AUSTINS STEAKS & SALOON INC
Form 10QSB/A
July 05, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

(Mark One)

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

For the period ended September 30, 2000

or

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

Commission file number **0-25366**

AUSTINS STEAKS & SALOON, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	**86-0723400**
(State or other jurisdiction of Incorporation or organization)	(IRS Employer Identification No.)

317 Kimball Avenue, NW
Roanoke, VA 24016
(Address of principal executive office)

(540) 345-3195
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 / /

As of June 15, 2001, there were 12,079,900 shares of the issuer's common stock outstanding.

THIRD QUARTER REPORT OF FORM 10-QSB/A

AUSTINS STEAKS & SALOON, INC.
Form 10-QSB/A Index
Nine Months Ended September 30, 2000

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

AUSTINS STEAKS & SALOON, INC.
Consolidated Balance Sheets
September 30, 2000 and December 31, 1999

	September 30, 2000	December 31, 1999
	(Restated)	
Assets		
Current assets:		
Cash and cash equivalents	$ 2,523,741	$ 510,833
Trade accounts receivable, net of allowance for doubtful accounts of $220,833 in 2000 and $185,062 in 1999	939,086	910,552
Current installments of notes receivable	76,784	131,584

	September 30, 2000	December 31, 1999
Other receivables	757,035	421,728
Inventories	1,248,257	383,281
Prepaid expenses	683,514	242,556
Deferred income taxes	202,372	202,372
Total current assets	6,430,789	2,802,906
Notes receivable, less allowance for doubtful accounts of $128,822 in 2000 and $148,902 in 1999, excluding current installments	47,925	106,249
Property and equipment, net	9,342,437	9,820,221
Franchise royalty contracts, net of accumulated amortization of $4,254,494 in 2000 and $3,781,772 in 1999	5,199,937	5,672,659
Goodwill, net of accumulated amortization of $1,864,335 in 2000 and $1,603,760 in 1999	4,959,467	5,220,042
Favorable lease rights, net of accumulated amortization of $116,343 in 2000 and $35,383 in 1999	437,490	518,450
Deferred income taxes	873,418	873,418
Financing costs, net of accumulated amortization of $43,020 in 2000 and $30,875 in 1999	147,283	159,428
Other assets, net	425,962	369,161
	$ 27,864,708	$ 25,542,534
Liabilities and Stockholders' Equity		
Current liabilities:		
Bank overdraft	$	$ 149,305
Credit line note payable to bank	476,707	446,139
Current installments of long-term debt	1,217,912	2,686,973
Current installments of obligations under capital leases	45,547	39,851
Accounts payable	5,413,719	2,780,388
Accrued expenses and other	2,465,726	676,202
Total current liablilities	9,619,611	6,778,858
Long-term debt, excluding current installments	5,008,383	5,576,155
Obligations under capital leases, excluding current installments		44,339
Total liabilities	14,627,994	12,399,352
Stockholders' equity:		
Common stock; $.01 par value. Authorized 20,000,000 shares; issued and outstanding 12,079,900 and 12,103,824 shares in 2000 and 1999, respectively	120,799	121,038
Additional paid-in capital	8,625,150	8,677,425
Retained earnings	4,490,765	4,344,719
Total stockholders' equity	13,236,714	13,143,182
Commitments and contingencies	$ 27,864,708	$ 25,542,534

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
	(Restated)		(Restated)	
Revenues:				
Company-operated stores	$ 30,704,023	$ 10,246,135	$ 56,253,197	$ 27,037,876
Franchise operations	1,414,789	1,461,618	4,267,583	4,391,805
Other	131,054	137,084	390,883	398,250
Total revenues	32,249,866	11,844,837	60,911,663	31,827,931
Costs and expenses:				
Cost of company-operated stores	24,383,407	7,340,054	42,595,688	18,825,151
Cost of franchise operations	548,612	572,760	1,673,784	1,661,879
Other cost of operations	98,704	101,721	292,541	299,845
Restaurant operating expenses	3,710,631	1,228,028	6,778,976	3,172,286
General and administrative	2,969,995	1,551,866	6,374,035	3,897,044
Depreciation and amortization	622,735	647,155	1,888,319	1,751,831
Total costs and expenses	32,334,084	11,441,584	59,603,343	29,608,036
Income (loss) from operations	(84,218)	403,253	1,308,320	2,219,895
Other income (expense):				
Interest expense	(169,248)	(184,791)	(574,302)	(571,838)
Interest income	11,452	28,225	29,086	39,994
Other	(219,798)	(227,350)	(522,496)	(1,407,903)
	(377,594)	(383,916)	(1,067,712)	(1,939,747)
Income (loss) before income tax expense (benefit)	(461,812)	19,337	240,608	280,148
Income tax expense (benefit)	(174,503)	6,300	94,562	97,600
Net Income (loss)	$ (287,309)	$ 13,037	$ 146,046	$ 182,548
Earnings (loss) per share:				
Basic	(0.02)		0.01	0.02
Diluted	(0.02)		0.01	0.02

See accompanying notes to consolidated financial statements.

AUSTINS STEAKS & SALOON, INC.

Consolidated Statement of Changes in Stockholders' Equity

Nine Months Ended September 30, 2000

(Unaudited)
(Restated)

	Common Stock				
	Shares	Dollars	Additional Paid-in Capital	Retained Earnings	Total
Balances, December 31, 1999	12,103,824	$ 121,038	$ 8,677,425	$ 4,344,719	$ 13,143,182
Net income				146,046	146,046
Repurchase of common stock	(23,924)	(239)	(52,275)		(52,514)
Balances, September 30, 2000	12,079,900	$ 120,799	$ 8,625,150	$ 4,490,765	$ 13,236,714

See accompanying notes to consolidated financial statements.

AUSTINS STEAKS & SALOON, INC.

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2000 and 1999

(Unaudited)

	September 30,	
	2000	1999
	(Restated)	
Cash flows from operating activities:		
Net Income	$ 146,046	$ 182,548
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	998,874	848,008
Amortization of franchise royalty contracts, goodwill, financing costs and other assets	889,445	903,823
Provision for bad debts	35,000	77,603
Provision for deferred taxes		(169,760)
Gain on sale/disposal of property and equipment		(96,808)
(Increase) decrease in:		
Trade accounts receivable	(63,534)	9,824
Notes receivable	113,124	23,560

	September 30,	
Other receivables	(335,307)	(258,996)
Inventories	(864,976)	84,197
Prepaid expenses	(440,958)	(86,813)
Other assets	(119,844)	(22,267)
Increase (decrease) in:		
Accounts payable	2,633,331	904,048
Accrued expenses	1,789,524	205,828
Net cash provided by operating activities	4,780,725	2,604,795
Cash flows from investing activities:		
Additions to property and equipment	(521,090)	(1,873,347)
Acquisition costs, net of cash received		(570,813)
Proceeds from sale of property and equipment		70,585
Net cash used in investing activities	(521,090)	(2,373,575)
Cash flows from financing activities:		
Net decrease in bank overdraft	(149,305)	
Proceeds from long-term debt	119,570	1,700,000
Net increase in credit line note payable	30,568	62,593
Payments on long-term debt and capital leases	(2,195,046)	(2,093,112)
Proceeds from issuance of common stock in private placement		2,919,578
Proceeds from exercise of common stock options		232,500
Repurchase of common stock	(52,514)	(3,420,000)
Net cash used in financing activities	(2,246,727)	(598,441)
Net increase (decrease) in cash and cash equivalents	2,012,908	(367,221)
Cash and cash equivalents at beginning of period	510,833	643,536
Cash and cash equivalents at end of period	$ 2,523,741	$ 276,315

See accompanying notes to consolidated financial statements.

AUSTINS STEAKS & SALOON, INC.

Notes to Consolidated Financial Statements

September 30, 2000 and 1999

(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Restatement

During June 2000, Austins Steaks & Saloon, Inc. ("Austins") negotiated a short-term lease agreement with Franchise Finance Corporation of America (FFCA). The lease agreement with FFCA was entered into by Western Sizzlin Stores of Virginia (WSSVA), an entity which was formed for the sole purpose of entering into this agreement. Under the short-term lease agreement, Austins operated 97 restaurant units, owned by FFCA, and was entitled to receive from WSSVA, 3.5 percent of gross sales as a management fee for operating the restaurants. The restaurants' operating results, including all revenues and expenses, were included in WSSVA's financial statements.

In Austins' quarterly report on Form 10-QSB for the quarter ended September 30, 2000, Austins included in its consolidated financial statements the management fees earned under its agreement with WSSVA, and did not consolidate WSSVA's operating results. Subsequent to the original Form 10-QSB filing, Austins determined that, based on Austins' substantive control of WSSVA, the operating results of WSSVA should be consolidated in Austins' consolidated financial statements. The restated quarterly amounts shown below reflect the consolidation of WSSVA in Austins' consolidated financial statements, including the elimination of the intercompany management fee and the consolidation of all revenues and expenses of the restaurants managed under the lease agreement with FFCA.

Condensed Consolidated Balance Sheet Data

September 30, 2000

	Previously Filed	Restated
Total assets	$ 24,505,892	$ 27,864,708
Total liabilities	10,499,020	14,627,994
Total stockholders' equity	14,006,872	13,236,714

Condensed Consolidated Statement of Operations Data

Nine Months Ended September 30, 2000

	Previously Filed	Restated
Net revenues	$ 34,558,596	$ 60,911,663
Net income	916,204	146,046

(b) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Austins Steaks & Saloon, Inc. ("Austins" or the "Company") in accordance with accounting principles generally accepted in the United States of American for interim financial reporting information and the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all material reclassifications and adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of

the results of operations, financial position and cash flows for each period shown have been included. Operating results for interim periods are not necessarily indicative of the results for the full year. The unaudited consolidated financial statements and notes are presented as permitted by Form 10-QSB and do not contain certain information included in the Company's annual consolidated financial statements and notes. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 1999.

(c) Reclassifications

Certain reclassifications have been made to 1999 financial statement amounts to conform to the 2000 presentation.

(2) Business Combination

Effective July 1, 1999, Austins Steaks & Saloon, Inc. ("Austins"), a Delaware corporation, merged with The WesterN SizzliN Corporation ("Western SizzliN"), a Tennessee corporation, located in Roanoke, Virginia. The assets and business of Western SizzliN are now owned by a wholly owned subsidiary of Austins, The WesterN SizzliN Corporation, a Delaware corporation. As a result of the merger, Austins' six moderately priced, casual dining, full service restaurants located in Arizona, Nebraska and New Mexico have been combined with WesterN SizzliN.

Effective June 30, 1999, each of the outstanding 2,700,406 shares of common stock were split 1 for 3.135, leaving a total of 861,374 Austins shares outstanding prior to the merger. Upon completion of the merger, the Austins shareholders own approximately 7 percent of the outstanding equity and the WesterN SizzliN shareholders own approximately 93 percent of the outstanding equity of the combined company.

Pursuant to the merger, each share of WesterN SizzliN common and series B convertible preferred stock (4,339,000 and 874,375 shares, respectively) were converted into two shares of Austin's common stock. Also effective with the merger, each WesterN SizzliN common stock warrant (371,250 warrants) was also converted into two shares of Austins' common stock.

The business combination has been accounted for as a reverse acquisition using the purchase method of accounting. In the acquisition, the shareholders of the acquired company, WesterN SizzliN, received the majority of the voting interest in the surviving consolidated company. Therefore, Western SizzliN was deemed to be the acquiring company for financial reporting purposes and accordingly, all of the assets and liabilities of Austins have been recorded at fair value and the operations of Austins have been reflected in the operations of the combined company from July 1, 1999, the date of acquisition.

The purchase of the business combination was determined based on the market price of Austins' securities over a reasonable period of time before and after the two companies reached an agreement on the purchase price and the proposed transaction was announced. On February 23, 1999, Austins and WesterN SizzliN signed a letter of intent agreeing on the purchase price and announced the proposed transaction. The average closing market price for the five business day period beginning February 19, 1999 and ending February 25, 1999 for Austins was $1.2695. Applying this price per share to the

Austins' presplit common shares issued, and including the estimated direct costs incurred as a result of the acquisition of $570,813, resulted in a deemed purchase price of $3,999,081.

The aggregate purchase price of the acquisition was allocated based upon management's best estimate of the fair values of identifiable assets and liabilities of Austins at the date of acquisition as follows:

Current assets (including cash of $10,431)	$	204,675
Property and equipment, net		2,672,361
Other assets		380,615
Favorable lease rights		553,833
Goodwill		925,372
Trademarks		76,283
Deferred tax assets		1,344,184
Long-term debt		(1,204,264)
Current liabilities		(684,050)
Note payable to shareholder		(269,928)
Total	$	3,999,081

Goodwill resulting from the acquisition is being amortized on a straight-line basis over 15 years.

(3) Legal Settlement and Private Placement of Common Stock

On September 10, 1999, the Company completed its settlement agreement with David K. Wachtel, Jr. with respect to long-standing litigation initiated in February 1995. Under the terms of the settlement agreement, Austins paid Mr. Wachtel $1,000,000 in settlement of all claims he had in the litigation, which was included in other expense for the nine-month period ended September 30, 1999. Additionally, Mr. Wachtel withdrew his notice to dissent from the merger between Austins and the WesterN SizzliN with respect to the 684,000 WesterN SizzliN shares (premerger) owned by him, and Austins repurchased these shares for the sum of $3,420,000.

In order to obtain the funds with which to pay Mr. Wachtel under the settlement agreement, the Company conducted a private placement of its common stock at prices ranging from $2.25 to $2.50 per share to qualified shareholders, principally former Western SizzliN stockholders. On the closing date of September 10, 1999, the Company had received approximately $2.9 million of proceeds which it used, along with approximately $1.5 million of bank and other financing to complete the settlement with Mr. Wachtel.

As a part of the private placement, Austins issued 1,286,200 shares of its common stock to the qualified investors-purchasers. The holders of a majority of the stock ultimately acquired in the private placement have the right, for the one-year period commencing March 15, 2000, to request Austins to file a registration statement with the Securities and Exchange Commission to permit the resale of the stock. The registration must remain effective for 45 days and Austins must cover the costs of the registration. If any investor sells all of his or her share in a single three-month period utilizing Rule 144, then the registration rights will not apply to that investor.

(4) Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Stock options for shares of common stock were not included in computing diluted earnings per share for the three and nine-month periods ended September 30, 2000 because these effects are anti-dilutive. Common stock warrants are not included in computing diluted earnings per share, prior to their conversion in connection with the reverse merger acquisition, since the conditions for their issuance, such as an initial public offering or registration of the Company's common stock, had not taken place.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years included:

	Income (Loss) (Numerator)	Weighted Average Shares (Denominator)	Earnings Per Share Amount
	(Restated)		
Three months ended September 30, 2000			
Net loss basic and diluted	$ (287,309)	12,095,936	(0.02)
Three months ended September 30, 1999			
Net income basic	$ 13,037	8,955,022	
Effect of dilutive stock options		114,539	
Net income diluted	$ 13,037	9,069,561	
Nine months ended September 30, 2000			
Net income basic and diluted	$ 146,046	12,101,195	0.01
Nine months ended September 30, 1999			
Net income basic	$ 182,548	8,772,491	
Effect of dilutive stock options		38,599	0.02
Net income diluted	$ 182,548	8,811,090	0.02

(5) Reportable Segments

The Company has defined two reportable segments: Company-operated restaurants and franchising and other. The Compnay-operated restaurant segment consists of the operations of all Company-operated restaurants and derives its revenues from the operations of "WesterN SizzliN Steakhouse," "Great American Steak & Buffet," "WesterN SizzliN Wood Grill," "Quincy's Steakhouse and "Austins Steaks & Saloon." The franchising and other segment consists of franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from franchisees.

Generally, the Company evaluates performance and allocates resources based on income from operations before income taxes and eliminations. Administrative and capital costs are allocated to

segments based upon predetermined rates or actual or estimated resource usage. The Company accounts for intercompany sales and transfers as if the sales or transfers were with third parties and eliminates the related profit in consolidation.

Reportable segments are business units that provide different products or services. Separate management of each segment is required because each business unit is subject to different operational issues and strategies. Through September 30, 2000, all revenues for each business segment were derived from business activities conducted with customers located in the United States. No single external customer accounted for 10 percent or more to the Company's consolidated revenues.

The following table summarizes reportable segment information:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
	(Restated)		(Restated)	
Revenues from reportable segments:				
Restaurants	$ 30,704,023	10,246,135	56,253,197	27,037,876
Franchising and other	1,545,843	1,598,702	4,658,466	4,790,055
Total revenues	$ 32,249,866	11,844,837	60,911,663	31,827,931
Depreciation and amortization:				
Restaurants	439,247	447,545	1,337,855	1,153,001
Franchising and other	183,488	199,610	550,464	598,830
Total depreciation and amortization	$ 622,735	647,155	1,888,319	1,751,831
Interest expense:				
Restaurants	150,469	172,344	485,125	495,006
Franchising and other	18,779	12,447	89,177	76,832
Total interest expense	$ 169,248	184,791	574,302	571,838
Interest income:				
Restaurants	10,128	27,039	21,498	21,183
Franchising and other	1,324	1,186	7,588	18,811
Total interest income	$ 11,452	28,225	29,086	39,994
Income (loss) before income taxes:				
Restaurants	(1,561,819)	(225,749)	(1,786,114)	136,289
Franchising and other	1,100,007	245,086	2,026,722	143,859

	Three Months Ended September 30,		Nine Months Ended September 30,	
Total income (loss) before income taxes	$ (461,812)	19,337	240,608	280,148

	September 30, 2000	September 30, 1999
Gross fixed assets:		
Restaurants	11,963,919	12,927,921
Franchising and other	1,486,639	1,407,537
Total gross fixed assets	$ 13,450,558	14,335,458
Expenditures for fixed assets (including acquisition):		
Restaurants	401,070	4,648,829
Franchising and other	120,020	133,658
Total expenditures for fixed assets	$ 521,090	4,782,487

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

Overview

Austins Steaks & Saloon, Inc. (the Company) underwent a reverse merger acquisition, effective July 1, 1999, with the WesterN SizzliN Corporation (WSC). A further description of the transaction is provided in note 2 to the consolidated financial statements included in this quarterly report.

As of September, the Company operated and franchised a total of 316 restaurants located in 24 states, including 112 company-owned and 204 franchise restaurants. The restaurants include a family steakhouse concept, a steak and buffet concept, and the casual dining steakhouse concept.

During June 2000, the Company negotiated a short-term lease agreement with Franchise Finance Corporation of America (FFCA). The lease agreement with FFCA was entered into by Western Sizzlin Stores of Virginia (WSSVA), an entity which was formed for the sole purpose of entering into this agreement. Under the short-term lease agreement, the Company leased and operated 97 Quincy Steakhouses, owned by FFCA. The restaurants' operating results, including all revenues and expenses, were included in the Company's consolidated financial statements for the quarter ended September 30, 2000.

From time to time, the Company may publish forward-looking statements relating to certain matters, including anticipated financial performance, business prospects, the future opening of Company-operated and franchised restaurants, anticipated capital expenditures, and other matters. All statements other than statements of historical fact contained in the Form 10-QSB or in any other report of the Company are forward-looking statements. The Private Securities Litigation Reform Act of 1995 provided a safe harbor for forward-looking statements. In order to comply with the terms of that safe harbor, the Company notes that a variety of factors, individually or in the aggregate, could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements including, without limitation, the following: the ability of the Company or its franchises to obtain suitable locations for restaurant development; consumer spending trends and habits; competition in the restaurant segment with respect to price, service, location, food quality and personnel resources; weather conditions in the Company's operating regions; laws and government regulations; general business and economic conditions; availability of capital; success of operating initiatives and marketing and promotional efforts; and changes in accounting policies. In addition, the Company disclaims any intent or obligation to update those forward-looking statements.

Results of Operations

Net income (loss) for the three and nine-month periods ended September 30, 2000 was ($287,309) and $146,046 respectively, as compared to $13,037 and $182,548 for the three and nine-month periods ended September 30, 1999, respectively. The results for the nine-month period ended September 30, 2000 were negatively effected by the consolidation of the Quincy operations. The Quincy operations had a net loss of approximately ($770,000) for the nine-months ended September 30, 2000. The results for the nine-month period ended September 30, 1999 were negatively affected by a $1,000,000 charge related to the settlement of litigation with the former president of WSC.

The following table sets forth for the periods presented the percentage relationship to total revenues of certain items included in the consolidated statements of operations and certain restaurant data for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
	(Restated)		(Restated)	
Revenues:				
Company-operated stores	95.2%	86.5%	92.4%	85.0%
Franchise royalties and fees	4.4	12.3	7.0	13.8
Other sales	0.4	1.2	0.6	1.2
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of company-operated stores	75.6	62.0	69.9	59.2
Cost of franchise operations	1.7	4.8	2.7	5.2
Other cost of operations	0.3	0.9	0.5	0.9
Restaurant operating expenses	11.5	10.4	11.1	10.0
General and administrative	9.2	13.1	10.5	12.2
Depreciation and amortization	2.0	5.4	3.1	5.5
Total costs and expenses	100.3	96.6	97.8	93.0
Income (loss) from operations	(0.3)	3.4	2.2	7.0
Other income (expense)	(1.1)	(3.2)	(1.8)	(6.1)
Income (loss) before income tax expense	(1.4)	0.2	0.4	0.9
Income tax expense (benefit)	(0.5)	0.1	0.2	0.3
Net income (loss)	(0.9)%	0.1%	0.2%	0.6%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Restaurant Data				
Number of Company-Operated Restaurants:				
Beginning of period	25	20	26	20
Opened				
Closed			1	
Acquired from franchisee or other		6		6

	Three Months Ended September 30,		Nine Months Ended September 30,	
End of period	25	26	25	20
Number of Quincy-operated Restaurants:				
Beginning of lease agreement	97		97	
Closed	10		10	
End of period	87		87	
Number of U.S. Franchised Restaurants:				
Beginning of period	207	219	210	225
Opened				3
Closed	3	4	6	13
Acquired by Company				
End of period	204	215	204	215

Quarter and Year-To-Date Ended September 30, 2000 Compared to Quarter and Year-To-Date Ended September 30, 1999

Total revenues increased 172.3 percent to $32.2 million for the three-months ended September 30, 2000 as compared to $11.8 million for the comparable three-month period ended September 30, 1999. Total revenues for the nine-month period ended September 30, 2000 increased 91.4 percent to $60.9 million from $31.8 million for the nine months ended September 30, 1999. The three and nine month increase is primarily attributable to the consolidation of the Quincy operations, which had revenue of approximately $20.7 million and $26.4 million for the three and nine months ended September 30, 2000.

Costs and Expenses

Cost of company-operated stores, consisting of food, beverage, and employee costs increased $17.0 million for the three months ended September 30, 2000 from $7.3 million in 1999 to $24.3 million in 2000 and as a percentage of total revenues from 62.0% in 1999, to 75.6% in 2000. For the nine months ended September 30, 2000, the cost of company-operated stores increased $23.8 million from $18.8 million in 1999 to $42.6 million in 2000 and as a percentage of total revenues from 59.2% in 1999 to 69.9% in 2000. The increase is due to the addition of the Quincy operations. The primary reason for the increase of these costs as a percentage of total revenues is the costs of the Quincy stores, whose operating margins were significantly less than the Company's other operated restaurants.

Cost of franchise operations and other cost of operations decreased as a percentage of total revenues to 2.0% and $647,000 for the three months ended September 30, 2000 from 5.7% and $674,000 in 1999. These costs decreased to 3.2% and $1.97 million for the nine months ended September 30, 2000 from 6.1% and $1.96 million in 1999. The addition of the Quincy units did not effect these costs, but due to the increased sales did effect the percentages.

Restaurant operating expenses which include utilities, maintenance and other such costs of the company-operated stores increased $2.5 million and $3.6 million for the three and nine months ended September 30, 2000. The majority of this increase is due to the addition of the Quincy stores. These expenses as a percentage of total revenues increased to 11.5% and 11.1% in 2000 compared to 10.4% and 10.0% in 1999 for the three and nine months ended September 30, as the operating costs for the Quincy units were higher as a percentage of total revenue than the Company's other operated restaurants.

General and administrative expenses increased $1.4 million and $2.5 million for the three and nine months ended September 30, 2000 over the respective prior periods due to the addition of the Quincy operations. General and administrative expenses decreased as a percentage of total revenues from 13.1% and 12.2% in 1999 to 9.2% and 10.8% in 2000 for the three and nine months ended September 30. This decrease in percentage is due to the fact that while significant revenues were added with the Quincy stores, the company's administrative function was able

to handle the additional workload without incurring significant additional incremental cost.

Depreciation and amortization expense is comparable for the three and nine months ended September 30, 2000 and 1999.

Other Income (Expense)

The largest single item affecting other income and expense in 1999 is the settlement of long-standing litigation with WSC's former president in June 1999. The settlement, including $1 million related to the lawsuit, is more fully discussed in note 3 to the consolidated financial statements and is included in other expense.

Interest expense for the three-month and nine-month periods ended September 30, 2000 and 1999 is comparable. Interest income fluctuates according to the levels of available and investable cash balances. The Company employs a cash management system whereby available balances are invested on an overnight basis.

Income tax expense is directly affected by the levels of pretax income. The Company's effective tax rate of approximately 39.3 percent in 2000 is comparable to the annualized rate of 38.3 percent in 1999.

Liquidity and Capital Resources

As is customary in the restaurant industry, the Company has operated with negative working capital. Historically, the Company has leased the majority of its restaurants and through a strategy of controlled growth has financed expansions from operating cash flow, proceeds from the sale of common stock, the utilization of the Company's line of credit and long-term debt provided by various lenders.

For the nine months ended September 30, 2000 and 1999, the Company had net cash provided by operating activities of $4,780,725 and $2,604,795, respectively. The increase is attributable to consolidation of the Quincy's operations. Cash flows from operations were the primary source of capital expenditures and debt repayments during the periods. In addition, the Company utilizes its existing line of credit to provide additional short-term funding. Management is actively reviewing available financing alternatives to provide cash for future expansion, restructure existing debt, and provide additional working capital; however, no final agreements have been reached.

Impact of Inflation

The impact of inflation on the costs of food and beverage products, labor and real estate can affect the Company's operations. Over the past few years, inflation had had a lesser impact on the Company's operations due to the lower rates of inflation in the nation's economy and economic conditions in the Company's market areas.

Management believes the Company has historically been able to pass on increased costs through certain selected menu price increases and has offset increased costs by increased productivity and purchasing efficiencies, but there can be no assurance that the Company will be able to do so in the future. Management anticipates that the average cost of restaurant real estate leases and construction cost could increase in the future which could affect the Company's ability to expand. In addition, mandated health care or additional increases in the federal or state minimum wages could significantly increase the Company's costs of doing business.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings N/A

Item 2. Change in Securities and Use of Proceeds N/A

Item 3. Defaults Upon Senior Securities N/A

Item 4. Submission of Matters to a Vote of Security Holders N/A

Item 5. Other Information N/A

Item 6. Exhibits and Reports on form 8-K:

(a)

Exhibits:

None

(b)

Reports on Form 8-K

None

SIGNATURES

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

Austins Steaks & Saloon, Inc.

Date: July 5, 2001

By: /s/ ROBYN B. MABE

Robyn B. Mabe
Chief Financial Officer

QuickLinks

mes New Roman">**Assets**

Current Assets:

Cash and cash equivalents

$275.5 $

Accounts receivable, less allowance for doubtful accounts of $4.6 and $9.4

400.8 315.4

Inventories

403.1 435.3

Deferred income taxes

171.1 119.9

Prepaid expenses and other current assets

134.4 31.0

Total current assets

1,384.9 901.6

Property, plant and equipment, net	997.4	945.2
Goodwill	532.0	507.5
Intangible assets, net	422.1	365.6
Other assets	220.2	179.0
Total Assets	$3,556.6	$2,898.9
Liabilities and Shareholders Equity		
Current Liabilities:		

Current maturities of long-term debt	$1.5	$1.3
Accounts payable	120.9	112.5
Accrued payroll and payroll-related costs	66.5	60.3
Accrued branded rebates	34.6	24.3
Accrued and other current liabilities	376.7	221.7
Total current liabilities	600.2	420.1
Long-term debt	918.3	8.9
Pension and postretirement benefits	108.0	189.6
Environmental liabilities	39.5	136.5
Deferred income taxes	310.1	73.7

Other income tax liabilities

153.1 19.4

Other liabilities

171.8 158.8

Total Liabilities

2,301.0 1,007.0

Commitments and contingencies (Note 18)

Shareholders Equity:

Preferred shares, $0.20 par value, 500,000,000 authorized; none issued or outstanding

Ordinary shares, $0.20 par value, 500,000,000 authorized; 57,713,873 issued; 57,713,390 outstanding

11.5

Ordinary shares held in treasury at cost, 483

Additional paid-in capital

1,102.1

Retained earnings

33.5

Parent company investment	
1,807.0	
Accumulated other comprehensive income	
108.5	84.9
Total Shareholders Equity	
1,255.6	1,891.9
Total Liabilities and Shareholders Equity	
$3,556.6	$2,898.9

See Notes to Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(in millions)

	Fiscal Year		
	2013	**2012**	**2011**
Cash Flows From Operating Activities:			
Net income	$ 58.8	$ 134.6	$ 150.7
(Income) loss from discontinued operations, net of income taxes	(1.0)	6.7	6.3
Income from continuing operations	57.8	141.3	157.0
Adjustments to reconcile net cash provided by operating activities:			
Depreciation and amortization	139.6	130.9	119.8
Share-based compensation	16.2	10.7	10.3
Deferred income taxes	(9.0)	9.0	36.4
Other non-cash items	10.3	(10.7)	(11.4)
Changes in assets and liabilities, net of the effects of acquisitions:			
Accounts receivable, net	(181.2)	(6.8)	0.7
Inventories	27.7	(62.8)	12.2
Accounts payable	7.2	(8.3)	4.6
Income taxes	60.7	79.4	36.0
Accrued and other liabilities	22.6	(38.7)	(3.5)
Other	(16.0)	11.8	8.1
Net cash provided by operating activities	135.9	255.8	370.2
Cash Flows From Investing Activities:			
Capital expenditures	(147.9)	(144.2)	(120.4)
Acquisition, net of cash acquired	(88.1)		
Purchase of product rights		(13.2)	
Other	1.3	5.2	7.8
Net cash (used in) investing activities	(234.7)	(152.2)	(112.6)
Cash Flows From Financing Activities:			
Issuance of external debt	898.1		
Repayment of capital leases	(1.3)	(1.3)	(1.3)
Debt financing costs	(12.0)		
Excess tax benefit from share-based compensation	3.4	1.7	1.8
Net transfers to parent	(515.9)	(104.0)	(258.1)
Proceeds from exercise of share options	0.6		
Other	0.1		
Net cash provided by (used in) financing activities	373.0	(103.6)	(257.6)

Effect of currency rate changes on cash	1.3		
Net increase in cash and cash equivalents	275.5		
Cash and cash equivalents at beginning of period			
Cash and cash equivalents at end of period	$ 275.5	$	$
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest, net	$ 0.8	$ 0.6	$ 0.6
Cash paid for income taxes, net	15.0	4.9	11.6

See Notes to Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

CONSOLIDATED AND COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(in millions)

	Ordinary Shares		Additional			Parent	Accumulated Other	Total
	Number	Par Value	Paid-In Capital	Retained Earnings	Contributed Surplus	Company Investment	Comprehensive Income	Shareholders Equity
Balance at September 24, 2010	$	$	$	$		$ 1,749.3	$ 86.6	$ 1,835.9
Net income						150.7		150.7
Currency translation adjustments							(0.5)	(0.5)
Minimum pension liability, net of tax							12.4	12.4
Net transfers to parent						(209.8)		(209.8)
Balance at September 30, 2011						1,690.2	98.5	1,788.7
Net income						134.6		134.6
Currency translation adjustments							(2.9)	(2.9)
Minimum pension liability, net of tax							(10.7)	(10.7)
Net transfers to parent						(17.8)		(17.8)
Balance at September 28, 2012						1,807.0	84.9	1,891.9
Net income				33.5		25.3		58.8
Currency translation adjustments							1.5	1.5
Change in derivatives, net of tax							(7.3)	(7.3)
Minimum pension liability, net of tax							34.2	34.2
Net transfers to parent						(515.9)		(515.9)
Separation related adjustments						(209.9)	(4.8)	(214.7)
Transfer of parent company investment to contributed surplus					1,106.5	(1,106.5)		
Transfer of contributed surplus to distributable			1,095.0		(1,095.0)			

reserves								
Share options exercised			0.6					0.6
Share-based compensation			6.5					6.5
Issuance of ordinary shares	57.7	11.5			(11.5)			
Balance at September 27, 2013	57.7	$ 11.5	$ 1,102.1	$ 33.5	$	$	$ 108.5	$ 1,255.6

See Notes to Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(dollars in millions, expect share data and where indicated)

1. Background and Basis of Presentation

Background

Mallinckrodt plc, and its subsidiaries (collectively, Mallinckrodt or the Company), is a global company that develops, manufactures, markets and distributes both branded and generic specialty pharmaceuticals, active pharmaceutical ingredients (API) and diagnostic imaging agents. These products are found in almost every hospital, standalone diagnostic imaging center or pharmacy in the United States (U.S.) and the Company has a commercial presence in approximately 70 countries. The Company believes its extensive commercial reach and formulation expertise, coupled with its ability to navigate the highly regulated and technical nature of its business, have created compelling competitive advantages that it anticipates will sustain future revenue growth.

The Company conducts its business in the following two segments:

Specialty Pharmaceuticals produces and markets branded and generic pharmaceuticals and API, comprised of medicinal opioids, synthetic controlled substances, acetaminophen and other active ingredients; and

Global Medical Imaging develops, manufactures and markets contrast media and delivery systems (CMDS) and radiopharmaceuticals (nuclear medicine).

Mallinckrodt plc was incorporated in Ireland on January 9, 2013 for the purpose of holding the Pharmaceuticals business of Covidien plc (Covidien). On June 28, 2013, Covidien shareholders of record received one ordinary share of Mallinckrodt for every eight ordinary shares of Covidien held as of the record date, June 19, 2013, and the Pharmaceuticals business of Covidien was transferred to Mallinckrodt plc, thereby completing its legal separation from Covidien (the Separation). On July 1, 2013, Mallinckrodt plc began regular way trading on the New York Stock Exchange under the ticker symbol MNK.

Basis of Presentation

The accompanying consolidated and combined financial statements reflect the consolidated financial position of the Company as an independent, publicly-traded company for periods subsequent to June 28, 2013, and as a combined reporting entity of Covidien, including operations relating to Covidien s Pharmaceuticals business, for periods prior to June 28, 2013.

The consolidated and combined financial statements have been prepared in U.S. dollars and in accordance with accounting principles generally accepted in the U.S. (GAAP). The preparation of the consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from those estimates. The consolidated and combined financial

statements include the accounts of the Company, its wholly-owned subsidiaries and entities in which they own or control more than fifty percent of the voting shares, or have the ability to control through similar rights. The results of entities disposed of are included in the consolidated and combined financial statements up to the date of disposal and, where appropriate, these operations have been reflected as discontinued operations. Divestitures of product lines not representing businesses have been reflected in operating income. All intercompany balances and transactions have been eliminated in consolidation and, in the opinion of management, all normal recurring adjustments necessary for a fair presentation have been included in the results reported.

Certain amounts from prior years have been reclassified to conform to the current year presentation. The presentation of rebate obligations for Brands products has been reclassified from a reduction to accounts receivable to accrued and other current liabilities in the consolidated and combined balance sheets.

Table of Contents

The Company s combined financial statements for periods prior to June 28, 2013, including the nine months ended June 28, 2013 that is included within the Company s fiscal 2013 results, may not be indicative of its future performance and do not necessarily reflect the results of operations, financial position and cash flows that would have been had it operated as an independent, publicly-traded company for the entirety of the periods presented, including as a result of changes in the Company s capitalization in connection with the Separation. The combined financial statements for periods prior to June 28, 2013 include expense allocations for certain functions provided by Covidien, including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, employee benefits and incentives, insurance and share-based compensation. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating expenses, headcount or other measures. The amounts allocated were $39.6 million, $49.2 million and $56.3 million for fiscal 2013, 2012 and 2011, respectively, and were included within selling, general and administrative expenses. Management considers the bases on which the expenses have been allocated to reasonably reflect the utilization of services provided to, or the benefit received by, the Company during the periods presented; however, the allocations may not reflect the expense the Company would have incurred as an independent, publicly-traded company. Actual costs that may have been incurred if the Company had been a standalone company would depend on a number of factors, including organizational structure, what functions were outsourced or performed by employees, and strategic decisions made in areas such as information technology and infrastructure. The Company is unable to determine what those costs would have been had the Company been independent during the applicable periods. Following the Separation, the Company has performed these functions using its own resources or purchased services, certain of which are being provided by Covidien during a transitional period pursuant to a transition services agreement dated June 28, 2013, between Mallinckrodt and Covidien, particularly in relation to areas outside the U.S. The terms and prices on which such services are rendered may not be as favorable as those that were allocated to the Company by Covidien. The Company also may incur additional costs associated with being an independent, publicly-traded company. These additional anticipated costs are not reflected in the historical combined financial statements for periods prior to June 28, 2013.

The combined balance sheets prior to June 28, 2013 include certain assets and liabilities that have historically been recorded at the Covidien corporate level but are specifically identifiable or otherwise allocable to the Company. The cash and cash equivalents held by Covidien at the corporate level were not specifically identifiable to the Company and, as such, were not allocated to the Company for periods prior to June 28, 2013. Covidien s debt and related interest expense were not allocated to the Company since the Company was not the legal obligor of such debt and Covidien s borrowings were not directly attributable to the Company s business. Debt incurred by the Company directly has been included in the combined financial statements. Intercompany transactions between the Company and Covidien, prior to the Separation, have been included in the combined financial statements and were considered to be effectively settled for cash at the time the transaction was recorded. The total net effect of the settlement of these intercompany transactions was reflected in the combined statements of cash flows as a financing activity and in the combined balance sheet as parent company investment.

Prior to June 28, 2013, Covidien s investment in the Pharmaceuticals business is shown as parent company investment in the combined financial statements. On June 28, 2013, Covidien completed a distribution of one ordinary share of Mallinckrodt for every eight ordinary shares of Covidien. Upon completion of the Separation, the Company had 57,694,885 ordinary shares outstanding at a par value of $0.20 per share. After Separation adjustments were recorded, the remaining parent company investment balance, which included all earnings prior to the Separation, was transferred to contributed surplus.

Under Irish law, the Company can only pay dividends and repurchase shares out of distributable reserves, as discussed further in the Company s information statement filed with the U.S. Securities and Exchange Commission (SEC) as Exhibit 99.2 to the Company s Current Report on Form 8-K filed on July 1, 2013. Upon completion of the Separation,

the Company did not have any distributable reserves. On July 22, 2013, the Company filed a petition with the High Court of Ireland seeking the court s confirmation of a reduction of the Company s share premium so that it can be treated as distributable for the purposes of Irish law. On September 9,

Table of Contents

2013, the High Court of Ireland approved this petition and the High Court s order and minutes were filed with the Registrar of Companies. Upon this filing, the Company s share premium is treated as distributable reserves and the share premium balance was reclassified into additional paid-in capital within the consolidated balance sheet. Net income subsequent to the Separation has been included in retained earnings and is included in distributable reserves.

Preferred Shares

Mallinckrodt is authorized to issue 500,000,000 preferred shares, par value of $0.20 per share, none of which were issued and outstanding at September 27, 2013. Rights as to dividends, return of capital, redemption, conversion, voting and otherwise with respect to these shares may be determined by Mallinckrodt s board of directors on or before the time of issuance. In the event of the liquidation of the Company, the holders of any preferred shares then outstanding would, if issued on such terms that they carry a preferential distribution entitlement on liquidation, be entitled to payment to them of the amount for which the preferred shares were subscribed and any unpaid dividends prior to any payment to the ordinary shareholders.

Preferred Share Purchase Rights

Pursuant to the rights agreement entered into on June 28, 2013 with Computershare Trust Company, N.A., as the Rights Agent (the Rights Agreement), the Company issued one preferred share purchase right (collectively, the Rights) for each outstanding ordinary share of the Company to shareholders of record on July 9, 2013. The Rights will not be exercisable until ten days after the public announcement that a person or group has become an Acquiring Person by obtaining beneficial ownership of 10% or more of the outstanding ordinary shares of Mallinckrodt plc. The Rights will expire on June 28, 2014. The Rights Agreement and the Rights are discussed further in the Company s Form 8-A filed with the SEC on July 1, 2013.

Fiscal Year

The Company reports its results based on a 52-53 week year ending on the last Friday of September. Fiscal 2013 and 2012 consisted of 52 weeks and ended on September 27, 2013 and September 28, 2012, respectively. Fiscal 2011 consisted of 53 weeks and ended on September 30, 2011. Unless otherwise indicated, fiscal 2013, 2012 and 2011 refer to the Company s fiscal years ended September 27, 2013, September 28, 2012 and September 30, 2011, respectively.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue for product sales when title and risk of loss have transferred from the Company to the buyer, which may be upon shipment or upon delivery to the customer site, based on contract terms or legal requirements in non-U.S. jurisdictions. The Company sells products direct to retail pharmacies and end user customers and through distributors who resell the products to retail pharmacies, institutions and end user customers. Chargebacks and rebates represent credits that are provided to certain distributors and customers for either the difference between the Company s contracted price with a customer and the distributor s invoice price paid to the Company or for contractually agreed volume price discounts. When the Company recognizes net sales, it simultaneously records an adjustment to revenue for estimated chargebacks, rebates, product returns and other sales deductions. These provisions are estimated based upon historical experience, estimated future trends, estimated customer inventory levels, current contracted sales terms with customers, level of utilization of the Company s products and other competitive factors. The Company adjusts these reserves to reflect differences between estimated activity and actual experience. Such

adjustments impact the amount of net sales recognized by the Company in the period of adjustment.

Taxes collected from customers relating to product sales and remitted to governmental authorities are accounted for on a net basis. Accordingly, such taxes are excluded from both net sales and expenses.

Table of Contents

Shipping and Handling Costs

Shipping costs, which are costs incurred to physically move product from the Company s premises to the customer s premises, are classified as selling, general and administrative expenses. Handling costs, which are costs incurred to store, move and prepare product for shipment, are classified as cost of sales. Shipping costs included in selling, general and administrative expenses were $56.5 million, $59.1 million and $57.3 million in fiscal 2013, 2012 and 2011, respectively.

Research and Development

Internal research and development costs are expensed as incurred. Research and development expenses include salary and benefits, allocated overhead and occupancy costs, clinical trial and related clinical manufacturing costs, contract services and other costs.

Upfront and milestone payments made to third parties under license arrangements are expensed as incurred up to the point of regulatory approval of the product. Milestone payments made to third parties upon or subsequent to regulatory approval are capitalized as an intangible asset and amortized to cost of sales over the estimated useful life of the related product.

Advertising

Advertising costs are expensed when incurred. Advertising expense was $7.5 million, $8.8 million and $9.7 million in fiscal 2013, 2012 and 2011, respectively, and is included in selling, general and administrative expenses.

Currency Translation

For the Company s non-U.S. subsidiaries that transact in a functional currency other than U.S. dollars, assets and liabilities are translated into U.S. dollars using fiscal year-end exchange rates. Revenues and expenses are translated at the average exchange rates in effect during the related month. The net effect of these translation adjustments is shown in the consolidated and combined financial statements as a component of accumulated other comprehensive income. For subsidiaries operating in highly inflationary environments or where the functional currency is different from the local currency, non-monetary assets and liabilities are translated at the rate of exchange in effect on the date the assets and liabilities were acquired or assumed, while monetary assets and liabilities are translated at fiscal year-end exchange rates. Translation adjustments of these subsidiaries are included in net income. Gains and losses resulting from foreign currency transactions are included in net income. Foreign currency losses included within net income for fiscal 2013 and 2011 were $14.2 million and $4.3 million, respectively. The impact of foreign currency on net income in fiscal 2012 was immaterial.

Cash and Cash Equivalents

The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts and other investments it may hold from time to time, with an original maturity to the Company of three months or less, as cash and cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are presented net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects an estimate of losses inherent in the Company s accounts receivable portfolio determined on the basis

of historical experience, specific allowances for known troubled accounts and other available evidence. Accounts receivable are written off when management determines they are uncollectible. Trade accounts receivable are also presented net of reserves related to chargebacks and non-branded rebates payable to customers for whom we have trade accounts receivable and the right of offset exists.

Table of Contents

Inventories

Inventories are recorded at the lower of cost or market value, primarily using the first-in, first-out convention. The Company reduces the carrying value of inventories for those items that are potentially excess, obsolete or slow-moving based on changes in customer demand, technology developments or other economic factors.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while routine maintenance and repairs are expensed as incurred. Depreciation for property, plant and equipment assets, other than land and construction in process, is based upon the following estimated useful lives, using the straight-line method:

Buildings	10 to 50 years
Leasehold improvements	2 to 14 years
Capitalized software	1 to 14 years
Machinery and equipment	3 to 20 years

The Company capitalizes certain computer software and development costs incurred in connection with developing or obtaining software for internal use.

Upon retirement or other disposal of property, plant and equipment, the cost and related amount of accumulated depreciation are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds is included in net income.

The Company assesses the recoverability of assets using undiscounted cash flows whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. If an asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value of the asset and the present value of future cash flows or other reasonable estimate of fair value.

Acquisitions

Amounts paid for acquisitions are allocated to the tangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The Company then allocates the purchase price in excess of net tangible assets acquired to identifiable intangible assets, including purchased research and development. The fair value of identifiable intangible assets is based on detailed valuations. The Company allocates any excess purchase price over the fair value of the net tangible and intangible assets acquired to goodwill.

The Company s purchased research and development represents the estimated fair value as of the acquisition date of in-process projects that have not reached technological feasibility. The primary basis for determining technological feasibility of these projects is obtaining regulatory approval.

The value of in-process research and development (IPR&D) is determined using the discounted cash flow method. In determining the value of IPR&D, the Company considers, among other factors, appraisals, the stage of completion of the projects, the technological feasibility of the projects, whether the projects have an alternative future use and the estimated residual cash flows that could be generated from the various projects and technologies over their respective projected economic lives. The discount rate used is determined at the time of acquisition and includes a rate of return which accounts for the time value of money, as well as risk factors that reflect the economic risk that the cash flows

projected may not be realized.

The value attributable to IPR&D projects at the time of acquisition is capitalized as an indefinite-lived intangible asset and tested for impairment until the project is completed or abandoned. Upon completion of the

Table of Contents

project, the indefinite-lived intangible asset is then accounted for as a finite-lived intangible asset and amortized on a straight-line basis over its estimated useful life. If the project is abandoned, the indefinite-lived intangible asset is charged to expense. As of September 27, 2013, the Company had IPR&D of $18.6 million. As of September 28, 2012, the Company had no IPR&D.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to assets and liabilities assumed in a business combination. The Company tests goodwill for impairment during the fourth quarter of each year, or more frequently if impairment indicators arise. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting units to the fair value of these units. The Company estimates the fair value of its reporting units through internal analyses and valuation, utilizing an income approach based on the present value of future cash flows. If the carrying value of a reporting unit exceeds its fair value, the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit s goodwill with its carrying value. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. The Company allocates the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

Intangible assets acquired in a business combination are recorded at fair value, while intangible assets acquired in other transactions are recorded at cost. Intangible assets with finite useful lives are subsequently amortized using the straight-line method over the following estimated useful lives of the assets:

Completed technology	5 to 25 years
License agreements	8 to 30 years
Trademarks	30 years

Amortization expense related to completed technology and certain other intangible assets is included in cost of sales, while amortization expense related to intangible assets that contribute to the Company s ability to sell, market and distribute products is included in selling, general and administrative expenses. When a triggering event occurs, we evaluate potential impairment of finite-lived intangible assets by first comparing undiscounted cash flows associated with the asset to its carrying value. If the carrying value is greater than the undiscounted cash flows, the amount of potential impairment is measured by comparing the fair value of the assets with their carrying value. The fair value of the intangible asset is estimated using an income approach. If the fair value is less than the carrying value of the intangible asset, the amount recognized for impairment is equal to the difference between the carrying value of the asset and the present value of future cash flows. The Company annually tests the indefinite-lived intangible assets for impairment by comparing the fair value of the assets, estimated using an income approach, with their carrying value and records an impairment when the carrying value exceeds the fair value. The Company assesses the remaining useful life and the recoverability of finite-lived intangible assets whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. Indefinite-lived intangible assets are tested for impairment at least annually.

Contingencies

The Company is subject to various patent, product liability, government investigations, environmental liability and other legal proceedings in the ordinary course of business. The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. The Company discounts environmental liabilities using a risk-free rate of return when the obligation is fixed or reasonably determinable. The impact of the discount in the consolidated and combined balance sheets was not material in any period presented. Legal fees, other than those pertaining to environmental and asbestos matters,

Table of Contents

are expensed as incurred. Insurance recoveries related to potential claims are recognized up to the amount of the recorded liability when coverage is confirmed and the estimated recoveries are probable of payment. Assets and liabilities are not netted for financial statement presentation.

Asset Retirement Obligations

The Company establishes asset retirement obligations for certain assets at the time they are installed. The present value of an asset retirement obligation is recorded as a liability when incurred. The liability is subsequently adjusted in future periods as accretion expense is recorded or as revised estimates of the timing or amount of cash flows required to retire the asset are obtained. The corresponding asset retirement costs are capitalized as part of the carrying value of the related long-lived asset and depreciated over the asset s useful life. The Company s obligations to decommission two facilities upon a cessation of its radiological licensed operations are primarily included on the consolidated and combined balance sheets as other liabilities.

Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. That cost is recognized over the period during which an employee is required to provide service in exchange for the award, the requisite service period (generally the vesting period). For more information about our share-based awards, refer to Note 14.

Income Taxes

Income taxes for periods prior to the Separation were calculated on a separate tax return basis (inclusive of certain loss benefits), although the Company s operations had historically been included in Covidien s U.S. federal and state tax returns or the tax returns of non-U.S. jurisdictions. Accordingly, the income taxes presented for periods prior to June 28, 2013 do not necessarily reflect the results that would have occurred as an independent, publicly-traded company. With the exception of certain non-U.S. entities, the Company did not maintain taxes payable to or from Covidien and the Company was deemed to settle the annual current tax balances immediately with the legal tax-paying entities in the respective jurisdictions. These settlements were reflected as changes in parent company investment.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the consolidated and combined financial statements. Deferred tax assets and liabilities are determined based on the differences between the book and tax bases of assets and liabilities and operating loss carryforwards, using tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination. The tax benefit of any tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the uncertainty. To the extent a full benefit is not expected to be realized on the uncertain tax position, an income tax liability is established. Interest and penalties on income tax obligations, including uncertain tax positions, are included in the provision for income taxes.

The calculation of the Company s tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across the Company s global operations. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from current estimates

of the tax liabilities. If the Company s estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities may result in income tax

Table of Contents

benefits being recognized in the period when it is determined that the liabilities are no longer necessary. A significant portion of these potential tax liabilities are recorded in other income tax liabilities on the consolidated and combined balance sheets as payment is not expected within one year.

Parent Company Investment

Parent company investment in the combined balance sheet as of September 28, 2012 represents Covidien s historical investment in the Company, the Company s accumulated net earnings after income taxes for periods prior to that date, and the net effect of transactions with and allocations from Covidien.

3. Recently Issued Accounting Standards

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

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

FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date, in February 2013. This update provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. An entity is required to measure those obligations as the sum of the amount the entity has agreed to pay on the basis of its arrangement among its co-obligors, and any additional amounts it expects to pay on behalf of its co-obligors. The guidance also requires the entity to disclose the nature and amount of those obligations. The guidance is effective for the Company in the first quarter of fiscal 2015. The Company is still assessing the impact of the pronouncement but does not expect it will have a material impact on its financial condition, results of operations and cash flows.

4. Discontinued Operations and Divestitures

Discontinued Operations

During fiscal 2010, the Specialty Chemicals business (formerly known as Mallinckrodt Baker), which was part of the Company s Specialty Pharmaceuticals segment, was sold because its products and customer bases 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 fiscal 2013, the Company recorded a gain of $1.0 million and in fiscal 2012 recorded a loss of $6.7 million. This

Table of Contents

gain and loss were primarily related to the indemnification obligations to the purchaser, which are discussed in Note 17. During fiscal 2011, the Company recorded a $6.3 million loss on the sale of Mallinckrodt Baker, primarily for pension settlements related to employees of this business.

Divestitures

During fiscal 2011, the Company sold the rights to market TussiCaps extended-release capsules, a cough suppressant, for an upfront cash payment of $11.5 million. As a result of this transaction, the Company recorded an $11.1 million gain. The purchaser also may be obligated to make contingent payments to the Company of up to $11.5 million from December 31, 2011 through September 30, 2015, payable in equal quarterly installments until such time as a new competitive generic product is introduced into the market. In addition, the Company would receive a $1.0 million contingent payment if certain sales targets are achieved over the same time period. The Company received $2.9 million of contingent payments during both fiscal 2013 and 2012.

During fiscal 2010, the Company sold its nuclear radiopharmacies in the U.S. In connection with this sale, the Company also entered into a supply agreement, under which the purchaser committed to annual purchase volumes through December 31, 2014.

5. Acquisitions and License Agreements
Business Acquisitions

CNS Therapeutics

On October 1, 2012, the Company s Specialty Pharmaceuticals segment acquired all the outstanding equity of CNS Therapeutics, Inc. (CNS Therapeutics), a specialty pharmaceuticals company focused on developing and commercializing intrathecal products for site-specific administration to the central nervous system to treat neurological disorders and intractable chronic pain, for total consideration of $95.0 million. The total consideration was comprised of an upfront cash payment of $88.1 million (net of cash acquired of $3.6 million) and the fair value of contingent consideration of $6.9 million. This contingent consideration, which could potentially total a maximum of $9.0 million, is discussed further in Note 20. The acquisition of CNS Therapeutics expanded the Company s branded pharmaceuticals portfolio and supports the Company s strategy of leveraging its therapeutic expertise and core capabilities in manufacturing, regulatory and commercialization to serve patients. With the acquisition, the Company now offers products for use in the management of severe spasticity of cerebal or spinal origin with a research and development pipeline of an additional presentation and concentration of Gablofen, as well as other investigational pain products for intrathecal administration.

The following amounts represent the final allocation of the fair value of the identifiable assets acquired and liabilities assumed:

Current assets [1]	$ 13.3
Intangible assets	91.9
Goodwill (non-tax deductible) [2]	24.5
Total assets acquired	129.7

Current liabilities	4.0
Deferred tax liabilities, net (non-current)	27.1
Contingent consideration (non-current)	6.9
Total liabilities assumed	38.0
Net assets acquired	$ 91.7

(1) This amount includes $3.3 million of accounts receivable, which is also the gross contractual value. As of the acquisition date, the fair value of accounts receivable approximated carrying value.
(2) Goodwill relates to the Company s ability to exploit CNS Therapeutics technologies.

Table of Contents

The following reconciles the total consideration to net assets acquired:

Total consideration	$ 95.0
Plus: cash assumed in acquisition	3.6
Less: contingent consideration	(6.9)
Net assets acquired	$ 91.7

Intangible assets acquired consist of the following:

	Amount	Weighted-Average Amortization Period
Completed technology	$ 73.1	13 years
Trademark	0.2	3 years
In-process research and development	18.6	Non-Amortizable
	$ 91.9	

The in-process research and development projects primarily relate to certain investigational intrathecal pain products. As of the date of acquisition, these pain products were in various stages of development, with further development, testing, clinical trials and regulatory submission required in order to bring them to market. At the acquisition date, the total cost to complete these products was estimated to be approximately $18.0 million. The Company expects that regulatory approvals will occur between 2015 and 2018. The valuation of the in-process research and development was determined using, among other factors, appraisals primarily based on the discounted cash flow method. The cash flows were discounted at a 35% rate, which was considered commensurate with the risks and stages of development of the pain products. Future residual cash flows that could be generated from the products were determined based upon management s estimate of future revenue and expected profitability of the products. These projected cash flows were then discounted to their present values taking into account management s estimate of future expenses that would be necessary to bring the products to completion.

The consolidated and combined statement of income for fiscal 2013 contained $29.2 million of net sales of intrathecal products added to the Company s portfolio from the CNS Therapeutics acquisition. Acquisition and integration costs included in the periods presented were not material. The Company does not believe that the results of operations for the periods presented would have been materially different had the acquisition taken place at the beginning of the first period presented.

Product Acquisitions

Roxicodone

In August 2012, the Company s Specialty Pharmaceuticals segment paid $13.2 million under an agreement to acquire all of the rights to Xanodyne Pharmaceuticals, Inc. s Roxicodone, which was capitalized as an intangible asset. Roxicodone is an immediate-release oral formulation of oxycodone hydrochloride indicated for the management of moderate to severe pain where the use of an opioid analgesic is appropriate. Roxicodone is the Reference Listed Drug

for one of the Company s generic products and is important to the Company s product pipeline. Sales of Roxicodone during fiscal 2013 were $8.4 million. There are no ongoing royalty payments under this agreement.

Table of Contents

License Agreements

Exalgo

In 2009, the Company s Specialty Pharmaceuticals segment acquired the rights to market and distribute the pain management drug Exalgo in the U.S. Under the license agreement, the Company is obligated to make additional payments of up to $73.0 million based on the successful completion of specified development and regulatory milestones. Through fiscal 2013, $65.0 million of additional payments have been made, with $55.0 million being capitalized as an intangible asset. The amount capitalized related to the U.S. Food and Drug Administration s (FDA) approval of the New Drug Application (NDA) for the 8 mg, 12 mg and 16 mg tablet dosage forms of Exalgo. During fiscal 2012 the Company received FDA approval to market a 32 mg tablet dosage form. The Company is also required to pay royalties on sales of the product. During fiscal 2013, 2012 and 2011, the Company paid royalties of $24.0 million, $16.1 million and $5.5 million, respectively.

Depomed

In 2009, the Company s Specialty Pharmaceuticals segment licensed worldwide rights to utilize Depomed, Inc. s (Depomed) Acuform gastric retentive drug delivery technology for the exclusive development of four products. Under this license agreement, the Company may be obligated to pay up to $64.0 million in development milestone payments. Through fiscal 2013, approximately $7.0 million of these payments have been made by the Company. The Company will also pay Depomed a royalty on sales of products developed under this license agreement. During fiscal 2013, subsequent to the FDA s acceptance of our NDA for MNK-795 in July 2013, a milestone payment of $5.0 million was made, for which the FDA granted conditional approval of the brand name Xartemis XR. During fiscal 2012, an insignificant amount of milestone payments were expensed as incurred since regulatory approval had not been received, and no milestone payments were made in fiscal 2011. In addition, no royalties have been paid through fiscal 2013.

Pennsaid

In 2009, the Company s Specialty Pharmaceuticals segment entered into a licensing agreement which granted it rights to market and distribute Pennsaid and MNK-395, an investigational product candidate that is a formulation of diclofenac sodium topical solution which we anticipate will be indicated for the treatment of pain associated with osteoarthritis of the knee. The Company is responsible for all future development activities and expenses and may be required to make milestone payments of up to $120.0 million based upon the successful completion of specified regulatory and sales milestones. Through fiscal 2013, $15.0 million of these payments were made, all of which were capitalized as an intangible asset as the payment related to the fiscal 2010 FDA approval of the Pennsaid NDA. The Company is also required to pay royalties on sales of the products under this agreement. During fiscal 2013 and 2012, the Company paid royalties of $3.9 million and $7.5 million, respectively, with this product, and the amount of royalties paid in fiscal 2011 was insignificant.

6. 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 the corporate functions. The Company expects to incur charges of $100 million to $125 million under this program as the specific actions required to execute on these initiatives are identified and approved, most of which are expected to be incurred by the end of fiscal 2016. Restructuring actions associated with acquisitions made prior to the Separation are

included within Other programs below.

Prior to Separation, Covidien initiated restructuring programs, which also applied to its Pharmaceutical business. These programs were substantially completed as of September 27, 2013.

Table of Contents

Net restructuring and related charges by segment are as follows:

	Fiscal Year		
	2013	2012	2011
Specialty Pharmaceuticals	$ 16.4	$ 11.3	$ 6.5
Global Medical Imaging	16.4	7.9	3.8
Corporate	3.0		(0.3)
Restructuring and related charges, net	35.8	19.2	10.0
Less: accelerated depreciation	(2.6)	(8.0)	(1.6)
Restructuring charges, net	$ 33.2	$ 11.2	$ 8.4

Net restructuring and related charges are comprised of the following:

	Fiscal Year		
	2013	2012	2011
2013 Mallinckrodt Program	$ 14.9	$	$
Other programs	20.9	19.2	10.0
Total programs	35.8	19.2	10.0
Less: non-cash charges, including accelerated depreciation	(2.6)	(6.2)	(1.6)
Total charges expected to be settled in cash	$ 33.2	$ 13.0	$ 8.4

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

	2013 Mallinckrodt Program	Other Programs	Total
Balance at September 24, 2010	$	$ 4.5	$ 4.5
Charges		9.6	9.6
Changes in estimate		(1.2)	(1.2)
Cash payments		(3.5)	(3.5)
Reclassifications [1]		(1.6)	(1.6)
Currency translation		(0.2)	(0.2)
Balance at September 30, 2011		7.6	7.6
Charges		12.8	12.8
Changes in estimate		0.2	0.2
Cash payments		(11.5)	(11.5)

Reclassifications [1]			(0.2)	(0.2)
Balance at September 28, 2012			8.9	8.9
Charges		14.9	20.9	35.8
Changes in estimate			(2.6)	(2.6)
Cash payments			(15.1)	(15.1)
Reclassifications [1]			(1.5)	(1.5)
Balance at September 27, 2013	$	14.9	$ 10.6	$ 25.5

(1) Represents the reclassification of pension and other postretirement benefits from restructuring reserves to pension and postretirement obligations, and the transfer of certain restructuring liabilities in conjunction with the Separation.

Table of Contents

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

Specialty Pharmaceuticals	$ 2.4
Global Medical Imaging	9.5
Corporate	3.0
	$ 14.9

Substantially all of the restructuring reserves are included in accrued and other current liabilities on the Company s consolidated and combined balance sheets.

7. Income Taxes

The U.S. and non-U.S. components of income from continuing operations before income taxes were as follows:

	2013	2012	2011
U.S.	$ 70.0	$ 174.6	$ 134.9
Non-U.S.	56.4	61.5	108.3
Total	$ 126.4	$ 236.1	$ 243.2

Significant components of income taxes related to continuing operations are as follows:

	2013	2012	2011
Current:			
U.S.:			
Federal	$ 45.7	$ 61.1	$ 19.2
State	9.2	7.2	2.4
Non-U.S.	22.7	17.5	28.2
Current income tax provision	77.6	85.8	49.8
Deferred:			
U.S.:			
Federal	(11.7)	5.3	37.8
State	(1.2)	2.4	4.3
Non-U.S.	3.9	1.3	(5.7)
Deferred income tax (benefit) provision	(9.0)	9.0	36.4
	$ 68.6	$ 94.8	$ 86.2

Table of Contents

The reconciliation between U.S. federal income taxes at the statutory rate and the Company s provision for income taxes on continuing operations is as follows:

	2013	2012	2011
Notional U.S. federal income taxes at the statutory rate	$ 44.3	$ 82.6	$ 85.1
Adjustments to reconcile to income tax provision:			
U.S. state income tax provision, net	4.8	7.1	5.9
Rate difference between non-U.S. and U.S. jurisdictions (1)(2)	(2.2)	(3.5)	(16.8)
Domestic manufacturing deduction	(2.5)	(3.0)	
Valuation allowances, nonrecurring	3.4		
Adjustments to accrued income tax liabilities and uncertain tax positions (2)	8.6	1.2	(1.0)
Interest on accrued income tax liabilities and uncertain tax positions (2)	4.7	1.1	1.9
Withholding tax, net	0.3	0.4	3.8
Credits, principally research (3)	(6.2)	(0.8)	(4.1)
Permanently nondeductible and nontaxable items	12.0	8.1	8.4
Other	1.4	1.6	3.0
Provision for income taxes	$ 68.6	$ 94.8	$ 86.2

(1) Excludes non-deductible charges and other items which are broken out separately in the statutory rate reconciliation presented. Also includes the impact of certain valuation allowances.
(2) Includes impact of items relating to entities retained by Covidien in connection with the Separation.
(3) Due to the December 31, 2011 tax law expiration, fiscal 2012 includes U.S. Research Credits for only the three months ended December 31, 2011. During fiscal 2013, the legislation was extended, with a retroactive effective date of January 1, 2012. As such, fiscal 2013 includes approximately $2.3 million of credit related to the period January 1, 2012 through September 28, 2012.

As of September 27, 2013, September 28, 2012 and September 30, 2011, the amounts of unrecognized tax benefits for which the Company is legally and directly liable and would be required to remit cash if not sustained were $100.1 million, $13.4 million and $14.2 million, respectively. For periods prior to the Separation, the Company s operations had been included in tax returns filed by Covidien or certain of its subsidiaries not included in the Company s historical combined financial statements. As a result, some federal uncertain tax positions related to the Company s operations resulted in unrecognized tax benefits that are obligations of entities not included in the combined financial statements for periods prior to June 28, 2013. Because the activities that gave rise to these unrecognized tax benefits relate to the Company s operations, the impact of these items (presented in the table below) were charged to the income tax provision through parent company investment, which was a component of parent company equity in the combined balance sheets.

Table of Contents

The following table summarizes the activity related to the Company s unrecognized tax benefits, excluding interest:

	2013	2012	2011
Balance at beginning of fiscal year	$ 165.5	$ 168.4	$ 175.7
Unrecognized tax benefits retained by Covidien	(153.7)		
Unrecognized tax benefits transferred from Covidien	84.2		
Additions related to current year tax positions	3.5	1.3	2.2
Additions related to prior period tax positions	6.6	1.6	1.1
Reductions related to prior period tax positions	(4.3)	(1.9)	(3.9)
Settlements	(1.6)	(1.7)	(6.7)
Lapse of statute of limitations	(0.1)	(2.2)	
Balance at end of fiscal year	100.1	165.5	168.4
Cash advance paid in connection with proposed settlements		(23.5)	(23.5)
Balance at end of fiscal year, net of cash advance	$ 100.1	$ 142.0	$ 144.9

During fiscal 2011, Covidien made a $35.1 million advance payment to the U.S. Internal Revenue Service (IRS) in connection with the proposed settlement of certain tax matters. This payment was comprised of $23.5 million of tax and $11.6 million of interest. This amount was retained by Covidien in connection with the Separation. The Company expects to make an advance payment of $30.0 million in fiscal 2014, which is comprised of unrecognized tax benefits, other tax items unrelated to unrecognized tax benefits and associated interest. This amount has been recorded within accrued and other current liabilities as of September 27, 2013.

Unrecognized tax benefits, excluding interest, are reported in the following consolidated and combined balance sheet captions in the amount shown:

	September 27, 2013	September 28, 2012
Accrued and other current liabilities	$ 23.4	$
Other income tax liabilities	76.7	13.4
Parent company investment		152.1
	$ 100.1	$ 165.5

The changes in the balance sheet captions between periods in the above table reflects the transfer of the liabilities to the Company from Covidien with the Separation. Pursuant to the separation and distribution agreement (the Separation and Distribution Agreement) and other agreements, certain assets and liabilities that were formerly associated with the Pharmaceuticals business of Covidien were retained by Covidien and, conversely, certain non-operating assets and liabilities were transferred to the Company. The amounts related to unrecognized tax benefits recorded within parent company investment at the Separation were retained by Covidien, and $84.2 million of liabilities related to unrecognized tax benefits, excluding interest, were transferred to the Company.

Included within total unrecognized tax benefits at September 27, 2013, September 28, 2012 and September 30, 2011, there were $96.3 million, $144.3 million and $144.8 million, respectively, of unrecognized tax benefits, which if favorably settled would benefit the effective tax rate. The remaining unrecognized tax benefits for each period would be offset by the write-off of related deferred and other tax assets, if recognized. During fiscal 2013, 2012 and 2011, the Company accrued additional interest of $2.4 million, $1.4 million and $3.8 million, respectively, with no additional penalties accrued during these periods. The total amount of accrued interest related to uncertain tax positions was $62.1 million, $33.9 million and $32.5 million, respectively, with no penalties accrued during these periods. Of the $33.9 million accrued as of September 28, 2012, $26.0 million

Table of Contents

was included within parent company investment on the combined balance sheet. This amount was retained by Covidien in connection with the Separation and $51.8 million of accrued interest related to unrecognized tax benefits was transferred to the Company. During fiscal 2013 $4.0 million in penalty accruals were transferred to the Company by Covidien in connection with the Separation.

It is reasonably possible that within the next twelve months, as a result of the resolution of various federal, state and foreign examinations and appeals and the expiration of various statutes of limitation, that the unrecognized tax benefits that would affect the effective tax rate will decrease by up to $22.6 million. The amount of interest and penalties that will affect the effective tax rate will decrease by up to $15.6 million.

Income taxes payable, including uncertain tax positions and related interest accruals, is reported in the following consolidated and combined balance sheet captions in the amounts shown. Non-current other income tax liabilities also includes anticipated refunds and other items not related to uncertain tax positions.

	September 27, 2013	September 28, 2012
Accrued and other current liabilities	$ 28.2	$ 2.6
Other income tax liabilities	153.1	19.4
	$ 181.3	$ 22.0

Covidien continues to be examined by various taxing authorities for periods the Company was included within the consolidated results of Covidien. The resolution of these tax matters could result in a significant change in the Company s unrecognized tax benefits; however, the Company does not expect that the total amount of unrecognized tax benefits will significantly change over the next twelve months. In connection with the Separation, the Company entered into a tax matters agreement (the Tax Matters Agreement) with Covidien that generally governs Covidien s and Mallinckrodt s respective rights, responsibilities and obligations after the Separation with respect to certain taxes, including, but not limited to, ordinary course of business taxes. For further information on the Tax Matters Agreement, refer to Note 16.

As of September 27, 2013, tax years that remain subject to examination in the Company s major tax jurisdictions are as follows:

Jurisdiction	Earliest Open Year
U.S. federal and state	1996
Ireland	2009
Netherlands	2013
Switzerland	2012

Table of Contents

Deferred income taxes result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. The components of the net deferred tax (liability) asset at the end of each fiscal year were as follows:

	September 27, 2013	September 28, 2012
Deferred tax assets:		
Accrued liabilities and reserves	$ 53.8	$ 47.4
Inventories	30.5	36.4
Tax loss and credit carryforwards	53.6	1.2
Environmental liabilities	27.3	66.4
Rebate reserves	43.4	38.1
Indemnification reserves	8.2	14.9
Postretirement benefits	30.2	67.7
Federal and state benefit of uncertain tax positions and interest	47.1	5.7
Deferred intercompany interest	19.2	
Other	30.8	13.9
	344.1	291.7
Deferred tax liabilities:		
Property, plant and equipment	(160.5)	(139.9)
Intangible assets	(113.1)	(89.1)
Investment in partnership	(173.6)	
	(447.2)	(229.0)
Net deferred tax (liability) asset before valuation allowances	(103.1)	62.7
Valuation allowances	(30.0)	(15.3)
Net deferred tax (liability) asset	$ (133.1)	$ 47.4

Deferred taxes are reported in the following consolidated and combined balance sheet captions in the amounts shown:

	September 27, 2013	September 28, 2012
Deferred income taxes (current asset)	$ 171.1	$ 119.9
Other non-current assets	7.5	3.8
Accrued and other current liabilities	(1.6)	(2.6)
Deferred income taxes (non-current liability)	(310.1)	(73.7)
Net deferred tax (liability) asset	$ (133.1)	$ 47.4

The Company s current deferred tax asset increased from $119.9 million at September 28, 2012 to $171.1 million at September 27, 2013 primarily due to $16.5 million being transferred to the Company from Covidien in connection with the Separation, $19.2 million of deferred U.S. tax deduction on intercompany interest and $5.8 million related to the acquisition of CNS Therapeutics. Additionally, the Company s noncurrent deferred tax liability increased from $73.7 million at September 28, 2012 to $310.1 million at September 27, 2013, primarily due to $165.1 million being transferred to the Company from Covidien in connection with the Separation and $32.9 million related to the acquisition of CNS Therapeutics. The transfer from Covidien in connection with the Separation was predominately related to an indefinite-lived deferred tax liability of $173.6 million related to the Company s wholly-owned U.S. operating partnership.

At September 27, 2013, the Company had approximately $13.6 million of net operating loss carryforwards in certain non-U.S. jurisdictions, of which $11.4 million have no expiration and the remaining $2.2 million will

Table of Contents

expire in future years through 2023. The Company had $23.2 million of U.S. federal and state net operating loss carryforwards and $5.4 million of U.S. federal capital loss carryforwards at September 27, 2013, which will expire during fiscal 2014 through 2033.

At September 27, 2013 the Company also had $11.4 million of tax credits available to reduce future income taxes payable, primarily in jurisdictions within the U.S., of which $0.6 million have no expiration and the remainder expire during fiscal 2014 through 2033.

The deferred tax asset valuation allowances of $30.0 million and $15.3 million at September 27, 2013 and September 28, 2012, respectively, relate principally to the uncertainty of the utilization of certain deferred tax assets, primarily non-US net operating losses, certain reserves in non-U.S. jurisdictions and realized and unrealized capital losses in the U.S. The Company believes that it will generate sufficient future taxable income to realize the tax benefits related to the remaining net deferred tax assets.

During fiscal 2013, 2012 and 2011, the Company provided for U.S. and non-U.S. income and withholding taxes in the amount of $0.2 million, $0.4 million and $3.8 million, respectively, on earnings that were or are intended to be repatriated. In general, the remaining earnings of the Company s subsidiaries are considered to be permanently reinvested. Income taxes are not provided on undistributed earnings of U.S. and non-U.S. subsidiaries that are either indefinitely reinvested or can be distributed on a tax-free basis. As of September 27, 2013, the cumulative amount of such undistributed earnings was approximately $1.0 billion. It is not practicable to determine the cumulative amount of tax liability that would arise if these earnings were remitted.

8. Earnings (Loss) per Share

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

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

	2013	2012	2011
Weighted-average shares for basic earnings (loss) per share	57.7	57.7	57.7
Effect of share options and restricted shares	0.1		
Weighted-average shares for diluted earnings (loss) per share	57.8	57.7	57.7

The computation of diluted earnings per share for fiscal 2013 excludes approximately 0.5 million of equity awards because the effect would have been anti-dilutive.

Table of Contents

9. Inventories

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

	September 27, 2013	September 28, 2012
Raw materials and supplies	$ 68.8	$ 74.1
Work in process	191.5	184.7
Finished goods	142.8	176.5
Inventories	$ 403.1	$ 435.3

10. 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:

	September 27, 2013	September 28, 2012
Land	$ 60.4	$ 60.0
Buildings	316.6	297.3
Capitalized software	76.4	59.9
Machinery and equipment	1,226.6	1,152.8
Construction in process	193.7	181.4
	1,873.7	1,751.4
Less: accumulated depreciation	(876.3)	(806.2)
Property, plant and equipment, net	$ 997.4	$ 945.2

The amounts above include property under capital leases of $17.8 million and $17.0 million at September 27, 2013 and September 28, 2012, respectively, consisting primarily of buildings. Accumulated amortization of capitalized lease assets was $15.8 million and $14.3 million at the end of fiscal 2013 and 2012, respectively.

Depreciation expense, including amounts related to capitalized leased assets, was $104.2 million, $103.6 million and $92.8 million for fiscal 2013, 2012 and 2011, respectively. Depreciation expense includes depreciation on demonstration equipment of $3.6 million, $3.4 million and $3.9 million for fiscal 2013, 2012 and 2011, respectively. Demonstration equipment is included within other assets on the consolidated and combined balance sheets.

11. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment were as follows:

	Specialty Pharmaceuticals	Global Medical Imaging	Total
Goodwill at September 28, 2012	$ 287.8	$ 219.7	$ 507.5
Acquisitions	24.5		24.5
Goodwill at September 27, 2013	$ 312.3	$ 219.7	$ 532.0

Table of Contents

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

	September 27, 2013		September 28, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable:				
Completed technology	$ 449.2	$ 196.6	$ 376.1	$ 173.7
Licenses	191.1	79.3	191.1	67.1
Trademarks	7.9	3.8	7.7	3.5
Total	$ 648.2	$ 279.7	$ 574.9	$ 244.3
Non-Amortizable:				
Trademarks	$ 35.0		$ 35.0	
In-process research and development	18.6			
Total	$ 53.6		$ 35.0	

Intangible asset amortization expense was $35.4 million, $27.3 million and $27.0 million in fiscal 2013, 2012 and 2011, respectively. The estimated aggregate amortization expense on intangible assets owned by the Company is expected to be as follows:

Fiscal 2014	$ 35.4
Fiscal 2015	35.4
Fiscal 2016	35.3
Fiscal 2017	33.9
Fiscal 2018	25.2

12. Debt

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

	September 27, 2013	September 28, 2012
Current maturities of long-term debt:		
Capital lease obligation	$ 1.4	$ 1.3
Loan payable	0.1	
Total current debt	1.5	1.3
Long-term debt:		

7.00% debentures due December 2013 (1)				5.8
3.50% notes due April 2018		299.9		
9.50% debentures due May 2022 (2)		10.4		
8.00% debentures due March 2023 (2)		8.0		
4.75% notes due April 2023		598.2		
Capital lease obligation		1.8		3.1
Total long-term debt		918.3		8.9
Total debt	$	919.8	$	10.2

(1) Under the terms of the Separation and Distribution Agreement, the 7.00% debentures due December 2013 were retained by Covidien.

(2) Under the terms of the Separation and Distribution Agreement, the 8.00% and 9.50% debentures due in March 2023 and May 2022, respectively, were transferred to the Company.

Table of Contents

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

In March 2013, MIFSA entered into a $250 million five-year senior unsecured revolving credit facility that matures in June 2018 (the Credit Facility). Borrowings under the Credit Facility will initially bear interest at LIBOR plus 1.50% per annum (subject to adjustment pursuant to a ratings-based pricing grid). The Credit Facility contains a $150 million letter of credit sublimit. The Credit Facility is subject to an initial annual facility fee of 0.25%, which is also subject to adjustment pursuant to a ratings-based pricing grid, and the fee applied to outstanding letters of credit is based on the interest rate applied to borrowings. The Credit Facility agreement contains customary affirmative and negative covenants, including a financial maintenance covenant that limits the Company s ratio of debt to earnings before interest, income taxes, depreciation and amortization, as adjusted for certain items, and another financial maintenance covenant that requires the Company s ratio of earnings before interest, income taxes, depreciation and amortization, as adjusted for certain items, to interest expense to exceed certain thresholds. Other nonfinancial covenants restrict, among other things, the Company s ability to create liens, the ability of the non-guarantor subsidiaries to incur additional indebtedness and the ability of the Company to merge or consolidate with any other person or sell or convey certain of its assets to any one person. MIFSA was not permitted to draw upon the Credit Facility until certain conditions were met, including completion of the Separation and Mallinckrodt plc s guaranty of MIFSA s obligations under the Credit Facility. These conditions were satisfied as of June 28, 2013; however, there were no borrowings or letters of credit outstanding under the Credit Facility at September 27, 2013.

In April 2013, MIFSA issued $300 million aggregate principal amount of 3.50% senior unsecured notes due April 2018 and $600 million aggregate principal amount of 4.75% senior unsecured notes due April 2023 (collectively, the Notes). Mallinckrodt plc has fully and unconditionally guaranteed the Notes on an unsecured and unsubordinated basis as of the completion of the Separation. The Notes are subject to an indenture which contains covenants limiting the ability of MIFSA, its restricted subsidiaries (as defined in the Notes) and Mallinckrodt plc, as guarantor, to incur certain liens or enter into sale and lease-back transactions. It also restricts Mallinckrodt plc and MIFSA s ability to merge or consolidate with any other person or sell or convey all or substantially all of their assets to any one person. MIFSA may redeem all of the Notes at any time, and some of the Notes from time to time, at a redemption price equal to the principal amount of the Notes redeemed plus a make-whole premium. MIFSA will pay interest on the Notes semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2013. The net proceeds to MIFSA from the issuance and sale of the Notes was $889.3 million, the majority of which was retained by Covidien per the terms of the Separation and Distribution Agreement. The Notes were issued and sold in a private placement; however, MIFSA is required to register the Notes with the SEC within one year of the issuance of the Notes.

As of September 27, 2013, the Company was, and expects to remain, in compliance with the provisions and covenants associated with its Credit Agreement, the Notes and its other debt agreements.

The Company s capital lease obligation relates to a non-U.S. manufacturing facility. This lease expires in December 2015. The aggregate amounts of debt, including the capital lease obligation, maturing during the next five fiscal years are as follows:

Fiscal 2014	$ 1.5
Fiscal 2015	1.4

Fiscal 2016	0.4
Fiscal 2017	
Fiscal 2018	300.0

Table of Contents

13. Retirement Plans

Defined Benefit Plans

The Company sponsors a number of defined benefit retirement plans covering certain of its U.S. employees and non-U.S. employees. As of September 27, 2013, U.S. plans represented 73% of both the Company s total pension plan assets and projected benefit obligation. The Company generally does not provide postretirement benefits other than retirement plan benefits for its employees; however, certain of the Company s U.S. employees participate in postretirement benefit plans that provide medical benefits. These plans are unfunded.

During fiscal 2013, the Company incurred settlement charges of $6.8 million resulting from lump sum distributions to former employees. During fiscal 2011, the Company incurred settlement charges of $11.1 million resulting from the level of lump-sum payments paid out of one of its U.S. pension plans, a significant portion of which were driven by the divestiture of Mallinckrodt Baker.

The net periodic benefit cost (credit) for the Company s pension and postretirement benefit plans was as follows:

	Pension Benefits Fiscal Year			Postretirement Benefits Fiscal Year		
	2013	2012	2011	2013	2012	2011
Service cost	$ 5.0	$ 5.0	$ 6.2	$ 0.1	$ 0.1	$ 0.2
Interest cost	18.2	21.2	23.5	2.4	3.1	3.8
Expected return on plan assets	(29.6)	(24.5)	(25.3)			
Amortization of net actuarial loss	12.3	11.7	11.8	0.3	0.2	0.5
Amortization of prior service cost	0.6	0.7	0.8	(9.1)	(9.2)	(9.0)
Plan settlements loss	6.8	(0.2)	11.1			
Curtailments			1.9			(4.6)
Special termination benefits			0.1			
Net periodic benefit cost (credit)	$ 13.3	$ 13.9	$ 30.1	$ (6.3)	$ (5.8)	$ (9.1)

The following table represents the changes in benefit obligations, plan assets and the net amounts recognized on the consolidated and combined balance sheets for pension and postretirement benefit plans at the end of fiscal 2013 and 2012:

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Change in benefit obligation:				
Projected benefit obligations at beginning of year	$ 533.2	$ 491.1	$ 80.3	$ 80.1
Service cost	5.0	5.0	0.1	0.1
Interest cost	18.2	21.2	2.4	3.1
Employee contributions	0.3	0.3		
Actuarial (gain) loss	(24.0)	53.3	(9.3)	2.8

Benefits and administrative expenses paid	(21.9)	(32.3)	(3.8)	(5.8)
Plan amendments	(9.0)		(16.5)	
Plan settlements	(24.2)	(0.3)		
Plan combinations	18.4			
Curtailments				
Currency translation	5.7	(5.1)		
Projected benefit obligations at end of year	$ 501.7	$ 533.2	$ 53.2	$ 80.3

Table of Contents

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 432.0	$ 383.6	$	$
Actual return on plan assets	17.3	63.0		
Employer contributions	44.4	23.4	3.8	5.8
Employee contributions	0.3	0.3		
Benefits and administrative expenses paid	(21.9)	(32.3)	(3.8)	(5.8)
Plan settlements	(24.2)	(0.3)		
Plan combinations	2.3			
Currency translation	5.8	(5.7)		
Fair value of plan assets at end of year	$ 456.0	$ 432.0	$	$
Funded status at end of year	$ (45.7)	$ (101.2)	$ (53.2)	$ (80.3)

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Amounts recognized on the consolidated and combined balance sheet:				
Non-current assets	$ 17.1	$ 17.7	$	$
Current liabilities	(3.1)	(2.2)	(4.9)	(7.4)
Non-current liabilities	(59.7)	(116.7)	(48.3)	(72.9)
Net amount recognized on the consolidated and combined balance sheet	$ (45.7)	$ (101.2)	$ (53.2)	$ (80.3)
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss	$ (102.9)	$ (127.5)	$ (2.4)	$ (12.1)
Prior service credit (cost)	7.9	(1.8)	28.2	20.8
Net amount recognized in accumulated other comprehensive income	$ (95.0)	$ (129.3)	$ 25.8	$ 8.7

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost (credit) in fiscal 2014 are as follows:

	Pension Benefits	Postretirement Benefits
Amortization of net actuarial loss	$ (8.3)	$
Amortization of prior service cost	0.6	9.3

The accumulated benefit obligation for all pension plans at the end of fiscal 2013 and 2012 was $499.9 million and $527.6 million, respectively. Additional information related to pension plans is as follows:

	2013	2012
Pension plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligation	$ 377.6	$ 414.3
Fair value of plan assets	316.2	295.4

The accumulated benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets do not significantly differ from the amounts in the table above since substantially all of the Company s pension plans are frozen.

Table of Contents

Actuarial Assumptions

Weighted-average assumptions used each fiscal year to determine net periodic benefit cost for the Company s pension plans are as follows:

	U.S. Plans			Non-U.S. Plans		
	2013	2012	2011	2013	2012	2011
Discount rate	3.5%	4.4%	4.9%	4.0%	5.2%	4.7%
Expected return on plan assets	7.9%	7.5%	7.6%	3.5%	4.0%	4.0%
Rate of compensation increase		2.8%	2.8%	3.7%	3.7%	3.7%

Weighted-average assumptions used each fiscal year to determine benefits obligations for the Company s pension plans are as follows:

	U.S. Plans			Non-U.S. Plans		
	2013	2012	2011	2013	2012	2011
Discount rate	4.3%	3.5%	4.4%	3.7%	4.0%	5.2%
Rate of compensation increase			2.8%	3.5%	3.7%	3.7%

For the Company s U.S. plans, the discount rate is based on the market rate for a broad population of Moody s AA-rated corporate bonds over $250 million. For the Company s non-U.S. plans, the discount rate is generally determined by reviewing country and region specific government and corporate bond interest rates.

In determining the expected return on pension plan assets, the Company considers the relative weighting of plan assets by class and individual asset class performance expectations as provided by external advisors in reaching conclusions on appropriate assumptions. The investment strategy for the pension plans had been governed by Covidien for periods prior to the Separation. Covidien s overall investment objective is to obtain a long-term return on plan assets that is consistent with the level of investment risk that is considered appropriate. At this time, the Company s investment objectives are similar to Covidien s. Investment risks and returns are reviewed regularly against benchmarks to ensure objectives are being met.

The weighted-average discount rate used to determine net periodic benefit cost and obligations for the Company s postretirement benefit plans are as follows:

	2013	2012	2011
Net periodic benefit cost	3.2%	4.1%	4.6%
Benefit obligations	4.0%	3.2%	4.1%

Healthcare cost trend assumptions for postretirement benefit plans are as follows:

	2013	2012
Healthcare cost trend rate assumed for next fiscal year	7.3%	7.5%
Rate to which the cost trend rate is assumed to decline	4.5%	4.5%

Fiscal year the ultimate trend rate is achieved	2029	2029

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 0.1	$ (0.1)
Effect on postretirement benefit obligation	0.4	(0.3)

Table of Contents

Plan Assets

The Company s U.S. pension plans have a target allocation of 42% equity securities and 58% debt securities. Various asset allocation strategies are in place for non-U.S. pension plans depending upon local law, status, funding level and duration of liabilities, and are 39% equity securities, 53% debt securities and 8% other (primarily cash) for our Japanese pension plan and 10% equity securities, 2% debt securities and 88% other (primarily insurance contracts) for our plan in the Netherlands.

Pension plans have the following weighted-average asset allocations at the end of each fiscal year:

	U.S. Plans		Non-U.S. Plans	
	2013	2012	2013	2012
Equity securities	42%	58%	7%	8%
Debt securities	56	40	3	2
Cash and cash equivalents	1	1		
Real estate and other	1	1	90	90
Total	100%	100%	100%	100%

The following tables provide a summary of plan assets held by the Company s pension plans that are measured at fair value on a recurring basis at the end of fiscal 2013 and 2012:

		Basis of Fair Value Measurement		
	Fiscal 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities:				
U.S. small mid cap	$ 19.3	$ 19.3	$	$
U.S. large cap	76.9	76.9		
International	52.2	43.9	8.3	
Debt securities:				
Diversified fixed income funds [1]	170.0	166.7	3.3	
High yield bonds	11.7	11.7		
Emerging market funds	7.9	7.9		
Diversified/commingled funds				
Insurance contracts	112.0			112.0
Other	6.0	3.1	2.9	
Total	$ 456.0	$ 329.5	$ 14.5	$ 112.0

Table of Contents

		Basis of Fair Value Measurement		
	Fiscal 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities:				
U.S. small mid cap	$ 24.0	$ 24.0	$	$
U.S. large cap	101.2	101.2		
International	66.8	57.2	9.6	
Debt securities:				
Diversified fixed income funds [1]	97.4	97.4		
High yield bonds	15.9	15.9		
Emerging market funds	12.0	12.0		
Diversified/commingled funds	2.2		2.2	
Insurance contracts	105.1			105.1
Other	7.4	3.8	3.6	
Total	$ 432.0	$ 311.5	$ 15.4	$ 105.1

(1) Diversified fixed income funds consist of U.S. Treasury bonds, mortgage-backed securities, corporate bonds, asset-backed securities and U.S. agency bonds.

Equity securities. Equity securities primarily consist of mutual funds with underlying investments in foreign equity and domestic equity markets. The fair value of these investments is based on net asset value of the units held in the respective fund, which are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1) or through net asset values provided by the fund administrators that can be corroborated by observable market data (level 2).

Debt securities. Debt securities are primarily invested in mutual funds with underlying fixed income investments in U.S. government and corporate debt, U.S. dollar denominated foreign government and corporate debt, asset-backed securities, mortgage-backed securities and U.S. agency bonds. The fair value of these investments is based on the net asset value of the units held in the respective fund which are determined by obtaining quoted prices on nationally recognized securities exchanges.

Diversified/commingled funds. Diversified/commingled funds held by the Company primarily consist of corporate debt securities and mutual funds invested in U.S. and non-U.S. equity securities. The fair value of these investments is determined using other inputs, such as net asset values provided by the fund administrators that can be corroborated by observable market data.

Insurance contracts. Insurance contracts held by the Company are issued primarily by Delta Lloyd, a well-known, highly rated insurance company. The fair value of these insurance contracts is based upon the present value of future cash flows under the terms of the contracts and therefore the fair value of these assets has been classified as level 3 within the fair value hierarchy. Significant assumptions used in determining the fair value of these contracts are the

amount and timing of future cash flows and counterparty credit risk. The objective of the insurance contracts is to provide the Company with future cash flows that will match the estimated timing and amount of future pension benefit payments. Delta Lloyd s insurance subsidiaries have a Standard & Poor s credit rating of A.

Other. Other includes cash and cash equivalents invested in a money market mutual fund, the fair value of which is determined by obtaining quoted prices on nationally recognized securities exchanges (level 1). In addition, other includes real estate funds, the fair value of which is determined using other inputs, such as net asset values provided by the fund administrators that can be corroborated by observable market data (level 2).

Table of Contents

The following table provides a summary of the changes in the fair value measurements that used significant unobservable inputs (level 3) for fiscal 2013 and 2012:

	Insurance Contracts
Balance at September 30, 2011	$ 97.8
Net unrealized gains	15.1
Net purchases, sales and issuances	(2.9)
Currency translation	(4.9)
Balance at September 28, 2012	105.1
Net unrealized gains	3.3
Net purchases, sales and issuances	(1.8)
Currency translation	5.4
Balance at September 27, 2013	$ 112.0

Mallinckrodt shares are not a direct investment of the Company s pension funds; however, the pension funds may indirectly include Mallinckrodt shares. The aggregate amount of the Mallinckrodt shares are not material relative to the total pension fund assets.

Contributions

The Company s funding policy is to make contributions in accordance with the laws and customs of the various countries in which the Company operates, as well as to make discretionary voluntary contributions from time to time. In fiscal 2013, the Company made $44.4 million in contributions to the Company s pension plans, including a $37.5 million voluntary contribution by Covidien prior to the Separation. The Company does not anticipate making material contributions to its defined benefit pension plans or its postretirement benefit plans during fiscal 2014.

Expected Future Benefit Payments

Benefit payments expected to be paid, reflecting future expected service as appropriate, are as follows:

	Pension Benefits	Postretirement Benefits
Fiscal 2014	$ 40.6	$ 4.9
Fiscal 2015	35.1	5.2
Fiscal 2016	34.0	4.9
Fiscal 2017	33.5	4.5
Fiscal 2018	33.0	4.2
Fiscal 2019-2023	152.9	17.4

Defined Contribution Retirement Plans

The Company maintains one active tax-qualified 401(k) retirement plan in the U.S., which provides for an automatic Company contribution of three percent of an eligible employee s pay. The Company also makes a matching contribution generally equal to 50% of each employee s elective contribution to the plan up to six percent of the employee s eligible pay. Total 401(k) expense related to continuing operations was $22.7 million, $20.9 million and $19.3 million for fiscal 2013, 2012 and 2011, respectively.

Deferred Compensation Plans

As discussed in Note 20, the Company maintains one active non-qualified deferred compensation plan in the U.S., which permits eligible employees to defer a portion of their compensation. Deferred compensation expense for each period presented was insignificant.

Table of Contents

Rabbi Trusts and Other Investments

The Company maintains several rabbi trusts, the assets of which are used to pay retirement benefits. The rabbi trust assets are subject to the claims of the Company s creditors in the event of the Company s insolvency. Plan participants are general creditors of the Company with respect to these benefits. The trusts primarily hold life insurance policies and debt and equity securities, the value of which is included in other assets on the consolidated and combined balance sheets. Note 20 provides additional information regarding the debt and equity securities. The carrying value of the 135 life insurance contracts held by these trusts was $54.6 million and $37.8 million at September 27, 2013 and September 28, 2012, respectively. These contracts have a total death benefit of $143.1 million and $93.9 million at September 27, 2013 and September 28, 2012, respectively. However, there are outstanding loans against the policies amounting to $35.3 million and $16.9 million at September 27, 2013 and September 28, 2012, respectively.

The Company has insurance contracts which serve as collateral for certain of the Company s non-U.S. pension plan benefits, which totaled $13.1 million and $9.8 million at September 27, 2013 and September 28, 2012, respectively. These amounts were also included in other assets on the consolidated and combined balance sheets.

14. Share Plans

Total share-based compensation cost was $16.2 million, $11.1 million and $10.6 million for fiscal 2013, 2012 and 2011, respectively. These amounts are generally included within selling, general and administrative expenses in the consolidated and combined statements of income; however, the incremental fair value associated with the conversion of Covidien equity awards into Mallinckrodt equity awards discussed below is included in separation costs. The Company recognized a related tax benefit associated with this expense of $5.8 million, $3.8 million and $3.4 million in fiscal 2013, 2012 and 2011, respectively.

Incentive Equity Awards Converted from Covidien Awards

Prior to the Separation, all employee incentive equity awards were granted by Covidien. At the time of Separation, the restricted share units and share options granted to Mallinckrodt employees prior to June 28, 2013 where converted into restricted share units and share options, respectively, of Mallinckrodt, and all of the performance share awards granted to Mallinckrodt employees were converted to restricted share units of Mallinckrodt (collectively, the Conversion). Mallinckrodt incentive equity awards issued upon completion of the Conversion and the related weighted average grant date fair value is presented below:

	Awards	Weighted-Average Grant-Date Fair Value
Share options	2,399,822	$ 7.96
Restricted share units	575,213	38.97

Share Options. A summary of the status of the Company s share option awards upon completion of the Conversion on June 28, 2013 is presented below:

	Shares Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at June 28, 2013	2,399,822	$ 35.94	8.0	$ 22.9
Exercisable at June 28, 2013	550,097	30.94	5.9	8.0

Table of Contents

The Conversion resulted in a modification of the previously issued share option awards. The Company compared the aggregate fair value of the awards immediately before and immediately after the Separation. The fair value of the awards immediately after the Separation was higher than the awards immediately before, primarily due to the elimination of Covidien s dividend yield assumption and the Company s higher volatility as compared to Covidien. The incremental fair value for vested awards was recognized immediately within separation costs, as the incremental fair value is directly attributable to the Separation, and the incremental fair value for unvested awards will be recognized on a straight-line basis over the remaining vesting period of the applicable awards, also within separation costs.

The weighted-average assumptions used in the Black-Scholes pricing model for determining the fair value of the share option awards immediately before and immediately after the Separation were as follows:

	Pre- Separation	Post- Separation
Expected share price volatility	26%	32%
Risk-free interest rate	0.99%	0.99%
Expected annual dividend per share	1.65%	
Expected life of options (in years)	3.8	3.8
Fair value per option	$ 18.04	$ 16.51
Share option awards	1,745,258	2,399,822

Restricted share units. The Conversion resulted in a modification of the previously issued restricted share unit awards (RSUs). The Company compared the aggregate fair value of the awards immediately before and immediately after the Separation. The Conversion did not result in incremental fair value.

Performance share units. The Conversion resulted in a modification of the previously issued performance share unit awards. The Company compared the aggregate fair value of the awards immediately before and immediately after the Separation. The fair value of the awards was higher after the Conversion as the performance factor utilized to convert the award was higher than what had previously been estimated. The incremental fair value was recognized immediately within separation costs for the service period to date and the remaining incremental fair value will be recognized over the remaining vesting period within separation costs.

Stock Compensation Plans

Prior to the Separation, the Company adopted the 2013 Mallinckrodt Pharmaceuticals Stock and Incentive Plan (the 2013 Plan). The 2013 Plan provides for the award of share options, share appreciation rights, annual performance bonuses, long-term performance awards, restricted units, restricted shares, deferred share units, promissory shares and other share-based awards (collectively, Awards). The 2013 Plan provides for a maximum of 5.7 million common shares to be issued as Awards, subject to adjustment as provided under the terms of the 2013 Plan. As of September 27, 2013, all equity awards held by the Company s employees were either converted from Covidien equity awards at the Separation or granted under its 2013 Plan.

Share options. Share options are granted to purchase the Company s ordinary shares at prices that are equal to the fair market value of the shares on the date the share option is granted. Share options generally vest in equal annual installments over a period of four years and expire ten years after the date of grant. The grant-date fair value of share options, adjusted for estimated forfeitures, is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. Forfeitures are estimated based on historical experience.

Table of Contents

Share option activity and information is as follows:

	Share Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at June 28, 2013	2,399,822	$ 35.94		
Granted	406,169	44.00		
Exercised	(17,332)	30.04		
Expired/Forfeited	(28,428)	36.85		
Outstanding at September 27, 2013	2,760,231	37.30	8.2	$ 17.3
Vested and unvested expected to vest as of September 27, 2013	2,394,431	37.27	8.2	15.1
Exercisable at September 27, 2013	536,405	31.04	5.7	6.7

As of September 27, 2013, there was $22.0 million of total unrecognized compensation cost related to unvested share option awards, which is expected to be recognized over a weighted-average period of 2.3 years.

The grant date fair value of share options has been estimated using the Black-Scholes pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. The expected volatility assumption is based on the historical and implied volatility of the Company s peer group with similar business models for periods after the Separation, and on Covidien s peer group with similar business models for periods prior to the Separation. The expected life assumption is based on the contractual and vesting term of the share option, employee exercise patterns and employee post-vesting termination behavior. The expected annual dividend per share is based on the Company s current intentions regarding payment of cash dividends, or Covidien s dividend rate on the date of grant. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The weighted-average assumptions used in the Black-Scholes pricing model for share options granted subsequent to the Separation are included within the discussion of modification expense above. As all stock option awards were granted immediately following the Separation, the valuation assumptions for the modification and subsequent award were consistent.

Subsequent to the Separation, the total intrinsic value of share options exercised and the related excess cash tax benefit was not significant.

Restricted share units. Recipients of RSUs have no voting rights and receive dividend equivalent units which vest upon the vesting of the related shares. RSUs generally vest in equal annual installments over a period of four years. Restrictions on RSUs lapse upon normal retirement, death or disability of the employee. The grant-date fair value of RSUs, adjusted for estimated forfeitures, is recognized as expense on a straight-line basis over the service period. The fair market value of RSUs granted after the Conversion is determined based on the market value of the Company s shares on the date of grant for periods after the Separation.

F-37

Table of Contents

RSU activity is as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at June 28, 2013	575,213	$ 38.97
Granted	167,546	43.86
Vested	(1,656)	31.28
Forfeited	(16,834)	38.57
Non-vested at September 27, 2013	724,269	40.62

The total fair value of Mallinckrodt restricted share unit awards granted during fiscal 2013 following the Separation was $7.3 million. The total fair value of Mallinckrodt restricted share unit awards vested during fiscal 2013 following the Separation was $0.1 million. As of September 27, 2013, there was $18.2 million of total unrecognized compensation cost related to non-vested restricted share units granted. The cost is expected to be recognized over a weighted-average period of 2.4 years.

Employee Stock Purchase Plans

The Company adopted the Mallinckrodt Employee Stock Purchase Plan (ESPP) effective October 1, 2013. Substantially all full-time employees of the Company s U.S. subsidiaries and employees of certain qualified non-U.S. subsidiaries are eligible to participate in this ESPP. Eligible employees authorize payroll deductions to be made for the purchase of shares. The Company matches a portion of the employee contribution by contributing an additional 15% (25% in fiscal 2014) of the employee s payroll deduction up to a $25,000 employee contribution. All shares purchased under the ESPP are purchased on the open market by a designated broker.

15. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are as follows:

	Currency Translation	Unrecognized Loss on Derivatives	Unrecognized Gain (Loss) on Benefit Plans	Accumulated Other Comprehensive Income
Balance at September 24, 2010	$ 160.5	$	$ (73.9)	$ 86.6
Pre-tax change	(0.5)		16.9	16.4
Income tax provision			(4.5)	(4.5)
Balance at September 30, 2011	160.0		(61.5)	98.5
Pre-tax change	(2.9)		(15.3)	(18.2)
Income tax benefit			4.6	4.6

Balance at September 28, 2012	157.1		(72.2)	84.9
Pre-tax change	1.5	(7.3)	51.4	45.6
Income tax provision			(22.0)	(22.0)
Balance at September 27, 2013	$ 158.6	$ (7.3)	$ (42.8)	$ 108.5

16. Transactions with Former Parent Company

Prior to the completion of the Separation on June 28, 2013, the Company was part of Covidien and, as such, transactions between Covidien and the Company were considered related party transactions. As discussed in Note 1, these intercompany transactions are included in the combined financial statements and were considered

Table of Contents

to be effectively settled for cash at the time the transaction was recorded. The continuing relationship between Covidien and the Company is primarily governed through agreements entered into as part of the Separation. The Separation and Distribution Agreement, Tax Matters Agreement and a transition services agreement were filed with the SEC as Exhibits 2.1, 10.1 and 10.3, respectively, to the Company s Current Report on Form 8-K filed on July 1, 2013. The following discusses the related party transactions and those agreements.

Sales and Purchases

During fiscal 2013, 2012 and 2011, the Company sold inventory to Covidien in the amount of $51.2 million, $54.2 million and $52.4 million, respectively, which is included in net sales in the consolidated and combined statements of income. The Company also purchases inventories from Covidien. The Company recognized cost of sales from these inventory purchases of $38.4 million, $34.7 million and $41.1 million during fiscal 2013, 2012 and 2011, respectively.

Allocated Expenses

As discussed in Note 1, the combined financial statements for periods prior to June 28, 2013 include expense allocations for certain functions provided by Covidien, including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, employee benefits and incentives, insurance and share-based compensation. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating expenses, headcount or other measures. The amounts allocated were $39.6 million, $49.2 million and $56.3 million for fiscal 2013, 2012 and 2011, respectively, and are included within selling, general and administrative expenses.

Balance Sheet Impacts

Prior to the Separation, intercompany transactions between the Company and Covidien were considered to be effectively settled for cash at the time the transaction was recorded and were presented within parent company investment in the combined balance sheet. However, at the completion of the Separation on June 28, 2013, certain transactions remained unsettled and were reclassified from parent company investment and included within the assets and liabilities of the Company. The condensed consolidated balance sheet immediately following the Separation included $22.3 million of amounts due to the Company from Covidien and $61.9 million of amounts the Company owes Covidien. Subsequent to the Separation, Covidien made an additional cash contribution for the net difference in these amounts, which was recorded through shareholders equity. In conjunction with this contribution, each party settled the amounts outstanding immediately following the Separation.

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

In connection with the Separation, the Company recorded separation related adjustments within parent company investment, which represent transfers of certain assets and liabilities with Covidien pursuant to the Separation and Distribution Agreement. The Company has used available information to develop its best estimates for certain assets and liabilities related to the Separation. In limited instances, final determination of the balances will be made in subsequent periods. Any adjustments, if necessary, are not expected to be material and will be recorded through shareholders equity in subsequent periods when determined.

Separation and Distribution Agreement

On June 28, 2013, the Company entered into a Separation and Distribution Agreement and other agreements with Covidien to effect the Separation and provide a framework for the Company s relationships with Covidien

Table of Contents

after the Separation. These agreements govern the relationship between Mallinckrodt and Covidien subsequent to the Separation and provide for the assignment to Mallinckrodt of certain of Covidien s assets, liabilities and obligations attributable to periods prior to the Separation.

In general, each party to the Separation and Distribution Agreement assumed liability for all pending, threatened and unasserted legal matters related to its own business or its assumed or retained liabilities and will indemnify the other party for any liability to the extent arising out of, or resulting from, such assumed or retained legal matters.

The Separation and Distribution Agreement provided for the initial cash capitalization of Mallinckrodt in the amount of approximately $168 million at June 28, 2013. The Separation and Distribution Agreement also provided for an adjustment payment to compensate either Mallinckrodt or Covidien, as applicable, to the extent that the aggregate of the Company s cash, indebtedness and specified working capital accounts as of June 28, 2013 (the Distribution Date), as well as the capital expenditures made with respect to the Company s business during fiscal 2013 through the Distribution Date, deviated from a target. The target was calculated pursuant to a formula set forth in the Separation and Distribution Agreement, which assumed the Distribution Date would be June 28, 2013, that the Pharmaceuticals business was conducted in the ordinary course through that date and that the Company would have approximately $168 million of cash upon completion of the distribution. The Separation and Distribution Agreement also provided that an adjustment payment would only be payable if the amount of the adjustment payment exceeded $20 million (in which case the entire amount would be paid). Upon final calculation, no adjustment payment was required by either the Company or Covidien.

Tax Matters Agreement

In connection with the Separation, Mallinckrodt entered into the Tax Matters Agreement with Covidien that generally will govern Covidien s and Mallinckrodt s respective rights, responsibilities and obligations after the Separation with respect to certain taxes, including ordinary course of business taxes and taxes, if any, incurred as a result of any failure of the distribution of Mallinckrodt shares to qualify as a tax-free distribution for U.S. federal income tax purposes within the meaning of Section 355 of the U.S. Internal Revenue Code, or other applicable tax law, or any failure of certain internal transactions undertaken in anticipation of the distribution to qualify for tax-free or tax-favored treatment under the applicable tax law. The Company expects, with certain exceptions, to be responsible for the payment of all taxes attributable to Mallinckrodt or its subsidiaries for taxable periods beginning on or after September 29, 2012. For periods prior to September 29, 2012, the Company is subject to a $200 million liability limitation, net of any benefits, as prescribed by the Tax Matters Agreement. To the extent that the Company s liability for such taxes, net of any tax benefits, does not exceed $200 million, it may be responsible for additional taxes attributable to periods prior to September 29, 2012, taxes related to the Separation and a percentage of any taxes arising from the Separation failing to qualify for tax-free or tax-favored treatment through no fault of Covidien or the Company. The Tax Matters Agreement also assigns rights and responsibilities for administrative matters, such as the filing of returns, payment of taxes due, retention of records, tax reporting practices and conduct of audits, examinations or similar proceedings. In addition, the Tax Matters Agreement provides for cooperation and information sharing with respect to tax matters.

The Tax Matters Agreement also contains restrictions on the Company s ability to take actions without Covidien s consent that could cause the Separation or certain internal transactions undertaken in anticipation of the Separation to fail to qualify as tax-free or tax-favored transactions under applicable tax law. These transactions include, but are not limited to, entering into, approving or allowing any transaction that results in a change in ownership of more than 35% of Mallinckrodt s shares; any merger, consolidation, scheme of arrangement, liquidation or partial liquidation, or any approval or allowance of such transaction with respect to certain of the Company s subsidiaries; the cessation or transfer of certain business activities; the sale, issuance or other disposition of any equity interest in certain of the

Company s subsidiaries; a sale or other disposition of a substantial portion of the Company s assets or a substantial portion of the assets of certain of the Company s subsidiaries; extraordinary distributions by or to certain of the Company s subsidiaries; or engaging in certain

Table of Contents

internal transactions. These restrictions will all apply for the two-year period after the Separation and in some cases will apply for periods as long as five years following the Separation. Any taxes imposed on the other party attributable to certain post-distribution actions taken by or in respect of the responsible party or its shareholders that result in failure of the Separation or internal transactions to qualify as tax-free or tax-favored transactions are the responsibility of the party at fault, regardless of whether the actions occur more than two years after the distribution, or whether Covidien consents to such actions. Any actions of the Company or its shareholders that directly give rise to additional taxes are not subject to the $200 million threshold noted previously.

Transition Services Agreement

Mallinckrodt and Covidien entered into a transition services agreement in connection with the Separation pursuant to which Mallinckrodt and Covidien will provide each other, on an interim and transitional basis, various services including, but not limited to, treasury administration, information technology services, non-exclusive distribution and importation services for our products in certain countries outside the U.S., regulatory, general administrative services and other support services. The agreed-upon charges for such services are generally intended to allow the servicing party to recover all out-of-pocket costs and expenses, and include a predetermined profit margin.

17. 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 has no reason to believe that these uncertainties would 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 consolidated and combined balance sheets at September 27, 2013 and September 28, 2012 was $20.1 million and $22.4 million, respectively, of which $17.2 million and $18.3 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 September 27, 2013 and September 28, 2012. As of September 27, 2013, the maximum future payments the Company could be required to make under these indemnification obligations was $75.5 million. The Company was required to pay $30.0 million into an escrow account as collateral to the purchaser, of which $23.5 million and $24.5 million remained in other assets on the consolidated and combined balance sheets at September 27, 2013 and September 28, 2012, respectively.

The Company has recorded liabilities for known indemnification obligations included as part of environmental liabilities, which are discussed in Note 18. In addition, the Company is liable for product performance; however in the opinion of management, such obligations 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 $58.0 million surety bond.

Table of Contents

In addition, as of September 27, 2013, the Company had a $21.1 million letter of credit to guarantee decommissioning costs associated with its Saint Louis, Missouri plant. As of September 27, 2013, the Company had various other letters of credit and guarantee and surety bonds totaling $38.1 million.

In addition, the Separation and Distribution Agreement 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.

18. Commitments and Contingencies

The Company has purchase obligations related to commitments to purchase certain goods and services. At September 27, 2013, such obligations were as follows:

Fiscal 2014	$ 74.9
Fiscal 2015	23.7
Fiscal 2016	22.3
Fiscal 2017	
Fiscal 2018	

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 is of the opinion that their ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

Governmental Proceedings

On January 7, 2009, the Company received a subpoena from the U.S. Attorney s Office for the Northern District of California requesting production of documents relating to the sales and marketing of its Tofranil-PM, Restoril and Magnacet products. In June 2013, the Company agreed to settlement terms in this proceeding providing for a cash payment by the Company of $3.5 million, which was consistent with the Company s previously established accrual.

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

Patent/Antitrust Litigation

Tyco Healthcare Group LP, et al. v. Mutual Pharmaceutical Company, Inc. The Company filed a patent infringement suit in the U.S. District Court for the District of New Jersey against Mutual Pharmaceutical Co., Inc., et al. (collectively, Mutual) on March 20, 2007 pursuant to procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984, after Mutual submitted an Abbreviated New Drug Application to the FDA seeking to

sell a generic version of the Company s 7.5 mg Restoril sleep aid product. Mutual also filed antitrust and unfair competition counterclaims. The patents at issue have since expired or been found invalid. On January 18, 2013, the trial court issued an opinion and order granting the Company s motion for summary judgment regarding Mutual s antitrust and unfair competition counterclaims. On May 1, 2013, Mutual appealed this decision to the U.S. Court of Appeals for the Federal Circuit. While it is not possible at this

Table of Contents

time to determine with certainty the ultimate outcome of the counterclaims, the Company believes that the final resolution of the claims will not have a material adverse effect on its financial condition, results of operations and cash flows.

Pricing Litigation

Two cases were brought against the Company that allege generally that the Company and numerous other pharmaceuticals companies reported false pricing information in connection with certain drugs that are reimbursable under Medicaid, resulting in overpayment by state Medicaid programs for those drugs. These cases, brought by state Attorneys General in Utah and Louisiana, generally seek monetary damages and attorneys fees. The Company is named as a defendant in *State of Utah v. Actavis US, Inc., et* al. filed May 8, 2008, which is pending in the Third Judicial Circuit of Salt Lake County, Utah. The Company was also named in *State of Louisiana v. Abbott Laboratories Inc*., et al. filed November 3, 2010, which was pending in the 19th Judicial District, Parish of East Baton Rouge, Louisiana. In May 2013, the Company agreed to terms of settlement with the Attorney General for the State of Louisiana resolving all claims in *State of Louisiana v. Abbott Laboratories Inc., et al*. The settlement did not have a material impact on the Company s consolidated and combined financial statements. The Utah case is pending and the Company intends to contest that case and to explore other options as appropriate. While it is not possible at this time to determine with certainty the outcome of the case, the Company believes that the ultimate resolution will not have a material adverse effect on its financial condition, results of operations and cash flows.

Environmental Remediation and Litigation Proceedings

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites, including those described below. The ultimate cost of site cleanup and timing of future cash outlays is difficult to predict, given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. The Company concluded that, as of September 27, 2013, it was probable that it would incur remedial costs in the range of $46.4 million to $81.5 million. The Company also concluded that, as of September 27, 2013, the best estimate within this range was $46.4 million, of which $6.9 million was included in accrued and other current liabilities and the remainder was included in environmental liabilities on the consolidated balance sheet at September 27, 2013.

Orrington, Maine. The Company was a successor to a company which owned and operated a chemical manufacturing facility in Orrington, Maine from 1967 until 1982. As such, the Company was responsible for the costs of completing an environmental site investigation required by the U.S. Environmental Protection Agency (EPA) and the Maine Department of Environmental Protection. The Company estimated that, as of September 28, 2012, the cost to comply with the proposed remediation alternatives at this site ranged from $95.8 million to $170.3 million. At September 28, 2012, estimated future investigation and remediation costs of $95.8 million were accrued for this site.

In accordance with the Separation and Distribution Agreement, this liability was retained by Covidien, and, therefore, this liability was removed from environmental liabilities as of June 28, 2013, the date the Separation was completed. As the Company no longer manages this case, it will not continue to update its status for further developments. Further information and details on the history of the case can be found in the information statement filed with the SEC as Exhibit 99.2 to the Company s Current Report on Form 8-K filed on July 1, 2013.

Penobscot River and Bay. Since April 2000, the Company had been involved in the lawsuit, *Maine People s Alliance and Natural Resources Defense Council, Inc. v. HoltraChem Manufacturing Company, LLC and Mallinckrodt US LLC*, filed in the U.S. District Court for the District of Maine by the Natural Resources Defense Council and the Maine People s Alliance. Plaintiffs sought an injunction requiring the Company to conduct extensive studies of

mercury contamination of the Penobscot River and Bay and options for remediating such contamination, and to perform appropriate remedial activities, if necessary.

Table of Contents

In accordance with the Separation and Distribution Agreement, this liability was retained by Covidien, and, therefore, this liability was removed from environmental liabilities as of June 28, 2013, the date the Separation was completed. As the Company no longer manages this case, it will not continue to update its status for further developments. Further information and details on the history of this case can be found in the information statement filed with the SEC as Exhibit 99.2 to the Company s Current Report on Form 8-K filed on July 1, 2013.

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 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 with the Government Agencies to conduct an extensive RI/FS at the Site under the direction of the U.S. Fish and Wildlife Service. General Dynamics asserted in August 2004 that the Company is jointly and severally liable, along with approximately eight other lessees and operators at the AUS Operable Unit, for alleged contamination of soils and groundwater resulting from historic operations, and has threatened to file a contribution claim against the Company and other parties for recovery of its costs incurred in connection with the RI/FS activities being conducted at the AUS Operable Unit. The Company and other PRPs who received demand letters from General Dynamics have explored settlement alternatives, but have not reached settlement to date. The Company and other PRPs are awaiting completion of the RI/FS by General Dynamics before the initiation of formal PRP negotiations to address resolution of these alleged claims. While it is not possible at this time to determine with certainty the ultimate outcome of this case, the Company believes 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 other former owners, assumed responsibility for the Millsboro Site cleanup under the Alternative Superfund Program administered by the EPA. The Company and other PRPs entered into an Administrative Order on Consent with the EPA on May 10, 2010, which was subsequently amended in November 2010 and January 2011, to investigate the potential source of TCE contamination and to evaluate options to abate, mitigate or eliminate the release or threat of release of hazardous substances at the Millsboro Site. The Company, along with other parties, continues to conduct the studies and prepare remediation plans in accordance with the amended Administrative Order on Consent. While it is not possible at this time to determine with certainty the ultimate outcome of this matter, the Company believes 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.

Coldwater Creek, Saint Louis County, Missouri. The Company is one of several companies named as defendants in six tort complaints (*McClurg, et al. v. Mallinckrodt, Inc., et al.*, filed February 28, 2012; *Adams, et al. v. Mallinckrodt, Inc., et al.*, filed April 10, 2012; *Steinmann, et al. v. Mallinckrodt, Inc., et al.*, filed October 23, 2012; *Schneider, et al. v. Mallinckrodt, Inc., et al.*, filed April 19, 2013; *Vorce v. Mallinckrodt, Inc., et al.*, filed June 18, 2013; and *Lange, et al. v. Mallinckrodt, Inc., et al.*, filed July 31, 2013) with numerous plaintiffs pending in the U.S. District Court for the Eastern District of Missouri. These cases allege personal injury for alleged exposure to radiological substances present in Coldwater Creek in Missouri. Plaintiffs lived in various locations in Saint Louis County, Missouri near Coldwater

Creek. Radiological residues which may have

Table of Contents

been present in the creek have been remediated by the U.S. Army Corps of Engineers. The Company believes that it has meritorious defenses to these complaints and is vigorously defending against them. The Company is unable to estimate a range of reasonably possible losses for the following reasons: (i) the proceedings are in early stages; (ii) the Company has not received and reviewed complete information regarding the plaintiffs and their medical conditions; and (iii) there are significant factual issues to be resolved. While it is not possible at this time to determine with certainty the ultimate outcome of these cases, the Company believes that the final resolution of all known claims will not have a material adverse effect on its financial condition, results of operations and cash flows.

Products Liability Litigation

The Company is one of four manufacturers of Gadolinium-Based Contrast Agents, such as the Company s Optimark product, involved in litigation alleging that administration of these agents causes development of nephrogenic systemic fibrosis in a small number of patients with advanced renal impairment. In May 2013, the Company agreed to terms of settlement with the plaintiffs in all of its previously disclosed lawsuits involving its Optimark product. These settlements resolved cases that were included in federal multi-district litigation pending in the U.S. District Court for the Northern District of Ohio (In re Gadolinium-Based Contrast Agents Product Liability Litigation, which was established on February 27, 2008) and cases in various state courts. These settlements did not have a material impact on the Company s consolidated and combined financial statements.

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 September 27, 2013, there were approximately 11,500 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 consolidated and combined balance sheet. 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 that the final outcome 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.

Table of Contents

Asset Retirement Obligations

The Company has recorded asset retirement obligations for the estimated future costs primarily associated with legal obligations to decommission facilities within the Global Medical Imaging segment, including the facilities located in the Netherlands and Maryland Heights, Missouri. Substantially all of these obligations are included in other liabilities on the consolidated and combined balance sheets. The following table provides a summary of the changes in the Company s asset retirement obligations for fiscal 2013 and 2012:

	2013	2012
Balance at beginning of period	$ 46.4	$ 45.9
Additions	0.4	
Accretion expense	2.9	2.5
Payments	(0.2)	
Currency translation	1.1	(2.0)
Balance at end of period	$ 50.6	$ 46.4

The Company believes 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.

Leases

The Company has facility, vehicle and equipment leases that expire at various dates. Rental expense under facility, vehicle and equipment operating leases related to continuing operations was $16.9 million, $15.5 million and $14.4 million for fiscal 2013, 2012 and 2011, respectively. The Company also has facility and equipment commitments under capital leases.

The following is a schedule of minimum lease payments for non-cancelable leases as of September 27, 2013:

	Operating Leases	Capital Leases
Fiscal 2014	$ 19.3	$ 1.5
Fiscal 2015	13.3	1.5
Fiscal 2016	10.4	0.4
Fiscal 2017	8.7	
Fiscal 2018	4.8	
Thereafter	10.2	
Total minimum lease payments	$ 66.7	3.4
Less: interest portion of payments		(0.2)
Present value of minimum lease payments		$ 3.2

The Company exchanged title to $11.3 million of its plant assets in return for an equal amount of Industrial Revenue Bonds (IRB) issued by the Saint Louis County. The Company also simultaneously leased such assets back from Saint Louis County under a capital lease expiring December 2022, the terms of which provide the Company 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 property tax abatement ten years from the date the property is placed in service. Due to right of offset, the capital lease obligation and IRB asset are recorded net in the consolidated and combined balance sheets and excluded from the above table. The Company expects that the right of offset will be applied to payments required under these arrangements.

Table of Contents

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 between the Company and Covidien. 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 that established liabilities are reasonable and that final resolution of these matters will not have a material adverse effect on its financial condition, results of operations and cash flows.

With respect to certain tax returns filed by predecessor affiliates of the Company and Covidien, the IRS has concluded its field examination for the years 1997 through 2000 and has proposed tax adjustments. Several of the proposed adjustments could also affect both Covidien s and the Company s income tax returns for years after 2000. Certain of the IRS s proposed adjustments have been appealed, and all but one of the matters associated with the proposed tax adjustments have been resolved. The unresolved proposed adjustment asserts that substantially all of the predecessor affiliates intercompany debt originating during the years 1997 through 2000 should not be treated as debt for U.S. federal income tax purposes, and has disallowed interest deductions related to the intercompany debt and certain tax attribute adjustments recognized on the U.S. income tax returns. This matter is subject to the Company s $200 million limitation for periods prior to September 29, 2012, as prescribed in the Tax Matters Agreement. While it is not possible at this time to determine with certainty the ultimate outcome of this matter, the Company believes that it will not have a material adverse effect on its financial condition, results of operations and cash flows.

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.

19. Derivative Instruments

The Company is exposed to certain risks relating to its business operations. Prior to the Separation on June 28, 2013, the Company participated in the centralized hedging functions of Covidien to help mitigate risks related to foreign exchange exposure and certain commodity price exposures. Foreign currency option and forward contracts were used to manage the foreign exchange exposures of operations outside the U.S. Swap contracts on commodities were periodically entered into to manage the price risk associated with forecasted purchases of commodities used in the Company s manufacturing processes. The associated derivative assets and liabilities for these types of instruments were not included on the Company s combined balance sheet prior to June 28, 2013, since derivative activity was centrally managed by Covidien. In conjunction with the Separation, the Company assumed the foreign currency forward and option contacts directly related to its business and, as such, has recognized the fair value of the these derivatives in its consolidated balance sheet as of September 27, 2013. The commodity swap contracts were retained by Covidien. Changes in the fair value of the derivative financial instruments which related to the Company s business operations have been recognized in the Company s earnings unless specific hedge criteria are met. Covidien designated certain commodity swap contracts as cash flow hedges but did not designate the foreign currency forward and option contracts as hedging instruments.

Risks that relate to interest rate exposure were managed by using derivative instruments. In March 2013 and April 2013, MIFSA entered into forward interest rate lock contracts to hedge the risk of variability in the market interest rates prior to the issuance of the Notes in April 2013. These transactions have been reflected in the consolidated and

combined financial statements for all periods, since the transactions were solely entered into in connection with the Separation and were not centrally managed by Covidien.

Table of Contents

Foreign Exchange Exposure

The Company has foreign exchange exposure on the translation of the financial statements and on transactions denominated in foreign currencies. The Company s policy is to use various forward and option contracts to manage foreign currency exposures on accounts and notes receivable, accounts payable, intercompany loans, intercompany cash pooling arrangements and forecasted transactions that are denominated in certain foreign currencies. These contracts did not meet the necessary criteria to qualify for hedge accounting; accordingly, all associated changes in fair value were recognized in earnings.

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

	Fiscal Year		
	2013	**2012**	**2011**
Cost of sales	$ 2.2	$ (0.3)	$ (3.7)
Selling, general and administrative		0.1	0.1
Other income, net	8.3		
	$ 10.5	$ (0.2)	$ (3.6)

Foreign currency losses included within net income for fiscal 2013 and 2011 were $14.2 million and $4.3 million, respectively. The impact of foreign currency on net income in fiscal 2012 was immaterial.

The fair value of foreign exchange forward contracts are included in the following captions of our consolidated and combined balance sheets at the end of each period:

	September 27, 2013	**September 28, 2012**
Prepaid expenses and other current assets	$ 0.9	$
Accrued and other current liabilities	1.4	

Commodities Exposure

Prior to the Separation, Covidien entered into gas commodity swap contracts on behalf of the Company, which were accounted for as cash flow hedges. The amounts of the net losses on these contracts were recorded as follows:

	Fiscal Year		
	2013	**2012**	**2011**
Cost of sales	$ 0.3	$ 0.9	$ 0.8
Selling, general and administrative	0.8	2.3	2.4
	$ 1.1	$ 3.2	$ 3.2

As of September 27, 2013, there were no outstanding gas commodity swap contracts; however, the Company may utilize such contracts in the future to mitigate price risk associated with its forecasted commodity purchases.

Interest Rate Exposure

MIFSA entered into three forward interest rate lock contracts in March 2013 and April 2013, each with a $300 million notional value and designated as cash flow hedges, against the risk of variability in market interest rates in advance of its anticipated issuance of its ten-year fixed rate senior notes due April 2023. Each interest

Table of Contents

rate lock contract was considered to be highly effective and the $7.6 million loss resulting from their settlements was recorded in accumulated other comprehensive income. As of September 27, 2013, $7.3 million of this loss remains in accumulated other comprehensive income and will be amortized to interest expense over the remaining term of the ten-year notes.

20. 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:

	September 27, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Debt and equity securities held in rabbi trusts	$ 35.3	$ 22.6	$ 12.7	$
Foreign exchange forward and option contracts	0.9	0.9		
	$ 36.2	$ 23.5	$ 12.7	$
Liabilities:				
Deferred compensation liabilities	$ 13.5	$	$ 13.5	$
Contingent consideration	6.9			6.9
	1.4	1.4		

Foreign exchange forward and option contracts				
	$ 21.8	$ 1.4	$ 13.5	$ 6.9

	September 28, 2012	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	$ 25.2	$ 13.7	$ 11.5	$
Liabilities:				
Deferred compensation liabilities	$ 9.3	$	$ 9.3	$

Debt and equity securities held in rabbi trust. Debt securities held in the rabbi trust primarily consist of U.S. government and agency securities and corporate bonds. When quoted prices are available in an active market, the

Table of Contents

investments are classified as level 1. When quoted market prices for a security are not available in an active market, they are classified as level 2. Equity securities held in the rabbi trust primarily consist of U.S. common stocks, which are valued using quoted market prices reported on nationally recognized securities exchanges. The $10.1 million increase in debt and equity securities held in rabbi trust primarily reflects the transfer of these assets from Covidien in connection with the Separation.

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. Covidien 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 measurement funds generally correspond to the funds offered in Covidien s U.S. tax-qualified defined contribution retirement plan and the account balance fluctuates with the investment returns on those funds.

Contingent consideration. In October 2012, the Company recorded contingent consideration of $6.9 million upon the acquisition of CNS Therapeutics. This contingent consideration, which could potentially total a maximum of $9.0 million, is primarily based on whether the FDA approves another concentration of Gablofen on or before December 31, 2016. The fair value of the contingent payments was measured based on the probability-weighted present value of the consideration expected to be transferred using a discount rate of 1.0%. There were no changes to the initial estimate of the fair value of the consideration during fiscal 2013.

Balance at September 28, 2012	$
Fair value of contingent consideration	6.9
Balance at September 27, 2013	$ 6.9

Financial Instruments Not Measured at Fair Value

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and the majority of other current assets and liabilities approximate fair value because of their short-term nature. The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts and other investments it may hold from time to time, with an original maturity to the Company of three months or less, as cash and cash equivalents (level 1). The fair value of restricted cash is equivalent to its carrying value of $24.0 million and $24.6 million as of September 27, 2013 and September 28, 2012, respectively (level 1), substantially all of which is included in other assets on the consolidated and combined 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 $67.7 million and $47.6 million at September 27, 2013 and September 28, 2012, respectively. These contracts are included in other assets on the consolidated and combined balances sheets. The $20.1 million increase in the Company s life insurance contracts primarily reflects the transfer of these assets from Covidien in connection with the Separation.

Table of Contents

The carrying value of the Company s loan payable approximates fair value due to its short term nature. Since the quoted market prices for the Company s 7.00%, 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% and 4.75% notes are classified as level 1, as quoted prices are available in an active market for these notes. The following table presents the carrying values and estimated fair values of the Company s long-term debt, excluding capital leases, as of the end of each period:

	September 27, 2013		September 28, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loan payable	$ 0.1	$ 0.1	$	$
7.00% debentures due December 2013			5.8	5.8
3.50% notes due April 2018	299.9	293.7		
9.50% debentures due May 2022	10.4	14.3		
8.00% debentures due March 2023	8.0	10.2		
4.75% notes due April 2023	598.2	568.5		

Concentration of Credit and Other Risks

Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of accounts receivable. The Company does not require collateral from customers. A portion of the Company s accounts receivable outside the U.S. includes sales to government-owned or supported healthcare systems in several countries, which are subject to payment delays. Payment is dependent upon the financial stability and creditworthiness of those countries national economies. Deteriorating credit and economic conditions in parts of Western Europe, particularly in Spain and Italy, may continue to increase the average length of time it takes the Company to collect its accounts receivables in certain regions within these countries.

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

The Company s accounts receivable, net of allowance for doubtful accounts, in Spain and Italy at the end of each period are as follows:

	September 27, 2013	September 28, 2012
Spain	$ 9.2	$ 15.0
Italy	12.6	12.5

Net sales to customers in Spain and Italy totaled $51.7 million, $55.0 million and $60.2 million for fiscal 2013, 2012 and 2011, respectively.

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

	Fiscal Year		
	2013	**2012**	**2011**
Cardinal Health, Inc.	18%	19%	19%
McKesson Corporation	15%	14%	13%
Amerisource Bergen Corporation	9%	9%	10%

Table of Contents

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:

	September 27, 2013	September 28, 2012
Cardinal Health, Inc.	18%	19%
McKesson Corporation	22%	20%
Amerisource Bergen Corporation	14%	10%

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

	Fiscal Year		
	2013	2012	2011
Optiray (CMDS)	14%	17%	19%
Acetaminophen products (API)	10%	11%	11%

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

21. Segment and Geographical Data

The Company is engaged in the development, manufacture and distribution of pharmaceuticals and diagnostic imaging agents. The Company manages and operates its business through the following two segments:

Specialty Pharmaceuticals produces and markets branded and generic pharmaceuticals and API, comprised of medicinal opioids, synthetic controlled substances, acetaminophen and other active ingredients; and

Global Medical Imaging develops, manufactures and markets CMDS and radiopharmaceuticals (nuclear medicine).

Table of Contents

Management measures and evaluates the Company s operating segments based on segment net sales and operating income. Management excludes corporate expenses from segment operating income. In addition, certain amounts that management considers to be non-recurring or non-operational are excluded from segment operating income because management evaluates the operating results of the segments excluding such items. These items include revenues and expenses associated with sales of products to Covidien, intangible asset amortization, net restructuring and related charges, and separation costs. Although these amounts are excluded from segment operating income, as applicable, they are included in reported consolidated and combined operating income and in the reconciliations presented below. Selected information by business segment is as follows:

	Fiscal Year		
	2013	2012	2011
Net sales:			
Specialty Pharmaceuticals	$ 1,217.6	$ 1,005.2	$ 909.4
Global Medical Imaging	935.7	996.8	1,060.0
Net sales of operating segments [1]	2,153.3	2,002.0	1,969.4
Other [2]	51.2	54.2	52.4
Net sales	$ 2,204.5	$ 2,056.2	$ 2,021.8
Operating income:			
Specialty Pharmaceuticals	$ 311.7	$ 162.8	$ 121.5
Global Medical Imaging	112.3	214.3	232.4
Segment operating income	424.0	377.1	353.9
Unallocated amounts:			
Corporate and allocated expenses [3]	(133.8)	(69.9)	(73.3)
Intangible asset amortization	(35.4)	(27.3)	(27.0)
Restructuring and related charges, net [4]	(35.8)	(19.2)	(10.0)
Separation costs	(74.2)	(25.5)	(2.9)
Operating income	$ 144.8	$ 235.2	$ 240.7
Total assets:			
Specialty Pharmaceuticals	$ 1,666.6	$ 1,571.6	
Global Medical Imaging	1,158.6	1,085.7	
Corporate [5]	731.4	241.6	
Total assets	$ 3,556.6	$ 2,898.9	
Depreciation and amortization [6]:			
Specialty Pharmaceuticals	$ 97.6	$ 88.7	$ 77.5
Global Medical Imaging	42.0	42.2	42.3
Depreciation and amortization	$ 139.6	$ 130.9	$ 119.8

(1) Amounts represent sales to external customers. There were no intersegment sales.
(2) Represents products that were sold to Covidien, which is discussed in Note 16.
(3) Includes administration expenses and certain compensation, environmental and other costs not charged to the Company s operating segments.
(4) Includes restructuring-related accelerated depreciation of $2.6 million, $8.0 million and $1.6 million for fiscal 2013, 2012 and 2011, respectively.
(5) Consists of assets used in managing the Company s total business and not allocated to any one segment.
(6) Depreciation for certain shared facilities is allocated based on occupancy percentage.

Table of Contents

Net sales by business within the Company s segments are as follows:

	Fiscal Year		
	2013	2012	2011
Generics and API	$ 1,011.2	$ 848.8	$ 824.7
Brands	206.4	156.4	84.7
Specialty Pharmaceuticals	1,217.6	1,005.2	909.4
Contrast Media and Delivery Systems	498.1	542.0	595.5
Nuclear Imaging	437.6	454.8	464.5
Global Medical Imaging	935.7	996.8	1,060.0
Net sales of operating segments	2,153.3	2,002.0	1,969.4
Other [1]	51.2	54.2	52.4
Net sales	$ 2,204.5	$ 2,056.2	$ 2,021.8

(1) Represents products that were sold to Covidien, which is discussed in Note 16.

Selected information by geographic area is as follows:

	Fiscal Year		
	2013	2012	2011
Net sales [1]:			
U.S.	$ 1,518.7	$ 1,350.2	$ 1,293.8
Europe, Middle East and Africa	404.3	411.0	419.7
Other	281.5	295.0	308.3
	$ 2,204.5	$ 2,056.2	$ 2,021.8
Long-lived assets [2]:			
U.S.	$ 893.3	$ 847.7	$ 802.0
Europe, Middle East and Africa [3]	81.0	72.2	81.3
Other	51.8	52.1	48.1
	$ 1,026.1	$ 972.0	$ 931.4

(1) Net sales are attributed to regions based on the location of the entity that records the transaction, none of which relate to the country of Ireland.

(2) Long-lived assets are primarily composed of property, plant and equipment.
(3) Includes long-lived assets located in Ireland of $48.7 million, $45.5 million and $48.9 million at the end of fiscal 2013, 2012 and 2011, respectively.

22. Selected Quarterly Financial Data (Unaudited)

	Fiscal 2013 (by quarter)			
	Q1	**Q2**	**Q3 (1)**	**Q4**
Net sales	$ 504.0	$ 585.3	$ 570.0	$ 545.2
Gross profit	233.5	273.5	265.8	252.1
Income (loss) from continuing operations	19.8	34.5	(27.7)	31.2
(Loss) income from discontinued operations	(0.6)	(0.5)	(0.2)	2.3
Net income (loss)	19.2	34.0	(27.9)	33.5
Basic earnings (loss) per share from continuing operations (2)(3)	$ 0.34	$ 0.60	$ (0.48)	$ 0.54
Diluted earnings (loss) per share from continuing operations (2)(3)	0.34	0.60	(0.48)	0.54

Table of Contents

	Fiscal 2012 (by quarter)			
	Q1	Q2	Q3	Q4
Net sales	$ 503.7	$ 523.1	$ 516.3	$ 513.1
Gross profit	234.8	253.5	243.2	233.3
Income from continuing operations	36.6	42.3	35.1	27.3
Loss from discontinued operations	(0.3)	(3.4)	(1.9)	(1.1)
Net income	36.3	38.9	33.2	26.2
Basic earnings per share from continuing operations [2][3]	$ 0.63	$ 0.73	$ 0.61	$ 0.47
Diluted earnings per share from continuing operations [2][3]	0.63	0.73	0.61	0.47

(1) Operations in the third quarter of fiscal 2013 were impacted by the Separation.
(2) Quarterly and annual computations are prepared independently. Therefore, the sum of each quarter may not necessarily total the fiscal period amounts noted elsewhere within this prospectus.
(3) The computation of basic and diluted earnings per share assumes that the number of shares outstanding for the first three quarters of fiscal 2013 and each quarter in fiscal 2012 was equal to the number of ordinary shares of Mallinckrodt outstanding on June 28, 2013, immediately following the distribution of one ordinary share of Mallinckrodt for every eight ordinary shares of Covidien.

23. Subsequent Events

None.

24. Condensed Consolidating and Combining Financial Information

In fiscal 2013, prior to the separation from Covidien plc, MIFSA was formed. MIFSA, a Luxembourg company, is a holding company that owns, directly or indirectly, all of the operating subsidiaries of Mallinckrodt plc. MIFSA is the borrower under the Notes and the Credit Facility, all of which are fully and unconditionally guaranteed by Mallinckrodt plc, which in turn is the sole owner of MIFSA. 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 the guarantor, MIFSA as issuer of the debt and the operating companies that represent assets of MIFSA. There are no subsidiary guarantees. Consolidating financial information for Mallinckrodt plc and MIFSA, on a standalone basis, is presented using the equity method of accounting for subsidiaries.

Consolidating financial information for Mallinckrodt plc and MIFSA have only been presented for fiscal 2013 as they were formed in this fiscal year.

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET

At September 27, 2013

(in millions)

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

Intercompany loan payable	2.4	409.6		(412.0)	
Other liabilities			171.8		171.8
Total liabilities	15.4	1,326.0	1,386.5	(426.9)	2,301.0
Shareholder s equity	1,255.6	1,264.5	2,522.0	(3,786.5)	1,255.6
Total liabilities and shareholder s equity	$ 1,271.0	$ 2,590.5	$ 3,908.5	$ (4,213.4)	$ 3,556.6

Table of Contents

CONDENSED CONSOLIDATING AND COMBINING STATEMENT OF COMPREHENSIVE INCOME

Fiscal Year Ended September 27, 2013

(in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Net sales	$	$	$ 2,204.5	$	$ 2,204.5
Cost of sales			1,179.6		1,179.6
Gross profit			1,024.9		1,024.9
Selling, general and administrative expenses	5.4	0.1	604.4		609.9
Research and development expenses			165.7		165.7
Separation costs	3.2	0.6	70.4		74.2
Restructuring charges, net			33.2		33.2
Gain on divestiture			(2.9)		(2.9)
Operating (loss) income	(8.6)	(0.7)	154.1		144.8
Interest expense		(19.6)	0.1		(19.5)
Interest income			0.3		0.3
Other income, net	0.2		0.6		0.8
Intercompany interest and fees	(9.5)		9.5		
Equity in net income of subsidiaries	76.4	96.7		(173.1)	
Income from continuing operations before income taxes	58.5	76.4	164.6	(173.1)	126.4
Income tax (benefit) expense	(0.3)		68.9		68.6
Income from continuing operations	58.8	76.4	95.7	(173.1)	57.8
Income from discontinued operations, net of income taxes			1.0		1.0
Net income	58.8	76.4	96.7	(173.1)	58.8
Other comprehensive income (loss), net of tax	28.4	28.4	35.7	(64.1)	28.4
Comprehensive income	$ 87.2	$ 104.8	$ 132.4	$ (237.2)	$ 87.2

Table of Contents

CONDENSED CONSOLIDATING AND COMBINING STATEMENT OF CASH FLOWS

Fiscal Year Ended September 27, 2013

(in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:					
Net cash (used in) provided by operating activities	$ (1.8)	$ (8.4)	$ 146.1	$	$ 135.9
Cash Flows From Investing Activities:					
Capital expenditures			(147.9)		(147.9)
Acquisition, net of cash acquired			(88.1)		(88.1)
Intercompany loan investment		(2.4)	(409.6)	412.0	
Investment in subsidiary		(68.0)		68.0	
Other			1.3		1.3
Net cash (used in) provided by investing activities		(70.4)	(644.3)	480.0	(234.7)
Cash Flows From Financing Activities:					
Issuance of external debt		898.1			898.1
Repayment of capital leases			(1.3)		(1.3)
Debt financing costs		(12.0)			(12.0)
Excess tax benefit from share-based compensation			3.4		3.4
Net transfers to parent		(1,160.4)	644.5		(515.9)
Proceeds from exercise of share options	0.6				0.6
Intercompany loan borrowings	2.4	409.6		(412.0)	
Capital contribution			68.0	(68.0)	
Other			0.1		0.1
Net cash provided by (used in) financing activities	3.0	135.3	714.7	(480.0)	373.0
Effect of currency rate changes on cash			1.3		1.3

Net increase in cash and cash equivalents	1.2	56.5	217.8		275.5
Cash and cash equivalents at beginning of period					
Cash and cash equivalents at end of period	$ 1.2	$ 56.5	$ 217.8	$	$ 275.5

Table of Contents

MALLINCKRODT PLC

Schedule II Valuation and Qualifying Accounts

(in millions)

Description	Balance at Beginning of Period	Charged to Income	Additions and Other	Deductions	Balance at End of Period
Allowance for doubtful accounts:					
Fiscal year ended September 27, 2013	$ 9.4	$ 1.4	$	$ (6.2)	$ 4.6
Fiscal year ended September 28, 2012	5.7	4.5		(0.8)	9.4
Fiscal year ended September 30, 2011	7.4	0.8		(2.5)	5.7
Sales reserve accounts:					
Fiscal year ended September 27, 2013	$ 279.8	$ 1,316.9	$	$ (1,273.8)	$ 322.9
Fiscal year ended September 28, 2012	271.2	1,157.8		(1,149.2)	279.8
Fiscal year ended September 30, 2011	249.7	1,306.4		(1,284.9)	271.2
Tax valuation allowance:					
Fiscal year ended September 27, 2013	$ 15.3	$ 11.7	$ 3.0	$	$ 30.0
Fiscal year ended September 28, 2012	15.6	(0.3)			15.3
Fiscal year ended September 30, 2011	16.2	(0.6)			15.6

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

(unaudited, in millions, except per share data)

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Net sales	$ 557.8	$ 585.3	$ 1,098.0	$ 1,089.3
Cost of sales	295.2	311.8	579.8	582.3
Gross profit	262.6	273.5	518.2	507.0
Selling, general and administrative expenses	194.1	160.7	340.3	307.5
Research and development expenses	41.4	39.2	80.4	77.6
Separation costs	2.6	14.4	4.8	26.4
Restructuring charges, net	21.7	6.4	29.7	6.6
Gains on divestiture and license	(0.9)	(0.7)	(13.8)	(1.4)
Operating income	3.7	53.5	76.8	90.3
Interest expense	(12.4)	(0.1)	(22.2)	(0.2)
Interest income	0.5	0.1	0.8	0.1
Other (expense) income, net	(0.4)		(1.0)	0.2
(Loss) income from continuing operations before income taxes	(8.6)	53.5	54.4	90.4
Provision for income taxes	(20.3)	19.0	(3.7)	36.1
Income from continuing operations	11.7	34.5	58.1	54.3
Loss from discontinued operations, net of income taxes	(0.1)	(0.5)	(0.9)	(1.1)
Net income	$ 11.6	$ 34.0	$ 57.2	$ 53.2
Basic earnings (loss) per share (Note 7):				
Income from continuing operations	$ 0.20	$ 0.60	$ 1.00	$ 0.94
Loss from discontinued operations		(0.01)	(0.02)	(0.02)
Net income	$ 0.20	$ 0.59	$ 0.99	$ 0.92
Basic weighted-average shares outstanding	58.2	57.7	58.0	57.7
Diluted earnings (loss) per share (Note 7):				
Income from continuing operations	$ 0.20	$ 0.60	$ 0.99	$ 0.94
Loss from discontinued operations		(0.01)	(0.02)	(0.02)
Net income	$ 0.20	$ 0.59	$ 0.97	$ 0.92
Diluted weighted-average shares outstanding	59.1	57.7	58.7	57.7

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in millions)

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Net income	$ 11.6	$ 34.0	$ 57.2	$ 53.2
Other comprehensive loss, net of tax				
Currency translation adjustments	(2.4)	(8.5)	(2.0)	(8.2)
Unrecognized gain (loss) on derivatives, net of $-, $-, $(0.1) and $- tax	0.1	(4.0)	0.2	(4.0)
Unrecognized loss on benefit plans, net of $-, $1.3, $0.1 and $1.1 tax		(2.0)	(0.3)	(1.7)
Total other comprehensive loss, net of tax	(2.3)	(14.5)	(2.1)	(13.9)
Comprehensive income	$ 9.3	$ 19.5	$ 55.1	$ 39.3

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited, in millions, except share data)

	March 28, 2014	September 27, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 334.9	$ 275.5
Accounts receivable, less allowance for doubtful accounts of $5.1 and $4.6	334.2	400.8
Inventories	444.7	403.1
Deferred income taxes	371.7	171.1
Prepaid expenses and other current assets	147.6	134.4
Total current assets	1,633.1	1,384.9
Property, plant and equipment, net	997.5	997.4
Goodwill	853.9	532.0
Intangible assets, net	1,715.0	422.1
Other assets	255.8	220.2
Total Assets	$ 5,455.3	$ 3,556.6
Liabilities and Shareholders Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 11.2	$ 1.5
Accounts payable	119.9	120.9
Accrued payroll and payroll-related costs	58.0	66.5
Accrued branded rebates	33.6	34.6
Accrued and other current liabilities	403.1	376.7
Total current liabilities	625.8	600.2
Long-term debt	2,204.7	918.3
Pension and postretirement benefits	104.0	108.0
Environmental liabilities	63.7	39.5
Deferred income taxes	794.8	310.1
Other income tax liabilities	148.1	153.1
Other liabilities	175.8	171.8
Total Liabilities	4,116.9	2,301.0
Shareholders Equity:		
Preferred shares, $0.20 par value, 500,000,000 authorized; none issued and outstanding		
Ordinary A shares, 1.00 par value, 40,000 authorized; none issued and outstanding		

Ordinary shares, $0.20 par value, 500,000,000 authorized; 58,474,132 and 57,713,873 issued; 58,443,505 and 57,713,390 outstanding	11.7	11.5
Ordinary shares held in treasury at cost, 30,627 and 483	(1.8)	
Additional paid-in capital	1,131.4	1,102.1
Retained earnings	90.7	33.5
Accumulated other comprehensive income	106.4	108.5
Total Shareholders Equity	1,338.4	1,255.6
Total Liabilities and Shareholders Equity	$ 5,455.3	$ 3,556.6

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(unaudited, in millions)

	Six Months Ended	
	March 28, 2014	March 29, 2013
Cash Flows From Operating Activities:		
Net income	$ 57.2	$ 53.2
Loss from discontinued operations, net of income taxes	0.9	1.1
Income from continuing operations	58.1	54.3
Adjustments to reconcile net cash provided by (used in) operating activities:		
Depreciation and amortization	76.7	66.9
Share-based compensation	9.4	6.6
Deferred income taxes	(12.3)	3.5
Non-cash restructuring charge	2.6	
Other non-cash items	4.1	(2.8)
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable, net	79.6	(77.8)
Inventories	(39.0)	(23.1)
Accounts payable	(34.0)	(12.0)
Income taxes	0.3	27.3
Accrued and other liabilities	(18.0)	(38.4)
Other	13.7	(12.3)
Net cash provided by (used in) operating activities	141.2	(7.8)
Cash Flows From Investing Activities:		
Capital expenditures	(50.7)	(76.7)
Acquisitions and intangibles, net of cash acquired	(1,293.2)	(88.1)
Restricted cash	4.1	0.9
Other	8.0	(1.1)
Net cash (used in) investing activities	(1,331.8)	(165.0)
Cash Flows From Financing Activities:		
Issuance of external debt	1,296.8	
Repayment of external debt	(30.1)	
Repayment of capital leases	(0.7)	(0.7)
Excess tax benefit from share-based compensation	4.0	3.0
Debt financing costs	(32.2)	(2.3)
Net transfers to parent		172.8
Proceeds from exercise of share options	16.1	

Repurchase of shares	(1.8)	
Net cash provided by financing activities	1,252.1	172.8
Effect of currency rate changes on cash	(2.1)	
Net increase in cash and cash equivalents	59.4	
Cash and cash equivalents at beginning of period	275.5	
Cash and cash equivalents at end of period	$ 334.9	$

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(unaudited, in millions)

	Ordinary Shares		Treasury Shares				Accumulated Other	
	Number	Par Value	Number	Amount	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Total Shareholders Equity
Balance at September 27, 2013	57.7	$ 11.5		$	$ 1,102.1	$ 33.5	$ 108.5	$ 1,255.6
Net income						57.2		57.2
Currency translation adjustments							(2.0)	(2.0)
Change in derivatives, net of tax							0.2	0.2
Minimum pension liability, net of tax							(0.3)	(0.3)
Share options exercised	0.4	0.1			20.0			20.1
Vesting of restricted shares	0.3	0.1			(0.1)			
Share-based compensation					9.4			9.4
Repurchase of shares				(1.8)				(1.8)
Balance at March 28, 2014	58.4	$ 11.7		$ (1.8)	$ 1,131.4	$ 90.7	$ 106.4	$ 1,338.4

See Notes to Condensed Consolidated and Combined Financial Statements.

Table of Contents

MALLINCKRODT PLC

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

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

1. Background and Basis of Presentation

Background

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

The Company conducts its business in the following two segments:

Specialty Pharmaceuticals produces and markets branded and specialty generic pharmaceuticals and API, comprised of medicinal opioids, synthetic controlled substances, acetaminophen and other active ingredients; and

Global Medical Imaging develops, manufactures and markets contrast media and delivery systems (CMDS) and radiopharmaceuticals (nuclear medicine).

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

Basis of Presentation

The accompanying unaudited condensed consolidated and combined financial statements reflect the consolidated financial results of the Company as an independent, publicly-traded company for the three and six months ended March 28, 2014 and the consolidated financial position as of March 28, 2014 and September 27, 2013. The three and six months ended March 29, 2013 reflect the combined results of operations of the Pharmaceuticals business of Covidien.

The unaudited condensed consolidated and combined financial statements have been prepared in U.S. dollars and in accordance with accounting principles generally accepted in the U.S. (GAAP). The preparation of the unaudited condensed consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from those estimates. The unaudited condensed consolidated and combined financial statements include the accounts of the Company, its

wholly-owned subsidiaries and entities in which they own or control more than fifty percent of the voting shares, or have the ability to control through similar rights. The results of entities disposed of are included in the unaudited condensed consolidated and combined financial statements up to the date of disposal and, where appropriate, these operations have been reflected as discontinued operations. Divestitures of product lines not representing businesses have been reflected in operating income. All intercompany balances and transactions have been eliminated in consolidation and, in the opinion of management, all normal recurring adjustments necessary for a fair presentation have been included in the interim results reported. The fiscal year-end balance sheet data were derived from audited consolidated financial statements, but do not include all of the annual disclosures required by GAAP; accordingly, these unaudited condensed consolidated and combined financial statements should be read in conjunction with the Company s audited annual consolidated and combined financial statements included in its Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the SEC) on December 13, 2013.

Table of Contents

The Company s unaudited condensed combined financial statements for the three and six months ended March 29, 2013 may not be indicative of its future performance and do not necessarily reflect the results of operations and cash flows that would have been had it operated as an independent, publicly-traded company during that period. The unaudited condensed combined financial statements for the three and six months ended March 29, 2013 include expense allocations for certain functions provided by Covidien, including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, employee benefits and incentives, insurance and share-based compensation. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating expenses, headcount or other measures. The amounts allocated were $13.6 million and $25.5 million during the three and six months ended March 29, 2013, respectively, and were included within selling, general and administrative expenses. Management considers the bases on which the expenses were allocated to reasonably reflect the utilization of services provided to, or the benefit received by, the Company; however, the allocations may not reflect the expense the Company would have incurred as an independent, publicly-traded company during that period. Following the Separation, the Company has performed these functions using its own resources or purchased services, certain of which are being provided by Covidien during a transitional period pursuant to a transition services agreement dated June 28, 2013, between Mallinckrodt and Covidien, particularly in relation to areas outside the U.S. The terms and prices on which such services are rendered may not be as favorable as those that were allocated to the Company by Covidien.

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 2014 and 2013 ended on March 28, 2014 and March 29, 2013, respectively. Fiscal 2013 consisted of 52 weeks and ended on September 27, 2013. Unless otherwise indicated, the three and six months ended March 28, 2014 refers to the thirteen and twenty-six week periods ended March 28, 2014 and the three and six months ended March 29, 2013 refers to the thirteen and twenty-six week periods ended March 29, 2013.

2. Recently Issued Accounting Standards

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

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

FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, in July 2013. This update provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss

Table of Contents

carryforward, a similar tax loss or a tax credit carryforward exists, to eliminate diversity in practice in the presentation of unrecognized tax benefits in those instances. Except in certain circumstances, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. This guidance is effective for the Company in the first quarter of fiscal 2015. The Company is still assessing the impact of the pronouncement.

FASB issued ASU 2014-04, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, in April 2014. Under the new guidance, only disposals representing a strategic shift in a company s operations and financial results should be reported as discontinued operations, with expanded disclosures. In addition, disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify as a discontinued operation is required. This guidance is effective for the Company in the first quarter of fiscal 2016, with early adoption permitted. The Company is still assessing the impact of the pronouncement.

3. License of Intellectual Property

The Company was involved in patent disputes with a counterparty relating to certain intellectual property relevant to extended-release oxymorphone. In December 2013, the counterparty agreed to pay the Company an upfront cash payment of $4.0 million and contractually obligated future payments of $8.0 million through July 2018, in exchange for the withdrawal of all claims associated with the intellectual property and a license to utilize the Company s intellectual property. The Company has completed the earnings process associated with the agreement and recorded an $11.7 million gain, included within gains on divestiture and license, during the six months ended March 28, 2014.

4. Acquisitions

Business Acquisitions

Cadence Pharmaceuticals

On March 19, 2014, the Company acquired all of the outstanding common stock of Cadence Pharmaceuticals, Inc. (Cadence), a biopharmaceuticals company focused on commercializing products principally for use in the hospital setting, for total consideration of $14.00 per share in cash, or approximately $1.3 billion. The acquisition was primarily funded through a $1.3 billion senior secured term loan credit facility, as further discussed in Note 11. Cadence s sole product, OFIRMEV® (acetaminophen) injection (OFIRMEV), is a proprietary intravenous formulation of acetaminophen for the management of mild to moderate pain, the management of moderate to severe pain with adjunctive opioid analgesics and the reduction of fever. The acquisition of Cadence adds a growth product to the Specialty Pharmaceuticals product portfolio and provides the Company an opportunity to expand its reach into the adjacent hospital market, in which Cadence had established a strong presence.

The following amounts represent the preliminary allocation of the fair value of the identifiable assets acquired and liabilities assumed, including preliminary goodwill and intangible assets, and the related deferred tax balances. The Company expects to complete its valuation analysis and finalize deferred tax balances as of the acquisition date no later than the fourth fiscal quarter of 2014. The changes in the purchase price allocation and preliminary goodwill based on the final valuation may include, but are not limited to, changes in deferred income taxes, intangible assets and inventory.

Cash and cash equivalents	$ 43.2
Inventory	21.0
Intangible assets	1,300.0
Goodwill	321.9
Other assets, current and non-current [1]	18.0
Deferred tax liabilities, net	(296.6)
Other liabilities, current and non-current [2]	(78.3)
Net assets acquired	$ 1,329.2

Table of Contents

(1) This amount includes $14.7 million of accounts receivable, which is also the gross contractual value.
(2) This amount includes $30.0 million of pre-existing Cadence debt, which the Company repaid upon completion of the acquisition.

Intangible assets acquired consist of the following:

	Amount	Amortization Period
Completed technology	$ 1,300.0	8 years

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

The condensed consolidated statements of income for both the three and six months ended March 28, 2014 included net sales of $5.3 million and a $9.0 million loss from continuing operations before income taxes. These amounts reflect the operating results and amortization expenses of Cadence since the date of acquisition. Acquisition costs included in the consolidated statements of income for the three and six months ended March 28, 2014 were $17.6 million, and were included within selling, general and administrative expenses in the consolidated statements of income.

The following unaudited pro forma information presents a summary of the combined results of operations of the Company and of Cadence for the three and six months ended March 28, 2014 and March 29, 2013 as if the acquisition had occurred on October 1, 2012, along with certain pro forma adjustments. These pro forma adjustments consist primarily of:

non-recurring costs related to the step-up in value of acquired inventory and transaction costs related to the acquisition of Cadence;

increased amortization expense related to the completed technology intangible asset acquired in the acquisition of Cadence;

increased interest expense to reflect the variable rate term loan and revolving credit facility entered into in connection with the acquisition of Cadence (utilizing the interest rate in effect at March 28, 2014, 3.50%), including interest and amortization of deferred financing costs and original issue discount; and

the related income tax effects.

The following unaudited pro forma information has been prepared for comparative purposes only and is not necessarily indicative of the results of operations as they would have been had the acquisition occurred on the assumed date, nor is it necessarily an indication of future operating results. In addition, the unaudited pro forma information does not reflect the cost of any integration activities, benefits from any synergies that may be derived from the acquisition or revenue growth that may be anticipated.

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Net sales	$ 588.2	$ 608.9	$ 1,163.7	$ 1,130.1
Net (loss) income	(18.4)	4.4	(2.6)	(35.7)
Basic (loss) earnings per share	$ (0.32)	$ 0.08	$ (0.04)	$ (0.62)
Diluted (loss) earnings per share	(0.31)	0.08	(0.04)	(0.62)

Table of Contents

CNS Therapeutics

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

The condensed consolidated statements of income for the three and six months ended March 28, 2014 contained $7.8 million and $15.4 million, respectively, of net sales of intrathecal products. The condensed combined statements of income for the three and six months ended March 29, 2013 contained $6.8 million and $13.3 million, respectively, of net sales of intrathecal products. Acquisition and integration costs included in the periods presented were not material.

License Agreement

Bristol-Myers Squibb

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

5. Restructuring and Related Charges

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

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

Table of Contents

Net restructuring and related charges by segment were as follows:

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Specialty Pharmaceuticals	$ 2.7	$ 5.9	$ 2.7	$ 6.6
Global Medical Imaging	18.5	1.0	26.6	1.3
Corporate	0.5		0.5	
Restructuring and related charges, net	21.7	6.9	29.8	7.9
Less: accelerated depreciation		(0.5)	(0.1)	(1.3)
Restructuring charges, net	$ 21.7	$ 6.4	$ 29.7	$ 6.6

Net restructuring and related charges were comprised of the following:

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
2013 Mallinckrodt Program	$ 22.6	$	$ 30.9	$
Other programs	(0.9)	6.9	(1.1)	7.9
Total programs	21.7	6.9	29.8	7.9
Less: non-cash charges, including accelerated depreciation	(2.6)	(0.5)	(2.7)	(1.4)
Total charges expected to be settled in cash	$ 19.1	$ 6.4	$ 27.1	$ 6.5

The following table summarizes cash activity for restructuring reserves, substantially all of which related to employee severance and benefits, with the exception of $8.4 million related to consulting costs associated with restructuring initiatives:

	2013 Mallinckrodt Program	Other Programs	Total
Balance at September 27, 2013	$ 14.9	$ 10.6	$ 25.5
Charges	30.0	0.8	30.8
Changes in estimate	(1.7)	(2.0)	(3.7)
Cash payments	(10.9)	(5.3)	(16.2)
Currency translation and other	(0.3)	0.1	(0.2)
Balance at March 28, 2014	$ 32.0	$ 4.2	$ 36.2

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

Specialty Pharmaceuticals	$ 5.2
Global Medical Imaging	36.3
Corporate	4.3
	$ 45.8

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

Table of Contents

6. Income Taxes

The Company recognized an income tax benefit of $20.3 million on loss from continuing operations before income taxes of $8.6 million for the three months ended March 28, 2014 and income tax expense of $19.0 million on income from continuing operations before income taxes of $53.5 million for the three months ended March 29, 2013. Income tax benefit was $3.7 million on income from continuing operations before income taxes of $54.4 million for the six months ended March 28, 2014 and $36.1 million on income from continuing operations before income taxes of $90.4 million for the six months ended March 29, 2013.

The effective tax rates were impacted by the Cadence acquisition and the Separation. The rates for the three and six months ended March 28, 2014 are most notably impacted by the inclusion of a $20.7 million tax benefit associated with the Cadence acquisition, including financing and acquisition costs and amortization of the acquired intangible asset. With regard to the Separation, during the three months ended March 28, 2014, the Company received a $0.4 million tax benefit on $2.6 million of separation costs compared with a $1.0 million tax benefit on $14.4 million of separation costs for the three months ended March 29, 2013. During the six months ended March 28, 2014, the Company received a $1.1 million tax benefit on $4.8 million of separation costs compared with a $1.3 million tax benefit on $26.4 million of separation costs for the six months ended March 29, 2013. These impacts on the effective tax rate for the three and six months ended March 28, 2014 were magnified by the level of income (loss) from continuing operations before income taxes. Furthermore, the Company s effective tax rate for the six months ended March 29, 2013 reflected the business as historically managed by Covidien, rather than as an independent, publicly-traded company.

The acquisition of Cadence resulted in a preliminary net deferred tax liability increase of $296.6 million. Significant components of this increase include $499.6 million of deferred tax liability associated with the OFIRMEV intangible asset, $196.2 million of deferred tax asset associated with federal and state net operating losses, $5.8 million of deferred tax assets associated with federal and state tax credits, and a $7.3 million valuation allowance related to the uncertainty of the utilization of certain deferred tax assets.

The Company s unrecognized tax benefits, excluding interest, totaled $105.0 million at March 28, 2014 and $100.1 million at September 27, 2013. The net increase of $4.9 million primarily resulted from increases to prior period tax positions of $11.5 million and current year activity of $1.4 million, partially offset by reductions to unrecognized tax benefits as a result of settlements of $0.2 million and the lapse of the applicable statutes of limitation of $7.8 million. Included within the $105.0 million of total unrecognized tax benefits at March 28, 2014, there are $101.2 million of unrecognized tax benefits which if favorably settled would benefit the effective tax rate. The total amount of accrued interest related to these obligations was $56.1 million at March 28, 2014 and $62.1 million at September 27, 2013.

It is reasonably possible that within the next twelve months, as a result of the resolution of various federal, state and foreign examinations and appeals and the expiration of various statutes of limitation, that the unrecognized tax benefits will decrease by up to $44.9 million and the amount of interest and penalties will decrease by up to $26.4 million.

7. Earnings (Loss) per Share

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

application of the treasury stock method.

The computations of basic and diluted earnings (loss) per share assumes that the number of shares outstanding for periods prior to June 28, 2013 was equal to the number of ordinary shares of Mallinckrodt

Table of Contents

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

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Weighted-average shares for basic earnings (loss) per share	58.2	57.7	58.0	57.7
Effect of share options and restricted shares	0.9		0.7	
Weighted-average shares for diluted earnings (loss) per share	59.1	57.7	58.7	57.7

The computation of diluted earnings per share for the three and six months ended March 28, 2014 includes all equity awards, as no awards were considered to be anti-dilutive.

8. Inventories

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

	March 28, 2014	September 27, 2013
Raw materials and supplies	$ 85.7	$ 68.8
Work in process	194.9	191.5
Finished goods	164.1	142.8
	$ 444.7	$ 403.1

9. Property, Plant and Equipment

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

	March 28, 2014	September 27, 2013
Property, plant and equipment, gross	$ 1,918.3	$ 1,873.7

Less: accumulated depreciation	(920.8)	(876.3)
Property, plant and equipment, net	$ 997.5	$ 997.4

Depreciation expense for property, plant and equipment was $26.1 million and $24.4 million during the three months ended March 28, 2014 and March 29, 2013, respectively and $52.4 million and $49.2 million during the six months ended March 28, 2014 and March 29, 2013, respectively. Depreciation expense included depreciation on demonstration equipment of $0.9 million and $0.9 million for the three months ended March 28, 2014 and March 29, 2013, respectively, and $2.0 million and $1.7 million for the six months ended March 28, 2014 and March 29, 2013, respectively. Demonstration equipment was included within other assets on the unaudited condensed consolidated balance sheets.

Table of Contents

10. Goodwill and Intangible Assets

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

	Specialty Pharmaceuticals	Global Medical Imaging	Total
Goodwill at September 27, 2013	$ 312.3	$ 219.7	$ 532.0
Acquisitions	321.9		321.9
Goodwill at March 28, 2014	$ 634.2	$ 219.7	$ 853.9

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

	March 28, 2014		September 27, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable:				
Completed technology	$ 1,749.2	$ 212.8	$ 449.2	$ 196.6
Licenses	201.1	85.5	191.1	79.3
Trademarks	7.9	3.9	7.9	3.8
Other	7.2	1.8		
Total	$ 1,965.4	$ 304.0	$ 648.2	$ 279.7
Non-Amortizable:				
Trademarks	$ 35.0		$ 35.0	
In-process research and development	18.6		18.6	
Total	$ 53.6		$ 53.6	

On March 19, 2014, the Company completed its acquisition of Cadence. With this acquisition, the Company acquired a $1.3 billion completed technology intangible asset relating to Cadence s sole product, OFIRMEV, the rights to which have been in-licensed from BMS. For more information on the intangible asset, acquisition and BMS license agreement, refer to Note 4.

In March 2014, the Company obtained approval from the U.S. Food and Drug Administration (FDA) for XARTEMIS XR (oxycodone HCl and acetaminophen) extended-release tablets (CII), resulting in a milestone payment of $10.0 million. In January 2014, the Company purchased royalty rights associated with EXALGO® (hydromorphone HCl) extended-release tablets (CII) for $7.2 million.

Intangible asset amortization expense was $15.5 million and $8.8 million during the three months ended March 28, 2014 and March 29, 2013, respectively, and $24.3 million and $17.7 million during the six months ended March 28,

2014 and March 29, 2013, respectively. The estimated aggregate amortization expense on intangible assets owned by the Company is expected to be as follows:

Remainder of fiscal 2014	$ 103.1
Fiscal 2015	200.7
Fiscal 2016	198.8
Fiscal 2017	197.4
Fiscal 2018	188.7

Table of Contents

11. Debt

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

	March 28, 2014	September 27, 2013
Current maturities of long-term debt:		
Term loan	$ 9.8	$
Capital lease obligation	1.4	1.4
Loan payable		0.1
Total current debt	11.2	1.5
Long-term debt:		
Term loan	1,287.0	
3.50% notes due April 2018	300.0	299.9
9.50% debentures due May 2022	10.4	10.4
8.00% debentures due March 2023	8.0	8.0
4.75% notes due April 2023	598.2	598.2
Capital lease obligation	1.1	1.8
Total long-term debt	2,204.7	918.3
Total debt	$ 2,215.9	$ 919.8

In March 2014, in connection with the acquisition of Cadence, Mallinckrodt International Finance S.A. (MIFSA) and Mallinckrodt CB LLC (MCB), each a subsidiary of the Company, entered into senior secured credit facilities consisting of a $1.3 billion term loan facility due 2021 (the Term Loan) and a $250.0 million revolving credit facility due 2019 (the Revolver) (collectively, the Facilities). The Facilities are fully and unconditionally guaranteed by Mallinckrodt plc, certain of its direct or indirect wholly-owned U.S. subsidiaries and each of its direct or indirect wholly-owned subsidiaries that owns directly or indirectly any such wholly-owned U.S. subsidiary (collectively, the Guarantors). The Facilities are secured by a security interest in certain assets of MIFSA, MCB and the Guarantors. The Facilities contain customary affirmative and negative covenants, which include, among other things, restrictions on the Company s ability to declare or pay dividends, create liens, incur additional indebtedness, enter into sale and lease-back transactions, make investments, dispose of assets and merge or consolidate with any other person. In addition, the Revolver contains a financial covenant that may limit the Company s total net leverage ratio, which is defined as the ratio of (i) the Company s consolidated debt, less any unrestricted cash and cash equivalents, to (ii) the Company s adjusted consolidated EBITDA, as defined in the credit agreement. The Facilities bear interest at LIBOR plus a margin based on the Company s total net leverage ratio, and the Term Loan is subject to a minimum LIBOR level of 0.75%. Interest payment dates are variable based on the LIBOR rate utilized, but the Company generally expects interest to be payable every 90 days. The Term Loan requires quarterly principal amortization payments in an amount equal to 0.25% of the original principal amount of the Term Loan payable on the last day of each calendar quarter, commencing on June 30, 2014, with the remaining balance payable on the due date, March 19, 2021. The Company incurred an original issue discount of 0.25%, or $3.3 million, associated with the Term Loan. The Revolver contains a $150.0 million letter of credit provision, of which none had been issued as of March 28, 2014. Unused commitments on the Revolver are subject to an annual commitment fee determined by reference to the Company s public debt rating, which was 0.375% as of March 28, 2014, and the fee applied to outstanding letters of credit is based on the interest rate applied to borrowings. As of March 28, 2014, the applicable interest rate on outstanding

borrowings under the Revolver would have been approximately 3.00%; however, there were no outstanding borrowings. As of March 28, 2014, the applicable interest rate for the Term Loan was 3.50% and outstanding borrowings totaled $1.3 billion.

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

Table of Contents

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

As of March 28, 2014, the Company was, and expects to remain, in compliance with the provisions and covenants associated with the Term Loan, the Revolver, the Notes and its other debt agreements.

12. Retirement Plans

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

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Service cost	$ 1.2	$ 1.2	$ 2.5	$ 2.4
Interest cost	5.0	4.5	9.9	9.1
Expected return on plan assets	(6.1)	(7.3)	(12.2)	(14.7)
Amortization of net actuarial loss	2.1	3.0	4.2	6.0
Amortization of prior service (credit) cost	(0.2)	0.2	(0.3)	0.3
Plan settlements	0.3		0.3	
Net periodic benefit cost	$ 2.3	$ 1.6	$ 4.4	$ 3.1

The net periodic benefit credit for the Company s postretirement benefit pension plans for the three months ended March 28, 2014 and March 29, 2013 was $1.8 million and $1.5 million, respectively, and $3.6 million and $3.1 million for the six months ended March 28, 2014 and March 29, 2013, respectively. The components of the credit were not material.

During the six months ended March 29, 2013, Covidien made a $37.5 million voluntary contribution to the Company s pension plans. The Company may elect to make voluntary contributions to its defined benefit pension plans or its postretirement benefit plans during fiscal 2014.

13. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows:

	Currency Translation	Unrecognized Gain (Loss) on Derivatives	Unrecognized Gain (Loss) on Benefit Plans	Accumulated Other Comprehensive Income
Balance at September 27, 2013	$ 158.6	$ (7.3)	$ (42.8)	$ 108.5
Other comprehensive loss before reclassifications	(2.0)			(2.0)
Amounts reclassified from accumulated other comprehensive income		0.2	(0.3)	(0.1)
Net current period other comprehensive (loss) income	(2.0)	0.2	(0.3)	(2.1)
Balance at March 28, 2014	$ 156.6	$ (7.1)	$ (43.1)	$ 106.4

Table of Contents

The following summarizes reclassifications out of accumulated other comprehensive income for the three and six months ended March 28, 2014:

	Amount Reclassified from Accumulated Other Comprehensive Income		
	Three Months Ended March 28, 2014	Six Months Ended March 28, 2014	Line Item in the Unaudited Condensed Consolidated Statement of Income
Amortization of unrealized gain on derivatives	$ 0.1	$ 0.3	Interest expense
Income tax provision		(0.1)	Provision for income taxes
Net of income taxes	0.1	0.2	
Amortization of pension and post-retirement benefit plans:			
Net actuarial loss	2.1	4.2	(1)
Prior service credit	(2.4)	(4.9)	(1)
Plan settlements	0.3	0.3	(1)
Total before tax		(0.4)	
Income tax provision		0.1	Provision for income taxes
Net of income taxes		(0.3)	
Total reclassifications for the period	$ 0.1	$ (0.1)	

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

14. Transactions with Former Parent Company

Prior to the completion of the Separation on June 28, 2013, the Company was part of Covidien and, as such, transactions between Covidien and the Company were considered related party transactions. These intercompany transactions were included in the unaudited condensed combined financial statements for the three and six months ended March 29, 2013, and were considered to be effectively settled for cash at the time the transactions were recorded. The continuing relationship between Covidien and the Company is primarily governed through agreements entered into as part of the Separation, including a separation and distribution agreement, a tax matters agreement and a transition services agreement. These agreements were filed with the SEC as Exhibits 2.1, 10.1 and 10.3, respectively, to the Company s Current Report on Form 8-K filed on July 1, 2013. For further discussion on these agreements and other historical related party transactions, refer to the Company s Annual Report on Form 10-K filed with the SEC on December 13, 2013.

Sales and Purchases

During the three months ended March 28, 2014 and March 29, 2013, the Company sold inventory to Covidien in the amount of $11.1 million and $11.8 million, respectively, which is included in net sales in the unaudited condensed consolidated and combined statements of income. During the six months ended March 28, 2014 and March 29, 2013, the Company sold inventory to Covidien in the amount of $23.2 million and $25.9 million, respectively. The Company also purchases inventories from Covidien. The Company recognized cost of sales from these inventory purchases of $9.3 million and $9.1 million during the three months ended March 28, 2014 and March 29, 2013 and $19.3 million and $22.0 million during the six months ended March 28, 2014 and March 29, 2013, respectively.

Allocated Expenses

As discussed in Note 1, the unaudited condensed combined financial statements for the three and six months ended March 29, 2013 included expense allocations for certain functions provided by Covidien, including, but

Table of Contents

not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, employee benefits and incentives, insurance and share-based compensation. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on the basis of operating expenses, headcount or other measures. The amounts allocated were $13.6 million and $25.5 million during the three and six months ended March 29, 2013, and were included within selling, general and administrative expenses.

Balance Sheet Impacts

Subsequent to the Separation, the Company and Covidien maintain an ongoing relationship in which each party may provide services to the other party, including the distribution of goods. As a result of these relationships, the unaudited condensed consolidated balance sheets as of March 28, 2014 and September 27, 2013 included $64.5 million and $62.2 million, respectively, of amounts due to the Company from Covidien, within prepaid expenses and other current assets, and $74.3 million and $79.3 million, respectively, of amounts the Company owes Covidien, included within accrued and other liabilities.

15. Guarantees

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

In connection with the sale of the Specialty Chemicals business (formerly known as Mallinckrodt Baker) in fiscal 2010, the Company agreed to indemnify the purchaser with respect to various matters, including certain environmental, health, safety, tax and other matters. The indemnification obligations relating to certain environmental, health and safety matters have a term of 17 years from the sale, while some of the other indemnification obligations have an indefinite term. The amount of the liability relating to all of these indemnification obligations included in other liabilities on the Company s unaudited condensed consolidated balance sheets as of March 28, 2014 and September 27, 2013 was $16.8 million and $20.1 million, respectively, of which $13.9 million and $17.2 million, respectively, related to environmental, health and safety matters. The value of the environmental, health and safety indemnity was measured based on the probability-weighted present value of the costs expected to be incurred to address environmental, health and safety claims made under the indemnity. The aggregate fair value of these indemnification obligations did not differ significantly from their aggregate carrying value at March 28, 2014 and September 27, 2013. As of March 28, 2014, the maximum future payments the Company could be required to make under these indemnification obligations was $71.4 million. The Company was required to pay $30.0 million into an escrow account as collateral to the purchaser, of which $19.4 million and $23.5 million remained in other assets on the unaudited condensed consolidated balance sheets at March 28, 2014 and September 27, 2013, respectively.

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

The Company is required to provide the U.S. Nuclear Regulatory Commission financial assurance demonstrating its ability to fund the decommissioning of its Maryland Heights, Missouri radiopharmaceuticals production facility upon closure, though the Company does not intend to close this facility. The Company has provided this financial assurance in the form of a $58.0 million surety bond.

Table of Contents

In addition, as of March 28, 2014, the Company had a $21.1 million letter of credit to guarantee decommissioning costs associated with its Saint Louis, Missouri plant. As of March 28, 2014, the Company had various other letters of credit and guarantee and surety bonds totaling $30.7 million.

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

16. Commitments and Contingencies

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

Governmental Proceedings

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

Patent/Antitrust Litigation

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

222 and 218 Patent Litigation: Exela Pharma Sciences, LLC and Perrigo Company. In August 2011, Cadence, a subsidiary of the Company, and Pharmatop, the owner of the two U.S. patents and two Canadian patents licensed exclusively by Cadence, filed suit in the U.S. District Court for the District of Delaware against Exela Pharma Sciences, LLC, Exela PharmaSci, Inc. and Exela Holdings, Inc. (collectively, Exela) and Perrigo Company, and its subsidiary, Paddock Laboratories, LLC (collectively, Perrigo). In the lawsuit, Cadence alleged that Exela and Perrigo

infringed U.S. Patent Nos. 6,028,222 (the 222 patent) and 6,992,218 (the 218 patent) by filing their ANDAs seeking approval from the FDA to market a generic version of OFIRMEV prior to the expiration of these patents. The 222 and 218 patents are listed in the FDA s Approved Drug

Table of Contents

Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. The patent infringement lawsuit was filed within 45 days of receipt of the pertinent notice letter, thereby triggering a stay of FDA approval of the Exela and Perrigo ANDAs until the earlier of the expiration of a 30-month period, the expiration of the 222 and 218 patents, the entry of a settlement order or consent decree stating that the 222 and 218 patents are invalid or not infringed, a decision in the case concerning infringement or validity that is favorable to Exela, or such shorter or longer period as the court may order. Exela filed an answer in the case that asserted, among other things, non-infringement and invalidity of the asserted patents, as well as certain counterclaims.

In November 2012, Cadence entered into a settlement agreement and a license agreement with Perrigo to settle similar litigation. The settlement agreement includes a stipulation by the parties requesting dismissal with prejudice of the lawsuit filed by Cadence relating to the ANDA filed by Perrigo. Under the terms of the license agreement, Cadence granted to the holder of the Perrigo ANDA and its affiliates the non-exclusive right to market a generic intravenous acetaminophen product in the U.S. under the Perrigo ANDA beginning December 6, 2020, or earlier under certain circumstances. The license agreement also provides that Perrigo has been granted the exclusive right of first refusal to negotiate an agreement with Cadence to market an authorized generic version of OFIRMEV (i.e., a generic version marketed under Cadence s New Drug Application (NDA)) in the U.S., in the event that Cadence elects to launch an authorized generic version of the product.

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

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

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

In January 2014, Cadence entered into a settlement agreement and a binding term sheet for a license agreement with the Sandoz Parties. The settlement agreement includes a stipulation by the parties requesting dismissal with prejudice of the lawsuit filed by the Company relating to the ANDA filed by Sandoz. Under the

Table of Contents

terms of the license, Cadence granted to the holder of the Sandoz ANDA and its affiliates the non-exclusive right to market a generic intravenous acetaminophen product in the U.S. under the Sandoz ANDA beginning December 6, 2020, or earlier under certain circumstances. Cadence also agreed that in the event that it determines to launch an authorized generic version of OFIRMEV (i.e., a generic version marketed under its NDA) in the U.S. and Perrigo elects not to exercise its right of first refusal to become the distributor of the authorized generic version of the product, Cadence will grant a similar right of first refusal to the holder of the Sandoz ANDA on substantially the same terms as those previously granted to Perrigo. Litigation remains ongoing against Fresenius, and the bench trial for such lawsuit is tentatively scheduled to commence in July 2014.

In December 2013, Cadence received a notice from Wockhardt USA LLC (Wockhardt), stating that Wockhardt filed an ANDA containing a Paragraph IV patent certification with the FDA for a generic version OFIRMEV. This notice stated that the Paragraph IV patent certification was made with respect to both the 222 patent and the 218 patent. Cadence filed suit against Wockhardt Limited, Wockhardt BIO AG and Wockhardt in January 2014 in the U.S. District Court of Delaware and in the U.S. District Court of New Jersey. In March 2014, Cadence entered into a settlement agreement and a license agreement with Wockhardt. The settlement agreement includes a stipulation by the parties requesting dismissal with prejudice of the lawsuit filed by Cadence relating the ANDA filed by Wockhardt. Under the terms of the license agreement, Cadence granted to the holder of Wockhardt ANDA and its affiliates the non-exclusive right to market a generic intravenous acetaminophen product in the U.S. under the Wockhardt ANDA beginning December 6, 2020, or earlier under certain circumstances.

The Company intends to vigorously enforce its intellectual property rights relating to OFIRMEV to prevent the marketing of infringing generic products prior to the expiration of the Cadence patents. The 222 patent expires in August 2017 (or February 2018 if pediatric exclusivity is granted) and the 218 patent expires in June 2021 (or December 2021 if pediatric exclusivity is granted). While it is not possible at this time to determine with certainty the ultimate outcome of the cases, an adverse outcome could result in the launch of one or more generic versions of OFIRMEV before the expiration of the last of the listed patents, which could adversely affect the Company s ability to successfully maximize the value of OFIRMEV and have an adverse effect on its financial condition, results of operations and cash flows.

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

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

All of the claims of the 222 and 218 patents remain valid and in force during the reexamination proceedings. Because Cadence and Pharmatop believe that the scope and validity of the patent claims in these patents are appropriate and that the USPTO s prior issuances of the patents were correct, the Company, in conjunction with Cadence and Pharmatop, will vigorously defend these patents. It is not possible at this time to determine with certainty whether Cadence and Pharmatop ultimately will succeed in maintaining the scope and validity of the claims of these patents during reexamination. If any of the patent claims in these patents ultimately are narrowed during prosecution before

the USPTO, the extent of the patent coverage afforded to OFIRMEV could be impaired, which could have an adverse effect on the Company s financial condition, results of operations and cash flows.

Table of Contents

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

Pricing Litigation

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

Environmental Remediation and Litigation Proceedings

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites, including those described below. The ultimate cost of site cleanup and timing of future cash outlays is difficult to predict, given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. The Company concluded that, as of March 28, 2014, it was probable that it would incur remedial costs in the range of $44.9 million to $118.6 million. The Company also concluded that, as of March 28, 2014, the best estimate within this range was $68.0 million, of which $4.3 million was included in accrued and other current liabilities and the remainder was included in environmental liabilities on the unaudited condensed consolidated balance sheet at March 28, 2014.

Crab Orchard National Wildlife Refuge Superfund Site, near Marion, Illinois. The Company is a successor in interest to International Minerals and Chemicals Corporation (IMC). Between 1967 and 1982, IMC leased portions of the Additional and Uncharacterized Sites (AUS) Operable Unit at the Crab Orchard Superfund Site (the Site) from the government and manufactured various explosives for use in mining and other operations. In March 2002, the Department of Justice, the U.S. Department of the Interior and the U.S. Environmental Protection Agency (EPA) (together, the Government Agencies) issued a special notice letter to General Dynamics Ordnance and Tactical Systems, Inc. (General Dynamics), one of the other potentially responsible parties (PRPs) at the Site, to compel General Dynamics to perform the remedial investigation and feasibility study (RI/FS) for the AUS Operable Unit. General Dynamics negotiated an Administrative Order on Consent (AOC) with the Government Agencies to conduct an extensive RI/FS at the Site under the direction of the U.S. Fish and Wildlife Service. General Dynamics asserted in August 2004 that the Company is jointly and severally liable, along with approximately eight other lessees and

operators at the AUS Operable Unit, for alleged contamination of soils and groundwater resulting from historic operations, and has threatened to file a

Table of Contents

contribution claim against the Company and other parties for recovery of its costs incurred in connection with the RI/FS activities being conducted at the AUS Operable Unit. The Company and other PRPs who received demand letters from General Dynamics have explored settlement alternatives, but have not reached settlement to date. The Company and other PRPs are awaiting completion of the RI/FS by General Dynamics before the initiation of formal PRP negotiations to address resolution of these alleged claims. While it is not possible at this time to determine with certainty the ultimate outcome of this case, the Company believes, given the information currently available, that the final resolution of all known claims, after taking into account amounts already accrued, will not have a material adverse effect on its financial condition, results of operations and cash flows.

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

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

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

On April 11, 2014, the EPA issued its revised FFS, with remedial alternatives to address cleanup of the lower 8-mile stretch of the River, which also included a no action option. The EPA estimates the cost for the alternatives range

from $365.0 million to $3.2 billion. The EPA s preferred approach would involve bank-to-

Table of Contents

bank dredging of the lower 8-mile stretch of the River and installing an engineered cap at a discounted, estimated cost of $1.7 billion. Based on the issuance of the EPA s revised FFS, the Company recorded a $23.1 million accrual in the second quarter of fiscal 2014 representing the Company s estimate of its allocable share of the joint and several remediation liability resulting from this matter. Despite the issuance of the revised FFS, there are many uncertainties associated with the final agreed upon remediation and the Company s allocable share of the remediation. Given those uncertainties, the amounts accrued may not be indicative of the amounts for which the Company is ultimately responsible and will be refined as events in the remediation process occur.

Products Liability Litigation

Beginning with lawsuits brought in July 1976, the Company is also named as a defendant in personal injury lawsuits based on alleged exposure to asbestos-containing materials. A majority of the cases involve product liability claims based principally on allegations of past distribution of products containing asbestos. A limited number of the cases allege premises liability based on claims that individuals were exposed to asbestos while on the Company s property. Each case typically names dozens of corporate defendants in addition to the Company. The complaints generally seek monetary damages for personal injury or bodily injury resulting from alleged exposure to products containing asbestos. The Company s involvement in asbestos cases has been limited because it did not mine or produce asbestos. Furthermore, in the Company s experience, a large percentage of these claims have never been substantiated and have been dismissed by the courts. The Company has not suffered an adverse verdict in a trial court proceeding related to asbestos claims and intends to continue to defend these lawsuits. When appropriate, the Company settles claims; however, amounts paid to settle and defend all asbestos claims have been immaterial. As of March 28, 2014, there were approximately 11,750 asbestos-related cases pending against the Company.

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

Asset Retirement Obligations

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

Balance at September 27, 2013	$ 50.6
Accretion expense	1.6
Currency translation	0.5
Balance at March 28, 2014	$ 52.7

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.

Table of Contents

Industrial Revenue Bonds

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

Tax Matters

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

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

Acquisition-Related Litigation

Nine purported class action lawsuits have been filed in February 2014 and March 2014 by purported holders of Cadence common stock in connection with the Company s acquisition of Cadence, six in the Delaware Court of Chancery (consolidated under the caption *In re Cadence Pharmaceuticals, Inc. Stockholders Litigation*), and three in California State Court, San Diego County (*Denny v. Cadence Pharmaceuticals, Inc., et al., Militello v. Cadence Pharmaceuticals, Inc., et al.,* and *Schuon v. Cadence Pharmaceuticals, Inc., et al.)*. The actions bring claims against, and generally allege that, the board of directors of Cadence breached their fiduciary duties in connection with the acquisition by, among other things, failing to maximize shareholder value, and the Delaware and *Schuon* actions further allege that Cadence omitted to disclose allegedly material information in its Schedule 14D-9. The lawsuits also allege, among other things, that the Company aided and abetted the purported breaches of fiduciary duty. The lawsuits seek various forms of relief, including but not limited to, rescission of the transaction, damages and attorneys fees and costs. On March 7, 2014, following expedited discovery, the parties in the consolidated Delaware action entered into a Memorandum of Understanding (the MOU), which sets forth the parties agreement in principle for a settlement of

those actions. The settlement contemplated by the MOU will include, among other things, a release of all claims relating to the Company s acquisition of Cadence

Table of Contents

as set forth in the MOU. The settlement is subject to a number of conditions, including, among other things, final court approval following notice to the class. There have been no substantive proceedings in any of the California actions. While it is not possible at this time to determine with certainty the ultimate outcomes of these matters, the Company believes, given the information available to it today, that they will not have a material adverse effect on its financial condition, results of operations and cash flows.

Eight purported class action lawsuit were filed in April 2014 in the California State Court, Orange County by purported holders of Questcor Pharmaceuticals, Inc. (Questcor) common stock in connection with the Company s proposed acquisition of Questcor *(Hansen v. Thompson, et al., Heng v. Questcor Pharmaceuticals, Inc., et al., Buck v. Questcor Pharmaceuticals, Inc., et al., Yokem v. Questcor Pharmaceuticals, Inc., et al., Ellerbeck v. Questcor Pharmaceuticals, Inc., et al., Richter v. Questcor Pharmaceuticals, Inc., et al., Tramantano v. Questcor Pharmaceuticals, Inc., et al.,* and *Crippen v. Questcor Pharmaceuticals, Inc., et al.)*. The actions bring claims against, and generally allege that, the board of 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. Some of the lawsuits also allege, among other things, that the Company aided and abetted the purported breaches of fiduciary duty. The lawsuits seek various forms of relief, including but not limited to, an order enjoining the shareholder vote relating to the acquisition, rescission of the transaction if consummated, damages and attorneys fees and costs. In addition, plantiffs in a prior-pending derivative litigation, *In re Questcor Pharmaceuticals, Inc. Shareholder Derivative Litigation,* pending in the U.S. District Court for the Central District of California, have filed an application to lift the stay of that action in order to file an amended complaint alleging that the board of directors of Questcor breached their fiduciary duties in connect with the acquisition. While it is not possible at this time to determine with certainty the ultimate outcomes of these matters, the Company believes, given the information available to it today, that they will not have a material adverse effect on its financial condition, results of operations and cash flows. For further information on the Company s proposed acquisition of Questcor, see Note 21.

Other Matters

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

17. Derivative Instruments

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

Foreign Exchange Exposure

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

currencies. Existing contracts did not meet the necessary criteria to qualify for hedge accounting; accordingly, all associated changes in fair value were recognized in earnings.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Cost of sales	$ (0.2)	$ (1.5)	$ (0.4)	$ (2.4)
Selling, general and administrative	0.3	1.2	0.3	2.3
Other (expense) income, net	1.5		5.7	
	$ 1.6	$ (0.3)	$ 5.6	$ (0.1)

Foreign currency losses included within net income for the three and six months ended March 28, 2014 were $4.3 million and $9.3 million, respectively, and for the six months ended March 29, 2013 were $0.5 million. Foreign currency losses for the three months ended March 29, 2013 were immaterial.

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

	March 28, 2014	September 27, 2013
Prepaid expenses and other current assets	$ 0.6	$ 0.9
Accrued and other current liabilities	0.6	1.4

Commodities Exposure

Prior to the Separation, Covidien entered into gas commodity swap contracts on behalf of the Company, which were accounted for as cash flow hedges. As of March 28, 2014, there were no outstanding gas commodity swap contracts; however, the Company may utilize such contracts in the future to mitigate price risk associated with its forecasted commodity purchases. The amounts of the net losses on these contracts recorded during the three and six months ended March 29, 2013 were as follows:

	Three Months Ended	Six Months Ended
Cost of sales	$ 0.1	$ 0.2
Selling, general and administrative	0.3	0.6
	$ 0.4	$ 0.8

Interest Rate Exposure

MIFSA entered into three forward interest rate lock contracts in March 2013 and April 2013, each with a $300.0 million notional value and designated as cash flow hedges, against the risk of variability in market interest rates in

advance of its anticipated issuance of its ten-year fixed rate senior notes due April 2023. Each interest rate lock contract was considered to be highly effective and the $7.6 million loss resulting from their settlements was recorded in accumulated other comprehensive income. As of March 28, 2014, $7.0 million of this loss remains in accumulated other comprehensive income and will be amortized to interest expense over the remaining term of the ten-year notes.

Table of Contents

18. Financial Instruments and Fair Value Measurements

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

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

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

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

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

	March 28, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Debt and equity securities held in rabbi trusts	$ 35.1	$ 22.9	$ 12.2	$
Foreign exchange forward and option contracts	0.6	0.6		
	$ 35.7	$ 23.5	$ 12.2	$
Liabilities:				
Deferred compensation liabilities	$ 13.7	$	$ 13.7	$
Contingent consideration	7.0			7.0
Foreign exchange forward and option contracts	0.6	0.6		
	$ 21.3	$ 0.6	$ 13.7	$ 7.0

	September 27, 2013	Quoted Prices in Active	Significant Other Observable	Significant Unobservable

		Markets for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Assets:				
Debt and equity securities held in rabbi trusts	$ 35.3	$ 22.6	$ 12.7	$
Foreign exchange forward and option contracts	0.9	0.9		
	$ 36.2	$ 23.5	$ 12.7	$
Liabilities:				
Deferred compensation liabilities	$ 13.5	$	$ 13.5	$
Contingent consideration	6.9			6.9
Foreign exchange forward and option contracts	1.4	1.4		
	$ 21.8	$ 1.4	$ 13.5	$ 6.9

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

Table of Contents

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 measurement funds generally correspond to the funds offered in the Company s U.S. tax-qualified defined contribution retirement plan and the account balance fluctuates with the investment returns on those funds.

Contingent consideration. In October 2012, the Company recorded contingent consideration of $6.9 million upon the acquisition of CNS Therapeutics. This contingent consideration, which could potentially total a maximum of $9.0 million, is primarily based on whether the FDA approves another concentration of Gablofen on or before December 31, 2016. The fair value of the contingent payments was measured based on the probability-weighted present value of the consideration expected to be transferred using a discount rate of 1.0%. There were no changes to the initial estimate of the fair value of the consideration during the six months ended March 28, 2014.

Balance at September 27, 2013	$ 6.9
Accretion expense	0.1
Balance at March 28, 2014	$ 7.0

Financial Instruments Not Measured at Fair Value

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and the majority of other current assets and liabilities approximate fair value because of their short-term nature. The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts and other investments it may hold from time to time, with an original maturity to the Company of three months or less, as cash and cash equivalents (level 1). The fair value of restricted cash is equivalent to its carrying value of $20.2 million and $24.0 million as of March 28, 2014 and September 27, 2013, respectively (level 1), substantially all of which is included in other assets on the unaudited condensed consolidated balance sheets. The Company s life insurance contracts are carried at cash surrender value, which is based on the present value of future cash flows under the terms of the contracts (level 3). Significant assumptions used in determining the cash surrender value include the amount and timing of future cash flows, interest rates and mortality charges. The fair value of these contracts approximates the carrying value of $68.7 million and $67.7 million at March 28, 2014 and September 27, 2013, respectively. These contracts are included in other assets on the unaudited condensed consolidated balance sheets.

Table of Contents

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

	March 28, 2014		September 27, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loan payable	$	$	$ 0.1	$ 0.1
Term loan	1,296.8	1,301.0		
3.50% notes due April 2018	300.0	296.0	299.9	293.7
9.50% debentures due May 2022	10.4	14.2	10.4	14.3
8.00% debentures due March 2023	8.0	10.2	8.0	10.2
4.75% notes due April 2023	598.2	571.6	598.2	568.5

Concentration of Credit and Other Risks

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

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

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

	March 28, 2014	September 27, 2013
Spain	$ 9.8	$ 9.2
Italy	10.7	12.6

Net sales to customers in Spain and Italy totaled $12.4 million and $14.1 million for the three months ended March 28, 2014 and March 29, 2013, respectively, and $24.7 million and $26.3 million for the six months ended March 28, 2014 and March 29, 2013, respectively.

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

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Cardinal Health, Inc.	15%	20%	18%	20%
McKesson Corporation	15%	19%	15%	16%
Amerisource Bergen Corporation	10%	6%	11%	7%

Table of Contents

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 28, 2014	September 27, 2013
Cardinal Health, Inc.	20%	18%
McKesson Corporation	23%	22%
Amerisource Bergen Corporation	13%	14%

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

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Optiray (CMDS)	13%	13%	13%	14%
Acetaminophen products (API)	9%	10%	8%	10%
Methylphenidate ER (Specialty Generics)	8%	11%	9%	7%

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

19. Segment Data

Selected information by business segment was as follows:

	Three Months Ended		Six Months Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Net sales:				
Specialty Pharmaceuticals	$ 324.3	$ 344.4	$ 633.8	$ 604.6
Global Medical Imaging	222.4	229.1	441.0	458.8
Net sales of operating segments [1]	546.7	573.5	1,074.8	1,063.4
Other [2]	11.1	11.8	23.2	25.9
Net sales	$ 557.8	$ 585.3	$ 1,098.0	$ 1,089.3
Operating income:				

Specialty Pharmaceuticals	$ 105.9	$ 105.0	$ 218.9	$ 140.0
Global Medical Imaging	10.3	18.9	14.7	68.0
Segment operating income	116.2	123.9	233.6	208.0
Unallocated amounts:				
Corporate and allocated expenses [3]	(72.7)	(40.3)	(97.9)	(65.7)
Intangible asset amortization	(15.5)	(8.8)	(24.3)	(17.7)
Restructuring and related charges, net [4]	(21.7)	(6.9)	(29.8)	(7.9)
Separation costs	(2.6)	(14.4)	(4.8)	(26.4)
Operating income	$ 3.7	$ 53.5	$ 76.8	$ 90.3

(1) Amounts represent sales to external customers.
(2) Represents products that were sold to Covidien, our former parent company, which is discussed in Note 14.

Table of Contents

(3) Includes administration expenses and certain compensation, environmental and other costs not charged to the Company s operating segments.
(4) Includes restructuring-related accelerated depreciation of $0.5 million for the three months ended March 29, 2013 and $0.1 million and $1.3 million for the six months ended March 28, 2014 and March 29, 2013, respectively. Restructuring-related accelerated depreciation for the three months ended March 28, 2014 was immaterial.

20. Condensed Consolidating and Combining Financial Statements

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

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

Set forth below are the unaudited condensed consolidating financial statements for the three and six months ended March 28, 2014 and as of March 28, 2014 and September 27, 2013, and the unaudited condensed combining financial statements for the three and six months ended March 29, 2013. Eliminations represent adjustments to eliminate investments in subsidiaries and intercompany balances and transactions between or among Mallinckrodt plc, MIFSA and the other subsidiaries. Unaudited condensed consolidating and combining financial information for Mallinckrodt plc and MIFSA, on a standalone basis, has been presented using the equity method of accounting for subsidiaries.

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATING BALANCE SHEET

As of March 28, 2014

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 0.2	$ 86.7	$ 248.0	$	$ 334.9
Accounts receivable, net			334.2		334.2
Inventories			444.7		444.7
Deferred income taxes			371.7		371.7
Prepaid expenses and other current assets	0.5	0.2	146.9		147.6
Intercompany receivable	5.9		8.3	(14.2)	
Total current assets	6.6	86.9	1,553.8	(14.2)	1,633.1
Property, plant and equipment, net			997.5		997.5
Goodwill			853.9		853.9
Intangible assets, net			1,715.0		1,715.0
Investment in subsidiaries	1,319.4	3,896.9		(5,216.3)	
Intercompany loan receivable	21.5		468.4	(489.9)	
Other assets		42.0	213.8		255.8
Total Assets	$ 1,347.5	$ 4,025.8	$ 5,802.4	$ (5,720.4)	$ 5,455.3
Liabilities and Shareholders Equity					
Current Liabilities:					
Current maturities of long-term debt	$	$ 9.8	$ 1.4	$	$ 11.2
Accounts payable	1.6		118.3		119.9
Accrued payroll and payroll-related costs	0.1		57.9		58.0
Accrued branded rebates			33.6		33.6
Accrued and other current liabilities	1.1	21.0	381.0		403.1
Intercompany payable	6.3	2.1	5.8	(14.2)	

Total current liabilities	9.1	32.9	598.0	(14.2)	625.8
Long-term debt		2,185.2	19.5		2,204.7
Pension and postretirement benefits			104.0		104.0
Environmental liabilities			63.7		63.7
Deferred income taxes			794.8		794.8
Other income tax liabilities			148.1		148.1
Intercompany loans payable		489.9		(489.9)	
Other liabilities			175.8		175.8
Total liabilities	9.1	2,708.0	1,903.9	(504.1)	4,116.9
Shareholders equity	1,338.4	1,317.8	3,898.5	(5,216.3)	1,338.4
Total Liabilities and Shareholders Equity	$ 1,347.5	$ 4,025.8	$ 5,802.4	$ (5,720.4)	$ 5,455.3

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATING BALANCE SHEET

As of September 27, 2013

(unaudited, in millions)

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

Deferred income taxes			310.1		310.1
Other income tax liabilities			153.1		153.1
Intercompany loans payable	2.4	409.6		(412.0)	
Other liabilities			171.8		171.8
Total liabilities	15.4	1,326.0	1,386.5	(426.9)	2,301.0
Shareholders equity	1,255.6	1,264.5	2,522.0	(3,786.5)	1,255.6
Total Liabilities and Shareholders Equity	$ 1,271.0	$ 2,590.5	$ 3,908.5	$ (4,213.4)	$ 3,556.6

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 28, 2014

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Net sales	$	$	$ 557.8	$	$ 557.8
Cost of sales			295.2		295.2
Gross profit			262.6		262.6
Selling, general and administrative expenses	7.9	0.1	186.1		194.1
Research and development expenses			41.4		41.4
Separation costs	0.6		2.0		2.6
Restructuring charges, net			21.7		21.7
Gains on divestiture and license			(0.9)		(0.9)
Operating (loss) income	(8.5)	(0.1)	12.3		3.7
Interest expense		(12.8)	0.4		(12.4)
Interest income			0.5		0.5
Other income (expense), net	22.3		(22.7)		(0.4)
Intercompany interest and fees	(0.9)		0.9		
Equity in net income of subsidiaries	(1.1)	11.7		(10.6)	
Income (loss) from continuing operations before income taxes	11.8	(1.2)	(8.6)	(10.6)	(8.6)
Income tax expense (benefit)	0.2	(0.1)	(20.4)		(20.3)
Income (loss) from continuing operations	11.6	(1.1)	11.8	(10.6)	11.7
Loss from discontinued operations, net of income taxes			(0.1)		(0.1)
Net income (loss)	11.6	(1.1)	11.7	(10.6)	11.6
Other comprehensive loss, net of tax	(2.3)	(2.3)	(2.4)	4.7	(2.3)
Comprehensive income (loss)	$ 9.3	$ (3.4)	$ 9.3	$ (5.9)	$ 9.3

F-93

Table of Contents

MALLINCKRODT PLC

CONDENSED COMBINING STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 29, 2013

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Combined
Net sales	$	$	$ 585.3	$	$ 585.3
Cost of sales			311.8		311.8
Gross profit			273.5		273.5
Selling, general and administrative expenses			160.7		160.7
Research and development expenses			39.2		39.2
Separation costs			14.4		14.4
Restructuring charges, net			6.4		6.4
Gains on divestiture and license			(0.7)		(0.7)
Operating income			53.5		53.5
Interest expense			(0.1)		(0.1)
Interest income			0.1		0.1
Other income (expense), net					
Intercompany interest and fees					
Equity in net income of subsidiaries	34.0	34.0		(68.0)	
Income from continuing operations before income taxes	34.0	34.0	53.5	(68.0)	53.5
Income tax expense			19.0		19.0
Income from continuing operations	34.0	34.0	34.5	(68.0)	34.5
Loss from discontinued operations, net of income taxes			(0.5)		(0.5)
Net income	34.0	34.0	34.0	(68.0)	34.0
Other comprehensive loss, net of tax	(14.5)	(14.5)	(10.5)	25.0	(14.5)
Comprehensive income	$ 19.5	$ 19.5	$ 23.5	$ (43.0)	$ 19.5

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

For the six months ended March 28, 2014

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Net sales	$	$	$ 1,098.0	$	$ 1,098.0
Cost of sales			579.8		579.8
Gross profit			518.2		518.2
Selling, general and administrative expenses	11.9	0.2	328.2		340.3
Research and development expenses			80.4		80.4
Separation costs	1.4		3.4		4.8
Restructuring charges, net			29.7		29.7
Gains on divestiture and license			(13.8)		(13.8)
Operating (loss) income	(13.3)	(0.2)	90.3		76.8
Interest expense		(23.3)	1.1		(22.2)
Interest income			0.8		0.8
Other income (expense), net	23.0		(24.0)		(1.0)
Intercompany interest and fees	(4.0)		4.0		
Equity in net income of subsidiaries	51.5	74.9		(126.4)	
Income from continuing operations before income taxes	57.2	51.4	72.2	(126.4)	54.4
Income tax (benefit) expense		(0.1)	(3.6)		(3.7)
Income from continuing operations	57.2	51.5	75.8	(126.4)	58.1
Loss from discontinued operations, net of income taxes			(0.9)		(0.9)
Net income	57.2	51.5	74.9	(126.4)	57.2
Other comprehensive loss, net of tax	(2.1)	(2.1)	(2.3)	4.4	(2.1)
Comprehensive income	$ 55.1	$ 49.4	$ 72.6	$ (122.0)	$ 55.1

F-95

Table of Contents

MALLINCKRODT PLC

CONDENSED COMBINING STATEMENT OF COMPREHENSIVE INCOME

For the six months ended March 29, 2013

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Combined
Net sales	$	$	$ 1,089.3	$	$ 1,089.3
Cost of sales			582.3		582.3
Gross profit			507.0		507.0
Selling, general and administrative expenses			307.5		307.5
Research and development expenses			77.6		77.6
Separation costs			26.4		26.4
Restructuring charges, net			6.6		6.6
Gains on divestiture and license			(1.4)		(1.4)
Operating income			90.3		90.3
Interest expense			(0.2)		(0.2)
Interest income			0.1		0.1
Other income (expense), net			0.2		0.2
Intercompany interest and fees					
Equity in net income of subsidiaries	53.2	53.2		(106.4)	
Income from continuing operations before income taxes	53.2	53.2	90.4	(106.4)	90.4
Income tax expense			36.1		36.1
Income from continuing operations	53.2	53.2	54.3	(106.4)	54.3
Loss from discontinued operations, net of income taxes			(1.1)		(1.1)
Net income	53.2	53.2	53.2	(106.4)	53.2
Other comprehensive loss, net of tax	(13.9)	(13.9)	(9.9)	23.8	(13.9)
Comprehensive income	$ 39.3	$ 39.3	$ 43.3	$ (82.6)	$ 39.3

Table of Contents

MALLINCKRODT PLC

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the six months ended March 28, 2014

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities:					
Net cash (used in) provided by operating activities	$ 8.6	$ (17.1)	$ 149.7	$	$ 141.2
Cash Flows From Investing Activities:					
Capital expenditures			(50.7)		(50.7)
Acquisitions and intangibles, net of cash acquired			(1,293.2)		(1,293.2)
Intercompany loan investment	(21.5)		(58.8)	80.3	
Repayment of intercompany loan investment		2.4		(2.4)	
Investment in subsidiary		(1,300.0)		1,300.0	
Restricted cash			4.1		4.1
Other			8.0		8.0
Net cash (used in) investing activities	(21.5)	(1,297.6)	(1,390.6)	1,377.9	(1,331.8)
Cash Flows From Financing Activities:					
Issuance of external debt		1,296.8			1,296.8
Repayment of external debt			(30.1)		(30.1)
Repayment of capital leases			(0.7)		(0.7)
Debt financing costs		(32.2)			(32.2)
Excess tax benefit from share-based compensation			4.0		4.0
Proceeds from exercise of share options	16.1				16.1
Purchase of treasury shares	(1.8)				(1.8)
Advances from intercompany borrowings		80.3		(80.3)	
	(2.4)			2.4	

Payment on intercompany borrowings					
Capital contribution			1,300.0	(1,300.0)	
Net cash provided by (used in) financing activities	11.9	1,344.9	1,273.2	(1,377.9)	1,252.1
Effect of currency rate changes on cash			(2.1)		(2.1)
Net increase in cash and cash equivalents	(1.0)	30.2	30.2		59.4
Cash and cash equivalents at beginning of period	1.2	56.5	217.8		275.5
Cash and cash equivalents at end of period	$ 0.2	$ 86.7	$ 248.0	$	$ 334.9

Table of Contents

MALLINCKRODT PLC

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the six months ended March 29, 2013

(unaudited, in millions)

	Mallinckrodt plc	Mallinckrodt International Finance S.A.	Other Subsidiaries	Eliminations	Combined
Cash Flows From Operating Activities:					
Net cash (used in) provided by operating activities	$	$ (4.8)	$ (3.0)	$	$ (7.8)
Cash Flows From Investing Activities:					
Capital expenditures			(76.7)		(76.7)
Acquisition, net of cash acquired			(88.1)		(88.1)
Restricted cash			0.9		0.9
Other			(1.1)		(1.1)
Net cash (used in) investing activities			(165.0)		(165.0)
Cash Flows From Financing Activities:					
Repayment of capital leases			(0.7)		(0.7)
Debt financing costs			(2.3)		(2.3)
Excess tax benefit from share-based compensation			3.0		3.0
Net transfers from (to) parent		4.8	168.0		172.8
Net cash provided by (used in) financing activities		4.8	168.0		172.8
Effect of currency rate changes on cash					
Net increase in cash and cash equivalents					
Cash and cash equivalents at beginning of period					
Cash and cash equivalents at end of period	$	$	$	$	$

Table of Contents

21. Subsequent Events

Questcor Pharmaceuticals

On April 5, 2014, the Company entered into a definitive merger agreement to acquire Questcor, a high-growth biopharmaceutical company, for approximately $5.6 billion. Questcor shareholders will receive $30.00 per share in cash and 0.897 shares of the Company for each share of Questcor common stock owned. The Company has entered into debt financing commitments that, together with cash on hand, are expected to be sufficient to provide the funds necessary to consummate the transaction. The Company expects that the financing will consist of a combination of a senior secured term loan facility and senior notes. The acquisition is expected to provide a strong and sustainable platform for future revenue and earnings growth within the Company s Specialty Pharmaceuticals segment. Subject to customary closing conditions, the transaction is currently expected to be completed in the fourth fiscal quarter of 2014.

Lower Passaic River Environmental Reserve

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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and

Stockholders of Cadence Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Cadence Pharmaceuticals, Inc. as of December 31, 2013 and 2012, and the related statements of operations, comprehensive loss, stockholders equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule at Page F-136. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cadence Pharmaceuticals, Inc. at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cadence Pharmaceuticals, Inc. s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

February 28, 2014

Table of Contents

CADENCE PHARMACEUTICALS, INC.

BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 55,075	$ 58,327
Investments in marketable securities	2,326	3,745
Restricted cash	548	640
Accounts receivable, net	9,300	6,152
Inventory	8,646	6,498
Prepaid expenses	1,902	1,064
Other current assets	91	90
Total current assets	77,888	76,516
Property and equipment, net	2,060	1,967
Intangible assets, net	10,747	12,090
Restricted cash	92	
Other assets	16	7,106
Total assets	$ 90,803	$ 97,679
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 7,724	$ 5,796
Accrued liabilities	18,042	12,969
Deferred revenue		2,234
Current portion of long-term debt, less discount of $252 and $, respectively	10,777	
Total current liabilities	36,543	20,999
Long-term debt, less discount of $433 and $1,182, respectively	18,538	28,818
Other long-term liabilities	844	51
Total liabilities	55,925	49,868
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2013 and 2012, respectively		
Common stock, $0.0001 par value; 200,000,000 shares authorized, 86,719,716 shares and 85,668,668 shares issued and outstanding at December 31, 2013 and 2012, respectively	9	9
Additional paid-in capital	506,819	495,458

Accumulated other comprehensive income		
Accumulated deficit	(471,950)	(447,656)
Total stockholders equity	34,878	47,811
Total liabilities and stockholders equity	$ 90,803	$ 97,679

The accompanying notes are an integral part of these financial statements.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenues:			
Product revenue, net	$ 110,529	$ 50,066	$ 11,486
License revenue	2,027	118	5,210
Total net revenues	112,556	50,184	16,696
Costs and expenses:			
Cost of product sales	37,973	23,256	12,406
Amortization of patent license	1,343	1,343	1,567
Research and development	6,743	6,519	8,885
Selling, general and administrative	94,482	86,843	81,504
Impairment of long-lived assets		7,723	
Other	(441)	1,174	1,076
Total costs and expenses	140,100	126,858	105,438
Loss from operations	(27,544)	(76,674)	(88,742)
Other (expense) income:			
Interest income	69	123	136
Interest expense	(4,467)	(4,449)	(4,424)
Other income	7,648	27	9
Total other income (expense), net	3,250	(4,299)	(4,279)
Loss before income tax	(24,294)	(80,973)	(93,021)
Net loss	$ (24,294)	$ (80,973)	$ (93,021)
Basic and diluted net loss per share[(1)]	$ (0.28)	$ (0.95)	$ (1.41)
Shares used to compute basic and diluted net loss per share[(1)]	85,969	85,556	66,075

(1) As a result of the issuance of common stock pursuant to public offerings in the fourth quarter of 2011, there is a lack of comparability in the per share amounts between the periods presented. Please see Note 2 of the Notes to

Financial Statements for further discussion.

The accompanying notes are an integral part of these financial statements.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Net loss	$ (24,294)	$ (80,973)	$ (93,021)
Other comprehensive income (loss) gain:			
Net unrealized (loss) gain on securities available for sale		(2)	2
Other comprehensive income (loss) gain		(2)	2
Comprehensive loss	$ (24,294)	$ (80,975)	$ (93,019)

The accompanying notes are an integral part of these financial statements.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount				
Balance at December 31, 2010	**63,107**	**$ 6**	**$ 397,616**	**$**	**$ (273,662)**	**$ 123,960**
Public offering of common stock, net of $4,448 offering costs, in November at $3.75 per share	21,800	2	77,300			77,302
Issuance of warrants in December to purchase 158 shares of common stock at $3.79 per share			390			390
Issuance of common stock from option exercises and lapse of restricted stock units under equity compensation plans	605	1	1,443			1,444
Stock-based compensation			9,233			9,233
Unrealized gain on marketable securities, net				2		2
Net Loss					(93,021)	(93,021)
Balance at December 31, 2011	**85,512**	**9**	**485,982**	**2**	**(366,683)**	**119,310**
Issuance of warrants in December to purchase 155 shares of common stock at $3.88 per share			416			416
Issuance of common stock from option exercises and lapse of restricted stock units under equity compensation plans	157		451			451
Stock-based compensation			8,609			8,609
Unrealized loss on marketable securities, net				(2)		(2)
Net Loss					(80,973)	(80,973)
Balance at December 31, 2012	**85,669**	**9**	**495,458**		**(447,656)**	**47,811**
Cashless warrant exercise in December at $7.84 per share	128					
Issuance of common stock from option exercises and lapse of restricted stock units under equity compensation plans	923		4,292			4,292

Stock-based compensation			7,069			7,069
Net Loss					(24,294)	(24,294)
Balance at December 31, 2013	**86,720**	**$ 9**	**$ 506,819**	**$**	**$ (471,950)**	**$ 34,878**

The accompanying notes are an integral part of these financial statements.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Operating activities			
Net loss	$ (24,294)	$ (80,973)	$ (93,021)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	213	1,560	1,670
Loss (gain) on disposal of assets		873	(66)
Gain on sale of investment	(7,654)		
Impairment of long-lived assets		7,723	
Inventory write-down		163	5,574
Stock-based compensation	7,069	8,609	9,233
Non-cash interest expense	17	27	49
Amortization of intangible assets	1,343	1,343	1,567
Amortization of discount on note payable	497	122	409
Accretion of discounts on available-for-sale securities, net of accretion of premiums	(1)	(16)	5
Changes in operating assets and liabilities:			
Accounts receivable	(3,148)	(3,944)	(2,208)
Prepaid expenses and other assets	(830)	(78)	104
Inventory	(2,148)	(5,273)	(6,477)
Accounts payable	1,928	2,140	360
Deferred revenue	(2,234)	943	1,291
Accrued liabilities and other liabilities	6,049	2,482	3,358
Net cash used in operating activities	(23,193)	(64,299)	(78,152)
Investing activities			
Purchases of marketable securities		(1,397)	(82,681)
Maturities and sales of marketable securities	1,420	42,275	60,006
Payment for option purchase right			(3,500)
Proceeds from the sale of Incline options and preferred shares	14,654		
Restricted cash			(300)
Purchases of property and equipment	(505)	(1,705)	(2,733)
Proceeds from the sale of property and equipment	80	393	66
Net cash provided by (used in) investing activities	15,649	39,566	(29,142)
Financing activities			
Proceeds from issuance of common stock	4,292	451	78,746

Borrowings under debt agreements, net of fees			3,434
Principal payments under debt agreements			(4,452)
Net cash provided by financing activities	4,292	451	77,728
Net decrease in cash and cash equivalents	(3,252)	(24,282)	(29,566)
Cash and cash equivalents at beginning of period	58,327	82,609	112,175
Cash and cash equivalents at end of period	$ 55,075	$ 58,327	$ 82,609
Supplemental disclosures			
Issuance of warrants in connection with loan and security agreement	$	$ 416	$ 390
Property and equipment purchases in accounts payable and accrued expenses	$ 232	$ 338	$ 891
Cash paid for interest and fees	$ 3,250	$ 3,865	$ 4,311

The accompanying notes are an integral part of these financial statements.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS

1. The Company

Cadence Pharmaceuticals, Inc. (the Company) was incorporated in the state of Delaware in May 2004. The Company is a biopharmaceutical company focused on acquiring, in-licensing, developing and commercializing proprietary products principally for use in the hospital setting. In March 2006, the Company in-licensed the exclusive U.S. and Canadian rights to OFIRMEV® (acetaminophen) injection, an intravenous (IV) formulation of acetaminophen, from Bristol-Myers Squibb Company (BMS). In November 2010, the Food and Drug Administration (FDA) approved the Company s New Drug Application (NDA) for OFIRMEV for the management of mild to moderate pain, the management of moderate to severe pain with adjunctive opioid analgesics, and the reduction of fever in adults and children two years of age and older. In January 2011, the Company commenced commercial sales of the product in the U.S.

2. Summary of Significant Accounting Policies

Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Examples of such estimates include, but are not limited to, the fair value of property and equipment, inventory obsolescence and valuation, restructuring liabilities, stock-based compensation, reserve for sales returns, and commitments and contingencies. On a regular basis, the Company reviews its estimates to ensure the estimates appropriately reflect changes in its business or as new information becomes available. Management believes that these estimates are reasonable, however, actual results could materially differ from these estimates.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, title has passed, collection is reasonably assured and the price is fixed or determinable. It sells OFIRMEV mostly to wholesalers who, in-turn, sell the product to hospitals and other end-user customers. Sales to wholesalers provide for selling prices that are fixed on the date of sale, although the Company offers discounts to certain group purchasing organizations, end-user hospitals, and government programs. The wholesalers take title to the product, bear the risk of loss of ownership, and have economic substance to the inventory. Further, the Company has no significant obligations for future performance to generate pull-through sales, however, it does allow wholesalers to return product that is damaged or received in error. In addition, the Company allows for product to be returned beginning six months prior to, and ending twelve months following, product expiration.

OFIRMEV, which was launched in January 2011, is the Company s first and only commercially available product. Because the Company initially had limited product return data, it deferred the recognition of revenue on sales to wholesalers and, instead, recognized revenue at the time that product was sold by a wholesaler to an end-user

customer. Shipments of product that were not recognized as revenue were treated as deferred revenue. However, as of January 1, 2013, the Company determined that it had obtained sufficient product return history to reasonably estimate future wholesaler returns. Since that time, the Company has recognized revenue at the time product is sold to a wholesaler. As a result of this change, the Company recorded a one-time adjustment to recognize revenue that had previously been deferred, resulting in additional net revenue of $2,616,000 and cost of sales of $919,000 for the year ended December 31, 2013. The corresponding impact of this one-time adjustment was a reduction of $1,697,000 in both the Company s loss from continuing operations and net loss for the year ended December 31, 2013, and the per share net impact of the adjustment was a reduction in net loss of

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

$0.02 per share for the year. There was no similar impact on the reported revenue, cost of sales or loss per share for the years ended December 31, 2012 and 2011.

The Company records certain sales reserves and allowances as a reduction to gross revenue. These reserves and allowances include distribution service fees, a prompt payment discount, a group purchasing discount and administrative service fee, discounts to certain end-user customers and governmental programs and a reserve for estimated product returns based on historical return rates, as applicable. Distribution service fees arise from contractual agreements the Company has with certain wholesalers for distribution services they provide with respect to OFIRMEV. These fees are generally a fixed percentage of the price of the product purchased by these wholesalers. The Company offers a prompt payment discount to certain wholesalers as an incentive to meet certain payment terms. It accounts for these cash discounts at the time the sale is made to the wholesalers and reduces its accounts receivable accordingly. The group purchasing discount and chargeback reserve is based upon contracted discounts the Company provides to members of certain purchasing groups. The Company estimates the sales from its wholesalers to these group purchasing organizations and accrues for the chargebacks it anticipates from its wholesalers for the difference between the current retail price and the reduced price paid by the members of the group purchasing organizations. Administrative service fees for these transactions are also recorded at the time of sale. The Company also provides predetermined discounts under certain government programs, which are recorded at the time of sale.

Revenue from the Company s data license agreement with Terumo Corporation (Terumo) is recognized separately for each element of the arrangement. Revenue from the data and services element that was provided to Terumo by the Company in 2011 and 2012 has been recognized upon delivery of the goods and services provided, based upon the consideration allocated to each deliverable, or the termination of the service period. The Company allocated the consideration from the data and services element to each deliverable based upon its review of the agreement pursuant to multiple-element arrangement guidance. Revenue from the first commercial sales milestone payment was recognized in November 2013 as the Company was able to confirm that the initial sale of Terumo s IV acetaminophen product had occurred in Japan. Royalties on subsequent sales will be recorded at the time the royalties can be reliably measured and collectability is reasonably assured. See Note 9 for further discussion.

Accounts Receivable

The Company extends credit to its customers in the normal course of business based upon an evaluation of the customer s credit history, financial condition and other factors. Trade accounts receivable are recorded on gross sales to wholesalers, net of allowances for prompt payment and other discounts, wholesaler fees, chargebacks and doubtful accounts. Estimates of allowances for doubtful accounts are determined by evaluating individual customer circumstances, historical payment patterns, length of time past due and economic and other factors. At December 31, 2013 and 2012, the Company s allowance for uncollectible receivables was $19,000 and $56,000, respectively. During the years ended December 31, 2013, 2012 and 2011 charges of $3,000, $56,000 and $0, respectively, were taken to reserve for past due accounts. During the year ended December 31, 2013, past due accounts totaling $40,000 that were previously reserved were written off. No past due accounts were written off during the years ended December 31, 2012 and 2011.

Fair Value Reporting

The Company s financial instruments consist of cash and cash equivalents, marketable securities, restricted cash, trade receivables and payables, accrued liabilities and long-term debt. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

determined with precision. The carrying amount of cash and cash equivalents, restricted cash, trade receivables and payables and accrued liabilities are generally considered to be representative of their respective fair values because of the short-term nature of those instruments. Further, based upon the borrowing rates currently available to the Company for loans with similar terms, the Company believes the fair value of long-term debt approximates its carrying value. The fair value of marketable securities is based upon market prices quoted on the last day of the fiscal period.

Current accounting guidance defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and requires certain disclosures about fair value measurements. The valuation techniques included in the guidance are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions and are classified into the following fair value hierarchy:

Level 1 Inputs	Quoted prices for identical instruments in active markets.
Level 2 Inputs	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable.
Level 3 Inputs	Valuation derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following tables present further detail of the financial instruments carried at fair value on the Company s balance sheet as of December 31, 2013 and 2012. The tables do not include assets and liabilities that are measured at historical cost or on any basis other than fair value (in thousands):

		Fair Value Measurements as of December 31, 2013		
Description	**Balance at December 31, 2013**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents:				
Money market funds	$ 48,975	$ 48,975	$	$
Investments in marketable securities short-term:				
Debt instruments Municipal debt obligations	1,326		1,326	
Certificates of deposit	1,000		1,000	
Assets at fair value	$ 51,301	$ 48,975	$ 2,326	$

Description

	Balance at December 31, 2012	Fair Value Measurements as of December 31, 2012		
		Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$ 55,736	$ 55,736	$	$
Investments in marketable securities short-term:				
Debt instruments Corporate debt obligations	1,398		1,398	
Debt instruments Municipal debt obligations	1,347		1,347	
Certificates of deposit	1,000		1,000	
Assets at fair value	$ 59,481	$ 55,736	$ 3,745	$

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

The Company s Level 2 financial instruments are valued using market prices on less active markets and model-derived valuations with observable valuation inputs such as interest rates and yield curves. The Company obtains the fair value of Level 2 financial instruments from a third-party pricing service, which the Company validates through independent valuation testing and review of portfolio valuations provided by the Company s investment managers.

Cash Equivalents

The Company considers all highly liquid investments purchased with maturities of three months or less from the date of purchase to be cash equivalents. These investments may include money market funds, U.S. Government agencies, corporate debt securities and commercial paper. As of December 31, 2013 and 2012, the Company s cash equivalents were $48,975,000 and $55,736,000, respectively.

Marketable Securities

The Company determines the appropriate classification of its investments at the time of acquisition and reevaluates such determination at each balance sheet date. The Company has classified its investment holdings as available-for-sale, as the sale of such securities may be required prior to maturity to implement management strategies. The Company s investment policy set minimum credit quality criteria and maximum maturity limits on its investments to provide for safety of principle, liquidity and a reasonable rate of return. Available-for-sale securities are recorded at fair value, based on current market valuations. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized. Realized gains and losses are included in non-operating other income (expense) on the statement of operations and are derived using the specific identification method for determining the cost of the securities sold. During the years ended December 31, 2013, 2012 and 2011, no realized gains or losses were recorded on the sale or maturity of the Company s marketable securities. Further, no impairments to reduce the value of an available-for-sale equity security were taken during the years ended December 31, 2013, 2012 and 2011. See Note 3 for further discussion.

Concentration Risk

Credit Risk. Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash, cash equivalents, restricted cash, marketable securities and accounts receivable. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. However, management believes the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. Additionally, the Company has established guidelines regarding diversification of its investments and their maturities, which are designed to maintain safety and liquidity. To date, the Company has not experienced any material realized losses on its cash, cash equivalents, restricted cash and marketable securities. Further, the Company specifies credit quality standards for its customers that are designed to limit the Company s credit exposure to any single party.

Manufacturing. The Company depends on an outsourced manufacturing strategy for its products. It has contracts in place with one third-party manufacturer that is approved for the production of OFIRMEV and one third-party

manufacturer which is pending FDA approval.

Customers. The Company has entered into distribution agreements with major pharmaceutical wholesalers to supply OFIRMEV across the U.S. through their distribution centers, and a majority of the Company s sales are to these customers. The Company s three primary wholesaler customers represented approximately 94% of the Company s product revenue for the year ended December 31, 2013, and 95% of the Company s accounts receivable balance at December 31, 2013. See Note 12 for further detail of the Company s significant customers.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

Inventories

The Company states its inventories at the lower of cost or market. The Company uses a combination of standard and actual costing methodologies to determine its cost basis for its inventories. These methodologies approximate actual costs on a first-in, first-out basis. In addition to stating inventory at the lower of cost or market, the Company also evaluates inventory each period for excess quantities and obsolescence. This evaluation includes identifying those items specifically identified as obsolete and reserving them, analyzing forecasted demand versus quantities on hand and reserving for the excess, and identifying other specific reserves. During the years ended December 31, 2012 and 2011, the Company recorded charges for inventory losses of $163,000 and $5,574,000, respectively, in cost of sales to write-down certain inventory manufactured to its estimated net realizable value. No charges for inventory losses were incurred for the year ended December 31, 2013. See Supply Agreements in Note 8 below for further information.

Royalty and License Payments

Pursuant to the terms of its license agreement with BMS, the Company is required to make royalty payments based upon net sales of OFIRMEV, subject to annual minimums, that range from the mid-teens to the mid-twenties, depending on the aggregate amount of net sales. The Company accrues for these payments as the product is sold, or otherwise deemed obligated. Additionally, the Company paid $15,000,000 under the license agreement upon the NDA approval of OFIRMEV in November 2010 and may be required to make future milestone payments of up to $25,000,000 based on the achievement of certain levels of annual net sales. The Company has capitalized the $15,000,000 payment as an intangible asset on its balance sheet and is amortizing this balance over the estimated useful life of the licensed patents. As of December 31, 2013, the Company had amortized an aggregate $4,253,000 of the payment and the estimated aggregate amortization expense of the payment for each of the five succeeding fiscal years is approximately $1,343,000. With respect to future milestone payments, at December 31, 2013, the Company had not yet achieved the levels of annual net sales necessary to require it to make payments under these milestone obligations, and therefore had not accrued for such potential payments in its financial statements. The Company will accrue for future milestone payments as they are anticipated and recognize the related expense in the period in which the milestone is achieved. See Note 9 for further discussion.

Advertising Expense

The Company records the cost of its advertising efforts when services are performed or goods are delivered. The Company incurred advertising costs of approximately $1,290,000, $1,594,000 and $2,181,000, respectively, for the years ended December 31, 2013, 2012 and 2011.

Shipping and Handling Costs

The costs incurred by the Company for shipping and handling are classified as cost of product sales. The Company does not charge its customers shipping and handling costs.

Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost or, if the assets are impaired, at fair value. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are generally as follows: seven years for manufacturing equipment; five years for furniture and fixtures; and three years for computer equipment and software. Leasehold improvements are amortized over the shorter of their useful lives or the terms of the related leases. Asset lives are reviewed periodically to determine if appropriate and adjustments are made as necessary. Depreciation begins at the time the asset is placed in service. Maintenance and repairs are expensed as incurred.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

For the years ended December 31, 2013, 2012 and 2011, the Company recorded depreciation expense of $213,000, $1,560,000 and $1,670,000, respectively.

Impairment of Long-Lived Assets

Long-lived assets such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or the fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

During the year ended December 31, 2012, the Company recorded a charge of $6,973,000 to impair the value of its manufacturing assets and certain construction-in-process to their estimated fair value. The charge was due to the termination of a supply agreement with one of its third-party manufacturers. Additionally, the Company fully impaired its estimated asset retirement obligation related to the removal of the equipment located at that manufacturer s facility, resulting in an additional charge of $750,000. During 2013, the Company removed its assets from the facility and fulfilled its asset retirement obligation for less than the estimated cost. As a result, the Company recorded a credit of $136,000 during the year ended December 31, 2013, to relieve the accrued balance. No similar charges or credits were recorded during the year ended December 31, 2011. See Note 6 and Note 8 for further discussion.

Research and Development

The Company s research and development expenses consist primarily of salaries and related employee benefits, costs associated with clinical trials managed by the Company s contract research organizations (CROs), and costs associated with non-clinical activities, such as regulatory and pre-commercialization manufacturing expenses. The Company uses external service providers and vendors to conduct clinical trials, to manufacture product candidates to be used in clinical trials and to provide various other research and development related products and services. The Company accounts for research and development expenditures as incurred and accrues expenses based upon estimates of work performed, patient enrollment and experience with similar contracts.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on

deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company provides a valuation allowance against net deferred tax assets unless, based upon the available evidence, it is more likely than not that the deferred tax assets will be realized. A valuation allowance is recorded when it is more likely than not that some, or all, of the deferred tax assets will not be realized. In determining the need for valuation allowances the Company considers projected future taxable income and the availability of tax planning strategies.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

The Company assesses its income tax positions and record tax benefits for all years subject to examination based upon its evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements.

Stock-Based Compensation

The Company has stock-based compensation plans, which are described in Note 11. As of December 31, 2013, the Company had issued both stock option awards and restricted stock units under its stock-based compensation plans. As of December 31, 2013 and 2012, all stock-based compensation awards were classified as equity awards.

Stock option awards. Stock options are valued using the Black-Scholes option pricing model. The Company values option awards on the date of grant or, if the awards are classified as liability awards, it revalues the awards each reporting period using this model until the awards are subsequently classified as equity awards, or otherwise vest. The Black-Scholes option pricing model involves a number of estimates, including the expected lives of stock options, the Company s anticipated stock volatility and interest rates. The following table summarizes the average estimates the Company used in the Black-Scholes option pricing model for the years ended December 31, 2013, 2012 and 2011, to determine the fair value of stock options granted during each period:

	Year Ended December 31,		
	2013	2012	2011
Risk free interest rates	1.2%	0.9%	2.2%
Expected life in years	6.0 years	5.7 years	6.2 years
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility	65.4%	72.0%	73.9%

The Company determines its risk-free interest rate assumption based on the U.S. Treasury yield for obligations with contractual lives similar to the expected lives of the Company s share-based payment awards being valued. The weighted-average expected life of options has historically been calculated using the simplified method, as prescribed by the Securities and Exchange Commission (SEC), due to the lack of relevant historical exercise data. The expected volatility is determined by incorporating the Company s historical stock price volatility and the implied volatility of its exchanged traded options. The assumed dividend yield is based on the Company s expectation of not paying dividends in the foreseeable future. Forfeitures are estimated based upon the historical and anticipated future experience.

Based upon these assumptions, the Company has estimated the per share weighted-average grant date fair value of its options granted for the years ended December 31, 2013, 2012 and 2011 at $3.45, $1.86 and $5.67, respectively.

Restricted stock unit awards. Restricted stock units (RSUs) are valued based on the fair market value of the Company s stock on the date of grant. The weighted-average grant date fair value of the RSUs granted in 2013 was

$8.31. There were no RSUs granted in 2012 or 2011.

Compensation expense for its service-based equity awards is recognized using the straight-line method. Stock-based compensation expense recognized during the period is based on the value of the portion of awards that is ultimately expected to vest. Hence, the gross expense is reduced for estimated forfeitures and adjusted for

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

the probability of achieving performance criteria. If awards are forfeited prior to vesting, all previous expense recognized is recovered during the period in which the forfeiture occurs.

The table below summarizes the total stock-based compensation expense included in the Company s statements of operations for the periods presented (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Cost of product sales	$ 277	$ 343	$ 297
Research and development	742	1,651	2,308
Selling, general and administrative	6,050	6,615	6,628
Total stock-based compensation expense included in loss from operations	$ 7,069	$ 8,609	$ 9,233

The compensation expense related to unvested stock options and RSUs not yet recognized was approximately $11,308,000 at December 31, 2013. This expense is expected to be recognized over a weighted-average period of approximately 32 months. The total fair value of shares vested during the years ended December 31, 2013, 2012 and 2011 was $6,647,000, $9,212,000 and $9,852,000, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Components of comprehensive income (loss) includes, among other items, unrealized gains and losses on the changes in fair value of investments. These components are added, net of their related tax effect, to the reported net income (loss) to arrive at comprehensive income (loss). The balance of accumulated other comprehensive income at December 31, 2011 was comprised of the net unrealized net holding gains on the Company s investments in marketable securities. There was no similar accumulated other comprehensive income or loss at December 31, 2013 and 2012. See Note 3 for further detail of the unrealized holdings gains and losses on the Company s investments in marketable securities.

Net Loss Per Share

Net loss per share is presented as basic and diluted net loss per share. Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options, restricted stock units and warrants are considered to be common stock equivalents and are not included in the calculations of diluted net loss per share as their effect is anti-dilutive. Additionally, the restricted stock units outstanding during 2013, 2012 and 2011 were excluded from the basic net loss

calculation as these units do not include dividend rights and therefore are not considered to be participating securities.

The actual net loss per share amounts for the years ended December 31, 2013, 2012 and 2011 were computed based on the weighted average shares of common stock outstanding during the respective periods. The net loss per share for the years presented include the effect of the 21,800,000 common shares issued pursuant to a public offering in the fourth quarter of 2011. As a result of the issuance of these common shares, there is a lack of comparability in the basic and diluted net loss per share amounts for the periods presented.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

The Company incurred net losses for all periods presented and there were no reconciling items for potentially dilutive securities. More specifically, at December 31, 2013, 2012 and 2011, options, restricted stock units and warrants totaling approximately 16,734,000 shares, 16,677,000 shares and 14,457,000 shares, respectively, were excluded from the calculation as their effect would have been anti-dilutive.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, with an option for early adoption. The Company s adoption of this guidance during the fourth quarter of 2013 did not have an impact on the Company s financial statements for the period ended December 31, 2013.

3. Investments in Marketable Securities

In accordance with the Company s investment policy, it has invested funds in marketable securities. The cost, gross unrealized holding gains, gross unrealized holding losses and fair value of these investments by types and classes of security at December 31, 2013 and December 31, 2012 consisted of the following (in thousands):

At December 31, 2013	Amortized Cost Basis	Other-than-temporary Impairments	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale:					
Debt instruments Municipal debt obligations	1,326				1,326
Certificates of deposit	1,000				1,000
	$ 2,326	$	$	$	$ 2,326

At December 31, 2012	Amortized Cost Basis	Other-than-temporary Impairments	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale:					
	$ 1,398	$	$	$	$ 1,398

Debt instruments	Corporate debt obligations				
Debt instruments	Municipal debt obligations	1,347			1,347
Certificates of deposit		1,000			1,000
		$ 3,745	$	$	$ 3,745

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

Investments by contractual maturity are as follows (in thousands):

	December 31, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Due or callable in one year or less	$ 2,326	$ 2,326	$ 3,745	$ 3,745
Due after one year	$	$	$	$

As of December 31, 2013 and 2012, there were no investments in unrealized loss positions.

4. Selected Financial Statement Data

	As of December 31,	
	2013	2012
Accounts receivable (in thousands):		
Trade accounts receivable	$ 9,319	$ 6,208
Allowance for doubtful accounts	(19)	(56)
	$ 9,300	$ 6,152
Inventory (in thousands):		
Raw materials	$ 83	$ 83
Finished goods	8,563	6,415
	$ 8,646	$ 6,498
Property and equipment (in thousands):		
Manufacturing equipment	$ 2,801	$ 2,999
Leasehold improvements	1,639	1,639
Computer equipment and software	1,613	1,489
Furniture and fixtures	478	478
Construction-in-process	961	724
	7,492	7,329
Less accumulated depreciation	(5,432)	(5,362)
Total	$ 2,060	$ 1,967

Accrued liabilities (in thousands):

Accrued personnel costs	$ 9,510	$ 6,560
Accrued royalties payable	4,992	2,652
Accrued clinical trial costs	703	20
Accrued sales returns	369	
Accrued asset retirement obligation		750
Other accrued liabilities	2,468	2,987
Total	$ 18,042	$ 12,969

5. Investment in Incline

On June 21, 2010, the Company entered into an option agreement (the Option Agreement) with Incline Therapeutics, Inc. (Incline), a privately held specialty pharmaceutical company, pursuant to which the Company obtained an exclusive, irrevocable option (the Option) to acquire Incline, which was developing IONSYS (fentanyl iontophoretic transdermal system), an investigational product candidate intended to provide

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

patient-controlled analgesia for adult inpatients requiring opioids following surgery. As consideration for the Option, the Company paid Incline a $3,500,000 upfront option fee in June 2010 and made a second payment of $3,500,000 in September 2011. Additionally, in consideration of the Company s expenditure of funds in connection with conducting its initial due diligence on IONSYS, the Company received $500,000 of Incline Series A preferred stock, or 500,000 shares, on terms generally consistent with Incline s other Series A preferred stock investors.

In December 2012, the Company and Incline entered into a Waiver, Consent and Option Termination Agreement (the Waiver Agreement) pursuant to which the Company agreed to the buy-out and termination of its Option, contingent upon the closing of a separate agreement and plan of merger between Incline and The Medicines Company whereby The Medicines Company agreed to acquire Incline (the Incline Acquisition). In January 2013, The Medicines Company completed its acquisition of Incline. As consideration for entering into the Waiver Agreement and relinquishing its Option, the Company received a payment of $13,125,000 upon the closing of the Incline Acquisition. The Company also received an additional payment of $1,529,000 as consideration for the 500,000 shares of Incline Series A preferred stock held by the Company. The Company could also receive future milestone payments related to potential future licensing, regulatory approval and sales of the product candidate. Such milestones, if any, will be recorded as they are earned.

At the time the Option Agreement was entered, the Company determined that Incline was a variable interest entity (VIE). However, because it would not absorb a disproportionate amount of Incline s expected losses or receive a disproportionate amount of Incline s expected residual returns, the Company was not the primary beneficiary of this entity. Further, the Company did not have oversight of the day-to-day operations of Incline, nor did it have sufficient rights or voting representation to influence the operating or financial decisions of Incline, and the Company was not a founder of Incline and had no additional equity or funding requirements in future financings or otherwise. As such, the Company did not consolidate Incline into its financial statements. Alternatively, it valued its investment in the option, and the shares received from the due diligence, using the cost method and classified these investments as Level 3 in the fair value hierarchy with a carrying value of $7,000,000. No adjustments were made to the carrying value of these assets prior to the closing of the Incline Acquisition in January 2013, and, as a result, the Company recorded a gain of $7,654,000 in other income during the year ended December 31, 2013. No similar gains were recorded during the years ended December 31, 2012 and 2011.

The $7,000,000 carrying value of the Company s Incline investment was recorded as other long-term assets on the Company s balance sheet at December 31, 2012.

6. Restructuring and Impairment Charges

In February 2012, the Company observed particulate matter during routine product stability testing of OFIRMEV that was manufactured at one of its third-party manufacturers, Baxter. As a result, the Company decided to suspend further production by Baxter. In March 2013, the Company and Baxter mutually agreed to terminate the supply agreement for OFIRMEV. As a result, the Company reduced the carrying value of its manufacturing assets and its manufacturing equipment and facility construction assets in process to their current estimated fair value as of December 31, 2012, resulting in an impairment charge of $6,973,000 during the year. The fair value of these assets was determined

through a third-party valuation assessment based upon research of market prices for similar equipment and the Company s prior experience with asset disposals. The determination of the fair value of the manufacturing assets was considered a Level 3 measurement. The Company also fully impaired the retirement obligation asset related to the removal of the equipment as of December 31, 2012, resulting in a charge of $750,000 during the year. No such obligation had been recorded as of December 31, 2011. See further discussion of the Baxter agreement in Note 8.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

In November 2011, the Company restructured its workforce to focus its resources on the commercialization of OFIRMEV and reduce program costs not directly associated with such efforts. As a result of the 2011 restructuring, the Company recorded one-time employee termination charges of $1,142,000 in connection with the termination of 17 employees. During 2012, the Company disbursed the remaining severance benefits and as of December 31, 2012, no restructuring liability remained on the balance sheet.

7. Loan and Security Agreement

In December 2012, the Company entered into a First Amendment to Second Amended and Restated Loan and Security Agreement (the 2012 Amendment) with Oxford Finance LLC, Silicon Valley Bank and General Electric Capital Corporation (collectively, the Lenders), which amended and restated the Company s previous Second Amended and Restated Loan and Security Agreement entered into in December 2011 (the 2011 Amendment). Pursuant to the terms of the 2012 Amendment, the Company made interest-only payments through December 2013, and in January 2014, began to make equal monthly principal and interest payments to fully amortize the balance over the remaining 30-month term. The stated interest rate under the 2012 Amendment is 10.9545% and the Company will be required to make a final payment of 6% of the total advance at the termination of the loan.

At the time of closing the 2012 Amendment, the Company made a term loan final payment of $752,000 in accordance with the terms of the 2011 Amendment, which had been amortized over the term of the 2011 Amendment, and paid customary closing fees and expenses of $18,000 in connection with the closing of the 2012 Amendment. Additionally, the Company issued warrants to purchase 154,638 shares of the Company s common stock, as detailed below, to the Lenders in connection with the 2012 Amendment at an exercise price $3.88 per share. The warrants are immediately exercisable, and excluding certain mergers or acquisitions, will expire on the seven-year anniversary of the date of issuance. The Company determined the relative fair value of these warrants, as detailed below, and has classified the warrants as equity, recognizing the cost as a discount on the loan issuance.

The credit facility contains customary default and acceleration provisions and is secured by the Company s assets, excluding intellectual property. Further, the Company was required to make a negative pledge of its intellectual property, which generally prohibits the Company from granting liens on its intellectual property. Under the terms of the 2012 Amendment, the Company may be precluded from entering into certain financing and other transactions, including disposing of certain assets and paying dividends, and is subject to prepayment penalties and certain financial and non-financial covenants, including the maintenance of minimum quarterly product revenue of at least $12,500,000. Upon the occurrence of an event of default, including a Material Adverse Change (as defined in the 2011 Amendment), the lenders may declare all outstanding amounts due and payable under the 2012 Amendment. As of December 31, 2013, the Company was in compliance with all covenants under the 2012 Amendment.

The Company determined that the terms of the 2012 Amendment were not substantially different than the 2011 Amendment and accounted for the transaction as a loan modification. As such, the fair value of the warrants issued in connection with the 2012 Amendment and the carrying value of the issuance costs and discount related to the 2011 Amendment were aggregated and are being amortized to interest expense throughout the life of the 2012 Amendment using an effective interest rate of 15.30%. Similarly, in connection with the 2011 Amendment, the Company

determined that the terms were not substantially different than the 2010 Amendment and therefore accounted for the transaction as a loan modification of the 2010 Amendment. The 2011 Amendment provided the Company with $3,434,000 of additional net capital after deducting a $954,000 term loan final payment paid under the 2010 Amendment and customary closing fees and expenses of $63,000 paid in connection with the closing of the 2011 Amendment. As part of the 2011 Amendment, the Company issued

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

warrants to purchase an aggregate of 158,311 shares of the Company s common stock to the Lenders, as detailed below, and classified the warrants as equity, recognizing the fair value as a discount on the loan issuance. The fair value of the warrants was aggregated with the carrying value of the issuance costs and discount related to the 2010 Amendment, and was being amortized over the term of the 2011 Amendment using an effective interest rate of 15.31% prior to the 2012 Amendment.

As of December 31, 2013 and 2012, the aggregate outstanding principal balance of the loans included on the Company s balance sheets for each period was $30,000,000. Future maturities and interest payments under the Company s 2012 Amendment as of December 31, 2013 were as follows (in thousands):

2014	$ 13,772
2015	13,772
2016	8,686
Total future payments	36,230
Less amount representing interest and fees	(6,230)
Gross balance of long-term debt	30,000
Less unamortized discount	(685)
Total carrying value of long-term debt	29,315
Less current portion	(10,777)
Long-term portion	$ 18,538

Warrants

In connection with the establishment of the Company s credit facilities and related amendments, including the 2012 Amendment, the Company has issued warrants to the Lenders to purchase shares of the Company s common stock. The table below summarizes the issuances of such warrants currently outstanding, including the Black-Scholes valuation model assumptions used to determine the fair value of the warrants:

	Date of Issuance			
	December 2012	**December 2011**	**June 2010**	**November 2007**
	154,638	158,311	254,793	50,331

Aggregate shares pursuant to warrants issued				
Per share exercise price of warrants issued	$ 3.88	$ 3.79	$ 7.0645	$ 12.67
Fair value of warrants issued	$ 416,000	$ 390,000	$ 1,237,000	$ 474,000
Expiration date of warrants	December 9, 2019	December 22, 2018	June 18, 2017	November 30, 2014
Black-Scholes valuation inputs:				
Expected volatility	70.17%	72.40%	76.50%	70.00%
Risk-free interest rate	1.02%	1.40%	2.70%	3.64%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected term	7 years	7 years	7 years	7 years

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

As of December 31, 2013, the aforementioned warrants to purchase 618,073 shares of the Company s common stock were outstanding.

8. Commitments and Contingencies

Leases

In May 2006, the Company entered into an operating lease for corporate office space. In December 2011, the Company amended the lease to reduce the monthly rent charge, extend the lease term and terminate a portion of the lease, returning space to the lessor. Pursuant to the terms of the amended agreement, the basic monthly per square foot fee was reduced commencing in April 2012 and the Company returned a portion of the leased space in September 2012. In September 2013, the Company entered into a third amendment to the lease agreement (the Third Amendment), pursuant to which the Company expanded its rented space for a term from January 1, 2014, through May 31, 2019. The Company also has the right to renew the lease for one additional five-year term. The terms of the lease include a one-time tenant improvement allowance of up to $475,000, which the Company will record as the improvements are completed, and which will be amortized ratably over the shorter of the useful life or the remaining life of the lease. As of December 31, 2013, no such improvements had been completed.

As security for the initial lease, the landlord required a letter of credit, which is collateralized by a certificate of deposit in the same amount, and which the Company has classified as restricted cash on its balance sheet. As of December 31, 2013 and 2012, the amount of each of the letter of credit and the corresponding certificate of deposit was $190,000. The security deposit required by the landlord will be reduced pursuant to the Third Amendment to $92,000, effective January 1, 2014.

The Company also leases certain office equipment under capital and operating leases. Its current capital lease has a term of four years and expires in 2016. As of December 31, 2013 and 2012, the assets under its current capital lease had a gross value of $56,000. During the years ended December 31, 2013 and 2012, the Company recorded amortization expense of $14,000 and $1,000, respectively, related to these assets. The remaining obligation under its capital lease at December 31, 2013 is recorded on the Company s balance sheet in accrued expenses and other long-term liabilities at $12,000 and $29,000, respectively. No assets were recorded under capital leases as of December 31, 2011.

As of December 31, 2013, the total future minimum payments under its operating and capital leases, including rent and office equipment, were as follows (in thousands):

2014	$ 600
2015	1,006
2016	1,030
2017	1,043

2018	1,074
Thereafter	461
Total	$ 5,214

Rent expense for operating leases is recorded on a straight-line basis over the life of the lease term. If a lease has a fixed and determinable escalation clause, the difference between the rent expense and rent paid is recorded as deferred rent. Rent expense under the Company s facility and equipment leases for the years ended December 31, 2013, 2012 and 2011 was $709,000, $927,000 and $928,000, respectively.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

Corporate Credit Card

In 2009, the Company entered into a pledge agreement pursuant to the establishment of a corporate credit card program whereby the Company pledged $150,000 in a certificate of deposit as collateral. During 2011, the Company increased its pledged amount by $300,000 related to an increase in its credit limit. At December 31, 2013, the Company maintained the pledge agreement and the funds under the agreement are classified as restricted cash on the Company s balance sheet at December 31, 2013 and 2012, respectively.

Supply Agreements

Lawrence Laboratories

In February 2013, the Company entered into an Amended and Restated Supply Agreement (the Supply Agreement) with Lawrence Laboratories, an operating division of Swords Laboratories, and a member of the BMS group of companies, which amended and restated the original agreement entered into between the parties in December 2010, for the manufacture of commercial supplies of the finished drug product for OFIRMEV packaged in vials (the Product), for sale and distribution by the Company in the United States and Canada. Bristol-Myers Squibb Srl (BMS Anagni), an indirect subsidiary of BMS located in Anagni, Italy, manufactures the Product on behalf of Lawrence Laboratories. BMS Anagni is currently the Company s sole supplier of OFIRMEV.

Pursuant to the terms of the Supply Agreement, the Company pays Lawrence Laboratories a set price for each unit of Product purchased, based upon the aggregate quantity of Product the Company has specified that it intends to order during a calendar year, and whether Lawrence Laboratories has implemented certain agreed-upon manufacturing capacity increase improvements. The Company is obligated to purchase a minimum number of units each year, or pay Lawrence Laboratories an amount equal to the shortfall between the minimum purchase requirement and the number of units of Product actually ordered during such year, multiplied by a pre-set amount that also varies depending upon whether Lawrence Laboratories has implemented certain agreed-upon manufacturing capacity increase improvements. The Company is obligated to purchase at least 75% of its annual Product requirements from Lawrence Laboratories each contract year. The Supply Agreement also requires the Company to pay Lawrence Laboratories for additional services requested by the Company at a specified hourly rate and for any validation batches that may be required by the Company, not to exceed a specified rate. All amounts payable under the Supply Agreement are paid in U.S. dollars.

The term of the Supply Agreement extends through December 31, 2018, unless extended by mutual agreement of the Company and Lawrence Laboratories, or unless the Supply Agreement is terminated sooner: (1) by the mutual agreement of the parties, (2) by either party for convenience following 24 months prior written notice of termination to the other party, (3) upon the termination of the Company s license agreement for the Product with BMS, or (4) upon the dissolution or termination of the Company, other than in connection with or following the assignment of the Supply Agreement. In addition, either party may terminate the Supply Agreement: (a) within 60 days, after written notice in the event of a material uncured breach of the Supply Agreement by the other party, or (b) immediately, if the other party becomes insolvent or admits in writing its inability to pay its debts as they become due, files a petition for bankruptcy, makes an assignment for the benefit of its creditors or has a receiver or other court officer appointed for

its properties or assets.

If the Supply Agreement is terminated by the Company for its convenience or by Lawrence Laboratories due to the Company s material breach of the Supply Agreement, the Company will reimburse Lawrence Laboratories for: (1) any Product ordered under a firm order and received by the Company, and (2) any inventory of materials used to manufacture the Product that are specific to the Product and that Lawrence Laboratories is unable to reasonably utilize. Additionally, the Company s minimum purchase requirement for the year in which

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

the termination takes effect will be reduced proportionally, and the Company will not be required to fulfill the minimum purchase requirement for any subsequent contract year. If the Supply Agreement is terminated for any reason other than by the Company for its convenience or by Lawrence Laboratories due to the Company s material breach of the Supply Agreement, the Company will not be required to reimburse Lawrence Laboratories for any inventory of materials used to manufacture the Product, and will have no obligation to purchase the minimum purchase requirement for the year in which the termination takes effect, or for any subsequent contract year.

Purchases under the current agreement were $17,600,000 during the year ended December 31, 2013, which was sufficient to meet the minimum purchase commitment. Future minimum purchase requirements under this agreement at December 31, 2013 are as follows (in thousands):

2014	$ 16,050
2015	15,750
2016	15,750
2017	15,750
2018	15,750
Thereafter	
Total	$ 79,050

Grifols

In March 2013, the Company entered into an agreement with Laboratorios Grifols, S.A. (Grifols), a division of Grifols, S.A., a global healthcare company headquartered in Barcelona, Spain, for the development, manufacture and supply of commercial quantities of OFIRMEV in flexible IV bags. Grifols has supplied IV acetaminophen in flexible plastic bags to BMS for distribution in certain markets outside of the U.S. and Canada since 2010. The Company submitted a supplemental NDA to the FDA in the fourth quarter of 2013 seeking approval of the product to be manufactured by Grifols.

Pursuant to the terms of the agreement, the Company will pay Grifols a set price for the OFIRMEV it purchases, which may be adjusted annually by Grifols, subject to specified limitations. In addition, the Company will be obligated to pay Grifols a reservation fee, in lieu of any minimum purchase commitment, calculated by multiplying the shortfall between the annual production capacity it has reserved with Grifols and the amount of product actually ordered during that year by a fixed amount. Pending review and subsequent approval of the submission by the FDA, the agreement will terminate on the sixth anniversary of the approval by the FDA of the product manufactured by Grifols, unless it is terminated sooner by the Company upon the termination of its license agreement for the product with BMS, or after 60 days written notice following the discontinuation of the distribution of the product by the Company. In addition, either party may terminate the agreement after 60 days written notice in the event of a material uncured breach of the agreement by the other party (or 30 days in the case of a payment default), or immediately upon an insolvency event.

Baxter Healthcare Corporation

In July 2007, the Company entered into a development and supply agreement (the Baxter Supply Agreement) with Baxter for the completion of pre-commercialization manufacturing development activities and the manufacture of commercial supplies of the finished drug product for OFIRMEV with an initial term of five years. In January 2011, the Company amended and restated the Baxter Supply Agreement (the Amended Supply Agreement) in connection with a plan to expand the manufacturing capacity for OFIRMEV at Baxter.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

In February 2012, the Company announced a voluntary recall of a single lot of OFIRMEV that was manufactured at Baxter s facility due to the presence of an unidentified, visible particle in that lot during routine stability testing. The Company also placed certain finished product inventory of OFIRMEV manufactured by Baxter on indefinite hold and decided to suspend further production by Baxter. In July 2012, the Company announced a second voluntary recall of the remaining 41 unexpired lots of OFIRMEV manufactured at Baxter s facility due to the presence of unidentified, visible particles in a limited number of vials from one lot of the product, which were detected during routine stability testing. Although the Company received no adverse event reports associated with the particulate matter, and no product complaints involving similar particulate matter have been received, the Company decided to recall the remaining lots of OFIRMEV manufactured by Baxter as a precautionary measure. All of the 41 recalled lots, which were manufactured between January and March 2011, had expired by December 31, 2012. In March 2013, the Company and Baxter mutually agreed to terminate the Amended Supply Agreement for OFIRMEV. As part of the settlement and termination with Baxter, the Company agreed that it would be responsible for the removal of the equipment, which the Company estimated would cost approximately $750,000. Accordingly, it recorded this retirement obligation on its balance sheet at December 31, 2012 as the conditions existed under the terms of the Amended Supply Agreement at that time. Further, as of December 31, 2012, the Company fully impaired this retirement obligation asset and recognized a charge of $750,000 in its statement of operations for the year ended December 31, 2012. The Company subsequently completed the removal of the equipment and released the remaining balance of the accrued obligation, resulting in a gain of $136,000 during the third quarter of 2013, which was recorded in other operating expenses. No similar gains were recorded during the years ended December 31, 2012 and 2011. Also pursuant to the settlement, a previously accrued liability of $317,000 related to an outstanding product order was canceled, which was recorded in cost of sales during the first quarter of 2013.

As a result of the initial recall, the Company recorded charges of $5,574,000 for the fourth quarter of 2011 and $163,000 for the first quarter of 2012 to fully write-down the value of the inventory placed on hold. As a result of the second recall, the Company decided to destroy the product that was previously placed on hold and accrued for estimated destruction charges, recording $290,000 and $50,000 in other operating expenses for the years ended December 31, 2012 and 2013, respectively. In addition, the Company incurred costs associated with these recalls, including administration costs, of approximately $300,000 through December 31, 2013. As of December 31, 2013, the recall had been substantially completed and further returns are expected to be minimal, if any. The costs related to the recalls are being recognized as selling, general and administrative expenses on the Company s statement of operations as they are incurred. The charge to reduce the value of the inventory was recorded as a cost of product sales on the Company s statement of operations during the period in which the impairment was taken. As of December 31, 2013, no accrued destruction charges remained on the Company s balance sheet.

Due to the termination of the Amended Supply Agreement with Baxter, the Company reduced the carrying value of its manufacturing assets and its manufacturing equipment and facility construction assets in process to their current estimated fair value, resulting in an impairment charge of $6,973,000 for the year ended December 31, 2012. The fair value of these assets was determined through a third-party valuation assessment and market prices for similar assets. Further, in December 2012, the Company sold a construction-in-process asset resulting in a loss on the disposal of $858,000. These assets were classified as held and used at December 31, 2012, as a formal plan to sell the assets, or otherwise dispose of them, had not been implemented at that time. The Company continues to assess the classification of these assets and has determined that, based upon relevant guidance, the assets continue to be considered held and

used at December 31, 2013.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

9. License Agreements and Acquired Development and Commercialization Rights

In March 2006, the Company in-licensed the technology and the exclusive development and commercialization rights to OFIRMEV in the U.S. and Canada from BMS. BMS sublicensed these rights to the Company under a license agreement with SCR Pharmatop S.A. (Pharmatop) and the Company has the right to grant sublicenses to third parties. As consideration for the license, the Company paid a $25,000,000 up-front fee in March 2006 and, as a result of the approval of the Company s NDA for OFIRMEV in the fourth quarter of 2010, the Company paid an additional milestone payment of $15,000,000 in the fourth quarter of 2010. The Company may be required to make future milestone payments totaling up to $25,000,000 upon the achievement of certain levels of net sales. In addition, the Company is obligated to pay a royalty on net sales of the licensed products which range from the mid-teens to the mid-twenties, depending on the aggregate amount of net sales, and is subject to annual minimum royalty obligations. The $25,000,000 up-front fee was recognized as research and development expense at the time the payment was made. The $15,000,000 milestone payment was recorded as an intangible asset on the Company s balance sheets and is being amortized over the estimated useful life of the licensed patents. Royalty liabilities are recognized at the time the product is sold or, for minimum royalty obligations that are not anticipated to be met, over the period in which the minimum liability is incurred. In June 2013, Health Canada issued a Notice of Compliance that granted marketing approval for OFIRMEV in Canada. The Company has not determined the commercial feasibility of launching the product in Canada, either independently or in collaboration with a company with an existing Canadian commercial presence, because it has not yet received a pricing review from the Canadian Patented Medicine Prices Review Board (PMPRB). The Company submitted a pricing review application for OFIRMEV to the PMPRB in October 2013.

In November 2010, the Company entered into a data license agreement among Terumo Corporation (Terumo), the Company and Pharmatop. Under the data license agreement, the Company provided to Terumo certain data and information resulting from the Company s clinical development program for OFIRMEV for Terumo s use in obtaining regulatory approval for, and commercialization of, the same IV formulation of acetaminophen in Japan. Further, the Company provided technical assistance and consulting services to Terumo at no charge regarding the licensed technical information, data and know-how, to assist Terumo in obtaining regulatory approval and manufacturing capacity for the product candidate. In April 2011, the Company received an upfront payment of $5,329,000 under the terms of the data license agreement.

In accordance with multiple-element arrangement guidance, the Company determined both the data license and consulting service deliverables were separate units of accounting, each having value on a standalone basis. The Company estimated the fair value of the data license based upon similar proposals from third parties and internal costs incurred in developing the data and obtaining similar rights. The value of the consulting services was based on contracts the Company had engaged with third parties for similar services. The Company allocated the value of the payment received on a relative fair value basis and recognized the consideration allocated to the data license upon delivery and recognized the consideration allocated to the consulting services as such services were rendered. There is no right of return or similar refund provisions in the data license agreement. During 2011, the Company transferred the data and related information to Terumo and provided a portion of the consulting hours and in April 2011, the Company recognized $5,210,000 of license revenue pursuant to the agreement for the data transfer and consulting hours provided. During 2012, the Company recognized the remaining balance of $118,000 as license revenue.

In June 2013, the Company was notified that Terumo received regulatory approval for its IV acetaminophen product from the Japanese Ministry of Health, Labour & Welfare. In November 2013, Terumo commenced commercial sales of its product and pursuant to the terms of the data license agreement, the Company received from Terumo a non-refundable payment of $2,027,000 which was recorded as licensing revenue during the year ended December 31, 2013. In addition, the Company is entitled to royalty payments on the product s commercial sales in

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

Japan, which will be recognized as royalty revenue in the quarter in which Terumo provides the necessary sales information. No royalty revenue was recognized for the years ended December 31, 2013, 2012 and 2011.

10. Legal Matters

222 and 218 Patent Litigation: Exela Pharma Sciences, LLC and Paddock Laboratories, Inc. (Perrigo Company)

In August 2011, the Company and Pharmatop filed suit in the United States District Court for the District of Delaware against Paddock Laboratories, Inc., Perrigo Company and Paddock Laboratories, LLC, collectively referred to herein as Perrigo, and against Exela Pharma Sciences, LLC, Exela PharmaSci, Inc. and Exela Holdings, Inc., collectively referred to herein as Exela. The lawsuit followed the notices that the Company received in July 2011 from each of Perrigo and Exela concerning their filings of Abbreviated New Drug Applications, or ANDAs, containing a Paragraph IV patent certification with the FDA for a generic version of OFIRMEV. In the lawsuit, the Company alleged that Perrigo and Exela each infringed the 222 patent and the 218 patent by filing their respective ANDAs seeking approval from the FDA to market a generic version of OFIRMEV prior to the expiration of these patents. The 222 and the 218 patents are listed in the FDA s Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. The patent infringement lawsuit was filed within 45 days of receipt of the pertinent notice letters, thereby triggering a stay of FDA approval of the Perrigo ANDA and the Exela ANDA until the earlier of the expiration of a 30-month period, the expiration of the 222 and 218 patents, the entry of a settlement order or consent decree stating that the 222 and 218 patents are invalid or not infringed, a decision in the case concerning infringement or validity that is favorable to Perrigo or Exela, or such shorter or longer period as the Court may order. Each of Perrigo and Exela filed an answer in the case asserting, among other things, non-infringement and invalidity of the asserted patents, as well as certain counterclaims.

The Company settled with Perrigo and the case against Perrigo was dismissed on November 30, 2012. In connection with the settlement and license agreements entered into in November 2012, Perrigo was granted the exclusive right of first refusal to negotiate an agreement with the Company to market an authorized generic version of OFIRMEV in the U.S. in the event that the Company elects to launch an authorized generic version of the product. The license agreement also provides that, if the Company enters into an agreement for Perrigo to market an authorized generic version of OFIRMEV during the license period, Perrigo would purchase the product exclusively from the Company. The Company would receive product costs plus an administrative fee, as well as a royalty payment based on the net profits achieved by Perrigo from the sale of the authorized generic product. Additionally, the Company granted Perrigo the non-exclusive right to market a generic IV acetaminophen product in the U.S. under Perrigo s ANDA after December 6, 2020, or earlier under certain circumstances. The Federal Trade Commission, or FTC, or the Department of Justice, or DOJ, could seek to challenge the Company s settlement with Perrigo, or a competitor, customer or other third-party could initiate a private action under antitrust or other laws challenging the Company s settlement with Perrigo.

A bench trial for the lawsuit with Exela was held in May 2013, with one additional trial date held in early July 2013. In November 2013, the court ruled in favor of us and found that Exela s ANDA for a generic version of OFIRMEV infringed the 222 and 218 patents. An appeal of the decision in favor of us was filed by Exela on December 20, 2013.

It is not possible to predict the outcome of this appeal, and an adverse outcome could result in the launch of one or more generic versions of OFIRMEV before the expiration of the last of the listed patents on June 6, 2021 (or December 6, 2021 if pediatric exclusivity is granted), which could adversely affect the Company s ability to successfully maximize the value of OFIRMEV, and would negatively impact the Company s financial condition and results of operations, including causing a significant decrease in the Company s revenues and cash flows.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

222 and 218 Patent Litigation: Fresenius Kabi USA, LLC, Sandoz, Inc. and Wockhardt USA LLC

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

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

In January 2014, the Company entered into a settlement agreement and a binding term sheet for a license agreement with the Sandoz Parties. The settlement agreement includes a stipulation by the parties requesting dismissal with prejudice of the lawsuit filed by the Company relating to the ANDA filed by Sandoz. Under the terms of the license, the Company granted to the holder of the Sandoz ANDA and its affiliates the non-exclusive right to market a generic intravenous acetaminophen product in the United States under the Sandoz ANDA beginning December 6, 2020, or earlier under certain circumstances. The Company also agreed that in the event that it determines to launch an authorized generic version of OFIRMEV (i.e., a generic version marketed under its NDA) in the U.S. and Perrigo elects not to exercise its right of first refusal to become the distributor of the authorized generic version of the product, the Company will grant a similar right of first refusal to the holder of the Sandoz ANDA on substantially the same terms as those previously granted to Perrigo. In addition, the license agreement will contain provisions regarding indemnification, confidentiality and other customary provisions for agreements of these kinds. The settlement documents are subject to submission to the Federal Trade Commission and the U.S. Department of Justice. Litigation remains ongoing against Fresenius, and the bench trial for such lawsuit is tentatively scheduled to commence on July 14, 2014.

In December 2013, the Company received a notice from Wockhardt USA LLC, or Wockhardt, stating that Wockhardt filed an ANDA containing a Paragraph IV patent certification with the FDA for a generic version OFIRMEV. This notice stated that the Paragraph IV patent certification was made with respect to both the 222 patent and the 218 patent. The Company filed suit against Wockhardt Limited, Wockhardt BIO AG and Wockhardt on January 22, 2014 in the U.S. District Court of Delaware, and on January 23, 2014, in the U.S. District Court of New Jersey.

The Company intends to vigorously enforce its intellectual property rights relating to OFIRMEV to prevent the marketing of infringing generic products prior to the expiration of its patents. The 222 patent expires

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

August 5, 2017 (or February 5, 2018 if pediatric exclusivity is granted) and the 218 patent expires June 6, 2021 (or December 6, 2021 if pediatric exclusivity is granted). However, given the unpredictability inherent in litigation, the Company cannot predict the outcome of these matters or any other litigation.

222 and 218 Patents: Ex Parte Reexamination

In September 2012, an unidentified third party (subsequently identified as Exela) filed with the United States Patent and Trademark Office, or USPTO, a Request for Ex Parte Reexamination of the 222 patent. In December 2012, the Company received notice that the USPTO had granted the Request for Reexamination. The reexamination process is provided for by law and requires the USPTO to consider the scope and validity of the patent based on substantial new questions of patentability raised by a third party or the USPTO. In February 2013, Cadence and Pharmatop filed with the USPTO a patent owner s statement commenting on the reexamination request, and in April 2013, Exela filed comments in response to the patent owner s statement. In a non-final, initial office action issued by the USPTO on August 13, 2013, the USPTO rejected certain claims of the 222 patent. A response to the first office action was filed in November 2013.

In addition, in January 2014, an unidentified third party filed with the USPTO a Request for Ex Parte Reexamination of the 218 patent. All of the claims of the 222 and 218 patents remain valid and in force during the reexamination proceedings. Because the Company and Pharmatop believe that the scope and validity of the patent claims in these patents are appropriate and that the USPTO s prior issuances of the patents were correct, the Company, in conjunction with Pharmatop, will vigorously defend these patents. The Company cannot predict whether it and Pharmatop ultimately will succeed in maintaining the scope and validity of the claims of these patents during reexamination. If any of the patent claims in these patents ultimately are narrowed during prosecution before the USPTO, the extent of the patent coverage afforded to OFIRMEV could be impaired, which could potentially harm the Company s business and operating results.

218 Patent Litigation: Exela Pharma Sciences, LLC

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

Stockholder Class-Action Litigation Regarding the Company s Pending Acquisition by Mallinckrodt plc

Following the February 11, 2014, announcement that the Company had entered into an agreement and plan of merger with Mallinckrodt plc and a subsidiary of Mallinckrodt, six putative class-action lawsuits were filed in the Court of Chancery of the State of Delaware: *Wolfson v. Cadence Pharmaceuticals, Inc., et al.*, No. 9341-VCP (filed February 12, 2014); *Goode v. Garner, et al*., No. 9361-VCP (filed February 18, 2014); *Bushansky v.*

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

Cadence Pharmaceuticals Inc., et al., No. 9365-VCP (filed February 19, 2014); *Bokol v. Cadence Pharmaceuticals Inc., et al*., No. 9367 (filed February 19, 2014); *Elvir v. Cadence Pharmaceuticals Inc., et al*., No. 9370-VCP (filed February 19, 2014); and *Nguyen v. Cadence Pharmaceuticals, Inc., et al*., No. 9376-VCP (filed February 21, 2014). Two substantially identical putative class-action lawsuits were filed in the Superior Court of California, County of San Diego: *Denny v. Cadence Pharmaceuticals, Inc., et al*., No. 37-2014-00002579-CU-BT-CTL (filed February 13, 2014) and *Militello v. Cadence Pharmaceuticals, Inc., et al.*, No. 37-00003634-CU-BT-CTL (filed February 20, 2014). The complaints allege that members of the Company s board of directors breached their fiduciary duties to the Company s stockholders in connection with the proposed transaction and that the merger agreement involves an unfair price, an inadequate sales process, and unreasonable deal protection devices that purportedly preclude competing offers. The complaints other than *Bushansky* further allege that the Company, Mallinckrodt, and/or its subsidiary aided and abetted the alleged breaches of fiduciary duties. The lawsuits seek an injunction against the consummation of the merger and rescission of the merger agreement to the extent the merger may already be consummated prior to the entry of the court s final judgment, and an award of costs and expenses, including attorneys and experts fees.

The Company intends to vigorously defend against these claims. The outcome of this litigation cannot be predicted at this time and any outcome in favor of the plaintiffs could have an adverse effect on the proposed transaction, the Company s financial condition, and the Company s results of operations.

At this time, the Company is unable to estimate possible losses or ranges of losses for any of its current litigation, and it has not accrued any amounts for current litigation other than ongoing attorney s fees.

11. Stockholders Equity

Authorized Shares

In June 2012, following approval by the Company s stockholders, the Company filed a Certificate of Amendment of Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which increased the number of authorized shares of common stock of the Company from 100,000,000 to 200,000,000.

Public Offerings

In November 2011, the Company issued an aggregate of 21,800,000 shares of its common stock at a purchase price of $3.75 per share pursuant to a public offering. The 2011 offering raised proceeds, net of offering costs and underwriting discounts and commissions, of $77,302,000.

Private Placement

In February 2009, the Company issued 12,039,794 shares of its common stock at a purchase price of $7.13 per share pursuant to a private placement. In addition to the shares of the Company s common stock, warrants to purchase up to 6,019,897 additional shares of the Company s common stock were also issued as part of the transaction at a price of

$0.125 per warrant. Each warrant is immediately exercisable and has a five-year term. The warrants may be exercised through either cash or net exercise for one share of common stock at a price of $7.84 and have been accounted for as permanent equity. During December 2013, warrants to purchase an aggregate of 590,893 shares of the Company s common stock were exercised at a price of $10.01, resulting in a total of 128,095 shares issued on a net exercise basis. As of December 31, 2013, warrants related to the private placement to purchase up to 5,429,004 additional shares of the Company s common stock remained outstanding.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

The private placement raised proceeds, net of offering costs, of $86,243,000. The purchasers in the offering consisted of new investors and existing stockholders of the Company, including six funds affiliated with three directors of the Company. In March 2009, the Company filed a registration statement covering the resale of the shares of common stock acquired by the investors in this offering, which was declared effective by the SEC in May 2009. The Company is required to maintain the effectiveness of the registration statement and may be subject to liquidated damages of one percent per month of the aggregate purchase price of the common shares then held by the investor that are registrable securities, subject to an aggregate cap of eight percent per calendar year. The Company has not recorded a liability for the potential damages associated with these liquidated damages provisions as it does not currently believe that the transfer of consideration is probable under the agreement.

Equity Awards

In 2006, the Company adopted the 2006 Equity Incentive Award Plan (the 2006 Plan) in connection with the Company s initial public offering which became effective on October 24, 2006. Upon adoption of the 2006 Plan, the Company restricted future grants from its 2004 Equity Incentive Award Plan (the 2004 Plan). The 2006 Plan was amended and restated in 2010 to preserve the ability to deduct compensation associated with future performance-based awards made under the plan to certain executives. The term of the 2006 Plan was also extended under the 2010 amendment to 2020.

The 2006 Plan initially reserved 2,100,000 shares of common stock for future issuance and allowed for the initial number of reserved shares to be increased by (1) the 90,772 shares of common stock that remained available for issuance under the 2004 Plan as of the effective date of the 2006 Plan and (2) the number of shares under the 2004 Plan that are repurchased, forfeited, expired or cancelled on or after the effective date of the 2006 Plan. As of December 31, 2013, options to purchase 75,816 shares issued under the 2004 Plan have been repurchased, forfeited and/or cancelled since the effective date of the 2006 Plan, increasing the number of shares reserved for issuance under the 2006 Plan accordingly.

Beginning on January 1, 2008, the 2006 Plan allows for an annual increase in the number of shares available for issuance under the 2006 Plan by the lesser of (1) 4% of the outstanding common stock on January 1 and (2) a lesser amount determined by the board of directors, subject to an aggregate of 20,000,000 shares of common stock that may be issued through January 1, 2016. Through December 31, 2013, the board of directors approved the amount of shares authorized for future issuance under the 2006 Plan to be increased by an aggregate 11,853,707 shares under this provision.

As of December 31, 2013, the Company had issued both stock options and restricted stock units (RSUs) under the 2006 Plan and only stock options under the 2004 Plan. The following table presents shares authorized, available for future grant and outstanding under each of the Company s plans at December 31, 2013:

	Authorized	Available	Outstanding
2004 Equity Incentive Plan	2,708,412		742,685

2006 Equity Incentive Plan	14,120,295	3,125,966	9,944,220
	16,828,707	3,125,966	10,686,905

The Company issues new shares of common stock upon the exercise of stock options and vesting of RSUs. RSUs that are tendered or withheld to satisfy the tax withholding obligation pursuant to the award are returned to the pool of available shares for future grant.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

Stock Options

Stock options granted under the 2006 Plan expire no later than 10 years from the date of grant and generally vest over a four-year period. Vesting generally occurs at the rate of 25% at the end of the first year, and thereafter in 36 equal monthly installments, however certain grants to the Company s executive officers have been made in lieu of their annual bonus awards and vest over a term of generally less than one-year. In addition, annual grants to the Company s board members vest over a period of one-year. The exercise price of the Company s stock options shall not be less than 100% of the fair value of the Company s common stock on the date of grant. Further, the exercise price of any option granted to a 10% stockholder may not be less than 110% of the fair value of the Company s common stock on the date of grant.

The following table summarizes the Company s stock option activity as of December 31, 2013, and changes for the year then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life - Years	Aggregate Intrinsic Value
Options outstanding at beginning of period	10,037,984	$ 6.81		
Granted	2,208,750	$ 5.84		
Exercised	(922,141)	$ 4.65		
Cancelled	(640,688)	$ 8.13		
Options outstanding at end of period	10,683,905	$ 6.72	6.83	$ 28,675,000
Options exercisable at end of period	6,729,953	$ 7.39	5.81	$ 14,926,000

The aggregate intrinsic value of options exercised during 2013, 2012 and 2011 was $2,921,000, $175,000 and $2,774,000, respectively. During 2013, the Company received $4,292,000 upon the exercise of stock options in satisfaction of the exercise price.

Restricted Stock Units

The Company has granted a limited number of RSUs with vesting schedules based upon performance criteria, service conditions or a combination of both performance criteria and service conditions. During 2013, the Company granted 3,000 RSUs, all of which remained outstanding as of December 31, 2013.

The following table summarizes the Company s RSU activity as of December 31, 2013, and changes for the year then ended:

	Shares	Weighted-Average Grant Date Fair Value per Share	Aggregate Intrinsic Value
Restricted stock units outstanding at beginning of period	938	$ 10.38	
Granted	3,000	$ 8.31	
Vested	(938)	$ 10.38	
Cancelled			
Restricted stock units outstanding at end of period	3,000	$ 8.31	$ 27,000

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

The aggregate intrinsic value of RSUs vested during 2013, 2012 and 2011 was $5,000, $6,000 and $716,000, respectively. During 2013, a total of 126 vested shares were withheld from distribution in satisfaction of statutory minimum tax obligations and the Company used less than $1,000 to satisfy such tax obligations.

12. Segment Information

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions regarding resource allocation and assessing performance. The Company operates and manages its business as one segment. It sells its only product, OFIRMEV, primarily to established wholesale distributors in the pharmaceutical industry, including the nation s three leading wholesale pharmaceutical distributors: Cardinal Health, Inc., AmerisourceBergen Corporation and McKesson Corporation.

The Company had three major customers, each representing 10% or more of total gross product revenue for the periods presented as follows:

	Year Ended December 31,		
	2013	2012	2011
AmerisourceBergen Corporation.	35%	33%	33%
Cardinal Health, Inc.	32%	33%	37%
McKesson Corporation	27%	27%	23%

Receivables from these customers at December 31, 2013 and 2012 amounted to the following percentages of total gross accounts receivable:

	As of December 31,	
	2013	2012
AmerisourceBergen Corporation	36%	32%
Cardinal Health, Inc.	32%	31%
McKesson Corporation	27%	31%

13. Income Taxes

The Company is subject to taxation in the U.S. and various state jurisdictions. The Company s tax years for 2004 and forward are subject to examination by the federal and state tax authorities due to the carryforward of unutilized net operating losses and research and development credits. The Company s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrued interest and/or penalties related to income tax matters in the Company s balance sheets at December 31, 2013 and 2012, and has recognized no

interest and/or penalties in the Company s statement of operations for the years ended December 31, 2013, 2012 and 2011.

Pursuant to Internal Revenue Code (IRC) Sections 382 and 383, annual use of the Company s net operating loss and research and development credit carryforwards may be limited in the event of a cumulative change in ownership of more than 50% within a three-year period. During the second quarter of 2013, the Company completed an analysis under IRC Sections 382 and 383 through December 31, 2012, and determined that it experienced an ownership change in March 2006. However, this ownership change did not result in the forfeiture of any net operating losses or research and development credits. Therefore, the Company has reinstated

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

the (1) deferred tax assets for net operating losses of approximately $149,071,000 and (2) research and development credits of approximately $6,809,000 generated through 2012 to its deferred tax asset schedule. Further, the Company has recorded a corresponding increase to its valuation allowance. The analysis did not have any impact on the Company s unrecognized tax benefits. There is risk that additional changes in ownership have occurred since the completion of the Company s analysis, which was through December 31, 2012. If a change in ownership were to have occurred, additional net operating loss and tax credit carryforwards could be eliminated or restricted. If eliminated, the related asset would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance.

A valuation allowance has been established as realization of such deferred tax assets has not met the more likely than not threshold requirement. Other significant components of the Company s net deferred tax assets for federal and state income taxes at December 31, 2013 and 2012 are shown below (in thousands):

	As of December 31,	
	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 157,484	$
Tax credit carryforwards	5,781	
Stock-based compensation	13,983	12,876
Capitalized research and development	4,535	5,348
Other, net	4,208	5,954
	185,991	24,178
Valuation allowance for deferred tax assets	(185,987)	(23,272)
Net deferred tax assets	$ 4	$ 906
Deferred tax liabilities:		
Deferred tax liabilities	(4)	(906)
Net deferred tax liabilities	$ (4)	$ (906)
Net deferred tax assets	$	$

A reconciliation of the Company s effective tax rate and federal statutory tax rate is as follows:

	As of December 31,		
	2013	2012	2011

Federal income taxes	35.0%	35.0%	35.0%
State income taxes	3.3%	4.7%	4.3%
Research and development credits	(4.3)%	0.3%	0.9%
Stock-based compensation	(1.8)%	(1.0)%	(0.7)%
Change in valuation allowance	(28.1)%	(5.6)%	0.0%
State rate change	(2.1)%	0.6%	(0.0)%
Removal of net operating loss and research and development tax credits	0.0%	(32.4)%	(37.8)%
Other, net	(2.0)%	(1.6)%	(1.7)%
	0.0%	0.0%	0.0%

At December 31, 2013, the Company had federal and state net operating loss carryforwards of approximately $392,129,000 and $387,589,000, respectively. The federal and state tax loss carryforwards will

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

begin to expire in 2024 and 2014, respectively, unless previously utilized. The Company also had federal research and development tax credit carryforwards of approximately $4,140,000 which will begin expiring in 2025 unless previously utilized, and state research and development tax credit carryforwards of approximately $2,524,000 which carryforward indefinitely.

Included in the net operating loss carryforwards is approximately $975,000 of losses attributable to excess stock option deductions. Under current accounting guidance concerning when tax benefits related to excess stock option deductions can be credited to paid in capital, the related valuation allowance cannot be reversed, even if the facts and circumstances indicate that it is more likely than not that the deferred tax asset can be realized. The valuation allowance will only be reversed as the related deferred tax asset is applied to reduce taxes payable.

We recognize the impact of an uncertain income tax position on our income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

Following is a tabular reconciliation of the unrecognized tax benefit activity for the two years ended December 31, 2013 (excluding interest and penalties, in thousands):

Beginning balance, January 1, 2012	$
Additions based on tax positions related to the current year	
Reductions due to tax positions that reversed in the current year and completion of research and development study	$
Ending balance December 31, 2012	
Additions based on tax positions related to the current year	3,756
Reductions due to tax positions that reversed in the current year and completion of research and development study	
Ending balance December 31, 2013	$ 3,756

14. Employee Benefit Plan

The Company has a qualified retirement plan under the provisions of Section 401(k) of the Internal Revenue Code covering substantially all employees. Employees may contribute up to 100% of their annual compensation up to the maximum annual amount prescribed by the Internal Revenue Service. The Company may elect to make a discretionary contribution or match a discretionary percentage of employee contributions. During 2013, 2012 and 2011, the Company elected not to make any contributions to the plan.

15. Summarized Quarterly Data (Unaudited)

The following financial information reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for the years ended December 31, 2013 and 2012 are as follows (in thousands, except per share data):

	Fiscal Year 2013 Quarters				
	1st[3]	**2nd**	**3rd**	**4th[4]**	**Total**
Revenues	$ 23,612	$ 24,674	$ 28,957	$ 35,313	$ 112,556
Gross profit[1]	$ 15,445	$ 16,380	$ 18,993	$ 23,765	$ 74,583
Net loss	$ (1,363)	$ (11,875)	$ (6,938)	$ (4,118)	$ (24,294)
Basic and diluted net loss per share[2]	$ (0.02)	$ (0.14)	$ (0.08)	$ (0.05)	$ (0.28)

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

	Fiscal Year 2012 Quarters				
	1st[5]	2nd	3rd	4th[6]	Total
Revenues	$ 8,004	$ 11,108	$ 13,898	$ 17,174	$ 50,184
Gross profit[1]	$ 3,758	$ 5,352	$ 7,822	$ 9,996	$ 26,928
Net loss	$ (22,673)	$ (20,989)	$ (15,890)	$ (21,421)	$ (80,973)
Basic and diluted net loss per share[2]	$ (0.27)	$ (0.25)	$ (0.19)	$ (0.25)	$ (0.95)

(1) Determined by subtracting cost of sales from net revenue.

(2) Loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share may not necessarily equal the total for the year.

(3) During the first quarter of 2013, the Company recognized $2,616 of previously deferred revenue and related cost of sales of $919. Further, it recorded a gain of $7,654 on the sale of its Incline option and preferred shares.

(4) During the fourth quarter of 2013, the Company recognized $2,027 of license revenue under its data license agreement with Terumo Corporation, related to their first commercial sale of its IV acetaminophen product in Japan.

(5) During the first quarter of 2012, the Company recorded a charge of $163 to write-down the value of certain inventory.

(6) During the fourth quarter of 2012, the Company recorded charges of $6,973 to impair certain manufacturing equipment and construction-in-process to their fair values and, a related asset retirement obligation impairment charge of $750 for the removal of the equipment. Additionally, the Company recorded a loss on the sale of one of its construction-in-process assets of $858 and a charge of $290 to accrue for inventory destruction costs.

16. Subsequent Events

Agreement and Plan of Merger with Mallinckrodt plc

On February 10, 2014, the Company entered into an agreement and plan of merger (Merger Agreement) with Mallinckrodt plc (Parent) and Madison Merger Sub, Inc., a wholly owned indirect subsidiary of Parent (Merger Sub), pursuant to which, and on the terms and subject to the conditions thereof, among other things, Merger Sub commenced a tender offer (Offer) on February 19, 2014 to acquire all of the outstanding shares of common stock of the Company at a purchase price of $14.00 per share in cash, without interest (the Offer Price). The Merger Agreement includes a remedy of specific performance and is not subject to a financing condition.

The obligation of Merger Sub to purchase the shares of common stock of the Company validly tendered pursuant to the Offer is subject to the satisfaction or waiver of a number of conditions set forth in the Merger Agreement, including (1) that there shall have been validly tendered and not validly withdrawn a number of shares of common stock of the Company that, when added to the shares then owned by Parent and its subsidiaries, represents one more than 50% of the total number of shares of common stock of the Company outstanding at the time of the expiration of the Offer, (2) the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (3) the accuracy of the representations and warranties and compliance with covenants contained in the Merger Agreement, (4) the absence of any law, order, injunction or decree by any

government, court or governmental entity that would make illegal or otherwise prohibit the Offer or the Merger, (5) there not having been a material adverse effect with respect to the Company, (6) the delivery of certain audited and unaudited financial statements, and (7) other customary conditions.

Table of Contents

CADENCE PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS Continued

The Merger Agreement contains certain termination rights in favor of each the Company and Parent, including under certain circumstances, the requirement for the Company to pay to Parent a termination fee of approximately $20,200,000, or approximately 1.5% of the Offer Price. The Company has also agreed (1) to cease any existing, and agreed not to solicit or initiate any additional, discussions with third parties regarding other proposals to acquire the Company and (2) to certain restrictions on its ability to respond to such proposals, subject to fulfillment of certain fiduciary requirements of the board of directors of the Company.

Following the completion of the Offer and subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving as an indirect wholly owned subsidiary of Parent, pursuant to the procedure provided for under Section 251(h) of the Delaware General Corporation Law without any stockholder approvals (the Merger). At the effective time of the Merger (the Effective Time), by virtue of the Merger and without any action on the part of the holders of any shares of common stock of the Company, each outstanding share of common stock of the Company, other than any shares owned by Parent, Merger Sub or any wholly owned subsidiary of Parent or held in the treasury of the Company, or any stockholders who are entitled to and who properly exercise appraisal rights under Delaware law, will be canceled and converted into the right to receive an amount in cash equal to the Offer Price. In addition, (1) effective as of immediately prior to the Effective Time, each outstanding Company stock option will fully vest and automatically be canceled and terminated as of the Effective Time and the holder thereof will be entitled to receive an amount in cash, without interest and less the amount of any tax withholding, equal to the product of (a) the number of shares of common stock of the Company underlying such option multiplied by (b) the excess, if any, of the Offer Price over the exercise price per share of such option, (2) effective as of immediately prior to the Effective Time, each outstanding Company restricted stock unit, other than any Company restricted stock unit issued or awarded on or after January 1, 2014 (collectively, the Specified Restricted Stock Units), will fully vest and the restrictions thereon will lapse, and each such restricted stock unit will be canceled and converted into the right to receive an amount in cash, without interest and less the amount of any tax withholding, equal to the product of (a) the Offer Price multiplied by (b) the number of shares of common stock of the Company underlying such restricted stock unit, and (3) at the Effective Time, each outstanding Specified Restricted Stock Unit will be canceled and converted into an award (a Converted Award) representing the right to receive an amount in cash equal to the product of (a) the Offer Price multiplied by (b) the number of shares of Common Stock of the Company underlying such Specified Restricted Stock Unit. Each Converted Award shall continue to vest and be settled in cash in accordance with the terms of the applicable Specified Restricted Stock Unit award agreement, subject to accelerated vesting under certain circumstances, including in the event of the holder s death or disability or an involuntary termination of employment that would otherwise qualify the holder to severance under any employment or severance plan or agreement to which the holder is a party or in which the holder is eligible to participate as of the date of grant. The foregoing treatment of the Specified Restricted Stock Unit Awards will supersede any more favorable vesting provisions in the Company s equity plan or any employment or severance plan or agreement to which the holder is a party or in which the holder is eligible to participate (including the executive employment agreements).

The Merger Agreement contains customary representations, warranties and covenants, including covenants obligating the Company to continue to conduct its business in the ordinary course and to cooperate in seeking regulatory approvals.

The board of directors of the Company has unanimously (1) determined that the Merger Agreement and the transactions contemplated thereby are advisable and fair to, and in the best interests of, the Company s stockholders, (2) approved and declared advisable the Merger Agreement and the transactions contemplated thereby and (3) resolved to recommend acceptance of the Offer by the Company s stockholders. The board of

Table of Contents

directors of Parent has also unanimously approved the transaction. The Company expects to complete the Merger in mid to late March 2014, subject to the satisfaction of the closing conditions.

Exercise of Warrants

In January and February 2014, warrants to purchase an aggregate of 5,909,457 shares of the Company s common stock were exercised on a net exercise basis, which resulted in the issuance of a total of 2,454,472 shares of the Company s common stock. As of February 28, 2014, warrants to purchase an aggregate of 137,620 shares of the Company s common stock remained outstanding with an average exercise price of $7.08 per share.

Table of Contents

Schedule II

CADENCE PHARMACEUTICALS, INC.

Valuation and Qualifying Accounts

For the Years ended December 31, 2013, 2012 and 2011

(in thousands)

	Allowance for doubtful accounts	Allowance for cash discounts, chargebacks, and wholesaler fees
Balance at December 31, 2010	$	$
Additions		451
Deductions		(372)
Balance at December 31, 2011		79
Additions	56	1,912
Deductions		(1,766)
Balance at December 31, 2012	56	225
Additions	3	4,489
Deductions	(40)	(4,279)
Balance at December 31, 2013	$ 19	$ 435

Table of Contents

Annex A

AGREEMENT AND PLAN OF MERGER

by and among

MALLINCKRODT PLC,

QUINCY MERGER SUB, INC.

and

QUESTCOR PHARMACEUTICALS, INC.

dated as of

April 5, 2014

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (hereinafter referred to as this Agreement), dated April 5, 2014, is by and among Mallinckrodt plc, an Irish public limited company (Parent), Quincy Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub) and Questcor Pharmaceuticals, Inc., a California corporation (the Company). All capitalized terms used in this Agreement shall have the meanings ascribed to such terms in Section 9.5 or as otherwise defined elsewhere in this Agreement unless the context clearly provides otherwise. Parent, Merger Sub and the Company are each sometimes referred to herein as a Party and collectively as the Parties .

RECITALS

WHEREAS, the Parties wish to effect a business combination through the merger of Merger Sub with and into the Company, with the Company being the surviving corporation (the Merger);

WHEREAS, in connection with the Merger, each outstanding share of common stock, no par value, of the Company (the Company Common Stock or Company Shares) issued and outstanding immediately prior to the Effective Time will be automatically converted into the right to receive the Merger Consideration upon the terms and conditions set forth in this Agreement and in accordance with the General Corporation Law of the State of Delaware (the DGCL) and the General Corporation Law of the State of California (the CGCL) (other than Company Shares to be cancelled in accordance with Section 2.1(b) and other than any Dissenting Shares and Company Employee Restricted Share Awards);

WHEREAS, the board of directors of the Company (the Company Board of Directors) has, on the terms and subject to the conditions set forth herein, determined that this Agreement and the transactions contemplated hereby (the Transactions), including the Merger and the issuance of Parent Shares in connection therewith, are advisable and fair to, and in the best interests of, the Company and its shareholders;

WHEREAS, the Company Board of Directors has adopted resolutions approving the acquisition of the Company by Parent, the execution of this Agreement and the consummation of the Transactions and declaring advisable and recommending that the Company s shareholders approve and adopt this Agreement (the Company Board Recommendation) pursuant to the CGCL, and has done so unanimously;

WHEREAS, the board of directors of Parent (the Parent Board of Directors) has adopted resolutions approving the acquisition of the Company by Parent, the execution of this Agreement and the consummation of the Transactions and the Parent Board of Directors has directed that the issuance of Parent Shares in connection with the Merger be submitted for consideration at the Parent Special Meeting and has resolved to recommend that Parent s shareholders vote to approve such issuance (the Parent Board Recommendation), and has done so unanimously;

WHEREAS, the board of directors of Merger Sub has approved this Agreement and determined that this Agreement and the Transactions, including the Merger, are advisable and fair to, and in the best interests of, Merger Sub and its sole shareholder; and

WHEREAS, the Parties desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties agree

as follows:

Table of Contents

AGREEMENT

ARTICLE I

THE MERGER

Section 1.1 The Merger. Upon the terms and subject to the satisfaction or waiver of the conditions set forth in this Agreement, and in accordance with the DGCL and the CGCL, at the Effective Time, Merger Sub shall be merged with and into the Company, whereupon the separate existence of Merger Sub will cease, with the Company surviving the Merger and continuing under the name Questcor Pharmaceuticals, Inc. (the Company, as the surviving corporation in the Merger, sometimes being referred to herein as the Surviving Corporation), such that following the Merger, the Surviving Corporation will be a wholly owned indirect subsidiary of Parent. The Merger shall have the effects provided in this Agreement and as specified in the DGCL and the CGCL, as applicable.

Section 1.2 Closing. The closing of the Merger (the Closing) will take place at 10:00 a.m., Eastern Time, at the offices of Wachtell, Lipton, Rosen & Katz, 51 West 52nd Street, New York, NY 10019, on the second (2nd) business day after the satisfaction or waiver of the last of the conditions set forth in Article VII to be satisfied or waived (other than any such conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at the Closing), unless another date or place is agreed to in writing by the Company and Parent; *provided*, *however*, that if the Marketing Period has not ended at the time of the satisfaction or waiver of the last of the conditions set forth in Article VII (other than any such conditions that by their nature are to be satisfied at the Closing), the Closing shall occur on the earlier to occur of (a) a date during the Marketing Period specified by Parent on no less than three (3) business days notice to the Company and (b) the third (3rd) business day after the end of the Marketing Period (subject in each case to the continued satisfaction or waiver of all the conditions set forth in Article VII as of the date on which the Closing is to occur as determined pursuant to this proviso). The date on which the Closing actually takes place is referred to as the Closing Date .

Section 1.3 Effective Time. On the Closing Date, the Parties shall cause (a) a certificate of merger with respect to the Merger (the Certificate of Merger) to be duly executed and filed with the DSOS as provided under the DGCL and make any other filings, recordings or publications required to be made by the Company or Merger Sub under the DGCL in connection with the Merger and (b) an agreement of merger (the CA Merger Agreement) and officer s certificates to be duly executed and filed with the CSOS as provided under the CGCL and make any other filings, recordings or publications required to be made by the Company or Merger Sub under the CGCL in connection with the Merger. The Merger shall become effective following the close of business on the Closing Date, with such date and time specified in the CA Merger Agreement and the Certificate of Merger, or on such other date and time as shall be agreed to by Parent and the Company and specified in the CA Merger Agreement and the Certificate of Merger (the date and time the Merger becomes effective being the Effective Time).

Section 1.4 Governing Documents. At the Effective Time, the Company Articles and the Company Bylaws as in effect immediately prior to the Effective Time shall be the articles of incorporation and bylaws, respectively, of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable Law.

Section 1.5 Officers and Directors of the Surviving Corporation. The directors of Merger Sub immediately prior to the Effective Time, from and after the Effective Time, shall be the initial directors of the Surviving Corporation, and shall hold office until their respective successors are duly elected and qualified, or their earlier death, incapacitation, retirement, resignation or removal. The officers of the Company immediately prior to the Effective Time, from and after the Effective Time, shall be the initial officers of the Surviving Corporation, and shall hold office until their respective successors are duly elected and qualified, or their earlier death, incapacitation, retirement, resignation or

removal.

Table of Contents

ARTICLE II

TREATMENT OF SECURITIES

Section 2.1 Treatment of Capital Stock.

(a) Treatment of Company Common Stock. At the Effective Time, by virtue of the Merger and without any action on the part of the Parties or holders of any securities of the Company or of Merger Sub, subject to Section 2.1(d) and any applicable withholding Tax, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than Company Shares to be cancelled in accordance with Section 2.1(b) and other than any Dissenting Shares and Company Employee Restricted Share Awards) shall be automatically converted into the right to receive the following consideration (collectively, the Merger Consideration), without interest: (i) $30.00 in cash (the Cash Consideration) and (ii) 0.897 validly issued, fully paid and nonassessable Parent Shares, including any associated rights that may be issued pursuant to the Parent Rights Agreement (as defined below) (if then in effect) (the Stock Consideration). From and after the Effective Time, all such Company Shares shall no longer be outstanding and shall automatically be cancelled and shall cease to exist, and each applicable holder of such Company Shares shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such Company Shares in accordance with Section 2.2, including the right to receive, pursuant to Section 2.6, cash in lieu of fractional Parent Shares, if any, into which such Company Shares have been converted pursuant to this Section 2.1(a) (the Fractional Share Consideration), together with the amounts, if any, payable pursuant to Section 2.2(f).

(b) Cancellation of Company Common Stock. At the Effective Time, all Company Shares owned by the Company, Parent, Merger Sub or by any of their respective Subsidiaries shall be cancelled and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(c) Treatment of Merger Sub Common Stock. At the Effective Time, each share of common stock, $0.01 par value, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be automatically converted into and become one fully paid and nonassessable share of common stock of the Surviving Corporation.

(d) Adjustment to Merger Consideration. The Merger Consideration shall be adjusted appropriately to reflect the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into Company Common Stock or Parent Shares, as applicable), reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to the number of shares of Company Common Stock or Parent Shares outstanding after the date hereof and prior to the Effective Time.

Section 2.2 Payment for Securities; Surrender of Certificates.

(a) Exchange Fund. Prior to the Effective Time, Parent or Merger Sub shall designate a bank or trust company reasonably acceptable to the Company to act as the exchange agent in connection with the Merger (the Exchange Agent). The Exchange Agent shall also act as the agent for the Company s shareholders for the purpose of receiving and holding their Certificates and Book-Entry Shares and shall obtain no rights or interests in the shares represented thereby. At or immediately after the Effective Time, Parent or Merger Sub shall deposit, or cause to be deposited, with the Exchange Agent (i) evidence of Parent Shares issuable pursuant to Section 2.1(a) in book-entry form equal to the aggregate Parent Shares portion of the Merger Consideration (excluding any Fractional Share Consideration), and (ii) cash in immediately available funds in an amount sufficient to pay the aggregate cash portion of the Merger Consideration, Fractional Share Consideration and any dividends under Section 2.2(f) (such evidence of book-entry Parent Shares and cash amounts, together with any dividends or other distributions with respect thereto, the Exchange

Fund), in each case, for the sole benefit of

the holders of shares of Company Common Stock. In the event the Exchange Fund shall be insufficient to pay the aggregate cash portion of the Merger Consideration, Fractional Share Consideration and any dividends under Section 2.2(f), Parent shall, or shall cause Merger Sub to, promptly deposit additional funds with the Exchange Agent in an amount which is equal to the deficiency in the amount required to make such payment. Parent shall cause the Exchange Agent to make, and the Exchange Agent shall make, delivery of the Merger Consideration, including payment of the Fractional Share Consideration, and any amounts payable in respect of dividends or other distributions on Parent Shares in accordance with Section 2.2(f) out of the Exchange Fund in accordance with this Agreement. The Exchange Fund shall not be used for any purpose that is not expressly provided for in this Agreement. The cash portion of the Exchange Fund shall be invested by the Exchange Agent as reasonably directed by Parent; *provided, however,* that any investment of such cash shall in all events be limited to direct short-term obligations of, or short-term obligations fully guaranteed as to principal and interest by, the U.S. government, in commercial paper rated P-1 or A-1 or better by Moody s Investors Service, Inc. or Standard & Poor s Corporation, respectively, or in certificates of deposit, bank repurchase agreements or banker s acceptances of commercial banks with capital exceeding $10 billion (based on the most recent financial statements of such bank that are then publicly available), and that no such investment or loss thereon shall affect the amounts payable to holders of Certificates or Book-Entry Shares pursuant to this Article II. Any interest and other income resulting from such investments shall be paid to the Surviving Corporation on the earlier of (A) one (1) year after the Effective Time or (B) the full payment of the Exchange Fund.

(b) Procedures for Surrender. Promptly after the Effective Time, Parent shall, and shall cause the Surviving Corporation to, cause the Exchange Agent to mail (and make available for collection by hand) to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding Company Shares (the Certificates) or non-certificated Company Shares represented by book-entry (Book-Entry Shares) and whose Company Shares were converted pursuant to Section 2.1 into the right to receive the Merger Consideration (i) a letter of transmittal, which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates (or affidavits of loss in lieu thereof) to the Exchange Agent and shall be in such form and have such other provisions as Parent may reasonably specify and (ii) instructions for effecting the surrender of the Certificates (or affidavits of loss in lieu thereof) or Book-Entry Shares in exchange for payment of the Merger Consideration into which such Company Shares have been converted pursuant to Section 2.1, including any amount payable in respect of Fractional Share Consideration in accordance with Section 2.6, and any dividends or other distributions on Parent Shares in accordance with Section 2.2(f). Upon surrender of a Certificate (or an affidavit of loss in lieu thereof) or Book-Entry Share for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Parent or the Surviving Corporation, together with such letter of transmittal duly completed and validly executed in accordance with the instructions thereto, and such other documents as may be required pursuant to such instructions, the holder of such Certificate or Book-Entry Share shall be entitled to receive in exchange therefor the Merger Consideration pursuant to the provisions of this Article II, any Fractional Share Consideration that such holder has the right to receive pursuant to the provisions of Section 2.6, and any amounts that such holder has the right to receive in respect of dividends or other distributions on Parent Shares in accordance with Section 2.2(f) for each Company Share formerly represented by such Certificate or Book-Entry Share, to be mailed (or made available for collection by hand if so elected by the surrendering holder) within five (5) business days following the later to occur of (x) the Effective Time or (y) the Exchange Agent s receipt of such Certificate (or affidavit of loss in lieu thereof) or Book-Entry Share, and the Certificate (or affidavit of loss in lieu thereof) or Book-Entry Share so surrendered shall be forthwith cancelled. The Exchange Agent shall accept such Certificates (or affidavits of loss in lieu thereof) or Book-Entry Shares upon compliance with such reasonable terms and conditions as the Exchange Agent may impose to effect an orderly exchange thereof in accordance with normal exchange practices. If payment of the Merger Consideration is to be made to a Person other than the Person in whose name the surrendered Certificate is registered, it shall be a condition precedent of payment that (A) the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and (B) the Person requesting such payment shall have paid any transfer and

other similar Taxes required by reason of the payment of the Merger Consideration to a Person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction of the Surviving Company that such Tax

Table of Contents

either has been paid or is not required to be paid. Payment of the Merger Consideration with respect to Book-Entry Shares shall only be made to the Person in whose name such Book-Entry Shares are registered. Until surrendered as contemplated by this Section 2.2, each Certificate and Book-Entry Share shall be deemed at any time after the Effective Time to represent only the right to receive the Merger Consideration as contemplated by this Article II, including any amount payable in respect of Fractional Share Consideration in accordance with Section 2.6, and any dividends or other distributions on Parent Shares in accordance with Section 2.2(f), without interest thereon.

(c) Transfer Books; No Further Ownership Rights in Company Shares. At the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of transfers of Company Shares on the records of the Company. From and after the Effective Time, the holders of Certificates or Book-Entry Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Company Shares except as otherwise provided for herein or by applicable Law. If, after the Effective Time, Certificates or Book-Entry Shares are presented to the Surviving Corporation for any reason, they shall be cancelled and exchanged as provided in this Agreement.

(d) Termination of Exchange Fund; No Liability. At any time following twelve (12) months after the Effective Time, Parent shall be entitled to require the Exchange Agent to deliver to it any funds (including any interest received with respect thereto) remaining in the Exchange Fund that have not been disbursed, or for which disbursement is pending subject only to the Exchange Agent s routine administrative procedures, to holders of Certificates or Book-Entry Shares, and thereafter such holders shall be entitled to look only to the Surviving Corporation and Parent (subject to abandoned property, escheat or other similar Laws) as general creditors thereof with respect to the Merger Consideration, including any amount payable in respect of Fractional Share Consideration in accordance with Section 2.6, and any dividends or other distributions on Parent Shares in accordance with Section 2.2(f), payable upon due surrender of their Certificates or Book-Entry Shares and compliance with the procedures in Section 2.2(b), without any interest thereon. Notwithstanding the foregoing, none of the Surviving Corporation, Parent or the Exchange Agent shall be liable to any holder of a Certificate or Book-Entry Share for any Merger Consideration or other amounts delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law.

(e) Lost, Stolen or Destroyed Certificates. In the event that any Certificates shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificates, upon the making of an affidavit of that fact by the holder thereof, the Merger Consideration payable in respect thereof pursuant to Section 2.1 hereof, including any amount payable in respect of Fractional Share Consideration in accordance with Section 2.6, and any dividends or other distributions on Parent Shares in accordance with Section 2.2(f).

(f) Dividends or Distributions with Respect to Parent Shares. No dividends or other distributions with respect to Parent Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate or Book-Entry Share with respect to the Parent Shares issuable hereunder, and all such dividends and other distributions shall be paid by Parent to the Exchange Agent and shall be included in the Exchange Fund, in each case until the surrender of such Certificate or Book-Entry Share (or affidavit of loss in lieu thereof) in accordance with this Agreement. Subject to applicable Laws, following surrender of any such Certificate or Book-Entry Share (or affidavit of loss in lieu thereof) there shall be paid to the holder thereof, without interest, (i) the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such Parent Shares to which such holder is entitled pursuant to this Agreement and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and with a payment date subsequent to such surrender payable with respect to such Parent Shares.

Section 2.3 Dissenter s Rights.

(a) Notwithstanding anything in this Agreement to the contrary, Company Shares issued and outstanding immediately prior to the Effective Time and held by a holder of record who did not vote in favor of

Table of Contents

the approval and adoption of this Agreement (or consent thereto in writing) and is entitled to demand and properly demands purchase of such Company Shares (Dissenting Shares) for fair market value pursuant to, and who complies in all respects with, Chapter 13 of the CGCL (the Dissenting Rights) shall not be converted into the right to receive the Merger Consideration payable pursuant to Section 2.1, but instead at the Effective Time shall be converted into the right to receive payment of the fair market value of such Company Shares in accordance with the Dissenting Rights (it being understood and acknowledged that at the Effective Time, such Dissenting Shares shall no longer be outstanding, shall automatically be cancelled and shall cease to exist, and such holder shall cease to have any rights with respect thereto other than the right to receive the fair market value of such Dissenting Shares to the extent afforded by the Dissenting Rights); *provided, however*, that if any such holder (including any holder of Proposed Dissenting Shares) shall fail to perfect or otherwise shall waive, withdraw or lose the right to payment of the fair market value of such Dissenting Shares under the Dissenting Rights, then the right of such holder to be paid the fair market value of such holder s Dissenting Shares shall cease and such Dissenting Shares shall be deemed to have been converted as of the Effective Time into, and to have become exchangeable solely for the right to receive, without interest or duplication, the Merger Consideration. Proposed Dissenting Shares means shares of Company Common Stock whose holders provide demands for fair market value to the Company prior to the Company Special Meeting and do not vote in favor of the approval and adoption of this Agreement, in each case in accordance with the Dissenting Rights.

(b) The Company shall give prompt notice to Parent of any demands received by the Company for fair market value of any Company Shares, of any withdrawals of such demands and of any other instruments served pursuant to the CGCL and received by the Company relating to Dissenting Rights, and Parent shall have the opportunity to participate in and direct all negotiations and proceedings with respect to such demands. Prior to the Effective Time, the Company shall not, without the prior written consent of Parent, make any payment with respect to, or settle or compromise or offer to settle or compromise, any such demand, or agree to do any of the foregoing.

Section 2.4 Treatment of Company Equity Awards.

(a) Company Stock Options.

(i) As of immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, each option to purchase shares of Company Common Stock granted under any Company Equity Plan (each a Company Stock Option) to a Company non-employee director (a Company Director Stock Option) that is outstanding and unexercised immediately prior to the Effective Time shall be cancelled and converted into the right to receive the Merger Consideration in respect of each Net Company Share; provided, however, that any holder who would otherwise have been entitled to receive a fraction of a Parent Share shall receive, in lieu thereof, cash, without interest, in an amount equal to such fractional part of a Parent Share multiplied by the VWAP of Parent Shares.

(ii) As of immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, each Company Stock Option other than any Company Director Stock Option (a Company Employee Stock Option) that is vested, outstanding and unexercised immediately prior to the Effective Time shall be cancelled and converted into the right to receive the Merger Consideration in respect of each Net Company Share; provided, however, that any holder who would otherwise have been entitled to receive a fraction of a Parent Share shall receive, in lieu thereof, cash, without interest, in an amount equal to such fractional part of a Parent Share multiplied by the VWAP of Parent Shares.

(iii) As of the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, each Company Employee Stock Option that is unvested, outstanding and unexercised immediately prior to the Effective Time shall be assumed by Parent and shall be converted into an option (a Parent Share Option) to acquire (A) that number of whole Parent Shares (rounded down to the nearest whole share) equal to the product obtained by

multiplying (1) the number of shares of Company Common Stock subject to such Company Employee Stock Option immediately prior to the

Table of Contents

Effective Time by (2) the Exchange Ratio, (B) at an exercise price per Parent Share (rounded up to the nearest whole cent) equal to the quotient obtained by dividing (1) the exercise price per share of Company Common Stock of such Company Employee Stock Option by (2) the Exchange Ratio; provided, however, that each such Company Stock Option (I) which is an incentive stock option (as defined in Section 422 of the Code) shall be adjusted in accordance with the foregoing in a manner consistent with the requirements of Section 424 of the Code and (II) shall be adjusted in a manner which complies with Section 409A of the Code and that causes the resulting Parent Share Option not to constitute the grant of a new option or a change in the form of payment of an option, as provided under Treasury Regulation section 1.409A-1(b)(5)(v)(D). Except as otherwise provided in this Section 2.4(a)(iii), each such Parent Share Option assumed and converted pursuant to this Section 2.4(a)(iii) shall continue to have, and shall be subject to, the same terms and conditions as applied to the corresponding Company Employee Stock Option immediately prior to the Effective Time.

(b) Company Restricted Share Awards.

(i) As of immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, each outstanding award of restricted shares of Company Common Stock (each, a Company Restricted Share Award) granted under any Company Equity Plan to a Company non-employee director (a Company Director Restricted Share Award) shall fully vest and become nonforfeitable, and shall be treated like Company Common Stock pursuant to Section 2.1 hereof.

(ii) Subject to Section 2.4(d), as of the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, each outstanding Company Restricted Share Award other than a Company Director Restricted Share Award (each such award, a Company Employee Restricted Share Award) shall be assumed by Parent and shall be converted into an award of restricted stock corresponding to Parent Shares (each, a Parent Restricted Share Award) with respect to a number of Parent Shares (rounded up or down to the nearest whole share) equal to the product obtained by multiplying (A) the applicable number of shares of Company Common Stock subject to such Company Employee Restricted Share Award immediately prior to the Effective Time by (B) the Exchange Ratio. Except as otherwise provided in this Section 2.4(b)(ii), each Parent Restricted Share Award assumed and converted pursuant to this Section 2.4(b)(ii) shall continue to have, and shall be subject to, the same terms and conditions as applied to the corresponding Company Employee Restricted Share Award immediately prior to the Effective Time.

(c) Company RSU Awards. Subject to Section 2.4(d), as of the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, each outstanding award of restricted stock units that corresponds to a number of shares of Company Common Stock (each, a Company RSU Award) under any Company Equity Plan that is not then vested shall be assumed by Parent and shall be converted into a restricted stock unit award corresponding to Parent Shares (each, a Parent RSU Award) with respect to a number of Parent Shares (rounded up or down to the nearest whole share) equal to the product obtained by multiplying (i) the applicable number of shares of Company Common Stock subject to such Company RSU Award immediately prior to the Effective Time by (ii) the Exchange Ratio. Except as otherwise provided in this Section 2.4(c), each Parent RSU Award assumed and converted pursuant to this Section 2.4(c) shall continue to have, and shall be subject to, the same terms and conditions as applied to the corresponding Company RSU Award immediately prior to the Effective Time.

(d) Performance-Vesting Company Equity Awards. Notwithstanding Section 2.4(b)(ii) and Section 2.4(c), as of immediately prior to the Effective Time, each Company Restricted Share Award and Company RSU Award that is subject to performance-based vesting conditions and is outstanding immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holders thereof, be cancelled and converted into the right to receive the Merger Consideration in respect of each share of Company Common Stock underlying such Company Restricted Share Award or Company RSU Award, as applicable.

A-7

Table of Contents

(e) Company ESPP. As soon as practicable following the date of this Agreement, the Company shall take all actions with respect to the Company ESPP that are necessary to provide that: (i) with respect to the offering period in effect as of the date hereof (the Current Offering Period) and the immediately succeeding offering period in the ordinary course of business consistent with past practice (the Succeeding Offering Period and together with the Current Offering Period, the ESPP Offering Periods), no participant may increase the percentage amount of his or her payroll deduction election from that in effect on the date hereof for such ESPP Offering Period; (ii) subject to the consummation of the Merger, the Company ESPP shall terminate, effective immediately prior to the Effective Time; (iii) immediately prior to the Effective Time, any then-outstanding rights under the Company ESPP shall terminate and the Company shall distribute to each Company ESPP participant all of his or her accumulated payroll deductions with respect to the ESPP Offering Period then in effect; (iv) following the purchase of Company Common Stock pursuant to the Succeeding Offering Period, the Company ESPP shall be suspended and no new offering period shall be commenced under the Company ESPP prior to the Effective Time; and (v) the Company shall cause any shares of Company Common Stock purchased during an ESPP Offering Period to be shares reacquired by the Company in the open market (rather than unissued shares).

(f) Company Actions. Prior to the Effective Time, the Company shall pass resolutions and take such other actions as are necessary to provide for the treatment of the Company Stock Options, Company Restricted Share Awards and Company RSU Awards (collectively, the Company Equity Awards) as contemplated by this Section 2.4.

(g) Awards Assumed by Parent. At the Effective Time, Parent shall assume all the obligations of the Company under the Company Equity Plans, each outstanding Parent Share Option, Parent Restricted Share Award and Parent RSU Award, and the agreements evidencing the grants thereof, and the number and kind of shares available for issuance under each Company Equity Plan shall be adjusted to reflect Parent Shares in accordance with the provisions of the applicable Company Equity Plan.

(h) Parent Actions. Parent shall take all corporate action necessary to reserve for issuance a sufficient number of Parent Shares for delivery upon exercise or settlement of the Parent Share Options, Parent Restricted Share Awards and Parent RSU Awards in accordance with this Section 2.4. As soon as reasonably practicable after the Effective Time, if and to the extent necessary to cause a sufficient number of shares of Parent Shares to be registered and issuable under Parent Share Options, Parent Restricted Share Awards and Parent RSU Awards, Parent shall file a post-effective amendment to the Form S-4 or registration statement on Form S-8 (or any successor or other appropriate form) with respect to the Parent Shares subject to Parent Share Options, Parent Restricted Share Awards and Parent RSU Awards and shall use its reasonable commercial efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Parent Share Options, Parent Restricted Share Awards and Parent RSU Awards remain outstanding.

Section 2.5 Withholding. The Company, Parent, Merger Sub and the Surviving Corporation shall be entitled to deduct and withhold, or cause the Exchange Agent to deduct and withhold, from the consideration otherwise payable to a holder of Company Common Stock or a holder of a Company Equity Award pursuant to this Agreement, any amounts as are required to be withheld or deducted with respect to such consideration under the Code, or any applicable provisions of state, local or foreign Tax Law. To the extent that amounts are so withheld and timely remitted to the appropriate Governmental Entity, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of Company Common Stock or a holder of a Company Equity Award in respect of which such deduction and withholding was made.

Section 2.6 Fractional Shares. No certificate or scrip representing fractional Parent Shares shall be issued upon the surrender for exchange of Certificates or Book-Entry Shares, and such fractional share interests shall not entitle the

owner thereof to vote or to any other rights of a shareholder of Parent. Notwithstanding any other provision of this Agreement, each holder of shares of Company Common Stock converted pursuant to the Merger who would otherwise have been entitled to receive a fraction of a Parent Share shall receive, in lieu thereof, cash, without interest, in an amount equal to such fractional part of a Parent Share *multiplied by* the VWAP of Parent Shares.

Table of Contents

ARTICLE III

REPRESENTATIONS AND

WARRANTIES OF THE COMPANY

Except as disclosed in the Company SEC Documents filed or furnished with the SEC since December 31, 2012 (including exhibits and other information incorporated by reference therein) and publicly available prior to the date hereof (but excluding any forward looking disclosures set forth in any risk factors section, any disclosures in any forward looking statements section and any other disclosures included therein to the extent they are predictive or forward-looking in nature) or in the applicable Section of the disclosure letter delivered by the Company to Parent immediately prior to the execution of this Agreement (the Company Disclosure Letter) (it being agreed that disclosure of any item in any Section of the Company Disclosure Letter shall be deemed disclosure with respect to any other Section of this Agreement to which the relevance of such item is reasonably apparent), the Company represents and warrants to Parent as set forth below.

Section 3.1 Qualification, Organization, Subsidiaries, etc.

(a) Each of the Company and its Subsidiaries is a legal entity duly organized, validly existing and, where relevant, in good standing under the Laws of its respective jurisdiction of organization and has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in good standing as a foreign corporation or other entity in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business requires such qualification, except where the failure to be so organized, validly existing, qualified or, where relevant, in good standing, or to have such power or authority, would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. The Company has filed with the SEC, prior to the date of this Agreement, a complete and accurate copy of the Company Articles and the Company Bylaws as amended to the date hereof. The Company Articles and the Company Bylaws are in full force and effect and the Company is not in violation of either the Company Articles or the Company Bylaws.

(b) Subsidiaries. All the issued and outstanding shares of capital stock of, or other equity interests in, each Company Subsidiary have been validly issued and are fully paid and nonassessable and are wholly owned, directly or indirectly, by the Company free and clear of all Liens, other than Company Permitted Liens.

Section 3.2 Capitalization.

(a) The authorized capital stock of the Company consists of 105,000,000 shares of Company Common Stock and 5,334,285 shares of preferred stock, no par value (Company Preferred Stock). As of April 4, 2014 (the Company Capitalization Date), (i)(A) 61,089,588 Company Shares were issued and outstanding (including 1,579,468 shares underlying Company Restricted Share Awards), (B) no Company Shares were held in treasury and (C) no Company Shares were held by Subsidiaries of the Company, (ii) Company Stock Options to purchase 4,504,706 Company Shares were outstanding, (iii) Company RSU Awards with respect to 28,670 shares of Company Common Stock were outstanding, (iv) 1,803,662 Company Shares were reserved for issuance pursuant to the Company Equity Plans and (v) no shares of Company Preferred Stock were issued or outstanding. All the outstanding Company Shares are, and all Company Shares reserved for issuance as noted above shall be, when issued in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and non-assessable and free of pre-emptive rights. All issued and outstanding shares of capital stock of, or other equity interests in, each Significant Subsidiary of the Company are wholly owned, directly or indirectly, by the Company free and clear of all Liens, other than Company Permitted

Liens.

(b) Except as set forth in Section 3.2(a) above and Section 3.2(e) below, as of the date hereof: (i) the Company does not have any shares of capital stock issued or outstanding other than the Company Shares that have become outstanding after the Company Capitalization Date, but were reserved for issuance as set forth in

Table of Contents

Section 3.2(a) above, and (ii) there are no outstanding subscriptions, options, warrants, puts, calls, exchangeable or convertible securities or other similar rights, agreements or commitments relating to the issuance of capital stock to which the Company or any of the Company Subsidiaries is a party obligating the Company or any of the Company Subsidiaries to (A) issue, transfer or sell any shares in the capital or other equity interests of the Company or any Company Subsidiary or securities convertible into or exchangeable for such shares or equity interests (in each case other than to the Company or a wholly owned Subsidiary of the Company); (B) grant, extend or enter into any such subscription, option, warrant, put, call, exchangeable or convertible securities or other similar right, agreement or commitment; (C) redeem or otherwise acquire any such shares in its capital or other equity interests; or (D) provide a material amount of funds to, or make any material investment (in the form of a loan, capital contribution or otherwise) in, any Company Subsidiary that is not wholly owned.

(c) Neither the Company nor any Company Subsidiary has outstanding bonds, debentures, notes or other similar obligations, the holders of which have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the shareholders of the Company on any matter.

(d) There are no voting trusts or other agreements or understandings to which the Company or any Company Subsidiary is a party with respect to the voting of the capital stock or other equity interest of the Company or any Company Subsidiary.

(e) Section 3.2(e) of the Company Disclosure Letter sets forth a true and complete list, as of the Company Capitalization Date, of (i) each Company Equity Award, (ii) the name of each Company Equity Award holder, (iii) the number of Company Shares underlying each Company Equity Award, (iv) the date on which each Company Equity Award was granted, (v) the Company Equity Plan under which each Company Equity Award was granted, (vi) the exercise price of each Company Equity Award, if applicable, and (vii) the expiration date of each Company Equity Award, if applicable.

Section 3.3 Corporate Authority Relative to this Agreement; No Violation.

(a) The Company has all requisite corporate power and authority to enter into this Agreement and, subject (in the case of the Merger) to receipt of the Company Shareholder Approval, to consummate the Transactions, including the Merger. The execution and delivery of this Agreement and the consummation of the Transactions have been duly and validly authorized by the Company Board of Directors and (in the case of the Merger, except for (i) receipt of the Company Shareholder Approval and (ii) the filing of the Certificate of Merger with the DSOS and the CA Merger Agreement with the CSOS) no other corporate proceedings on the part of the Company are necessary to authorize the consummation of the Transactions. On or prior to the date hereof, the Company Board of Directors has unanimously (x) resolved that this Agreement and the Transactions, including the Merger, are fair to and in the best interests of the Company and the shareholders of the Company, (y) approved and declared advisable this Agreement and the Transactions, including the Merger, on the terms and subject to the conditions set forth herein, in accordance with the requirements of the CGCL, and (z) has adopted a resolution to make, subject to Section 5.3, the Company Board Recommendation. This Agreement has been duly and validly executed and delivered by the Company and, assuming this Agreement constitutes the valid and binding agreement of Parent and Merger Sub, constitutes the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, examinership, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors rights generally and (ii) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(b) Other than in connection with or in compliance with (i) the provisions of the DGCL and the CGCL, (ii) the Securities Act, (iii) the Exchange Act, (iv) the HSR Act, and (v) any applicable requirements of the NASDAQ, no authorization, consent or approval of, or filing with, any Governmental Entity is necessary, under applicable Law, for the consummation by the Company of the Transactions, except for such authorizations, consents, approvals or filings that, if not obtained or made, would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Table of Contents

(c) The execution and delivery by the Company of this Agreement do not, and, except as described in Section 3.3(b), the consummation of the Transactions and compliance with the provisions hereof will not (i) result in any violation or breach of, or default or change of control (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, modification, cancellation or acceleration of any material obligation or to the loss of a material benefit under any Contract, loan, guarantee of Indebtedness or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise or right binding upon the Company or any of the Company Subsidiaries or result in the creation of any Lien upon any of the properties, rights or assets of the Company or any Company Subsidiaries, other than Company Permitted Liens, (ii) conflict with or result in any violation of any provision of the Company Governing Documents or any of the organizational documents of any Company Subsidiary or (iii) conflict with or violate any Laws applicable to the Company or any of the Company Subsidiaries or any of their respective properties or assets, other than in the case of clauses (i), (ii) (with respect to Company Subsidiaries that are not Significant Subsidiaries) and (iii), any such violation, conflict, default, termination, cancellation, acceleration, right, loss or Lien that would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.4 Reports and Financial Statements.

(a) From January 1, 2012 through the date of this Agreement, the Company has filed or furnished all forms, documents and reports required to be filed or furnished prior to the date hereof by it with the SEC (the Company SEC Documents). As of their respective dates, or, if amended, as of the date of (and giving effect to) the last such amendment, the Company SEC Documents complied in all material respects with the requirements of the Securities Act and the Exchange Act, as the case may be, and the applicable rules and regulations promulgated thereunder, and none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) The consolidated financial statements (including all related notes and schedules) of the Company included in the Company SEC Documents when filed complied as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto in effect at the time of such filing and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries, as at the respective dates thereof, and the consolidated results of their operations and their consolidated cash flows for the respective periods then ended (subject, in the case of the unaudited statements, to normal year-end audit adjustments and to any other adjustments described therein, including the notes thereto) in conformity with United States Generally Accepted Accounting Principles (GAAP) (except, in the case of the unaudited statements, to the extent permitted by the SEC) applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto).

Section 3.5 Internal Controls and Procedures. The Company has established and maintains disclosure controls and procedures and internal control over financial reporting (as such terms are defined in paragraphs (e) and (f), respectively, of Rule 13a-15 under the Exchange Act) as required by Rule 13a-15 under the Exchange Act. The Company s disclosure controls and procedures are reasonably designed to ensure that all material information required to be disclosed by the Company in the reports that it files or furnishes under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such material information is accumulated and communicated to the Company s management as appropriate to allow timely decisions regarding required disclosure and to make the certifications required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Company s internal controls over financial reporting provide reasonable assurance regarding the reliability of the Company s financial reporting and the preparation of Company financial statements for external purposes in accordance with GAAP. Since January 1, 2012, the Company s

principal executive officer and its principal financial officer have disclosed to the Company s auditors and the audit committee of the Company Board of Directors (i) all known significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect in any material respect the Company s ability to record, process, summarize and report financial information, and (ii) any known fraud,

Table of Contents

whether or not material, that involves management or other employees who have a significant role in the Company s internal controls. The Company has made available to Parent all such disclosures made by management to the Company s auditors and audit committee from January 1, 2012 to the date hereof.

Section 3.6 No Undisclosed Liabilities. Except (a) as disclosed, reflected or reserved against in the Company s consolidated balance sheet (or the notes thereto) as of December 31, 2013 included in the Company SEC Documents filed or furnished on or prior to the date hereof, (b) for liabilities incurred in the ordinary course of business since December 31, 2013, (c) as expressly permitted or contemplated by this Agreement and (d) for liabilities which have been discharged or paid in full in the ordinary course of business, as of the date hereof, neither the Company nor any Company Subsidiary has any liabilities of any nature, whether or not accrued, contingent or otherwise, that would be required by GAAP to be reflected on a consolidated balance sheet of the Company and its consolidated Subsidiaries (or in the notes thereto), other than those which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect. For purposes of this Section 3.6, the term liabilities shall not include obligations of the Company or any Company Subsidiaries to perform under or comply with any applicable Law, action, judgment or Contract, but would include such liabilities and obligations if there has been a default or failure to perform or comply by the Company or any Company Subsidiaries with any such liability or obligation if such default or failure would, with the giving of notice or passage of time or both, reasonably be expected to result in a monetary obligation.

Section 3.7 Compliance with Laws; Permits.

(a) The Company and each Company Subsidiary are in compliance with and are not in default under or in violation of any Laws applicable to the Company, such Subsidiaries or any of their respective properties or assets, except where such non-compliance, default or violation would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) The Company and the Company Subsidiaries are in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, clearances, approvals, registrations and orders of any Governmental Entity necessary for the Company and the Company Subsidiaries to own, lease and operate their properties and assets or to carry on their businesses as they are now being conducted (the Company Permits), except where the failure to have any of the Company Permits would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. All Company Permits are in full force and effect, except where the failure to be in full force and effect would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(c) Notwithstanding anything contained in this Section 3.7, no representation or warranty shall be deemed to be made in this Section 3.7 in respect of the matters referenced in Section 3.4, Section 3.5 or Section 3.13, or in respect of environmental, Tax, employee benefits or labor Laws matters.

Section 3.8 Environmental Laws and Regulations. Except for such matters as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect: (a) the Company and its Subsidiaries are now and have been since January 1, 2011 in compliance with all, and have not violated any, applicable Environmental Laws; (b) no property currently or formerly owned, leased or operated by the Company or any of its Subsidiaries (including soils, groundwater, surface water, buildings or other structures), or any other location used by the Company or any Company Subsidiary, is contaminated with any Hazardous Substance in a manner that is or is reasonably likely to be required to be remediated or removed, that is in violation of any Environmental Law, or that is reasonably likely to give rise to any Environmental Liability; (c) since January 1, 2011, neither the Company nor any of its Subsidiaries has received any notice, demand letter, claim or request for information alleging that the Company

or any of its Subsidiaries may be in violation of or subject to liability under any Environmental Law or are allegedly subject to any Removal, Remedial or Response actions; (d) neither the Company nor any of its Subsidiaries is subject to any order, decree, injunction or agreement with any Governmental Entity, or any indemnity or other agreement with any third party, imposing liability or obligations relating to any Environmental Law or any Hazardous Substance; and (e) the Company has

Table of Contents

all of the material Environmental Permits necessary for the conduct and operation of its business as now being conducted, and all such Environmental Permits are in good standing.

Section 3.9 Employee Benefit Plans.

(a) Section 3.9(a) of the Company Disclosure Letter sets forth, as of the date hereof, each material Company Benefit Plan for the benefit of current employees, directors or consultants of the Company located in the United States or Canada. For purposes of this Agreement, Company Benefit Plan means each employee benefit plan (as defined in Section 3(3) of ERISA), whether or not subject to ERISA, and each bonus, stock, stock option or other equity-based compensation arrangement or plan, incentive, deferred compensation, retirement or supplemental retirement, severance, employment, change-in-control, collective bargaining, profit sharing, pension, vacation, cafeteria, dependent care, medical care, employee assistance program, education or tuition assistance programs, and each insurance and other similar fringe or employee benefit plan, program or arrangement, in each case for the benefit of current employees, directors or consultants (or any dependent or beneficiary thereof) of the Company or any Company Subsidiary or with respect to which the Company or any Company Subsidiary may have any obligation or liability (whether actual or contingent). With respect to each Company Benefit Plan listed on Section 3.9(a) of the Company Disclosure Letter, the Company has made available to Parent correct and complete copies of (or, to the extent no such copy exists, a description of), in each case, to the extent applicable, (i) all plan documents, summary plan descriptions, summaries of material modifications, and amendments related to such plans and any related trust agreement; (ii) the most recent audited financial statement and actuarial valuation; and (iii) all material related agreements, insurance contracts and other agreements which implement each such Company Benefit Plan.

(b) (i) Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, each of the Company Benefit Plans has been operated and administered in compliance in accordance with applicable Laws, including, but not limited to, ERISA, the Code and in each case the regulations thereunder; (ii) no Company Benefit Plan is subject to Title IV or Section 302 of ERISA or Section 412 or 4971 of the Code; (iii) no Company Benefit Plan provides benefits, including death or medical benefits (whether or not insured), with respect to current or former employees or directors of the Company or its Subsidiaries beyond their retirement or other termination of service, other than coverage mandated by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA), or comparable U.S. state Law; (iv) no material liability under Title IV of ERISA has been incurred by the Company, its Subsidiaries or any of their respective ERISA Affiliates that has not been satisfied in full, and no condition exists that is likely to cause the Company, its Subsidiaries or any of their ERISA Affiliates to incur a material liability thereunder; (v) no Company Benefit Plan is a multiemployer pension plan (as such term is defined in Section 3(37) of ERISA) or a plan that has two or more contributing sponsors at least two of whom are not under common control, within the meaning of Section 4063 of ERISA; (vi) except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, all contributions or other amounts payable by the Company or its Subsidiaries pursuant to each Company Benefit Plan in respect of current or prior plan years have been timely paid or accrued in accordance with GAAP or applicable international accounting standards; (vii) except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, neither the Company nor any of its Subsidiaries has engaged in a transaction in connection with which the Company or its Subsidiaries could be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code; and (viii) except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, there are no pending, or to the knowledge of the Company, threatened or anticipated claims, actions, investigations or audits (other than routine claims for benefits) by, on behalf of or against any of the Company Benefit Plans or any trusts related thereto that would result in a material liability.

(c) Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) each of the Company Benefit Plans intended to be qualified within the meaning of Section 401(a) of the Code has received a favorable determination letter or opinion letter as to its qualification,

Table of Contents

and (ii) there are no existing circumstances or any events that have occurred that would reasonably be expected to adversely affect the qualified status of any such plan. Each such favorable determination letter has been provided or made available to Parent.

(d) Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, neither the execution and delivery of this Agreement nor the consummation of the Transactions (either alone or in conjunction with any other event) will (i) result in any payment (including severance, unemployment compensation, excess parachute payment (within the meaning of Section 280G of the Code), forgiveness of Indebtedness or otherwise) becoming due to any current or former director or any employee of the Company or any Company Subsidiary under any Company Benefit Plan or otherwise, (ii) increase any benefits otherwise payable under any Company Benefit Plan or (iii) result in any acceleration of the time of payment, funding or vesting of any such benefits.

(e) Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, each Company Benefit Plan, if any, which is maintained outside of the United States has been operated in conformance with the applicable statutes or governmental regulations and rulings relating to such plans in the jurisdictions in which such Company Benefit Plan is present or operates and, to the extent relevant, the United States.

(f) Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, each Company Benefit Plan has been maintained and operated in documentary and operational compliance with Section 409A of the Code or an available exemption therefrom. The Company is not a party to nor does it have any obligation under any Company Benefit Plan to compensate any person for excise Taxes payable pursuant to Section 4999 of the Code or for additional Taxes payable pursuant to Section 409A of the Code.

Section 3.10 Absence of Certain Changes or Events.

(a) From December 31, 2013 through the date of this Agreement, there has not occurred any event, development, occurrence, or change that has had, or would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) From December 31, 2013 through the date of this Agreement, neither the Company nor any Company Subsidiary has taken any action that would constitute a breach of Section 5.1(ii) (other than clauses (c), (g), (o) and (solely to the extent relating to clauses (c), (g) or (o)) (p) thereof) had such action been taken after the execution of this Agreement.

Section 3.11 Investigation; Litigation. As of the date hereof, (a) there is no investigation or review pending (or, to the knowledge of the Company, threatened) by any Governmental Entity with respect to the Company or any Company Subsidiary or any of their respective properties, rights or assets, and (b) there are no claims, actions, suits or proceedings pending (or, to the knowledge of the Company, threatened) against the Company or any Company Subsidiary or any of their respective properties, rights or assets before, and there are no orders, judgments or decrees of, any Governmental Entity, which, in the case of clause (a) or (b), would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.12 Information Supplied. The information relating to the Company and its Subsidiaries to be contained in the joint proxy statement in preliminary and definitive form relating to the Company Special Meeting and the Parent Special Meeting, which will be used as a prospectus of Parent with respect to the Parent Shares issuable in the Merger (together with any amendments or supplements thereto, the Joint Proxy Statement/Prospectus), and the registration statement on Form S-4 pursuant to which the offer and sale of Parent Shares in the Merger will be registered pursuant

to the Securities Act and in which the Joint Proxy Statement/Prospectus will be included as a prospectus of Parent (together with any amendments or supplements thereto, the Form S-4) will not, on the date the Joint Proxy Statement/Prospectus (and any amendment or supplement thereto) is first mailed to the shareholders of the Company and Parent or at the time the Form S-4 (and any

Table of Contents

amendment or supplement thereto) is declared effective or at the time of the Company Special Meeting, contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, at the time and in light of the circumstances under which they were made, not false or misleading. The Joint Proxy Statement/Prospectus (other than the portions thereof relating solely to the meeting of the shareholders of Parent) will comply in all material respects as to form with the requirements of the Exchange Act and the rules and regulations promulgated thereunder. Notwithstanding the foregoing provisions of this Section 3.12, no representation or warranty is made by the Company with respect to information or statements made or incorporated by reference in the Joint Proxy Statement/Prospectus or the Form S-4 which were not supplied by or on behalf of the Company.

Section 3.13 Regulatory Matters.

(a) Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, (i) each of the Company and the Company Subsidiaries holds all Company Permits, including (x) all permits, licenses, franchises, approvals, registrations, authorizations and clearances under the United States Food, Drug and Cosmetic Act of 1938, as amended (the FDCA), the Public Health Service Act, as amended (the PHSA), and the regulations of the United States Food and Drug Administration (the FDA) promulgated thereunder, and (y) authorizations of any applicable Governmental Entity that are concerned with the quality, identity, strength, purity, safety, efficacy, labeling, manufacturing, marketing, promotion, distribution, sale, pricing, import or export of the Company Products (any such Governmental Entity, a Company Regulatory Agency) necessary for the lawful operating of the businesses of the Company or any Company Subsidiary (the Company Regulatory Permits); (ii) all such Company Regulatory Permits are valid and in full force and effect; and (iii) the Company is in compliance with the terms of all Company Regulatory Permits. All Company Regulatory Permits are in full force and effect, except where the failure to be in full force and effect would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the businesses of each of the Company and each Company Subsidiary are being conducted in compliance with all applicable Laws, including (i) the FDCA; (ii) the PHSA; (iii) federal Medicare and Medicaid statutes and related state or local statutes; (iv) provincial formulary and drug pricing statutes; (v) any comparable foreign Laws for any of the foregoing applicable in jurisdictions in which material quantities of any of the Company Products or Company Product candidates are sold or intended by the Company to be sold; (vi) federal, state or provincial criminal or civil healthcare Laws (including the federal Anti-Kickback Statute (42 U.S.C. §1320a-7(b)), False Claims Act (42 U.S.C. §1320a-7b(a)), Stark Law (42 U.S.C. §1395nn), Physician Payment Sunshine Act (42 U.S.C. § 1320a-7h), the exclusion laws (42 U.S.C. § 1320a-7), the civil monetary penalties law (42 U.S.C. § 1320a-7a), Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. §1320d *et seq.*), as amended by the Health Information Technology for Economic and Clinical Health Act, and any comparable federal, state, provincial or local Laws); (vii) state or provincial licensing, disclosure and reporting requirements; and (viii) the rules and regulations promulgated pursuant to all such applicable Laws, each as amended from time to time (collectively, Company Healthcare Laws). Since January 1, 2011, neither the Company nor any Company Subsidiary has received any written notification or communication from any Company Regulatory Agency, including the FDA, the Drug Enforcement Administration, the United States Department of Justice (including any United States Attorney s Office), the Office of Inspector General of the Department of Health and Human Services, the Centers for Medicare and Medicaid Services, and the Department of Health and Human Services, of noncompliance by, or liability of Company or the Company Subsidiaries under, any Company Healthcare Laws, except where such noncompliance or liability would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(c) The Company and the Company Subsidiaries are not party to any corporate integrity agreements, deferred prosecution agreements, monitoring agreements, consent decrees, settlement orders, or similar agreements with or imposed by any Company Regulatory Agency.

Table of Contents

(d) All pre-clinical and clinical investigations in respect of a Company Product or Company Product candidate conducted or sponsored by each of the Company and the Company Subsidiaries, not to include investigator initiated studies, are being conducted in compliance with all applicable Laws administered or issued by the applicable Company Regulatory Agencies, including (i) FDA standards for the design, conduct, performance, monitoring, auditing, recording, analysis and reporting of clinical trials contained in Title 21 parts 50, 54, 56, 58, 312, 314 320, and 812 of the Code of Federal Regulations, (ii) any applicable federal, state and provincial Laws restricting the collection, use and disclosure of individually identifiable health information and personal information, except, in each case, for such noncompliance that, individually or in the aggregate, has not had and would not reasonably be expected to have a Company Material Adverse Effect.

(e) Since January 1, 2011, neither the Company nor any Company Subsidiary has received any written notice from the FDA or the European Medicines Agency (the EMA) or any foreign agency with jurisdiction over the development, marketing, labeling, sale, use handling and control, safety, efficacy, reliability, or manufacturing of drugs or medical devices which would reasonably be expected to lead to the denial, limitation, revocation, or rescission of any of the Company Regulatory Permits or of any application for marketing approval already granted or currently pending before the FDA or such other Company Regulatory Agency.

(f) Since January 1, 2011, all reports, documents, claims, permits and notices required to be filed, maintained or furnished to the FDA or any other Company Regulatory Agency by the Company and the Company Subsidiaries have been so filed, maintained or furnished, except where failure to file, maintain or furnish such reports, documents, claims, permits or notices would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. All such reports, documents, claims, permits and notices were complete and accurate in all material respects on the date filed (or were corrected in or supplemented by a subsequent filing). Since January 1, 2011 neither the Company nor any Company Subsidiaries, nor, to the knowledge of the Company, any officer, employee, agent or distributor of the Company or any of the Company Subsidiaries, has made an untrue statement of a material fact or a fraudulent statement to the FDA or any other Company Regulatory Agency, failed to disclose a material fact required to be disclosed to the FDA or any other Company Regulatory Agency, or committed an act, made a statement, or failed to make a statement, in each such case, related to the business of the Company or any of the Company Subsidiaries, that, at the time such disclosure was made, would reasonably be expected to provide a basis for the FDA to invoke its policy respecting Fraud, Untrue Statements of Material Facts, Bribery, and Illegal Gratuities , set forth in 56 Fed. Reg. 46191 (September 10, 1991) or for the FDA or any other Company Regulatory Agency to invoke any similar policy, except for any act or statement or failure to make a statement that, individually or in the aggregate, has not had and would not reasonably be expected to have a Company Material Adverse Effect. Neither the Company nor any of the Company Subsidiaries, nor, to the knowledge of the Company, any officer, employee, agent or distributor of the Company or any of the Company Subsidiaries, has been debarred or convicted of any crime or engaged in any conduct for which debarment is mandated by 21 U.S.C. § 335a(a) or any similar Law or authorized by 21 U.S.C. § 335a(b) or any similar Law applicable in other jurisdictions in which material quantities of any of the Company Products or Company Product candidates are sold or intended by the Company to be sold. Since January 1, 2011, neither the Company nor any of the Company Subsidiaries, nor, to the knowledge of the Company, any officer, employee, agent or distributor of the Company or any of the Company Subsidiaries, has been excluded from participation in any federal health care program or convicted of any crime or engaged in any conduct for which such Person could be excluded from participating in any federal health care program under Section 1128 of the Social Security Act of 1935, as amended, or any similar Company Healthcare Law or program.

(g) As to each Company Product or Company Product candidate subject to the FDCA and the regulations of the FDA promulgated thereunder or any similar applicable Law in any foreign jurisdiction in which material quantities of any of the Company Products or Company Product candidates are sold or intended by the Company to be sold that is or has been developed, manufactured, tested, distributed or marketed by or on behalf of the Company or any of the

Company Subsidiaries, except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, each such Company Product or

Table of Contents

Company Product candidate is being or has been developed, manufactured, stored, distributed and marketed in compliance with all applicable Laws, including those relating to investigational use, marketing approval, current good manufacturing practices, packaging, labeling, advertising, record keeping, reporting, and security. There is no action or proceeding pending or, to the knowledge of the Company, threatened, including any prosecution, injunction, seizure, civil fine, debarment, suspension or recall, in each case alleging any violation applicable to any Company Product or Company Product candidate by the Company or any of the Company Subsidiaries of any Law, except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(h) Since January 1, 2011, neither the Company nor any of the Company Subsidiaries have voluntarily or involuntarily initiated, conducted or issued, or caused to be initiated, conducted or issued, any recall, field corrections, market withdrawal or replacement, safety alert, warning, dear doctor letter, investigator notice, or other notice or action to wholesalers, distributors, retailers, healthcare professionals or patients relating to an alleged lack of safety, efficacy or regulatory compliance of any Company Product, other than notices or actions that are not material to the Company or the Company Subsidiaries, taken as a whole. To the knowledge of the Company, there are no facts which are reasonably likely to cause, and the Company has not received any written notice from the FDA or any other Company Regulatory Agency regarding (i) the recall, market withdrawal or replacement of any Company Product sold or intended to be sold by the Company or a Company Subsidiary (other than recalls, withdrawals or replacements that are not material to the Company or the Company Subsidiaries, taken as a whole), (ii) a material change in the marketing classification or a material adverse change in the labeling of any such Company Products, (iii) a termination or suspension of the manufacturing, marketing, or distribution of such Company Products, or (iv) a material negative change in reimbursement status of a Company Product.

(i) Notwithstanding anything contained in this Section 3.13, no representation or warranty shall be deemed to be made in this Section 3.13 in respect of environmental, Tax, employee benefits or labor Law matters.

Section 3.14 Tax Matters. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect:

(a) all Tax Returns that are required to be filed by or with respect to the Company or any of its Subsidiaries have been timely filed (taking into account any extension of time within which to file), and all such Tax Returns are true, complete and accurate;

(b) the Company and its Subsidiaries have paid all Taxes due and owing by any of them, including any Taxes required to be withheld from amounts owing to any employee, creditor, or third party (in each case, whether or not shown on any Tax Return), other than Taxes for which adequate reserves have been established in accordance with GAAP on the financial statements of the Company and its Subsidiaries;

(c) there is not pending or threatened in writing any audit, examination, investigation or other proceeding with respect to any Taxes of the Company or any of its Subsidiaries, other than for which adequate reserves have been established in accordance with GAAP on the financial statements of the Company and its Subsidiaries;

(d) neither the Company nor any of its Subsidiaries has waived any statute of limitations with respect to Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency;

(e) neither the Company nor any of its Subsidiaries has constituted a distributing corporation or a controlled corporation (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (or any similar provision of state, local, or non-U.S. Law) in the two years prior to the date of this Agreement;

(f) none of the Company or any of its Subsidiaries is a party to any Tax allocation, sharing, indemnity, or reimbursement agreement or arrangement (other than any customary Tax indemnification provisions in

Table of Contents

ordinary course commercial agreements or arrangements that are not primarily related to Taxes) or has any liability for Taxes of any Person (other than the Company or any of its Subsidiaries) under U.S. Treasury Regulation Section 1.1502-6 (or any similar provision of state, local, or non-U.S. Law) or as transferee or successor;

(g) there are no Liens for Taxes upon any property or assets of the Company or any of its Subsidiaries, except for the Company Permitted Liens; and

(h) neither the Company nor any of its Subsidiaries has entered into any listed transaction within the meaning of Treasury Regulations Section 1.6011-4(b)(2) (or any similar provision of state, local or non-U.S. Law).

Section 3.15 Labor Matters.

(a) As of the date hereof, neither the Company nor any Company Subsidiary is a party to, or bound by, any collective bargaining agreement or other Contract with a labor union or labor organization. Neither the Company nor any Company Subsidiary is subject to a labor dispute, strike or work stoppage except as would not have, individually or in the aggregate, a Company Material Adverse Effect. To the knowledge of the Company, there are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or threatened involving employees of the Company or any Company Subsidiary, except for those the formation of which would not have, individually or in the aggregate, a Company Material Adverse Effect.

(b) The Transactions will not require the consent of, or advance notification to, any works councils, unions or similar labor organizations with respect to employees of the Company or any Company Subsidiary, other than any such consents the failure of which to obtain or advance notifications the failure of which to provide as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.16 Intellectual Property. Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, either the Company or a Company Subsidiary owns, or is licensed or otherwise possesses legally enforceable rights to use, all Intellectual Property used in their respective businesses as currently conducted. There are no pending or, to the knowledge of the Company, threatened claims against the Company or its Subsidiaries by any Person alleging infringement by the Company or its Subsidiaries for their use of any Intellectual Property in their respective businesses as currently conducted that would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, to the knowledge of the Company, the conduct of the businesses of the Company and its Subsidiaries does not infringe upon any Intellectual Property or any other similar proprietary right of any Person. As of the date hereof, neither the Company nor any of its Subsidiaries has made any claim of a violation or infringement by others of its rights to or in connection with the Intellectual Property used in their respective businesses which violation or infringement would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. The Company Key Product is protected by Trade Secrets of the Company and its Subsidiaries. The Company and its Subsidiaries have taken reasonable measures to protect and maintain the secrecy and confidentiality of all Trade Secrets (including all those Trade Secrets applicable to the manufacturing of the Company Key Product) of the Company or its Subsidiaries and, to the knowledge of the Company, such Trade Secrets have not been disclosed by the Company or its Subsidiaries to any Person except pursuant to written non-disclosure agreements. All past and present employees, contractors and consultants of the Company or any of its Subsidiaries who have had access to Trade Secrets of the Company and its Subsidiaries are bound by valid and enforceable agreements or otherwise have obligations pursuant to which such Persons are bound to protect such confidential information and Trade Secrets of the Company and its Subsidiaries, and, to the knowledge of the Company, no such Person has breached its obligations to the Company or its Subsidiaries. To the knowledge of the Company, no third-party has misappropriated Trade Secrets of the Company or

its Subsidiaries. There are no

Table of Contents

pending or, to the knowledge of the Company, threatened claims against the Company or any of its Subsidiaries by any Person challenging the ownership or validity of any Trade Secrets of the Company or any of its Subsidiaries.

Section 3.17 Real Property.

(a) With respect to the real property owned by the Company or any Company Subsidiary at which the material operations of the Company and the Company Subsidiaries are conducted as of the date hereof (such property collectively, the Company Owned Real Property), except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, either the Company or a Company Subsidiary has good and valid title to such Company Owned Real Property, free and clear of all Liens, other than any such Lien (i) for Taxes or governmental assessments, charges or claims of payment not yet due and payable, being contested in good faith or for which adequate accruals or reserves have been established, (ii) which is a carriers , warehousemen s, mechanics , materialmen s, repairmen s or other similar Lien arising in the ordinary course of business, (iii) which is disclosed on the most recent consolidated balance sheet of the Company or notes thereto or securing liabilities reflected on such balance sheet, (iv) which was incurred in the ordinary course of business since the date of the most recent consolidated balance sheet of the Company or (v) which would not reasonably be expected to materially impair the continued use of the applicable property for the purposes for which the property is currently being used (any such Lien described in any of clauses (i) through (v), a Company Permitted Lien). As of the date hereof, neither the Company nor any of its Subsidiaries has received notice of any pending, and to the knowledge of the Company there is no threatened, condemnation proceeding with respect to any Company Owned Real Property, except proceedings which would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, (i) each material lease, sublease and other agreement under which the Company or any of its Subsidiaries uses or occupies or has the right to use or occupy any material real property at which the material operations of the Company and its Subsidiaries are conducted as of the date hereof (the Company Leased Real Property), is valid, binding and in full force and effect, except that (A) enforcement may be subject to applicable bankruptcy, insolvency, examinership, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors rights generally and (B) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought and (ii) no uncured default of a material nature on the part of the Company or, if applicable, its Subsidiary or, to the knowledge of the Company, the landlord thereunder exists with respect to any Company Leased Real Property. Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, the Company and each of its Subsidiaries has a good and valid leasehold interest in or contractual right to use or occupy, subject to the terms of the lease, sublease or other agreement applicable thereto, the Company Leased Real Property, free and clear of all Liens, except for the Company Permitted Liens.

Section 3.18 Opinion of Financial Advisor. The Company Board of Directors has received the opinion of Centerview Partners LLC, dated as of the date of this Agreement and based upon and subject to the matters set forth therein, that the Merger Consideration to be paid to holders of Company Shares (other than each Company Share held by any Company Subsidiary, Parent, Merger Sub or by any of their respective Subsidiaries, any Dissenting Shares, and any Company Employee Restricted Share Awards, and any Company Shares held by any affiliate of Parent or Merger Sub) pursuant to the Merger, is fair from a financial point of view, to such holders.

Section 3.19 Required Vote. The Company Shareholder Approval is the only vote of holders of securities of the Company which is required to consummate the Transactions.

Section 3.20 Material Contracts.

(a) Except for this Agreement, Section 3.20 of the Company Disclosure Letter contains a complete and correct list, as of the date of this Agreement, of each Contract described below in this Section 3.20(a) under

Table of Contents

which the Company or any Company Subsidiary has any current or future rights, responsibilities, obligations or liabilities (in each case, whether contingent or otherwise) or to which any of their respective properties or assets is subject, in each case as of the date of this Agreement (all Contracts of the type described in this Section 3.20(a) being referred to herein as the Company Material Contracts):

(i) any partnership, joint venture, strategic alliance, collaboration, co-promotion or research and development project Contract which is material to the Company and its Subsidiaries, taken as a whole;

(ii) each Contract not otherwise described in any other subsection of this Section 3.20(a) that (A) is reasonably expected to involve future expenditures by the Company or any Company Subsidiary of more than $25 million in the one-year period following the date hereof and (B) cannot be terminated by the Company or such Company Subsidiary on less than sixty (60) days notice without material payment or penalty, other than ordinary course product or active ingredient purchase contracts;

(iii) each acquisition or divestiture Contract or licensing agreement that contains representations, covenants, indemnities or other obligations (including earn-out or other contingent payment obligations) that would reasonably be expected to result in the receipt or making of future payments in excess of $25 million in the twelve (12) month period following the date hereof;

(iv) each Contract relating to outstanding Indebtedness of the Company or its Subsidiaries for borrowed money or any financial guaranty thereof (whether incurred, assumed, guaranteed or secured by any asset) in an amount in excess of $5 million other than (A) Contracts solely among the Company and any wholly owned Company Subsidiary, (B) financial guarantees entered into in the ordinary course of business consistent with past practice not exceeding $5 million, individually or in the aggregate (other than surety or performance bonds, letters of credit or similar agreements entered into in the ordinary course of business consistent with past practice in each case to the extent not drawn upon), and (C) any Contracts relating to Indebtedness explicitly included in the consolidated financial statements in the Company SEC Documents;

(v) each Contract between the Company or any Company Subsidiary, on the one hand, and any officer, director or affiliate (other than a wholly owned Company Subsidiary) of the Company or any Company Subsidiary or any of their respective associates or immediate family members (as such terms are defined in Rule 12b-2 and Rule 16a-1 of the Exchange Act), on the other hand, including any Contract pursuant to which the Company or any Company Subsidiary has an obligation to indemnify such officer, director, affiliate or family member;

(vi) any Contract (excluding (A) licenses for commercial off the shelf computer software that are generally available on nondiscriminatory pricing terms, (B) service Contracts related to pre-clinical or clinical development of any medicine to the extent the licenses contained therein are incidental to such Contracts, immaterial, non-exclusive and granted in the ordinary course of business and (C) licenses granted by third parties to the extent necessary for the manufacture by the Company or its Subsidiaries of products for such third parties) under which the Company or any Company Subsidiary is granted any license, option or other right or immunity (including a covenant not to be sued or right to enforce or prosecute any patents) with respect to any Intellectual Property of a third party, which Contract is material to the Company and the Company Subsidiaries, taken as a whole;

(vii) any Contract (excluding (A) licenses contained in service Contracts related to pre-clinical or clinical development of any medicine to the extent the licenses contained therein are incidental to such Contract, immaterial, non-exclusive and granted in the ordinary course of business and (B) licenses granted to manufacturers of any of the Company Products to the extent required to accomplish such manufacturing) under which the Company or any Company Subsidiary has granted to a third party any license, option or other right or immunity (including a covenant not to be

sued or right to enforce or prosecute any patents) with respect to any Intellectual Property (including any development thereof), which Contract is material to the Company and the Company Subsidiaries, taken as a whole;

(viii) any shareholders, investors rights, registration rights or similar agreement or arrangement;

Table of Contents

(ix) any Contract pursuant to which a third party supplies the Company or the Company Subsidiaries with active ingredients for the Company Key Product;

(x) any Contract with respect to licensing, development or clinical studies pursuant to which the Company or any Company Subsidiary has continuing obligations or interests involving (A) milestone or other similar contingent payments, including upon the achievement of regulatory or commercial milestones, or (B) payment of royalties or other amounts calculated based upon any revenues or income of the Company or any Company Subsidiary, in each case (x) which payments after the date hereof would reasonably be expected to be more than $25 million in the twelve (12) month period following the date hereof and (y) that cannot be terminated by the Company or such Company Subsidiary without more than sixty (60) days notice without material payment or penalty;

(xi) any Contract that relates to any swap, forward, futures, or other similar derivative transaction with a notional value in excess of $25 million;

(xii) any material collective bargaining agreement or other material Contract with any labor union;

(xiii) any Contract involving the settlement of any action or threatened action (or series of related actions) (A) which will (x) involve payments after the date hereof of consideration in excess of $5 million or (y) impose monitoring or reporting obligations to any other Person outside the ordinary course of business or (B) with respect to which material conditions precedent to the settlement have not been satisfied; and

(xiv) any Contract not otherwise described in any other subsection of this Section 3.20(a) that would constitute a material contract (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) with respect to the Company.

(b) Neither the Company nor any Company Subsidiary is in breach of or default under the terms of any Company Material Contract where such breach or default would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. To the knowledge of the Company, as of the date hereof, no other party to any Company Material Contract is in breach of or default under the terms of any Company Material Contract where such breach or default would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect. Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, each Company Material Contract is a valid and binding obligation of the Company or the Company Subsidiary which is party thereto and, to the knowledge of the Company, of each other party thereto, and is in full force and effect, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, examinership, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors rights generally and (ii) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 3.21 Insurance. Except as would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, as of the date hereof, (a) all current, material insurance policies and Contracts of the Company and its Subsidiaries are in full force and effect and are valid and enforceable and cover against the risks as are customary in all material respects for companies of similar size in the same or similar lines of business and (b) all premiums due thereunder have been paid. Neither the Company nor any of its Subsidiaries has received notice of cancellation or termination with respect to any material third party insurance policies or Contracts (other than in connection with normal renewals of any such insurance policies or Contracts) where such cancellation or termination would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Section 3.22 Finders and Brokers. Neither the Company nor any Company Subsidiary has employed any investment banker, broker or finder in connection with the Transactions, other than as set forth in Section 3.22 of the Company Disclosure Letter, who might be entitled to any fee or any commission in connection with or upon consummation of the Merger.

Table of Contents

Section 3.23 FCPA and Anti-Corruption. Except for those matters which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect:

(a) neither the Company nor any Company Subsidiary, nor any director, manager or employee of the Company or any Company Subsidiary has in the last five (5) years, in connection with the business of the Company or any Company Subsidiary, itself or, to the Company s knowledge, any of its agents, representatives, sales intermediaries, or any other third party, in each case, acting on behalf of the Company or any Company Subsidiary, taken any action in violation of the FCPA or other applicable Bribery Legislation (in each case to the extent applicable);

(b) neither the Company nor any Company Subsidiary, nor any director, manager or employee of the Company or any Company Subsidiary, are, or in the past five (5) years have been, subject to any actual, pending, or threatened civil, criminal, or administrative actions, suits, demands, claims, hearings, notices of violation, investigations, proceedings, demand letters, settlements, or enforcement actions, or made any voluntary disclosures to any Governmental Entity, involving the Company or any Company Subsidiary in any way relating to applicable Bribery Legislation, including the FCPA;

(c) the Company and each Company Subsidiary has made and kept books and records, accounts and other records, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company and each Company Subsidiary as required by the FCPA in all material respects;

(d) the Company and each Company Subsidiary has instituted policies and procedures designed to ensure compliance with the FCPA and other applicable Bribery Legislation and maintain such policies and procedures in force; and

(e) no officer, director, or employee of the Company or any Company Subsidiary is a Government Official.

Section 3.24 Manufacturing. To the knowledge of the Company, the Company Key Product is manufactured in compliance with all applicable Laws and in conformity with Good Manufacturing Practices, including, but not limited to, the Federal Food, Drug and Cosmetic Act and its applicable implementing regulations at 21 C.F.R. Parts 210 and 211, and any foreign equivalents, except as has not and would not reasonably be expected to materially and adversely affect the ability of the Company to package, promote, distribute, market, use or sell the Company Key Product. To the knowledge of the Company, no event has occurred since January 1, 2012, and no event is reasonably expected to occur, that would materially and adversely affect the ability of the Company to procure and/or develop the Company Key Product on terms consistent in all material respects with those in effect prior to the date hereof and in quantities consistent in all material respects with past practice and sufficient for the operation of the Company s business as currently conducted and as currently anticipated to be conducted.

Section 3.25 Takeover Statutes; No Rights Agreement. The Company Board of Directors has taken all action necessary so that no moratorium, control share acquisition, business combination, fair price or other form of anti-takeover Laws or regulations (collectively, Takeover Laws) is applicable to the Merger and the other transactions contemplated by this Agreement. The Company does not have in effect any poison pill or shareholder rights plan.

Section 3.26 No Other Representations. Except for the representations and warranties contained in Article IV, the Company acknowledges that neither Parent nor any Representative of Parent makes, and the Company acknowledges that it has not relied upon or otherwise been induced by, any other express or implied representation or warranty with respect to Parent or with respect to any other information provided or made available to the Company in connection with the Transactions, including any information, documents, projections, forecasts or other material made available to the Company or to the Company s Representatives in certain data rooms or management presentations in expectation of the Transactions.

A-22

Table of Contents

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

OF PARENT AND MERGER SUB

Except as disclosed in the Parent SEC Documents filed or furnished with the SEC since June 5, 2013 or in forms, documents and reports of Cadence Pharmaceuticals, Inc. (Cadence) filed or furnished with the SEC since January 1, 2012 (including, in each case, exhibits and other information incorporated by reference therein) and publicly available prior to the date hereof (but excluding, in each case, any forward looking disclosures set forth in any risk factors section, any disclosures in any forward looking statements section and any other disclosures included therein to the extent they are predictive or forward-looking in nature) or in the applicable Section of the disclosure letter delivered by Parent to the Company immediately prior to the execution of this Agreement (the Parent Disclosure Letter) (it being agreed that disclosure of any item in any Section of the Parent Disclosure Letter shall be deemed disclosure with respect to any other Section of this Agreement to which the relevance of such item is reasonably apparent), Parent, and Merger Sub jointly and severally represent and warrant to the Company as set forth below.

Section 4.1 Qualification, Organization, Subsidiaries, etc.

(a) Each of Parent, Merger Sub and the Parent Subsidiaries is a legal entity duly organized, validly existing and, where relevant, in good standing under the Laws of its respective jurisdiction of organization and has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in good standing as a foreign corporation or other entity in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business requires such qualification, except where the failure to be so organized, validly existing, qualified or, where relevant, in good standing, or to have such power or authority, would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect. Parent has filed with the SEC, prior to the date of this Agreement, complete and accurate copies of the Articles of Association of Parent as amended to the date hereof (the Parent Articles of Association). The Parent Articles of Association are in full force and effect and Parent is not in violation of the Parent Articles of Association.

(b) Subsidiaries. All the issued and outstanding shares of capital stock of, or other equity interests in, each Parent Subsidiary have been validly issued and are fully paid and nonassessable and are wholly owned, directly or indirectly, by Parent free and clear of all Liens, other than Parent Permitted Liens.

Section 4.2 Share Capital.

(a) The authorized share capital of Parent consists of 500,000,000 Parent Shares, 40,000 ordinary A shares, par value 1.00 per share (the Parent Ordinary A Shares) and 500,000,000 preferred shares, par value $0.20 per share (Parent Preferred Shares). As of April 3, 2014 (the Parent Capitalization Date), (i)(A) 58,443,505 Parent Shares were issued and outstanding and (B) 30,627 Parent Shares were held in treasury, (ii) Parent Share Options to purchase 2,784,622 Parent Shares were outstanding, (iii) Parent RSU Awards with respect to 578,598 Parent Shares were outstanding, (iv) Parent performance share unit awards with respect to 95,381 Parent Shares were outstanding, (v) 8,039,768 Parent Shares were reserved for issuance pursuant to the Parent Equity Plans, (vi) no Parent Preferred Shares were issued and outstanding, (vii) no Parent Ordinary A Shares were issued and outstanding and (viii) 5,000,000 Parent Preferred Shares were reserved for issuance pursuant to the Rights Agreement, dated as of June 28, 2013, between Parent and Computershare Trust Company, N.A., as Rights Agent (the Parent Rights Agreement). All the outstanding Parent Shares are, and all Parent Shares reserved for issuance as noted above shall be, when issued in accordance with the

respective terms thereof, duly authorized, validly issued, fully paid and non-assessable and free of pre-emptive rights. All issued and outstanding shares in the capital of, or other equity interests in, each Significant Subsidiary of Parent are wholly owned, directly or indirectly, by Parent free and clear of all Liens, other than Parent Permitted Liens.

Table of Contents

(b) Except as set forth in Section 4.2(a) above and except for the rights issued in connection with the Parent Rights Agreement, as of the date hereof: (i) Parent does not have any shares issued or outstanding other than Parent Shares that have become outstanding after the Parent Capitalization Date, but were reserved for issuance as set forth in Section 4.2(a) above, and (ii) there are no outstanding subscriptions, options, warrants, puts, calls, exchangeable or convertible securities or other similar rights, agreements or commitments relating to the issuance of shares to which Parent or any of Parent s Subsidiaries is a party obligating Parent or any of Parent s Subsidiaries to (i) issue, transfer or sell any shares or other equity interests of Parent or any Subsidiary of Parent or securities convertible into or exchangeable for such shares or equity interests (in each case other than to Parent or a wholly owned Subsidiary of Parent); (ii) grant, extend or enter into any such subscription, option, warrant, put, call, exchangeable or convertible securities or other similar right, agreement or commitment; (iii) redeem or otherwise acquire any such shares or other equity interests; or (iv) provide a material amount of funds to, or make any material investment (in the form of a loan, capital contribution or otherwise) in, any Parent Subsidiary that is not wholly owned.

(c) Neither Parent nor any Parent Subsidiary has outstanding bonds, debentures, notes or other similar obligations, the holders of which have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the shareholders of Parent on any matter.

(d) There are no voting trusts or other agreements or understandings to which Parent or any of its Subsidiaries is a party with respect to the voting of the shares or other equity interest of Parent or any of its Subsidiaries.

Section 4.3 Corporate Authority Relative to this Agreement; No Violation.

(a) Parent and Merger Sub have all requisite corporate or similar power and authority to enter into this Agreement and, subject (in the case of the issuance of Parent Shares in connection with the Merger) to receipt of the Parent Shareholder Approval and (in the case of the Merger Sub) to the adoption of this Agreement by Merger Sub s sole shareholder (which adoption shall occur immediately after the execution and delivery of this Agreement), to consummate the Transactions, including the Merger. The execution and delivery of this Agreement and the consummation of the Transactions have been duly and validly authorized by the Parent Board of Directors and (in the case of the issuance of Parent Shares in connection with the Merger, except for (i) receipt of the Parent Shareholder Approval and the adoption of this Agreement by Merger Sub s sole shareholder and (ii) the filing of the Certificate of Merger with the DSOS and the CA Merger Agreement with the CSOS) no other corporate proceedings on the part of Parent or any Parent Subsidiary are necessary to authorize the consummation of the Transactions. On or prior to the date hereof, the Parent Board of Directors has unanimously (x) resolved that this Agreement and the Transactions, including the issuance of Parent Shares in connection with the Merger, are fair to and in the best interests of Parent and the shareholders of Parent, (y) approved and declared advisable this Agreement and the Transactions, including the Merger, on the terms and subject to the conditions set forth herein, in accordance with the requirements of the DGCL, and (z) resolved to recommend that the shareholders of Parent vote in favor of the approval of the issuance of Parent Shares in connection with the Merger, and to include such recommendations in the Joint Proxy Statement/Prospectus. This Agreement has been duly and validly executed and delivered by Parent and Merger Sub and, assuming this Agreement constitutes the valid and binding agreement of the Company, constitutes the valid and binding agreement of Parent and Merger Sub, enforceable against Parent and Merger Sub in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, examinership, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors rights generally and (ii) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(b) Other than in connection with or in compliance with (i) the DGCL and the CGCL, (ii) the Securities Act, (iii) the Exchange Act, (iv) the HSR Act, and (v) any applicable requirements of the NYSE, no authorization, consent or

approval of, or filing with, any Governmental Entity is necessary, under applicable

Table of Contents

Law, for the consummation by Parent and Merger Sub of the Transactions, except for such authorizations, consents, approvals or filings that, if not obtained or made, would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(c) The execution and delivery by Parent and Merger Sub of this Agreement do not, and, except as described in Section 4.3(b), the consummation of the Transactions and compliance with the provisions hereof will not (i) result in any violation or breach of, or default or change of control (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, modification, cancellation or acceleration of any material obligation or to the loss of a material benefit under any Contract, loan, guarantee of Indebtedness or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise or right binding upon Parent or any of Parent s Subsidiaries or result in the creation of any Lien upon any of the properties, rights or assets of Parent or any of Parent s Subsidiaries, other than Parent Permitted Liens, (ii) conflict with or result in any violation of any provision of the Parent Governing Documents or the organizational documents of any Parent Subsidiary or (iii) conflict with or violate any Laws applicable to Parent or any of Parent s Subsidiaries or any of their respective properties or assets, other than in the case of clauses (i), (ii) (with respect to Subsidiaries that are not Significant Subsidiaries) and (iii), any such violation, conflict, default, termination, cancellation, acceleration, right, loss or Lien that would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 4.4 Reports and Financial Statements.

(a) From June 5, 2013 through the date of this Agreement, Parent has filed or furnished all forms, documents and reports required to be filed or furnished prior to the date hereof by it with the SEC (the Parent SEC Documents). As of their respective dates, or, if amended, as of the date of (and giving effect to) the last such amendment, the Parent SEC Documents complied in all material respects with the requirements of the Securities Act and the Exchange Act, as the case may be, and the applicable rules and regulations promulgated thereunder, and none of the Parent SEC Documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) The consolidated financial statements (including all related notes and schedules) of Parent included in the Parent SEC Documents when filed complied as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto in effect at the time of such filing and fairly present in all material respects the consolidated financial position of Parent and its consolidated Subsidiaries, as at the respective dates thereof, and the consolidated results of their operations and their consolidated cash flows for the respective periods then ended (subject, in the case of the unaudited statements, to normal year-end audit adjustments and to any other adjustments described therein, including the notes thereto) in conformity with GAAP (except, in the case of the unaudited statements, to the extent permitted by the SEC) applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto).

Section 4.5 Internal Controls and Procedures. Parent has established and maintains disclosure controls and procedures and internal control over financial reporting (as such terms are defined in paragraphs (e) and (f), respectively, of Rule 13a-15 under the Exchange Act) as required by Rule 13a-15 under the Exchange Act. Parent s disclosure controls and procedures are reasonably designed to ensure that all material information required to be disclosed by Parent in the reports that it files or furnishes under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such material information is accumulated and communicated to Parent s management as appropriate to allow timely decisions regarding required disclosure and to make the certifications required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act. Parent s internal controls over financial reporting provide reasonable assurance regarding the reliability of Parent s financial reporting and the preparation of Parent financial statements for external purposes in accordance with GAAP. Since June 5, 2013,

Parent s principal executive

officer and its principal financial officer have disclosed to Parent s auditors and the audit committee of the Parent Board of Directors (i) all known significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect in any material respect Parent s ability to record, process, summarize and report financial information, and (ii) any known fraud, whether or not material, that involves management or other employees who have a significant role in Parent s internal controls. Parent has made available to the Company all such disclosures made by management to Parent s auditors and audit committee from June 5, 2013 to the date hereof.

Section 4.6 No Undisclosed Liabilities. Except (a) as disclosed, reflected or reserved against in Parent s consolidated balance sheet (or the notes thereto) as of December 27, 2013 included in the Parent SEC Documents filed or furnished on or prior to the date hereof, (b) as disclosed, reflected or reserved against in Cadence s consolidated balance sheet (or the notes thereto) as of December 31, 2013 included in Cadence s Annual Report on Form 10-K filed with the SEC on February 26, 2014, (c) for liabilities incurred in the ordinary course of business since December 27, 2013, (d) as expressly permitted or contemplated by this Agreement and (e) for liabilities which have been discharged or paid in full in the ordinary course of business, as of the date hereof, neither Parent nor any Parent Subsidiary has any liabilities of any nature, whether or not accrued, contingent or otherwise, that would be required by GAAP to be reflected on a consolidated balance sheet of Parent and its consolidated Subsidiaries (or in the notes thereto), other than those which, individually or in the aggregate, would not reasonably be expected to have a Parent Material Adverse Effect. For purposes of this Section 4.6, the term liabilities shall not include obligations of Parent or any Parent Subsidiaries to perform under or comply with any applicable Law, action, judgment or Contract, but would include such liabilities and obligations if there has been a default or failure to perform or comply by Parent or any Parent Subsidiaries with any such liability or obligation if such default or failure would, with the giving of notice or passage of time or both, reasonably be expected to result in a monetary obligation.

Section 4.7 Compliance with Law; Permits.

(a) Parent and each of Parent s Subsidiaries are in compliance with and are not in default under or in violation of any Laws, applicable to Parent, such Subsidiaries or any of their respective properties or assets, except where such non-compliance, default or violation would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) Parent and Parent s Subsidiaries are in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, clearances, approvals, registrations and orders of any Governmental Entity necessary for Parent and Parent s Subsidiaries to own, lease and operate their properties and assets or to carry on their businesses as they are now being conducted (the Parent Permits), except where the failure to have any of the Parent Permits would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. All Parent Permits are in full force and effect, except where the failure to be in full force and effect would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(c) Notwithstanding anything contained in this Section 4.7, no representation or warranty shall be deemed to be made in this Section 4.7 in respect of the matters referenced in Section 4.4, Section 4.5 or Section 4.13, or in respect of environmental, Tax, employee benefits or labor Laws matters.

Section 4.8 Environmental Laws and Regulations. Except for such matters as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect: (a) Parent and its Subsidiaries are now and have been since January 1, 2011 in compliance with all, and have not violated any, applicable Environmental Laws; (b) no property currently or formerly owned, leased or operated by Parent or any of its Subsidiaries (including soils, groundwater, surface water, buildings or other structures), or any other location used by Parent or any of Parent s

Subsidiaries, is contaminated with any Hazardous Substance in a manner that is or is reasonably likely to be required to be remediated or removed, that is in violation of any Environmental Law,

Table of Contents

or that is reasonably likely to give rise to any Environmental Liability; (c) since January 1, 2011, neither Parent nor any of its Subsidiaries has received any notice, demand letter, claim or request for information alleging that Parent or any of its Subsidiaries may be in violation of or subject to liability under any Environmental Law or are allegedly subject to any Removal, Remedial or Response actions; (d) neither Parent nor any of its Subsidiaries is subject to any order, decree, injunction or agreement with any Governmental Entity, or any indemnity or other agreement with any third party, imposing liability or obligations relating to any Environmental Law or any Hazardous Substance; and (e) Parent has all of the material Environmental Permits necessary for the conduct and operation of its business as now being conducted, and all such Environmental Permits are in good standing.

Section 4.9 Employee Benefit Plans.

(a) Section 4.9(a) of the Parent Disclosure Letter sets forth, as of the date hereof, each material Parent Benefit Plan for the benefit of current employees, directors or consultants of Parent located in the United States or Canada. For purposes of this Agreement, Parent Benefit Plan means each employee benefit plan (as defined in Section 3(3) of ERISA), whether or not subject to ERISA, and each bonus, stock, stock option or other equity-based compensation arrangement or plan, incentive, deferred compensation, retirement or supplemental retirement, severance, employment, change-in-control, collective bargaining, profit sharing, pension, vacation, cafeteria, dependent care, medical care, employee assistance program, education or tuition assistance programs, and each insurance and other similar fringe or employee benefit plan, program or arrangement, in each case for the benefit of current employees, directors or consultants (or any dependent or beneficiary thereof) of Parent or any Parent Subsidiary or with respect to which Parent or any Parent Subsidiary may have any obligation or liability (whether actual or contingent). With respect to each Parent Benefit Plan listed on Section 4.9(a) of the Parent Disclosure Letter, Parent has made available to the Company correct and complete copies of (or, to the extent no such copy exists, a description of), in each case, to the extent applicable, (i) all plan documents, summary plan descriptions, summaries of material modifications, and amendments related to such plans and any related trust agreement; (ii) the most recent audited financial statement and actuarial valuation; and (iii) all material related agreements, insurance contracts and other agreements which implement each such Parent Benefit Plan.

(b) (i) Except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, each of the Parent Benefit Plans has been operated and administered in compliance in accordance with applicable Laws, including, but not limited to, ERISA, the Code and in each case the regulations thereunder; (ii) no Parent Benefit Plan is subject to Title IV or Section 302 of ERISA or Section 412 or 4971 of the Code; (iii) no Parent Benefit Plan provides benefits, including death or medical benefits (whether or not insured), with respect to current or former employees or directors of Parent or its Subsidiaries beyond their retirement or other termination of service, other than under COBRA or comparable U.S. state Law; (iv) no material liability under Title IV of ERISA has been incurred by Parent, its Subsidiaries or any of their respective ERISA Affiliates that has not been satisfied in full, and no condition exists that is likely to cause Parent, its Subsidiaries or any of their ERISA Affiliates to incur a material liability thereunder; (v) no Parent Benefit Plan is a multiemployer pension plan (as such term is defined in Section 3(37) of ERISA) or a plan that has two or more contributing sponsors at least two of whom are not under common control, within the meaning of Section 4063 of ERISA; (vi) except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, all contributions or other amounts payable by Parent or its Subsidiaries pursuant to each Parent Benefit Plan in respect of current or prior plan years have been timely paid or accrued in accordance with GAAP or applicable international accounting standards; (vii) except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, neither Parent nor any of its Subsidiaries has engaged in a transaction in connection with which Parent or its Subsidiaries could be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code; and (viii) except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, there are no pending, or to the knowledge of Parent,

threatened or anticipated claims, actions, investigations or audits (other than routine claims for benefits) by, on behalf of or against any of the Parent Benefit Plans or any trusts related thereto that would result in a material liability.

Table of Contents

(c) Except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, (i) each of the Parent Benefit Plans intended to be qualified within the meaning of Section 401(a) of the Code has received a favorable determination letter or opinion letter as to its qualification, and (ii) there are no existing circumstances or any events that have occurred that would reasonably be expected to adversely affect the qualified status of any such plan. Each such favorable determination letter has been provided or made available to the Company.

(d) Except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, neither the execution and delivery of this Agreement nor the consummation of the Transactions (either alone or in conjunction with any other event) will (i) result in any payment (including severance, unemployment compensation, excess parachute payment (within the meaning of Section 280G of the Code), forgiveness of Indebtedness or otherwise) becoming due to any current or former director or any employee of Parent or any Parent Subsidiary under any Parent Benefit Plan or otherwise, (ii) increase any benefits otherwise payable under any Parent Benefit Plan or (iii) result in any acceleration of the time of payment, funding or vesting of any such benefits.

(e) Except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, each Parent Benefit Plan, if any, which is maintained outside of the United States has been operated in conformance with the applicable statutes or governmental regulations and rulings relating to such plans in the jurisdictions in which such Parent Benefit Plan is present or operates and, to the extent relevant, the United States.

(f) Except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, each Parent Benefit Plan has been maintained and operated in documentary and operational compliance with Section 409A of the Code or an available exemption therefrom. Parent is not a party to nor does it have any obligation under any Parent Benefit Plan to compensate any person for excise Taxes payable pursuant to Section 4999 of the Code or for additional Taxes payable pursuant to Section 409A of the Code.

Section 4.10 Absence of Certain Changes or Events.

(a) From September 27, 2013 through the date of this Agreement, there has not occurred any event, development, occurrence, or change that has had, or would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) From December 27, 2013 through the date of this Agreement, neither Parent nor any Parent Subsidiary has taken any action that would constitute a breach of Section 5.2(ii) (other than clauses (c), (e) and (solely to the extent relating to clauses (c) or (e)) (j) thereof) had such action been taken after the execution of this Agreement.

Section 4.11 Investigations; Litigation. As of the date hereof, (a) there is no investigation or review pending (or, to the knowledge of Parent, threatened) by any Governmental Entity with respect to Parent or any of Parent s Subsidiaries or any of their respective properties, rights or assets, and (b) there are no claims, actions, suits or proceedings pending (or, to the knowledge of Parent, threatened) against Parent or any of Parent s Subsidiaries or any of their respective properties, rights or assets before, and there are no orders, judgments or decrees of, any Governmental Entity, which, in the case of clause (a) or (b), would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 4.12 Information Supplied. The information relating to Parent and its Subsidiaries to be contained in the Joint Proxy Statement/Prospectus and the Form S-4 will not, on the date the Joint Proxy Statement/Prospectus (and any amendment or supplement thereto) is first mailed to shareholders of Parent or at the time the Form S-4 (and any amendment or supplement thereto) is declared effective or at the time of the Parent Special

A-28

Table of Contents

Meeting, contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, at the time and in light of the circumstances under which they were made, not false or misleading. The Joint Proxy Statement/Prospectus (other than the portions thereof relating solely to the meeting of the shareholders of the Company) and the Form S-4 will comply in all material respects as to form with the requirements of both the Exchange Act and the Securities Act and the rules and regulations promulgated thereunder. Notwithstanding the foregoing provisions of this Section 4.12, no representation or warranty is made by Parent with respect to information or statements made or incorporated by reference in the Joint Proxy Statement/Prospectus or the Form S-4 which were not supplied by or on behalf of Parent.

Section 4.13 Regulatory Matters.

(a) Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, (i) each of Parent and the Parent Subsidiaries holds all Parent Permits and clearances, including (x) all permits, licenses, franchises, approvals, registrations, authorizations and clearances under the FDCA, the PHSA, and the regulations of the FDA promulgated thereunder and (y) authorizations of any applicable Governmental Entity that are concerned with the quality, identity, strength, purity, safety, efficacy, labeling, manufacturing, marketing, promotion, distribution, sale, pricing, import or export of the Parent Products (any such Governmental Entity, a Parent Regulatory Agency) necessary for the lawful operating of the businesses of Parent or any of the Parent Subsidiaries (the Parent Regulatory Permits); (ii) all such Parent Regulatory Permits are valid and in full force and effect; and (iii) Parent is in compliance with the terms of all Parent Regulatory Permits. All Parent Regulatory Permits are in full force and effect, except where the failure to be in full force and effect would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) Except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, the businesses of each of Parent and each Parent Subsidiary are being conducted in compliance with all applicable Laws, including (i) the FDCA; (ii) the PHSA; (iii) federal Medicare and Medicaid statutes and related state or local statutes; (iv) provincial formulary and drug pricing statutes; (v) any comparable foreign Laws for any of the foregoing applicable in jurisdictions in which material quantities of any of the Parent Products or Parent Product candidates are sold or intended by Parent to be sold; (vi) federal, state or provincial criminal or civil healthcare Laws (including the federal Anti-Kickback Statute (42 U.S.C. §1320a-7(b)), False Claims Act (42 U.S.C. §1320a-7b(a)), Stark Law (42 U.S.C. §1395nn), Physician Payment Sunshine Act (42 U.S.C. § 1320a-7h), the exclusion laws (42 U.S.C. § 1320a-7), the civil monetary penalties law (42 U.S.C. § 1320a-7a), Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. §1320d et. seq.), as amended by the Health Information Technology for Economic and Clinical Health Act, and any comparable federal, state, provincial or local healthcare Laws); (vii) state or provincial licensing, disclosure and reporting requirements; and (viii) the rules and regulations promulgated pursuant to all such applicable Laws, each as amended from time to time (collectively, Parent Healthcare Laws). Since January 1, 2011, neither Parent nor any of the Parent Subsidiaries has received any written notification or communication from any Parent Regulatory Agency, including the FDA, the Drug Enforcement Administration, the United Stated States Department of Justice (including any United States Attorney s Office), the Office of Inspector General of the Department of Health and Human Services, the Centers for Medicare and Medicaid Services, and the Department of Health and Human Services, of noncompliance by, or liability of Parent or the Parent Subsidiaries under, any Parent Healthcare Laws, except where such noncompliance or liability would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(c) Parent and the Parent Subsidiaries are not party to any corporate integrity agreements, deferred prosecution agreements, monitoring agreements, consent decrees, settlement orders, or similar agreements with or imposed by any Parent Regulatory Agency.

(d) All pre-clinical and clinical investigations in respect of a Parent Product or Parent Product candidate conducted or sponsored by each of Parent and the Parent Subsidiaries, not to include investigator

Table of Contents

initiated studies, are being conducted in compliance with all applicable Laws administered or issued by the applicable Parent Regulatory Agencies, including (i) FDA standards for the design, conduct, performance, monitoring, auditing, recording, analysis and reporting of clinical trials contained in Title 21 parts 50, 54, 56, 58, 312, 314, 320, and 812 of the Code of Federal Regulations and (ii) any applicable federal, state and provincial Laws restricting the collection, use and disclosure of individually identifiable health information and personal information, except, in each case, for such noncompliance that, individually or in the aggregate, has not had and would not reasonably be expected to have a Parent Material Adverse Effect.

(e) Since January 1, 2011, neither Parent nor any of the Parent Subsidiaries has received any written notice from the FDA or the EMA or any foreign agency with jurisdiction over the development, marketing, labeling, sale, use handling and control, safety, efficacy, reliability, or manufacturing of drugs or medical devices which would reasonably be expected to lead to the denial, limitation, revocation, or rescission of any Parent Regulatory Permits or of any application for marketing approval already granted or currently pending before the FDA or such other Parent Regulatory Agency.

(f) Since January 1, 2011, all reports, documents, claims, permits and notices required to be filed, maintained or furnished to the FDA or any other Parent Regulatory Agency by Parent and the Parent Subsidiaries have been so filed, maintained or furnished, except where failure to file, maintain or furnish such reports, documents, claims, permits or notices would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. All such reports, documents, claims, permits and notices were complete and accurate in all material respects on the date filed (or were corrected in or supplemented by a subsequent filing). Since January 1, 2011, neither Parent nor any of the Parent Subsidiaries, nor, to the knowledge of Parent, any officer, employee, agent or distributor of Parent or any of the Parent Subsidiaries, has made an untrue statement of a material fact or a fraudulent statement to the FDA or any other Parent Regulatory Agency, failed to disclose a material fact required to be disclosed to the FDA or any other Parent Regulatory Agency, or committed an act, made a statement, or failed to make a statement, in each such case, related to the business of Parent or any of the Parent Subsidiaries, that, at the time such disclosure was made, would reasonably be expected to provide a basis for the FDA to invoke its policy respecting Fraud, Untrue Statements of Material Facts, Bribery, and Illegal Gratuities , set forth in 56 Fed. Reg. 46191 (September 10, 1991) or for the FDA or any other Parent Regulatory Agency to invoke any similar policy, except for any act or statement or failure to make a statement that, individually or in the aggregate, has not had and would not reasonably be expected to have a Parent Material Adverse Effect. Neither Parent nor any of the Parent Subsidiaries, nor, to the knowledge of Parent, any officer, employee, agent or distributor of Parent or any of the Parent Subsidiaries, has been debarred or convicted of any crime or engaged in any conduct for which debarment is mandated by 21 U.S.C. § 335a(a) or any similar Law or authorized by 21 U.S.C. § 335a(b) or any similar Law applicable in other jurisdictions in which material quantities of any of the Parent Products or Parent Product candidates are sold or intended by Parent to be sold. Since January 1, 2011, neither Parent nor any of the Parent Subsidiaries, nor, to the knowledge of Parent, any officer, employee, agent or distributor of Parent or any of the Parent Subsidiaries, has been excluded from participation in any federal health care program or convicted of any crime or engaged in any conduct for which such Person could be excluded from participating in any federal health care program under Section 1128 of the Social Security Act of 1935, as amended, or any similar Parent Healthcare Law or program.

(g) As to each Parent Product or Parent Product candidate subject to the FDCA and the regulations of the FDA promulgated thereunder or any similar Law applicable in any foreign jurisdiction in which material quantities of any of the Parent Products or Parent Product candidates are sold or intended by the Company to be sold that is or has been developed, manufactured, tested, distributed or marketed by or on behalf of Parent or any of the Parent Subsidiaries, except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, each such Parent Product or Parent Product candidate is being or has been developed, manufactured, stored, distributed and marketed in compliance with all applicable Laws, including those relating to investigational use,

marketing approval, current good manufacturing practices, packaging, labeling, advertising, record keeping, reporting, and security. There is no action or proceeding pending or, to the knowledge of Parent, threatened, including any prosecution, injunction, seizure, civil fine, debarment, suspension

Table of Contents

or recall, in each case alleging any violation applicable to any Parent Product or Parent Product candidate by Parent or any of the Parent Subsidiaries of any Law, except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect.

(h) Since January 1, 2011, neither Parent nor any of the Parent Subsidiaries have voluntarily or involuntarily initiated, conducted or issued, or caused to be initiated, conducted or issued, any recall, field corrections, market withdrawal or replacement, safety alert, warning, dear doctor letter, investigator notice, or other notice or action to wholesalers, distributors, retailers, healthcare professionals or patients relating to an alleged lack of safety, efficacy or regulatory compliance of any Parent Product, other than notices or actions that are not material to Parent or the Parent Subsidiaries, taken as a whole. To the knowledge of Parent, there are no facts which are reasonably likely to cause, and Parent has not received any written notice from the FDA or any other Parent Regulatory Agency regarding (i) the recall, market withdrawal or replacement of any Company Product sold or intended to be sold by Parent or a Parent Subsidiary (other than recalls, withdrawals or replacements that are not material to Parent or the Parent Subsidiaries, taken as a whole), (ii) a material change in the marketing classification or a material adverse change in the labeling of any such Parent Products, (iii) a termination or suspension of the manufacturing, marketing, or distribution of such Parent Products, or (iv) a material negative change in reimbursement status of a Parent Product.

(i) Notwithstanding anything contained in this Section 4.13, no representation or warranty shall be deemed to be made in this Section 4.13 in respect of environmental, Tax, employee benefits or labor Law matters.

Section 4.14 Tax Matters. (a) Except as would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect:

(i) all Tax Returns that are required to be filed by or with respect to Parent or any of its Subsidiaries have been timely filed (taking into account any extension of time within which to file), and all such Tax Returns are true, complete and accurate;

(ii) Parent and its Subsidiaries have paid all Taxes due and owing by any of them, including any Taxes required to be withheld from amounts owing to any employee, creditor, or third party (in each case, whether or not shown on any Tax Return), other than Taxes for which adequate reserves have been established in accordance with GAAP on the financial statements of Parent and its Subsidiaries;

(iii) there is not pending or threatened in writing any audit, examination, investigation or other proceeding with respect to any Taxes of Parent or any of its Subsidiaries, other than for which adequate reserves have been established in accordance with GAAP on the financial statements of Parent and its Subsidiaries;

(iv) neither Parent nor any of its Subsidiaries has waived any statute of limitations with respect to Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency;

(v) neither Parent nor any of its Subsidiaries has constituted a distributing corporation or a controlled corporation (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (or any similar provision of state, local, or non-U.S. Law) in the two years prior to the date of this Agreement;

(vi) none of Parent or any of its Subsidiaries is a party to any Tax allocation, sharing, indemnity, or reimbursement agreement or arrangement (other than any customary Tax indemnification provisions in ordinary course commercial agreements or arrangements that are not primarily related to Taxes) or has any liability for Taxes of any Person (other than Parent or any of its Subsidiaries) under U.S. Treasury Regulation Section 1.1502-6 (or any similar provision of

state, local, or non-U.S. Law) or as transferee or successor;

(vii) there are no Liens for Taxes upon any property or assets of Parent or any of its Subsidiaries, except for Parent Permitted Liens; and

Table of Contents

(viii) neither Parent nor any of its Subsidiaries has entered into any listed transaction within the meaning of Treasury Regulations Section 1.6011-4(b)(2) (or any similar provision of state, local or non-U.S. Law).

(b) Parent is as of the date hereof, and at all times since its formation until the date hereof has been, treated as a foreign corporation for U.S. federal income tax purposes.

Section 4.15 Labor Matters.

(a) Neither Parent nor any Parent Subsidiary is a party to, or bound by, any collective bargaining agreement or other Contract with a labor union or labor organization. Neither Parent nor any Parent Subsidiary is subject to a labor dispute, strike or work stoppage except as would not have, individually or in the aggregate, a Parent Material Adverse Effect. To the knowledge of Parent, there are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or threatened involving employees of Parent or any Parent Subsidiary, except for those the formation of which would not have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) The Transactions will not require the consent of, or advance notification to, any works councils, unions or similar labor organizations with respect to employees of Parent or any Parent Subsidiary, other than any such consents the failure of which to obtain or advance notifications the failure of which to provide as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 4.16 Intellectual Property. Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, either Parent or a Parent Subsidiary owns, or is licensed or otherwise possesses legally enforceable rights to use, all Intellectual Property used in their respective businesses as currently conducted. There are no pending or, to the knowledge of Parent, threatened claims against Parent or its Subsidiaries by any Person alleging infringement by Parent or its Subsidiaries for their use of any Intellectual Property in their respective businesses as currently conducted that would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, to the knowledge of Parent, the conduct of the businesses of Parent and its Subsidiaries does not infringe upon any Intellectual Property or any other similar proprietary right of any Person. As of the date hereof, neither Parent nor any of its Subsidiaries has made any claim of a violation or infringement by others of its rights to or in connection with the Intellectual Property used in their respective businesses which violation or infringement would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. Parent and the Parent Subsidiaries have taken reasonable measures to protect and maintain the secrecy and confidentiality of all Trade Secrets of Parent or the Parent Subsidiaries and, to the knowledge of Parent, such Trade Secrets have not been disclosed by Parent or the Parent Subsidiaries to any Person except pursuant to written non-disclosure agreements. All past and present employees, contractors and consultants of Parent or any of the Parent Subsidiaries who have had access to Trade Secrets of Parent or the Parent Subsidiaries are bound by valid and enforceable agreements or otherwise have obligations pursuant to which such Persons are bound to protect such confidential information and Trade Secrets of Parent or the Parent Subsidiaries, and, to the knowledge of Parent, no such Person has breached its obligations to Parent or the Parent Subsidiaries. To the knowledge of Parent, no third-party has misappropriated Trade Secrets of Parent or the Parent Subsidiaries. There are no pending or, to the knowledge of Parent, threatened claims against Parent or any of the Parent Subsidiaries by any Person challenging the ownership or validity of any Trade Secrets of Parent or any of the Parent Subsidiaries.

Section 4.17 Real Property.

(a) With respect to the real property owned by Parent or any Subsidiary at which the material operations of Parent and the Parent Subsidiaries are conducted as of the date hereof (such property collectively, the Parent Owned Real

Property), except as would not reasonably be expected to have, individually or in the

aggregate, a Parent Material Adverse Effect, either Parent or a Parent Subsidiary has good and valid title to such Parent Owned Real Property, free and clear of all Liens, other than any such Lien (i) for Taxes or governmental assessments, charges or claims of payment not yet due and payable, being contested in good faith or for which adequate accruals or reserves have been established, (ii) which is a carriers , warehousemen s, mechanics , materialmen s, repairmen s or other similar Lien arising in the ordinary course of business, (iii) which is disclosed on the most recent consolidated balance sheet of Parent or notes thereto or securing liabilities reflected on such balance sheet, (iv) which was incurred in the ordinary course of business since the date of the most recent consolidated balance sheet of Parent or (v) which would not reasonably be expected to materially impair the continued use of the applicable property for the purposes for which the property is currently being used (any such Lien described in any of clauses (i) through (v), Parent Permitted Lien). As of the date hereof, neither Parent nor any of its Subsidiaries has received notice of any pending, and to the knowledge of Parent there is no threatened, condemnation proceeding with respect to any Parent Owned Real Property, except proceedings which would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, (i) each material lease, sublease and other agreement under which Parent or any of its Subsidiaries uses or occupies or has the right to use or occupy any material real property at which the material operations of Parent and its Subsidiaries are conducted as of the date hereof (the Parent Leased Real Property), is valid, binding and in full force and effect, except that (A) enforcement may be subject to applicable bankruptcy, insolvency, examinership, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors rights generally and (B) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought and (ii) no uncured default of a material nature on the part of Parent or, if applicable, its Subsidiary or, to the knowledge of Parent, the landlord thereunder exists with respect to any Parent Leased Real Property. Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, Parent and each of its Subsidiaries has a good and valid leasehold interest in or contractual right to use or occupy, subject to the terms of the lease, sublease or other agreement applicable thereto, the Parent Leased Real Property, free and clear of all Liens, except for Parent Permitted Liens.

Section 4.18 Opinion of Financial Advisor. The Parent Board of Directors has received an opinion from Barclays Capital Inc., dated as of the date of this Agreement, as to the fairness, from a financial point of view, to Parent of the Merger Consideration being paid by Parent pursuant to this Agreement.

Section 4.19 Required Vote. The Parent Shareholder Approval is the only vote of holders of securities of Parent which is required to consummate the Transactions.

Section 4.20 Material Contracts.

(a) Except for this Agreement, Section 4.20 of the Parent Disclosure Letter contains a complete and correct list, as of the date of this Agreement, of each Contract described below in this Section 4.20(a) under which Parent or any Parent Subsidiary has any current or future rights, responsibilities, obligations or liabilities (in each case, whether contingent or otherwise) or to which any of their respective properties or assets is subject, in each case as of the date of this Agreement (all Contracts of the type described in this Section 4.20(a) being referred to herein as the Parent Material Contracts):

(i) any partnership, joint venture, strategic alliance, collaboration, co-promotion or research and development project Contract which is material to Parent and its Subsidiaries, taken as a whole;

(ii) each Contract not otherwise described in any other subsection of this Section 4.20(a) that (A) is reasonably expected to involve future expenditures by Parent or any Parent Subsidiary of more than $50 million in the one-year period following the date hereof and (B) cannot be terminated by Parent or such Parent Subsidiary on less than sixty (60) days notice without material payment or penalty, other than ordinary course product or active ingredient purchase contracts;

Table of Contents

(iii) each acquisition or divestiture Contract or material licensing agreement that contains representations, covenants, indemnities or other obligations (including earn-out or other contingent payment obligations) that would reasonably be expected to result in the receipt or making of future payments in excess of $25 million in the twelve (12) month period following the date hereof;

(iv) each Contract relating to outstanding Indebtedness of Parent or its Subsidiaries for borrowed money or any financial guaranty thereof (whether incurred, assumed, guaranteed or secured by any asset) in an amount in excess of $5 million other than (A) Contracts solely among Parent and any wholly owned Parent Subsidiary, (B) financial guarantees entered into in the ordinary course of business consistent with past practice not exceeding $5 million, individually or in the aggregate (other than surety or performance bonds, letters of credit or similar agreements entered into in the ordinary course of business consistent with past practice in each case to the extent not drawn upon), and (C) any Contracts relating to Indebtedness explicitly included in the consolidated financial statements in the Parent SEC Documents;

(v) each Contract between Parent or any Parent Subsidiary, on the one hand, and any officer, director or affiliate (other than a wholly owned Parent Subsidiary) of Parent or any Parent Subsidiary or any of their respective associates or immediate family members (as such terms are defined in Rule 12b-2 and Rule 16a-1 of the Exchange Act), on the other hand, including any Contract pursuant to which Parent or any Parent Subsidiary has an obligation to indemnify such officer, director, affiliate or family member;

(vi) any Contract (excluding (A) licenses for commercial off the shelf computer software that are generally available on nondiscriminatory pricing terms, (B) service Contracts related to pre-clinical or clinical development of any medicine to the extent the licenses contained therein are incidental to such Contracts, immaterial, non-exclusive and granted in the ordinary course of business and (C) licenses granted by third parties to the extent necessary for the manufacture by Parent or its Subsidiaries of products for such third parties) under which Parent or any Parent Subsidiary is granted any license, option or other right or immunity (including a covenant not to be sued or right to enforce or prosecute any patents) with respect to any Intellectual Property of a third party, which Contract is material to Parent and the Parent Subsidiaries, taken as a whole;

(vii) any Contract (excluding (A) licenses contained in service Contracts related to pre-clinical or clinical development of any medicine to the extent the licenses contained therein are incidental to such Contract, immaterial, non-exclusive and granted in the ordinary course of business and (B) licenses granted to manufacturers of any of the Parent Products to the extent required to accomplish such manufacturing) under which Parent or any Parent Subsidiary has granted to a third party any license, option or other right or immunity (including a covenant not to be sued or right to enforce or prosecute any patents) with respect to any Intellectual Property (including any development thereof), which Contract is material to Parent and the Parent Subsidiaries, taken as a whole;

(viii) any shareholders, investors rights, registration rights or similar agreement or arrangement;

(ix) any Contract with respect to licensing, development or clinical studies pursuant to which Parent or any Parent Subsidiary has continuing obligations or interests involving (A) milestone or other similar contingent payments, including upon the achievement of regulatory or commercial milestones, or (B) payment of royalties or other amounts calculated based upon any revenues or income of Parent or any Parent Subsidiary, in each case (x) which payments after the date hereof would reasonably be expected to be more than $25 million in the twelve (12) month period following the date hereof and (y) that cannot be terminated by Parent or such Parent Subsidiary without penalty without more than sixty (60) days notice without material payment or penalty;

(x) any Contract that relates to any swap, forward, futures, or other similar derivative transaction with a notional value in excess of $5 million;

(xi) any material collective bargaining agreement or other material Contract with any labor union;

Table of Contents

(xii) any Contract involving the settlement of any action or threatened action (or series of related actions) (A) which will (x) involve payments after the date hereof of consideration in excess of $5 million or (y) impose monitoring or reporting obligations to any other Person outside the ordinary course of business or (B) with respect to which material conditions precedent to the settlement have not been satisfied; and

(xiii) any Contract not otherwise described in any other subsection of this Section 4.20(a) that would constitute a material contract (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) with respect to Parent.

(b) Neither Parent nor any Parent Subsidiary is in breach of or default under the terms of any Parent Material Contract where such breach or default would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. To the knowledge of Parent, as of the date hereof, no other party to any Parent Material Contract is in breach of or default under the terms of any Parent Material Contract where such breach or default would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, each Parent Material Contract is a valid and binding obligation of Parent or the Subsidiary of Parent which is party thereto and, to the knowledge of Parent, of each other party thereto, and is in full force and effect, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, examinership, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors rights generally and (ii) equitable remedies of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 4.21 Insurance. Except as would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, as of the date hereof, (a) all current, material insurance policies and Contracts of Parent and its Subsidiaries are in full force and effect and are valid and enforceable and (after taking into account self-insurance of Parent and its Subsidiaries) cover against the risks as are customary in all material respects for companies of similar size in the same or similar lines of business and (b) all premiums due thereunder have been paid. Neither Parent nor any of its Subsidiaries has received notice of cancellation or termination with respect to any material third party insurance policies or Contracts (other than in connection with normal renewals of any such insurance policies or Contracts) where such cancellation or termination would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 4.22 Finders and Brokers. Neither Parent nor any of its Subsidiaries has employed any investment banker, broker or finder in connection with the Transactions, other than as set forth in Section 4.22 of the Parent Disclosure Letter, who might be entitled to any fee or any commission in connection with or upon consummation of the Merger.

Section 4.23 Financing.

(a) Parent has delivered to the Company a true and complete copy of (i) the executed Debt Commitment Letter and (ii) the executed Debt Fee Letter (redacted as to economic and flex terms only). The Debt Commitment Letter has not been amended or modified in any manner prior to the date of this Agreement. Neither Parent nor any of its affiliates has entered into any agreement, side letter or other arrangement relating to the financing of the Transactions, other than as set forth in the Debt Commitment Letter and the Debt Fee Letter which would impose conditions or other contingencies to the funding of the full amount of the Financing. The commitments contained in the Debt Commitment Letter have not been withdrawn or rescinded in any respect prior to the date of this Agreement. The Debt Commitment Letter is in full force and effect and represents (A) a valid, binding and enforceable obligation of MIFSA, a wholly-owned Subsidiary of Parent, and (B) to the knowledge of Parent, a valid, binding and enforceable obligation of each other party thereto to provide the financing contemplated thereby subject only to the satisfaction or waiver of the Financing Conditions, in the case of each of clauses (A) and (B) subject to the qualification that such

enforceability may be limited by bankruptcy,

Table of Contents

insolvency, reorganization or other laws of general application relating to or affecting rights of creditors and that equitable remedies, including specific performance, are discretionary and may not be ordered. Parent has caused MIFSA to fully pay (or cause to be paid) any and all commitment fees and other amounts that are required to be paid pursuant to the terms of the Debt Commitment Letter and the Debt Fee Letter on or prior to the date of this Agreement. As of the date of this Agreement, no event has occurred which, with or without notice, lapse of time or both, would reasonably constitute a breach or default on the part of MIFSA or, to the knowledge of Parent, any other party thereto under the Debt Commitment Letter. There are no conditions precedent related to the funding of the full amount of the Financing, other than the Financing Conditions. As of the date of this Agreement, Parent has no reason to believe that any of the Financing Conditions will not be satisfied, nor does Parent have knowledge, as of the date of this Agreement, that the Financing will not be made available to Parent on the Closing Date in accordance with the terms of the Debt Commitment Letter.

(b) The proceeds of the Financing, if funded, together with available cash of Parent and Merger Sub, shall constitute sufficient funds to consummate the Transactions, including the making of all required payments in connection with the Transactions, including payment of the Merger Consideration and Fractional Share Consideration and all other amounts to be paid pursuant to this Agreement and associated costs and expenses of the Transactions on the Closing Date. Notwithstanding anything to the contrary contained herein, in no event shall the receipt or availability of any funds or financing by Parent or any of its affiliates be a condition to any of Parent s or Merger Subs obligations hereunder.

Section 4.24 FCPA and Anti-Corruption. Except for those matters which, individually or in the aggregate, would not reasonably be expected to have a Parent Material Adverse Effect:

(a) neither Parent nor any Parent Subsidiary, nor any director, manager or employee of Parent or any Parent Subsidiary has in the last five (5) years, in connection with the business of Parent or any Parent Subsidiary, itself or, to Parent s knowledge, any of its agents, representatives, sales intermediaries, or any other third party, in each case, acting on behalf of Parent or any Parent Subsidiary, taken any action in violation of the FCPA or other applicable Bribery Legislation (in each case to the extent applicable);

(b) neither Parent nor any Parent Subsidiary, nor any director, manager or employee of Parent or any Parent Subsidiary, are, or in the past five (5) years have been, subject to any actual, pending, or threatened civil, criminal, or administrative actions, suits, demands, claims, hearings, notices of violation, investigations, proceedings, demand letters, settlements, or enforcement actions, or made any voluntary disclosures to any Governmental Entity, involving Parent or any Parent Subsidiary in any way relating to applicable Bribery Legislation, including the FCPA;

(c) Parent and each Parent Subsidiary has made and kept books and records, accounts and other records, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Parent and each Parent Subsidiary as required by the FCPA in all material respects;

(d) Parent and each Parent Subsidiary has instituted policies and procedures designed to ensure compliance with the FCPA and other applicable Bribery Legislation and maintain such policies and procedures in force; and

(e) no officer, director, or employee of Parent or any Parent Subsidiary is a Government Official.

Section 4.25 Manufacturing. To the knowledge of Parent, all material Parent Products are manufactured in compliance with all applicable Laws and in conformity with Good Manufacturing Practices, including, but not limited to, the Federal Food, Drug and Cosmetic Act and its applicable implementing regulations at 21 C.F.R. Parts 210 and 211, and any foreign equivalents, except as has not and would not reasonably be expected to materially and adversely affect the

ability of Parent to package, promote, distribute, market, use or sell any material Parent Product. To the knowledge of Parent, no event has occurred since January 1, 2012, and no event is reasonably expected to occur, that would materially and adversely affect the ability of Parent to procure and/or

Table of Contents

develop any material Parent Product on terms consistent in all material respects with those in effect prior to the date hereof and in quantities consistent in all material respects with past practice and sufficient for the operation of Parent s business as currently conducted and as currently anticipated to be conducted.

Section 4.26 No Merger Sub Activity. Since the date of its incorporation, Merger Sub has not engaged in any activities other than in connection with this Agreement.

Section 4.27 No Other Representations. Except for the representations and warranties contained in Article III, Parent acknowledges that neither the Company nor any Representative of the Company makes, and Parent acknowledges that it has not relied upon or otherwise been induced by, any other express or implied representation or warranty with respect to the Company or any of its Subsidiaries or with respect to any other information provided or made available to Parent in connection with the Transactions, including any information, documents, projections, forecasts or other material made available to Parent or to Parent s Representatives in certain data rooms or management presentations in expectation of the Transactions.

ARTICLE V

COVENANTS RELATING TO CONDUCT OF BUSINESS PENDING THE MERGER

Section 5.1 Conduct of Business by the Company Pending the Closing. The Company agrees that between the date of this Agreement and the Effective Time or the date, if any, on which this Agreement is terminated pursuant to Section 8.1, except (a) as set forth in Section 5.1 of the Company Disclosure Letter, (b) as specifically required by this Agreement, (c) as required by Law or (d) as consented to in writing by Parent (which consent shall not be unreasonably withheld, delayed or conditioned), the Company (i) shall and shall cause each Company Subsidiary to, conduct its business in all material respects in the ordinary course of business consistent with past practice, including by using reasonable best efforts to preserve intact its and their present business organizations and to preserve its and their present relationships with customers, suppliers and other Persons with whom it and they have material business relations; *provided*, *however*, that no action that is specifically permitted by any of clauses (a) through (p) of Section 5.1(ii) shall be deemed a breach of this clause (i), and (ii) agrees that between the date of this Agreement and the Effective Time or the date, if any, on which this Agreement is terminated pursuant to Section 8.1, the Company shall not, and shall not permit any Company Subsidiary to:

(a) authorize or pay any dividends on or make any distribution with respect to its outstanding shares of capital stock (whether in cash, assets, shares or other securities of the Company or any Company Subsidiary), except for (i) two (2) cash dividends on the Company Shares not to exceed $0.30 per share per dividend, and (ii) dividends and distributions paid or made on a pro rata basis by a Company Subsidiary in the ordinary course of business consistent with past practice or by a wholly owned Company Subsidiary to the Company or another wholly owned Company Subsidiary;

(b) split, combine, reduce or reclassify any of its capital stock, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Company Subsidiary which remains a wholly owned Company Subsidiary after consummation of such transaction;

(c) except as required by applicable Law or any Company Benefit Plan in existence as of the date hereof, (i) increase the compensation or benefits payable or to become payable to any of its directors, officers, employees or individual independent contractors other than increases in annual base salaries and target incentive compensation at times and in amounts in the ordinary course of business consistent with the annual salary review and incentive payout schedule in

effect as of the date hereof, (ii) grant to any of its directors, officers, employees or individual independent contractors any increase in severance or termination pay, (iii) pay or award, or commit to pay or award, any bonuses or incentive compensation, (iv) enter into any employment, severance, or retention agreement (excluding offer letters that provide for no severance or change in control benefits) with any of its

Table of Contents

directors, officers, employees or individual independent contractors, (v) establish, adopt, enter into, amend or terminate any collective bargaining agreement or Company Benefit Plan except any amendments in the ordinary course of business consistent with past practice that do not contravene the other covenants set forth in this clause (c) or materially increase the cost to the Company, in the aggregate, of maintaining such Company Benefit Plan, (vi) take any action to accelerate any payment or benefit, or the funding of any payment or benefit, payable or to become payable to any of its directors, officers, employees or individual independent contractors, (vii) terminate the employment of any executive officer of the Company or any employee of the Company who (A) is party to an employment agreement with the Company or (B) with respect to a termination of employment that occurs (I) prior to June 1, 2014, then holds unvested Company Equity Awards with respect to at least 5,000 shares of Company Common Stock or (II) on or after June 1, 2014, then holds unvested Company Equity Awards with respect to at least 2,500 shares of Company Common Stock, in each case, other than for cause, or (viii) hire any employee or individual independent contractor having total annual cash compensation in excess of $300,000;

(d) make any change in financial accounting policies or procedures or any of its methods of reporting income, deductions or other material items for financial accounting purposes, except as required by GAAP, applicable Law or SEC policy;

(e) authorize or announce an intention to authorize, or enter into agreements providing for, any acquisitions of an equity interest in or the assets of any Person or any business or division thereof, or any mergers, consolidations or business combinations, except for (i) such transactions that collectively do not have purchase prices that exceed $10 million in the aggregate (provided that any such transactions, individually or in the aggregate, would not reasonably be expected to prevent or materially delay or impede the consummation of the Transactions), (ii) transactions between the Company and a wholly owned Company Subsidiary or between wholly owned Company Subsidiaries or (iii) purchases of raw materials, supplies or inventory made in the ordinary course of business consistent with past practice;

(f) amend the Company Governing Documents, and shall not permit any Significant Subsidiary of the Company or other material Company Subsidiary to adopt any amendments to its governing documents;

(g) issue, deliver, grant, sell, pledge, dispose of or encumber, or authorize the issuance, delivery, grant, sale, pledge, disposition or encumbrance of, any shares in its capital stock (including restricted stock), voting securities or other equity interest in the Company or any Company Subsidiary or any securities convertible into or exchangeable for any such shares, voting securities or equity interest, or any rights, warrants or options to acquire any such shares in its capital stock, voting securities or equity interest or any phantom stock, phantom stock rights, stock appreciation rights or stock based performance units or take any action to cause to be exercisable any otherwise unexercisable Company Equity Award under any existing Company Equity Plan (except as otherwise provided by the express terms of any Company Equity Award outstanding on the date hereof), other than (i) issuances of Company Shares in respect of any exercise of Company Stock Options or the vesting, lapse of restrictions with respect to or settlement of Company Equity Awards either outstanding on the date hereof or issued pursuant to clause (iii) or pursuant to Section 5.1 of the Company Disclosure Letter, and in each case, in accordance with their respective terms, (ii) transactions between the Company and a wholly owned Company Subsidiary or between wholly owned Company Subsidiaries or (iii) issuances of Company Equity Awards to new hires and/or promoted employees of the Company, in an aggregate amount not to exceed 200,000 shares of Company Common Stock; *provided*, *however*, that no such Company Equity Awards shall be granted to any person who is an executive officer of the Company as of the date of this Agreement;

(h) directly or indirectly, purchase, redeem or otherwise acquire any shares in its capital or any rights, warrants or options to acquire any such shares in its capital, except for (i) acquisitions of Company Shares tendered by holders of Company Equity Awards in order to satisfy obligations to pay the exercise price and/or Tax withholding obligations

with respect thereto, (ii) the acquisition by the Company of Company Equity Awards in connection with the forfeiture of such awards and (iii) transactions between the Company and a wholly owned Company Subsidiary or between wholly owned Company Subsidiaries;

Table of Contents

(i) redeem, repurchase, prepay (other than prepayments of revolving loans), defease, incur, assume, endorse, guarantee or otherwise become liable for or modify in any material respects the terms of any Indebtedness for borrowed money or issue or sell any debt securities or calls, options, warrants or other rights to acquire any debt securities (directly, contingently or otherwise), except for (i) any Indebtedness for borrowed money among the Company and its wholly owned Company Subsidiaries or among wholly owned Company Subsidiaries, (ii) Indebtedness for borrowed money incurred to replace, renew, extend, refinance or refund any existing Indebtedness for borrowed money of the Company or any of the Company Subsidiaries maturing on or prior to the six (6) month anniversary of the date of such refinancing, (iii) guarantees by the Company of Indebtedness for borrowed money of Company Subsidiaries or guarantees by Company Subsidiaries of Indebtedness for borrowed money of the Company or any Company Subsidiary, which Indebtedness is incurred in compliance with this clause (i), (iv) Indebtedness for borrowed money incurred pursuant to agreements entered into by the Company or any Company Subsidiary in effect prior to the execution of this Agreement and set forth in Section 5.1(ii)(i) of the Company Disclosure Letter; provided that any such Indebtedness shall be drawn solely in the ordinary course of business in connection with the Company s anticipated 2014-2015 capital expenditures described on Section 5.1(ii)(n) of the Company Disclosure Letter, and in an aggregate amount not to exceed $5 million, (v) transactions at the stated maturity of such Indebtedness and required amortization or mandatory prepayments and (vi) Indebtedness for borrowed money not to exceed $5 million in aggregate principal amount outstanding at any time incurred by the Company or any of the Company Subsidiaries other than in accordance with clauses (i) through (v), inclusive; *provided* that nothing contained herein shall prohibit the Company and the Company Subsidiaries from making guarantees or obtaining letters of credit or surety bonds for the benefit of commercial counterparties in the ordinary course of business consistent with past practice;

(j) make any loans to any other Person, except for loans among the Company and its wholly owned Company Subsidiaries or among the Company s wholly owned Company Subsidiaries;

(k) sell, lease, license, transfer, exchange, swap or otherwise dispose of, or subject to any Lien (other than Company Permitted Liens), any of its properties or assets (including shares in the capital of the Company Subsidiaries), except (i) pursuant to an existing agreement in effect prior to the execution of this Agreement that is listed on Section 5.1(ii)(k) of the Company Disclosure Letter, (ii) in the case of Liens, as required in connection with any Indebtedness permitted to be incurred pursuant to Section 5.1(ii)(i), (iii) sales of inventory, or dispositions of obsolete or worthless equipment, in the ordinary course of business, (iv) such transactions with neither a fair market value of the assets or properties nor an aggregate purchase price that exceeds $10 million in the aggregate for all such transactions and (v) for transactions among the Company and its wholly owned Company Subsidiaries or among wholly owned Company Subsidiaries;

(l) compromise or settle any claim, litigation, investigation or proceeding, in each case made or pending by or against the Company or any of the Company Subsidiaries (for the avoidance of doubt, including any compromise or settlement with respect to matters in which any of them is a plaintiff), or any of their officers and directors in their capacities as such, other than the compromise or settlement of claims, litigation, investigations or proceedings that: (i) is for an amount (in excess of insurance proceeds) not to exceed, for any such compromise or settlement individually or in the aggregate, $5 million, (ii) does not impose any injunctive relief on the Company and the Company Subsidiaries and (iii) does not provide for the license of any Intellectual Property;

(m) make or change any material Tax election, change any Tax accounting period for purposes of a material Tax or material method of Tax accounting, file any material amended Tax Return, settle or compromise any audit or proceeding relating to a material amount of Taxes, agree to an extension or waiver of the statute of limitations with respect to a material amount of Taxes, enter into any closing agreement within the meaning of Section 7121 of the Code (or any similar provision of state, local, or non-U.S. Law) with respect to any material Tax, surrender any right to claim a material Tax refund, or take any action that would require the filing of a gain recognition agreement (within

the meaning of the Treasury Regulations promulgated under Section 367 of the Code) to avoid current recognition of a material amount of income or gain for U.S. federal income tax purposes;

Table of Contents

(n) except in the ordinary course of business consistent with the past practice, or in accordance with the Company s anticipated 2014-2015 capital expenditures described on Section 5.1(ii)(n) of the Company Disclosure Letter, make any new capital expenditure or expenditures, or commit to do so;

(o) except in the ordinary course of business consistent with past practice or in connection with any transaction to the extent specifically permitted by any other subclause of this Section 5.1(ii), (i) enter into any Contract that would, if entered into prior to the date hereof, be a Company Material Contract, or (ii) materially modify, materially amend or terminate any Company Material Contract or waive, release or assign any material rights or claims thereunder; or

(p) agree, in writing or otherwise, to take any of the foregoing actions.

Section 5.2 Conduct of Business by Parent Pending the Closing. Parent agrees that between the date of this Agreement and the Effective Time or the date, if any, on which this Agreement is terminated pursuant to Section 8.1, except (a) as set forth in Section 5.2 of the Parent Disclosure Letter, (b) as specifically required by this Agreement, (c) as required by Law or (d) as consented to in writing by the Company (which consent shall not be unreasonably withheld, delayed or conditioned), Parent (i) shall and shall cause each Parent Subsidiary to, conduct its business in all material respects in the ordinary course of business consistent with past practice, including by using reasonable best efforts to preserve intact its and their present business organizations and to preserve its and their present relationships with customers, suppliers and other Persons with whom it and they have material business relations; *provided*, *however*, that no action that is specifically permitted by any of clauses (a) through (i) of Section 5.2(ii) shall be deemed a breach of this clause (i), and (ii) agrees that between the date of this Agreement and the Effective Time or the date, if any, on which this Agreement is terminated pursuant to Section 8.1, Parent shall not, and shall not permit any Parent Subsidiary to:

(a) authorize or pay any dividends on or make any distribution with respect to its outstanding shares (whether in cash, assets, stock or other securities of Parent or Parent Subsidiaries), except dividends and distributions paid or made on a pro rata basis by Parent Subsidiaries in the ordinary course of business consistent with past practice or by a wholly owned Parent Subsidiary to Parent or another wholly owned Parent Subsidiary;

(b) split, combine, reduce or reclassify any of its issued or unissued shares, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for, its shares, except for any such transaction by a wholly owned Parent Subsidiary which remains a wholly owned Parent Subsidiary after consummation of such transaction;

(c) authorize or announce an intention to authorize, or enter into agreements providing for, any acquisitions of an equity interest in or the assets of any Person or any business or division thereof, or any mergers, consolidations or business combinations or any acquisitions of equity or assets, mergers, consolidations or business combinations if, in any such case, any such transaction would reasonably be expected to prevent or materially delay or impede the consummation of the Transactions;

(d) amend the Parent Governing Documents, and shall not permit Merger Sub to amend its organizational documents;

(e) issue, deliver, grant, sell, pledge, dispose of or encumber, or authorize the issuance, delivery, grant, sale, pledge, disposition or encumbrance of, any shares (including restricted shares), voting securities or other equity interest in Parent or any Parent Subsidiary or any securities convertible into or exchangeable for any such shares, voting securities or equity interest, or any rights, warrants or options to acquire any such shares, voting securities or equity interest or any phantom stock, phantom stock rights, stock appreciation rights or stock based performance units, other than (i) issuances of Parent Shares in respect of any exercise of Parent Share Options or the vesting, lapse of restrictions with respect to or settlement of Parent Equity Awards, (ii) transactions between Parent and a wholly owned Parent Subsidiary or between wholly owned Parent Subsidiaries, (iii) issuances of Parent Equity Awards,

(iv) other issuances of Parent Shares for an amount not

Table of Contents

exceeding $5 million in the aggregate, (v) pledges of equity interests of any Parent Subsidiary pursuant to the terms of any agreement governing existing Indebtedness of Parent or any Parent Subsidiary, and (vi) in connection with any acquisitions of an equity interest in or any assets of any person or any business or division thereof, or any mergers, consolidations or business combinations permitted by clause (c) above; or

(f) directly or indirectly, purchase, redeem or otherwise acquire any shares in its capital or any rights, warrants or options to acquire any such shares in its capital, except for (i) acquisitions of Parent Shares tendered by holders of Parent Equity Awards in order to satisfy obligations to pay the exercise price and/or Tax withholding obligations with respect thereto (ii) the acquisition by Parent of Parent Equity Awards in connection with the forfeiture of such awards, (iii) transactions between Parent and a wholly owned Parent Subsidiary or between wholly owned Parent Subsidiaries and (iv) other acquisitions of Parent Shares for an amount not exceeding $10 million in the aggregate;

(g) make or change any material Tax election, change any Tax accounting period for purposes of a material Tax or material method of Tax accounting, file any material amended Tax Return, settle or compromise any audit or proceeding relating to a material amount of Taxes, agree to an extension or waiver of the statute of limitations with respect to a material amount of Taxes, enter into any closing agreement within the meaning of Section 7121 of the Code (or any similar provision of state, local, or non-U.S. Law) with respect to any material Tax, surrender any right to claim a material Tax refund, or take any action or fail to take any action which action or inaction would cause Parent to be treated as a domestic corporation for U.S. federal income tax purposes (including as a result of the Merger);

(h) convene any meeting of the holders of Parent Shares for the purpose of revoking or varying the authority of the directors of Parent to allot Parent Shares;

(i) make any material change in financial accounting policies or procedures or any of its methods of reporting income, deductions or other material items for financial accounting purposes, except as required by GAAP, applicable Law or SEC policy; or

(j) agree, in writing or otherwise, to take any of the foregoing actions.

Section 5.3 Solicitation by the Company.

(a) From and after the date of this Agreement until the earlier of the Effective Time or the date, if any, on which this Agreement is terminated pursuant to Section 8.1, and except as otherwise specifically provided for in this Agreement, the Company agrees that it shall not (and shall not permit any Company Subsidiary to), and that it shall cause its directors, officers and employees not to, and that it shall direct and use its reasonable best efforts to cause its other Representatives not to, directly or indirectly: (i) solicit, initiate or knowingly encourage or knowingly facilitate (including by way of furnishing information), or engage in discussions or negotiations regarding, any inquiry, proposal or offer, or the making, submission or announcement of any inquiry, proposal or offer (including any inquiry, proposal or offer to its shareholders) which constitutes or would be reasonably expected to lead to a Company Competing Proposal, (ii) participate in any negotiations regarding, or furnish to any Person any nonpublic information relating to the Company or any Company Subsidiary in connection with a Company Competing Proposal, (iii) engage in discussions with any Person with respect to any Company Competing Proposal, (iv) except as required by the duties of the members of the Company Board of Directors under applicable Law, waive, terminate, modify or release any Person (other than Parent, Merger Sub and their respective affiliates) from any provision of or grant any permission, waiver or request under any standstill or similar agreement or obligation, (v) approve or recommend, or propose publicly to approve or recommend, any Company Competing Proposal, (vi) withdraw, change, amend, modify or qualify, or otherwise propose publicly to withdraw, change, amend, modify or qualify, in a manner adverse to Parent,

the Company Board Recommendation, (vii) enter into any letter of intent or similar document relating to, or any agreement or commitment providing for, any Company Competing Proposal, or (viii) resolve or agree to do any of the

Table of Contents

foregoing (any act described in clauses (v) and (vi) above, a Company Change of Recommendation). The Company shall immediately cease, and cause its directors, officers and employees to cease, and shall direct and use its reasonable best efforts to cause its other Representatives to immediately cease, any and all existing discussions or negotiations with any parties (or provision of any nonpublic information to any parties) conducted heretofore with respect to any Company Competing Proposal or potential Company Competing Proposal. The Company shall promptly inform its Representatives of the Company s obligations under this Section 5.3. For purposes of this Section 5.3, the term Person means any Person or group, as defined in Section 13(d) of the Exchange Act, other than, with respect to the Company, Parent or any Parent Subsidiaries. Notwithstanding anything to the contrary contained in this Agreement, the Company and the Company Subsidiaries and the Company s Representatives may in any event (A) seek to clarify and understand the terms and conditions of any inquiry or proposal made by any Person solely to determine whether such inquiry or proposal constitutes or could reasonably be expected to lead to a Company Superior Proposal and (B) inform a Person that has made or, to the knowledge of the Company, is considering making a Company Competing Proposal of the provisions of this Section 5.3.

(b) Notwithstanding the limitations set forth in Section 5.3(a), if the Company receives, prior to the Company Shareholder Approval being obtained, a bona fide, unsolicited, written Company Competing Proposal, which the Company Board of Directors determines in good faith after consultation with the Company s outside legal and financial advisors (i) constitutes a Company Superior Proposal or (ii) would reasonably be expected to result, after the taking of any of the actions referred to in either of clause (x) or (y) below, in a Company Superior Proposal, then in either event (if the Company has not materially breached the provisions of this Section 5.3 (1) with respect to such Company Competing Proposal or (2) in a manner that otherwise related to such Company Competing Proposal) the Company may take the following actions: (x) furnish nonpublic information to the Person making such Company Competing Proposal, if, and only if, prior to so furnishing such information, the Company receives from such Person an executed Acceptable Confidentiality Agreement and (y) engage in discussions or negotiations with such Person with respect to the Company Competing Proposal.

(c) The Company shall notify Parent promptly (but in no event later than twenty-four (24) hours) after receipt of any Company Competing Proposal, any initial proposals or inquiries that would reasonably be expected to lead to a Company Competing Proposal, or any initial inquiry or request for nonpublic information relating to the Company or any Company Subsidiary by any Person who has made or would reasonably be expected to make any Company Competing Proposal. Such notice shall be made orally and confirmed in writing, and shall indicate the identity of the Person making the Company Competing Proposal, inquiry or request or with whom the Company is engaging in discussions or negotiations, and the material terms and conditions of any such proposal or offer and the nature of the information requested pursuant to such inquiry or request. In addition, the Company shall promptly (but in any event within twenty-four (24) hours) after the receipt thereof, provide to Parent copies of any written documentation material to understanding a Company Competing Proposal or potential Company Competing Proposal which is received by the Company from any Person (or from any representatives, advisors or agents of such Person) making such Company Competing Proposal or with whom discussions or negotiations would reasonably be expected to lead to a Company Competing Proposal. The Company shall keep Parent reasonably informed of the status and material terms (including any amendments or proposed amendments to such material terms) of any such Company Competing Proposal or potential Company Competing Proposal and keep Parent reasonably informed as to the nature of any information requested of the Company with respect thereto. The Company shall promptly (but in any event within twenty-four (24) hours) provide to Parent any material nonpublic information concerning the Company provided to any other Person in connection with any Company Competing Proposal that was not previously provided to Parent. The Company shall not take any action to exempt any Person from the restrictions on business combinations contained in any applicable Takeover Statute or otherwise cause such restrictions not to apply.

(d) Notwithstanding anything in this Section 5.3 or Section 5.5 to the contrary, at any time prior to the receipt of the Company Shareholder Approval, the Company Board of Directors may make a Company Change of Recommendation (i) in response to a Company Intervening Event, or (ii) following receipt of a bona fide,

Table of Contents

unsolicited, written Company Competing Proposal, which the Company Board of Directors determines in good faith after consultation with the Company s outside legal and financial advisors is a Company Superior Proposal, if and only if, (x) in the case of clause (ii), the Company did not solicit, encourage or facilitate such Company Competing Proposal as a result of a material breach of the provisions of this Section 5.3 and (y) in the case of clauses (i) and (ii), the Company Board of Directors has determined in good faith after consultation with the Company s outside legal counsel that the failure to take such action would constitute a breach of the duties of the members of the Company Board of Directors under applicable Law and the Company complies with Section 5.3(e).

(e) Prior to the Company taking any action permitted (i) under Section 5.3(d)(i), the Company shall provide Parent with four (4) business days prior written notice advising Parent it intends to effect a Company Change of Recommendation and specifying, in reasonable detail, the reasons therefor (including the material facts and circumstances related to the applicable Company Intervening Event), and during such four (4) business day period, the Company shall consider in good faith any proposal by Parent to amend the terms and conditions of this Agreement in a manner that would obviate the need to effect a Company Change of Recommendation or (ii) under Section 5.3(d)(ii), the Company shall provide Parent with four (4) business days prior written notice (it being understood and agreed that any material amendment to the amount or form of consideration payable in connection with the applicable Company Competing Proposal shall require a new notice and an additional three (3) business day period) advising Parent that the Company Board of Directors intends to take such action and specifying the material terms and conditions of the Company Competing Proposal, and during such four (4) business day period (or subsequent three (3) business day period), the Company shall consider in good faith any proposal by Parent to amend the terms and conditions of this Agreement such that such Company Competing Proposal would no longer constitute a Company Superior Proposal.

(f) Nothing contained in this Agreement shall prohibit the Company or the Company Board of Directors from (i) disclosing to the Company s shareholders a position contemplated by Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act or (ii) making any disclosure to its shareholders if the Company Board of Directors has reasonably determined in good faith after consultation with the Company s outside legal counsel that the failure to do so would constitute a breach of the duties of the members of the Company Board of Directors under applicable Law; *provided* that this Section 5.3(f) shall not permit the Company Board of Directors to make a Company Change of Recommendation except to the extent permitted by Section 5.3(d) or Section 5.3(e).

(g) No Company Change of Recommendation shall relieve the Company from its obligations to submit the approval and adoption of this Agreement to a vote of its shareholders at the Company Special Meeting.

(h) References in this Section 5.3 to the Company Board of Directors shall mean the Company Board of Directors or, to the extent applicable, a duly authorized committee thereof.

Section 5.4 Solicitation by Parent.

(a) From and after the date of this Agreement until the earlier of the Effective Time or the date, if any, on which this Agreement is terminated pursuant to Section 8.1, and except as otherwise specifically provided for in this Agreement, Parent agrees that it shall not (and shall not permit any Parent Subsidiary to), and that it shall cause its directors, officers and employees not to, and that it shall direct and use its reasonable best efforts to cause its other Representatives not to, directly or indirectly: (i) solicit, initiate or knowingly encourage or knowingly facilitate (including by way of furnishing information), or engage in discussions or negotiations regarding, any inquiry, proposal or offer, or the making, submission or announcement of any inquiry, proposal or offer (including any inquiry, proposal or offer to its shareholders) which constitutes or would be reasonably expected to lead to a Parent Competing Proposal, (ii) participate in any negotiations regarding, or furnish to any Person any nonpublic information relating to

Parent or any Parent Subsidiary in connection with a Parent Competing Proposal, (iii) engage in discussions with any Person with respect to any Parent Competing Proposal, (iv) except as required by the duties of the members of the Parent Board of Directors under applicable Law,

Table of Contents

waive, terminate, modify or release any Person (other than the Company and its affiliates) from any provision of or grant any permission, waiver or request under any standstill or similar agreement or obligation, (v) approve or recommend, or propose publicly to approve or recommend, any Parent Competing Proposal, (vi) withdraw, change, amend, modify or qualify, or otherwise propose publicly to withdraw, change, amend, modify or qualify, in a manner adverse to the Company, the Parent Board Recommendation, (vii) enter into any letter of intent or similar document relating to, or any agreement or commitment providing for, any Parent Competing Proposal, or (viii) resolve or agree to do any of the foregoing (any act described in clauses (v) and (vi) above, a Parent Change of Recommendation). Parent shall immediately cease, and cause its directors, officers and employees to cease, and shall direct and use its reasonable best efforts to cause its other Representatives to immediately cease, any and all existing discussions or negotiations with any parties (or provision of any nonpublic information to any parties) conducted heretofore with respect to any Parent Competing Proposal or potential Parent Competing Proposal. Parent shall promptly inform its Representatives of Parent s obligations under this Section 5.4. For purposes of this Section 5.4, the term Person means any Person or group, as defined in Section 13(d) of the Exchange Act, other than, with respect to Parent, the Company or any Company Subsidiaries. Notwithstanding anything to the contrary contained in this Agreement, Parent and the Parent Subsidiaries and Parent s Representatives may in any event (A) seek to clarify and understand the terms and conditions of any inquiry or proposal made by any Person solely to determine whether such inquiry or proposal constitutes or could reasonably be expected to lead to a Parent Superior Proposal and (B) inform a Person that has made or, to the knowledge of Parent, is considering making a Parent Competing Proposal of the provisions of this Section 5.4.

(b) Notwithstanding the limitations set forth in Section 5.4(a), if Parent receives, prior to the Parent Shareholder Approval being obtained, a bona fide, unsolicited, written Parent Competing Proposal, which the Parent Board of Directors determines in good faith after consultation with Parent s outside legal and financial advisors (i) constitutes a Parent Superior Proposal or (ii) would reasonably be expected to result, after the taking of any of the actions referred to in either of clause (x) or (y) below, in a Parent Superior Proposal, then in either event (if Parent has not materially breached the provisions of this Section 5.4 (1) with respect to such Parent Competing Proposal or (2) in a manner that otherwise related to such Parent Competing Proposal) Parent may take the following actions: (x) furnish nonpublic information to the Person making such Parent Competing Proposal, if, and only if, prior to so furnishing such information, Parent receives from such Person an executed Acceptable Confidentiality Agreement and (y) engage in discussions or negotiations with such Person with respect to the Parent Competing Proposal.

(c) Parent shall notify the Company promptly (but in no event later than twenty-four (24) hours) after receipt of any Parent Competing Proposal, any initial proposals or inquiries that would reasonably be expected to lead to a Parent Competing Proposal, or any initial inquiry or request for nonpublic information relating to Parent or any Parent Subsidiary by any Person who has made or would reasonably be expected to make any Parent Competing Proposal. Such notice shall be made orally and confirmed in writing, and shall indicate the identity of the Person making the Parent Competing Proposal, inquiry or request or with whom Parent is engaging in discussions or negotiations, and the material terms and conditions of any such proposal or offer and the nature of the information requested pursuant to such inquiry or request. In addition, Parent shall promptly (but in any event within twenty-four (24) hours) after the receipt thereof, provide to the Company copies of any written documentation material to understanding a Parent Competing Proposal or potential Parent Competing Proposal which is received by Parent from any Person (or from any representatives, advisors or agents of such Person) making such Parent Competing Proposal or with whom discussions or negotiations would reasonably be expected to lead to a Parent Competing Proposal. Parent shall keep the Company reasonably informed of the status and material terms (including any amendments or proposed amendments to such material terms) of any such Parent Competing Proposal or potential Parent Competing Proposal and keep the Company reasonably informed as to the nature of any information requested of Parent with respect thereto. Parent shall promptly (but in any event within twenty-four (24) hours) provide to the Company any material nonpublic information concerning Parent provided to any other Person in connection with any Parent Competing

Proposal that was not previously provided to the Company. Parent shall not take any action to exempt any Person from the restrictions on business combinations contained in any applicable Takeover Statute or otherwise cause such restrictions not to apply.

Table of Contents

(d) Notwithstanding anything in this Section 5.4 or Section 5.5 to the contrary, at any time prior to the receipt of the Parent Shareholder Approval, the Parent Board of Directors may make a Parent Change of Recommendation (i) in response to a Parent Intervening Event, or (ii) following receipt of a bona fide, written Parent Competing Proposal, which the Parent Board of Directors determines in good faith after consultation with Parent s outside legal and financial advisors is a Parent Superior Proposal, if and only if, (x) Parent did not solicit, encourage or facilitate such Parent Competing Proposal as a result of a material breach of the provisions of this Section 5.4 and (y) in the case of clauses (i) and (ii), the Parent Board of Directors has determined in good faith after consultation with Parent s outside legal counsel that the failure to take such action would constitute a breach of the duties of the members of the Parent Board of Directors under applicable Law and Parent complies with Section 5.4(e).

(e) Prior to Parent taking any action permitted (i) under Section 5.4(d)(i), Parent shall provide the Company with four (4) business days prior written notice advising the Company it intends to effect a Parent Change of Recommendation and specifying, in reasonable detail, the reasons therefor (including the material facts and circumstances related to the applicable Parent Intervening Event), and during such four (4) business day period, Parent shall consider in good faith any proposal by the Company to amend the terms and conditions of this Agreement in a manner that would obviate the need to effect a Parent Change of Recommendation or (ii) under Section 5.4(d)(ii), Parent shall provide the Company with four (4) business days prior written notice (it being understood and agreed that any material amendment to the amount or form of consideration payable in connection with the applicable Parent Competing Proposal shall require a new notice and an additional three (3) business day period) advising the Company that the Parent Board of Directors intends to take such action and specifying the material terms and conditions of the Parent Competing Proposal, and during such four (4) business day period (or subsequent three (3) business day period), Parent shall consider in good faith any proposal by the Company to amend the terms and conditions of this Agreement such that such Parent Competing Proposal would no longer constitute a Parent Superior Proposal.

(f) Nothing contained in this Agreement shall prohibit Parent or the Parent Board of Directors from (i) disclosing to Parent s shareholders a position contemplated by Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act or (ii) making any disclosure to its shareholders if the Parent Board of Directors has reasonably determined in good faith after consultation with Parent s outside legal counsel that the failure to do so would constitute a breach of the duties of the members of the Parent Board of Directors under applicable Law; *provided* that this Section 5.4(f) shall not permit the Parent Board of Directors to make a Parent Change of Recommendation except to the extent permitted by Section 5.4(d) or Section 5.4(e).

(g) No Parent Change of Recommendation shall relieve Parent from its obligations to submit the approval of the issuance of Parent Shares in the Merger to a vote of its shareholders at the Parent Special Meeting.

(h) References in this Section 5.4 to the Parent Board of Directors shall mean the Parent Board of Directors or, to the extent applicable, a duly authorized committee thereof.

Section 5.5 Preparation of the Form S-4 and the Joint Proxy Statement/Prospectus; Shareholders Meetings.

(a) As promptly as reasonably practicable following the date of this Agreement, (i) the Company and Parent shall jointly prepare and cause to be filed with the SEC the Joint Proxy Statement/Prospectus in preliminary form, and (ii) Parent shall prepare and cause to be filed with the SEC, the Form S-4 with respect to the Parent Shares issuable in the Merger, which will include the Joint Proxy Statement/Prospectus with respect to the Company Special Meeting and Parent Special Meeting. Each of the Company and Parent shall use its reasonable best efforts to (A) have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing, (B) ensure that the Form S-4 complies in all material respects with the applicable provisions of the Exchange Act or Securities Act, and (C) keep the Form S-4 effective for so long as necessary to complete the Merger. Each of the Company and Parent

shall furnish all information concerning itself, its

Table of Contents

affiliates and the holders of its shares to the other and provide such other assistance as may be reasonably requested in connection with the preparation, filing and distribution of the Form S-4 and Joint Proxy Statement/Prospectus. The Form S-4 and Joint Proxy Statement/Prospectus shall include all information reasonably requested by such other Party to be included therein. Each of the Company and Parent shall promptly notify the other upon the receipt of any comments from the SEC or any request from the SEC for amendments or supplements to the Form S-4 or Joint Proxy Statement/Prospectus, and shall, as promptly as practicable after receipt thereof, provide the other with copies of all correspondence between it and its Representatives, on one hand, and the SEC, on the other hand, and all written comments with respect to the Joint Proxy Statement/Prospectus or the Form S-4 received from the SEC and advise the other party or any oral comments with respect to the Joint Proxy Statement/Prospectus or the Form S-4 received from the SEC. Each of the Company and Parent shall use its reasonable best efforts to respond as promptly as practicable to any comments from the SEC with respect to the Joint Proxy Statement/Prospectus, and Parent shall use its reasonable best efforts to respond as promptly as practicable to any comment from the SEC with respect to the Form S-4. Notwithstanding the foregoing, prior to filing the Form S-4 (or any amendment or supplement thereto) or mailing the Joint Proxy Statement/Prospectus (or any amendment or supplement thereto) or responding to any comments of the SEC with respect thereto, each of the Company and Parent shall cooperate and provide the other a reasonable opportunity to review and comment on such document or response in advance (including the proposed final version of such document or response). Parent shall advise the Company, promptly after it receives notice thereof, of the time of effectiveness of the Form S-4, the issuance of any stop order relating thereto or the suspension of the qualification of the Parent Shares issuable in connection with the Merger for offering or sale in any jurisdiction, and Parent shall use its reasonable best efforts to have any such stop order or suspension lifted, reversed or otherwise terminated. Parent shall also take any other action required to be taken under the Securities Act, the Exchange Act, any applicable foreign or state securities or blue sky Laws and the rules and regulations thereunder in connection with the issuance of the Parent Shares in the Merger, and the Company shall furnish all information concerning the Company and the holders of the Company Common Stock as may be reasonably requested in connection with any such actions.

(b) If, at any time prior to the receipt of the Company Shareholder Approval or the Parent Shareholder Approval, any information relating to the Company or Parent, or any of their respective affiliates, should be discovered by the Company or Parent which, in the reasonable judgment of the Company or Parent, should be set forth in an amendment of, or a supplement to, any of the Form S-4 or the Joint Proxy Statement/Prospectus, so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Party which discovers such information shall promptly notify the other Parties, and the Company and Parent shall cooperate in the prompt filing with the SEC of any necessary amendment of, or supplement to, the Joint Proxy Statement/Prospectus or the Form S-4 and, to the extent required by Law, in disseminating the information contained in such amendment or supplement to shareholders of the Company and the shareholders of Parent. Nothing in this Section 5.5(b) shall limit the obligations of any Party under Section 5.5(a). For purposes of this Section 5.5, any information concerning or related to the Company, its affiliates or the Company Special Meeting will be deemed to have been provided by the Company, and any information concerning or related to Parent, its affiliates or the Parent Special Meeting will be deemed to have been provided by Parent.

(c) As promptly as practicable following the date of this Agreement, the Company shall, in accordance with applicable Law and the Company Governing Documents, establish a record date for, duly call, give notice of, convene and hold the Company Special Meeting. The Company shall use its reasonable best efforts to cause the Joint Proxy Statement/Prospectus to be mailed to the shareholders of the Company entitled to vote at the Company Special Meeting and to hold the Company Special Meeting as soon as practicable after the Form S-4 is declared effective under the Securities Act. The Company shall, through the Company Board of Directors, recommend to its shareholders that they give the Company Shareholder Approval, include such recommendation in the Joint Proxy Statement/Prospectus and solicit and use its reasonable best efforts to obtain the Company Shareholder Approval,

except in each case to the extent that the Company Board of Directors shall have made a Company Change of Recommendation as permitted by Section 5.3. Notwithstanding the foregoing provisions of

Table of Contents

this Section 5.5(c), if, on a date for which the Company Special Meeting is scheduled, the Company has not received proxies representing a sufficient number of shares of Company Common Stock to obtain the Company Shareholder Approval, whether or not a quorum is present, the Company shall have the right to make one or more successive postponements or adjournments of the Company Special Meeting; *provided* that the Company Special Meeting is not postponed or adjourned to a date that is more than thirty (30) days after the date for which the Company Special Meeting was originally scheduled (other than any adjournments or postponements required by applicable Law, including adjournments or postponements to the extent reasonably necessary or advisable to ensure that any required supplement or amendment to the Joint Proxy Statement/Prospectus is provided or made available to the Company shareholders or to permit dissemination of information which is material to shareholders voting at the Company Special Meeting and to give the Company shareholders sufficient time to evaluate any such supplement or amendment or other information). Nothing contained in this Agreement shall be deemed to relieve the Company of its obligations to submit this Agreement to its shareholders for a vote on the approval and adoption thereof.

(d) As promptly as practicable following the date of this Agreement, Parent shall, in accordance with applicable Law and the Parent Governing Documents, establish a record date for, duly call, give notice of, convene and hold the Parent Special Meeting. Parent shall use its reasonable best efforts to cause the Joint Proxy Statement/Prospectus to be mailed to the shareholders of Parent entitled to vote at the Parent Special Meeting and to hold the Parent Special Meeting as soon as practicable after the Form S-4 is declared effective under the Securities Act. Parent shall, through the Parent Board of Directors, recommend to its shareholders that they give the Parent Shareholder Approval, include such recommendations in the Joint Proxy Statement/Prospectus, and solicit and use its reasonable best efforts to obtain the Parent Shareholder Approval, except in each case to the extent that the Parent Board of Directors shall have made a Parent Change of Recommendation as permitted by Section 5.4. Notwithstanding the foregoing provisions of this Section 5.5(d), if, on a date for which the Parent Special Meeting is scheduled, Parent has not received proxies representing a sufficient number of Parent Shares to obtain the Parent Shareholder Approval, whether or not a quorum is present, Parent shall have the right to make one or more successive postponements or adjournments of the Parent Special Meeting; *provided* that the Parent Special Meeting is not postponed or adjourned to a date that is more than thirty (30) days after the date for which the Parent Special Meeting was originally scheduled (other than any adjournments or postponements required by applicable Law, including adjournments or postponements to the extent reasonably necessary or advisable to ensure that any required supplement or amendment to the Joint Proxy Statement/Prospectus is provided or made available to the Parent shareholders or to permit dissemination of information which is material to shareholders voting at the Parent Special Meeting and to give the Parent shareholders sufficient time to evaluate any such supplement or amendment or other information). Nothing contained in this Agreement shall be deemed to relieve Parent of its obligation to submit the issuance of the Parent Shares in the Merger to its shareholders for a vote on the approval thereof.

(e) The Company and Parent will use their respective reasonable best efforts to hold the Company Special Meeting and the Parent Special Meeting on the same date and as soon as reasonably practicable after the date of this Agreement.

Section 5.6 Consultation as to Certain Tax Matters. Prior to (a) consummating any transaction that (i) is described in clause (a), (b), (e), (g), (h), (i) or (j) of Section 5.1(ii) and (ii) is not subject to Parent s consent right provided in Section 5.1(ii) on the basis that such transaction involves solely the Company and one or more Company Subsidiaries or solely Company Subsidiaries, or (b) altering any intercompany arrangements or agreements or the ownership structure among the Company and its wholly owned Subsidiaries or among the Company s wholly owned Subsidiaries, the Company shall consult with Parent reasonably prior to consummating any such transaction and shall not proceed with any such action or transaction described in clause (a) or (b) hereof without Parent s consent (not to be unreasonably conditioned, withheld or delayed) if such action or transaction would, without taking into account any action or transaction entered into by Parent or any of its Subsidiaries (including, after the Effective Time, the

Company or any of its Subsidiaries), reasonably be expected to have adverse Tax consequences that, individually or in the aggregate, are material to the Company and the Company Subsidiaries or, after the Effective Time, to Parent and the Parent Subsidiaries.

Table of Contents

ARTICLE VI

ADDITIONAL AGREEMENTS

Section 6.1 Access; Confidentiality; Notice of Certain Events.

(a) From the date of this Agreement until the Effective Time or the date, if any, on which this Agreement is terminated pursuant to Section 8.1, to the extent permitted by applicable Law, each of the Company and Parent shall, and shall cause each of the Parent Subsidiaries and the Company Subsidiaries, respectively, to afford to the other Party and to the Representatives of such other Party reasonable access during normal business hours and upon reasonable advance notice to all of their respective properties, offices, books, contracts, commitments, personnel and records and, during such period, each of the Company and Parent shall, and shall cause each of the Company Subsidiaries and the Parent Subsidiaries, respectively, to, furnish reasonably promptly to the other Party all information (financial or otherwise) concerning its business, properties and personnel as such other Party may reasonably request. Notwithstanding the foregoing, neither the Company nor Parent shall be required by this Section 6.1 to provide the other Party or the Representatives of such other Party with access to or to disclose information (A) that is subject to the terms of a confidentiality agreement with a third party entered into prior to the date of this Agreement or entered into after the date of this Agreement in the ordinary course of business consistent with past practice (*provided*, *however*, that the withholding Party shall use its reasonable best efforts to obtain the required consent of such third party to such access or disclosure), (B) the disclosure of which would violate any Law or duty (*provided*, *however*, that the withholding Party shall use its reasonable best efforts to make appropriate substitute arrangements to permit reasonable disclosure not in violation of any Law or duty) or (C) that is subject to any attorney-client, attorney work product or other legal privilege (*provided*, *however*, that the withholding Party shall use its reasonable best efforts to allow for such access or disclosure to the maximum extent that does not result in a loss of any such attorney-client, attorney work product or other legal privilege); *provided*, *however*, that such access and information shall be disclosed or granted, as applicable, to external counsel for Parent to the extent reasonably required for the purpose of complying with applicable Antitrust Laws subject to prior execution of a common interest or joint defense agreement in customary form. Each of the Company and Parent will use its commercially reasonable efforts to minimize any disruption to the businesses of the other Party that may result from the requests for access, data and information hereunder.

(b) Each of the Company and Parent will hold, and will cause its Representatives and affiliates to hold, any nonpublic information, including any information exchanged pursuant to this Section 6.1, in confidence to the extent required by and in accordance with, and will otherwise comply with, the terms of the Confidentiality Agreement.

(c) The Company shall give prompt notice to Parent, and Parent shall give prompt notice to the Company, (i) of any notice or other communication received by such Party from any Governmental Entity in connection with this Agreement, the Merger or other Transactions, or from any Person alleging that the consent of such Person is or may be required in connection with the Merger or the other Transactions, if the subject matter of such communication or the failure of such Party to obtain such consent could be material to the Company, the Surviving Corporation or Parent, (ii) of any legal proceeding commenced or, to any Party s knowledge, threatened against, such Party or any of its Subsidiaries or affiliates or otherwise relating to, involving or affecting such Party or any of its Subsidiaries or affiliates, in each case in connection with, arising from or otherwise relating to the Merger or any other Transaction, (iii) in the case of Parent, of any notice or other communication received by Parent from any Person requisitioning the convening of a meeting of the holders of Parent Shares and (iv) upon becoming aware of the occurrence or impending occurrence of any event or circumstance relating to it or any of the Company Subsidiaries or the Parent Subsidiaries, respectively, which would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect or a Parent Material Adverse Effect, as the case may be, or which would reasonably be expected to prevent or materially delay or impede the consummation of the Transactions; *provided*, *however*, that the delivery of

any

Table of Contents

notice pursuant to this Section 6.1(c) shall not cure any breach of any representation or warranty requiring disclosure of such matter prior to the date of this Agreement or otherwise limit or affect the remedies available hereunder to any Party. The failure to deliver any such notice shall not affect any of the conditions set forth in Article VII or give rise to any right to terminate under Article VIII.

Section 6.2 Reasonable Best Efforts.

(a) Subject to the terms and conditions of this Agreement, each Party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate the Merger and the other Transactions as soon as practicable after the date hereof, including (i) preparing and filing, in consultation with the other Party and as promptly as practicable and advisable after the date hereof, all documentation to effect all necessary applications, notices, petitions, filings, and other documents and to obtain as promptly as practicable all waiting period expirations or terminations, consents, clearances, waivers, licenses, orders, registrations, approvals, permits, and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger or any of the other Transactions and (ii) taking all steps as may be necessary to obtain all such waiting period expirations or terminations, consents, clearances, waivers, licenses, registrations, permits, authorizations, orders and approvals. In furtherance and not in limitation of the foregoing, each Party agrees to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the Transactions as promptly as practicable, and in any event within ten (10) business days after the execution of this Agreement (unless a later date is mutually agreed between the Parties), and to supply as promptly as practicable and advisable any additional information and documentary material that may be requested pursuant to the HSR Act and to take all other actions necessary to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

(b) Each of Parent and the Company shall, in connection with the efforts referenced in Section 6.2(a) to obtain all waiting period expirations or terminations, consents, clearances, waivers, licenses, orders, registrations, approvals, permits, and authorizations for the Transactions under the HSR Act, (i) cooperate in all respects and consult with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party, including by allowing the other Party to have a reasonable opportunity to review in advance and comment on drafts of filings and submissions; (ii) promptly inform the other Party of any communication received by such Party from, or given by such Party to, the Antitrust Division of the Department of Justice (the DOJ), the Federal Trade Commission (the FTC) or any other Governmental Entity, by promptly providing copies to the other Party of any such written communications, and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the Transactions; *provided*, *however*, that materials may be redacted (A) to remove references concerning the valuation of Parent, the Company or any of their Subsidiaries, (B) as necessary to comply with contractual arrangements, and (C) as necessary to address reasonable privilege or confidentiality concerns; and (iii) permit the other Party to review in advance any communication that it gives to, and consult with each other in advance of any meeting, substantive telephone call or conference with, the DOJ, the FTC or any other Governmental Entity, or, in connection with any proceeding by a private party, with any other Person (*provided*, *however*, that materials may be redacted (A) to remove references concerning the valuation of Parent, the Company or any of their Subsidiaries, (B) as necessary to comply with contractual arrangements, and (C) as necessary to address reasonable privilege or confidentiality concerns), and to the extent permitted by the DOJ, the FTC or any other applicable Governmental Entity or other Person, give the other Party the opportunity to attend and participate in any in-person meetings with the DOJ, the FTC or any other Governmental Entity or other Person. In furtherance and not in limitation of the covenants of the Parties contained in Section 6.2(a) and this Section 6.2(b), each Party shall use its reasonable best efforts to resolve objections, if any, as may be asserted with respect to the Transactions under any Antitrust Law including agreeing to any terms, conditions or modifications (including Parent, the Company or any of their respective Subsidiaries having to cease operating,

license, sell or otherwise dispose of any assets or businesses (including the requirement that any such assets or businesses be held separate)) with respect to obtaining the expiration or termination of any waiting period or any

consents, permits, waivers, approvals, authorizations or orders in connection with the consummation of the Transactions; *provided*, *however*, that Parent shall not be required to take such actions under this Section 6.2(b) that would result in, or would be reasonably likely to result in, either individually or in the aggregate, a material adverse effect on Parent, the Company and their respective Subsidiaries, taken as a whole, after giving effect to the Merger. Nothing in this Section 6.2(b) shall require Parent, the Company or their respective Subsidiaries to take or agree to take any action with respect to its business or operations unless the effectiveness of such agreement or action is conditioned upon the Closing. Parent shall, on behalf of the Parties, control and lead all communications and strategy relating to the Antitrust Laws (provided that the Company is not constrained from complying with applicable Law), *provided*, *further*, that the Parties shall consult and cooperate with one another, and consider in good faith the views of one another, regarding the form and content of any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of either Party in connection with proceedings under or relating to any Antitrust Law prior to their submission.

(c) Each of Parent and the Company shall use its reasonable best efforts to obtain the expiration or termination of all waiting periods and all consents, waivers, authorizations and approvals of all third parties, including Governmental Entities, necessary, proper or advisable for the consummation of the Transactions and to provide any notices to third parties required to be provided prior to the Effective Time; *provided* that, without the prior written consent of Parent, the Company shall not incur any significant expense or liability, enter into any significant new commitment or agreement or agree to any significant modification to any contractual arrangement to obtain such consents or certificates in each case, that would have a Company Material Adverse Effect.

Section 6.3 Publicity. So long as this Agreement is in effect, neither the Company nor Parent, nor any of their respective affiliates, shall issue or cause the publication of any press release or other public announcement with respect to the Merger or this Agreement without the prior consent of the other Party, unless such Party determines, after consultation with outside counsel, that it is required by applicable Law or by any listing agreement with or the listing rules of a national securities exchange or trading market to issue or cause the publication of any press release or other public announcement with respect to the Merger or this Agreement, in which event such Party shall endeavor, on a basis reasonable under the circumstances, to provide a meaningful opportunity to the other Party to review and comment upon such press release or other announcement in advance and shall give due consideration to all reasonable additions, deletions or changes suggested thereto; *provided, however*, that the Company shall not be required by this Section 6.3 to provide any such review or comment to Parent in connection with the receipt and existence of a Company Competing Proposal or a Company Change of Recommendation and matters related thereto; *provided, further*, that Parent shall not be required by this Section 6.3 to provide any such review or comment to the Company in connection with the receipt and existence of a Parent Competing Proposal or a Parent Change of Recommendation and matters related thereto; *provided, further*, each Party and their respective affiliates may make statements that are not inconsistent with previous press releases, public disclosures or public statements made by Parent or the Company in compliance with this Section 6.3.

Section 6.4 Directors and Officers Insurance and Indemnification. For not less than six (6) years from and after the Effective Time, Parent agrees to, and to cause the Surviving Corporation to, indemnify and hold harmless all past and present directors, officers and employees of the Company and the Company Subsidiaries (collectively, the Indemnified Parties) against any costs or expenses (including advancing attorneys fees and expenses in advance of the final disposition of any actual or threatened claim, suit, proceeding or investigation to each Indemnified Party to the fullest extent permitted by Law; *provided* such Indemnified Party agrees in advance to return any such funds to which a court of competent jurisdiction has determined in a final, nonappealable judgment such Indemnified Party is not ultimately entitled), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened claim, action, investigation, suit or proceeding in respect of acts or omissions occurring or alleged to have occurred at or prior to the Effective Time (including acts or omissions occurring in connection with

the approval of this Agreement and the consummation of the Merger or any of the other Transactions), whether asserted or claimed prior to, at or after the Effective Time, in connection with such persons serving as an officer, director, employee or other fiduciary of the Company or any of the Company Subsidiaries or of any Person if such service was at the request or for the benefit of the Company or any of the

Table of Contents

Company Subsidiaries, to the fullest extent permitted by Law or provided pursuant to the Company Governing Documents or the organizational documents of any Company Subsidiary or any indemnification agreements, if any, in existence on the date of this Agreement. The Parties agree that all rights to elimination of liability, indemnification and advancement of expenses for acts or omissions occurring or alleged to have occurred at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time, now existing in favor of the Indemnified Parties as provided in their respective certificate of incorporation or by-laws (or comparable organizational documents) or in any agreement shall survive the Merger and shall continue in full force and effect. For six (6) years after the Effective Time, the Surviving Corporation shall cause to be maintained in effect the provisions in (i) the Company Governing Documents and the organizational documents of any Company Subsidiary and (ii) any other agreements of the Company and the Company Subsidiaries with any Indemnified Party, in each case, regarding elimination of liability, indemnification of officers, directors and employees and advancement of expenses that are in existence on the date of this Agreement, and no such provision shall be amended, modified or repealed in any manner that would adversely affect the rights or protections thereunder of any such Indemnified Party in respect of acts or omissions occurring or alleged to have occurred at or prior to the Effective Time (including acts or omissions occurring in connection with the approval of this Agreement and the consummation of the Merger or any of the other Transactions). Parent shall cause the Surviving Corporation to provide, for an aggregate period of not less than six (6) years from the Effective Time, the Company s current directors and officers an insurance and indemnification policy that provides coverage for events occurring prior to the Effective Time (the D&O Insurance) that is no less favorable than the Company s existing policy or, if insurance coverage that is no less favorable is unavailable, the best available coverage; *provided*, *however*, that the Surviving Corporation shall not be required to pay an annual premium for the D&O Insurance in excess of three hundred percent (300%) of the last annual premium paid prior to the date of this Agreement; *provided*, *further*, that the Company may prior to the Effective Time substitute therefor a single premium tail coverage with respect to D&O Insurance with an annual cost not in excess of three hundred percent (300%) of the last annual premium paid prior to the date of this Agreement. Notwithstanding anything herein to the contrary, if any Indemnified Party notifies Parent on or prior to the sixth (6th) anniversary of the Effective Time of a matter in respect of which such Person may seek indemnification pursuant to this Section 6.4, the provisions of this Section 6.4 shall continue in effect with respect to such matter until the final disposition of all claims, actions, investigations, suits and proceedings relating thereto. In the event Parent or the Surviving Corporation or any of their respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors and assigns of Parent or the Surviving Corporation, as the case may be, shall assume the obligations set forth in this Section 6.4. The rights and obligations under this Section 6.4 shall survive consummation of the Merger and shall not be terminated or amended in a manner that is adverse to any Indemnified Party without the written consent of such Indemnified Party.

Section 6.5 Takeover Statutes. The Parties shall use their respective reasonable best efforts (a) to take all action necessary so that no Takeover Statute is or becomes applicable to the Merger or any of the other Transactions and (b) if any such Takeover Statute is or becomes applicable to any of the foregoing, to take all action necessary so that the Merger and the other Transactions may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise to eliminate or minimize the effect of such Takeover Statute on the Merger and the other Transactions.

Section 6.6 Obligations of Merger Sub and the Surviving Corporation. Parent shall take all action necessary to cause Merger Sub and the Surviving Corporation to perform their respective obligations under this Agreement and to consummate the Transactions, including the Merger, upon the terms and subject to the conditions set forth in this Agreement.

Section 6.7 Employee Benefits Matters.

(a) Parent shall, or shall cause the Surviving Company to, assume, honor and fulfill (i) all of the Company Benefit Plans in accordance with their terms as in effect immediately prior to the date hereof or as

Table of Contents

subsequently amended as permitted pursuant to the terms of such Company Benefit Plans or as permitted pursuant to Section 5.1 hereof, and (ii) all of the Company Benefit Plans established following the date hereof in accordance with Section 5.1 hereof. Effective as of the Effective Time and for a period of no less than one (1) year thereafter, Parent shall provide, or shall cause the Surviving Company to provide, to each employee of the Company and/or its Subsidiaries who continues to be employed by the Parent or the Surviving Company or any Subsidiary thereof (the Continuing Employees), (x) compensation (including cash incentive compensation opportunities, but excluding any equity-based compensation) that is no less favorable than the compensation provided to such Continuing Employee immediately prior to the Effective Time, (y) equity-based compensation that is no less favorable than the equity-based compensation provided to similarly situated employees of Parent and (z) employee benefits that are, in the aggregate, no less favorable than those provided to the Continuing Employee immediately prior to the Effective Time. In addition, effective as of the Effective Time and for a period of no less than one (1) year thereafter, each Continuing Employee shall be eligible to participate in any applicable severance plans, programs and/or arrangements maintained by Parent and in accordance with the terms set forth on Section 6.7(a) the Company Disclosure Letter. Effective as of the Effective Time and thereafter, Parent shall provide, or shall cause the Surviving Company to provide, that periods of employment with the Company (including any current or former affiliate of the Company or any predecessor of the Company) shall be taken into account for all purposes under all employee benefit plans maintained by Parent or an affiliate of Parent for the benefit of the Continuing Employees, including vacation or other paid-time-off plans or arrangements, 401(k), pension or other retirement plans and any severance or health or welfare plans (other than for purposes of determining any accrued benefit under any defined benefit pension plan or as would result in a duplication of benefits).

(b) Effective as of the Effective Time and thereafter, Parent shall, and shall cause the Surviving Company to, (i) ensure that no eligibility waiting periods, actively-at-work requirements or pre-existing condition limitations or exclusions shall apply with respect to the Continuing Employees under the applicable health and welfare benefits plan of Parent or any affiliate of Parent (except to the extent applicable under Company Benefit Plans immediately prior to the Effective Time), (ii) waive any and all evidence of insurability requirements with respect to such Continuing Employees to the extent such evidence of insurability requirements were not applicable to the Continuing Employees under the Company Benefit Plans immediately prior to the Effective Time, and (iii) credit each Continuing Employee with all deductible payments, out-of-pocket or other co-payments paid by such employee under the Company Benefit Plans prior to the Closing Date during the year in which the Closing occurs for the purpose of determining the extent to which any such employee has satisfied his or her deductible and whether he or she has reached the out-of-pocket maximum under any health benefit plan of Parent or an affiliate of Parent for such year. The Merger shall not affect any Continuing Employee s accrual of, or right to use, in accordance with Company policy as in effect immediately prior to the Effective Time, any personal, sick, vacation or other paid-time-off accrued but unused by such Continuing Employee immediately prior to the Effective Time.

(c) Nothing in this Agreement shall confer upon any Continuing Employee any right to continue in the employ or service of Parent, the Surviving Company or any affiliate of Parent, or shall interfere with or restrict in any way the rights of Parent, the Surviving Company or any affiliate of Parent, which rights are hereby expressly reserved, to discharge or terminate the services of any Continuing Employee at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between Parent, the Surviving Company, the Company or any affiliate of Parent and the Continuing Employee or any severance, benefit or other applicable plan or program covering such Continuing Employee. Notwithstanding any provision in this Agreement to the contrary, nothing in this Section 6.7 shall (i) be deemed or construed to be an amendment or other modification of any Company Benefit Plan or employee benefit plan of Merger Sub, or (ii) create any third party rights in any current or former service provider of the Company or its affiliates (or any beneficiaries or dependents thereof).

Section 6.8 Rule 16b-3. Prior to the Effective Time, the Company and Parent shall, as applicable, take all such steps as may be reasonably necessary or advisable hereto to cause any dispositions of Company equity

Table of Contents

securities (including derivative securities) and acquisitions of Parent equity securities pursuant to the Transactions contemplated by this Agreement by each individual who is a director or officer of the Company subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company to be exempt under Rule 16b-3 promulgated under the Exchange Act.

Section 6.9 Security Holder Litigation. Each Party shall provide the other Party prompt oral notice of any litigation brought by any shareholder of that Party against such Party, any of its Subsidiaries and/or any of their respective directors relating to the Merger, this Agreement or any of the Transactions. Unless (i) in the case of such litigation with respect to the Company, the Company Board of Directors has made or is considering making a Company Change of Recommendation or (ii) in the case of such litigation with respect to Parent, the Parent Board of Directors has made or is considering making a Parent Change of Recommendation, each Party shall give the other Party the opportunity to participate (at such other Party s expense) in the defense or settlement of any such litigation, and no such settlement shall be agreed to without the other Party s prior written consent, which consent shall not be unreasonably withheld or delayed, except that the other Party shall not be obligated to consent to any settlement which does not include a full release of such other Party and its affiliates or which imposes an injunction or other equitable relief after the Effective Time upon Parent or any of its affiliates. In the event of, and to the extent of, any conflict or overlap between the provisions of this Section 6.9 and Section 5.1, Section 5.2 or Section 6.2, the provisions of this Section 6.9 shall control.

Section 6.10 Delisting. Each of the Parties agrees to cooperate with the other Parties in taking, or causing to be taken, all actions necessary to delist the Company Common Stock from the NASDAQ and terminate its registration under the Exchange Act, *provided* that such delisting and termination shall not be effective until after the Effective Time.

Section 6.11 Director Resignations. The Company shall use its reasonable best efforts to cause to be delivered to Parent resignations executed by each director of the Company in office as of immediately prior to the Effective Time and effective upon the Effective Time.

Section 6.12 Stock Exchange Listing. Parent shall use its reasonable best efforts to cause the Parent Shares to be issued in the Merger to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Effective Time.

Section 6.13 The Company s Financing Cooperation. The Company agrees to, and to cause its Subsidiaries to, provide such assistance (and to use reasonable best efforts to cause its and their respective officers, employees, consultants and advisors, including legal and accounting advisors, to provide such assistance) with the Financing as is reasonably requested by Parent, including: (a) participation in, and assistance with, the marketing efforts related to the Financing, including assisting Parent with Parent s preparation of customary confidential information memoranda, private placement memoranda, prospectuses, offering memoranda and the other customary marketing materials and information reasonably deemed necessary by the Financing Sources to complete a successful syndication for delivery to potential syndicate members and participants, including estimates, forecasts, projections and other forward-looking financial information regarding the future performance of the Company and the Company Subsidiaries;
(b) participation by senior management, representatives and advisors of the Company in, and assistance with, the preparation of rating agency presentations and meetings with rating agencies, roadshows, due diligence sessions, drafting sessions and meetings with prospective lenders and debt investors (including, for the avoidance of doubt, direct contact with such rating agencies and prospective lenders and debt investors); (c) delivery to Parent and its Financing Sources as promptly as reasonably practicable of the Financing Deliverables (at least four (4) business days prior to the Closing Date, to the extent requested in writing at least nine (9) days prior to the Closing Date), the Financing Information relating to the Company and such other financial information relating to the Company customary or reasonably necessary for the completion of the Financing to the extent reasonably requested by Parent in

connection with the preparation of customary offering or information documents to be used for the Financing (which Financing Information, for the avoidance of doubt, may be included in any such offering or information

Table of Contents

documents used for or distributed in connection with the Financing); (d) use reasonable best efforts to cause its independent auditors to cooperate with the Financing consistent with their customary practice, including by providing customary comfort letters (including customary negative assurances) and customary assistance with the due diligence activities of Parent and the Financing Sources, and customary consents to the inclusion of audit reports in any relevant marketing materials, registration statements and related government filings; (e) using commercially reasonable efforts to ensure that the Financing (including the syndication and marketing thereof) benefits from the existing lending and investment banking relationships of the Company and the Company Subsidiaries; (f) assisting Parent with Parent s preparation of pro forma financial information and pro forma financial statements and other materials for rating agency presentations, bank information memoranda, financial projections and similar documents used in connection with the Financing and providing customary estimates and other forward-looking financial information regarding the future performance of the business of the Company to the extent reasonably requested by the Financing Sources, and providing customary authorization and representation letters in connection therewith, and (g) executing and delivering definitive financing documents, including pledge and security documents, and certificates, management representation letters and other documents, to the extent reasonably requested by Parent, and otherwise reasonably facilitating the pledging of collateral. The Company hereby consents to the use of all of its and its Subsidiaries logos in connection with the Financing, provided that such logos are used solely in a manner that is not intended to or reasonably likely to harm or disparage the Company or the Company Subsidiaries or the reputation or goodwill of the Company or any Company Subsidiary. Notwithstanding any other provision set forth herein or in any other agreement between the Company and Parent (or its affiliates), the Company agrees that Parent and its affiliates may share customary projections with respect to the Company and its business with the Financing Sources identified in the Debt Commitment Letter, and that Parent, its affiliates and such Financing Sources may share such information with potential Financing Sources in connection with any marketing efforts in connection with the Financing, *provided* that the recipients of such information agree to customary confidentiality arrangements. Notwithstanding anything to the contrary in this Agreement, none of the Company, any of its Subsidiaries or any of its or their respective directors or officers or other personnel shall be required by this Section 6.13 (i) to take any action or provide any assistance to the extent it would interfere unreasonably with the ongoing operations of the Company and its Subsidiaries; (ii) to pass resolutions or consents to approve or authorize the execution of the Financing or the Debt Financing Documents; or (iii) to execute or deliver any certificate, document, instrument or agreement that is effective prior to the Closing or agree to any change or modification of any existing certificate, document, instrument or agreement that would be effective prior to the Closing. Parent shall (1) promptly upon request by the Company, reimburse the Company for all reasonable and documented out-of-pocket costs and expenses (including reasonable attorney s fees) incurred by the Company or any of its Subsidiaries in connection with providing the assistance contemplated by this Section 6.13 and (2) indemnify and hold harmless the Company and its Subsidiaries and its and their respective directors, officers, personnel and advisors from and against any and all liabilities, losses, damages, claims, costs, expenses (including reasonable attorney s fees), interest, awards, judgments and penalties suffered or incurred by any of them in connection with the Financing or any assistance or activities in connection therewith, in each case other than to the extent any of the foregoing arises from the bad faith, gross negligence or willful misconduct of, or breach of this Agreement by any such Person.

Section 6.14 Parent s Financing Cooperation. Parent shall cause MIFSA to take, or use its reasonable best efforts to cause to be taken, all actions and do, or use its reasonable best efforts to cause to be done, all things necessary to obtain the Financing on or prior to the Closing Date on the terms and conditions set forth in the Debt Commitment Letter, including: (a) maintaining in effect and enforcing the Debt Commitment Letter and complying with its obligations thereunder; (b) participation by senior management of MIFSA in, and assistance with, the preparation of rating agency presentations and meetings with rating agencies; (c) satisfying (or, if deemed advisable by MIFSA, obtaining the waiver of) on a timely basis all conditions to the Financing (including the Financing Conditions) that are within Parent s control; (d) negotiating, executing and delivering Debt Financing Documents that reflect the terms contained in the Debt Commitment Letter or the Debt Fee Letter (including any flex provisions related thereto); and

(e) drawing a sufficient amount of the Financing to enable Parent to consummate the Transactions, in the event that the conditions set forth in Section 7.1 and

Table of Contents

Section 7.2 and the Financing Conditions have been satisfied or, upon funding would be satisfied. Parent shall cause MIFSA to give the Company prompt notice of any breach or threatened breach by any party to the Debt Commitment Letter of which MIFSA becomes aware which would affect the availability of the Financing on the Closing Date. Without limiting Parent s other obligations under this Section 6.14, if a Financing Failure Event occurs Parent shall cause MIFSA to (i) immediately notify the Company of such Financing Failure Event and the reasons therefor, (ii) in consultation with the Company, use its reasonable best efforts to obtain alternative financing from alternative Financing Sources on terms (including conditionality, structure, covenants and pricing) not materially less beneficial in the aggregate to the Company and Parent, with lenders reasonably satisfactory to MIFSA, in an amount sufficient to consummate the Transactions, as promptly as practicable following the occurrence of such event, and (iii) to the extent MIFSA obtains a new financing commitment in respect of such alternative financing, provide a copy of such new commitment to the Company. Parent shall cause MIFSA to not, without the Company s prior written consent, agree to any amendment or modification to, or any waiver of any provision or remedy under, or voluntarily replace (it being understood that any alternative financing obtained pursuant to the preceding sentence shall not be deemed a voluntary replacement for purposes of this sentence) the Debt Commitment Letter if such amendment, modification or waiver or voluntary replacement (i) would reasonably be expected to (x) materially adversely affect the ability of Parent or Merger Sub to timely consummate the Transactions or (y) make the timely funding of the Financing or the satisfaction of the conditions to obtaining the Financing materially less likely to occur, (ii) changes the conditions to obtaining the Financing, unless such amendment, modification or waiver results in conditions that are in the aggregate substantially equivalent (or that are more favorable to the Company and Parent), (iii) reduces the aggregate amount of the Financing or (iv) materially adversely affects the ability of MIFSA or its affiliates to enforce their rights against the other parties to the Debt Commitment Letter or the Debt Fee Letter. Notwithstanding the foregoing, Parent or Merger Sub may cause MIFSA to replace or amend the Debt Commitment Letter, the Debt Fee Letter and any other Debt Financing Documents (I) to add lenders, lead arrangers, bookrunners, syndication agents or similar entities that have not executed the Debt Commitment Letter as of the date hereof, (II) to implement or exercise any flex provisions provided in the Debt Fee Letter as in effect on the date of this Agreement or (III) to the extent such action would not be prohibited by the preceding sentence. Parent shall cause MIFSA keep the Company reasonably informed on a reasonably current basis of the status of its efforts to obtain the Financing. Notwithstanding anything to the contrary set forth in this Section 6.14, Parent shall not be required to take any action that could constitute financial assistance in violation of Law, as determined by Parent in its reasonable discretion.

Parent shall have the right to substitute the proceeds of consummated offerings or other incurrences of debt (including unsecured notes) for all or any portion of the Financing by reducing commitments under the Debt Commitment Letter; *provided*, that to the extent any such debt has a scheduled special or mandatory redemption right, such right is not exercisable prior to the earlier of the consummation of the Transactions on the Closing Date, the termination of this Agreement or the Outside Date (for the avoidance of doubt as it may be extended pursuant to this Agreement). Further, Parent shall have the right to substitute commitments in respect of other debt financing for all or any portion of the Financing from the same and/or alternative bona fide third-party financing sources (Replacement Financing Sources) so long as (i) all conditions precedent to effectiveness of definitive documentation for such debt financing have been satisfied and the conditions precedent to funding of such debt financing are in the aggregate, in respect of certainty of funding, substantially equivalent to (or more favorable to the Company than) the Financing Conditions, and (ii) prior to funding of any loans thereunder, the commitments in respect of such debt financing are subject to restrictions on assignment which are in the aggregate substantially equivalent to or more favorable to the Company than the corresponding restrictions set forth in the Debt Commitment Letter (any such debt or equity financing which satisfies the foregoing clauses (i) and (ii), the Replacement Financing ; the definitive documentation for any such Replacement Financing, the Replacement Financing Documents). The representations, warranties, covenants and other restrictions of Parent and Merger Sub contained in this Agreement with respect to the Financing and the Debt Commitment Letter shall apply equally to any Replacement Financing and Replacement Financing Documents.

A-55

Table of Contents

Section 6.15 Parent Board and Committee Representation.

(a) Parent shall take such actions as are necessary to cause Don M. Bailey, Angus C. Russell and Virgil D. Thompson to become members of the Parent Board of Directors immediately after the Effective Time. The new members appointed to the Parent Board of Directors in accordance with this Section 6.15 shall be ratified by the Nominating and Governance Committee of the Parent Board of Directors pursuant to the director nomination process set forth in Parent s proxy statement on Schedule 14A filed with the SEC on January 24, 2014, to serve on the Parent Board of Directors, initially, until the next annual general meeting of Parent s shareholders in accordance with the Parent Governing Documents, and who shall also be nominated by the Parent Board of Directors for election (or re-election) to the Parent Board of Directors at the next annual general meeting of Parent s shareholders in accordance with the Parent Governing Documents, to serve until the next subsequent annual general meeting of the Parent s shareholders and until their respective successors are duly elected and qualify. If any of Don M. Bailey, Angus C. Russell and Virgil D. Thompson refuse, or are unable, to serve on the Parent Board of Directors, a mutually agreeable replacement will be selected by the Company and Parent and ratified by the Nominating and Governance Committee of the Parent Board of Directors in accordance with the director nomination process discussed in the immediately preceding sentence.

(b) The Parent Board of Directors shall take such actions as are necessary to create as of immediately after the Effective Time a new committee of the Parent Board of Directors, which shall be composed of three members: the Chief Executive Officer of the Company as of immediately prior to the Effective Time (who shall be the chair of such committee), the Chief Executive Officer of Parent as of immediately prior to the Effective Time and the Chair of the Parent Board of Directors as of immediately prior to the Effective Time.

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE MERGER

Section 7.1 Conditions to Each Party s Obligations to Effect the Merger. The respective obligations of each Party to effect the Merger shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by Parent, Merger Sub and the Company, as the case may be, to the extent permitted by applicable Law:

(a) Shareholder Approval. Each of the Company Shareholder Approval and the Parent Shareholder Approval shall have been obtained;

(b) Registration Statement. The Form S-4 shall have become effective in accordance with the provisions of the Securities Act and no stop order suspending the effectiveness of the Form S-4 shall have been issued by the SEC and remain in effect and no proceeding to that effect shall have been commenced or threatened;

(c) Adverse Laws or Orders. No Adverse Law or Order shall have occurred;

(d) Required Antitrust Clearances. (i) Any applicable waiting period (or extension thereof) relating to the Merger under the HSR Act shall have expired or been terminated and (ii) no legal proceeding by a Governmental Entity under any Antitrust Law of the United States shall be threatened in writing or pending against the Company, Parent or Merger Sub that is reasonably likely to temporarily or permanently enjoin, restrain or prevent the consummation of the Merger; and

(e) Listing. The Parent Shares to be issued in the Merger shall have been approved for listing on the NYSE, subject to official notice of issuance.

(f) Parent Status. Parent shall not, as a result of any adoption, implementation, promulgation, repeal, modification, amendment, or change of any applicable Law of or by any Governmental Entity following the date hereof and prior to the Closing Date, be treated as a domestic corporation for U.S. federal income tax purposes as of or after the Closing Date.

Section 7.2 Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to effect the Merger are also subject to the satisfaction or waiver (in writing) by Parent on or prior to the Closing Date of each of the following additional conditions:

(a) Representations and Warranties. (i) The representations and warranties of the Company set forth in Section 3.2(a), Section 3.2(b), Section 3.2(c), Section 3.3(a) and Section 3.22 shall be true and correct in all material respects as of the date of this Agreement and as of the Closing as though made on and as of the Closing (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct in all material respects as of such date) and (ii) each of the other representations and warranties of the Company set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing as though made on and as of the Closing (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date), except, in the case of this clause (ii), where any failures of any such representations and warranties to be true and correct (without giving effect to any qualification as to materiality or Company Material Adverse Effect contained therein) would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect; and Parent shall have received a certificate signed on behalf of the Company by a duly authorized executive officer of the Company to the foregoing effect;

(b) Performance of Obligations of the Company. The Company shall have performed or complied in all material respects with the covenants and agreements required to be performed or complied with by it under this Agreement at or prior to the Effective Time; and Parent shall have received a certificate signed on behalf of the Company by a duly authorized executive officer of the Company to such effect; and

(c) No Material Adverse Effect. Since the date of this Agreement, no Company Material Adverse Effect shall have occurred and be continuing.

Section 7.3 Conditions to Obligations of the Company. The obligations of the Company to effect the Merger are also subject to the satisfaction or waiver (in writing) by the Company on or prior to the Closing Date of each of the following additional conditions:

(a) Representations and Warranties. (i) The representations and warranties of Parent and Merger Sub set forth in Section 4.2(a), Section 4.2(b), Section 4.2(c), Section 4.3(a) and Section 4.22 shall be true and correct in all material respects as of the date of this Agreement and as of the Closing as though made on and as of the Closing (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct in all material respects as of such date) and (ii) each of the other representations and warranties of Parent and Merger Sub set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing as though made on and as of the Closing (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date), except, in the case of this clause (ii), where any failures of any such representations and warranties to be true and correct (without giving effect to any qualification as to materiality or Parent Material Adverse Effect contained therein) would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect; and the Company shall have received a certificate signed on behalf of Parent by a duly authorized executive officer of Parent to the foregoing effect;

(b) Performance of Obligations of Parent and Merger Sub. Parent and Merger Sub shall have performed or complied in all material respects with the covenants and agreements required to be performed or complied with by them under this Agreement at or prior to the Effective Time, and the Company shall have received a certificate signed on behalf of Parent by a duly authorized executive officer of Parent to such effect; and

(c) No Material Adverse Effect. Since the date of this Agreement, no Parent Material Adverse Effect shall have occurred and be continuing.

Table of Contents

ARTICLE VIII

TERMINATION

Section 8.1 Termination. This Agreement may be terminated and the Merger and the other Transactions may be abandoned (except as otherwise provided below, whether before or after receipt of the Company Shareholder Approval or the Parent Shareholder Approval, if applicable) as follows:

(a) by mutual written consent of Parent and the Company;

(b) by either Parent or the Company, prior to the Effective Time, if there has been a breach by the Company, on the one hand, or Parent or Merger Sub, on the other hand, of any representation, warranty, covenant or agreement set forth in this Agreement, which breach would result in the conditions in Article VII not being satisfied (and such breach is not curable prior to the Outside Date, or if curable prior to the Outside Date, has not been cured within the earlier of (i) thirty (30) calendar days after the receipt of notice thereof by the defaulting Party from the non-defaulting Party or (ii) three (3) business days before the Outside Date); *provided, however*, this Agreement may not be terminated pursuant to this Section 8.1(b) by any Party if such Party is then in material breach of any representation, warranty, covenant or agreement set forth in this Agreement;

(c) by either Parent or the Company, if the Effective Time shall not have occurred by midnight, Eastern Time, at the end of the day on October 6, 2014 (as it may be extended pursuant to the second and/or third proviso of this Section 8.1(c), the Outside Date); *provided, however*, that the right to terminate this Agreement pursuant to this Section 8.1(c) shall not be available to any Party whose breach of any representation, warranty, covenant or agreement set forth in this Agreement has been the cause of, or resulted in, the Effective Time not occurring prior to the Outside Date; *provided*, *further*, either Parent or the Company may, within three (3) business days immediately prior to October 6, 2014, elect to extend the Outside Date by delivering a written notice to the other Party stating that if on the Outside Date the condition set forth in Section 7.1(d) and/or the condition set forth in Section 7.1(c) (if the applicable Adverse Law or Order is an order or injunction of a court of competent jurisdiction under an Antitrust Law) has not been satisfied but all other conditions to the Closing set forth in Article VII have been satisfied or waived (other than those conditions that by their nature are to be satisfied at the Closing, which conditions shall be capable of being satisfied on October 6, 2014), then the Outside Date shall be extended by three (3) months until January 6, 2015; *provided*, *further*, that if the Marketing Period shall have begun but not been completed by the Outside Date, then the Outside Date shall be extended by the number of days remaining in the Marketing Period as of the Outside Date plus three (3) business days;

(d) by Parent, if, prior to receipt of the Company Shareholder Approval, the Company Board of Directors shall have effected a Company Change of Recommendation; *provided* that Parent s right to terminate this Agreement pursuant to this Section 8.1(d) shall expire at 5:00 p.m. (New York City time) on the fifteenth (15th) business day following the date on which such Company Change of Recommendation occurs;

(e) by the Company, if, prior to receipt of the Parent Shareholder Approval, the Parent Board of Directors shall have effected a Parent Change of Recommendation; *provided* that the Company s right to terminate this Agreement pursuant to this Section 8.1(e) shall expire at 5:00 p.m. (New York City time) on the fifteenth (15th) business day following the date on which such Parent Change of Recommendation occurs;

(f) by either the Company or Parent if a Governmental Entity of competent jurisdiction, that is within a jurisdiction that is material to the business and operations of the Company and Parent, taken together, shall have issued a final, non-appealable order, injunction, decree or ruling in each case permanently restraining, enjoining or otherwise

prohibiting the consummation of the Merger;

(g) by either the Company or Parent, if the Company Shareholder Approval shall not have been obtained at the Company Special Meeting or at any adjournment or postponement thereof, in each case at which a vote on such approval was taken; or

Table of Contents

(h) by either Parent or the Company, if the Parent Shareholder Approval shall not have been obtained at the Parent Special Meeting or at any adjournment or postponement thereof, in each case at which a vote on such approval was taken.

Section 8.2 Effect of Termination.

(a) In the event of the valid termination of this Agreement as provided in Section 8.1, written notice thereof shall forthwith be given to the other Party or Parties specifying the provision hereof pursuant to which such termination is made, and this Agreement shall forthwith become null and void and there shall be no liability on the part of Parent, Merger Sub or the Company, except that the Confidentiality Agreement, the last sentence of Section 6.13, this Section 8.2 and Section 9.3 through Section 9.13 shall survive such termination; *provided*, *however*, that nothing herein shall relieve any Party from liability for fraud or a Willful Breach of its representations, warranties, covenants or agreements set forth in this Agreement prior to such termination (it being understood, for the avoidance of doubt, that the damages recoverable for a Willful Breach by Parent (which may be pursued only by the Company through actions expressly approved by the Company Board of Directors) shall not be limited to reimbursement of the Company s expenses or out-of pocket costs, and may include, to the extent proven, other damages suffered by the Company, and that the calculation of damages suffered by the Company may include, to the extent proven, loss suffered by the Company s shareholders (including, to the extent otherwise available under Delaware Law under the circumstances, the benefit of the bargain lost by the Company s shareholders), which shall be deemed in such event to be damages of the Company and not of the Company s shareholders themselves).

(b) Company Termination Fee.

(i) If either the Company or Parent terminates this Agreement pursuant to Section 8.1(g), within three (3) business days after such termination the Company shall pay or cause to be paid to Parent $55,560,000 in cash. To the extent a Company Termination Fee becomes payable, any payment previously made pursuant to this Section 8.2(b)(i) shall be credited against such obligation of the Company to pay the Company Termination Fee.

(ii) If (A) Parent or the Company terminates this Agreement pursuant to Section 8.1(c) or Section 8.1(g), (B) a Company Competing Proposal shall have been publicly disclosed and not publicly, irrevocably withdrawn prior to the date of the Company Special Meeting, and (C)(1) any Company Competing Proposal is consummated within twelve (12) months of such termination or (2) the Company enters into a definitive agreement providing for a Company Competing Proposal within twelve (12) months of such termination and such Company Competing Proposal is consummated, within one (1) business day after the date any such Company Competing Proposal is consummated the Company shall pay or cause to be paid to Parent a fee of $194,470,000 in cash (the Company Termination Fee). Solely for purposes of this Section 8.2(b)(ii), the term Company Competing Proposal shall have the meaning assigned to such term in Section 9.5, except that all references to 20% therein shall be deemed to be references to 50% .

(iii) If Parent terminates this Agreement pursuant to Section 8.1(d), within three (3) business days after such termination, the Company shall pay or cause to be paid to Parent the Company Termination Fee.

(iv) In the event any amount is payable by the Company pursuant to the preceding clauses (i), (ii) or (iii), such amount shall be paid by wire transfer of immediately available funds to an account designated in writing by Parent. For the avoidance of doubt, in no event shall the Company be obligated to pay the Company Termination Fee on more than one occasion.

(c) Parent Termination Fee.

(i) If either Parent or the Company terminates this Agreement pursuant to Section 8.1(h), within three (3) business days after such termination Parent shall pay or cause to be paid to the Company

Table of Contents

$37,560,000 in cash. To the extent a Parent Termination Fee becomes payable, any payment previously made pursuant to this Section 8.2(c)(i) shall be credited against such obligation of Parent to pay the Parent Termination Fee.

(ii) If (A) the Company or Parent terminates this Agreement pursuant to Section 8.1(c) or Section 8.1(h), (B) a Parent Competing Proposal shall have been publicly disclosed and not publicly, irrevocably withdrawn prior to the date of the Parent Special Meeting, and (C)(1) any Parent Competing Proposal is consummated within twelve (12) months of such termination or (2) Parent enters into a definitive agreement providing for a Parent Competing Proposal within twelve (12) months of such termination and such Parent Competing Proposal is consummated, within one (1) business day after the date any such Parent Competing Proposal is consummated Parent shall pay or cause to be paid to the Company a fee of $131,450,000 in cash (the Parent Termination Fee). Solely for purposes of this Section 8.2(c)(ii), the term Parent Competing Proposal shall have the meaning assigned to such term in Section 9.5, except that all references to 20% therein shall be deemed to be references to 50% .

(iii) If the Company terminates this Agreement pursuant to Section 8.1(e), within three (3) business days after such termination, Parent shall pay or cause to be paid to the Company the Parent Termination Fee.

(iv) In the event any amount is payable pursuant to the preceding clauses (i), (ii) or (iii), such amount shall be paid by wire transfer of immediately available funds to an account designated in writing by the Company. For the avoidance of doubt, in no event shall Parent be obligated to pay the Parent Termination Fee on more than one occasion.

(d) Each of the Parties acknowledges that the agreements contained in this Section 8.2 are an integral part of the Transactions and that (i) each of the Company Termination Fee and the fee payable pursuant to Section 8.2(b)(i) is not a penalty, but rather is a reasonable amount that will compensate Parent and Merger Sub in the circumstances in which the Company Termination Fee or the fee payable pursuant to Section 8.2(b)(i) is payable for the efforts and resources expended and opportunities foregone while negotiating this Agreement and in reliance on this Agreement and on the expectation of the consummation of the Transactions, and (ii) each of the Parent Termination Fee and the fee payable pursuant to Section 8.2(c)(i) is not a penalty, but rather is a reasonable amount that will compensate the Company in the circumstances in which the Parent Termination Fee or the fee payable pursuant to Section 8.2(c)(i) is payable for the efforts and resources expended and opportunities foregone while negotiating this Agreement and in reliance on this Agreement and on the expectation of the consummation of the Transactions, each of which amounts would otherwise be impossible to calculate with precision. Notwithstanding anything to the contrary in this Agreement, except in the case of fraud or Willful Breach, (A) upon payment of the Company Termination Fee pursuant to this Section 8.2, none of the Company, any of its Subsidiaries or any of their respective former, current or future officers, directors, partners, shareholders, managers, members, affiliates or agents shall have any further liability or obligation relating to or arising out of this Agreement or the Transactions and (B) upon payment of the Parent Termination Fee pursuant to this Section 8.2, none of the Parent, any of its Subsidiaries or any of their respective former, current or future officers, directors, partners, shareholders, managers, members, affiliates or agents shall have any further liability or obligation relating to or arising out of this Agreement or the Transactions. Notwithstanding anything to the contrary, nothing in this Agreement (including Section 8.2(a) and this Section 8.2(d)) shall in any way limit the provisions of Section 9.14.

ARTICLE IX

MISCELLANEOUS

Section 9.1 Amendment and Modification; Waiver.

(a) Subject to applicable Law and except as otherwise provided in this Agreement, this Agreement may be amended, modified and supplemented, whether before or after receipt of the Company Shareholder Approval

Table of Contents

or the Parent Shareholder Approval, as applicable, by written agreement of the Parties (by action taken by their respective boards of directors); *provided, however*, that after the approval and adoption of this Agreement by the shareholders of the Company or the approval of the issuance of Parent Shares in connection with the Merger by the shareholders of Parent, as applicable, no amendment shall be made which by Law requires further approval by such shareholders without obtaining such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the Parties.

(b) At any time and from time to time prior to the Effective Time, either the Company, on the one hand, or Parent or Merger Sub, on the other hand, may, to the extent legally allowed and except as otherwise set forth herein, (i) extend the time for the performance of any of the obligations or other acts of any of Parent, Merger Sub or the Company, as applicable, (ii) waive any inaccuracies in the representations and warranties made to Parent or the Company contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the agreements or conditions for the benefit of Parent, Merger Sub or the Company, as applicable, contained herein. Any agreement on the part of a Parent, Merger Sub or the Company to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of Parent, Merger Sub or the Company, as applicable. Any delay in exercising any right under this Agreement shall not constitute a waiver of such right.

(c) Notwithstanding anything to the contrary contained herein, (i) Section 9.9(b) and Section 9.12 may not be amended, supplemented, waived or otherwise modified in a manner adverse to the Financing Sources and (ii) this Section 9.1(c), Section 9.11(a)(2), Section 9.11(b)(2) and Section 9.15 may not be amended, supplemented, waived or otherwise modified, nor, in the case of each of clauses (i) and (ii), may this Agreement be otherwise modified in a manner that in substance constitutes such a modification, without the prior written consent of the Financing Sources.

Section 9.2 Non-Survival of Representations and Warranties. None of the representations and warranties in this Agreement or in any schedule, instrument or other document delivered pursuant to this Agreement shall survive the Effective Time. This Section 9.2 shall not limit any covenant or agreement of the Parties which by its terms contemplates performance after the Effective Time.

Section 9.3 Expenses. Except as otherwise expressly provided in this Agreement, all Expenses incurred in connection with this Agreement and the Transactions shall be paid by the Party incurring such Expenses, except that Parent and the Company shall share equally all Expenses incurred in connection with (a) printing, filing and mailing the Joint Proxy Statement/Prospectus and Form S-4, and all SEC and other regulatory filing fees incurred in connection with the Joint Proxy Statement/Prospectus and Form S-4, (b) the Exchange Agent, and (c) any documentary, sales, use, real property transfer, real property gains, registration, value-added, transfer, stamp, recording and other similar Taxes.

Section 9.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally (notice deemed given upon receipt), telecopied (notice deemed given upon confirmation of receipt) or sent by a nationally recognized overnight courier service, such as Federal Express (notice deemed given upon receipt of proof of delivery), to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

if to Parent or Merger Sub, to:

Mallinckrodt plc

Damastown, Mulhuddart

Dublin 15

Ireland

Attention: General Counsel
Facsimile: +353-1-820-8780

Table of Contents

and

Mallinckrodt plc

675 James S. McDonnell Blvd.

Hazelwood, MO 63042

Attention: General Counsel

Facsimile: (314) 654-5366

with a copy to:

Wachtell, Lipton, Rosen & Katz

51 West 52nd Street

New York, New York 10019

Attention: Adam O. Emmerich
Benjamin M. Roth
Victor Goldfeld
Facsimile: (212) 403-2000

and

if to the Company, to:

Questcor Pharmaceuticals, Inc.

1300 Kellogg Drive, Suite D

Anaheim, CA 92807

Attention: EVP Strategic Affairs & General Counsel

Facsimile: (714) 789-4229

with a copy to:

Latham & Watkins LLP

650 Town Center Driver, 20th Floor

Costa Mesa, CA 92626

Attention: Cary Hyden
R. Scott Shean

Paul Tosetti
Facsimile: (714) 755-8078

Section 9.5 Certain Definitions. For the purposes of this Agreement, the term:

Acceptable Confidentiality Agreement means a confidentiality agreement that contains terms that are no less favorable in the aggregate to the Company or Parent, as applicable, than those contained in the Confidentiality Agreement; *provided, however*, that an Acceptable Confidentiality Agreement shall not be required to contain standstill provisions.

Adverse Law or Order means (i) any statute, rule or regulation (other than any Antitrust Law) shall have been enacted or promulgated by any Governmental Entity of competent jurisdiction which prohibits or makes illegal the consummation of the Merger, or (ii) there shall be in effect any order or injunction of a court of competent jurisdiction preventing the consummation of the Merger.

Antitrust Laws mean any antitrust, competition or trade regulation Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening competition through merger or acquisition, including the HSR Act.

Table of Contents

Bribery Legislation means all and any of the following if and as they may be applicable to the Company, Parent and/or their respective Subsidiaries by their terms: the United States Foreign Corrupt Practices Act of 1977; the Organization For Economic Co-operation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and related implementing legislation; the relevant common law or legislation in England and Wales relating to bribery and/or corruption, including, the Public Bodies Corrupt Practices Act 1889; the Prevention of Corruption Act 1906 as supplemented by the Prevention of Corruption Act 1916 and the Anti-Terrorism, Crime and Security Act 2001; the Bribery Act 2010; the Proceeds of Crime Act 2002; and any anti-bribery or anti-corruption related provisions in criminal and anti-competition laws and/or anti-bribery, anti-corruption and/or anti-money laundering laws of any jurisdiction in which Parent or the Company operates.

business days has the meaning set forth in Rule 14d-1(g)(3) of the Exchange Act.

CERCLA means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and any regulations promulgated thereunder.

Code means the Internal Revenue Code of 1986, as amended.

Company Bylaws means the bylaws of the Company, as amended and restated and in effect on the date hereof.

Company Articles means the Articles of Incorporation of the Company, as amended and restated and in effect on the date hereof.

Company Competing Proposal means any proposal made by a Person or group (other than a proposal or offer by Parent or any of its Subsidiaries) at any time which is structured to permit such Person or group to acquire beneficial ownership of at least twenty percent (20%) of the assets of, equity interest in, or businesses of, the Company (whether pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, sale of assets, tender offer or exchange offer or otherwise, including any single or multi-step transaction or series of related transactions), in each case other than the Merger.

Company Equity Plans means the Company s 2006 Equity Incentive Award Plan, the Company s 1992 Employee Stock Option Plan, and the Company s 2004 Non-Employee Directors Equity Incentive Plan.

Company ESPP means the Company s 2003 Amended and Restated Employee Stock Purchase Plan.

Company Governing Documents means the Company Bylaws and the Company Articles.

Company Intervening Event means an Effect (a) that was not known to the Company Board of Directors, or the material consequences of which (based on facts known to members of the Company Board of Directors as of the date of this Agreement) were not reasonably foreseeable, as of the date of this Agreement and (b) that does not relate to any Company Competing Proposal.

Company Key Product means H.P. Acthar® Gel.

Company Material Adverse Effect means any Effect that, individually or in the aggregate, has a material adverse effect on the condition (financial or otherwise), business or results of operations of the Company and the Company Subsidiaries, taken as a whole; *provided, however*, that no Effects resulting or arising from the following shall be deemed to constitute a Company Material Adverse Effect or shall be taken into account when determining whether a Company Material Adverse Effect exists or has occurred or is reasonably likely to exist or occur: (a) any changes in

general United States or global economic conditions to the extent that such Effects do not disproportionately impact the Company relative to other companies operating in the industry or industries in

Table of Contents

which the Company operates, (b) conditions (or changes therein) in any industry or industries in which the Company operates to the extent that such Effects do not disproportionately impact the Company relative to other companies operating in such industry or industries, (c) general legal, tax, economic, political and/or regulatory conditions (or changes therein), including any changes affecting financial, credit or capital market conditions, to the extent that such Effects do not disproportionately impact the Company relative to other companies operating in the industry or industries in which the Company operates, (d) any change in GAAP or interpretation thereof to the extent that such Effects do not disproportionately impact the Company relative to other companies operating in the industry or industries in which the Company operates, (e) any adoption, implementation, promulgation, repeal, modification, amendment, reinterpretation, change or proposal of any applicable Law of or by any Governmental Entity to the extent that such Effects do not disproportionately impact the Company relative to other companies operating in the industry or industries in which the Company operates, (f) the execution and delivery of this Agreement or the consummation of the Transactions, or any actions expressly required by, or the failure to take any action expressly prohibited by, the terms of this Agreement (*provided*, *however*, that the exceptions in this clause (f) shall not apply to the Company s representations and warranties in Section 3.3(c) or Section 3.9(d) or Section 3.15(b) or, to the extent related thereto, Section 7.2(a)), (g) changes in the Company Common Stock price, in and of itself (it being understood that the facts or occurrences giving rise or contributing to such changes that are not otherwise excluded from the definition of a Company Material Adverse Effect may be taken into account), (h) any failure by the Company to meet any internal or published projections, estimates or expectations of the Company s revenue, earnings or other financial performance or results of operations for any period, in and of itself, or any failure by the Company to meet its internal budgets, plans or forecasts of its revenues, earnings or other financial performance or results of operations, in and of itself (it being understood that the facts or occurrences giving rise or contributing to such failure that are not otherwise excluded from the definition of a Company Material Adverse Effect may be taken into account), (i) Effects arising out of changes in geopolitical conditions, acts of terrorism or sabotage, war (whether or not declared), the commencement, continuation or escalation of a war, acts of armed hostility, weather conditions or other force majeure events, including any material worsening of such conditions threatened or existing as of the date of this Agreement, to the extent that such Effects do not disproportionately impact the Company relative to other companies operating in the industry or industries in which the Company operates, (j) solely for purposes of the condition set forth in Section 7.2(c), as disclosed (including as deemed disclosed pursuant to the preamble to Article III) with respect to the representations and warranties in Section 3.10(a), (k) the public announcement of this Agreement or the Transactions, (l) any action or failure to take any action that is consented to or requested by Parent in writing or (m) any reduction in the credit rating of the Company or the Company Subsidiaries, in and of itself (it being understood that the facts or occurrences giving rise or contributing to such reduction that are not otherwise excluded from the definition of a Company Material Adverse Effect may be taken into account).

Company Products means any and all products that are being researched, tested, developed, commercialized, manufactured, sold or distributed by the Company or any Company Subsidiary and any and all products with respect to which the Company or any Company Subsidiary has royalty rights.

Company Related Party means the Company, any holder of Company Shares and each of their respective affiliates and their and their respective affiliates Representatives.

Company Shareholder Approval means the affirmative vote of the holders of a majority of the outstanding Company Common Stock entitled to vote upon the approval and adoption of this Agreement at the Company Special Meeting.

Company Special Meeting means the meeting of the holders of shares of Company Common Stock for the purpose of seeking the Company Shareholder Approval, including any postponement or adjournment thereof.

Company Subsidiaries means the Subsidiaries of the Company.

Company Superior Proposal means a bona fide proposal or offer constituting a Company Competing Proposal (with references to 20% being deemed to be replaced with references to 50%), which the Company

Table of Contents

Board of Directors determines in good faith after consultation with the Company s outside legal and financial advisors to be (a) more favorable to the shareholders of the Company from a financial point of view than the Merger, taking into account all relevant factors (including all the terms and conditions of such proposal or offer and this Agreement (including any changes to the terms of this Agreement proposed by Parent in response to such offer or otherwise)) and (b) reasonably capable of being completed, taking into account all financial, legal, regulatory and other aspects of such proposal or offer.

Compliant means:

(a) such Financing Information does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such Financing Information not misleading;

(b) the Company s auditors have not withdrawn any audit opinion with respect to any financial statements contained in the Financing Information; and

(c) the financial statements and other financial information included in such Financing Information are, and remain throughout the Marketing Period, sufficient to permit the Financing Sources to receive customary comfort letters with respect to financial information contained in the Financing Information (including customary negative assurance comfort) from the independent accountants for the Company on any date during the Marketing Period.

Confidentiality Agreement means the Confidentiality Agreement, dated January 21, 2014, between Parent and the Company.

Contract means any written or oral agreement, contract, subcontract, settlement agreement, lease, sublease, binding understanding, note, option, bond, mortgage, indenture, trust document, loan or credit agreement, license, sublicense, insurance policy or other legally binding commitment or undertaking of any nature, as in effect as of the date hereof or as may hereinafter be in effect; *provided*, *however*, that Contracts shall not include any Company Benefit Plan or Parent Benefit Plan.

CSOS means the Secretary of State of the State of California.

Debt Commitment Letter means the debt commitment letter between MIFSA and Barclays Bank PLC, dated as of the date hereof, as amended, supplemented or replaced in compliance with this Agreement or as required by Section 6.14 following a Financing Failure Event, pursuant to which the financial institutions party thereto have agreed, subject only to the Financing Conditions set forth therein, to provide or cause to be provided the debt financing set forth therein for the purposes of financing the Transactions.

Debt Fee Letter means the fee letter referred to in the Debt Commitment Letter, as amended, supplemented or replaced in compliance with this Agreement or as required by Section 6.140 following a Financing Failure Event.

Debt Financing Documents means the agreements, documents and certificates contemplated by the Financing, including (a) all credit agreements, loan documents, purchase agreements, underwriting agreements, indentures, debentures, notes, intercreditor agreements and security documents pursuant to which the Financing will be governed or contemplated by the Debt Commitment Letter; (b) officer, secretary, solvency and perfection certificates, legal opinions, corporate organizational documents, good standing certificates, Lien searches, and resolutions contemplated by the Debt Commitment Letter or requested by the Financing Sources; (c) all documentation and other information required by bank regulatory authorities under applicable know-your-customer and anti-money laundering rules and regulations, including the USA Patriot Act; and (d) agreements, documents or certificates that facilitate the creation,

perfection or enforcement of Liens securing the Financing (including original copies of all certificated securities (with transfer powers executed in blank), control agreements, surveys, title insurance, landlord consent and access letters) as are requested by the Financing Sources.

Table of Contents

DSOS means the Secretary of State of the State of Delaware.

Effect means any change, effect, development, circumstance, condition, state of facts, event or occurrence.

Environmental Law means any and all applicable Laws which (a) regulate or relate to the protection or clean-up of the environment; the use, treatment, storage, transportation, handling, disposal or release of Hazardous Substances, the preservation or protection of waterways, groundwater, drinking water, air, wildlife, plants or other natural resources, or the health and safety of persons or property, including protection of the health and safety of employees; or (b) impose liability or responsibility with respect to any of the foregoing, including the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601 et seq.), or any other Law of similar effect.

Environmental Liability means any obligations or liabilities (including any notices, claims, complaints, suits or other assertions of obligations or liabilities) that are: (a) related to the environment (including on-site or off-site contamination by Hazardous Substances of surface or subsurface soil or water), and (b) based upon (i) any provision of Environmental Laws or (ii) any order, consent, decree, writ, injunction or judgment issued or otherwise imposed by any Governmental Entity and includes: fines, penalties, judgments, awards, settlements, losses, damages, costs, fees (including attorneys and consultants fees), expenses and disbursements relating to environmental matters; defense and other responses to any administrative or judicial action (including notices, claims, complaints, suits and other assertions of liability) relating to environmental matters; and financial responsibility for (x) clean-up costs and injunctive relief, including any Removal, Remedial or Response actions, and (y) compliance or remedial measures under other Environmental Laws.

Environmental Permits means any material permit, license, authorization or approval required under applicable Environmental Laws.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated and rulings issued thereunder.

ERISA Affiliate means, with respect to any entity, trade or business, any other entity, trade or business that is a member of a group described in Section 414(b), (c), (m) or (o) of the Code or Section 4001(b)(1) of ERISA that includes the first entity, trade or business, or that is a member of the same controlled group as the first entity, trade or business pursuant to Section 4001(a)(14) of ERISA.

Exchange Act means the United States Securities Exchange Act of 1934, as amended.

Exchange Ratio means the sum of (a) the Stock Consideration and (b) the quotient obtained by dividing (i) the Cash Consideration by (ii) the VWAP of Parent Shares.

Expenses means all reasonable out-of-pocket expenses (including all fees and expenses of counsel, financing sources, accountants, investment bankers, experts and consultants to a Party and its affiliates) incurred by a Party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement, the preparation, printing, filing and mailing of the Joint Proxy Statement/Prospectus, the solicitation of equityholders and equityholder approvals, any filings with the SEC and all other matters related to the closing of the Merger and the other Transactions.

FCPA means the Foreign Corrupt Practices Act of 1977, as amended.

Financing means the debt financing incurred or intended to be incurred pursuant to the Debt Commitment Letter, including the offering or private placement of debt securities contemplated by the Debt Commitment Letter and any related engagement letter.

Table of Contents

Financing Conditions means the conditions precedent set forth in Section 5 of the Debt Commitment Letter.

Financing Deliverables means the following: documentation and other information reasonably requested by the Financing Sources with respect to (i) applicable know-your-customer and anti-money laundering rules and regulations, including the PATRIOT Act, and (ii) the U.S. Treasury Department s Office of Foreign Assets Control and the FCPA.

Financing Failure Event shall mean any of the following: (a) the commitments with respect to all or any portion of the Financing expiring or being terminated, (b) for any reason, all or any portion of the Financing becoming unavailable or (c) a breach or repudiation by any party to the Debt Commitment Letter (in each case, other than as a result of a breach by the Company of this Agreement which prevents or renders impracticable the consummation of the Financing).

Financing Information means (i) audited consolidated balance sheets and related statements of income and cash flows of the Company for the three most recently completed fiscal years ended at least seventy-five (75) days prior to the Closing Date, (ii) unaudited consolidated balance sheets and related statements of income and cash flows of the Company for each subsequent fiscal quarter ended at least forty (40) days prior to the Closing Date (but excluding the fourth quarter of any fiscal year); and (iii) all information regarding the Company reasonably requested by Parent to assist in the preparation of (A) customary pro forma financial information for use in a customary confidential information memorandum for senior secured term loan financings and (B) a preliminary prospectus or preliminary offering memorandum or preliminary private placement memorandum suitable for use in a customary high-yield road show relating to unsecured senior notes, which, in each case under this clause (B) contains all financial statements and other data regarding the Company to be included therein (including all audited financial statements of the Company, all unaudited financial statements of the Company (which shall have been reviewed by the independent accountants as provided in Statement on Auditing Standards No. 100) and all appropriate pro forma financial statements prepared in accordance with, or reconciled to, generally accepted accounting principles in the United States and prepared in accordance with Regulation S-X under the Securities Act), and all other data regarding the Company (including selected financial data) that the SEC would require in a registered offering of the unsecured senior notes (in each case other than Rule 3-09, Rule 3-10 or Rule 3-16 of Regulation S-X, Item 402 of Regulation S-K and subject to exceptions customary for a Rule 144A offering), or that would be required to receive customary (for high yield debt securities) comfort (including negative assurance comfort) from the independent accountants for the Company in connection with the offering of unsecured senior notes.

Financing Sources means the agents, arrangers, lenders and other entities that have committed to provide or arrange the Financing or other financings in connection with the Transactions, including the parties to any joinder agreements, indentures or credit agreements entered pursuant thereto or relating thereto, together with their respective affiliates, and the respective officers, directors, employees, partners, trustees, shareholders, controlling persons, agents and representatives of the foregoing, and their respective successors and assigns.

Government Official means any official, officer, employee, or representative of, or any Person acting in an official capacity for or on behalf of, any Governmental Entity.

Governmental Entity means (a) any national, federal, state, county, municipal, local, or foreign government or any entity exercising executive, legislative, judicial, regulatory, taxing, or administrative functions of or pertaining to government, (b) any public international governmental organization, or (c) any agency, division, bureau, department, or other political subdivision of any government, entity or organization described in the foregoing clauses (a) or (b) of this definition.

Hazardous Substances means any pollutant, chemical, substance and any toxic, infectious, carcinogenic, reactive, corrosive, ignitable or flammable chemical, chemical compound, hazardous substance, material or

Table of Contents

waste, whether solid, liquid or gas, that is subject to regulation, control or remediation under any Environmental Laws, including any quantity of petroleum product or byproduct, solvent, flammable or explosive material, radioactive material, asbestos, lead paint, polychlorinated biphenyls (or PCBs), dioxins, dibenzofurans, heavy metals, radon gas, mold, mold spores, and mycotoxins.

HSR Act means the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

Indebtedness means with respect to any Person, (a) all indebtedness, notes payable, accrued interest payable or other obligations for borrowed money, whether secured or unsecured and (b) any guarantee (other than customary non-recourse carve-out or badboy guarantees) of any of the foregoing, whether or not evidenced by a note, mortgage, bond, indenture or similar instrument.

Intellectual Property means all rights in or to all U.S. or foreign: (a) inventions (whether or not patentable), patents and patent applications and any other governmental grant for the protection of inventions or industrial designs, (b) trademarks, service marks, trade dress, logos, brand names, trade names and corporate names, whether registered or unregistered, and the goodwill associated therewith, together with any registrations and applications for registration thereof, (c) copyrights, whether registered or unregistered, and any registrations and applications for registration thereof, (d) trade secrets and confidential or proprietary information, including know-how, concepts, methods, processes, designs, schematics, drawings, formulae, technical data, techniques, protocols, business plans, specifications, research and development information, technology, and business plans (collectively Trade Secrets), (e) rights in databases and data collections (including knowledge databases, customer lists and customer databases), and (f) domain name registrations.

knowledge will be deemed to be, as the case may be, the actual knowledge of (a) the Persons listed in Section 9.5 of the Parent Disclosure Letter with respect to Parent or Merger Sub, or (b) the Persons listed in Section 9.5 of the Company Disclosure Letter with respect to the Company.

Law means any statute, code, rule, regulation, order, ordinance, judgment or decree or other pronouncement of any Governmental Entity having the effect of law, as in effect now or hereafter.

Lien means any lien, pledge, hypothecation, mortgage, security interest, encumbrance, claim, option, right of first refusal, preemptive right, community property interest or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, or any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

Marketing Period shall mean the first period of ten (10) consecutive business days throughout and at the end of which:

(a) Parent and its Financing Sources shall have had access to all requested Financing Information and such Financing Information shall have been Compliant throughout such period; provided that if the Company shall in good faith reasonably believe it has provided the Financing Information, it may deliver to Parent a written notice to that effect (stating when it believes it completed such delivery), in which case the Company shall be deemed to have provided the requested Financing Information as of the date of such notice unless Parent in good faith reasonably believes the Company has not completed the delivery of the Financing Information and, within five (5) business days after the delivery of such notice by the Company, delivers a written notice to the Company to that effect (stating with reasonable specificity which Financing Information the Company has not delivered); and

(b) nothing shall have occurred and no condition shall exist that would cause any of the conditions set forth in Section 7.1 or Section 7.2 (other than (i) the conditions set forth in Section 7.1(a) which must be satisfied no later than five (5) business days prior to the end of the Marketing Period and (ii) conditions that by their nature will not be satisfied until the Closing) to fail to be satisfied assuming the Closing were to be scheduled for any time during such ten (10) consecutive-business-day period;

Table of Contents

provided that the entirety of such period shall occur prior to August 16, 2014 or after September 2, 2014, and any day from and including July 2, 2014 to July 4, 2014 shall not be deemed a business day for purposes of this period; *provided*, *further*, that the Marketing Period shall end on any earlier date that is the date on which the Financing is consummated.

Merger Consideration Value means the sum of (a) the Cash Consideration and (b) the product obtained by multiplying (i) the Stock Consideration by (ii) the VWAP of Parent Shares.

MIFSA means Mallinckrodt International Finance S.A.

NASDAQ means the NASDAQ Global Market.

Net Company Share means, with respect to a Company Director Stock Option or a vested Company Employee Stock Option, a number of whole and partial shares of Company Common Stock (computed to the nearest five decimal places) equal to the quotient obtained by dividing (a) the product of (i) the number of shares of Company Common Stock subject to such Company Director Stock Option or vested Company Employee Stock Option immediately prior to the Effective Time, and (ii) the excess, if any, of the Merger Consideration Value over the exercise price per share of Company Common Stock subject to such Company Director Stock Option or vested Company Employee Stock Option, by (b) the Merger Consideration Value.

NYSE means the New York Stock Exchange.

Parent Competing Proposal means any proposal made by a Person or group (other than a proposal or offer by the Company or any of its Subsidiaries) at any time which is structured to permit such Person or group to acquire beneficial ownership of at least twenty percent (20%) of the assets of, equity interest in, or businesses of, Parent (whether pursuant to a merger, consolidation or other business combination, sale of shares, sale of assets, tender offer or exchange offer or otherwise, including any single or multi-step transaction or series of related transactions), in each case other than the Merger.

Parent Equity Award means any equity award granted under a Parent Equity Plan that is or may be paid or settled in Parent Shares.

Parent Equity Plans means Parent s 2013 Stock and Incentive Plan and that certain Employee Matters Agreement, dated as of June 28, 2013, by and between Parent and Covidien plc.

Parent Governing Documents means (a) the Parent Articles of Association as amended and in effect on the date hereof and (b) the Memorandum of Association of Parent, as amended and restated as of the date of this Agreement.

Parent Intervening Event means an Effect (a) that was not known to the Parent Board of Directors, or the material consequences of which (based on facts known to members of the Company Board of Directors as of the date of this Agreement) were not reasonably foreseeable, as of the date of this Agreement and (b) that does not relate to any Parent Competing Proposal.

Parent Material Adverse Effect means any Effect that, individually or in the aggregate, has a material adverse effect on the condition (financial or otherwise), business or results of operations of Parent and the Parent Subsidiaries, taken as a whole; *provided, however*, that no Effects resulting or arising from the following shall be deemed to constitute a Parent Material Adverse Effect or shall be taken into account when determining whether a Parent Material Adverse Effect exists or has occurred or is reasonably likely to exist or occur: (a) any changes in general United States or

global economic conditions to the extent that such Effects do not disproportionately impact Parent relative to other companies operating in the industry or industries in which Parent operates, (b) conditions (or changes therein) in any industry or industries in which Parent operates to the extent that such

Table of Contents

Effects do not disproportionately impact Parent relative to other companies operating in such industry or industries, (c) general legal, tax, economic, political and/or regulatory conditions (or changes therein), including any changes affecting financial, credit or capital market conditions, to the extent that such Effects do not disproportionately impact Parent relative to other companies operating in the industry or industries in which Parent operates, (d) any change in GAAP or interpretation thereof to the extent that such Effects do not disproportionately impact Parent relative to other companies operating in the industry or industries in which Parent operates, (e) any adoption, implementation, promulgation, repeal, modification, amendment, reinterpretation, change or proposal of any applicable Law of or by any Governmental Entity to the extent that such Effects do not disproportionately impact Parent relative to other companies operating in the industry or industries in which Parent operates, (f) the execution and delivery of this Agreement or the consummation of the Transactions, or any actions expressly required by, or the failure to take any action expressly prohibited by, the terms of this Agreement (*provided*, *however*, that the exceptions in this clause (f) shall not apply to Parent s representations in Section 4.3(c), Section 4.9(d) or Section 4.15(b) or, to the extent related thereto, Section 7.3(a)), (g) changes in the Parent Shares price, in and of itself (it being understood that the facts or occurrences giving rise or contributing to such changes that are not otherwise excluded from the definition of a Parent Material Adverse Effect may be taken into account), (h) any failure by Parent to meet any internal or published projections, estimates or expectations of Parent s revenue, earnings or other financial performance or results of operations for any period, in and of itself, or any failure by Parent to meet its internal budgets, plans or forecasts of its revenues, earnings or other financial performance or results of operations, in and of itself (it being understood that the facts or occurrences giving rise or contributing to such failure that are not otherwise excluded from the definition of a Parent Material Adverse Effect may be taken into account), (i) Effects arising out of changes in geopolitical conditions, acts of terrorism or sabotage, war (whether or not declared), the commencement, continuation or escalation of a war, acts of armed hostility, weather conditions or other force majeure events, including any material worsening of such conditions threatened or existing as of the date of this Agreement, to the extent that such Effects do not disproportionately impact Parent relative to other companies operating in the industry or industries in which Parent operates, (j) solely for the purposes of the condition set forth in Section 7.3(c), as disclosed (including as deemed disclosed pursuant to the preamble to Article IV) with respect to the representations and warranties in Section 4.10(a), (k) the public announcement of this Agreement or the Transactions, (l) any action or failure to take any action that is consented to or requested by the Company in writing or (m) any reduction in the credit rating of Parent or the Parent Subsidiaries, in and of itself (it being understood that the facts or occurrences giving rise or contributing to such reduction that are not otherwise excluded from the definition of a Parent Material Adverse Effect may be taken into account).

Parent Product means any product that is being researched, tested, developed, commercialized, manufactured, sold or distributed by Parent or any Parent Subsidiary and any product with respect to which Parent or any Parent Subsidiary has royalty rights.

Parent Shareholder Approval means the affirmative vote of the holders of a majority of the votes cast by holders of outstanding Parent Shares on the proposal to approve the issuance of Parent Shares as provided in this Agreement at the Parent Special Meeting.

Parent Shares means the ordinary shares, par value $0.20 per share, of Parent.

Parent Special Meeting means the meeting of the holders of Parent Shares for the purpose of seeking the Parent Shareholder Approval, including any postponement or adjournment thereof.

Parent Subsidiaries means the Subsidiaries of Parent.

Parent Superior Proposal means a bona fide proposal or offer constituting a Parent Competing Proposal (with references to 20% being deemed to be replaced with references to 50%), which the Parent Board of Directors determines in good faith after consultation with Parent s outside legal and financial advisors to be (a) more favorable to the shareholders of Parent from a financial point of view than the Merger, taking into

Table of Contents

account all relevant factors (including all the terms and conditions of such proposal or offer and this Agreement (including any changes to the terms of this Agreement proposed by the Company in response to such offer or otherwise)) and (b) reasonably capable of being completed, taking into account all financial, legal, regulatory and other aspects of such proposal or offer.

Person means a natural person, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Entity or other entity or organization.

RCRA means the Resource Conservation and Recovery Act, as amended, and any regulations promulgated thereunder.

Release means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, placing, discarding, abandonment, or disposing into the environment (including the placing, discarding or abandonment of any barrel, container or other receptacle containing any Hazardous Substance or other material).

Removal, Remedial or Response actions include the types of activities covered by CERCLA, RCRA, and other comparable Environmental Laws, and whether such activities are those which might be taken by a Governmental Entity or those which a Governmental Entity or any other Person might seek to require of waste generators, handlers, distributors, processors, users, storers, treaters, owners, operators, transporters, recyclers, reusers, disposers, or other Persons under removal, remedial, or other response actions.

Representatives means, when used with respect to Parent, Merger Sub or the Company, the directors, officers, employees, consultants, financial advisors, accountants, legal counsel, investment bankers, and other agents, advisors and representatives of Parent or the Company, as applicable, and its Subsidiaries.

SEC means the United States Securities and Exchange Commission.

Securities Act means the United States Securities Act of 1933, as amended.

Significant Subsidiary means any Subsidiary of the Company or Parent, as applicable, that is material or constitutes a significant subsidiary of the Company or Parent, as applicable, within the meaning of Rule 1-02 of Regulation S-X promulgated under the Securities Act.

Subsidiary or *Subsidiaries* means with respect to any Person, any corporation, limited liability company, partnership or other organization, whether incorporated or unincorporated, of which (a) at least a majority of the outstanding shares of capital stock of, or other equity interests, having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries or (b) with respect to a partnership, such Person or any other Subsidiary of such Person is a general partner of such partnership.

Takeover Statutes mean any business combination, control share acquisition, fair price, moratorium or other take or anti-takeover statute or similar Law.

Tax or *Taxes* means any and all taxes, levies, duties, tariffs, imposts and other similar charges and fees imposed by any Governmental Entity or domestic or foreign taxing authority, including, income, franchise, windfall or other profits, gross receipts, premiums, property, sales, use, net worth, capital stock, payroll, employment, social security, workers compensation, unemployment compensation, excise, withholding, ad valorem, stamp, transfer, value-added, gains tax and license, registration and documentation fees, severance, occupation, environmental, customs duties,

disability, real property, personal property, registration, alternative or add-on minimum, or estimated tax, including any interest, penalty, additions to tax or additional amounts imposed with respect thereto, whether disputed or not.

Table of Contents

Tax Return means any report, return, certificate, claim for refund, election, estimated tax filing or declaration required to be filed with any Governmental Entity or domestic or foreign taxing authority with respect to Taxes, including any schedule or attachment thereto, and including any amendments thereof.

VWAP of Parent Shares means the volume weighted average price of a Parent Share for a ten (10) trading day period, starting with the opening of trading on the eleventh (11th) trading day prior to the Closing Date to the closing of trading on the second to last trading day prior to the Closing Date, as reported by Bloomberg.

Willful Breach means an intentional and willful material breach, or an intentional and willful material failure to perform, in each case that is the consequence of an act or omission by a party with the actual knowledge that the taking of such act or failure to take such act would cause a breach of this Agreement.

Section 9.6 Terms Defined Elsewhere. The following terms are defined elsewhere in this Agreement, as indicated below:

Agreement	*Preamble*
Book-Entry Shares	*Section 2.2(b)*
CA Merger Agreement	*Section 1.3*
Cadence	*Article IV*
Cash Consideration	*Section 2.1(a)*
Certificate of Merger	*Section 1.3*
Certificates	*Section 2.2(b)*
CGCL	*Recitals*
Closing	*Section 1.2*
Closing Date	*Section 1.2*
COBRA	*Section 3.9(b)*
Company	*Preamble*
Company Benefit Plan	*Section 3.9(a)*
Company Board of Directors	*Recitals*
Company Board Recommendation	*Recitals*
Company Capitalization Date	*Section 3.2(a)*
Company Change of Recommendation	*Section 5.3(a)*
Company Common Stock	*Recitals*
Company Director Restricted Share Award	*Section 2.4(b)(i)*
Company Director Stock Option	*Section 2.4(a)(i)*
Company Disclosure Letter	*Article III*
Company Employee Restricted Share Award	*Section 2.4(b)(ii)*
Company Employee Stock Option	*Section 2.4(a)(ii)*
Company Equity Awards	*Section 2.4(f)*
Company Healthcare Laws	*Section 3.13(b)*
Company Leased Real Property	*Section 3.17(b)*
Company Material Contracts	*Section 3.20(a)*
Company Owned Real Property	*Section 3.17(a)*
Company Permits	*Section 3.7(b)*
Company Permitted Liens	*Section 3.17(a)*
Company Preferred Stock	*Section 3.2(a)*

Company Regulatory Agency	*Section 3.13(a)*
Company Regulatory Permits	*Section 3.13(a)*
Company Restricted Share Award	*Section 2.4(b)(i)*
Company RSU Award	*Section 2.4(c)*
Company SEC Documents	*Section 3.4(a)*
Company Shares	*Recitals*

Table of Contents

Company Stock Option	*Section 2.4(a)(i)*
Company Termination Fee	*Section 8.2(b)*
Continuing Employees	*Section 6.7(a)*
Current Offering Period	*Section 2.4(e)*
D&O Insurance	*Section 6.4*
DGCL	*Recitals*
Dissenting Rights	*Section 2.3(a)*
Dissenting Shares	*Section 2.3(a)*
DOJ	*Section 6.2(b)*
Effective Time	*Section 1.3*
EMA	*Section 3.13(e)*
ESPP Offering Period	*Section 2.4(d)*
Exchange Agent	*Section 2.2(a)*
Exchange Fund	*Section 2.2(a)*
FDA	*Section 3.13(a)*
FDCA	*Section 3.13(a)*
Form S-4	*Section 3.12*
Fractional Share Consideration	*Section 2.1(a)*
FTC	*Section 6.2(b)*
GAAP	*Section 3.4(b)*
Indemnified Parties	*Section 6.4*
Joint Proxy Statement/Prospectus	*Section 3.12*
Merger	*Recitals*
Merger Consideration	*Section 2.1(a)*
Merger Sub	*Preamble*
Merger	*Recitals*
Outside Date	*Section 8.1(c)*
Parent	*Preamble*
Parent Articles of Association	*Section 4.1(a)*
Parent Benefit Plans	*Section 4.9(a)*
Parent Board of Directors	*Recitals*
Parent Board Recommendation	*Recitals*
Parent Capitalization Date	*Section 4.2(a)*
Parent Change of Recommendation	*Section 5.4(a)*
Parent Disclosure Letter	*Article IV*
Parent Healthcare Laws	*Section 4.13(b)*
Parent Leased Real Property	*Section 4.17(b)*
Parent Material Contracts	*Section 4.20(a)*
Parent Ordinary Shares	*Section 4.2(a)*
Parent Owned Real Property	*Section 4.17(a)*
Parent Permits	*Section 4.7(b)*
Parent Permitted Lien	*Section 4.17(a)*
Parent Preferred Shares	*Section 4.2(a)*
Parent Regulatory Agency	*Section 4.13(a)*
Parent Regulatory Permits	*Section 4.13(a)*
Parent Restricted Share Award	*Section 2.4(b)*
Parent Rights Agreement	*Section 4.2(a)*
Parent RSU Award	*Section 2.4(c)*

Parent SEC Documents	*Section 4.4(a)*
Parent Share Option	*Section 2.4(a)(iii)*
Parent Termination Fee	*Section 8.2(c)*
Party	*Preamble*

Table of Contents

PHSA	*Section 3.13(a)*
Proposed Dissenting Shares	*Section 2.3(a)*
Replacement Financing	*Section 6.14*
Replacement Financing Documents	*Section 6.14*
Replacement Financing Sources	*Section 6.14*
Sarbanes-Oxley Act	*Section 3.5*
Stock Consideration	*Section 2.1(a)*
Succeeding Offer Period	*Section 2.4(e)*
Surviving Corporation	*Section 1.1*
Takeover Laws	*Section 3.25*
Transactions	*Recitals*

Section 9.7 Interpretation. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. Whenever the words include , includes or including are used in this Agreement they shall be deemed to be followed by the words without limitation. As used in this Agreement, the term affiliates shall have the meaning set forth in Rule 12b-2 of the Exchange Act. The table of contents and headings set forth in this Agreement are for convenience of reference purposes only and shall not affect or be deemed to affect in any way the meaning or interpretation of this Agreement or any term or provision hereof. When reference is made herein to a Person, such reference shall be deemed to include all direct and indirect Subsidiaries of such Person unless otherwise indicated or the context otherwise requires. All references herein to the Subsidiaries of a Person shall be deemed to include all direct and indirect Subsidiaries of such Person unless otherwise indicated or the context otherwise requires. The Parties agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any Law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

Section 9.8 Counterparts. This Agreement may be executed manually or by facsimile by the Parties, in any number of counterparts, each of which shall be considered one and the same agreement and shall become effective when a counterpart hereof shall have been signed by each of the Parties and delivered to the other Parties.

Section 9.9 Entire Agreement; Third-Party Beneficiaries.

(a) This Agreement (including the Company Disclosure Letter and the Parent Disclosure Letter) and the Confidentiality Agreement constitute the entire agreement among the Parties with respect to the subject matter hereof and thereof and supersede all other prior agreements (except that the Confidentiality Agreement shall be deemed amended hereby so that until the termination of this Agreement in accordance with Section 8.1, the Parties shall be permitted to take the actions contemplated by this Agreement) and understandings, both written and oral, among the Parties or any of them with respect to the subject matter hereof and thereof.

(b) Except as provided in Section 6.4 and the last sentence of Section 6.13, no provision of this Agreement (including Section 8.2(a) and including the Company Disclosure Letter and the Parent Disclosure Letter) or the Confidentiality Agreement is intended to confer upon any Person other than the Parties any rights or remedies hereunder; *provided* that nothing in this Section 9.9(b) shall limit the right of the Company to seek damages as contemplated by Section 8.2(a); and *provided further* that the Financing Sources shall be express third party beneficiaries of this Section 9.9(b) and Section 9.1(c), Section 9.11(a)(2), Section 9.11(b)(2), Section 9.12 and Section 9.15, and each of such Sections shall expressly inure to the benefit of the Financing Sources and the Financing Sources shall be entitled to rely on and enforce the provisions of such Sections. The representations and warranties in this Agreement are the product of negotiations among the Parties and are for the sole benefit of the Parties.

Section 9.10 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by rule of Law or public policy, all other conditions and provisions of this Agreement shall

Table of Contents

nevertheless remain in full force and effect so long as the economic or legal substance of the Merger is not affected in any manner adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the Merger is fulfilled to the extent possible.

Section 9.11 Governing Law; Jurisdiction.

(a) (1) This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to conflicts of laws principles that would result in the application of the Law of any other jurisdiction; *provided*, *howeve*r, that (i) the Merger (to the extent required by the Laws of the State of California to be governed thereby) and matters relating to the conduct of directors of the Company, shall be governed by, and construed in accordance with, the Laws of the State of California, without giving effect to conflicts of laws principles that would result in the application of the Law of any other jurisdiction, and (ii) the matters relating to the conduct of directors of Parent, shall be governed by, and construed in accordance with, the Laws of Ireland, without giving effect to conflicts of laws principles that would result in the application of the Law of any other jurisdiction.
(2) Notwithstanding anything herein to the contrary, the Company (on behalf of itself and each Company Related Party) and each of the other Parties hereto agrees that any claim, controversy or dispute of any kind or nature (whether based upon contract, tort or otherwise) against a Financing Source that is in any way related to this Agreement, the Merger or any of the other Transactions, including any dispute arising out of or relating in any way to the Financing shall be governed by, and construed in accordance with, the laws of the State of New York without regard to conflict of law principles (other than Sections 5-1401 and 5-1402 of the New York General Obligations Law); *provided* that (i) the interpretation of the definition of Company Material Adverse Effect and whether or not a Company Material Adverse Effect has occurred, (ii) the determination of the accuracy of any Acquisition Agreement Target Representations (as defined in the Debt Commitment Letter) and whether as a result of any inaccuracy thereof Parent, Merger Sub or their respective affiliates have the right to terminate its obligations under this Agreement, or to decline to consummate the Transactions pursuant to this Agreement and (iii) the determination of whether the Transactions have been consummated in accordance with the terms of this Agreement, in each case, shall be governed by, and construed and interpreted solely in accordance with, the laws of the State of Delaware without giving effect to conflicts of laws principles that would result in the application of the Law of any other state.

(b) (1) Each of the Parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of the Court of Chancery of the State of Delaware, or, if (and only if) such court finds it lacks subject matter jurisdiction, the Federal court of the United States of America sitting in Delaware, and appellate courts thereof, in any action or proceeding arising out of or relating to this Agreement or the agreements delivered in connection herewith or the transactions contemplated hereby or thereby or for recognition or enforcement of any judgment relating thereto, and each of the Parties hereby irrevocably and unconditionally (i) agrees not to commence any such action or proceeding except in the Court of Chancery of the State of Delaware, or, if (and only if) such court finds it lacks subject matter jurisdiction, the Federal court of the United States of America sitting in Delaware, and appellate courts thereof, (ii) agrees that any claim in respect of any such action or proceeding may be heard and determined in the Court of Chancery of the State of Delaware, or, if (and only if) such court finds it lacks subject matter jurisdiction, the Federal court of the United States of America sitting in Delaware, and appellate courts thereof, (iii) waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any such action or proceeding in such courts and (iv) waives, to the fullest extent permitted by Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in such courts. Each of the Parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Each Party to this Agreement irrevocably consents to service of process inside or outside the territorial jurisdiction of the courts referred

to in this Section 9.11(b)(1) in the manner provided for notices in Section 9.4. Nothing in this Agreement will affect the right of any Party to this Agreement to serve process in any other manner permitted by Law. (2) Notwithstanding anything herein to

the contrary, the Company (on behalf of itself and each Company Related Party) and each of the other Parties hereto (A) agrees that it will not bring or support any action, cause of action, claim, cross-claim or third-party claim of any kind or description, whether in law or in equity, whether in contract or in tort or otherwise, against the Financing Sources in any way relating to this Agreement, the Merger or any of the other Transactions, including any dispute arising out of or relating in any way to the Financing or the performance thereof or the transactions contemplated thereby, in any forum other than exclusively in the Supreme Court of the State of New York, County of New York, or, if under applicable Law exclusive jurisdiction is vested in the federal courts, the United States District Court for the Southern District of New York in the County of New York (and appellate courts thereof), (B) submits for itself and its property with respect to any such action to the exclusive jurisdiction of such courts, (C) agrees that service of process, summons, notice or document by registered mail addressed to it at its address provided in Section 9.4 shall be effective service of process against it for any such action brought in any such court, (D) waives and hereby irrevocably waives, to the fullest extent permitted by Law, any objection which it may now or hereafter have to the laying of venue of, and the defense of an inconvenient forum to the maintenance of, any such action in any such court and (E) agrees that a final judgment in any such action shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law.

Section 9.12 Waiver of Jury Trial. EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT AND ANY OF THE AGREEMENTS DELIVERED IN CONNECTION HEREWITH OR THE MERGER, THE FINANCING AND OTHER TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (INCLUDING ANY ACTION, PROCEEDING OR COUNTERCLAIM AGAINST ANY FINANCING SOURCE). EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE EITHER OF SUCH WAIVERS, (B) IT UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF SUCH WAIVERS, (C) IT MAKES SUCH WAIVERS VOLUNTARILY, AND (D) IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.12.

Section 9.13 Assignment. This Agreement shall not be assigned by any of the Parties (whether by operation of Law or otherwise) without the prior written consent of the other Parties, except that Merger Sub may assign, in its sole discretion and without the consent of any other party, any or all of its rights, interests and obligations hereunder to (i) Parent, (ii) Parent and one or more direct or indirect wholly owned Subsidiaries of Parent, or (iii) one or more direct or indirect wholly owned Subsidiaries of Parent; provided, that no such assignment shall be permitted without the prior written consent of the other Parties if such assignment could delay the Closing, increase the risk that any of the conditions set forth in Article VII may not be timely satisfied, result in a breach of any of covenants and agreements set forth in this Agreement or adversely affect the Company; *provided*, *further*, that no such assignment shall relieve Parent or Merger Sub of any obligation or liability under this Agreement. Subject to the preceding sentence, but without relieving any Party of any obligation hereunder, this Agreement will be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and assigns.

Section 9.14 Enforcement; Remedies.

(a) Except as otherwise expressly provided herein, any and all remedies herein expressly conferred upon a Party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by Law or equity upon such Party, and the exercise by a Party of any one remedy will not preclude the exercise of any other remedy.

(b) The Parties agree that irreparable injury will occur in the event that any of the provisions of this Agreement is not performed in accordance with its specific terms or is otherwise breached. It is agreed that prior to the valid termination of this Agreement pursuant to Article VIII, each Party shall be entitled to an injunction or

Table of Contents

injunctions to prevent or remedy any breaches or threatened breaches of this Agreement by any other Party, to a decree or order of specific performance specifically enforce the terms and provisions of this Agreement and to any further equitable relief.

(c) The Parties rights in this Section 9.14 are an integral part of the Transactions and each Party hereby waives any objections to any remedy referred to in this Section 9.14 (including any objection on the basis that there is an adequate remedy at Law or that an award of such remedy is not an appropriate remedy for any reason at Law or equity). For the avoidance of doubt, each Party agrees that there is not an adequate remedy at Law for a breach of this Agreement by any Party. In the event any Party seeks any remedy referred to in this Section 9.14, such Party shall not be required to obtain, furnish, post or provide any bond or other security in connection with or as a condition to obtaining any such remedy.

Section 9.15 Liability of Financing Sources. Notwithstanding anything to the contrary contained herein, the Company (on behalf of itself and each Company Related Party (other than Parent and Merger Sub)) agrees that neither it nor any other Company Related Party (other than Parent and Merger Sub) shall have any rights or claims against any Financing Source in connection with this Agreement, the Financing or the transactions contemplated hereby or thereby; *provided* that, following consummation of the Merger, the foregoing will not limit the rights of the parties to the Financing under the Debt Financing Documents. In addition, in no event will any Financing Source be liable for consequential, special, exemplary, punitive or indirect damages (including any loss of profits, business or anticipated savings) or damages of a tortious nature.

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Table of Contents

IN WITNESS WHEREOF, Parent, Merger Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

MALLINCKRODT PUBLIC LIMITED COMPANY

By /s/ Mark C. Trudeau
Name: Mark C. Trudeau
Title: President and Chief Executive Officer

QUINCY MERGER SUB, INC.

By /s/ Kathleen A. Schaefer
Name: Kathleen A. Schaefer
Title: President

QUESTCOR PHARMACEUTICALS, INC.

By /s/ Don M. Bailey
Name: Don M. Bailey
Title: President and Chief Executive Officer

[Signature Page to Agreement and Plan of Merger]

Table of Contents

Annex B

745 Seventh Avenue

New York, NY 10019

United States

April 5, 2014

Board of Directors

Mallinckrodt plc

Damastown, Mulhuddart

Dublin 15, Ireland

Members of the Board of Directors:

We understand that Mallinckrodt plc (the Company) intends to enter into a transaction (the Proposed Transaction) with Questcor Pharmaceuticals, Inc. (Questcor) pursuant to which Questcor Merger Sub, Inc. (Merger Sub), a wholly owned subsidiary of the Company will merge with and into Questcor, with Questcor continuing as the surviving corporation in the merger (the Merger), and as a wholly owned indirect subsidiary of the Company. We further understand that upon effectiveness of the Merger, each share of the common stock, no par value, of Questcor (Questcor Common Stock), then issued and outstanding (other than shares owned by the Company, Questcor, Merger Sub or their respective subsidiaries, dissenting shares and certain shares of restricted stock of Questcor awarded to Questcor employees) will be converted into the right to receive (i) $30.00 in cash (the Cash Consideration) and (ii) 0.897 ordinary shares, par value $0.20 per share, of the Company (Company Ordinary Shares) (the Stock Consideration and together with Cash Consideration, the Merger Consideration). The terms and conditions of the Proposed Transaction are set forth in more detail in the Agreement and Plan of Merger dated as of April 5, 2014 by and among the Company, Merger Sub and Questcor (the Agreement). The summary of the Proposed Transaction set forth above is qualified in its entirety by the terms of the Agreement.

We have been requested by the Board of Directors of the Company to render our opinion with respect to the fairness, from a financial point of view, to the Company of the Merger Consideration to be paid by the Company in the Proposed Transaction. We have not been requested to opine as to, and our opinion does not in any manner address, the Company s underlying business decision to proceed with or effect the Proposed Transaction or the likelihood of consummation of the Proposed Transaction. Our opinion does not address the relative merits of the Proposed Transaction as compared to any other transaction or business strategy in which the Company might engage. In addition, we express no opinion on, and our opinion does not in any manner address, the fairness of the amount or the nature of any compensation to any officers, directors or employees of any parties to the Proposed Transaction, or any class of such persons, relative to the Merger Consideration to be paid in the Proposed Transaction or otherwise.

In arriving at our opinion, we reviewed and analyzed: (1) the Agreement, dated as of April 5, 2014, and the specific terms of the Proposed Transaction; (2) publicly available information concerning the Company that we believe to be relevant to our analysis, including its Annual Report on Form 10-K for the fiscal year ended September 27, 2013 and

Quarterly Reports on Form 10-Q for the fiscal quarter ended December 27, 2013; (3) publicly available information concerning Questcor that we believe to be relevant to our analysis, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2013; (4) financial and operating information with respect to the business, operations and prospects of the Company furnished to us by the Company, including financial projections of the Company prepared by management of the Company (the Company Projections); (5) financial and operating information with respect to the business, operations and prospects of Questcor furnished to us by Questcor, including financial projections of Questcor prepared by management of Questcor (the Questcor Projections); (6) financial and operating information with respect to the

Table of Contents

business, operations and prospects of Questcor furnished to us by the Company, including financial projections of Questcor prepared by management of the Company (the Company s Questcor Projections); (7) a trading history of the Company s common stock from June 17, 2013 to April 4, 2014 and a comparison of that trading history with those of other companies that we deemed relevant; (8) a trading history of Questcor s common stock from April 4, 2013 to April 4, 2014 and a comparison of that trading history with those of other companies that we deemed relevant; (9) a comparison of the historical financial results and present financial condition of the Company and Questcor with those of other companies that we deemed relevant; (10) a comparison of the financial terms of the Proposed Transaction with the financial terms of certain other recent transactions that we deemed relevant; (11) the pro forma impact of the Proposed Transaction on the future financial performance of the combined company, including operating synergies and other strategic and tax benefits expected by the management of the Company to result from a combination of the businesses (the Expected Benefits); and (12) the relative contributions of the Company and Questcor to the historical and future financial performance of the combined company on a pro forma basis. In addition, we have had discussions with the managements of the Company and Questcor concerning their respective businesses, operations, assets, liabilities, financial condition and prospects and have undertaken such other studies, analyses and investigations as we deemed appropriate.

In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the financial and other information used by us without any independent verification of such information (and have not assumed responsibility or liability for any independent verification of such information) and have further relied upon the assurances of the management of the Company that they are not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the Company Projections, upon the advice of the Company, we have assumed that such projections have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company and that the Company will perform substantially in accordance with such projections. With respect to the Questcor Projections, upon the advice of the Company, we have assumed that such projections have been reasonably prepared on a basis reflecting the best currently available estimates of the management of Questcor as to the future financial performance of Questcor. With respect to the Company s Questcor Projections, upon the advice of the Company, we have assumed that such projections have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of Questcor and that Questcor will perform substantially in accordance with such projections. In addition, upon the advice of the Company, we have assumed that the amounts and timing of the Expected Benefits are reasonable and that the Expected Benefits will be realized in substantially accordance with such estimates. We assume no responsibility for and we express no view as to any such projections or estimates or the assumptions on which they are based. In arriving at our opinion, we have not conducted a physical inspection of the properties and facilities of the Company or Questcor and have not made or obtained any evaluations or appraisals of the assets or liabilities of the Company or Questcor. In addition, our opinion does not address, and we express no view as to any potential liabilities resulting from any pending, threatened or potential litigation or governmental proceedings or investigation involving Questcor or its subsidiaries. Our opinion necessarily is based upon market, economic and other conditions as they exist on, and can be evaluated as of, the date of this letter. We assume no responsibility for updating or revising our opinion based on events or circumstances that may occur after the date of this letter. We express no opinion as to the prices at which the Company Ordinary Shares or shares of Questcor Common Stock would trade following the announcement of the Proposed Transaction or the Company Ordinary Shares would trade following the consummation of the Proposed Transaction.

We have assumed the accuracy of the representations and warranties contained in the Agreement and all agreements related thereto. We have also assumed, upon the advice of the Company, that all material governmental, regulatory and third party approvals, consents and releases for the Proposed Transaction will be obtained within the constraints contemplated by the Agreement and that the Proposed Transaction will be

Table of Contents

consummated in accordance with the terms of the Agreement without waiver, modification or amendment of any material term, condition or agreement thereof. We have assumed, upon the advice of the Company, that the Company will obtain financing in accordance with the terms set forth in the Debt Commitment Letter (as defined in the Agreement). We do not express any opinion as to any tax or other consequences that might result from the Proposed Transaction, nor does our opinion address any legal, tax, regulatory or accounting matters, as to which we understand that the Company has obtained such advice as it deemed necessary from qualified professionals.

Based upon and subject to the foregoing, we are of the opinion as of the date hereof that, from a financial point of view, the Merger Consideration to be paid by the Company in the Proposed Transaction is fair to the Company.

We have acted as financial advisor to the Company in connection with the Proposed Transaction and will receive fees for our services a portion of which is payable upon rendering this opinion and a substantial portion of which is contingent upon the consummation of the Proposed Transaction. In addition, the Company has agreed to reimburse our expenses and indemnify us for certain liabilities that may arise out of our engagement. We have performed various investment banking and financial services for the Company and Questcor in the past, and expect to perform such services in the future, and have received, and expect to receive, customary fees for such services. Specifically, in the past two years, we and certain of our affiliates have performed the following investment banking and financial services: (i) we served as a co-manager on the Company s $900 million Senior Notes offering in April 2013, (ii) we served as joint lead arranger and joint bookrunner on the Company s $1.6 billion Senior Secured Credit Facilities in support of its acquisition of Cadence Pharmaceuticals, and (iii) we currently have a commitment to the Company s existing revolving credit facility. Further, we were engaged by Questcor as a financial advisor from April 2010 until June 2011 and we did not receive any fees from Questcor in connection with this engagement. Furthermore, we have been engaged to act as the arranger for a $1.35 billion term loan and a $500 million bridge loan facility (and we have also been engaged to act as initial purchaser in connection with the issuance of bonds which may be issued in lieu of such acquisition financing) to the Company in connection with the Proposed Transaction, the proceeds of which may be used to pay all or a portion of the Cash Consideration. Pursuant to such financing transactions, we expect to receive certain fees and customary indemnification from the Company, including certain fees payable depending on various circumstances and contingencies.

Barclays Capital Inc. and its affiliates engage in a wide range of businesses from investment and commercial banking, lending, asset management and other financial and non-financial services. In the ordinary course of our business, we and our affiliates may actively trade and effect transactions in the equity, debt and/or other securities (and any derivatives thereof) and financial instruments (including loans and other obligations) of the Company and Questcor for our own account and for the accounts of our customers and, accordingly, may at any time hold long or short positions and investments in such securities and financial instruments.

This opinion, the issuance of which has been approved by our Fairness Opinion Committee, is for the use and benefit of the Board of Directors of the Company and is rendered to the Board of Directors in connection with its consideration of the Proposed Transaction. This opinion is not intended to be and does not constitute a recommendation to any stockholder of the Company as to how such stockholder should vote or act with respect to the Proposed Transaction.

Very truly yours,

/s/ Barclays Capital Inc.

BARCLAYS CAPITAL INC.

Table of Contents

Annex C

Centerview Partners LLC

31 West 52nd Street

New York, NY 10019

April 5, 2014

The Board of Directors

Questcor Pharmaceuticals, Inc.

1300 North Kellogg Drive, Suite D

Anaheim Hills, CA 92807

The Board of Directors:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of the outstanding shares of common stock, no par value (the Shares) (other than Excluded Shares, as defined below), of Questcor Pharmaceuticals, Inc., a California corporation (the Company), of the Combined Per Share Consideration (as defined below) proposed to be paid to such holders pursuant to the Agreement and Plan of Merger (the Agreement) proposed to be entered into by and among Mallinckrodt plc, an Irish public limited company (Parent), Quincy Merger Sub, Inc., a Delaware corporation and an indirect wholly owned subsidiary of Parent (Merger Sub), and the Company. The Agreement provides that Merger Sub will be merged with and into the Company (the Merger and, collectively with the other transactions contemplated by the Agreement, the Transaction), as a result of which the Company will become an indirect wholly owned subsidiary of Parent and each issued and outstanding Share immediately prior to the effective time of the Merger (other than each Share held by any Company Subsidiary (as defined in the Agreement), Parent, Merger Sub or by any of their respective Subsidiaries (as defined in the Agreement) and any Dissenting Shares (as defined in the Agreement) and Company Employee Restricted Share Awards (as defined in the Agreement)) (along with any Shares held by any affiliate of Parent or Merger Sub, the Excluded Shares) will be converted into the right to receive a unit consisting of (i) $30.00 in cash (the Cash Consideration) and (ii) 0.897 validly issued, fully paid and nonassessable ordinary shares, par value $0.20 per share (Parent Shares), of Parent (the Stock Consideration , and taken together (and not separately) with the Cash Consideration, the Combined Per Share Consideration). The terms and conditions of the Transaction are more fully set forth in the Agreement.

We have acted as financial advisor to the Board of Directors of the Company in connection with, and have participated in certain of the negotiations leading to, the Transaction. We will receive a fee for our services in connection with the Transaction, a portion of which is payable upon the rendering of this opinion and a substantial portion of which is contingent upon the consummation of the Transaction. In addition, the Company has agreed to reimburse certain of our expenses arising, and indemnify us against certain liabilities that may arise, out of our engagement.

We are a securities firm engaged directly and through affiliates and related persons in a number of investment banking, financial advisory and merchant banking activities. In the past two years, we have not provided any investment banking or other services to the Company, Parent or Merger Sub for which we have received

compensation. We may provide investment banking and other services to or with respect to the Company or Parent or their respective affiliates in the future, for which we may receive compensation. Certain (i) of our and our affiliates directors, officers, members and employees, or family members of such persons, (ii) of our affiliates or related investment funds and (iii) investment funds or other persons in which any of the foregoing may have financial interests or with which they may co-invest, may at any time acquire, hold, sell or trade, in debt, equity and other securities or financial instruments (including derivatives, bank loans or other obligations) of, or investments in, the Company, Parent or any of their respective affiliates, or any other party that may be involved in the Transaction.

Table of Contents

The Board of Directors

Questcor Pharmaceuticals, Inc.

April 5, 2014

In connection with this opinion, we have reviewed, among other things: (i) a draft of the Agreement dated April 5, 2014 (the Draft Agreement); (ii) Annual Reports on Form 10-K of the Company for the years ended December 31, 2013, December 31, 2012 and December 31, 2011, the Annual Report on Form 10-K of Parent for the year ended September 27, 2013 and the Registration Statement on Form 10 of Parent filed on February 1, 2013, including the subsequent amendments filed on each of March 15, 2013, May 8, 2013, June 4, 2013 and June 5, 2013; (iii) certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company and Parent; (iv) certain publicly available research analyst reports for the Company and Parent; (v) certain other communications from the Company and Parent to their respective stockholders; (vi) certain internal information relating to the business, operations, earnings, cash flow, assets, liabilities and prospects of the Company, including certain financial forecasts, analyses, estimates and projections relating to the Company prepared and adjusted by management of the Company and furnished to us by the Company for purposes of our analysis (the Company Forecasts and collectively, the Company Internal Data) and the estimated amount and timing of certain tax and other cost savings and related expenses and the synergies expected to result from the Transaction provided to us by management of the Company (the Synergies) and (vii) certain internal information relating to the business, operations, earnings, cash flow, assets, liabilities and prospects of Parent, including certain financial forecasts, analyses, estimates and projections on an unadjusted basis relating to Parent prepared by management of Parent and furnished to the Company and us by Parent (the Parent Forecasts and collectively, the Parent Internal Data) and, at your direction, reviewed and relied upon for our opinion and analysis certain adjusted Parent Forecasts as adjusted by management of the Company and furnished to us by the Company for purposes of our analysis (the Adjusted Parent Forecasts). We have conducted discussions with members of the senior management and representatives of the Company and Parent regarding their assessment of the Company Internal Data, the Synergies, the Parent Internal Data and the Adjusted Parent Forecasts, as appropriate, and the strategic rationale for the Transaction. In addition, we reviewed publicly available financial and stock market data, including valuation multiples, for the Company and Parent and compared that data with similar data for certain other companies, the securities of which are publicly traded, in lines of business that we deemed relevant. We also compared certain of the proposed financial terms of the Transaction with the financial terms, to the extent publicly available, of certain other transactions that we deemed relevant and conducted such other financial studies and analyses and took into account such other information as we deemed appropriate.

We have assumed, without independent verification or any responsibility therefor, the accuracy and completeness of the financial, legal, regulatory, tax, accounting and other information supplied to, discussed with, or reviewed by us for purposes of this opinion and have, with your consent, relied upon such information as being complete and accurate. In that regard, we have assumed, at your direction, that the Company Internal Data and the Synergies have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company as to the matters covered thereby, that the Parent Internal Data has been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Parent as to the matters covered thereby and that the Adjusted Parent Forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company as to the matters covered thereby, and we have relied, at your direction, on the Company Internal Data, the Synergies, the Parent Internal Data (other than the Parent Internal Data represented by the Adjusted Parent Forecasts) and the Adjusted Parent Forecasts for purposes of our analysis and this opinion. We express no view or opinion as to the Company Internal Data, the Synergies, the Parent

Internal Data, the Adjusted Parent Forecasts or the assumptions on which they are based. In addition, at your direction, we have not made any independent evaluation or appraisal of any of the assets or liabilities (contingent, derivative, off-balance sheet or otherwise) of the Company or Parent, nor have we been furnished with any such evaluation or appraisal, and we have not been asked to conduct, and did not conduct, a physical inspection of the properties or assets of the Company or Parent. We have assumed, at your direction that the final executed Agreement will not differ in any respect material to our analysis or this opinion from the Draft Agreement reviewed by us. We have also assumed, at your direction, that the Transaction will be consummated on the terms set forth in the Agreement and in

Table of Contents

The Board of Directors

Questcor Pharmaceuticals, Inc.

April 5, 2014

accordance with all applicable laws, without delay or the waiver, modification or amendment of any term, condition or agreement, the effect of which would be material to our analysis or this opinion and that, in the course of obtaining the necessary governmental, regulatory and other approvals, consents, releases and waivers for the Transaction, no delay, limitation, restriction, condition or other change will be imposed, the effect of which would be material to our analysis or this opinion. We have also assumed that the Transaction will have the tax consequences described in discussions with, and materials furnished to us by, representatives of the Company. We have not evaluated and do not express any opinion as to the solvency or fair value of the Company or Parent, or the ability of the Company or Parent to pay its obligations when they come due, or as to the impact of the Transaction on such matters, under any state, federal or other laws relating to bankruptcy, insolvency or similar matters. We are not legal, regulatory, tax or accounting advisors, and we express no opinion as to any legal, regulatory, tax or accounting matters.

We express no view as to, and our opinion does not address, the Company s underlying business decision to proceed with or effect the Transaction, or the relative merits of the Transaction as compared to any alternative business strategies or transactions that might be available to the Company or in which the Company might engage. We were not authorized to, and we did not, undertake a third-party solicitation process on the Company s behalf regarding a potential transaction with the Company. This opinion is limited to and addresses only the fairness, from a financial point of view, as of the date hereof, to the holders of the Shares (other than Excluded Shares) of the Combined Per Share Consideration to be paid to such holders pursuant to the Agreement. We have not been asked to, nor do we express any view on, and our opinion does not address, any other term or aspect of the Agreement or the Transaction, including, without limitation, the structure or form of the Transaction, or any other agreements or arrangements contemplated by the Agreement or entered into in connection with or otherwise contemplated by the Transaction, including, without limitation, the fairness of the Transaction or any other term or aspect of the Transaction to, or any consideration to be received in connection therewith by, or the impact of the Transaction on, the holders of any other class of securities, creditors or other constituencies of the Company or any other party. In addition, we express no view or opinion as to the fairness (financial or otherwise) of the amount, nature or any other aspect of any compensation to be paid or payable to any of the officers, directors or employees of the Company or any party, or class of such persons in connection with the Transaction, whether relative to the Combined Per Share Consideration to be paid to the holders of the Shares (other than Excluded Shares) pursuant to the Agreement or otherwise.

Our opinion is necessarily based on financial, economic, monetary, currency, market and other conditions and circumstances as in effect on, and the information made available to us as of, the date hereof, and we do not have any obligation or responsibility to update, revise or reaffirm this opinion based on circumstances, developments or events occurring after the date hereof. We express no view or opinion as to what the value of Parent Shares actually will be when issued pursuant to the Transaction or the prices at which the Shares or Parent Shares will trade or otherwise be transferable at any time, including following the announcement or consummation of the Transaction. Our opinion does not constitute a recommendation to any stockholder of the Company or any other person as to how such stockholder or other person should vote with respect to the Merger or otherwise act with respect to the Transaction or any other matter.

Our financial advisory services and the opinion expressed herein are provided for the information and assistance of the Board of Directors of the Company (in their capacity as directors and not in any other capacity) in connection with and for purposes of its consideration of the Transaction. The Company may reproduce this written opinion in full in any proxy statement or other filing required to be made by the Company with the Securities and Exchange Commission in connection with the Transaction, and in materials required to be delivered to stockholders of the Company which are part of such filings. The issuance of this opinion was approved by the Centerview Partners LLC Fairness Opinion Committee.

Table of Contents

The Board of Directors

Questcor Pharmaceuticals, Inc.

April 5, 2014

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, we are of the opinion, as of the date hereof, that the Combined Per Share Consideration to be paid to the holders of Shares (other than Excluded Shares) pursuant to the Merger is fair, from a financial point of view, to such holders.

Very truly yours,

/s/ Centerview Partners LLC

CENTERVIEW PARTNERS LLC

Table of Contents

Annex D Chapter 13 of the California General Corporation Law: Dissenters Rights

1300. (a) If the approval of the outstanding shares (Section 152) of a corporation is required for a reorganization under subdivisions (a) and (b) or subdivision (e) or (f) of Section 1201, each shareholder of the corporation entitled to vote on the transaction and each shareholder of a subsidiary corporation in a short-form merger may, by complying with this chapter, require the corporation in which the shareholder holds shares to purchase for cash at their fair market value the shares owned by the shareholder which are dissenting shares as defined in subdivision (b). The fair market value shall be determined as of the day of, and immediately prior to, the first announcement of the terms of the proposed reorganization or short-form merger, excluding any appreciation or depreciation in consequence of the proposed reorganization or short-form merger, as adjusted for any stock split, reverse stock split, or share dividend that becomes effective thereafter.

(b) As used in this chapter, dissenting shares means shares to which all of the following apply:

(1) That were not, immediately prior to the reorganization or short-form merger, listed on any national securities exchange certified by the Commissioner of Corporations under subdivision (o) of Section 25100, and the notice of meeting of shareholders to act upon the reorganization summarizes this section and Sections 1301, 1302, 1303 and 1304; provided, however, that this provision does not apply to any shares with respect to which there exists any restriction on transfer imposed by the corporation or by any law or regulation; and provided, further, that this provision does not apply to any shares where the holder of those shares is required, by the terms of the reorganization or short-form merger, to accept for the shares anything except: (A) shares of any other corporation, which shares, at the time the reorganization or short-form merger is effective, are listed on any national securities exchange certified by the Commissioner of Corporations under subdivision (o) of Section 25100; (B) cash in lieu of fractional shares described in the foregoing subparagraph (A); or (C) any combination of the shares and cash in lieu of fractional shares described in the foregoing subparagraphs (A) and (B).

(2) That were outstanding on the date for the determination of shareholders entitled to vote on the reorganization and (A) were not voted in favor of the reorganization or, (B) if described in paragraph (1), were voted against the reorganization, or were held of record on the effective date of a short-form merger; provided, however, that subparagraph (A) rather than subparagraph (B) of this paragraph applies in any case where the approval required by Section 1201 is sought by written consent rather than at a meeting.

(3) That the dissenting shareholder has demanded that the corporation purchase at their fair market value, in accordance with Section 1301.

(4) That the dissenting shareholder has submitted for endorsement, in accordance with Section 1302.

(c) As used in this chapter, dissenting shareholder means the recordholder of dissenting shares and includes a transferee of record.

1301. (a) If, in the case of a reorganization, any shareholders of a corporation have a right under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, to require the corporation to purchase their shares for cash, that corporation shall mail to each of those shareholders a notice of the approval of the reorganization by its outstanding shares (Section 152) within 10 days after the date of that approval, accompanied by a copy of Sections 1300, 1302, 1303, and 1304 and this section, a statement of the price determined by the corporation to represent the fair market value of the dissenting shares, and a brief description of the procedure to be followed if the shareholder desires to exercise the shareholder s right under those sections. The statement of price constitutes an offer by the corporation to purchase at the price stated any dissenting shares as defined in subdivision (b) of Section 1300,

unless they lose their status as dissenting shares under Section 1309.

(b) Any shareholder who has a right to require the corporation to purchase the shareholder s shares for cash under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, and who

Table of Contents

desires the corporation to purchase shares shall make written demand upon the corporation for the purchase of those shares and payment to the shareholder in cash of their fair market value. The demand is not effective for any purpose unless it is received by the corporation or any transfer agent thereof (1) in the case of shares described in subdivision (b) of Section 1300, not later than the date of the shareholders meeting to vote upon the reorganization, or (2) in any other case, within 30 days after the date on which the notice of the approval by the outstanding shares pursuant to subdivision (a) or the notice pursuant to subdivision (h) of Section 1110 was mailed to the shareholder.

(c) The demand shall state the number and class of the shares held of record by the shareholder which the shareholder demands that the corporation purchase and shall contain a statement of what the shareholder claims to be the fair market value of those shares as determined pursuant to subdivision (a) of Section 1300. The statement of fair market value constitutes an offer by the shareholder to sell the shares at that price.

1302. Within 30 days after the date on which notice of the approval by the outstanding shares or the notice pursuant to subdivision (h) of Section 1110 was mailed to the shareholder, the shareholder shall submit to the corporation at its principal office or at the office of any transfer agent thereof, (a) if the shares are certificated securities, the shareholder s certificates representing any shares which the shareholder demands that the corporation purchase, to be stamped or endorsed with a statement that the shares are dissenting shares or to be exchanged for certificates of appropriate denomination so stamped or endorsed or (b) if the shares are uncertificated securities, written notice of the number of shares which the shareholder demands that the corporation purchase. Upon subsequent transfers of the dissenting shares on the books of the corporation, the new certificates, initial transaction statement, and other written statements issued therefor shall bear a like statement, together with the name of the original dissenting holder of the shares.

1303. (a) If the corporation and the shareholder agree that the shares are dissenting shares and agree upon the price of the shares, the dissenting shareholder is entitled to the agreed price with interest thereon at the legal rate on judgments from the date of the agreement. Any agreements fixing the fair market value of any dissenting shares as between the corporation and the holders thereof shall be filed with the secretary of the corporation.

(b) Subject to the provisions of Section 1306, payment of the fair market value of dissenting shares shall be made within 30 days after the amount thereof has been agreed or within 30 days after any statutory or contractual conditions to the reorganization are satisfied, whichever is later, and in the case of certificated securities, subject to surrender of the certificates therefor, unless provided otherwise by agreement.

1304. (a) If the corporation denies that the shares are dissenting shares, or the corporation and the shareholder fail to agree upon the fair market value of the shares, then the shareholder demanding purchase of such shares as dissenting shares or any interested corporation, within six months after the date on which notice of the approval by the outstanding shares (Section 152) or notice pursuant to subdivision (h) of Section 1110 was mailed to the shareholder, but not thereafter, may file a complaint in the superior court of the proper county praying the court to determine whether the shares are dissenting shares or the fair market value of the dissenting shares or both or may intervene in any action pending on such a complaint.

(b) Two or more dissenting shareholders may join as plaintiffs or be joined as defendants in any such action and two or more such actions may be consolidated.

(c) On the trial of the action, the court shall determine the issues. If the status of the shares as dissenting shares is in issue, the court shall first determine that issue. If the fair market value of the dissenting shares is in issue, the court shall determine, or shall appoint one or more impartial appraisers to determine, the fair market value of the shares.

1305. (a) If the court appoints an appraiser or appraisers, they shall proceed forthwith to determine the fair market value per share. Within the time fixed by the court, the appraisers, or a majority of them, shall make and file a report in the office of the clerk of the court. Thereupon, on the motion of any party, the report shall be submitted to the court and considered on such evidence as the court considers relevant. If the court finds the report reasonable, the court may confirm it.

Table of Contents

(b) If a majority of the appraisers appointed fail to make and file a report within 10 days from the date of their appointment or within such further time as may be allowed by the court or the report is not confirmed by the court, the court shall determine the fair market value of the dissenting shares.

(c) Subject to the provisions of Section 1306, judgment shall be rendered against the corporation for payment of an amount equal to the fair market value of each dissenting share multiplied by the number of dissenting shares which any dissenting shareholder who is a party, or who has intervened, is entitled to require the corporation to purchase, with interest thereon at the legal rate from the date on which judgment was entered.

(d) Any such judgment shall be payable forthwith with respect to uncertificated securities and, with respect to certificated securities, only upon the endorsement and delivery to the corporation of the certificates for the shares described in the judgment. Any party may appeal from the judgment.

(e) The costs of the action, including reasonable compensation to the appraisers to be fixed by the court, shall be assessed or apportioned as the court considers equitable, but, if the appraisal exceeds the price offered by the corporation, the corporation shall pay the costs (including in the discretion of the court attorneys fees, fees of expert witnesses and interest at the legal rate on judgments from the date of compliance with Sections 1300, 1301 and 1302 if the value awarded by the court for the shares is more than 125 percent of the price offered by the corporation under subdivision (a) of Section 1301).

1306. To the extent that the provisions of Chapter 5 prevent the payment to any holders of dissenting shares of their fair market value, they shall become creditors of the corporation for the amount thereof together with interest at the legal rate on judgments until the date of payment, but subordinate to all other creditors in any liquidation proceeding, such debt to be payable when permissible under the provisions of Chapter 5.

1307. Cash dividends declared and paid by the corporation upon the dissenting shares after the date of approval of the reorganization by the outstanding shares (Section 152) and prior to payment for the shares by the corporation shall be credited against the total amount to be paid by the corporation therefor.

1308. Except as expressly limited in this chapter, holders of dissenting shares continue to have all the rights and privileges incident to their shares, until the fair market value of their shares is agreed upon or determined. A dissenting shareholder may not withdraw a demand for payment unless the corporation consents thereto.

1309. Dissenting shares lose their status as dissenting shares and the holders thereof cease to be dissenting shareholders and cease to be entitled to require the corporation to purchase their shares upon the happening of any of the following:

(a) The corporation abandons the reorganization. Upon abandonment of the reorganization, the corporation shall pay on demand to any dissenting shareholder who has initiated proceedings in good faith under this chapter all necessary expenses incurred in such proceedings and reasonable attorneys fees.

(b) The shares are transferred prior to their submission for endorsement in accordance with Section 1302 or are surrendered for conversion into shares of another class in accordance with the articles.

(c) The dissenting shareholder and the corporation do not agree upon the status of the shares as dissenting shares or upon the purchase price of the shares, and neither files a complaint or intervenes in a pending action as provided in Section 1304, within six months after the date on which notice of the approval by the outstanding shares or notice pursuant to subdivision (h) of Section 1110 was mailed to the shareholder.

(d) The dissenting shareholder, with the consent of the corporation, withdraws the shareholder s demand for purchase of the dissenting shares.

1310. If litigation is instituted to test the sufficiency or regularity of the votes of the shareholders in authorizing a reorganization, any proceedings under Sections 1304 and 1305 shall be suspended until final determination of such litigation.

Table of Contents

1311. This chapter, except Section 1312, does not apply to classes of shares whose terms and provisions specifically set forth the amount to be paid in respect to such shares in the event of a reorganization or merger.

1312. (a) No shareholder of a corporation who has a right under this chapter to demand payment of cash for the shares held by the shareholder shall have any right at law or in equity to attack the validity of the reorganization or short-form merger, or to have the reorganization or short-form merger set aside or rescinded, except in an action to test whether the number of shares required to authorize or approve the reorganization have been legally voted in favor thereof; but any holder of shares of a class whose terms and provisions specifically set forth the amount to be paid in respect to them in the event of a reorganization or short-form merger is entitled to payment in accordance with those terms and provisions or, if the principal terms of the reorganization are approved pursuant to subdivision (b) of Section 1202, is entitled to payment in accordance with the terms and provisions of the approved Reorganization.

(b) If one of the parties to a reorganization or short-form merger is directly or indirectly controlled by, or under common control with, another party to the reorganization or short-form merger, subdivision (a) shall not apply to any shareholder of such party who has not demanded payment of cash for such shareholder s shares pursuant to this chapter; but if the shareholder institutes any action to attack the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded, the shareholder shall not thereafter have any right to demand payment of cash for the shareholder s shares pursuant to this chapter. The court in any action attacking the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded shall not restrain or enjoin the consummation of the transaction except upon 10 days prior notice to the corporation and upon a determination by the court that clearly no other remedy will adequately protect the complaining shareholder or the class of shareholders of which such shareholder is a member.

(c) If one of the parties to a reorganization or short-form merger is directly or indirectly controlled by, or under common control with, another party to the reorganization or short-form merger, in any action to attack the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded, (1) a party to a reorganization or short-form merger which controls another party to the reorganization or short-form merger shall have the burden of proving that the transaction is just and reasonable as to the shareholders of the controlled party, and (2) a person who controls two or more parties to a reorganization shall have the burden of proving that the transaction is just and reasonable as to the shareholders of any party so controlled.

1313. A conversion pursuant to Chapter 11.5 (commencing with Section 1150) shall be deemed to constitute a reorganization for purposes of applying the provisions of this chapter, in accordance with and to the extent provided in Section 1159.

Table of Contents

Annex E List of Relevant Territories for the purposes of Irish Dividend Withholding Tax

1. Albania
2. Armenia
3. Australia
4. Austria
5. Bahrain
6. Belarus
7. Belgium
8. Bosnia & Herzegovina
9. Bulgaria
10. Canada
11. Chile
12. China
13. Croatia
14. Cyprus
15. Czech Republic
16. Denmark
17. Egypt
18. Estonia
19. Finland
20. France
21. Georgia
22. Germany
23. Greece
24. Hong Kong
25. Hungary
26. Iceland
27. India
28. Israel
29. Italy
30. Japan
31. Korea
32. Kuwait
33. Latvia
34. Lithuania
35. Luxembourg
36. Macedonia
37. Malaysia
38. Malta
39. Mexico
40. Moldova
41. Montenegro
42. Morocco
43. Netherlands
44. New Zealand
45. Norway
46. Pakistan
47. Panama
48. Poland
49. Portugal
50. Qatar
51. Romania
52. Russia
53. Saudi Arabia
54. Serbia
55. Singapore
56. Slovak Republic
57. Slovenia
58. South Africa
59. Spain
60. Sweden
61. Switzerland
62. Thailand
63. Turkey
64. Ukraine
65. United Arab Emirates
66. United Kingdom
67. USA
68. Uzbekistan
69. Vietnam
70. Zambia

Table of Contents

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers

Mallinckrodt plc is incorporated under the laws of Ireland.

Mallinckrodt plc s articles of association confer an indemnity on its directors and Secretary only in the limited circumstances permitted by the Companies Acts. The Companies Acts only permit a company to pay the costs or discharge the liability of a director or the Secretary where judgment is given in his/her favor in any civil or criminal action in respect of such costs or liability, or where an Irish court grants relief because the director or Secretary acted honestly and reasonably and ought fairly to be excused. This restriction does not apply to executives who are not directors or the Secretary of Mallinckrodt plc. Any obligation of an Irish company which purports to indemnify a director or secretary of an Irish company over and above this will be void under Irish law, whether contained in its articles of association or any contract between the director and the company.

In addition, the articles of association of Mallinckrodt plc also contain indemnification and expense advancement provisions for current or former executives who are not directors or Secretary of Mallinckrodt.

The directors of Mallinckrodt plc may on a case-by-case basis decide at their discretion that it is in the best interest of Mallinckrodt plc to indemnify an individual director from any liability arising from his or her position as a director of Mallinckrodt plc. However, this discretion must be exercised bona fide in the best interests of Mallinckrodt plc as a whole. Any such indemnity will be limited in the manner described in the foregoing paragraphs.

Irish companies may take out directors and officers liability insurance, as well as other types of insurance, for their directors and officers. Mallinckrodt plc has taken out directors and officers liability insurance.

On June 28, 2013, Mallinckrodt plc entered into deeds of indemnification with each of its directors and Secretary (the Deeds of Indemnification), and Mallinckrodt Brand Pharmaceuticals, Inc., a Delaware corporation which became a 100% owned subsidiary of Mallinckrodt plc upon the completion of the separation of the Pharmaceuticals business of Covidien plc from the rest of Covidien plc (Brand Pharma), entered into indemnification agreements with each of Mallinckrodt plc s directors and Secretary (the Indemnification Agreements), substantially in the forms filed as Exhibits 10.4 and 10.5, respectively, to Mallinckrodt plc s Current Report on Form 8-K filed with the SEC on July 1, 2013. The Deeds of Indemnification and Indemnification Agreements (together, the Indemnification Arrangements) provide, respectively, that Mallinckrodt plc and Brand Pharma will, to the fullest extent permitted by law, indemnify each indemnitee against claims related to such indemnitee s service to Mallinckrodt plc, except (i) in respect of any claim as to which a final and non-appealable judgment is rendered against the indemnitee for an accounting of profits made from the purchase or sale by such indemnitee of securities of Mallinckrodt plc pursuant to the provisions of Section 16(b) of the Exchange Act or similar provision of any federal, state or local laws; (ii) in respect of any claim as to which a court of competent jurisdiction has determined in a final and non-appealable judgment that indemnification is not permitted under applicable law; or (iii) in respect of any claim as to which the indemnitee is convicted of a crime constituting a felony under the laws of the jurisdiction where the criminal action was brought (or, where a jurisdiction does not classify any crime as a felony, a crime for which the indemnitee is sentenced to death or imprisonment for a term exceeding one year). Because Mallinckrodt plc is an Irish public limited company, its ability to provide indemnification is subject to the limitations under the Companies Acts specified above. The Indemnification Agreements provide for Brand Pharma to advance the indemnitee s expenses subject to an undertaking

by the indemnitee to repay amounts advanced if it is ultimately determined that such person is not entitled to indemnification. The Indemnification Agreements further provide that prior to seeking an indemnification payment or expense advancement from Brand Pharma under the Indemnification Agreement, the indemnitee shall seek an indemnification payment or expense advancement under any applicable insurance policy and shall request that Mallinckrodt plc consider in its discretion whether to make such

Table of Contents

indemnification payment or expense advancement. The Deeds of Indemnification provide that Mallinckrodt plc will consider whether to make such indemnification payment or expense advancement based on the facts and circumstances related to the request. In the event an indemnification payment or expense advancement is not received pursuant to an insurance policy, or from Mallinckrodt plc, within five business days of the later of the indemnitee s request of the insurer and his or her request of Mallinckrodt plc, the indemnitee shall be entitled to receive such indemnification payment or expense advancement from Brand Pharma pursuant to the terms of the Indemnification Agreement. Any appropriate person or body consisting of a member or members of the Board of Directors of Mallinckrodt plc (the Board) or any other person or body appointed by the Board who is not a party to the particular proceeding with respect to which the indemnitee is seeking indemnification, or an independent counsel (if a change of control as defined in the Indemnification Arrangements has occurred), may preclude an indemnification payment or expense advance under the Indemnification Arrangements if such person or body determines that the indemnitee is not permitted to be indemnified under applicable law. The indemnitee seeking indemnification may challenge such determination. The Deeds of Indemnification provide that in the event the indemnitee receives judgment in his or her favor or the claim against the indemnitee is otherwise disposed of in a manner that allows Mallinckrodt plc to indemnify such indemnitee under its articles of association as then in effect, Mallinckrodt plc will reimburse Brand Pharma for any related indemnification payments or expense advancements. Indemnification and advancement of expenses will not be made under the Indemnification Arrangements in connection with proceedings brought by the indemnitee against Mallinckrodt plc or any of its subsidiaries or any director or officer of Mallinckrodt plc or any of its subsidiaries, except in specified circumstances.

The foregoing is only a general summary of certain aspects of Irish law, the articles of association of Mallinckrodt plc and the Deeds of Indemnification and the Indemnification Agreements and does not purport to be complete. It is qualified in its entirety by reference to the provisions of Irish law, the articles of association of Mallinckrodt plc filed as Exhibit 3.2 hereto and the form of Deed of Indemnification and form of Indemnification Agreement filed as Exhibits 10.5 and 10.6, respectively, hereto, each of which is incorporated herein by reference.

Table of Contents

Item 21. Exhibits and Financial Statement Schedules

(a) The exhibits listed below in the Exhibit Index are filed as part of, or are incorporated by reference in, this joint proxy/registration statement.

Exhibit Number	Exhibit Description
2.1	Agreement and Plan of Merger, dated as of April 5, 2014, by and among Mallinckrodt plc, Questcor Pharmaceuticals, Inc. and Quincy Merger Sub, Inc. (included as Annex A to the joint proxy statement/prospectus that is a part of this registration statement).
2.2	Separation and Distribution Agreement between Covidien plc and Mallinckrodt plc, dated June 28, 2013 (incorporated by reference to Exhibit 2.1 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
2.3	Agreement and Plan of Merger, dated as of February 10, 2014, by and among Mallinckrodt plc, Madison Merger Sub, Inc. and Cadence Pharmaceuticals, Inc. (incorporated by reference to Exhibit 2.1 to Mallinckrodt plc s Current Report on Form 8-K filed on February 11, 2014).
3.1	Certificate of Incorporation of Mallinckrodt plc (incorporated by reference to Exhibit 3.1 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
3.2	Amended and Restated Memorandum and Articles of Association of Mallinckrodt plc (incorporated by reference to Exhibit 3.1 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
4.1	Indenture, dated as of April 11, 2013, by and among Mallinckrodt International Finance S.A., Covidien International Finance S.A. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.2 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
4.2	Supplemental Indenture, dated as of June 28, 2013, by and among Mallinckrodt plc, Mallinckrodt International Finance S.A. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.3 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
4.3	Second Supplemental Indenture, dated as of February 7, 2014, by and among Mallinckrodt International Finance S.A., Mallinckrodt plc and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.3 to Amendment No. 1 to the Registration Statement on Form S-4 (File No. 333-193395) filed by Mallinckrodt plc and Mallinckrodt International Finance S.A. on March 4, 2014).
4.4	Rights Agreement between Mallinckrodt plc and Computershare Trust Company, N.A., dated as June 28, 2013, which includes the form of Right Certificate as Exhibit B thereto and the Summary of Rights to Purchase Preferred Shares as Exhibit C thereto (incorporated by reference to Exhibit 4.1 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
4.5	Amendment to the Rights Agreement between Mallinckrodt plc and Computershare Trust Company, N.A., dated as of April 23, 2014 (incorporated by reference to Exhibit 4.1 to Mallinckrodt plc s Current Report on Form 8-K filed on April 24, 2014).
5.1	Form of Opinion of Arthur Cox regarding the validity of Mallinckrodt ordinary shares.
10.1	

	Tax Matters Agreement between Covidien plc and Mallinckrodt plc, dated June 28, 2013 (incorporated by reference to Exhibit 10.1 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.2	Employee Matters Agreement between Covidien plc and Mallinckrodt plc, dated June 28, 2013 (incorporated by reference to Exhibit 10.2 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).

Table of Contents

Exhibit Number	Exhibit Description
10.3	Transition Services Agreement between Covidien plc and Mallinckrodt plc, dated June 28, 2013 (incorporated by reference to Exhibit 10.3 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.4	Credit Agreement, dated as of March 19, 2014, among Mallinckrodt plc, Mallinckrodt International Finance S.A., Mallinckrodt CB LLC, the lenders party thereto from time to time and Deutsche Bank AG New York Branch, as Administrative Agent (incorporated by reference to Exhibit (b)(3) of the Schedule TO/A filed by Mallinckrodt plc and Madison Merger Sub, Inc. on March 19, 2014).
10.5	Support Agreement, dated as of April 23, 2014, by and between Mallinckrodt plc and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 10.1 to Mallinckrodt plc s Current Report on Form 8-K filed on April 24, 2014).
10.6	Form of Deed of Indemnification by and between Mallinckrodt plc and Directors and Secretary (incorporated by reference to Exhibit 10.4 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.7	Form of Indemnification Agreement by and between Mallinckrodt Brand Pharmaceuticals, Inc. and Directors and Secretary (incorporated by reference to Exhibit 10.5 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.8	Mallinckrodt Pharmaceuticals Severance Plan for U.S. Officers and Executives (incorporated by reference to Exhibit 10.6 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.9	Mallinckrodt Pharmaceuticals Change in Control Severance Plan for Certain U.S. Officers and Executives (incorporated by reference to Exhibit 10.7 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.10	Mallinckrodt plc Stock and Incentive Plan Terms and Conditions of Restricted Unit Award for Chief Executive Officer (incorporated by reference to Exhibit 10.8 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.11	Mallinckrodt plc Stock and Incentive Plan Terms and Conditions of Option Award (incorporated by reference to Exhibit 10.9 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
10.12	Mallinckrodt plc Stock and Incentive Plan Terms and Conditions of Restricted Unit Award (incorporated by reference to Exhibit 10.10 to Mallinckrodt plc s Current Report on Form 8-K filed on July 1, 2013).
21.1	Subsidiaries of Mallinckrodt plc (incorporated by reference to Exhibit 21.1 to Mallinckrodt plc s Annual Report on Form 10-K for the Fiscal Year Ended September 27, 2013, filed on December 13, 2013).
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm for Mallinckrodt plc
23.2	Consent of Ernst & Young LLP, independent registered public accounting firm for Cadence Pharmaceuticals, Inc.
23.3	Consent of BDO USA, LLP, independent registered public accounting firm for Questcor Pharmaceuticals, Inc.
23.4	Consent of Arthur Cox (contained in its letter filed as Exhibit 5.1 hereto).

24.1	Powers of Attorney.
99.1	Consent of Centerview Partners LLC.
99.2	Consent of Barclays Capital Inc.
99.3	List of Relevant Territories for the purposes of Irish Dividend Withholding Tax (included as Annex E to the joint proxy statement/prospectus that is a part of this registration statement).

Table of Contents

Exhibit Number	Exhibit Description
99.4	Proxy Voting Card of Mallinckrodt plc.*
99.5	Proxy Voting Card of Questcor Pharmaceuticals, Inc.*
99.6	Consent of Don M. Bailey to Become a Director.
99.7	Consent of Angus C. Russell to Become a Director.
99.8	Consent of Virgil D. Thompson to Become a Director.

* To be filed by amendment

Table of Contents

Item 22. Undertakings

The undersigned registrant hereby undertakes:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(1) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933.

(2) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement.

(3) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(b) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(d) For purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(e) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable for.

(f) That every prospectus (1) that is filed pursuant to paragraph (e) immediately preceding, or (2) that purports to meet the requirements of Section 10(a)(3) of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(g) To respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

Table of Contents

(h) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(i) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement on Form S-4 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Hazelwood, State of Missouri, on May 16, 2014.

MALLINCKRODT PUBLIC LIMITED COMPANY

By: /s/ Peter G. Edwards
Name: Peter G. Edwards

Title: Senior Vice President and General Counsel

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated below on the 16th day of May, 2014.

Signature	Title
/s/ Mark C. Trudeau*	President and Chief Executive Officer
Mark C. Trudeau	(Principal Executive Officer)
/s/ Matthew K. Harbaugh*	Senior Vice President and Chief Financial Officer
Matthew K. Harbaugh	(Principal Financial Officer)
/s/ Kathleen A. Schaefer*	Vice President and Corporate Controller
Kathleen A. Schaefer	(Principal Accounting Officer)
/s/ Melvin D. Booth*	Chairman of the Board
Melvin D. Booth	
/s/ David R. Carlucci*	Director
David R. Carlucci	
/s/ J. Martin Carroll*	Director
J. Martin Carroll	
/s/ Diane H. Gulyas*	Director

Diane H. Gulyas

/s/ Nancy S. Lurker* Director

Nancy S. Lurker

/s/ JoAnn A. Reed* Director

JoAnn A. Reed

/s/ Kneeland C. Youngblood, M.D.* Director

Kneeland C. Youngblood, M.D.

/s/ Joseph A. Zaccagnino* Director

Joseph A. Zaccagnino

Table of Contents

* Miriam Rogers Singer, pursuant to powers of attorney duly executed by each of the above directors and officers of Mallinckrodt plc and filed with the SEC, hereby executes this registration statement on behalf of each of the persons named above in the capacity set forth opposite his or her name.

/s/ Miriam Rogers Singer

Miriam Rogers Singer

May 16, 2014