Mallinckrodt plc
Form 10-Q
May 03, 2016

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

_____

FORM 10-Q

_____

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

For the quarterly period ended March 25, 2016

or

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

For the transition period from _____ to _____

Commission File Number : 001-35803

_____

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

_____

Ireland	98-1088325
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Perth House, Millennium Way,
Chesterfield, Derbyshire S41 8ND, United Kingdom
(Address of principal executive offices) (Zip Code)

Telephone: +44 124 626 3051
(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 x No o

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

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 x	Accelerated filer o

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

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

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 - 109,325,511 shares as of April 29, 2016

MALLINCKRODT PLC
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MALLINCKRODT PLC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in millions, except per share data)

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Net sales	$918.0	$ 819.0	$1,832.8	$1,587.2
Cost of sales	438.4	356.1	861.5	719.5
Gross profit	479.6	462.9	971.3	867.7
Selling, general and administrative expenses	231.2	308.4	473.7	532.5
Research and development expenses	58.6	58.0	122.2	110.7
Restructuring charges, net	8.7	3.5	15.0	10.7
Non-restructuring impairment charges	16.9	—	16.9	—
Gains on divestiture and license	(0.2)	(0.9)	(0.3)	(1.7)
Operating income	164.4	93.9	343.8	215.5
Interest expense	(97.2)	(57.4)	(195.0)	(106.2)
Interest income	0.2	0.4	0.4	0.5
Other income (loss), net	(0.7)	4.2	1.3	8.4
Income from continuing operations before income taxes	66.7	41.1	150.5	118.2
Income tax benefit	(53.6)	(34.1)	(85.7)	(44.4)
Income from continuing operations	120.3	75.2	236.2	162.6
Income (loss) from discontinued operations, net of income taxes	(2.0)	23.6	93.2	28.9
Net income	$118.3	$ 98.8	$329.4	$191.5
Basic earnings (loss) per share (Note 7):				
Income from continuing operations	$1.08	$ 0.64	$2.09	$1.40
Income (loss) from discontinued operations	(0.02)	0.20	0.82	0.25
Net income	$1.06	$ 0.85	$2.91	$1.65
Basic weighted-average shares outstanding	111.1	115.6	113.2	115.2
Diluted earnings (loss) per share (Note 7):				
Income from continuing operations	$1.07	$ 0.64	$2.07	$1.38
Income (loss) from discontinued operations	(0.02)	0.20	0.82	0.25
Net income	$1.06	$ 0.84	$2.88	$1.62
Diluted weighted-average shares outstanding	112.0	117.2	114.2	116.8

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Net income	$118.3	$ 98.8	$329.4	$ 191.5
Other comprehensive income (loss), net of tax:				
Currency translation adjustments	8.8	(36.5)	(59.3)	(58.9)
Unrecognized gain on derivatives, net of $-, ($0.1), $- and ($0.1) tax	0.2	0.1	0.3	0.2
Unrecognized gain (loss) on benefit plans, net of $5.4, $0.4, $4.4 and ($0.1) tax	(8.8)	(0.1)	(7.0)	0.9
Total other comprehensive income (loss), net of tax	0.2	(36.5)	(66.0)	(57.8)
Comprehensive income	$118.5	$ 62.3	$263.4	$ 133.7

See Notes to Condensed Consolidated Financial Statements.

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

	March 25, 2016	September 25, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$341.4	$ 365.9
Accounts receivable, less allowance for doubtful accounts of $6.5 and $4.7	503.5	548.5
Inventories	377.1	281.8
Deferred income taxes	116.3	142.7
Prepaid expenses and other current assets	205.6	207.3
Current assets held for sale	1.0	299.9
Total current assets	1,544.9	1,846.1
Property, plant and equipment, net	999.4	991.3
Goodwill	3,645.3	3,649.4
Intangible assets, net	9,425.3	9,666.3
Other assets	288.7	251.0
Total Assets	$15,903.6	$ 16,404.1
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$21.6	$ 22.3
Accounts payable	118.0	133.0
Accrued payroll and payroll-related costs	99.6	103.7
Accrued interest	98.3	80.2
Accrued and other current liabilities	549.5	517.4
Current liabilities held for sale	5.1	72.8
Total current liabilities	892.1	929.4
Long-term debt	6,409.6	6,474.3
Pension and postretirement benefits	132.7	116.7
Environmental liabilities	72.5	73.3
Deferred income taxes	2,872.2	3,132.4
Other income tax liabilities	118.3	121.3
Other liabilities	308.3	245.5
Total Liabilities	10,805.7	11,092.9
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; 117,875,515 and 117,513,370 issued; 109,297,161 and 116,283,149 outstanding	23.6	23.5
Ordinary shares held in treasury at cost, 8,578,354 and 1,230,221	(611.3)	(109.7)
Additional paid-in capital	5,382.4	5,357.6
Retained earnings	368.3	38.9
Accumulated other comprehensive income	(65.1)	0.9

Total Shareholders' Equity	5,097.9	5,311.2
Total Liabilities and Shareholders' Equity	$15,903.6	$ 16,404.1

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	March 25, 2016	March 27, 2015
Cash Flows From Operating Activities:		
Net income	$329.4	$191.5
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	417.5	301.2
Share-based compensation	19.8	65.9
Deferred income taxes	(224.0)	(124.2)
Non-cash impairment charges	16.9	—
Gain on disposal of discontinued operations	(97.4)	—
Other non-cash items	9.2	(59.6)
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable, net	50.6	(29.8)
Inventories	1.3	42.3
Accounts payable	(16.2)	19.1
Income taxes	71.9	82.3
Other	(38.9)	(123.2)
Net cash provided by operating activities	540.1	365.5
Cash Flows From Investing Activities:		
Capital expenditures	(91.4)	(55.1)
Acquisitions and intangibles, net of cash acquired	(170.1)	—
Proceeds from disposal of discontinued operations, net of cash	269.8	—
Restricted cash	21.1	0.4
Other	4.6	1.7
Net cash provided by (used in) investing activities	34.0	(53.0)
Cash Flows From Financing Activities:		
Issuance of external debt	78.4	80.0
Repayment of external debt and capital leases	(151.5)	(63.5)
Excess tax benefit from share-based compensation	—	20.2
Debt financing costs	(0.1)	(0.4)
Proceeds from exercise of share options	6.3	20.6
Repurchase of shares	(501.6)	(12.3)
Other	(30.0)	(4.0)
Net cash (used in) provided by financing activities	(598.5)	40.6
Effect of currency rate changes on cash	(0.1)	(7.4)
Net increase in cash and cash equivalents	(24.5)	345.7
Cash and cash equivalents at beginning of period	365.9	707.8
Cash and cash equivalents at end of period	$341.4	$1,053.5

See Notes to Condensed Consolidated Financial Statements.

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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 25, 2015	117.5	$ 23.5	1.2	$ (109.7)	$ 5,357.6	$ 38.9	$ 0.9	$ 5,311.2
Net income	—	—	—	—	—	329.4	—	329.4
Currency translation adjustments	—	—	—	—	—	—	(59.3)	(59.3)
Change in derivatives, net of tax	—	—	—	—	—	—	0.3	0.3
Minimum pension liability, net of tax	—	—	—	—	—	—	(7.0)	(7.0)
Share options exercised	0.2	0.1	—	—	6.2	—	—	6.3
Vesting of restricted shares	0.2	—	—	—	—	—	—	—
Excess tax benefit from share-based compensation	—	—	—	—	(1.2)	—	—	(1.2)
Share-based compensation	—	—	—	—	19.8	—	—	19.8
Repurchase of shares	—	—	7.4	(501.6)	—	—	—	(501.6)
Balance at March 25, 2016	117.9	$ 23.6	8.6	$ (611.3)	$ 5,382.4	$ 368.3	$ (65.1)	$ 5,097.9

See Notes to Condensed Consolidated Financial Statements.

MALLINCKRODT PLC
NOTES TO CONDENSED CONSOLIDATED 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 business that develops, manufactures, markets and distributes branded and generic specialty pharmaceutical and biopharmaceutical products and therapies and nuclear medicine products. Therapeutic areas of focus include autoimmune and rare disease specialty areas (including neurology, rheumatology, nephrology and pulmonology); immunotherapy and neonatal critical care respiratory therapies; hemostasis products; and central nervous system drugs. The Company also supports the diagnosis of disease with nuclear medicine products.

The Company operates in three reportable segments, which are further described below:

- Specialty Brands produces and markets branded pharmaceutical and biopharmaceutical products and therapies;
- Specialty Generics produces specialty generic pharmaceuticals and active pharmaceutical ingredients ("API") consisting of biologics, medicinal opioids, synthetic controlled substances, acetaminophen and other active ingredients; and
- Nuclear Imaging manufactures and markets radiopharmaceuticals (nuclear medicine).

The Company owns or has rights to use the trademarks and trade names that are used in conjunction with the operation of its business. One of the more important trademarks that the Company owns or has 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, the Company only uses the ™ or ® symbols the first time any trademark or trade name is mentioned in the following notes. Such references are not intended to indicate in any way that the Company will not assert, to the fullest extent permitted under applicable law, its rights to its trademarks and trade names. Each trademark or trade name of any other company appearing in the following discussion is, to the Company's knowledge, owned by such other company.

Basis of Presentation

The unaudited condensed consolidated 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 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 financial statements include the accounts of Mallinckrodt plc, 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 financial statements up to the date of disposal and, where appropriate, these operations have been reflected as discontinued operations. Divestitures of product lines and businesses that did not qualify as discontinued operations 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 was derived from audited consolidated financial statements, but do not include all of the annual disclosures required by GAAP; accordingly, these unaudited condensed consolidated 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 for the period ended September 25, 2015, filed with the SEC on November 24, 2015.

The Company completed the sale of the contrast media and delivery systems ("CMDS") business on November 27, 2015. As a result, prior year balances have been recast to present the CMDS business as a discontinued operation.

Beginning in the first quarter of fiscal year 2016, the Company revised the presentation of certain medical affairs costs to better align with industry practice, which were previously included in selling, general and administrative ("SG&A") expenses and are now included in research and development ("R&D") expenses. As a result, $12.3 million and $23.5 million of expenses previously included in SG&A for the three and six months ended March 27, 2015, respectively, have been classified as R&D expenses to conform to this change. No other financial statement line items were impacted by this change in classification.

Fiscal Year

The Company reports its results based on a "52-53 week" year ending on the last Friday of September. The second fiscal quarters of 2016 and 2015 ended on March 25, 2016 and March 27, 2015, respectively. Unless otherwise indicated, the three and six months ended March 25, 2016 refers to the thirteen and twenty-six week period ended March 25, 2016 and the three and six months ended March 27, 2015 refers to the thirteen and twenty-six week period ended March 27, 2015. The full year fiscal 2015 consisted of 52 weeks, while fiscal 2016 will consist of 53 weeks and will end on September 30, 2016.

2. Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Stock Compensation," in March 2016. This update simplifies several aspects of the accounting for share-based payment award transactions. This guidance is effective for the Company in the first quarter of fiscal 2018. The Company is assessing the potential impact of the guidance.

The FASB issued ASU 2016-02, "Leases," in February 2016. This update was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). This guidance is effective for the Company in the first quarter of fiscal 2020. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is assessing the potential impact of this guidance.

The FASB issued ASU 2015-17, "Balance Sheet Reclassification of Deferred Taxes," in November 2015. This update eliminates the current requirement to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as non-current. This guidance is effective for the Company in the first quarter of fiscal 2018. The Company anticipates certain reclassifications on its consolidated balance sheet are anticipated upon adoption.

The FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments," in September 2015. This update requires an acquirer to recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjusting amounts are determined. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for the Company in the first quarter of fiscal 2017. The update is not expected to have a material impact for our historical acquisitions.

3. Discontinued Operations

CMDS

On November 27, 2015, the Company completed the sale of the CMDS business to Guerbet S.A. ("Guerbet") for cash consideration of approximately $270.0 million, subject to net working capital adjustments. The CMDS business was eliminated from the Global Medical Imaging segment, which was renamed Nuclear Imaging.

Subsequent to the sale of the CMDS business, the Company has and will continue to supply certain products under a supply agreement with Guerbet.

The following table summarizes the financial results of the CMDS discontinued operations for the three and six months ended March 25, 2016 and March 27, 2015 as presented in the consolidated statements of operations and comprehensive income:

Major line items constituting income (loss) from discontinued operations	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Net sales	$1.1	$ 103.3	$60.3	$ 209.9
Cost of sales	1.4	77.7	46.2	150.4
Selling, general and administrative expenses	1.9	22.8	20.1	50.0
Other	—	1.6	1.1	2.6
(Loss) income from discontinued operations	(2.2)	1.2	(7.1)	6.9
Gain on disposal of discontinued operations	0.3	—	97.3	—
(Loss) Income from discontinued operations, before income taxes	(1.9)	1.2	90.2	6.9
Income tax (benefit) expense	(0.2)	(0.1)	(2.9)	0.9
(Loss) income from discontinued operations net of tax	$(1.7)	$ 1.3	$93.1	$ 6.0

Income tax benefit of $0.2 million is predominately associated with the $2.2 million loss from discontinued operations for the three months ended March 25, 2016. The gain on disposal of discontinued operations resulted in $8.6 million of tax expense, of which $10.0 million tax expense was recognized during the three months ended September 25, 2015, offset by $1.4 million of tax benefit recognized during the three months ended December 25, 2015. The $8.6 million of tax expense was favorably impacted by receiving a benefit from permanently deductible items. Income tax benefit of $2.9 million is predominately associated with the $7.1 million loss from discontinued operations for the six months ended March 25, 2016.

The following table summarizes the assets and liabilities of the CMDS business that are classified as held for sale on the consolidated balance sheets as of March 25, 2016 and September 25, 2015:

	March 25, 2016	September 25, 2015
Carrying amounts of major classes of assets included as part of discontinued operations		
Accounts receivable	$ 0.9	$ 68.5
Inventories	0.1	86.3
Property, plant and equipment, net	—	60.3
Intangible assets, net	—	27.7
Other current and non-current assets	—	57.1
Total assets classified as held for sale in the balance sheet	$ 1.0	$ 299.9
Carrying amounts of major classes of liabilities included as part of discontinued operations		
Accounts payable	$ —	$ 22.0
Other current and non-current liabilities	5.1	50.8
Total liabilities classified as held for sale in the balance sheet	$ 5.1	$ 72.8

The following table summarizes significant cash and non-cash transactions of the CMDS business that are included within the consolidated statements of cash flows for the respective periods:

	Six Months Ended	
	March 25, 2016	March 27, 2015

Depreciation	$ —	$ 5.9
Amortization	—	1.4
Capital expenditures	1.6	3.4

All other notes to the consolidated financial statements that were impacted by this discontinued operation have been reclassified accordingly.

Mallinckrodt Baker: During fiscal 2010, the Specialty Chemicals business (formerly known as "Mallinckrodt Baker") was sold because its products and customer base were not aligned with the Company's long-term strategic objectives. This business met the discontinued operations criteria and, accordingly, was included in discontinued operations for all periods presented. During the three months ended March 25, 2016 and March 27, 2015 the Company recorded losses, net of tax, of $0.3 million and $0.2 million, respectively. During the six months ended March 25, 2016 and March 27, 2015, the Company recorded gains, net of tax, of $0.1 million and $0.4 million, respectively. These gains were primarily related to the indemnification obligations to the purchaser, which are discussed in Note 15.
Other: The Company previously accrued a liability, to the purchaser of a certain legal entity, to indemnify them for tax obligations that may have arisen should the tax basis of certain assets they acquired not be recognized. The Company believes that, under the terms of the agreement between the parties, this indemnification obligation has expired. As such, the Company eliminated this liability and recorded a $22.5 million benefit, during fiscal 2015, in discontinued operations within the consolidated and combined statement of income.

4. Acquisitions and License Agreements

Business Acquisitions

Hemostasis Products

On February 1, 2016, the Company acquired three commercial stage topical hemostasis drugs from The Medicines Company ("the Hemostasis Acquisition") - RECOTHROM® Thrombin topical (Recombinant), PreveLeak™ Surgical Sealant, and RAPLIXA™ (Fibrin Sealant (Human)) - for upfront consideration of $174.1 million, inclusive of existing inventory, and contingent milestone payments that could result in up to $395.0 million of additional consideration. The fair value of the contingent consideration and acquired contingent liabilities associated with the transaction are $52.0 million and $10.6 million, respectively. The Hemostasis Acquisition was funded through cash on hand.

Therakos, Inc.

On September 25, 2015, the Company acquired Therakos, Inc. ("Therakos") through acquisition of all outstanding common stock of TGG Medical Solutions, Inc., the parent holding company of Therakos, in a transaction valued at approximately $1.3 billion, net of cash acquired ("the Therakos Acquisition"). Consideration for the transaction consisted of approximately $1.0 billion in cash paid to TGG Medical Solutions, Inc. shareholders and the assumption of approximately $0.3 billion of Therakos third-party debt, which was repaid in conjunction with the Therakos Acquisition. The acquisition and repayment of debt was funded through the issuance of $750.0 million aggregate principal amount of senior unsecured notes, a $500.0 million borrowing under the Company's revolving credit facility and cash on hand. Therakos' primary immunotherapy products relate to the administering of extracorporeal photopheresis therapies through its UVAR XTS® and Cellex™ Photopheresis Systems.

Ikaria, Inc.

On April 16, 2015, the Company acquired Ikaria, Inc. ("Ikaria") through acquisition of all outstanding common stock of Compound Holdings II, Inc., the parent holding company of Ikaria, in a transaction valued at approximately $2.3 billion, net of cash acquired ("the Ikaria Acquisition"). Consideration for the transaction consisted of approximately $1.2 billion in cash paid to Compound Holdings II, Inc. shareholders and the assumption of approximately $1.1 billion of Ikaria third-party debt, which was repaid in conjunction with the Ikaria Acquisition. The acquisition and immediate repayment of debt was funded through the issuance of $1.4 billion aggregate principal amount of senior unsecured notes, a $240.0 million borrowing under the Company's revolving credit facility, and cash on hand. Ikaria's primary product is INOMAX® (nitric oxide) gas for inhalation ("Inomax"), a vital treatment option used for neonatal critical care.

Fair Value Allocation

The following amounts represent the preliminary allocations of the fair value of the identifiable assets acquired and liabilities assumed for the Ikaria Acquisition, the Therakos Acquisition and the Hemostasis Acquisition, including preliminary goodwill, 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 twelve months from the date of the respective acquisitions. The changes in the purchase price allocation and preliminary goodwill based on the final valuation may include, but are not limited to, finalization of working capital settlements, the impact of U.S. state tax rates in determining the deferred tax balances and changes in assumptions utilized in the preliminary valuation report.

	Hemostasis Products	Therakos	Ikaria
Cash and cash equivalents	$ 3.3	$41.3	$77.3
Inventory	108.3	23.5	26.3
Intangible assets	124.0	1,170.0	1,971.0
Goodwill	0.1	430.4	795.0
Other assets, current and non-current [1]	3.4	42.1	174.3
Total assets acquired	239.1	1,707.3	3,043.9
Current liabilities	5.7	24.7	33.0
Other liabilities (non-current)	10.6	0.6	15.8
Deferred tax liabilities, net (non-current)	(3.3)	318.1	620.5
Contingent consideration	52.0	—	—
Total debt	—	344.8	1,121.0
Total liabilities assumed	65.0	688.2	1,790.3
Net assets acquired	$ 174.1	$1,019.1	$1,253.6

(1) This amount includes $0.0 million, $22.0 million and $73.8 million, of accounts receivable for the Hemostasis Acquisition, Therakos Acquisition and the Ikaria Acquisition, respectively, which is also the gross contractual value.

The following is a reconciliation of the total consideration to net assets acquired:

	Hemostasis Products	Therakos	Ikaria
Total consideration, net of cash	$ 222.8	$977.8	$1,176.3
Plus: cash assumed in acquisition	3.3	41.3	77.3
Total consideration	226.1	1,019.1	1,253.6
Less: contingent consideration	(52.0)	—	—
Net assets acquired	$ 174.1	$1,019.1	$1,253.6

Intangible assets acquired consist of the following:

Hemostasis Products	Amount	Amortization Period
Raplixa - Completed technology	$66.0	15 years
Recothrom - Completed technology	42.0	13 years
PreveLeak - Completed technology	16.0	13 years
	$124.0	

The completed technology intangible assets relate to each of the acquired drugs. The fair value of the intangible assets were determined using the income approach, which is a valuation technique that provides an estimate of fair value of the assets based on the market participant expectations of cash flows the asset would generate. The cash flows were discounted commensurate with the level of risk associated with each asset or its projected cash flows. The completed technology intangible assets utilized a discount rate of 17.5%, 16.0% and 17.5% for Raplixa, Recothrom and

PreveLeak, respectively. All assets acquired are included within the Company's Specialty Brands segment.

Therakos	Amount	Amortization Period
Completed technology	$1,170.0	15 years

The completed technology intangible asset relates to extracorporeal photopheresis treatment therapies. The fair value of the intangible asset was determined using the income approach. The cash flows were discounted commensurate with the level of risk associated with each asset or its projected cash flows. The completed technology intangible asset utilized a discount rate of 17.0%. 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, future product and device development, anticipated synergies and the tax status of the transaction. The goodwill is not deductible for U.S. income tax purposes. All assets acquired are included within the Company's Specialty Brands segment.

Ikaria	Amount	Amortization Period
Completed technology	$1,820.0	15 years
Trademark	70.0	22 years
In-process research and development - terlipressin	81.0	Non-Amortizable
	$1,971.0	

The completed technology and trademark intangible assets relate to Inomax. The fair values of the intangible assets were determined using the income approach. The cash flows were discounted at various discount rates commensurate with the level of risk associated with each asset or their projected cash flows. Completed technology, trademark and in-process research and development ("IPR&D") terlipressin intangibles utilized discount rates of 14.5%, 14.5%, and 17.0%, respectively. The IPR&D discount rate, for terlipressin, was developed after assigning a probability of success to achieving the projected cash flows based on the current stage of development, inherent uncertainty in the FDA approval process and risks associated with commercialization of a new product. 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, future product and device development, anticipated synergies and the tax status of the transaction. The goodwill is not deductible for U.S. income tax purposes. All assets acquired are included within the Company's Specialty Brands segment.

Financial Results

The amount of net sales and earnings included in the Company's results for the periods presented were as follows:

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Net sales				
Therakos	$50.2	$—	$100.6	$—
Ikaria	119.7	—	234.3	—
	$169.9	$—	$334.9	$—
Operating income				
Therakos	$4.2	$—	$(6.9)	$—
Ikaria	49.2	—	91.4	—
	$53.4	$—	$84.5	$—

The Hemostasis Acquisition was not material to the Company's consolidated results of operations for the periods presented and therefore disclosures for this acquisition have not been provided.

The amount of amortization on acquired intangible assets included within operating income for the periods presented was as follows:

	Three Months Ended	Six Months Ended

	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Intangible asset amortization				
Therakos	$ 19.5	$ —	$ 39.0	$ —
Ikaria	31.2	—	62.3	—
	$ 50.7	$ —	$ 101.3	$ —

The amount of acquisition-related costs included within operating income for the periods presented was as follows:

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Acquisition-related costs				
Hemostasis products	$1.6	$ —	$2.5	$ —
Therakos	0.3	—	0.3	—
Ikaria	—	7.1	0.2	7.1
	$1.9	$ 7.1	$3.0	$ 7.1

During the three months ended March 25, 2016 and March 27, 2015, the Company recognized $2.1 million and $4.4 million, respectively, of expense primarily associated with fair value adjustments of acquired inventory. During the six months ended March 25, 2016 and March 27, 2015, the Company recognized $18.3 million and $35.2 million, respectively, of expense primarily associated with fair value adjustments of acquired inventory.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presents a summary of the combined results of operations for the periods indicated as if the acquisition of Questcor Pharmaceuticals, Inc. ("Questcor") had been completed as of September 29, 2012 and the Ikaria Acquisition and Therakos Acquisition as of September 28, 2013. The Hemostasis Acquisition was not material to the Company's consolidated financial statements and thus the effect of this acquisition is not included in the pro forma financial information presented below.

The pro forma financial information is based on the historical financial information for the Company, Questcor, Ikaria and Therakos, 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 acquisitions;
- increased amortization expense related to the intangible assets acquired in the acquisitions;
- increased interest expense to reflect the fixed-rate notes entered into in connection with the Therakos Acquisition (utilizing the interest rate of 5.625%), the fixed-rate notes entered into in connection with the Ikaria Acquisition (utilizing the interest rates of 4.875% and 5.50%) and the borrowings under the variable-rate revolving credit facility (utilizing the interest in effect at the acquisition date of 2.58%), including interest and amortization of deferred financing costs and original issue discount; and
- the related income tax effects.

The following unaudited pro forma financial 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 acquisitions occurred on the assumed dates, nor is it necessarily an indication of future operating results. In addition, the unaudited pro forma financial information does not reflect the cost of any integration activities, benefits from any synergies that may be derived from the acquisitions or net sales growth that may be anticipated.

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Net sales	$918.0	$ 969.2	$1,832.8	$1,886.9
Income from continuing operations	120.5	84.6	246.5	179.6
Basic earnings per share from continuing operations	$1.08	$ 0.73	$2.18	$1.56
Diluted earnings per share from continuing operations	1.08	0.72	2.16	1.54

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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 all segments, as well as within corporate functions. The Company expected 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, which are expected to be substantially completed by the end of fiscal 2016. In addition to the 2013 Mallinckrodt Program, the Company has taken restructuring actions to generate synergies from its acquisitions.

Net restructuring and related charges within continuing operations by segment are as follows:

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Specialty Brands	$8.0	$ 0.9	$9.6	$ 15.1
Specialty Generics	0.6	2.7	1.7	2.7
Nuclear Imaging	0.3	—	2.5	(7.3)
Corporate	1.5	—	3.0	0.4
Restructuring and related charges, net	10.4	3.6	16.8	10.9
Less: accelerated depreciation	(1.7)	(0.1)	(1.8)	(0.2)
Restructuring charges, net	$8.7	$ 3.5	$15.0	$ 10.7

Net restructuring and related charges by program within continuing operations are comprised of the following:

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
2013 Mallinckrodt Program	$8.4	$ 2.7	$14.1	$(2.2)
Acquisitions	2.0	0.9	2.7	13.1
Total	10.4	3.6	16.8	10.9
Less: non-cash charges, including accelerated share-based compensation expense	(1.7)	(1.0)	(1.8)	(7.9)
Total charges expected to be settled in cash	$8.7	$ 2.6	$15.0	$3.0

Non-cash charges during the three and six months ended March 27, 2015 included $0.9 million and $7.7 million of accelerated share-based compensation expense related to employee terminations, primarily associated with the acquisition of Questcor.

The following table summarizes cash activity for restructuring reserves, substantially all of which are related to employee severance and benefits:

	2013 Mallinckrodt Program	Acquisitions	Total
Balance at September 25, 2015	$ 8.0	$ 10.0	$18.0
Charges	12.5	3.5	16.0
Changes in estimate	(0.2)	(0.8)	(1.0)
Cash payments	(7.9)	(8.7)	(16.6)
Reclassifications [1]	(1.4)	—	(1.4)
Balance at March 25, 2016	$ 11.0	$ 4.0	$15.0

(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 Brands	$10.9
Specialty Generics	17.3
Nuclear Imaging (including CMDS)	69.9
Corporate	13.0
	$111.1

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 $53.6 million and $34.1 million on income from continuing operations before income taxes of $66.7 million and $41.1 million for the three months ended March 25, 2016 and March 27, 2015, respectively. This resulted in effective tax rates of negative 80.4% and negative 83.0% for the three months ended March 25, 2016 and March 27, 2015, respectively. The Company recognized income tax benefits of $85.7 million and $44.4 million on income from continuing operations before income taxes of $150.5 million and $118.2 million for the six months ended March 25, 2016 and March 27, 2015, respectively. This resulted in effective tax rates of negative 56.9% and negative 37.6% for the six months ended March 25, 2016 and March 27, 2015, respectively.

The effective tax rate for the three months ended March 25, 2016, as compared with the three months ended March 27, 2015 increased by 2.6 percentage points. Included within this net increase was a 17.1 percentage point increase attributable to diminutive income from continuing operations before taxes for the three months ended March 27, 2015, partially offset by a 14.5 percentage point decrease predominately due to recent acquisitions, which resulted in more income in lower tax rate jurisdictions and less income in the higher tax rate U.S. jurisdiction relative to income in all jurisdictions. The change in the lower tax rate jurisdictions was primarily attributable to increased operating income partially offset by amortization. The change in the U.S. jurisdiction was primarily attributable to increased amortization and the cost of financing recent acquisitions. Of the 14.5 percentage point decrease to the tax rate, 9.5 percentage points can be attributed to the change in operating income and 5.0 percentage points related to changes in acquisition financing and amortization, as well as other non-acquisition related items.

The effective tax rate for the six months ended March 25, 2016, as compared with the six months ended March 27, 2015 decreased by 19.3 percentage points. This net decrease was predominately due to recent acquisitions, which resulted in more income in lower tax rate jurisdictions and less income in the higher tax rate U.S. jurisdiction relative to income in all jurisdictions. The change in the lower tax rate jurisdictions was primarily attributable to increased operating income partially offset by amortization. The change in the U.S. jurisdiction was primarily attributable to increased amortization and the cost of financing recent acquisitions. Of the 19.3 percentage point decrease to the tax rate, 12.8 percentage points can be attributed to the change in operating income and 6.5 percentage points related to changes in acquisition financing and amortization, as well as other non-acquisition related items.

As a part of the Ikaria integration, the Company entered into an internal installment sale transaction during the three months ended December 25, 2015. The Ikaria internal installment sale transaction resulted in a decrease of $537.6 million to the deferred tax liability associated with the Inomax and terlipressin intangible assets, a $521.9 million increase to the deferred tax liability associated with an installment sale note receivable, a $42.8 million increase to the current income tax liability, a $26.0 million increase to deferred tax charges and a $1.1 million increase to prepaid taxes.

As part of the Therakos integration, the Company entered into an internal installment sale transaction during the three months ended December 25, 2015. The Therakos internal installment sale transaction resulted in a decrease of $268.5 million to the deferred tax liability associated with the Cellex and XTS intangible assets, a $251.5 million increase to the deferred tax liability associated with an installment sale note receivable, a $17.3 million increase to the current income tax liability and a $0.3 million increase to prepaid taxes.

The Hemostasis Acquisition resulted in a net deferred tax asset increase of $1.2 million. Significant components of this increase include $26.1 million of deferred tax assets associated with net operating losses partially offset by $22.5 million of deferred tax liabilities associated with intangibles and $2.1 million associated with inventory.

During the three and six months ended March 25, 2016, the Company recognized an income tax benefit of $0.2 million and $2.9 million associated with the CMDS business, as discussed in Note 3, in discontinued operations within the unaudited condensed consolidated statement of income. As a result of the sale, the Company recognized a deferred tax asset for non-U.K. net operating losses of $29.5 million and a corresponding valuation allowance, which

resulted in no net impact on income tax expense or benefit.

The Company's unrecognized tax benefits, excluding interest, totaled $94.5 million at March 25, 2016 and $89.2 million at September 25, 2015. The net increase of $5.3 million primarily resulted from a net increase to current year activity of $10.0 million, which was partially offset by decreases from settlements of $1.9 million, net decreases to prior period tax positions of $1.9 million, and a decrease from a lapse of statute of limitations of $0.9 million. If favorably settled, $92.7 million of unrecognized tax benefits at March 25, 2016 would favorably impact the effective tax rate. The total amount of accrued interest related to these obligations was $37.4 million at March 25, 2016 and $41.7 million at September 25, 2015.

On January 19, 2016, Tyco International plc ("Tyco International") announced it had entered into an agreement with the IRS to resolve certain disputes currently before the U.S. Tax Court. The disputes involve IRS audits of Tyco International for years in which companies that are now subsidiaries of Mallinckrodt were subsidiaries of Tyco International. Mallinckrodt is not a participant in the tax sharing agreement between Medtronic plc (as successor to Covidien plc), Tyco International and TE Connectivity and will not share in or be responsible for any payments to be made under the terms of the tentative resolution.

It is reasonably possible that within the next twelve months, as a result of the resolution of various domestic and international examinations, appeals and litigation, additions related to prior period tax positions and the expiration of various statutes of limitation, that the unrecognized tax benefits will decrease by up to $37.6 million and the amount of related interest and penalties will decrease by up to $29.6 million. Included within such amounts are possible releases associated with the final settlement of the Tyco-controlled debt litigation.

7. Earnings per Share

In fiscal 2015, basic and diluted earnings per share were computed using the two-class method. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating securities according to dividends declared and participation rights in undistributed earnings. The Company's restricted stock awards, issued in conjunction with the acquisition of Questcor in August 2014, were considered participating securities as holders were entitled to receive non-forfeitable dividends during the vesting term. Diluted earnings per share includes securities that could potentially dilute basic earnings per share during a reporting period, for which the Company includes all share-based compensation awards other than participating securities. Dilutive securities, including participating securities, are not included in the computation of loss per share when the Company reports a net loss from continuing operations as the impact would be anti-dilutive.

In fiscal 2016, following the September 2015 vesting of substantially all restricted stock issued in conjunction with the acquisition of Questcor, the Company utilized the treasury stock method in calculating diluted earnings per share.

Basic earnings per share was computed by dividing net income by the number of weighted-average shares outstanding during the period. Diluted earnings per share was computed using the weighted-average shares outstanding and, if dilutive, potential ordinary shares outstanding during the period.

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Earnings (loss) per share numerator:				
Income from continuing operations attributable to common shareholders before allocation of earnings to participating securities	$120.3	$75.2	$236.2	$162.6
Less: earnings allocated to participating securities	—	0.7	—	1.6
Income from continuing operations attributable to common shareholders, after earnings allocated to participating securities	120.3	74.5	236.2	161.0
Income (loss) from discontinued operations	(2.0)	23.6	93.2	28.9
Less: earnings from discontinued operations allocated to participating securities	—	0.2	—	0.3
Income (loss) from discontinued operations attributable to common shareholders, after allocation of earnings to participating securities	(2.0)	23.4	93.2	28.6
Net income attributable to common shareholders, after allocation of earnings to participating securities	$118.3	$97.9	$329.4	$189.6
Earnings (loss) per share denominator:				
Weighted-average shares outstanding - basic	111.1	115.6	113.2	115.2
Impact of dilutive securities	0.9	1.6	1.0	1.6

Weighted-average shares outstanding - diluted	112.0	117.2	114.2	116.8
Basic earnings (loss) per share attributable to common shareholders				
Income from continuing operations	$1.08	$0.64	$2.09	$1.40
Income (loss) from discontinued operations	(0.02)	0.20	0.82	0.25
Net income attributable to common shareholders	$1.06	$0.85	$2.91	$1.65
Diluted earnings (loss) per share attributable to common shareholders				
Income from continuing operations	$1.07	$0.64	$2.07	$1.38
Income (loss) from discontinued operations	(0.02)	0.20	0.82	0.25
Net income attributable to common shareholders	$1.06	$0.84	$2.88	$1.62

The computation of diluted earnings per share for the three and six months ended March 25, 2016 excludes approximately 1.4 million of equity awards because the effect would have been anti-dilutive. There were no anti-dilutive equity awards excluded from the computation of diluted earnings per share for the three and six months ended March 27, 2015.

8. Inventories

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

	March 25, 2016	September 25, 2015
Raw materials and supplies	$ 73.8	$ 66.3
Work in process	208.2	124.2
Finished goods	95.1	91.3
	$ 377.1	$ 281.8

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:

	March 25, 2016	September 25, 2015
Property, plant and equipment, gross	$1,938.3	$ 1,870.6
Less: accumulated depreciation	(938.9)	(879.3)
Property, plant and equipment, net	$999.4	$ 991.3

Depreciation expense for property, plant and equipment was $36.8 million and $24.2 million during the three months ended March 25, 2016 and March 27, 2015, respectively. Depreciation expense for property, plant and equipment was $67.2 million and $46.2 million during the six months ended March 25, 2016 and March 27, 2015, respectively.

10. Goodwill and Intangible Assets

The gross carrying amount and accumulated impairment of goodwill by segment at the end of each period were as follows:

	March 25, 2016		September 25, 2015	
	Gross Carrying Amount	Accumulated Impairment	Gross Carrying Amount	Accumulated Impairment
Specialty Brands	$3,438.3	$ —	$3,442.4	$ —
Specialty Generics	207.0	—	207.0	—
Nuclear Imaging	119.5	(119.5)	119.5	(119.5)
Total	$3,764.8	$ (119.5)	$3,768.9	$ (119.5)

During the six months ended March 25, 2016, the gross carrying value of goodwill within the Specialty Brands segment decreased by $4.1 million. The decrease was primarily attributable to changes in tax balances in the purchase price allocations, which included a decrease of $6.2 million from the Therakos Acquisition offset by an increase of $2.6 million from the Ikaria Acquisition. The remaining decrease in goodwill is attributed to a favorable net working capital settlement from the Therakos Acquisition offset by goodwill from the Hemostasis Acquisition.

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

	March 25, 2016		September 25, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable:				
Completed technology	$10,020.1	$ 1,104.4	$9,896.0	$ 765.8
Licenses	185.1	106.1	185.1	99.8
Customer relationships	28.3	6.1	28.1	4.4
Trademarks	82.2	8.1	82.1	6.2
Other	6.7	6.7	6.7	6.7
Total	$10,322.4	$ 1,231.4	$10,198.0	$ 882.9
Non-Amortizable:				
Trademarks	$35.0		$35.0	
In-process research and development	299.3		316.2	
Total	$334.3		$351.2	

During the three months ended March 25, 2016, the Company recorded impairment charges totaling $16.9 million related to certain Specialty Brands in-process research and development intangible assets acquired as part of the CNS Therapeutics acquisition in fiscal 2013. The valuation method used to approximate fair value was based on the estimated discounted cash flows for the respective asset, and the impairment charges resulted from delays in anticipated FDA approval, higher than expected development costs and lower than previously anticipated commercial opportunities.

Intangible asset amortization expense within continuing operations was $175.0 million and $122.9 million during the three months ended March 25, 2016 and March 27, 2015, respectively. Intangible asset amortization expense within continuing operations was $348.4 million and $247.7 million during the six months ended March 25, 2016 and March 27, 2015, respectively. The estimated aggregate amortization expense on intangible assets owned by the Company is expected to be as follows:

Remainder of fiscal 2016	$353.0
Fiscal 2017	700.8
Fiscal 2018	691.8
Fiscal 2019	691.5
Fiscal 2020	691.3

11. Debt

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

	March 25, 2016		September 25, 2015	
	Principal	Unamortized Discount and Debt Issuance Costs	Principal	Unamortized Discount and Debt Issuance Costs
Current maturities of long-term debt:				
Term loan due March 2021	$20.0	$ 0.4	$20.0	$ —
4.00% term loan due February 2022	1.0	—	1.0	—
Capital lease obligation and vendor financing agreements	1.0	—	1.3	—
Total current debt	22.0	0.4	22.3	—
Long-term debt:				
Variable-rate receivable securitization	215.0	0.7	153.0	0.8
3.50% notes due April 2018	300.0	1.4	300.0	1.7
4.875% notes due April 2020	700.0	10.0	700.0	11.3
Term loan due March 2021	1,948.5	39.6	1,958.5	44.1
4.00% term loan due February 2022	6.4	—	6.9	—
9.50% debentures due May 2022	10.4	—	10.4	—
5.75% notes due August 2022	884.0	13.1	900.0	14.4
8.00% debentures due March 2023	4.4	—	4.4	—
4.75% notes due April 2023	600.0	6.7	600.0	7.1
5.625% notes due October 2023	740.0	12.7	750.0	13.7
5.50% notes due April 2025	700.0	11.2	700.0	11.9
Revolving credit facility	400.0	4.3	500.0	4.9
Capital lease obligation and vendor financing agreements	0.6	—	1.0	—
Total long-term debt	6,509.3	99.7	6,584.2	109.9
Total debt	$6,531.3	$ 100.1	$6,606.5	$ 109.9

The Company's debt instruments are further described within the Notes to the Financial Statements included within the Company's Annual Report filed on Form 10-K for the fiscal year ended September 25, 2015.

As of March 25, 2016, the applicable interest rate on outstanding borrowings under the Company's revolving credit facility was approximately 2.88%, and there were $400.0 million outstanding borrowings. As of March 25, 2016, the applicable interest rate on outstanding borrowings under the variable-rate receivable securitization was 1.23%, and outstanding borrowings totaled $215.0 million. At March 25, 2016, the weighted-average interest rate for the term loan due March 2021 was 3.34%, and outstanding borrowings totaled $1,968.5 million.

As of March 25, 2016, the Company continues to be in full compliance with the provisions and covenants associated with its debt agreements.

12. Retirement Plans

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

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Service cost	$1.0	$ 1.2	$2.0	$2.4
Interest cost	4.2	4.4	8.4	8.9
Expected return on plan assets	(5.1)	(5.7)	(10.2)	(11.5)

Amortization of net actuarial loss	2.6	2.4	5.2	4.7
Amortization of prior service (credit)	(0.1)	(0.2)	(0.2)	(0.4)
Plan settlements	3.7	1.2	3.7	1.2
Net periodic benefit cost	$6.3	$ 3.3	$8.9	$5.3

The net periodic benefit credit for the Company's postretirement benefit plans for the three months ended March 25, 2016 and March 27, 2015 was approximately $0.1 million and $0.5 million, respectively, and for the six months ended March 25, 2016 and March 27, 2015 was approximately $0.1 million and $1.0 million, respectively.
Net periodic benefit cost (credit) for the Company's defined benefit pension plans and postretirement benefit plans was included within cost of sales; research and development; and selling, general and administrative expenses on the unaudited condensed consolidated statements of income.

13. Accumulated Other Comprehensive Income

The following summarizes the change in accumulated other comprehensive income for the six months ended March 25, 2016:

	Currency Translation	Unrecognized Gain (Loss) on Derivatives	Unrecognized Gain (Loss) on Benefit Plans	Accumulated Other Comprehensive Income
Balance at September 25, 2015	$ 60.2	$ (6.4)	$ (52.9)	$ 0.9
Other comprehensive income before reclassifications	(0.6)	—	(12.4)	(13.0)
Amounts reclassified from accumulated other comprehensive income	(58.7)	0.3	5.4	(53.0)
Net current period other comprehensive income (loss)	(59.3)	0.3	(7.0)	(66.0)
Balance at March 25, 2016	$ 0.9	$ (6.1)	$ (59.9)	$ (65.1)

The following summarizes reclassifications out of accumulated other comprehensive income for the three and six months ended March 25, 2016:

	Amount Reclassified from Accumulated Other Comprehensive Income		Line Item in the Unaudited Condensed Consolidated Statement of Income
	Three Months Ended March 25, 2016	Six Months Ended March 25, 2016	
Amortization of unrealized gain on derivatives	$ 0.2	$ 0.3	Interest expense
Income tax provision	—	—	Income tax benefit
Net of income taxes	0.2	0.3	
Amortization of pension and post-retirement benefit plans:			
Net actuarial loss	2.6	5.2	(1)
Prior service credit	(0.7)	(1.3)	(1)
Disposal of discontinued operations	—	0.8	Income from discontinued operations, net of income taxes
Plan settlements	3.7	3.7	(1)
Total before tax	5.6	8.4	
Income tax provision	(2.0)	(3.0)	Income tax benefit

Net of income taxes	3.6	5.4	
Currency translation	—	(58.7)	Income from discontinued operations, net of income taxes
Total reclassifications for the period	$ 3.8	$ (53.0)	

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

The following summarizes the change in accumulated other comprehensive income for the six months ended March 27, 2015:

	Currency Translation	Unrecognized Gain (Loss) on Derivatives	Unrecognized Gain (Loss) on Benefit Plans	Accumulated Other Comprehensive Income
Balance at September 26, 2014	$ 131.0	$ (6.8)	$ (58.5)	$ 65.7
Other comprehensive income before reclassifications	(58.9)	—	(1.3)	(60.2)
Amounts reclassified from accumulated other comprehensive income	—	0.2	2.2	2.4
Net current period other comprehensive income (loss)	(58.9)	0.2	0.9	(57.8)
Balance at March 27, 2015	$ 72.1	$ (6.6)	$ (57.6)	$ 7.9

The following summarizes reclassifications out of accumulated other comprehensive income for the three and six months ended March 27, 2015:

	Amount Reclassified from Accumulated Other Comprehensive Income		
	Three Months Ended March 27, 2015	Six Months Ended March 27, 2015	Line Item in the Unaudited Condensed Consolidated Statement of Income
Amortization of unrealized gain on derivatives	$ 0.2	$ 0.3	Interest expense
Income tax provision	(0.1)	(0.1)	Income tax benefit
Net of income taxes	0.1	0.2	
Amortization of pension and post-retirement benefit plans:			
Net actuarial loss	2.4	4.7	(1)
Prior service credit	(1.2)	(2.3)	(1)
Plan settlements	1.2	1.2	(1)
Total before tax	2.4	3.6	
Income tax provision	(0.9)	(1.4)	Income tax benefit
Net of income taxes	1.5	2.2	
Total reclassifications for the period	$ 1.6	$ 2.4	

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

14. Equity

Share Repurchases

On November 19, 2015, our Board of Directors authorized a $500.0 million share repurchase program (the "November 2015 Program"). The November 2015 Program commenced after the $300.0 million share repurchase program authorized by our Board of Directors on January 23, 2015 (the "January 2015 Program") was completed in the first fiscal quarter of 2016. On March 16, 2016, our Board of Directors authorized an additional $350.0 million share repurchase program (the "March 2016 Program") which will commence upon the completion of the November 2015 Program. These programs have no time limit or expiration date, and the Company currently expects to fully utilize each program.

	March 2016 Repurchase Program	November 2015 Repurchase Program		January 2015 Repurchase Program	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Authorized repurchase amount		$ 350.0		$ 500.0		$ 300.0
Repurchases:						
Fiscal 2015	—	—	—	—	823,592	75.0
Fiscal 2016	—	—	4,127,777	275.0	3,199,279	225.0
Remaining amount available		$ 350.0		$ 225.0		$ —

The Company also repurchases shares from employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted shares. In addition, the Company repurchases shares to settle certain option exercises.

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 resolutions will not have a material adverse effect on its financial condition, results of operations and cash flows.

In connection with the sale of 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 March 25, 2016 and September 25, 2015 was $15.5 million and $15.7 million, respectively, of which $12.8 million and $13.0 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 value at March 25, 2016 and September 25, 2015. As of March 25, 2016, the maximum future payments the Company could be required to make under these indemnification obligations were $71.0 million. The Company was required to pay $30.0 million into an escrow account as collateral to the purchaser, of which $19.0 million remained in other assets on the unaudited condensed consolidated balance sheets at March 25, 2016 and September 25, 2015.

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 also liable for product performance; however, the Company believes, given the information currently available, that their ultimate resolutions 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 surety bond. As of March 25, 2016, the Company had various other letters of credit, guarantees and surety bonds totaling $35.0 million.

In April 2015, the Company terminated a letter of credit that guaranteed decommissioning costs associated with a former nuclear regulatory commission-licensed operation at its Saint Louis, Missouri plant and placed $21.1 million of restricted cash on deposit with a trustee. In February 2016, following completion of the decommissioning efforts, the trustee returned the cash on deposit and it was available for general use.

In addition, the separation and distribution agreement entered into with Covidien plc ("Covidien"), as part of the Company's legal separation from Covidien, 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 resolutions will not have a material adverse effect on its financial condition, results of operations and cash flows.

Governmental Proceedings

In November 2011 and October 2012, the Company received subpoenas from the U.S. Drug Enforcement Administration requesting production of documents relating to its suspicious order monitoring program for controlled substances. The United States Attorney's Office (the "USAO") for the Eastern District of Michigan is investigating the possibility that the Company failed to report suspicious orders of controlled substances during the period 2006-2011 in violation of the Controlled Substances Act and its related regulations. The USAO for the Northern District of New York and Office of Chief Counsel for the U.S. Drug Enforcement Administration are investigating the possibility that the Company failed to maintain appropriate records and security measures with respect to manufacturing of certain controlled substances at its Hobart facility during the period 2012-2013. 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, after taking into account amounts already accrued, could have a material adverse effect on its financial condition, results of operations and cash flows.

In September 2012, Questcor received a subpoena from the USAO for the Eastern District of Pennsylvania for information relating to its promotional practices related to Acthar. Questcor has also been informed by the USAO for the Eastern District of Pennsylvania that the USAO for the Southern District of New York and the SEC are participating in the investigation to review Questcor's promotional practices and related matters related to Acthar. On March 9, 2015, the Company received a "No Action" letter from the SEC regarding its review of the Company's promotional practices related to Acthar.

In June 2014, Questcor received a subpoena and Civil Investigative Demand ("CID") from the Federal Trade Commission ("FTC") seeking documentary materials and information regarding the FTC's investigation into whether Questcor's acquisition of certain rights to develop, market, manufacture, distribute, sell and commercialize Synacthen Depot® from Novartis AG and Novartis Pharma AG (collectively, "Novartis") violates antitrust laws. Subsequently, a small number of states commenced similar investigations focused on whether the transaction violates state antitrust laws. The Company is not aware of any existing or pending litigation in connection with these investigations. 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, after taking into account amounts already accrued, could have a material adverse effect on its financial condition, results of operations and cash flows.

In March 2014, the USAO for the Eastern District of Pennsylvania requested the production of documents related to an investigation of the U.S. promotion of Therakos' immunotherapy drug/device system UVADEX/UVAR XTS and UVADEX/CELLEX (collectively, the "Therakos System"), for indications not approved by the FDA, including treatment of patients with graft versus host disease ("GvHD") and solid organ transplant patients, including pediatric patients. The investigation also includes Therakos' efforts to secure FDA approval for additional uses of, and alleged quality issues relating to, UVADEX/UVAR. In August 2015, the USAO for the Eastern District of Pennsylvania sent Therakos a subsequent request for documents related to the investigation and has since made certain related requests. We are in the process of responding to those requests.

In November 2014, the Company received a CID from the Civil Medicaid Fraud Division of the Texas Attorney General's Office. According to the CID, the Attorney General's office is investigating the possibility of false reporting of information by the Company regarding the prices of certain of its drugs used by Texas Medicaid to establish reimbursement rates for pharmacies that dispensed the Company's drugs to Texas Medicaid recipients.

We have responded to or are in the process of responding to each of the subpoenas and the CIDs and we intend to cooperate fully in each such investigation.

Mallinckrodt Inc. v. U.S. Food and Drug Administration and United States of America. The Company filed a Complaint for Declaratory and Injunctive Relief ("the Complaint") in the U.S. District Court for the District of Maryland Greenbelt Division against the FDA and the United States of America in November 2014 for judicial review of what the Company believes is the FDA's inappropriate and unlawful reclassification of the Company's Methylphenidate HCl Extended-Release tablets USP (CII) ("Methylphenidate ER") in the Orange Book: Approved Drug Products with Therapeutic Equivalence ("Orange Book") on November 13, 2014. In its Complaint, the Company asked the court to: issue an injunction to (a) set aside the FDA's reclassification of the Company's Methylphenidate

ER products from freely substitutable at the pharmacy level (class AB) to presumed to be therapeutically inequivalent (class BX) in the Orange Book and (b) prohibit the FDA from reclassifying the Company's Methylphenidate ER products in the future without following applicable legal requirements; and issue a declaratory judgment that the FDA's action reclassifying the Company's Methylphenidate ER products in the Orange Book is unlawful. The Company concurrently filed a motion with the same court requesting an expedited hearing to issue a temporary restraining order ("TRO") directing the FDA to reinstate the Orange Book AB rating for the Company's Methylphenidate ER products on a temporary basis. The court denied the Company's motion for a TRO. In December 2014, the FDA filed a motion to dismiss the Complaint with the district court. The Company filed its opposition to the motion to dismiss in January 2015, and concurrently filed a motion for summary judgment. In July 2015, the court granted the FDA’s motion to dismiss with respect to three of the five counts in the Complaint and granted summary judgment in favor of the FDA with respect to the two remaining counts. The Company has appealed the court’s decision to the U.S. Court of Appeals for the Fourth Circuit.

Patent/Antitrust Litigation

Tyco Healthcare Group LP, et al. v. Mutual Pharmaceutical Company, Inc. In March 2007, 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") 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. The trial court issued an opinion and order granting the Company's motion for summary judgment regarding Mutual's antitrust and unfair competition counterclaims. Mutual appealed this decision to the U.S. Court of Appeals for the Federal Circuit and the Federal Circuit issued a split decision, affirming the trial court in part and remanding to the trial court certain counterclaims for further proceedings. The Company filed a motion for summary judgment with the U.S. District Court regarding the remanded issues. In May 2015, the trial court issued an opinion granting-in-part and denying-in-part the Company’s motion for summary judgment.

'222 and '218 Patent Litigation: InnoPharma Licensing LLC and InnoPharma, Inc. In September 2014, Cadence and Mallinckrodt IP, subsidiaries of the Company, and Pharmatop, the owner of the two U.S. patents licensed exclusively by the Company, filed suit in the U.S. District Court for the District of Delaware against InnoPharma Licensing LLC and InnoPharma, Inc. (collectively "InnoPharma") alleging that InnoPharma infringed U.S. Patent Nos. 6,028,222 ("the '222 patent") and 6,992,218 ("the '218 patent") following receipt of an August 2014 notice from InnoPharma concerning its submission of a New Drug Application (“NDA”), containing a Paragraph IV patent certification with the FDA for a competing version of Ofirmev.

'222 and '218 Patent Litigation: Agila Specialties Private Limited, Inc. and Agila Specialties Inc. (a Mylan Inc. Company), (collectively “Agila”). In December 2014, Cadence and Mallinckrodt IP, subsidiaries of the Company, and Pharmatop, the owner of the two U.S. patents licensed exclusively by the Company, filed suit in the U.S. District Court for the District of Delaware against Agila alleging that Agila infringed the '222 and the '218 patents following receipt of a November 2014 notice from Agila concerning its submission of a NDA containing a Paragraph IV patent certification with the FDA for a competing version of Ofirmev.

The Company has successfully asserted the ‘222 and ‘218 patents and maintained their validity in both litigation and proceedings at the U.S. Patent and Trademark Office (“USPTO”). The Company will continue to vigorously enforce its intellectual property rights relating to Ofirmev to prevent the marketing of infringing generic or competing products prior to December 6, 2020, which, if unsuccessful, 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.

Inomax Patents: Inter Partes Review ("IPR") Proceedings. In February 2015 and March 2015, the USPTO issued Notices of Filing Dates Accorded to Petitions for IPR petitions filed by Praxair Distribution, Inc. concerning ten patents covering Inomax. Patent Owner Preliminary responses for all of the IPR petitions were filed in May 2015 and June 2015. In July 2015 the USPTO Patent Trial and Appeal Board ("PTAB") issued rulings denying the institution of four of the five IPR petitions challenging the five patents expiring in 2029. The PTAB also issued a ruling in July 2015 that instituted the IPR proceeding in the fifth of this group of patents and the PTAB is statutorily required to complete the IPR process on that patent within one year. In September 2015 the USPTO PTAB issued rulings that instituted the IPR proceedings in each of the second set of five patents that expire in 2031 and the PTAB is statutorily required to complete the IPR process on these five patents within one year. In March 2016, Praxair Distribution, Inc. submitted additional IPR petitions for the five patents expiring in 2029. Patent Owner Preliminary responses are due in June 2016 for these five additional IPR petitions.

Inomax Patent Litigation: Praxair Distribution, Inc. and Praxair, Inc. (collectively “Praxair”). In February 2015, INO Therapeutics LLC and Ikaria, Inc., subsidiaries of the Company, filed suit in the U.S. District Court for the District of Delaware against Praxair following receipt of a January 2015 notice from Praxair concerning its submission of an ANDA containing a Paragraph IV patent certification with the FDA for a generic version of Inomax.

The Company intends to vigorously enforce its intellectual property rights relating to Inomax in both the IPR and Praxair litigation proceedings to prevent the marketing of infringing generic products prior to the expiration of the

patents covering Inomax. An adverse outcome in either the IPRs or the Praxair litigation ultimately could result in the launch of a generic version of Inomax before the expiration of the last of the listed patents on January 6, 2031 (July 6, 2031 including pediatric exclusivity), which could adversely affect the Company's ability to successfully maximize the value of Inomax and have an adverse effect on its financial condition, results of operations and cash flows.

Commercial and Securities Litigation

Retrophin Litigation. In January 2014, Retrophin, Inc. ("Retrophin") filed a lawsuit against Questcor in the U.S. District Court for the Central District of California, alleging a variety of federal and state antitrust violations based on Questcor's acquisition from Novartis of certain rights to develop, market, manufacture, distribute, sell and commercialize Synacthen. In June 2015, the parties entered into a binding settlement agreement, under the terms of which Retrophin agreed to dismiss the litigation with prejudice and Questcor agreed to make a one-time cash payment to Retrophin in the amount of $15.5 million.

Glenridge Litigation. In June 2011, Glenridge Pharmaceuticals, LLC ("Glenridge"), filed a lawsuit against Questcor in the Superior Court of California, Santa Clara County, alleging that Questcor had underpaid royalties to Glenridge under a royalty agreement related to net sales of Acthar. In August 2012, Questcor filed a separate lawsuit against the three principals of Glenridge, as well as Glenridge, challenging the enforceability of the royalty agreement. In August 2013, the lawsuits were consolidated into one case in the Superior Court of California, Santa Clara County. In October 2014, the parties entered into a binding term sheet settling the lawsuit. Under the terms of the settlement, the royalty rate payable by Questcor was reduced, royalties were capped instead of being payable for so long as Acthar was sold and Questcor agreed to pay Glenridge a reduced amount in satisfaction of royalties Questcor had previously accrued but not paid during the course of the lawsuit. In February 2015, the settlement agreement was finalized, with terms consistent with the October 2014 term sheet.

Putative Class Action Securities Litigation. In September 2012, a putative class action lawsuit was filed against Questcor and certain of its officers and directors in the U.S. District Court for the Central District of California, captioned John K. Norton v. Questcor Pharmaceuticals, et al., No. SACvl2-1623 DMG (FMOx). The complaint purported to be brought on behalf of shareholders who purchased Questcor common stock between April 26, 2011 and September 21, 2012. The complaint generally alleged that Questcor and certain of its officers and directors engaged in various acts to artificially inflate the price of Questcor stock and enable insiders to profit through stock sales. The complaint asserted that Questcor and certain of its officers and directors violated sections l0(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended ("the Exchange Act"), by making allegedly false and/or misleading statements concerning the clinical evidence to support the use of Acthar for indications other than infantile spasms, the promotion of the sale and use of Acthar in the treatment of multiple sclerosis and nephrotic syndrome, reimbursement for Acthar from third-party insurers, and Questcor's outlook and potential market growth for Acthar. The complaint sought damages in an unspecified amount and equitable relief against the defendants. This lawsuit was consolidated with four subsequently-filed actions asserting similar claims under the caption: In re Questcor Securities Litigation, No. CV 12-01623 DMG (FMOx). In October 2013, the District Court granted in part and denied in part Questcor's motion to dismiss the consolidated amended complaint. In October 2013, Questcor filed an answer to the consolidated amended complaint and fact discovery was concluded in January 2015. In April 2015, the parties executed a long-form settlement agreement, under the terms of which Questcor agreed to pay $38.0 million to resolve the plaintiff's claims, inclusive of all fees and costs. Questcor and the individual defendants maintain that the plaintiffs' claims are without merit, and entered into the settlement to eliminate the uncertainties, burden and expense of further protracted litigation. During fiscal 2015, the Company established a $38.0 million reserve for this settlement, which was subsequently paid to a settlement fund. The court issued its final approval of the settlement on September 18, 2015.

Pricing Litigation

State of Utah v. Apotex Corp., et al. The Company, along with several other pharmaceutical companies, was a defendant in this matter which was filed in May 2008, 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 Utah Medicaid, resulting in overpayment by Utah Medicaid for those drugs, and is seeking monetary damages and attorneys' fees. The Company believes that it has meritorious defenses to these claims and vigorously defended against them. In December 2015, the parties entered into a binding settlement agreement, under the terms of which the State of Utah agreed to dismiss the litigation with prejudice and the Company agreed to make a one-time cash payment to the State of Utah within the reserve established for this matter.

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 March 25, 2016,

it was probable that it would incur remedial costs in the range of $39.0 million to $120.0 million. The Company also concluded that, as of March 25, 2016, the best estimate within this range was $75.3 million, of which $2.8 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 March 25, 2016. 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 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.

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. General Dynamics has completed the RI and the PRPs have entered into an agreement to enter into non-binding mediation. 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, have 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 with numerous plaintiffs pending in the U.S. District Court for the Eastern District of Missouri that were filed in and after February 2012. These cases allege personal injury for alleged exposure to radiological substances, including in Coldwater Creek in Missouri, and in the air. Plaintiffs allegedly lived and/or worked in various locations in Saint Louis County, Missouri near Coldwater Creek. Radiological residues which may have been present in the creek have previously been remediated by the U.S. Army Corps of Engineers ("USACE"). The USACE continues to study and remediate the creek and surrounding areas. 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 and scientific issues to be resolved. 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.

Lower Passaic River, New Jersey. The Company and approximately 70 other companies originally comprised 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, on June 18, 2012 the CPG voluntarily entered into an AOC 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.

In April 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 estimated the cost for the remediation alternatives ranged 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.

In April 2015, the CPG presented a draft of the RI/FS of the River to the EPA. The CPG's RI/FS included alternatives that ranged from "no action," targeted remediation of the entire 17-mile stretch of the River to remedial actions consistent with the EPA's preferred approach for the lower 8-mile stretch of the River and also included remediation alternatives for the upper 9-mile stretch of the River. The discounted cost estimates for the CPG remediation alternatives ranged from $483.4 million to $2.7 billion. The Company recorded an additional charge of $13.3 million in the second quarter of fiscal 2015 based on the Company's estimate of its allocable share of the joint and several remediation liability resulting from this matter.

On March 4, 2016, the EPA issued the Record of Decision ("ROD") for the lower 8 miles of the River. The EPA's selected remedy for this stretch of the River is a slight modification of the preferred approach it identified in the revised FFS issued in April 2014. The new discounted, estimated cost is $1.38 billion. By letter dated March 31, 2016, EPA notified the Company, and approximately 98 other parties, of the Company’s potential liability for the lower 8 miles of the River. The letter also announced the EPA's intent to seek to determine whether one company, Occidental Chemicals Corporation ("OCC"), will voluntarily enter into an agreement to perform the remedial design for the remedy selected in the ROD. The letter states that, after execution of such an agreement, EPA plans to begin negotiation of an agreement under which OCC and the other major PRPs would implement and/or pay for the EPA’s selected remedy for the lower 8 miles of the River. Finally, the letter announced EPA's intent to provide a separate notice to unspecified parties of the opportunity to discuss a cash out settlement for the lower 8 miles of the River at a later date.

Despite the issuance of the revised FFS and ROD by the EPA, and the RI/FS by the CPG, there are many uncertainties associated with the final agreed-upon remediation and the Company's allocable share of the remediation. As of November 20, 2015, the Company withdrew from the CPG, but remains liable for its obligations under the two above-referenced AOCs, as well as potential future liabilities. Given those uncertainties, the amounts accrued may not be indicative of the amounts for which the Company may be 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 March 25, 2016, there were approximately 13,000 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 resolutions 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 Nuclear 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 consolidated balance sheets. The following table provides a summary of the changes in the Company's asset retirement obligations:

Balance at September 25, 2015	$36.9

Accretion expense	1.1
Currency translation	—
Balance at March 25, 2016	$38.0

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

Through March 25, 2016, the Company exchanged title to $88.0 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 capital leases expiring through 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 the right of offset, the capital lease obligation and IRB asset are recorded net in the consolidated balance sheets. The Company expects that the right of offset will be applied to payments required under these arrangements.

Interest Bearing Deferred Tax Obligation

As part of the integration of Questcor, the Company entered into an internal installment sale transaction related to certain Acthar intangible assets during the three months ended December 26, 2014. The installment sale transaction resulted in a taxable gain. In accordance with Internal Revenue Code Section 453 the gain is considered taxable in the period in which installment payments are received. During the three months ended December 25, 2015, the Company entered into similar transactions with certain intangible assets acquired in the Ikaria Acquisition and Therakos Acquisition. As of March 25, 2016, the Company had an aggregate $2,206.6 million of interest bearing U.S. deferred tax liabilities associated with outstanding installment notes. The U.S. Internal Revenue Service ("IRS") charges interest based on the deferred tax liability outstanding as of the end of a company's fiscal year, regardless of amounts outstanding during the fiscal year. The Company recognized interest expense associated with the Section 453 deferred tax liabilities of $19.1 million and $11.4 million for the three months ended March 25, 2016 and March 27, 2015, respectively, and $37.8 million and $14.2 million for the six months ended March 25, 2016, and March 27, 2015, respectively.

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 resolutions of these matters will not have a material adverse effect on its financial condition, results of operations and cash flows.

On January 19, 2016, Tyco International announced it had entered into an agreement with the IRS to resolve certain disputes currently before the U.S. Tax Court. The disputes involve IRS audits of Tyco International for years in which companies that are now subsidiaries of Mallinckrodt were subsidiaries of Tyco International. Mallinckrodt is not a participant in the tax sharing agreement between Medtronic plc (as successor to Covidien plc), Tyco International and TE Connectivity and will not share in or be responsible for any payments to be made under the terms of the tentative resolution. The Company believes that it is adequately reserved for taxes related to periods prior to the legal separation of the Company from Covidien plc and intends to adjust its reserves when the tentative resolution is finalized.

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 2009. The Company considers such uncertain tax positions associated with these years as having been effectively settled. All but one of the matters associated with these audits 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.

Acquisition-Related Litigation

Several putative class actions were filed by purported holders of Questcor common stock in connection with the Questcor Acquisition (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 named as defendants, and generally alleged 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 alleged 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 alleged, among other things, that the Company aided and abetted the purported breaches of fiduciary duty. The lawsuits sought various forms of relief, including but not limited to, rescission of the transaction, damages and attorneys' fees and costs.

On July 29, 2014, the defendants reached an agreement in principle with the plaintiffs in the consolidated actions, and that agreement was reflected in a Memorandum of Understanding ("MOU"). In connection with the settlement contemplated by the MOU, 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 MOU, 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 with Questcor was reduced to three business days. Consistent with the terms of the MOU, the parties entered into a formal stipulation of settlement in February 2015 and re-executed the stipulation of settlement on May 7, 2015 (collectively the "Stipulation of Settlement").
The Stipulation of Settlement was subject to customary conditions, including court approval. On May 8, 2015, the California Court denied plaintiffs' Motion for Preliminary Approval of Settlement. On October 23, 2015, the parties submitted a proposed Stipulation and Order re Dismissal With Prejudice dismissing the action with prejudice as to each of the named plaintiffs and without prejudice as to the remainder of the class, and on October 30, 2015 the California Court entered that Order.

Other Matters
The Company is a defendant in a number of other pending legal proceedings relating to present and former operations, acquisitions and dispositions. The Company does not expect the outcome 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. 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:

	March 25, 2016	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 trusts	$ 34.2	$ 24.4	$ 9.8	$ —
Foreign exchange forward and option contracts	1.9	1.9	—	—
	$ 36.1	$ 26.3	$ 9.8	$ —
Liabilities:				
Deferred compensation liabilities	$ 22.1	$ —	$ 22.1	$ —
Contingent consideration and acquired contingent liabilities	204.2	—	—	204.2
	$ 226.3	$ —	$ 22.1	$ 204.2

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	September 25, 2015	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 trusts	$ 34.6	$ 24.2	$ 10.4	$ —
	$ 34.6	$ 24.2	$ 10.4	$ —
Liabilities:				
Deferred compensation liabilities	$ 20.0	$ —	$ 20.0	$ —
Contingent consideration and acquired contingent liabilities	174.6	—	—	174.6
Foreign exchange forward and option contracts	3.3	3.3	—	—
	$ 197.9	$ 3.3	$ 20.0	$ 174.6

Debt and equity securities held in rabbi trusts. Debt securities held in rabbi trusts 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 rabbi trusts 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 and acquired contingent liabilities. The Company maintains various contingent consideration and acquired contingent liabilities associated with the acquisitions of Questcor and CNS Therapeutics. The acquired contingent liabilities associated with Questcor pertain to Questcor's acquisition of Synacthen and Synacthen Depot (collectively "Synacthen") from Novartis AG and Novartis Pharma AG (collectively "Novartis") and Questcor's acquisition of BioVectra. The contingent consideration is associated with the CNS Therapeutics acquisition.

During the six months ended March 25, 2016, the Company paid the remaining obligation of $40.0 million CAD to the former owners of BioVectra to reach the maximum cumulative payment of $50.0 million CAD. At March 25, 2016, there are no further contingent liabilities associated with BioVectra.

During the six months ended March 25, 2016, the Company reduced the probability-weighted present value associated with the achievement of the CNS Therapeutics contingent consideration, due to delays in the anticipated timing of FDA approval of a certain concentration of Gablofen, and recorded a reversal of the contingent consideration liability of $6.3 million within selling, general and administrative expenses.

At March 25, 2016, the fair value of the Synacthen acquired contingent liability and the CNS Therapeutics contingent consideration was $140.7 million and $0.9 million, respectively.

As part of the Hemostasis Acquisition, the Company provided contingent consideration to The Medicines Company in the form of sales based milestones associated with Raplixa and PreveLeak, and acquired contingent liabilities

associated with The Medicines Company's prior acquisitions of the aforementioned products. For the purposes of determining the purchase price of the Hemostasis Acquisition, the Company determined the fair value of the contingent consideration and acquired contingent liabilities based on an option pricing model to be $52.0 million and $10.6 million, respectively, at March 25, 2016.

The following table provides a summary of the changes in the Company's contingent consideration and acquired contingent liabilities:

Balance at September 25, 2015	$174.6
Acquisition date fair value of contingent consideration	52.0
Acquisition date fair value of acquired contingent consideration	10.6
Payments	(30.0)
Accretion expense	3.3
Fair value adjustment	(6.3)
Balance at March 25, 2016	$204.2

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 of three months or less, as cash and cash equivalents (level 1). The fair value of restricted cash was equivalent to its carrying value of $45.2 million and $66.3 million as of March 25, 2016 and September 25, 2015, respectively (level 1), which was included in prepaid expenses and other current assets and 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 $68.1 million and $67.7 million at March 25, 2016 and September 25, 2015, respectively. These contracts are included in other assets on the unaudited condensed consolidated balance sheets.

The carrying value of the Company's revolving credit facility and variable-rate receivable securitization approximates fair value due to the short-term nature of these instruments. The carrying value of the 4.00% term loan approximates the fair value of the instrument, as calculated using the discounted exit price, which is therefore classified as level 3. Since the quoted market prices for the Company's term loans and 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%, 4.75%, 4.875%, 5.50%, 5.625% and 5.75% 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:

	March 25, 2016		September 25, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable-rate receivable securitization	$215.0	$215.0	$153.0	$153.0
3.50% notes due April 2018	300.0	286.4	300.0	294.3
4.875% notes due April 2020	700.0	654.3	700.0	684.1
Term loans due March 2021	1,968.5	1,914.6	1,978.5	1,966.5
4.00% term loan due February 2022	6.4	6.4	7.9	7.9
9.50% debentures due May 2022	10.4	11.4	10.4	13.0
5.75% notes due August 2022	884.0	812.9	900.0	876.1
8.00% debentures due March 2023	4.4	4.6	4.4	5.3
4.75% notes due April 2023	600.0	499.2	600.0	539.6
5.625% notes due October 2023	740.0	671.3	750.0	705.2
5.50% notes due April 2025	700.0	621.4	700.0	646.0
Revolving credit facility	400.0	400.0	500.0	500.0

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 typically 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 and creditworthiness of those countries' national economies.

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		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
CuraScript, Inc.	30%	28%	31%	31%
McKesson Corporation	12%	21%	13%	19%
Cardinal Health, Inc.	10%	14%	9%	14%

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:

	March 25, 2016	September 25, 2015
McKesson Corporation	25%	24%
CuraScript, Inc.	13%	16%
Cardinal Health, Inc.	13%	13%
Amerisource Bergen Corporation	11%	12%

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		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Acthar	27%	28%	29%	31%
Inomax	13%	—%	12%	—%

Molybdenum-99 ("Mo-99") is a key raw material in the Company's Ultra-Technekow™ DTE technetium generators that are sold by its Nuclear 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.

18. Segment Data

On November 27, 2015, the Company completed the sale of the CMDS business to Guerbet. As a result, the CMDS business was eliminated from the Global Medical Imaging segment, which has been renamed Nuclear Imaging. Prior year amounts have been recast to conform to current presentation.

The three reportable segments are further described below:

- Specialty Brands produces and markets branded pharmaceutical and biopharmaceutical products and therapies;
- Specialty Generics produces specialty generic pharmaceuticals and API consisting of biologics, medicinal opioids, synthetic controlled substances, acetaminophen and other active ingredients; and
- Nuclear Imaging manufactures and markets radiopharmaceuticals (nuclear medicine).

Selected information by business segment was as follows:

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Net sales:				
Specialty Brands	$535.0	$ 334.3	$1,078.2	$707.9
Specialty Generics	264.4	362.8	522.0	647.0
Nuclear Imaging	102.2	109.5	205.8	211.4
Net sales of operating segments	901.6	806.6	1,806.0	1,566.3
Other [1]	16.4	12.4	26.8	20.9
Net sales	$918.0	$ 819.0	$1,832.8	$1,587.2
Operating income:				
Specialty Brands	$263.1	$ 97.4	$535.1	$245.6
Specialty Generics	101.6	203.7	219.8	344.2
Nuclear Imaging	31.1	18.8	46.1	23.6
Segment operating income	395.8	319.9	801.0	613.4
Unallocated amounts:				
Corporate and allocated expenses [2]	(29.1)	(99.5)	(75.1)	(139.3)
Intangible asset amortization	(175.0)	(122.9)	(348.4)	(247.7)
Restructuring and related charges, net [3]	(10.4)	(3.6)	(16.8)	(10.9)
Non-restructuring impairment charges	(16.9)	—	(16.9)	—
Operating income	$164.4	$ 93.9	$343.8	$215.5

(1) Represents historical CMDS-related intercompany transactions that represent Mallinckrodt continuing operations under an ongoing supply agreement with the acquirer of the CMDS business.

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

(3) Includes restructuring-related accelerated depreciation.

Net sales by product family within the Company's segments are as follows:

	Three Months Ended		Six Months Ended	
	March 25, 2016	March 27, 2015	March 25, 2016	March 27, 2015
Acthar	$248.4	$ 228.0	$535.1	$494.4
Inomax	115.5	—	226.3	—
Ofirmev	71.1	68.1	138.0	139.5
Therakos immunotherapy	50.2	—	100.6	—
Hemostasis products	11.4	—	11.4	—
Other	38.4	38.2	66.8	74.0
Specialty Brands	535.0	334.3	1,078.2	707.9
Hydrocodone (API) and hydrocodone-containing tablets	40.8	66.6	77.5	100.6
Oxycodone (API) and oxycodone-containing tablets	37.9	48.6	66.8	95.6
Methylphenidate ER	24.6	34.0	55.8	82.6
Other controlled substances	121.9	145.4	231.6	257.3
Other	39.2	68.2	90.3	110.9
Specialty Generics	264.4	362.8	522.0	647.0

Nuclear Imaging	102.2	109.5	205.8	211.4
Other [1]	16.4	12.4	26.8	20.9
Net sales	$918.0	$ 819.0	$1,832.8	$1,587.2

(1) Represents historical CMDS-related intercompany transactions that represent Mallinckrodt continuing operations under an ongoing supply agreement with the acquirer of the CMDS business.

19. Condensed Consolidating Financial Statements

Mallinckrodt International Finance, S.A. ("MIFSA"), an indirectly 100%-owned subsidiary of Mallinckrodt plc, is the borrower under the 3.50% notes due April 2018 and the 4.75% notes due April 2023 (collectively, "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 other subsidiaries. There are no subsidiary guarantees related to the Notes.

Set forth below are the unaudited condensed consolidating financial statements for the three and six months ended March 25, 2016 and March 27, 2015, and as of March 25, 2016 and September 25, 2015. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions between or among Mallinckrodt plc, MIFSA and other subsidiaries. Unaudited condensed consolidating 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 March 25, 2016
(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 0.1	$ 137.9	$ 203.4	$ —	$ 341.4
Accounts receivable, net	—	—	503.5	—	503.5
Inventories	—	—	377.1	—	377.1
Deferred income taxes	—	—	116.3	—	116.3
Prepaid expenses and other current assets					