Environmental Protection Agency ("EPA") issued its revised Focused Feasibility Study ("FFS"), with remedial alternatives to address cleanup of the lower 8-mile stretch of the Lower Passaic River Study Area ("the River"), which also included a "no action" option. The EPA estimates the cost for the alternatives range from \$365.0 million to \$3.2 billion. The EPA's preferred approach would involve bank-to-bank dredging of the lower 8-mile stretch of the River and installing an engineered cap at a discounted, estimated cost of \$1.7 billion. Based on the issuance of the EPA's revised FFS, we recorded a \$23.1 million accrual in the second quarter of fiscal 2014 representing our estimate of our allocable share of the joint and several remediation liability resulting from this matter. Despite the issuance of the revised FFS, there are many uncertainties associated with the final agreed upon remediation and our allocable share of the remediation. Given those uncertainties, the amounts accrued may not be indicative of the amounts for which we are ultimately responsible and will be refined as events in the remediation process occur.

Business Factors Influencing the Results of Operations

New Products

In March 2014, the FDA approved our New Drug Application ("NDA") for XARTEMIS™ XR (oxycodone HCl and acetaminophen) extended-release tablets (CII) ("Xartemis XR"), originally filed under MNK-795, for the management of acute pain severe enough to require opioid treatment and in patients for whom alternative treatment options are ineffective, not tolerated or would otherwise be inadequate. Xartemis XR is the first and only extended-release oral combination of oxycodone and acetaminophen. In February 2014, we were granted a patent from the U.S. Patent and Trademark Office ("USPTO"), which contains composition claims directed to unique design, formulation, pharmacokinetic and release characteristics of Xartemis XR. Pursuant to the terms of our licensing agreement, we accrued, and capitalized as an intangible asset, a \$10.0 million milestone payment to Depomed, Inc., which was paid in April 2014, in connection with the FDA approval of Xartemis XR. Xartemis XR received FDA approval and was launched in March 2014.

In January 2014, the FDA approved our NDA for PENNSAID® (diclofenac sodium topical solution) 2% w/w ("Pennsaid 2%"), originally filed as MNK-395. Pennsaid 2% is a topical non-steroidal anti-inflammatory drug (NSAID) indicated for the treatment of pain associated with osteoarthritis of the knee, and an extension of our Pennsaid franchise. This new formulation provides a twice-daily administration and is dispensed for topical usage in a new metered dose pump bottle. Pennsaid 2% was commercially launched in February 2014.

In December 2012, we received approval from the FDA to manufacture Methylphenidate HCl extended-release tablets USP (CII) ("Methylphenidate ER"), a generic version of the branded CONCERTA®, a registered trademark of Alza Corporation, for the treatment of attention deficit hyperactivity disorder in 27mg, 36mg and 54mg tablets. We held a 180-day exclusivity period for each of the 27mg, 36mg and 54mg strengths, which began upon the commercial launch of each tablet. We launched the 27mg tablet upon FDA approval during the first quarter of fiscal 2013 and launched the 36mg and 54mg tablets during the second quarter of fiscal 2013. In February 2013, we submitted a supplement to our approved Abbreviated New Drug Application ("ANDA") for the 18mg tablet. In January 2014, we received a Complete Response Letter from the FDA requesting additional information, and we are working to address this request. In July 2013, a competitor received FDA approval to manufacture all strengths of Methylphenidate ER and has entered the market. As our exclusivity has expired, other competitors may also enter the market for

Methylphenidate ER.

In August 2012, the FDA approved a 32mg tablet of EXALGO® (hydromorphone HCl) extended-release tablets (CII) ("Exalgo"), which further expanded the patient population that Exalgo can effectively treat with a single daily dose. The 8mg, 12mg and 16mg tablets were approved by the FDA in March 2010 for the management of pain severe enough to require daily, around-the-clock, long-term opioid treatment in opioid-tolerant patients and for which alternative options are inadequate; and have shown significant prescription growth since launch in April 2010. Exalgo was granted marketing exclusivity in the U.S. as a prescription medicine through March 2013 and was protected by two Orange Book-listed patents, for a method of treating moderate to severe pain. Beginning in November 2013 for the 8mg, 12mg and 16mg tablets and May 2014 for the 32mg tablet, a third party has the right, pursuant to agreements with us, to sell a generic version of Exalgo. In May 2014, this third party received FDA approval to market generic versions of the the 8mg, 12mg and 16mg tablets. Their entrance into the market for a generic version of the 32mg tablet is dependent upon receiving FDA marketing approval. We expect sales of Exalgo to decrease in fiscal 2014 (compared with \$126.1 million in fiscal 2013) when this third party enters the market pursuant to these agreements. Additionally, our patents for the 8mg,

12mg and 16mg tablets expire in July 2014. In May 2014, we launched an authorized generic version of Exalgo in all tablet strengths and a competitor entered the market.

Net sales of Xartemis XR, Pennsaid 2%, Methylphenidate ER and Exalgo were \$67.4 million and \$51.6 million during the three months ended June 27, 2014 and June 28, 2013, respectively, and \$236.1 million and \$180.5 million during the nine months ended June 27, 2014 and June 28, 2013, respectively.

Restructuring Initiatives

We continue to realign our cost structure due to the changing nature of our business and look for opportunities to achieve operating efficiencies. As such, in August 2013 our board of directors approved a restructuring program in the amount of \$100.0 million to \$125.0 million that is expected to occur over a three-year period with a two-year cost recovery period. Through June 27, 2014, we incurred restructuring charges of \$68.8 million under our August 2013 program.

During the three months ended June 27, 2014 and June 28, 2013, we incurred restructuring and related charges, net, of \$24.2 million and \$12.1 million, respectively. Restructuring and related charges, net for the three months ended June 27, 2014 and June 28, 2013 included accelerated depreciation costs of \$0.4 million and \$0.8 million, respectively. During the nine months ended June 27, 2014 and June 28, 2013, we incurred restructuring and related charges, net, of \$54.0 million and \$20.0 million, respectively, which included accelerated depreciation costs of \$0.5 million and \$2.1 million, respectively. The restructuring charges incurred during the three and nine months ended June 27, 2014 primarily related to employee severance and benefits, consulting costs and, for the nine months ended June 27, 2014, a \$2.6 million non-cash facility closure charge associated with restructuring activities within the Global Medical Imaging segment. Restructuring charges during the three and nine months ended June 27, 2014 include employee severance actions with near-term cost reductions, primarily within selling, general and administrative expenses, and long-term cost reductions to cost of sales. The restructuring charges incurred during the three and nine months ended June 28, 2013 primarily related to severance and employee benefit costs within the Specialty Pharmaceuticals segment.

Research and Development Investment

We expect to continue to invest in research and development ("R&D") activities, as well as enter into license agreements to supplement our internal R&D initiatives. We intend to focus our R&D investments in the specialty pharmaceuticals area, specifically investments to support our Brands business, where we believe there is the greatest opportunity for growth and profitability. We are presently developing a number of products, some of which utilize novel drug-delivery systems, through a combination of internal and collaborative programs.

Specialty Pharmaceuticals. We devote significant R&D resources for our branded products. A number of our branded products are protected by patents and have enjoyed market exclusivity. Our R&D strategy focuses on branded product development in the area of pain, other central nervous system areas, such as spasticity, and adjacent areas. MNK-155 has completed Phase III clinical trials and our NDA filing was accepted for review by the FDA in May 2014. We have received notice of allowance from the USPTO related to composition claims directed to unique design, formulation, pharmacokinetic and release characteristics for MNK-155.

In accordance with a Pediatric Research Equity Act requirement included in the NDA approval for Ofirmev, Cadence began enrolling patients in 2012 in a post-marketing efficacy study of Ofirmev in infants and neonates. The data from this study will be used to satisfy a formal written request Cadence received from the FDA under Section 505A of the U.S. Food, Drug and Cosmetic Act that was made as part of the approval process for Ofirmev. The FDA has agreed to an August 2015 due date for completion of this study. Upon timely completion and the acceptance by the FDA of the data from this study, Ofirmev will be eligible for an additional six months of marketing exclusivity in the U.S. The FDA is also currently reviewing a supplemental NDA that Cadence submitted in December 2013, which would offer Ofirmev in flexible intravenous bags.

In regard to specialty generic product development, we are focused on controlled substances with difficult-to-replicate pharmacokinetic profiles. As of June 27, 2014, we had various ANDAs on file with the FDA, including a supplement,

filed in February 2013, to our approved ANDA for the 18mg tablet of Methylphenidate ER. In January 2014, we received a Complete Response Letter from the FDA requesting additional information, and we are working to address this request. If accepted, we will have all four tablet strengths available on the market, as we currently offer the 27mg, 36mg and 54mg strengths. In addition, we are focused on process improvements to increase yields and reduce costs. Global Medical Imaging. Our R&D efforts in our Global Medical Imaging segment are focused on driving efficiency throughout CMDS. In our Nuclear Imaging business, we are expanding our portfolio of radioisotopes and better utilizing existing capacity.

Results of Operations

Three Months Ended June 27, 2014 Compared with Three Months Ended June 28, 2013

Net Sales

Net sales by geographic area were as follows (dollars in millions):

	Three Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
U.S.	\$486.5	\$389.0	25.1	%
Europe, Middle East and Africa	103.1	109.1	(5.5))
Other	63.5	71.9	(11.7))
Net sales	\$653.1	\$570.0	14.6	

Net sales in the three months ended June 27, 2014 increased \$83.1 million, or 14.6%, to \$653.1 million, compared with \$570.0 million for the three months ended June 28, 2013. This increase was primarily driven by increased Brands net sales related to Ofirmev and increased Specialty Generics and API net sales from strategic pricing initiatives on certain products and increased Methylphenidate ER sales trends and favorable comparisons to the prior year. These increases were partially offset by a decrease in CMDS net sales. For further information on changes in net sales, refer to "Business Segment Results" within this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operating Income

Gross profit. Gross profit for the three months ended June 27, 2014 increased \$18.5 million, or 7.0%, to \$284.3 million, compared with \$265.8 million for the three months ended June 28, 2013. The increase in gross profit primarily resulted from increased net sales from strategic pricing initiatives and a further shift in net sales to the higher margin Specialty Pharmaceuticals segment, including the newly acquired Ofirmev. These increases were partially offset by a \$42.7 million increase in amortization primarily associated with Ofirmev, \$9.5 million of expense recognition associated with the fair value adjustment of acquired Ofirmev inventory, and a \$16.1 million increase in inventory provision expense. Gross profit margin was 43.5% for the three months ended June 27, 2014, compared with 46.6% for the three months ended June 28, 2013, the decrease is primarily attributable to increased amortization and expense recognition of the Ofirmev inventory fair value adjustment.

Selling, general and administrative expenses. Selling, general and administrative expenses for the three months ended June 27, 2014 were \$221.3 million, compared with \$166.9 million for the three months ended June 28, 2013, an increase of \$54.4 million, or 32.6%. The increase primarily resulted from higher internal and third-party expenses associated with being an independent, publicly-traded company, the inclusion of Cadence costs, including integration costs and higher selling expenses associated with Ofirmev, and \$16.6 million of transaction costs primarily associated with our pending acquisition of Questcor. These increases were partially offset by benefits from restructuring costs and certain prior year costs that did not recur in the three months ended June 27, 2014. In the three months ended June 28, 2013, selling, general and administrative expenses included allocations from Covidien of \$14.1 million for general corporate expenses. These allocations are generally consistent with functions we have developed in our corporate build-out, and ceased following the completion of the Separation on June 28, 2013. Selling, general and administrative expenses were 33.9% of net sales for the three months ended June 27, 2014 and 29.3% of net sales for the three months ended June 28, 2013.

Research and development expenses. R&D expenses decreased \$2.1 million, or 4.7%, to \$42.7 million for the three months ended June 27, 2014, compared with \$44.8 million for the three months ended June 28, 2013. As products, such as Xartemis XR, Pennsaid 2% and MNK-155, move toward or through the FDA review process, we have devoted additional resources to other potential products in our R&D pipeline and the continued pursuit of abuse-deterrent labeling for Xartemis XR. As a percentage of net sales, R&D expenses were 6.5% and 7.9% for the

three months ended June 27, 2014 and June 28, 2013, respectively.

Separation costs. During the three months ended June 27, 2014 and June 28, 2013, we incurred separation costs of \$1.8 million and \$44.2 million, respectively, primarily related to legal, accounting, tax and other professional fees. Separation costs were higher in the prior year period as we approached and completed the Separation on June 28, 2013. We have continued to incur costs related to the Separation as a result of our transition services agreement with Covidien, our costs to implement information and accounting systems, share-based compensation related to the conversion of Covidien awards to Mallinckrodt awards, and other transitional costs; however, these costs are not expected to recur at historical levels.

Restructuring and related charges, net. During the three months ended June 27, 2014, we recorded \$24.2 million of restructuring and related charges, net, including \$0.4 million of accelerated depreciation included in cost of sales. The remaining \$23.8 million primarily related to employee severance and benefits associated with restructuring activities within both the Specialty Pharmaceuticals and Global Medical Imaging segments. During the three months ended June 28, 2013, we recorded restructuring and related charges, net of \$12.1 million, of which \$0.8 million related to accelerated depreciation and was included in cost of sales. The remaining \$11.3 million primarily related to severance and employee benefit costs within the Specialty Pharmaceuticals and Global Medical Imaging segments.

Gains on divestiture and license. During the three months ended June 27, 2014 and June 28, 2013, we recorded gains on divestiture and license of \$0.9 million and \$0.8 million, respectively, both of which primarily related to the sale of the rights to market TussiCaps extended-release capsules in fiscal 2011.

Non-Operating Items

Interest expense and interest income. During the three months ended June 27, 2014 and June 28, 2013, net interest expense was \$22.4 million and \$9.4 million, respectively. Net interest expense is primarily attributable to our \$900.0 million issuance of senior unsecured notes in April 2013 and approximately \$1.3 billion of term loans associated with our March 2014 acquisition of Cadence. Interest expense during the three months ended June 27, 2014 and June 28, 2013 includes \$1.9 million and \$0.5 million, respectively, of non-cash interest expense.

Other (expense) income, net. During the three months ended June 27, 2014, we recorded other income, net of \$0.1 million and during the three months ended June 28, 2013, we recorded other income, net of \$2.1 million, both of which represent miscellaneous items, including gains and losses on intercompany foreign currency financing transactions and related hedging instruments.

Provision for income taxes. We recognized an income tax benefit of \$2.4 million on a \$26.7 million loss from continuing operations before income taxes for the three months ended June 27, 2014 and an income tax expense of \$19.8 million on a \$7.9 million loss from continuing operations before income taxes for the three months ended June 28, 2013. The effective tax rates were most notably impacted by the Cadence Acquisition, Questcor Merger and the deductibility of separation costs due to the tax free status of the Separation. The rate for the three months ended June 27, 2014 was impacted by the inclusion of a \$11.2 million tax benefit associated with the Cadence Acquisition, including acquisition and financing costs and amortization of the acquired intangible asset. The rate for the three months ended June 27, 2014 is also impacted by receiving no tax benefit associated with \$16.6 million of Questcor transaction costs. During the three months ended June 27, 2014, we received a \$0.4 million tax benefit on \$1.8 million of separation costs compared with a \$1.7 million tax benefit on \$44.2 million of separation costs for the three months ended June 28, 2013. These impacts on the effective tax rate for the three months ended June 27, 2014 were magnified by the level of loss from continuing operations before income taxes. Furthermore, our effective tax rate for the three months ended June 28, 2013 reflected the business as historically managed by Covidien rather than as an independent, publicly-traded company.

Loss from discontinued operations, net of income taxes. We recorded a \$0.2 million gain and a \$0.2 million loss on discontinued operations, net of income taxes, during the three months ended June 27, 2014 and June 28, 2013, respectively. These amounts relate to indemnification obligations to the purchaser of our Specialty Chemicals business (formerly known as Mallinckrodt Baker), which was sold during fiscal 2010.

Nine Months Ended June 27, 2014 Compared with Nine Months Ended June 28, 2013

Net Sales

Net sales by geographic area were as follows (dollars in millions):

	Nine Months Ended		Percentage Change	%
	June 27, 2014	June 28, 2013		
U.S.	\$1,272.6	\$1,138.1	11.8	%

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Europe, Middle East and Africa	297.1	307.0	(3.2)
Other	181.4	214.2	(15.3)
Net sales	\$1,751.1	\$1,659.3	5.5	

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Net sales in the nine months ended June 27, 2014 increased \$91.8 million, or 5.5%, to \$1,751.1 million, compared with \$1,659.3 million for the nine months ended June 28, 2013. This increase was primarily attributable to increased Specialty Generics and API net sales, driven by strategic pricing initiatives on certain products and increased Methylphenidate ER net sales trends and favorable comparisons to the prior year. Brands net sales also contributed to the increase due to net sales related to Ofirmev. These increases were partially offset by a decrease in CMDS net sales. For further information on changes in net sales, refer to "Business Segment Results" within this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operating Income

Gross profit. Gross profit for the nine months ended June 27, 2014 increased \$29.7 million, or 3.8%, to \$802.5 million, compared with \$772.8 million for the nine months ended June 28, 2013. The increase in gross profit primarily resulted from increased net sales from strategic pricing initiatives and a further shift in net sales to the higher margin Specialty Pharmaceuticals segment, including the newly acquired Ofirmev. These increases were partially offset by a \$49.3 million increase in amortization primarily associated with Ofirmev, \$10.6 million of expense recognition associated with the fair value adjustment of acquired Ofirmev inventory, a \$19.7 million increase in inventory provision expense and higher raw material costs in the Global Medical Imaging segment, including the unscheduled shutdowns of our Mo-99 processing facility and the HFR that supplies us with Mo-99. Gross profit margin was 45.8% for the nine months ended June 27, 2014, compared with 46.6% for the nine months ended June 28, 2013, the decrease is primarily attributable to increased amortization and expense recognition of the Ofirmev inventory fair value adjustment.

Selling, general and administrative expenses. Selling, general and administrative expenses for the nine months ended June 27, 2014 were \$561.6 million, compared with \$474.4 million for the nine months ended June 28, 2013, an increase of \$87.2 million, or 18.4%. The increase primarily resulted from higher internal and third-party expenses associated with being an independent, publicly-traded company, the inclusion of Cadence costs, including integration costs and higher selling expenses associated with Ofirmev, \$35.1 million of transaction costs associated with our acquisition of Cadence and pending acquisition of Questcor, a \$23.1 million environmental remediation charge, and higher selling expenses in our Brands business related to the launch of Xartemis XR and Pennsaid 2%. These increases were partially offset by benefits from restructuring actions and certain prior year costs that did not recur in the nine months ended June 27, 2014. In the nine months ended June 28, 2013, selling, general and administrative expenses included higher legal settlement costs and \$39.6 million of allocations from Covidien for general corporate expenses. These allocations are generally consistent with functions we have developed in our corporate build-out and ceased following the completion of the Separation on June 28, 2013. Selling, general and administrative expenses were 32.1% of net sales for the nine months ended June 27, 2014 and 28.6% of net sales for the nine months ended June 28, 2013.

Research and development expenses. R&D expenses increased \$0.7 million, or 0.6%, to \$123.1 million for the nine months ended June 27, 2014, compared with \$122.4 million for the nine months ended June 28, 2013. As products, such as Xartemis XR, Pennsaid 2% and MNK-155, move toward or through the FDA review process, we have devoted additional resources to other potential products in our R&D pipeline and the continued pursuit of abuse-deterrent labeling for Xartemis XR. As a percentage of net sales, R&D expenses were 7.0% and 7.4% for the nine months ended June 27, 2014 and June 28, 2013, respectively.

Separation costs. During the nine months ended June 27, 2014 and June 28, 2013, we incurred separation costs of \$6.6 million and \$70.6 million, respectively, primarily related to legal, accounting, tax and other professional fees. Separation costs were higher in the prior year period as we approached and completed the Separation on June 28, 2013. We have continued to incur costs related to the Separation as a result of our transition services agreement with Covidien, our costs to implement information and accounting systems, share-based compensation related to the conversion of Covidien awards to Mallinckrodt awards, and other transitional costs; however, these costs are not expected to recur at historical levels.

Restructuring and related charges, net. During the nine months ended June 27, 2014, we recorded \$54.0 million of restructuring and related charges, net, of which \$0.5 million related to accelerated depreciation and was included in cost of sales. The remaining \$53.5 million primarily related to employee severance and benefits, consulting costs and a \$2.6 million non-cash facility closure charge associated with restructuring activities within the Global Medical Imaging segment. During the nine months ended June 28, 2013, we recorded restructuring and related charges, net of \$20.0 million, of which \$2.1 million related to accelerated depreciation and was included in cost of sales. The remaining \$17.9 million primarily related to severance and employee benefit costs within the Specialty Pharmaceuticals segment.

Gains on divestiture and license. During the nine months ended June 27, 2014 and June 28, 2013, we recorded gains on divestiture and license of \$14.7 million and \$2.2 million, respectively. The \$14.7 million gain recorded during the nine months ended June 27, 2014 primarily resulted from an \$11.7 million gain from the license of intellectual property to a third-party related to extended-release oxymorphone.

Non-Operating Items

Interest expense and interest income. During the nine months ended June 27, 2014 and June 28, 2013, net interest expense was \$43.8 million and \$9.5 million, respectively. Net interest expense is primarily attributable to our \$900.0 million issuance of senior unsecured notes in April 2013 and approximately \$1.3 billion of term loans associated with our March 2014 acquisition of Cadence. Interest expense during the nine months ended June 27, 2014 and June 28, 2013 includes \$3.8 million and \$0.5 million, respectively, of non-cash interest expense.

Other (expense) income, net. During the nine months ended June 27, 2014, we recorded other expense, net of \$0.9 million and during the nine months June 28, 2013, we recorded other income, net of \$2.3 million, both of which represent miscellaneous items, including gains and losses on intercompany foreign currency financing transactions and related hedging instruments.

Provision for income taxes. We recognized an income tax benefit of \$6.1 million on \$27.7 million of income from continuing operations before income taxes for the nine months ended June 27, 2014 and income tax expense of \$55.9 million on \$82.5 million of income from continuing operations before income taxes for the nine months ended June 28, 2013. The effective tax rates were impacted by the Cadence Acquisition, Questcor Merger and the deductibility of separation costs due to the tax free status of the Separation. The rate for the nine months ended June 27, 2014 was impacted by the inclusion of a \$32.3 million tax benefit associated with the Cadence Acquisition, including acquisition and financing costs and amortization of the acquired intangible asset. The rate for the nine months ended June 27, 2014 was also impacted by receiving no tax benefit associated with \$17.5 million of Questcor Merger transaction costs. During the nine months ended June 27, 2014, we received a \$1.5 million tax benefit on \$6.6 million of separation costs compared with a \$3.0 million tax benefit on \$70.6 million of separation costs for the nine months ended June 28, 2013. These impacts on the effective tax rate for the nine months ended June 27, 2014 were magnified by the level of income from continuing operations before income taxes. Furthermore, our effective tax rate for the nine months ended June 28, 2013 reflected the business as historically managed by Covidien rather than as an independent, publicly-traded company.

Loss from discontinued operations, net of income taxes. We recorded \$0.7 million and \$1.3 million losses on discontinued operations, net of income taxes, during the nine months ended June 27, 2014 and June 28, 2013, respectively. These amounts relate to indemnification obligations to the purchaser of our Specialty Chemicals business (formerly known as Mallinckrodt Baker), which was sold during fiscal 2010.

Business Segment Results

The businesses included within our Specialty Pharmaceuticals and Global Medical Imaging segments are described below:

Specialty Pharmaceuticals

• Brands include branded pharmaceuticals for pain and spasticity.

• Specialty Generics and API produces specialty generic pharmaceutical products (including those to treat attention deficit hyperactivity disorder and addiction), medicinal opioids, synthetic controlled substances and acetaminophen.

Global Medical Imaging

• Contrast Media and Delivery Systems develops, manufactures and markets contrast media for diagnostic imaging applications, and power injectors to allow delivery of contrast media.

• Nuclear Imaging manufactures and markets radioactive isotopes and associated pharmaceuticals used for the diagnosis and treatment of disease.

Management measures and evaluates our operating segments based on segment net sales and operating income. Management excludes corporate expenses, amortization of intangibles, restructuring and related charges, net and separation costs from segment operating income. In addition, management evaluates the operating results of the segments excluding revenues and expenses associated with sales of products to our former parent company, Covidien. Although these amounts are excluded from segment operating income, as applicable, they are included in reported consolidated and combined operating income and accordingly, are included in our discussion of our consolidated and combined results of operations.

Three Months Ended June 27, 2014 Compared with Three Months Ended June 28, 2013

Net Sales

Net sales by segment are shown in the following table (dollars in millions):

	Three Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
Specialty Pharmaceuticals	\$414.3	\$308.6	34.3	%
Global Medical Imaging	227.1	247.9	(8.4))
Net sales of operating segments	641.4	556.5	15.3	
Other ⁽¹⁾	11.7	13.5	(13.3))
Net sales	\$653.1	\$570.0	14.6	

(1) Represents products that were sold to Covidien.

Specialty Pharmaceuticals. Net sales for the three months ended June 27, 2014 increased \$105.7 million, or 34.3%, to \$414.3 million, compared with \$308.6 million for the three months ended June 28, 2013. The increase in net sales was primarily driven by \$53.2 million of net sales of Ofirmev, \$44.3 million of increased net sales from other controlled substances and oxycodone-related products resulting from certain strategic pricing initiatives, a \$37.3 million increase in Methylphenidate ER from positive sales trends and favorable comparisons due to timing of the product launch in fiscal 2013. These increases were partially offset by a \$25.6 million decrease in branded Exalgo as we launched an authorized generic version and a competitor entered the market.

Net sales for Specialty Pharmaceuticals by geography were as follows (dollars in millions):

	Three Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
U.S.	\$379.7	\$271.9	39.6	%
Europe, Middle East and Africa	28.8	32.6	(11.7))
Other	5.8	4.1	41.5	
Net sales	\$414.3	\$308.6	34.3	

Net sales for Specialty Pharmaceuticals by key products were as follows (dollars in millions):

	Three Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
Methylphenidate ER	\$54.7	\$17.4	214.4	%
Oxycodone (API) and oxycodone-containing tablets	53.8	35.8	50.3	
Hydrocodone (API) and hydrocodone-containing tablets	25.3	36.2	(30.1))
Other controlled substances	154.4	128.1	20.5	
Other	41.2	36.2	13.8	
Specialty Generics and API	329.4	253.7	29.8	
Exalgo	8.6	34.2	(74.9))
Ofirmev	53.2	—	—	
Other	23.1	20.7	11.6	
Brands	84.9	54.9	54.6	
Specialty Pharmaceuticals	\$414.3	\$308.6	34.3	

Global Medical Imaging. Net sales for the three months ended June 27, 2014 decreased \$20.8 million, or 8.4%, to \$227.1 million compared with \$247.9 million for the three months ended June 28, 2013. The decrease was primarily driven by a \$22.2 million decline in net sales of CMDS products, which were impacted by certain strategic restructuring actions aimed at improving profitability. Nuclear sales were essentially flat as compared to fiscal 2013. Net sales for Global Medical Imaging by geography were as follows (dollars in millions):

	Three Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
U.S.	\$106.8	\$116.2	(8.1))%
Europe, Middle East and Africa	74.3	76.5	(2.9))
Other	46.0	55.2	(16.7))
Net sales	\$227.1	\$247.9	(8.4))

Net sales for Global Medical Imaging by key products were as follows (dollars in millions):

	Three Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
Optiray™	\$76.0	\$88.8	(14.4))%
Other	40.7	50.1	(18.8))
Contrast Media and Delivery Systems	116.7	138.9	(16.0))
Nuclear Imaging	110.4	109.0	1.3)
Global Medical Imaging	\$227.1	\$247.9	(8.4))

Operating Income

Operating income by segment and as a percentage of segment net sales for the three months ended June 27, 2014 and June 28, 2013 is shown in the following table (dollars in millions):

	Three Months Ended				
	June 27, 2014	June 28, 2013			
Specialty Pharmaceuticals	\$125.6	30.3	%	\$94.8	30.7
Global Medical Imaging	11.2	4.9		13.5	5.4
Segment operating income	136.8	21.3		108.3	19.5
Unallocated amounts:					
Corporate and allocated expenses	(63.6)	)		(43.7))
Intangible asset amortization	(51.6)	)		(8.9))
Restructuring and related charges, net ⁽¹⁾	(24.2)	)		(12.1))
Separation costs	(1.8)	)		(44.2))
Total operating loss	\$(4.4)	)		\$(0.6))

⁽¹⁾ Includes restructuring-related accelerated depreciation of \$0.4 million and \$0.8 million for the three months ended June 27, 2014 and June 28, 2013, respectively.

Specialty Pharmaceuticals. Operating income for the three months ended June 27, 2014 increased \$30.8 million to \$125.6 million, compared with \$94.8 million for the three months ended June 28, 2013. Our operating margin decreased to 30.3% for the three months ended June 27, 2014, compared with 30.7% for the three months ended June 28, 2013. The increase in operating income is primarily related to higher net sales of high margin products, such as Ofirmev and Methylphenidate ER, and benefits from strategic pricing actions. These benefits were partially offset by a \$49.2 million increase in selling, general and administrative expenses and \$9.5 million of expense recognition associated with the fair value adjustment of acquired Ofirmev inventory. The increase in selling, general and administrative expenses is primarily associated with selling expenses of Ofirmev and costs to integrate our March

2014 acquisition of Cadence.

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Global Medical Imaging. Operating income for the three months ended June 27, 2014 decreased \$2.3 million to \$11.2 million, compared with \$13.5 million for the three months ended June 28, 2013. Our operating margin decreased to 4.9% for the three months ended June 27, 2014, compared with 5.4% for the three months ended June 28, 2013. The decrease in operating income was attributable to lower net sales, and a \$10.8 million increase in inventory provision expenses. These increases were partially offset by a \$12.7 million decrease in selling, general and administrative expenses primarily attributable to benefits from restructuring actions. Ongoing increased manufacturing and raw material costs and lower net sales will very likely limit our ability to return the Global Medical Imaging segment to historical operating margins on a long-term basis.

Corporate and allocated expenses. Corporate and allocated expenses were \$63.6 million and \$43.7 million for the three months ended June 27, 2014 and June 28, 2013, respectively. The increase primarily resulted from \$16.6 million of transaction costs primarily associated with our pending Questcor acquisitions and increased internal and third-party costs of being an independent publicly-traded company and an \$11.5 million settlement agreement accrual, which was partially offset by certain prior year costs that did not recur in the three months ended June 27, 2014. We were allocated general corporate expenses of \$14.1 million during the three months ended June 28, 2013 for certain services provided by Covidien. These allocations ceased in periods following the completion of the Separation on June 28, 2013.

Nine Months Ended June 27, 2014 Compared with Nine Months Ended June 28, 2013

Net Sales

Net sales by segment are shown in the following table (dollars in millions):

	Nine Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
Specialty Pharmaceuticals	\$1,048.1	\$913.2	14.8	%
Global Medical Imaging	668.1	706.7	(5.5))
Net sales of operating segments	1,716.2	1,619.9	5.9	
Other ⁽¹⁾	34.9	39.4	(11.4))
Net sales	\$1,751.1	\$1,659.3	5.5	

(1) Represents products that were sold to Covidien.

Specialty Pharmaceuticals. Net sales for the nine months ended June 27, 2014 increased \$134.9 million, or 14.8%, to \$1,048.1 million, compared with \$913.2 million for the nine months ended June 28, 2013. The increase in net sales was primarily driven by a \$66.3 million increase in other controlled substances resulting from certain strategic pricing initiatives, a \$66.0 million increase in sales from Methylphenidate ER, which was launched in December 2012, and \$58.5 million of net sales from the recently acquired Ofirmev. These increases were partially offset by a \$19.3 million net sales decrease in oxycodone-related products, due to \$24.4 million of strategic customer incentive payments and lower volume, a \$30.1 million decrease in hydrocodone-related products due to lower volume from competitive pressures and a \$18.5 million decrease in branded Exalgo as we launched an authorized generic version and a competitor entered the market.

Net sales for Specialty Pharmaceuticals by geography were as follows (dollars in millions):

	Nine Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
U.S.	\$960.0	\$819.8	17.1	%
Europe, Middle East and Africa	76.2	81.2	(6.2))
Other	11.9	12.2	(2.5))

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Net sales	\$1,048.1	\$913.2	14.8
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Net sales for Specialty Pharmaceuticals by key products were as follows (dollars in millions):

	Nine Months Ended		Percentage Change	
	June 27, 2014	June 28, 2013		
Methylphenidate ER	\$154.3	\$88.3	74.7	%
Oxycodone (API) and oxycodone-containing tablets	101.7	121.0	(16.0))
Hydrocodone (API) and hydrocodone-containing tablets	75.1	105.2	(28.6))
Other controlled substances	408.6	342.3	19.4	
Other	108.8	107.1	1.6	
Specialty Generics and API	848.5	763.9	11.1	
Exalgo	73.7	92.2		