

Covidien plc  
Form DEF 14A  
January 24, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**SCHEDULE 14A**

(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**COVIDIEN PUBLIC LIMITED COMPANY**

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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January 24, 2011

Dear Shareholder,

You are cordially invited to attend the 2011 Annual General Meeting of Covidien plc, which will be held on Tuesday, March 15, 2011, at 11:00 a.m., local time, at the Conrad Dublin Hotel, Earlsfort Terrace, Dublin 2, Ireland. Details of the business to be presented at the meeting can be found in the accompanying Proxy Statement. We hope you are planning to attend the meeting. Your vote is important. Whether or not you are able to attend, I encourage you to submit your proxy as soon as possible so that your shares will be represented at the meeting.

On behalf of the Board of Directors and the management of Covidien, I extend our appreciation for your continued support.

Yours sincerely,

Richard J. Meelia

Chairman, President and Chief Executive Officer

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**COVIDIEN PUBLIC LIMITED COMPANY**

Registered In Ireland No. 466385

20 on Hatch, Lower Hatch Street

Dublin 2, Ireland

**NOTICE OF 2011 ANNUAL GENERAL MEETING OF SHAREHOLDERS**

**TO BE HELD MARCH 15, 2011**

The 2011 Annual General Meeting of Covidien plc ( Covidien or the Company ), a company incorporated under the laws of Ireland, will be held on March 15, 2011, at 11:00 a.m., local time, at the Conrad Dublin Hotel, Earlsfort Terrace, Dublin 2, Ireland for the following purposes:

1. By separate resolutions, to elect as Directors for a period of one year, expiring at the end of the Company s Annual General Meeting of Shareholders in 2012, the following individuals:

(a) Craig Arnold	(e) Timothy M. Donahue	(i) Dennis H. Reilley
(b) Robert H. Brust	(f) Kathy J. Herbert	(j) Tadataka Yamada
(c) John M. Connors, Jr.	(g) Randall J. Hogan, III	(k) Joseph A. Zaccagnino
(d) Christopher J. Coughlin	(h) Richard J. Meelia	
  
2. To appoint Deloitte & Touche LLP as the independent auditors of the Company and to authorize the Audit Committee of the Board of Directors to set the auditors remuneration.
  
3. To effect a one-for-one hundred reverse split followed by a one hundred-for-one forward split of the Company s ordinary shares.
  
4. To hold an advisory vote relating to the Company s executive compensation.
  
5. To hold an advisory vote relating to the frequency of future shareholder advisory votes relating to the Company s executive compensation.
  
6. To act on such other business as may properly come before the meeting or any adjournment thereof.

The foregoing items are more fully described in the Proxy Statement accompanying this Notice of Annual General Meeting of Shareholders. Shareholders as of January 12, 2011, the record date for the Annual General Meeting, are entitled to vote on these matters.

During the meeting, management will also present Covidien s Irish Statutory Accounts for the fiscal year ended September 24, 2010.

By Order of the Board of Directors,

John W. Kapples, Secretary

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Whether or not you expect to attend the annual general meeting in person, we encourage you to cast your vote promptly so that your shares will be represented and voted at the meeting. **Any shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies, who need not be a shareholder(s) of Covidien plc.** If you wish to appoint as proxy any person other than the individuals specified on the proxy card, please contact the company secretary at our registered office.

This Proxy Statement, our Annual Report on Form 10-K for the fiscal year ended September 24, 2010 and our Irish Statutory Accounts are available to shareholders of record at [www.proxyvote.com](http://www.proxyvote.com). These materials are also available in the Investor Relations section of our website at [www.covidien.com](http://www.covidien.com).

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**COVIDIEN PLC**

**PROXY STATEMENT**

**GENERAL INFORMATION**

**Questions and Answers about Proxy Materials, Voting, Attending the Meeting and Other General Information**

***Why did I receive this Proxy Statement?***

We are making this Proxy Statement available to you on or about January 24, 2011 on the Internet, or by delivering printed versions to you by mail, because our Board of Directors is soliciting your proxy to vote at the Company's 2011 Annual General Meeting on March 15, 2011. This Proxy Statement contains information about the items being voted on at the Annual General Meeting and important information about Covidien.

This Proxy Statement and the following documents relating to the 2011 Annual General Meeting are available at [www.proxyvote.com](http://www.proxyvote.com) and on our website at [www.covidien.com/covidien/investor](http://www.covidien.com/covidien/investor):

- Our Internet Notice of Availability of Proxy Materials;
  
- Our Annual Report to Shareholders, including our Annual Report on Form 10-K for the fiscal year ended September 24, 2010; and
  
- Our Irish Statutory Accounts for the fiscal year ended September 24, 2010 and the reports of the Directors and auditors thereon.

***How do I access the proxy materials and vote my shares?***

The instructions for accessing proxy materials and voting can be found in the information you received either by mail or email.

*For shareholders who received a notice by mail about the Internet availability of proxy materials:* You may access the proxy materials and voting instructions over the Internet via the web address provided in the notice. In order to access this material and vote, you will need the control number provided on the notice you received in the mail. You may vote by following the instructions on the notice or on the website.

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*For shareholders who received a notice by e-mail:* You may access the proxy materials and voting instructions over the Internet via the web address provided in the e-mail. In order to vote, you will need the control number provided in the e-mail. You may vote by following the instructions in the e-mail or on the website.

*For shareholders who received the proxy materials by mail:* You may vote your shares by following the instructions provided on the proxy card or voting instruction form. If you vote by Internet or telephone, you will need the control number provided on the proxy card or voting instruction form. If you vote by mail, please complete, sign and date the proxy card or voting instruction form and mail it in the accompanying pre-addressed envelope.

***Who may vote at the Annual General Meeting and how many votes do I have?***

If you owned ordinary shares of Covidien at the close of business on the record date, January 12, 2011, then you may vote at the Annual General Meeting by following the procedures outlined in this Proxy Statement. At the close of business on the record date, we had 493,762,551 ordinary shares outstanding and entitled to vote. Each ordinary share is entitled to one vote on each matter properly brought before the Annual General Meeting.

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***May I vote my shares in person at the Annual General Meeting?***

Yes, you may vote your shares in person at the Annual General Meeting as follows.

*If you are a shareholder of record* and you wish to vote in person at the Annual General Meeting, you may do so. If you do not wish to attend yourself, you may also appoint a proxy or proxies to attend, speak and vote in your place. A proxy does not need to be a shareholder of Covidien. You are not precluded from attending, speaking or voting at the Annual General Meeting, even if you have completed a proxy form. To appoint a proxy other than the designated officers of the Company, please contact the Company Secretary at our registered office.

*If you are a beneficial owner of shares* and you wish to vote in person at the Annual General Meeting, you must obtain a legal proxy from the bank, brokerage firm or nominee that holds your shares. You will need to bring the legal proxy with you to the meeting and hand it in with a signed ballot that you can request at the meeting. You will not be able to vote your shares at the Annual General Meeting without a legal proxy and a signed ballot.

Even if you plan to attend the Annual General Meeting, we recommend that you also vote by proxy as described above so that your vote will be counted if you later decide not to attend the meeting.

***What is the deadline for voting my shares if I do not vote in person at the Annual General Meeting?***

If you are a shareholder of record, you may vote by Internet or by telephone until 5:00 p.m., United States Eastern Time, on March 14, 2011.

If you are a beneficial owner of shares held through a bank or brokerage firm, please follow the voting instructions provided by your bank or brokerage firm.

***What is the difference between holding shares as a shareholder of record and as a beneficial owner of shares held in street name?***

*Shareholder of Record.* If you hold ordinary shares and your name appears in the Register of Members of Covidien, you are considered the shareholder of record of those shares.

*Beneficial Owner of Shares Held in Street Name.* If your ordinary shares are held in an account at a brokerage firm, bank, broker-dealer or other similar organization, then you are the beneficial owner of shares held in street name. As a beneficial owner, you have the right to direct your bank or brokerage firm how to vote the shares held in your account.

***Can I change my vote after I have submitted my proxy?***

Yes. You have the right to revoke your proxy before it is voted at the Annual General Meeting, subject to the proxy voting deadlines described above. You may vote again on a later date by Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the meeting will be counted), or by signing and returning a new proxy card with a later date, or by attending the meeting and voting in person. However, your attendance at the Annual General Meeting will not automatically revoke your proxy unless you vote in person at the meeting or file a written instrument with the Secretary of Covidien at least one hour prior to the start of the meeting requesting that your prior proxy be revoked.

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*What happens if I do not give specific voting instructions when I deliver my proxy?*

*Shareholders of Record.* If you are a shareholder of record and you:

- Indicate when voting by Internet or by telephone that you wish to vote as recommended by our Board of Directors; or

- If you sign and return a proxy card without giving specific voting instructions,

then the Company-designated proxy holders will vote your shares in the manner recommended by our Board of Directors on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion regarding any other matters properly presented for a vote at the meeting.

*Beneficial Owners of Shares Held in Street Name.* If you are a beneficial owner of shares and your bank or brokerage firm does not receive instructions from you about how your shares are to be voted, one of two things can happen, depending on the type of proposal. Pursuant to New York Stock Exchange ( NYSE ) rules, brokers have discretionary power to vote your shares with respect to routine matters, but they do not have discretionary power to vote your shares on non-routine matters. Pursuant to recent changes in NYSE rules, the election of directors, the shareholder advisory vote on executive compensation and the shareholder advisory vote on the frequency of future votes on executive compensation are considered non-routine matters. **A bank or brokerage firm may not vote your shares with respect to non-routine matters if you have not provided instructions. This is called a broker non-vote. We strongly encourage you to submit your proxy and exercise your right to vote as a shareholder.**

*What is the quorum requirement for the Annual General Meeting?*

In order to conduct any business at the Annual General Meeting, holders of a majority of Covidien s shares which are outstanding and entitled to vote on the record date must be present in person or represented by valid proxies. This is called a quorum. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes for, against or abstained, or broker non-votes, if you:

- are present and vote in person at the meeting;
- have voted by Internet or by telephone; or
- you have submitted a proxy card or voting instruction form by mail.

*Assuming there is a proper quorum of shares represented at the Annual General Meeting, how many shares are required to approve the proposals being*

The voting requirements for each of the proposals are as follows:

*Proposal*

*Vote Required*

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### *voted upon at the Annual General Meeting?*

- |  |                         |
|--|-------------------------|
| 1. Election of Directors   | Majority of votes cast  |
| 2. Appointment of Independent Auditors and Authorization of the Audit Committee of the Board to Set the Auditors' Remuneration | Majority of votes cast  |
| 3. Effect a reverse split followed by a forward split  | Majority of votes cast  |
| 4. Advisory Vote on Executive Compensation   | Majority of votes cast  |
| 5. Advisory Vote on Frequency of Future Advisory Votes on Executive Compensation   | Plurality of votes cast |

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***How are abstentions and broker non-votes treated?***

Abstentions and broker non-votes are considered present for purposes of determining the presence of a quorum. Abstentions and broker non-votes will not be considered votes properly cast at the Annual General Meeting. Because the approval of all of the proposals is based on the votes properly cast at the Annual General Meeting, abstentions and broker non-votes will not have any effect on the outcome of voting on these proposals.

***Why did I receive a notice in the mail regarding the Internet availability of the proxy materials instead of a paper copy of the proxy materials?***

As explained in more detail below, we are using the voluntary notice and access system adopted by the Securities and Exchange Commission (the SEC) relating to delivery of our proxy materials over the Internet. As a result, we mailed to many of our shareholders a notice about the Internet availability of the proxy materials instead of a paper copy of the proxy materials. Shareholders who received the notice will have the ability to access the proxy materials over the Internet and to request a paper copy of the proxy materials by mail, by e-mail or by telephone. Instructions on how to access the proxy materials over the Internet or to request a paper copy may be found on the notice. In addition, the notice contains instructions on how shareholders may request proxy materials in printed form by mail or electronically by e-mail on an ongoing basis. As permitted by our Articles of Association, this notice of Internet availability of proxy materials also includes a Notice of Meeting.

***What are the notice and access rules and how do they affect the delivery of the proxy materials?***

The SEC's notice and access rules allow us to deliver proxy materials to our shareholders by posting the materials on an Internet website, notifying shareholders of the availability of the proxy materials on the Internet and sending paper copies of proxy materials upon shareholder request. We believe that the notice and access rules allow us to use Internet technology that many shareholders prefer, continue to provide our shareholders with the information they need and, at the same time, assure more prompt delivery of the proxy materials. The notice and access rules also lower our cost of printing and delivering the proxy materials and minimize the environmental impact of printing paper copies.

***Why didn't I receive a notice in the mail about the Internet availability of the proxy materials?***

Shareholders who previously elected to access the proxy materials over the Internet will not receive a notice in the mail about the Internet availability of the proxy materials. Instead, you should have received an e-mail with links to the proxy materials and the proxy voting website. Additionally, we mailed copies of the proxy materials to shareholders who previously requested to receive paper copies instead of the notice.

If you received a paper copy of the proxy materials, you may elect to receive future proxy materials electronically by following the instructions on your proxy card or voting instruction form. Choosing to receive your future proxy materials by e-mail will help us conserve natural resources and reduce the costs of printing and distributing our proxy materials. If you choose to receive future proxy materials by e-mail, you will receive an e-mail with instructions containing a link to the website where those materials are available and a link to the proxy voting website. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

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***How do I attend the Annual General Meeting?***

All shareholders are invited to attend the Annual General Meeting.

*Shareholders of Record.* For admission to the Annual General Meeting, shareholders of record should bring picture identification to the Registered Shareholders check-in area, where ownership will be verified. If you would like someone to attend on your behalf, please contact the Company Secretary at our registered office prior to the meeting.

*Beneficial Owners of Shares Held in Street Name.* Those who have beneficial ownership of ordinary shares held by a bank, brokerage firm or other nominee should come to the Beneficial Owners check-in area. To be admitted, beneficial owners must bring picture identification, as well as proof from their banks or brokers that they owned Covidien ordinary shares on January 12, 2011, the record date for the Annual General Meeting.

Registration will begin at 10:30 a.m., local time, and the Annual General Meeting will begin at 11:00 a.m., local time. For directions to the Annual General Meeting, please call us at +353 1 438-1700.

***How will voting on any other business be conducted?***

Other than matters incident to the conduct of the Annual General Meeting, we do not know of any business or proposals to be considered at the Annual General Meeting other than those set forth in this Proxy Statement. If any other business is proposed and properly presented at the Annual General Meeting, the proxies received from our shareholders give the proxy holders the authority to vote on the matter at their discretion.

***Who will count the votes?***

Broadridge Financial Solutions, Inc. will act as the inspector of election and will tabulate the votes.

***Who will pay the costs of soliciting the proxies?***

We will pay the costs of soliciting proxies. Proxies may be solicited on behalf of Covidien by directors, officers or employees of Covidien in person or by telephone, facsimile or other electronic means. We have retained D. F. King & Co., Inc. to assist in solicitation of proxies and have agreed to pay D. F. King \$16,000, plus out-of-pocket expenses, for these services. As required by the SEC and the NYSE, we also will reimburse brokerage firms and other custodians, nominees and fiduciaries, upon request, for their reasonable expenses incurred in sending proxies and proxy materials to beneficial owners of our ordinary shares.

***Who is your transfer agent?***

Our transfer agent is BNY Mellon Shareowner Services. All communications concerning accounts of shareholders of record, including address changes, name changes, inquiries as to requirements to transfer Covidien stock and similar issues, can be handled by calling toll-free 1-866-210-6572 (U.S.) or +1-201-680-6578 (outside the U.S.) or by accessing Mellon's website at [www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd).

***Where can I find more information about Covidien?***

For other information about Covidien, you can visit our website at [www.covidien.com](http://www.covidien.com). We make our website content available for information purposes only. It should not be relied upon for investment purposes, and it is not incorporated by reference into this Proxy Statement.

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**CORPORATE GOVERNANCE**

Our Board of Directors believes that good governance requires not only an effective set of specific practices, but also a culture of responsibility throughout an organization, and governance at Covidien is intended to achieve both. The Board also believes that good governance ultimately depends on the quality of an organization's leadership, and it is committed to recruiting and retaining directors and officers of proven leadership ability and personal integrity.

**Corporate Governance Guidelines**

The Board has adopted governance guidelines which are designed to assist the Company and the Board in implementing effective corporate governance practices. The governance guidelines, which are reviewed annually by the Nominating and Governance Committee, address, among other things:

- director responsibilities;
- composition and selection of the Board, including qualification standards and independence guidelines;
- majority voting for directors;
- the role of an independent Lead Director;
- Board committee establishment, structure and guidelines;
- officer and director stock ownership requirements;
- meetings of non-employee directors;
- director orientation and continuing education;
- Board access to management and independent advisors;
- communication with directors;
- Board and committee self-evaluations;
- succession planning and management development reviews;
- CEO performance reviews;



- recoupment, or claw-back , of executive compensation;
- ethics and conflicts of interest; and
- policy on shareholder rights plans.

The governance guidelines are posted on our website at [www.covidien.com](http://www.covidien.com).

#### **Independence of Nominees for Director**

As noted above, the governance guidelines include criteria adopted by the Board to assist it in making determinations regarding the independence of its members. The criteria, summarized below, are consistent with the NYSE listing standards regarding director independence. To be considered independent, the Board must determine that a director does not have a material relationship, directly or indirectly, with Covidien. In assessing independence, the Board considers all relevant facts and circumstances. In particular, when assessing the materiality of a director's relationship with the Company, the Board considers the issue not just from the standpoint of the director, but also from that of the persons or organizations with which the director has an affiliation. A director will not be considered independent if he or she:

- is, or has been within the last three years, an employee of Covidien;
- has an immediate family member who is, or has been within the last three years, an executive officer of Covidien;

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- is a current partner or employee of our auditor;
- has an immediate family member who is a current partner of our auditor or who is an employee of our auditor and personally works on our audit;
- has been, or has an immediate family member who has been, within the last three years, a partner or employee of our auditor who personally worked on our audit during that time;
- is, or an immediate family member is, or has been within the last three years, employed as an executive officer of a public company that has or had on the compensation committee of its Board an executive officer of Covidien (during the same period of time);
- has, or has an immediate family member who has, received more than \$120,000 in direct compensation from Covidien, other than director and committee fees, in any twelve month period within the last three years;
- is a current employee, or has an immediate family member who is a current executive officer, of a company that has made payments to, or received payments from, Covidien for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues; or
- is, or his or her spouse is, an executive officer, director or trustee of a charitable organization to which Covidien's contributions, not including our matching of charitable contributions by employees, exceed, in any single year within the last three fiscal years, the greater of \$1 million or 2% of such organization's total charitable receipts during that year.

The Board has considered the independence of its members in light of these independence criteria. In connection with its independence considerations, the Board has reviewed Covidien's relationships with organizations with which our directors are affiliated and has determined that such relationships, other than that with Tyco International Ltd. (Tyco International), from whom we spun in 2007, were established in the ordinary course of business. The Board has determined that none of these current business relationships are material to us, any of the organizations involved, or our directors. Based on these considerations, the Board has determined that each of our directors and each of the director nominees, other than Richard J. Meelia, our President, Chief Executive Officer and Chairman of the Board, satisfies the criteria and is independent. These independent directors and director nominees are: Craig Arnold, Robert H. Brust, John M. Connors, Jr., Christopher J. Coughlin, Timothy M. Donahue, Kathy J. Herbert, Randall J. Hogan, III, Dennis H. Reilley, Tadataka Yamada and Joseph A. Zaccagnino. Each independent director is expected to notify the chair of the Nominating and Governance Committee, as soon as reasonably practicable, of changes in his or her personal circumstances that may affect the Board's evaluation of his or her independence.

**Director Nominations Process**

The Nominating and Governance Committee is responsible for developing the general criteria, subject to approval by the full Board, for use in identifying, evaluating and selecting qualified candidates for election or re-election to the Board. The Nominating and Governance Committee periodically reviews with the Board the appropriate skills and characteristics required of Board members in the context of the current make up of the Board. Final approval of director candidates is determined by the full Board, and invitations to join the Board are extended by the Chairman of the Board on behalf of the entire Board.

The Nominating and Governance Committee, in accordance with the Board's governance guidelines, seeks to create a Board that is strong in its collective knowledge and has a diversity of skills and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge, corporate governance and global markets. When the Committee reviews a potential new candidate, the Committee looks specifically at the candidate's qualifications in light of the needs of the Board and the Company at that time, given the then current mix of director attributes.



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As described in our Corporate Governance Guidelines:

- directors should be individuals of the highest ethical character and integrity;
- directors should have demonstrated management ability at senior levels in successful organizations, including as the chief executive officer of a public company or as the leader of a large, multifaceted organization, including government, educational and other non-profit organizations;
- each director should have the ability to provide wise, informed and thoughtful counsel to senior management on a range of issues and be able to express independent opinions, while at the same time working as a member of a team;
- directors should be free from any conflict of interest or business or personal relationship that would interfere with the duty of loyalty owed to the Company; and
- directors should be independent of any particular constituency and be able to represent all shareholders of the Company.

The Committee assesses independence and also monitors compliance by the members of the Board as a group with the requisite qualifications under NYSE listing standards for populating the Audit, Compensation and Human Resources and Nominating and Governance Committees. Directors may not serve on more than four public company boards of directors (including Covidien) or, if the director is employed as CEO of a publicly traded company, no more than three public company boards of directors (including Covidien). No person may stand for election as a director after reaching age 72.

As provided in its charter, the Nominating and Governance Committee will consider nominations submitted by shareholders. To recommend a nominee, a shareholder should write to our Secretary at Covidien's registered address, 20 on Hatch, Lower Hatch Street, Dublin 2, Ireland. Any such recommendation must include:

- the name and address of the candidate;
- a brief biographical description, including his or her occupation for at least the last five years, and a statement of the qualifications of the candidate, taking into account the qualification requirements set forth above; and
- the candidate's signed consent to serve as a director if elected and to be named in the proxy statement.

The recommendation must also include documentary evidence of ownership of Covidien ordinary shares if the shareholder is a beneficial owner, as well as the date the shares were acquired, as required by the Company's Articles of Association.

To be considered by the Nominating and Governance Committee for nomination and inclusion in the Company's proxy statement for the 2012 Annual General Meeting, shareholder recommendations for director must be received by our Secretary no later than September 27, 2011. Once the Secretary receives the recommendation, we will deliver a questionnaire to the candidate requesting additional information about the candidate's independence, qualifications and other information that would assist the Nominating and Governance Committee in evaluating the candidate, as well as certain information that must be disclosed about the candidate in the Company's proxy statement, if nominated. Candidates must complete and return the questionnaire within the time frame provided to be considered for nomination by the Nominating and Governance Committee.

The Nominating and Governance Committee also receives suggestions for director candidates from Board members and, in its discretion, may also employ a third-party search firm to assist in identifying candidates for director. All 11 of our nominees for director are current members of

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the Board. In evaluating candidates for director, the Committee uses the guidelines described above, and evaluates shareholder candidates in the same manner as candidates proposed from all other sources. Based on the Nominating and Governance Committee's evaluation of the current directors, each nominee was recommended for re-election. More information regarding each director's qualifications can be found in Proposal One later in this proxy statement.

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### **Majority Vote for Election of Directors**

Directors are elected by the affirmative vote of a majority of the votes cast by shareholders at the Annual General Meeting and serve for one-year terms. Any nominee for director who does not receive a majority of the votes cast is not elected to the Board.

### **Executive Sessions of the Board**

The independent directors meet in executive session, without members of management present, at each regularly scheduled Board meeting and at such other times as may be deemed appropriate. These executive sessions may include a discussion with the Chief Executive Officer.

### **Board Leadership Structure**

From June 2007 through September 2008, the positions of Chairman of the Board and Chief Executive Officer were held by separate people, due in part to the fact that the Company was a newly independent stand-alone public company, no longer part of a conglomerate, and also to the fact that the Board was newly constituted and unfamiliar with the Chief Executive Officer. In September 2008, after the Company had completed one full fiscal year as an independent Company, the Board reassessed this structure. Based in part on the strong governance structure laid down by the non-executive Chairman, the Chief Executive Officer's performance during the Company's first full fiscal year as a stand-alone public company, the Board's increasing familiarity and comfort with the Chief Executive Officer and the potential efficiencies of having the Chief Executive Officer also serve in the role of Chairman of the Board, the Board decided to revise its structure. The Board appointed Mr. Donahue as Independent Lead Director and appointed Mr. Meelia, our Chief Executive Officer, as the Chairman of the Board.

The Chairman of the Board provides leadership to the Board and works with the Board to define its structure and activities in the fulfillment of its responsibilities. In conjunction with the Lead Director, the Chairman of the Board sets the Board agendas with Board and management input, facilitates communication among directors, works with the Lead Director to provide an appropriate information flow to the Board and presides at meetings of the Board of Directors and shareholders. The Lead Director works with the Chairman of the Board and Chief Executive Officer and other Board members to provide strong, independent oversight of the Company's management and affairs. Among other things, the Lead Director approves Board meeting agendas as well as the quality, quantity and timeliness of information sent to the Board, serves as the principal liaison between the Chairman of the Board and the independent directors and chairs an executive session of the independent directors at each regularly scheduled Board meeting. A more detailed description of the roles and responsibilities of the Chairman of the Board and of the Lead Director is set forth in our Corporate Governance Guidelines.

### **Code of Ethics**

We have adopted the Covidien Guide to Business Conduct, which applies to all of our employees, officers and directors. The Guide to Business Conduct meets the requirements of a code of ethics as defined by SEC regulations and applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as well as all other employees, as indicated above. The Guide to Business Conduct also meets the requirements of a code of business conduct and ethics under the listing standards of the NYSE. The Guide to Business Conduct is posted on our website at [www.covidien.com](http://www.covidien.com) under the heading "Investor Relations" Corporate Governance. We disclose any material amendments to the Guide to Business Conduct, as well as any waivers for executive officers or directors, on our website.

### **Board Risk Oversight**

Our Board of Directors oversees an enterprise-wide approach to risk management designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational

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performance and enhance shareholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board of Directors in setting the Company's business strategy is a key part of its assessment of management's appetite for risk and also a determination of what constitutes an appropriate level of risk for the Company. The full Board of Directors participates in an annual enterprise risk management assessment, which is led by the Company's general counsel. In this process, risk is assessed throughout the business, focusing on three primary areas of risk: financial risk, legal/compliance risk and operational/strategic risk.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibility for risk management. In particular, the Audit Committee focuses on financial risk, including internal controls, and receives an annual risk assessment report from the Company's internal auditors. The Company's Compliance Committee assists the Board of Directors in fulfilling its oversight responsibility with respect to regulatory, healthcare compliance and public policy issues that affect the Company and works closely with the Company's legal and regulatory groups. In addition, in setting compensation, the Compensation and Human Resources Committee strives to create incentives that encourage a level of risk-taking behavior consistent with the Company's business strategy. As discussed below, the Compensation and Human Resources Committee recently conducted a compensation risk assessment. Finally, the Company's Nominating and Governance Committee conducts an annual assessment of the risk management process and reports its findings to the Board.

### **Compensation Risk Assessment**

At the Compensation and Human Resources Committee's direction, representatives of the Company's human resources and legal departments conducted a risk assessment of the Company's compensation policies and practices during fiscal 2010. This risk assessment consisted of a review of cash and equity compensation provided to Company employees, with a focus on compensation payable to senior executives and incentive compensation plans which provide variable compensation to other Company employees based upon Company and individual performance. The Compensation and Human Resources Committee and its independent consultant reviewed the findings of this assessment and agreed with the conclusion that our compensation programs are designed with the appropriate balance of risk and reward in relation to the Company's overall business strategy and do not create risk that is reasonably likely to have a material adverse effect on the Company. The following characteristics of our compensation programs support this finding:

- our use of different types of compensation vehicles that provide a balance of long- and short-term incentives with fixed and variable components;
- the cap on awards to limit windfalls;
- our practice of looking beyond results-oriented performance in assessing the contributions of a particular executive;
- our share ownership guidelines;
- our executive compensation recoupment policy;
- our claw-back policy for equity awards; and
- the ability of the Compensation and Human Resources Committee to reduce incentive payouts if deemed appropriate.

### **Hedging Policy**

The Company's Insider Trading Policy prohibits employees, including directors and named executive officers, from engaging in transactions in puts, calls, cashless collars, options or similar rights and obligations involving Covidien securities, other than the exercise of a Company-issued

stock option.

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### **Transactions with Related Persons**

The Board's Nominating and Governance Committee is responsible for the review and, if appropriate, approval or ratification of related-person transactions involving Covidien or its subsidiaries and related persons. Under SEC rules, a related person is a director, nominee for director, executive officer or a beneficial owner of 5% or more of Covidien's shares, and their immediate family members. Our Board of Directors has adopted written policies and procedures that apply to any transaction or series of transactions in which the Company or a subsidiary is a participant, the amount involved exceeds \$100,000 and a related person has a direct or indirect material interest.

Covidien personnel in the Legal and Finance departments review transactions involving related persons. If they determine that a related person could have a material interest in such a transaction, the transaction is forwarded to the Nominating and Governance Committee for review. The Nominating and Governance Committee determines whether the related person has a material interest in a transaction and may, in its discretion, approve, ratify, rescind or take other action with respect to the transaction. The Nominating and Governance Committee reviews all material facts related to the transaction and takes into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable to the Company than terms generally available to an unaffiliated third-party under the same or similar circumstances, the extent of the related person's interest in the transaction and, if applicable, the availability of other sources of comparable products or services. The following transaction was considered and ratified by the Nominating and Governance Committee:

Bryan C. Hanson, the brother-in-law of José Almeida, our Senior Vice President and President of our Medical Devices segment, is President of the Energy-based Devices business unit within our Medical Devices segment. In fiscal 2010, Mr. Hanson earned total cash compensation of approximately \$987,000 (consisting of base salary, bonus, Company matches under our retirement plans and the value of credited dividend equivalent units). In fiscal 2010, he also received a grant of 3,721 restricted stock units, 3,721 performance share units and options to purchase 29,890 of our ordinary shares at \$47.60 per share. His compensation was commensurate with that of his peers.

### **Communications with the Board of Directors**

The Board has established a process for interested parties to communicate with members of the Board. If you have a concern, question or complaint regarding our compliance with any policy or law, or would otherwise like to contact the Board, you may reach the Board via email at [board.directors@covidien.com](mailto:board.directors@covidien.com). A direct link to this email address can be found on our website at [www.covidien.com](http://www.covidien.com) under the heading Investor Relations Corporate Governance Contact Covidien Board. You may also submit communications in writing to a special address or by phone to a toll-free number that are published on our website at [www.covidien.com](http://www.covidien.com) under the heading Contact Us Ombudsman. Inquiries may be submitted anonymously and confidentially.

All concerns and inquiries are received and reviewed promptly by our Ombudsman. Any concerns relating to accounting, internal controls or audit matters are reviewed with the Audit Committee. All concerns will be addressed by the Ombudsman, with assistance from the Office of the General Counsel as necessary, unless otherwise instructed by the Audit Committee or the Lead Director. The status of all outstanding concerns is summarized to the Audit Committee on a regular basis, and any concern that is determined to be either (1) an immediate threat to the Company or (2) concerns a senior Company official (any executive officer or any direct report to the CEO) is immediately communicated to the Chair of the Audit Committee. The Chair of the Audit Committee or the Lead Director may determine that certain matters should be presented to the full Board and may direct the retention of outside counsel or other advisors in connection with any concern addressed to them. The Covidien *Guide to Business Conduct* prohibits any employee from retaliating against anyone for raising or helping to resolve an integrity question.

**Table of Contents****BOARD OF DIRECTORS AND BOARD COMMITTEES****General**

Our business, property and affairs are managed under the direction of the Board of Directors, which currently is comprised of 11 members. Directors are kept informed of our business through discussions with the Lead Director, the Chairman of the Board and Chief Executive Officer and other officers, by reviewing materials provided to them, and by participating in meetings of the Board and its committees. During our 2010 fiscal year, the Board held seven meetings. In fiscal 2010, all of our directors attended over 75% of the total of all meetings of the Board and the committees on which they served. Our Corporate Governance Guidelines provide that Board members are expected to attend each Annual General Meeting; all of our Board members attended our 2010 Annual General Meeting.

**Board Committees**

The Board has a separately designated Audit Committee established in accordance with the Securities Exchange Act of 1934, as well as a Compensation and Human Resources Committee, a Nominating and Governance Committee, a Compliance Committee and a Transactions Committee. Assignments to, and chairs of, the committees are recommended by the Nominating and Governance Committee and selected by the Board. The committees report on their activities to the Board at each regular Board meeting.

The table below provides membership information for the Board and each committee as of the date of this proxy statement.

	<b>Audit Committee</b>	<b>Compensation and Human Resources Committee</b>	<b>Nominating and Governance Committee</b>	<b>Compliance Committee</b>	<b>Transactions Committee</b>
<b>Independent Directors</b>					
Craig Arnold	X				
Robert H. Brust	Chair				X
John M. Connors, Jr.		X			
Christopher J. Coughlin				Chair	X
Timothy M. Donahue <sup>(1)</sup>		Chair			Chair
Kathy J. Herbert		X			
Randall J. Hogan, III	X				
Dennis H. Reilley			X	X	
Tadataka Yamada			X	X	
Joseph A. Zaccagnino			Chair	X	X
<b>Employee Director</b>					
Richard J. Meelia <sup>(2)</sup>					
<b>Number of Meetings Held in Fiscal 2010</b>	9	5	6	5	2

<sup>(1)</sup> Lead Director

<sup>(2)</sup> Chairman of the Board  
Audit Committee

The Audit Committee monitors the integrity of our financial statements, the independence and qualifications of the independent auditors, the performance of our internal auditors and independent auditors, our compliance

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with legal and certain regulatory requirements and the effectiveness of our internal controls. The Audit Committee is also responsible for selecting, retaining, evaluating, setting the remuneration of and, if appropriate, recommending the termination of our independent auditors. The members of the Audit Committee are Craig Arnold, Robert H. Brust and Randall J. Hogan, III, each of whom is independent under SEC rules and NYSE listing standards applicable to audit committee members. Mr. Brust is the Chair of the Audit Committee. The Board has determined that Mr. Brust and Mr. Hogan are audit committee financial experts. The Audit Committee held nine meetings during fiscal 2010. The Audit Committee operates under a charter approved by the Board of Directors, which is posted on our website at [www.covidien.com](http://www.covidien.com).

### *Compensation and Human Resources Committee*

The Compensation and Human Resources Committee reviews and approves compensation and benefits policies and objectives, determines whether our officers and employees are compensated according to those objectives and carries out the Board's responsibilities relating to the compensation of our executives. The members of the Compensation and Human Resources Committee are John M. Connors, Jr., Timothy M. Donahue and Kathy J. Herbert, each of whom is independent under NYSE listing standards. Mr. Donahue is the Chair of the Compensation and Human Resources Committee. The Compensation and Human Resources Committee held five meetings during fiscal 2010. The Compensation and Human Resources Committee operates under a charter approved by the Board of Directors, which is posted on our website at [www.covidien.com](http://www.covidien.com).

### *Nominating and Governance Committee*

The Nominating and Governance Committee is responsible for identifying individuals qualified to become Board members, recommending to the Board the director nominees for election at the Annual General Meeting, developing and recommending to the Board a set of corporate governance guidelines, and taking a general leadership role in our corporate governance. The Nominating and Governance Committee also reviews the succession planning process relating to the Chief Executive Officer and the Company's other senior executive officers, as well as the Company's management development process. The members of the Nominating and Governance Committee are Dennis H. Reilley, Tadataka Yamada and Joseph A. Zaccagnino, each of whom is independent under NYSE listing standards. Mr. Zaccagnino is the Chair of the Nominating and Governance Committee. The Nominating and Governance Committee held six meetings during fiscal 2010. The Nominating and Governance Committee operates under a charter approved by the Board of Directors, which is posted on our website at [www.covidien.com](http://www.covidien.com).

### *Compliance Committee*

The Compliance Committee assists the Board in fulfilling its oversight responsibility with respect to regulatory, healthcare compliance and public policy issues that affect the Company. The members of Compliance Committee are Christopher J. Coughlin, Dennis H. Reilley, Tadataka Yamada and Joseph A. Zaccagnino, each of whom is independent under NYSE listing standards. Mr. Coughlin serves as the Chair of the Compliance Committee. The Compliance Committee held five meetings during fiscal 2010. The Compliance Committee operates under a charter approved by the Board of Directors, which is posted on our website at [www.covidien.com](http://www.covidien.com).

### *Transactions Committee*

The Transactions Committee was created by the Board of Directors to maximize the efficiency of the Board's review and approval process relating to merger, acquisition and divestiture transactions. The members of Transactions Committee are Robert H. Brust, Christopher J. Coughlin, Timothy M. Donahue and Joseph A. Zaccagnino, each of whom is independent under NYSE listing standards. Mr. Donahue serves as the Chair of the Transactions Committee. The Transactions Committee held two meetings during fiscal 2010.

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**COMPENSATION OF NON-EMPLOYEE DIRECTORS**

The Board of Directors has approved a compensation structure for non-employee directors consisting of an annual cash retainer, supplemental cash retainers for Audit Committee members, Committee Chairs and the Lead Director and equity awards.

**Cash Retainers**

*Board Members.* Each non-employee Director receives an annual cash retainer which is generally paid on a quarterly basis. During fiscal 2010, the annual cash retainer was \$95,000.

*Committee Chairs and Audit Committee Members.* The Chairs of the Compensation and Human Resources Committee, Nominating and Governance Committee and Compliance Committee each receive a supplemental annual cash retainer of \$10,000. The Chair of the Audit Committee receives a supplemental annual cash retainer of \$15,000. Each member of the Audit Committee (including the Chair) also receives a supplemental annual cash retainer of \$5,000.

*Lead Director.* The Lead Director receives a supplemental annual cash retainer of \$25,000 for his services.

**Equity Awards**

*Restricted Stock Units.* At the time of our 2010 Annual General Meeting, each non-employee director received an annual grant of restricted stock units with a value of \$135,000. The fiscal 2010 awards vest on the date of the Company's 2011 Annual General Meeting. Restricted stock units also accrue dividend equivalent units until the restricted stock units vest and shares are issued. Going forward, we expect that each non-employee director will receive an annual grant of restricted stock units on or around the date of each Annual General Meeting.

**Other**

Directors from time to time may make use of tickets to various sporting events provided by the Company; for the year ended September 24, 2010, the aggregate incremental cost to the Company of these amounts was substantially less than \$10,000 per director. Pursuant to Covidien's Matching Gift Program, which is available to our directors on the same terms available to our employees, the Company will match contributions to charitable organizations up to \$10,000. Directors are also reimbursed for reasonable out-of-pocket expenses incurred in attending Board, Board committee, and shareholder meetings and are also permitted to use the corporate aircraft to travel to and from meetings.

The following table provides information concerning the compensation paid by us to each of our non-employee directors for the fiscal year ended September 24, 2010. Richard J. Meelia, our President, Chief Executive Officer and Chairman of the Board of Directors, is not included in this table as he is an employee of

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the Company and thus receives no compensation for his service as a director. The compensation received by Mr. Meelia as an officer of the Company is shown in the Summary Compensation Table on page 33.

**2010 Director Compensation Table**

Name (a)	Fees Earned or Paid in Cash	Stock Awards <sup>(1)</sup>	Total
	(\$) (b)	(\$) (c)	(\$) (h)
Craig Arnold	\$100,000 <sup>(2)</sup>	\$135,015	\$ 235,015
Robert H. Brust	\$115,000 <sup>(3)</sup>	\$135,015	\$ 250,015
John M. Connors, Jr.	\$ 95,000 <sup>(4)</sup>	\$135,015	\$ 230,015
Christopher J. Coughlin	\$105,000 <sup>(5)</sup>	\$135,015	\$ 240,015
Timothy M. Donahue	\$130,000 <sup>(6)</sup>	\$135,015	\$ 265,015
Kathy J. Herbert	\$ 95,000 <sup>(4)</sup>	\$135,015	\$ 230,015
Randall J. Hogan, III	\$100,000 <sup>(2)</sup>	\$135,015	\$ 235,015
Dennis H. Reilley	\$ 95,000 <sup>(4)</sup>	\$135,015	\$ 230,015
Tadataka Yamada	\$ 95,000 <sup>(4)</sup>	\$135,015	\$ 230,015
Joseph A. Zaccagnino	\$105,000 <sup>(7)</sup>	\$135,015	\$ 240,015

(1) The amounts in column (c) reflect the aggregate grant date fair value of restricted stock units granted in fiscal 2010, calculated in accordance with Accounting Standards Codification 718. The grant date fair value does not necessarily correspond to the actual value that will be recognized by each director, which will likely vary based on a number of factors, including our financial performance, stock price fluctuations and applicable vesting. As of September 24, 2010, each director had 2,704 restricted stock units (including dividend equivalent units) outstanding. As of September 24, 2010, each non-employee director held options to purchase 9,600 ordinary shares received as compensation for serving on our board. No stock options were granted to non-employee directors in fiscal 2010.

(2) Includes annual retainer and Audit Committee member retainer.

(3) Includes annual retainer, Audit Committee member retainer and Audit Committee Chair retainer.

(4) Includes annual retainer.

(5) Includes annual retainer and Compliance Committee Chair retainer.

(6) Includes annual retainer, Compensation and Human Resources Committee Chair retainer and Lead Director retainer.

(7) Includes annual retainer and Nominating and Governance Committee Chair retainer.

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**COMPENSATION OF EXECUTIVE OFFICERS**

**Compensation Discussion and Analysis**

**Executive Summary**

The Compensation and Human Resources Committee (the Compensation Committee) has adopted an overall compensation package that is intended to align our named executive officers' interests with those of our shareholders and to promote the creation of shareholder value without encouraging excessive or unnecessary risk-taking. We provide our named executive officers with a compensation package that includes base salary, annual incentive compensation, long-term incentive awards, and broad-based employee benefit programs. Additionally, a significant portion of our named executive officers' compensation package remains performance-based and dependent upon the Company's achievement of specified financial goals and the performance of the Company's shares on a long-term basis.

Despite a challenging market environment, the Company finished fiscal 2010 with solid operating performance including double-digit earnings growth and strong cash flow. Payouts under the 2010 annual incentive plan were positively affected by these results as the Company's adjusted net income exceeded the 2010 annual incentive plan maximum performance level and free cash flow exceeded the 2010 annual incentive plan target performance level. Payouts were, however, tempered by sales growth which was below the 2010 annual incentive plan threshold performance level. As a result, payouts under the 2010 annual incentive plan to our named executive officers at the corporate level were made at one hundred and forty percent (140%) of target performance level.

Other significant aspects of our executive compensation programs for fiscal 2010 are reflected in the following actions taken by the Compensation Committee:

- Determined to refine but maintain without material change the elements and mix of compensation for our named executive officers from fiscal 2009 to fiscal 2010, reflecting the Compensation Committee's view that consistency from year to year in both our approach to compensation and the selection of balanced elements of compensation is important in creating shareholder value by attracting, motivating and rewarding senior executives.
- Adjusted the weightings of performance metrics in our fiscal 2010 annual incentive plan to shift focus from sales growth to net income/operating income, given the Company's focus on earnings growth. For corporate named executive officers, performance metrics under the 2010 annual incentive plan were adjusted net income (40%), sales growth (30%) and free cash flow (30%).
- Recommended, and the Board of Directors adopted, an executive compensation recoupment or claw-back policy, as discussed in the section of this Compensation Discussion & Analysis (CD&A) entitled *Executive Compensation Recoupment Policy*.
- Reviewed and approved the conclusions of a compensation risk assessment conducted by management, as discussed in the section entitled *Compensation Risk Assessment*, beginning on page 10 of this Proxy Statement.
- Modified our peer group to replace Schering-Plough, which was acquired by Merck, with a comparable large pharmaceutical company.

**Executive Compensation Philosophy**

The Compensation Committee's goal in setting executive compensation is to provide a compensation package that attracts, motivates and retains executive talent and rewards executive officers for superior Company and individual performance while encouraging behavior that is in the long-term best interests of the Company



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and its shareholders by promoting the creation of shareholder value without encouraging excessive or unnecessary risk-taking. Underlying this general philosophy are the following core principles:

- Compensation should strongly align the interests of our executive officers and shareholders.
  - *How we achieve this goal:* We emphasize long-term incentive awards that motivate executives to create shareholder value and stock ownership guidelines which promote a long-term shareholder perspective.
- Compensation should be based on a total rewards perspective.
  - *How we achieve this goal:* There is an explicit role for each element of compensation and we make compensation decisions regarding each element with a view to the aggregate value and effect of all other elements.
- We should pay competitively, but not excessively, in order to attract and retain talented executive officers who can achieve our long-term strategic goals and create shareholder value.
  - *How we achieve this goal:* We offer total rewards that are generally within the 50th-75th percentile range based on a review of peer companies in the medical devices and pharmaceutical industries and, as appropriate, general industry and which are fair and reasonable in light of the executive officer's responsibilities, experience and performance. Actual compensation may, however, fall outside the competitive range based on a variety of factors, including, among others, individual performance and the unique challenges of a particular position.
- Compensation should support our business strategy in the areas of customer focus, globalization, operational excellence and innovation as well as our talent strategy.
  - *How we achieve this goal:* We (1) recognize individual performance through merit increases and individual adjustments to equity grant levels; (2) standardize pay levels and programs across the Company to facilitate cross-Company career progression; (3) use equity grants to signal potential and nurture career commitment; and (4) emphasize pay-for-performance through annual and long-term incentive plans rather than retirement benefits or entitlements such as perquisites.
- Our reward elements should be balanced.
  - *How we achieve this goal:* We utilize a mix of incentive plans that balance short- and long-term objectives, provide potential upside for exceeding performance targets (capped at a market-competitive degree of leverage) with downside risk for missing performance targets. We balance retention with reward for shareholder value creation, while also seeing that the elements, individually and in the aggregate, do not encourage excessive risk-taking.
- Compensation goals and practices should be transparent and easy to communicate, both internally and externally.



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- i *How we achieve this goal:* We clearly and consistently communicate our total rewards philosophy to executives, limit the number of separate compensation plans/programs we provide, minimize the number of performance metrics per plan, promote continuity in plan design, align executive programs across the Company and enhance the motivational value of compensation by regularly communicating progress against goals.

· Compensation should support effective governance.

- i *How we achieve this goal:* We hold Company officers to stock ownership guidelines to promote long-term ownership, long-term shareholder perspective and responsible practices; we cap awards to limit windfalls; we encourage simplicity and transparency in plan design; we establish clear processes for administering equity and employee benefit plans; and, in

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assessing the contributions of a particular executive officer, the Compensation Committee looks not only to results-oriented performance, but also to how those results were achieved – whether the decisions and actions leading to the results were consistent with the values of the Company – and the long-term impact of those decisions.

### **2010 Compensation Elements and Decisions**

Our compensation program for named executive officers has three major components, all of which are designed to work together to drive a complementary set of behaviors and outcomes.

- *Base salary.* Base salary is intended to reflect the market value of the named executive officer's role, with differentiation for individual capability.
- *Annual incentive compensation.* Annual incentive compensation in the form of a market-competitive, performance-based cash bonus is designed to focus our executives on pre-set objectives each year and drive specific behaviors that foster short-term and long-term growth and profitability.
- *Long-term incentive awards.* Long-term incentive compensation generally consists of grants of stock options, restricted stock units with time-based vesting and restricted stock units with performance-based vesting, which we refer to as performance share units. Long-term incentive compensation is designed to recognize executives for their contributions to the Company and highlight the strategic significance of each named executive officer's role, to promote retention and to align the interests of named executive officers with the interests of our shareholders in long-term growth and stock performance, rewarding executives for shareholder value creation.

When assessing and setting compensation, the Compensation Committee focuses on base salary, total cash compensation (consisting of base salary and annual incentive compensation) and total direct compensation (consisting of base salary, annual incentive compensation and long-term incentive awards).

Named executive officers also participate in various employee benefit programs, as described near the end of this CD&A.

### ***Total Rewards – Driving Performance and Behavior***

Two of the core principles of the Company's compensation philosophy, as articulated above, are that compensation should support effective governance, and that compensation should be viewed from a total rewards perspective, considering each compensation element with a view to the aggregate value and effect of all other compensation elements. Accordingly, in setting compensation, the Compensation Committee considers whether the compensation elements, individually and in the aggregate, create incentives that encourage behavior consistent with the overall interests of the Company.

In determining compensation packages for our named executive officers, the Compensation Committee seeks to strike an appropriate balance between fixed and variable compensation and between short- and long-term compensation. We believe that making a significant portion of our named executive officers' compensation variable and long-term supports our pay-for-performance executive compensation philosophy while also mitigating potential excessive risk-taking behavior.

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The following table illustrates the distribution of value among base salary, target annual incentive cash awards and long-term equity incentives for our Chief Executive Officer and the four other named executive officers for fiscal 2010. Of total direct compensation, 89% of the Chief Executive Officer's and 81% of the other named executives' was variable.

We believe that providing the majority of compensation in the form of equity encourages strategies and levels of risk-taking that correlate with the long-term best interests of the Company and its shareholders. The Compensation Committee carefully balances the near-term nature of our annual incentive plan with risk-mitigating aspects, including (1) a mix of financial metrics, which provide checks and balances, (2) caps on cash awards built into the plan design and (3) our executive compensation recoupment policy, which applies if an annual incentive bonus is paid based upon financial information which is required to be restated due to material noncompliance with financial reporting requirements. We emphasize share-based compensation, in combination with executive share ownership guidelines, to promote long-term ownership, long-term shareholder perspective and responsible practices, encouraging significant and sustainable performance over the longer term. Our long-term equity incentive program includes a mix of vehicles to mitigate the risk of over-emphasis on any one element and also includes a cap on awards of performance share units. Our equity programs also include claw-back provisions which apply to monetary gains from equity grants realized by executives terminated for cause. Finally, in assessing the contributions of a particular named executive officer, the Compensation Committee looks not only to results-oriented performance, but also to how those results were achieved whether the decisions and actions leading to the results were consistent with the values of the Company and the long-term impact of those decisions.

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*Base S*