

Mallinckrodt plc
Form 10-Q
August 02, 2016

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

FORM 10-Q

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

For the quarterly period ended June 24, 2016

or

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

For the transition period from _____ to _____

Commission File Number : 001-35803

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

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

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

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

Large accelerated filer

Accelerated filer

Edgar Filing: Mallinckrodt plc - Form 10-Q

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

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

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
Ordinary shares, \$0.20 par value - 107,713,320 shares as of July 29, 2016

MALLINCKRODT PLC
INDEX TO FORM 10-Q

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited).	
Condensed Consolidated Statements of Income for the three and nine months ended June 24, 2016 and June 26, 2015.	<u>2</u>
Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 24, 2016 and June 26, 2015.	<u>3</u>
Condensed Consolidated Balance Sheets as of June 24, 2016 and September 25, 2015.	<u>4</u>
Condensed Consolidated Statements of Cash Flows for the nine months ended June 24, 2016 and June 26, 2015.	<u>5</u>
Condensed Consolidated Statement of Changes in Shareholders' Equity for the period September 25, 2015 to June 24, 2016.	<u>6</u>
Notes to Condensed Consolidated Financial Statements.	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	<u>45</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	<u>61</u>
Item 4. Controls and Procedures.	<u>62</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings.	<u>63</u>
Item 1A. Risk Factors.	<u>63</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	<u>65</u>
Item 3. Defaults Upon Senior Securities.	<u>65</u>
Item 4. Mine Safety Disclosures.	<u>65</u>
Item 5. Other Information.	<u>65</u>
Item 6. Exhibits.	<u>66</u>
SIGNATURES	<u>67</u>

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		Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Net sales	\$970.6	\$877.3	\$2,803.4	\$2,464.5
Cost of sales	429.3	373.5	1,290.8	1,093.0
Gross profit	541.3	503.8	1,512.6	1,371.5
Selling, general and administrative expenses	248.4	295.0	722.1	827.5
Research and development expenses	76.1	59.9	198.3	170.6
Restructuring charges, net	14.1	22.7	29.1	33.4
Non-restructuring impairment charges	—	—	16.9	—
Gains on divestiture and license	(0.2)	(0.9)	(0.5)	(2.6)
Operating income	202.9	127.1	546.7	342.6
Interest expense	(95.6)	(72.5)	(290.6)	(178.7)
Interest income	0.4	0.2	0.8	0.7
Other income (loss), net	(1.3)	(0.4)	—	8.0
Income from continuing operations before income taxes	106.4	54.4	256.9	172.6
Income tax benefit	(89.3)	(1.2)	(175.0)	(45.6)
Income from continuing operations	195.7	55.6	431.9	218.2
Income from discontinued operations, net of income taxes	3.6	2.4	96.8	31.3
Net income	\$199.3	\$58.0	\$528.7	\$249.5
Basic earnings per share (Note 7):				
Income from continuing operations	\$1.80	\$0.47	\$3.87	\$1.87
Income from discontinued operations	0.03	0.02	0.87	0.27
Net income	\$1.84	\$0.50	\$4.73	\$2.14
Basic weighted-average shares outstanding	108.6	116.3	111.7	115.5
Diluted earnings per share (Note 7):				
Income from continuing operations	\$1.79	\$0.47	\$3.84	\$1.85
Income from discontinued operations	0.03	0.02	0.86	0.26
Net income	\$1.82	\$0.49	\$4.70	\$2.11
Diluted weighted-average shares outstanding	109.4	117.8	112.6	117.1

See Notes to Condensed Consolidated Financial Statements.

2

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

	Three Months Ended		Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Net income	\$199.3	\$ 58.0	\$528.7	\$249.5
Other comprehensive income (loss), net of tax:				
Currency translation adjustments	(1.2)	5.1	(60.5)	(53.8)
Unrecognized gain on derivatives, net of \$-, \$-, \$- and (\$0.1) tax	0.2	0.2	0.5	0.4
Unrecognized gain (loss) on benefit plans, net of (\$0.3), (\$2.7), \$4.1 and (\$2.8) tax	0.4	4.5	(6.6)	5.4
Total other comprehensive income (loss), net of tax	(0.6)	9.8	(66.6)	(48.0)
Comprehensive income	\$198.7	\$ 67.8	\$462.1	\$201.5

See Notes to Condensed Consolidated Financial Statements.

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

	June 24, 2016	September 25, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$521.9	\$ 365.9
Accounts receivable, less allowance for doubtful accounts of \$8.9 and \$4.7	500.0	548.5
Inventories	357.7	281.8
Deferred income taxes	115.7	142.7
Prepaid expenses and other current assets	131.0	207.3
Current assets held for sale	—	299.9
Total current assets	1,626.3	1,846.1
Property, plant and equipment, net	1,012.0	991.3
Goodwill	3,645.5	3,649.4
Intangible assets, net	9,258.5	9,666.3
Other assets	290.9	251.0
Total Assets	\$15,833.2	\$ 16,404.1
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	\$21.7	\$ 22.3
Accounts payable	125.4	133.0
Accrued payroll and payroll-related costs	110.5	103.7
Accrued interest	69.9	80.2
Accrued and other current liabilities	642.0	517.4
Current liabilities held for sale	—	72.8
Total current liabilities	969.5	929.4
Long-term debt	6,279.0	6,474.3
Pension and postretirement benefits	136.4	116.7
Environmental liabilities	73.2	73.3
Deferred income taxes	2,772.5	3,132.4
Other income tax liabilities	95.3	121.3
Other liabilities	298.5	245.5
Total Liabilities	10,624.4	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; 117,945,904 and 117,513,370 issued; 107,663,403 and 116,283,149 outstanding	23.6	23.5
Ordinary shares held in treasury at cost, 10,282,501 and 1,230,221	(711.7) (109.7
Additional paid-in capital	5,395.0	5,357.6
Retained earnings	567.6	38.9
Accumulated other comprehensive income	(65.7) 0.9

Total Shareholders' Equity	5,208.8	5,311.2
Total Liabilities and Shareholders' Equity	\$15,833.2	\$ 16,404.1

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended June 24, June 26, 2016 2015	
Cash Flows From Operating Activities:		
Net income	\$528.7	\$249.5
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	625.0	481.2
Share-based compensation	30.6	93.9
Deferred income taxes	(324.3)	(135.2)
Non-cash impairment charges	16.9	—
Gain on disposal of discontinued operations	(99.1)	—
Other non-cash items	22.7	(61.2)
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable, net	51.2	(22.9)
Inventories	(6.5)	36.9
Accounts payable	(8.6)	16.5
Income taxes	140.7	61.6
Other	17.1	(161.1)
Net cash provided by operating activities	994.4	559.2
Cash Flows From Investing Activities:		
Capital expenditures	(133.5)	(92.5)
Acquisitions and intangibles, net of cash acquired	(169.5)	(1,176.3)
Proceeds from disposal of discontinued operations, net of cash	267.0	—
Restricted cash	47.1	(21.9)
Other	5.3	2.6
Net cash provided by (used in) investing activities	16.4	(1,288.1)
Cash Flows From Financing Activities:		
Issuance of external debt	98.3	1,720.0
Repayment of external debt and capital leases	(307.1)	(1,457.8)
Excess tax benefit from share-based compensation	—	30.4
Debt financing costs	(0.1)	(25.3)
Proceeds from exercise of share options	8.5	29.7
Repurchase of shares	(602.0)	(15.4)
Other	(53.0)	(28.1)
Net cash (used in) provided by financing activities	(855.4)	253.5
Effect of currency rate changes on cash	0.6	(7.1)
Net increase in cash and cash equivalents	156.0	(482.5)
Cash and cash equivalents at beginning of period	365.9	707.8
Cash and cash equivalents at end of period	\$521.9	\$225.3

See Notes to Condensed Consolidated Financial Statements.

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

	Ordinary Shares Number	Par Value	Treasury Shares Number	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
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	—	—	—	—	—	528.7	—	528.7
Currency translation adjustments	—	—	—	—	—	—	(60.5)	(60.5)
Change in derivatives, net of tax	—	—	—	—	—	—	0.5	0.5
Minimum pension liability, net of tax	—	—	—	—	—	—	(6.6)	(6.6)
Share options exercised	0.3	0.1	—	—	8.4	—	—	8.5
Vesting of restricted shares	0.2	—	—	—	—	—	—	—
Excess tax benefit from share-based compensation	—	—	—	—	(1.6)	—	—	(1.6)
Share-based compensation	—	—	—	—	30.6	—	—	30.6
Repurchase of shares	—	—	9.1	(602.0)	—	—	—	(602.0)
Balance at June 24, 2016	118.0	\$ 23.6	10.3	\$(711.7)	\$ 5,395.0	\$ 567.6	\$ (65.7)	\$ 5,208.8

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 TM 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 net sales 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, \$15.9 million and \$39.4 million of expenses previously included in SG&A for the three and nine months ended June 26, 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 third fiscal quarters of 2016 and 2015 ended on June 24, 2016 and June 26, 2015, respectively. Unless otherwise indicated, the three and nine months ended June 24, 2016 refers to the thirteen and thirty-nine week period ended June 24, 2016 and the three and nine months ended June 26, 2015 refers to the thirteen and thirty-nine week period ended June 26, 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.

On May 17, 2016, the Board of Directors of the Company approved a change in the Company's fiscal year end to the last Friday in December from the last Friday in September. The change in fiscal year will become effective for the Company's 2017 fiscal year, which will begin on December 31, 2016 and end on December 29, 2017. As a result, the Company will have a transition period which will begin on October 1, 2016 and end on December 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 2016-08, "Revenue from Contracts with Customers" in March 2016. This update was issued to clarify the implementation guidance on principal versus agent considerations, including identifying the unit of account at which an entity should assess whether it is a principal or an agent, identifying the nature of the good or the service provided to the customer, applying the control principle to certain types of transactions, and interaction of the control principle with the indicators provided to assist in the principal versus agent evaluation. The guidance is effective for the Company in the first quarter of fiscal 2019. Early adoption is permitted in the first quarter of fiscal 2018. The FASB issued ASU 2016-10 "Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing" and ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients", which both provide clarifying guidance to ASU 2016-08. The Company is assessing the transition approach it will utilize and potential impact of adoption.

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 using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. 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 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.

8

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 nine months ended June 24, 2016 and June 26, 2015 as presented in the consolidated statements of income and comprehensive income:

	Three Months Ended		Nine Months Ended	
Major line items constituting income (loss) from discontinued operations	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Net sales	\$0.7	\$ 102.2	\$61.0	\$ 312.1
Cost of sales	0.7	72.5	46.9	222.9
Selling, general and administrative expenses	—	21.8	20.1	71.8
Other	—	1.5	1.1	4.1
(Loss) income from discontinued operations	—	6.4	(7.1)	13.3
Gain on disposal of discontinued operations	1.7	—	99.0	—
Income from discontinued operations, before income taxes	1.7	6.4	91.9	13.3
Income tax (benefit) expense	—	4.5	(2.9)	5.4
Income from discontinued operations net of tax	\$1.7	\$ 1.9	\$94.8	\$ 7.9

During the three months ended June 24, 2016, the income tax impact was zero on the \$1.7 million gain recognized on disposal. During the nine months ended June 24, 2016, there was income tax benefit of \$0.7 million associated with the \$99.0 million gain recognized on disposal and a \$2.2 million benefit associated with the \$7.1 million loss from discontinued operations. The tax impact of the gain recognized on disposal was favorably impacted by receiving a benefit from permanently deductible items.

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 June 24, 2016 and September 25, 2015:

	June 24, 2016	September 25, 2015
Carrying amounts of major classes of assets included as part of discontinued operations		
Accounts receivable	\$ —	—\$ 68.5
Inventories	—	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	\$ —	—\$ 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	—	50.8
Total liabilities classified as held for sale in the balance sheet	\$ —	—\$ 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:

	Nine Months Ended June 24, 2016	June 26, 2015
Depreciation	\$ 8.7	\$ —
Amortization	2.0	—
Capital expenditures	1.65	1.4

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 June 24, 2016 and June 26, 2015 the Company recorded gains, net of tax, of \$1.9 million and \$0.5 million, respectively. During the nine months ended June 24, 2016 and June 26, 2015, the Company recorded gains, net of tax, of \$2.0 million and \$0.9 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 \$173.5 million, inclusive of existing inventory, and contingent sales-based 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 were \$52.0 million and \$10.6 million, respectively, at February 1, 2016. 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 final allocations of the fair value of the identifiable assets acquired and liabilities assumed for the Ikaria Acquisition and the preliminary allocations of the fair value of the identifiable assets acquired and liabilities assumed from the Therakos Acquisition and the Hemostasis Acquisition. 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	94.6	23.5	26.3
Intangible assets	132.7	1,170.0	1,971.0
Goodwill	0.3	430.4	795.0
Other assets, current and non-current ⁽¹⁾	7.9	42.1	174.3
Total assets acquired	238.8	1,707.3	3,043.9
Current liabilities	7.4	24.7	33.0
Other liabilities (non-current)	10.6	0.6	15.8
Deferred tax liabilities, net (non-current)	(4.7) 318.1	620.5
Contingent consideration	52.0	—	—
Total debt	—	344.8	1,121.0
Total liabilities assumed	65.3	688.2	1,790.3
Net assets acquired	\$ 173.5	\$1,019.1	\$1,253.6

(1) This amount includes zero, \$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	\$ 222.2	\$977.8	\$1,176.3
Plus: cash assumed in acquisition	3.3	41.3	77.3
Total consideration	225.5	1,019.1	1,253.6
Less: contingent consideration	(52.0) —	—
Net assets acquired	\$ 173.5	\$1,019.1	\$1,253.6

Intangible assets acquired consist of the following:

Edgar Filing: Mallinckrodt plc - Form 10-Q

Hemostasis Products	Amount	Amortization Period
Raplixa - Completed technology	\$ 73.0	15 years
Recothrom - Completed technology	42.7	13 years
PreveLeak - Completed technology	17.0	13 years
	\$ 132.7	

11

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 17.0%, 16.0% and 17.0% for Raplixia, 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 the 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. 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		Nine Months	
	Ended		Ended	
	June 24,	June 26,	June 24,	June 26,
	2016	2015	2016	2015
Net sales				
Therakos	\$52.5	\$ —	\$153.1	\$ —
Ikaria	126.8	84.8	361.1	84.8
	\$179.3	\$ 84.8	\$514.2	\$ 84.8
Operating income				
Therakos	\$11.0	\$ —	\$4.1	\$ —
Ikaria	56.7	13.7	148.1	13.7
	\$67.7	\$ 13.7	\$152.2	\$ 13.7

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 in the above table.

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

	Three Months Ended June 24, 2016		Nine Months Ended June 24, 2016	
	2015	2015	2015	2015
Intangible asset amortization				
Therakos	\$ 19.5	\$ —	\$ 58.5	\$ —
Ikaria	31.1	25.9	93.4	25.9
	\$ 50.6	\$ 25.9	\$ 151.9	\$ 25.9

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

	Three Months Ended June 24, 2016		Nine Months Ended June 24, 2016	
	2015	2015	2015	2015
Acquisition-related costs				
Hemostasis products	\$ 0.1	\$ —	\$ 2.6	\$ —
Therakos	—	—	0.3	—
Ikaria	—	23.5	0.2	30.6
	\$ 0.1	\$ 23.5	\$ 3.1	\$ 30.6

During the three months ended June 24, 2016 and June 26, 2015, the Company recognized \$2.6 million and \$4.0 million, respectively, of expense primarily associated with fair value adjustments of acquired inventory. During the nine months ended June 24, 2016 and June 26, 2015, the Company recognized \$20.9 million and \$39.2 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		Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Net sales	\$970.6	\$ 940.4	\$2,803.4	\$2,827.3
Income from continuing operations	195.7	76.2	442.2	256.9
Basic earnings per share from continuing operations	\$ 1.80	\$ 0.66	\$ 3.96	\$ 2.22
Diluted earnings per share from continuing operations	1.79	0.65	3.93	2.19

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. As of June 24, 2016, the Company has substantially completed the 2013 Mallinckrodt Program. 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		Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Specialty Brands	\$8.8	\$ 20.2	\$18.4	\$ 35.3
Specialty Generics	1.0	0.5	2.7	3.2
Nuclear Imaging	0.1	0.2	2.6	(7.1)
Corporate	5.4	1.8	8.4	2.2
Restructuring and related charges, net	15.3	22.7	32.1	33.6
Less: accelerated depreciation	(1.2)	—	(3.0)	(0.2)
Restructuring charges, net	\$14.1	\$ 22.7	\$29.1	\$ 33.4

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

	Three Months Ended		Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
2013 Mallinckrodt Program	\$14.4	\$ 3.3	\$28.5	\$1.1
Acquisitions	0.9	19.7	3.6	32.8
Other	—	(0.3)	—	(0.3)
Total	15.3	22.7	32.1	33.6
Less: non-cash charges, including accelerated share-based compensation expense	(1.2)	(1.5)	(3.0)	(9.4)
Total charges expected to be settled in cash	\$14.1	\$ 21.2	\$29.1	\$24.2

Non-cash charges during the three and nine months ended June 26, 2015 included \$1.5 million and \$9.2 million of accelerated share-based compensation expense related to employee terminations, primarily associated with the acquisition of Questcor. No similar charges occurred during the three and nine months ended June 24, 2016.

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

	2013		
	Mallinckrodt	Acquisitions	Total
	Program		
Balance at September 25, 2015	\$ 8.0	\$ 10.0	\$18.0
Charges	26.3	4.7	31.0
Changes in estimate	(0.8)	(1.1)	(1.9)
Cash payments	(11.9)	(11.7)	(23.6)
Reclassifications ⁽¹⁾	(1.2)	—	(1.2)
Balance at June 24, 2016	\$ 20.4	\$ 1.9	\$22.3

(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:

	2013
	Mallinckrodt
	Program
Specialty Brands	\$ 18.8
Specialty Generics	18.3
Nuclear Imaging (including CMDS)	69.9
Corporate	18.4
	\$ 125.4

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 \$89.3 million and \$1.2 million on income from continuing operations before income taxes of \$106.4 million and \$54.4 million for the three months ended June 24, 2016 and June 26, 2015, respectively. This resulted in effective tax rates of negative 83.9% and negative 2.2% for the three months ended June 24, 2016 and June 26, 2015, respectively. The Company recognized income tax benefits of \$175.0 million and \$45.6 million on income from continuing operations before income taxes of \$256.9 million and \$172.6 million for the nine months ended June 24, 2016 and June 26, 2015, respectively. This resulted in effective tax rates of negative 68.1% and negative 26.4% for the nine months ended June 24, 2016 and June 26, 2015, respectively.

The effective tax rate for the three months ended June 24, 2016, as compared with the three months ended June 26, 2015 decreased by 81.7 percentage points. Included within this net decrease was a 21.0 percentage point decrease attributable to differing levels of income from continuing operations before taxes for the three months ended June 24, 2016 as compared with the three months ended June 26, 2015. Also within this decrease was a 25.8 percentage point decrease related to the tax benefit of a U.K. tax credit on a dividend between affiliates, which occurred within the three months ended June 24, 2016, and a 12.4 percentage point decrease attributable to the recognition of previously unrecognized tax benefits. The remaining 22.5 percentage point 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 this 22.5 percentage point decrease to the tax rate, 16.0 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.

The effective tax rate for the nine months ended June 24, 2016, as compared with the nine months ended June 26, 2015 decreased by 41.7 percentage points. Included within this net decrease was an 11.0 percentage point decrease attributable to differing levels of income from continuing operations before taxes for the nine months ended June 24, 2016 as compared with the nine months ended June 26, 2015. Also within this decrease was a 10.7 percentage point decrease related to the tax benefit of a U.K. tax credit on a dividend between affiliates, which occurred within the nine months ended June 24, 2016, and a 2.5 percentage point decrease attributable to the recognition of previously unrecognized tax benefits. The remaining 17.5 percentage point net decrease was

15

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 this 17.5 percentage point decrease to the tax rate, 10.8 percentage points can be attributed to the change in operating income and 6.7 percentage points related to changes in acquisition financing and amortization, as well as other non-acquisition related items.

As a part of the Ikarria integration, the Company entered into an internal installment sale transaction during the three months ended December 25, 2015. The Ikarria 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 \$0.9 million. Significant components of this increase include \$26.1 million of deferred tax assets associated with net operating losses partially offset by \$21.1 million of deferred tax liabilities associated with intangibles and \$3.8 million associated with inventory.

During the nine months ended June 24, 2016, the Company recognized an income tax benefit of \$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 \$117.8 million at June 24, 2016 and \$89.2 million at September 25, 2015. The net increase of \$28.6 million primarily resulted from a net increase to current year positions of \$43.7 million, which was partially offset by decreases from settlements of \$2.4 million, net decreases to prior period tax positions of \$10.9 million, and a decrease from a lapse of statute of limitations of \$1.8 million. The increase to current year positions of \$43.7 million is predominately related to the recharacterization of existing non-current deferred tax liabilities as unrecognized tax benefits. This recharacterization did not impact the effective tax rate within the period. If favorably settled, \$116.1 million of unrecognized tax benefits at June 24, 2016 would favorably impact the effective tax rate. The total amount of accrued interest related to these obligations was \$21.6 million at June 24, 2016 and \$41.7 million at September 25, 2015.

On January 19, 2016, Tyco International plc ("Tyco International") announced it had entered into Stipulations of Settled Issues with the IRS to resolve certain disputes before the U.S. Tax Court. The disputes involved IRS audits of Tyco International for years in which companies that are now subsidiaries of Mallinckrodt were subsidiaries of Tyco International. On May 31, 2016, the U.S. Tax Court entered decisions consistent with the Stipulations of Settled Issues. As a result, all aspects of the disputes that were before the U.S. Tax court and Appeals Division of the IRS have been resolved for audit cycles from 1997-2007. 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 settlement.

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 \$31.0 million and the amount of related interest and penalties will decrease by up to \$20.1 million. Included within such amounts are releases indirectly associated with the final settlement of the Tyco-controlled debt litigation.

On April 1, 2016, the Company realized a tax benefit of \$27.4 million resulting from a U.K. tax credit on a dividend between affiliates. The related tax receivable is recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet.

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

	Three Months Ended		Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Earnings per share numerator:				
Income from continuing operations attributable to common shareholders before allocation of earnings to participating securities	\$195.7	\$55.6	\$431.9	\$218.2
Less: earnings allocated to participating securities	—	0.4	—	2.0
Income from continuing operations attributable to common shareholders, after earnings allocated to participating securities	195.7	55.2	431.9	216.2
Income from discontinued operations	3.6	2.4	96.8	31.3
Less: earnings from discontinued operations allocated to participating securities	—	—	—	0.3
Income from discontinued operations attributable to common shareholders, after allocation of earnings to participating securities	3.6	2.4	96.8	31.0
Net income attributable to common shareholders, after allocation of earnings to participating securities	\$199.3	\$57.6	\$528.7	\$247.2
Earnings per share denominator:				
Weighted-average shares outstanding - basic	108.6	116.3	111.7	115.5
Impact of dilutive securities	0.8	1.5	0.9	1.6
Weighted-average shares outstanding - diluted	109.4	117.8	112.6	117.1
Basic earnings per share attributable to common shareholders				
Income from continuing operations	\$1.80	\$0.47	\$3.87	\$1.87
Income from discontinued operations	0.03	0.02	0.87	0.27
Net income attributable to common shareholders	\$1.84	\$0.50	\$4.73	\$2.14
Diluted earnings per share attributable to common shareholders				
Income from continuing operations	\$1.79	\$0.47	\$3.84	\$1.85
Income from discontinued operations	0.03	0.02	0.86	0.26
Net income attributable to common shareholders	\$1.82	\$0.49	\$4.70	\$2.11

The computation of diluted earnings per share for the three and nine months ended June 24, 2016 excludes approximately 1.5 million and 1.4 million, respectively, 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 nine months ended June 26, 2015.

8. Inventories

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

	June 24, 2016	September 25, 2015
Raw materials and supplies	\$ 77.8	\$ 66.3
Work in process	192.9	124.2
Finished goods	87.0	91.3
	\$ 357.7	\$ 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:

	June 24, 2016	September 25, 2015
Property, plant and equipment, gross	\$1,957.9	\$ 1,870.6
Less: accumulated depreciation	(945.9)	(879.3)
Property, plant and equipment, net	\$1,012.0	\$ 991.3

Depreciation expense for property, plant and equipment was \$33.3 million and \$27.6 million during the three months ended June 24, 2016 and June 26, 2015, respectively. Depreciation expense for property, plant and equipment was \$100.5 million and \$73.8 million during the nine months ended June 24, 2016 and June 26, 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:

	June 24, 2016		September 25, 2015	
	Gross Carrying Amount	Accumulated Impairment	Gross Carrying Amount	Accumulated Impairment
Specialty Brands	\$3,438.5	\$ —	\$3,442.4	\$ —
Specialty Generics	207.0	—	207.0	—
Nuclear Imaging	119.5	(119.5)	119.5	(119.5)
Total	\$3,765.0	\$ (119.5)	\$3,768.9	\$ (119.5)

During the nine months ended June 24, 2016, the gross carrying value of goodwill within the Specialty Brands segment decreased by \$3.9 million. The decrease was primarily attributable to a favorable working capital settlement and changes in tax balances in the Therakos Acquisition purchase price allocation, which decreased \$6.2 million. These factors were partially offset by an increase of \$2.8 million from the Ikaria Acquisition and goodwill from the Hemostasis Acquisition.

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

	June 24, 2016		September 25, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable:				
Completed technology	\$10,028.8	\$ 1,275.4	\$9,896.0	\$ 765.8
Licenses	185.1	109.2	185.1	99.8
Customer relationships	28.8	7.1	28.1	4.4
Trademarks	82.2	9.0	82.1	6.2
Other	6.7	6.7	6.7	6.7
Total	\$10,331.6	\$ 1,407.4	\$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 nine months ended June 24, 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 \$175.8 million and \$149.0 million during the three months ended June 24, 2016 and June 26, 2015, respectively. Intangible asset amortization expense within continuing operations was \$524.2 million and \$396.7 million during the nine months ended June 24, 2016 and June 26, 2015, respectively. The estimated aggregate amortization expense on intangible assets owned by the Company is expected to be as follows:

Remainder of fiscal 2016	\$ 175.7
Fiscal 2017	701.4
Fiscal 2018	692.4
Fiscal 2019	692.1
Fiscal 2020	691.9

11. Debt

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

	June 24, 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	1.1	—	1.0	—
Capital lease obligation and vendor financing agreements	1.0	—	1.3	—
Total current debt	22.1	0.4	22.3	—
Long-term debt:				
Variable-rate receivable securitization	235.0	0.6	153.0	0.8
3.50% notes due April 2018	300.0	1.2	300.0	1.7
4.875% notes due April 2020	700.0	9.4	700.0	11.3
Term loan due March 2021	1,943.5	37.5	1,958.5	44.1
4.00% term loan due February 2022	6.3	—	6.9	—
9.50% debentures due May 2022	10.4	—	10.4	—
5.75% notes due August 2022	884.0	12.6	900.0	14.4
8.00% debentures due March 2023	4.4	0.1	4.4	—
4.75% notes due April 2023	600.0	6.5	600.0	7.1
5.625% notes due October 2023	740.0	12.2	750.0	13.7
5.50% notes due April 2025	700.0	10.9	700.0	11.9
Revolving credit facility	250.0	3.9	500.0	4.9
Capital lease obligation and vendor financing agreements	0.3	—	1.0	—
Total long-term debt	6,373.9	94.9	6,584.2	109.9
Total debt	\$6,396.0	\$ 95.3	\$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 June 24, 2016, the applicable interest rate on outstanding borrowings under the Company's revolving credit facility was approximately 2.91%, and there were \$250.0 million outstanding borrowings. As of June 24, 2016, the applicable interest rate on outstanding borrowings under the variable-rate receivable securitization was 1.25%, and outstanding borrowings totaled \$235.0 million. At June 24, 2016, the weighted-average interest rate for the term loan due March 2021 was 3.34%, and outstanding borrowings totaled \$1,963.5 million.

As of June 24, 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		Nine Months	
	Ended		Ended	
	June 24,	June 26,	June 24,	June 26,
	2016	2015	2016	2015
Service cost	\$0.9	\$ 1.2	\$2.9	\$ 3.6
Interest cost	4.2	4.4	12.6	13.3
Expected return on plan assets	(5.0)	(5.8)	(15.2)	(17.3)
Amortization of net actuarial loss	2.7	2.4	7.9	7.1
Amortization of prior service (credit)	(0.2)	(0.2)	(0.4)	(0.6)
Plan settlements	3.3	3.4	7.0	4.6
Net periodic benefit cost	\$5.9	\$ 5.4	\$14.8	\$ 10.7

The net periodic benefit credit for the Company's postretirement benefit plans for the three months ended June 24, 2016 and June 26, 2015 was approximately zero and \$0.5 million, respectively, and for the nine months ended June 24, 2016 and June 26, 2015 was approximately \$0.1 million and \$1.5 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.

Pension Plan Termination

On March 31, 2016, the Company terminated six of its previously frozen U.S. pension plans. The Company is evaluating alternatives to settle the outstanding obligations of these pension plans, and expects final settlement to occur during fiscal 2017, subject to customary regulatory approvals. The Company's ultimate settlement obligation will depend upon the nature of participant settlements and the prevailing market conditions.

13. Accumulated Other Comprehensive Income

The following summarizes the change in accumulated other comprehensive income for the nine months ended June 24, 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	(1.1)	—	(15.5)	(16.6)
Amounts reclassified from accumulated other comprehensive income	(59.4)	0.5	8.9	(50.0)
Net current period other comprehensive income (loss)	(60.5)	0.5	(6.6)	(66.6)
Balance at June 24, 2016	\$ (0.3)	\$ (5.9)	\$ (59.5)	\$ (65.7)

The following summarizes reclassifications out of accumulated other comprehensive income for the three and nine months ended June 24, 2016:

	Amount Reclassified from Accumulated Other Comprehensive Income		Line Item in the Unaudited Condensed Statement of Income
	Three Months Ended June 24, 2016	Nine Months Ended June 24, 2016	
Amortization of unrealized gain on derivatives	\$ 0.2	\$ 0.5	Interest expense
Income tax provision	—	—	Income tax benefit
Net of income taxes	0.2	0.5	
Amortization of pension and post-retirement benefit plans:			
Net actuarial loss	2.7	7.9	(1)
Prior service credit	(0.7)	(2.0)	(1)
Disposal of discontinued operations	—	0.8	Income from discontinued operations, net of income taxes
Plan settlements	3.3	7.0	(1)
Total before tax	5.3	13.7	
Income tax provision	(1.8)	(4.8)	Income tax benefit
Net of income taxes	3.5	8.9	
Currency translation	(0.7)	(59.4)	Income from discontinued operations, net of income taxes
Total reclassifications for the period	\$ 3.0	\$ (50.0)	

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

Edgar Filing: Mallinckrodt plc - Form 10-Q

The following summarizes the change in accumulated other comprehensive income for the nine months ended June 26, 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	(53.8)	—	0.3	(53.5)
Amounts reclassified from accumulated other comprehensive income	—	0.4	5.1	5.5
Net current period other comprehensive income (loss)	(53.8)	0.4	5.4	(48.0)
Balance at June 26, 2015	\$ 77.2	\$ (6.4)	\$ (53.1)	\$ 17.7

The following summarizes reclassifications out of accumulated other comprehensive income for the three and nine months ended June 26, 2015:

	Amount Reclassified from Accumulated Other Comprehensive Income		
	Three Months Ended June 26, 2015	Nine Months Ended June 26, 2015	Line Item in the Unaudited Condensed Statement of Income
Amortization of unrealized gain on derivatives	\$ 0.2	\$ 0.5	Interest expense
Income tax provision	—	(0.1)	Income tax benefit
Net of income taxes	0.2	0.4	
Amortization of pension and post-retirement benefit plans:			
Net actuarial loss	2.4	7.1	(1)
Prior service credit	(1.2)	(3.5)	(1)
Plan settlements	3.4	4.6	
Total before tax	4.6	8.2	
Income tax provision	(1.7)	(3.1)	Income tax benefit
Net of income taxes	2.9	5.1	
Total reclassifications for the period	\$ 3.1	\$ 5.5	