

Covidien plc  
Form 10-Q  
July 29, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended June 24, 2011

or

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

001-33259

(Commission File Number)

**COVIDIEN PUBLIC LIMITED COMPANY**

(Exact name of registrant as specified in its charter)

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**Ireland**  
(State or other jurisdiction of  
incorporation or organization)

**98-0624794**  
(I.R.S. Employer  
Identification No.)

**20 On Hatch, Lower Hatch Street**

**Dublin 2, Ireland**

**Telephone: +353 1 438-1700**

(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of ordinary shares outstanding as of July 22, 2011 was 493,441,175.

**Table of Contents**

**COVIDIEN PLC**

**INDEX TO FORM 10-Q**

	<b>Page</b>
<b>Part I. <u>Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	2
<u>Consolidated Statements of Income for the Quarters and Nine Months Ended June 24, 2011 and June 25, 2010</u>	2
<u>Consolidated Balance Sheets as of June 24, 2011 and September 24, 2010</u>	3
<u>Consolidated Statements of Cash Flows for the Nine Months Ended June 24, 2011 and June 25, 2010</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	43
<b>Part II. <u>Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 3. <u>Defaults Upon Senior Securities</u>	45
Item 5. <u>Other Information</u>	45
Item 6. <u>Exhibits</u>	45
<u>Signatures</u>	46

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****COVIDIEN PLC****CONSOLIDATED STATEMENTS OF INCOME**

Quarters and Nine Months Ended June 24, 2011 and June 25, 2010

(in millions, except per share data)

	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
<b>Net sales</b>	\$ 2,926	\$ 2,564	\$ 8,496	\$ 7,759
Cost of goods sold	1,255	1,138	3,658	3,421
<b>Gross profit</b>	1,671	1,426	4,838	4,338
Selling, general and administrative expenses	886	753	2,600	2,341
Research and development expenses	138	109	387	321
Restructuring charges, net	32	25	83	56
Shareholder settlement income			(11)	
<b>Operating income</b>	615	539	1,779	1,620
Interest expense	(51)	(54)	(153)	(140)
Interest income	6	6	17	17
Other (expense) income, net	(12)	21		49
<b>Income from continuing operations before income taxes</b>	558	512	1,643	1,546
Income tax expense	26	160	220	371
<b>Income from continuing operations</b>	532	352	1,423	1,175
Income (loss) from discontinued operations, net of income taxes	3	12	(6)	14
<b>Net income</b>	\$ 535	\$ 364	\$ 1,417	\$ 1,189
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ 1.08	\$ 0.70	\$ 2.88	\$ 2.35
Income (loss) from discontinued operations	0.01	0.02	(0.01)	0.03
Net income	1.08	0.73	2.86	2.38
<b>Diluted earnings per share:</b>				
Income from continuing operations	\$ 1.06	\$ 0.70	\$ 2.85	\$ 2.33
Income (loss) from discontinued operations	0.01	0.02	(0.01)	0.03
Net income	1.07	0.72	2.84	2.36
<b>Weighted-average number of shares outstanding:</b>				
Basic	495	501	495	500
Diluted	500	504	499	505
<b>Cash dividends declared per ordinary share</b>	\$	\$	\$ 0.40	\$ 0.36

See Notes to Consolidated Financial Statements.



**Table of Contents****COVIDIEN PLC****CONSOLIDATED BALANCE SHEETS****At June 24, 2011 and September 24, 2010****(in millions, except share data)**

	<b>June 24, 2011</b>	<b>September 24, 2010</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,755	\$ 1,565
Accounts receivable trade, less allowance for doubtful accounts of \$44 and \$73	1,880	1,708
Inventories	1,528	1,381
Prepaid expenses and other current assets	838	841
Due from former parent and affiliate	149	245
<b>Total current assets</b>	<b>6,150</b>	<b>5,740</b>
Property, plant and equipment, net	2,685	2,608
Goodwill	7,700	7,675
Intangible assets, net	2,823	2,949
Due from former parent and affiliate	609	479
Other assets	766	936
<b>Total Assets</b>	<b>\$ 20,733</b>	<b>\$ 20,387</b>
<b>Liabilities and Shareholders Equity</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 96	\$ 255
Accounts payable	603	586
Accrued and other current liabilities	1,381	1,630
Income taxes payable	288	547
Guaranteed contingent tax liabilities	162	108
<b>Total current liabilities</b>	<b>2,530</b>	<b>3,126</b>
Long-term debt	4,070	4,451
Income taxes payable	1,622	1,565
Guaranteed contingent tax liabilities	554	608
Other liabilities	1,714	1,663
<b>Total Liabilities</b>	<b>10,490</b>	<b>11,413</b>
Commitments and contingencies (note 14)		
Shareholders Equity:		
Preference shares, \$0.20 par value, 125,000,000 authorized; none issued		
Ordinary shares, \$0.20 par value, 1,000,000,000 authorized; 513,123,846 and 507,245,024 issued	103	101
Ordinary shares held in treasury at cost; 20,120,145 and 12,164,018	(859)	(484)
Additional paid-in capital	6,812	6,563
Retained earnings	3,663	2,444
Accumulated other comprehensive income	524	350
<b>Total Shareholders Equity</b>	<b>10,243</b>	<b>8,974</b>

<b>Total Liabilities and Shareholders Equity</b>	\$ 20,733	\$ 20,387
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See Notes to Consolidated Financial Statements.

**Table of Contents****COVIDIEN PLC****CONSOLIDATED STATEMENTS OF CASH FLOWS****Nine Months Ended June 24, 2011 and June 25, 2010****(in millions)**

	<b>Nine Months Ended</b>	
	<b>June 24, 2011</b>	<b>June 25, 2010</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,417	\$ 1,189
Loss (income) from discontinued operations, net of income taxes	6	(14)
Income from continuing operations	1,423	1,175
Adjustments to reconcile net cash provided by continuing operating activities:		
Depreciation and amortization	440	349
Share-based compensation	79	68
Deferred income taxes	36	65
Provision for losses on accounts receivable and inventory	54	63
Change in receivable from former parent and affiliate related to Tax Sharing Agreement	(7)	(48)
Other non-cash items	16	25
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(84)	(54)
Inventories	(175)	(91)
Accounts payable	9	37
Income taxes	(60)	162
Accrued and other liabilities	(90)	(110)
Other	(32)	(166)
Net cash provided by continuing operating activities	1,609	1,475
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(303)	(273)
Sale of investments	14	7
Acquisition-related payments, net of cash acquired	(13)	(189)
Acquisition of licenses and technology	(4)	(70)
Interest in class action settlement fund		(33)
Divestitures		18
Other	(9)	6
Net cash used in continuing investing activities	(315)	(534)
<b>Cash Flows From Financing Activities:</b>		
Net repayment of commercial paper	(307)	(1)
Repayment of debt	(254)	(87)
Dividends paid	(297)	(270)
Repurchase of shares	(378)	(78)
Proceeds from exercise of share options	164	105
Payment of contingent consideration	(71)	
Other	13	(4)
Net cash used in continuing financing activities	(1,130)	(335)



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**Discontinued Operations:**

Net cash provided by discontinued operating activities		43
Net cash used in discontinued investing activities		(9)
Net cash provided by discontinued operations		34
Effect of currency rate changes on cash	26	16
<b>Net increase in cash and cash equivalents</b>	190	656
<b>Cash and cash equivalents at beginning of period</b>	1,565	1,467
<b>Cash and cash equivalents at end of period</b>	\$ 1,755	\$ 2,123

See Notes to Consolidated Financial Statements.

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of Presentation**

*Basis of Presentation* The accompanying financial statements reflect the consolidated operations of Covidien plc and its subsidiaries (Covidien or the Company). The unaudited consolidated financial statements have been prepared in United States dollars, in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the consolidated financial statements in conformity with GAAP requires management to make use of 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. In management's opinion, the unaudited consolidated financial statements contain all normal recurring adjustments necessary for a fair presentation of the interim results reported. The 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 financial statements should be read in conjunction with the Company's audited consolidated financial statements in its Annual Report on Form 10-K for the fiscal year ended September 24, 2010.

**2. Discontinued Operations**

*Specialty Chemicals business* During fiscal 2010, the Company sold its Specialty Chemicals business, which was included in discontinued operations. The Company recorded a \$4 million pre-tax charge in discontinued operations for pension settlements related to employees of this business in the first nine months of fiscal 2011.

*Plastics, Adhesives, Ludlow Coated Products and A&E Products businesses* During the third quarter of fiscal 2011 and 2010, the Company recorded tax benefits of \$3 million and \$4 million, respectively. In addition, during the first nine months of fiscal 2011 and 2010, the Company recorded tax provisions of \$4 million and \$11 million, respectively. These amounts resulted from adjustments to certain income tax liabilities associated with the Plastics, Adhesives, Ludlow Coated Products and A&E Products businesses that were sold in fiscal 2006 prior to the Company's separation from Tyco International Ltd.

Net sales, income from operations and loss on disposition of discontinued operations are as follows:

(Dollars in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
Net sales	\$	\$ 109	\$	\$ 325
Income from operations, net of income tax provision of \$ , \$7, \$ and \$24	\$	\$ 12	\$	\$ 29
Gain (loss) on disposition, net of income tax (benefit) provision of \$(3), \$(4), \$2 and \$11	3		(6)	(15)
Income (loss) from discontinued operations, net of income taxes	\$ 3	\$ 12	\$ (6)	\$ 14

**3. Restructuring Charges, Net**

During the third quarter of fiscal 2011, the Company launched a restructuring program, designed to improve the Company's cost structure. This program includes actions across all three segments as well as corporate. The Company expects to incur total charges of approximately \$275 million 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 2014.



**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

In fiscal 2007 and 2009, the Company launched restructuring programs, also designed to improve the Company's cost structure. The Company expects to incur total charges of approximately \$200 million under the 2009 program, which are recorded as the specific actions required to execute on these initiatives are identified and approved. As of June 24, 2011, the Company had incurred \$158 million of net restructuring charges under the 2009 program since its inception and expects to incur most of the remaining charges by the end of 2011. The 2007 program is substantially completed. These programs exclude restructuring actions associated with acquisitions.

Restructuring charges, net, including associated asset impairments and actions associated with acquisitions, by segment are as follows:

(Dollars in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
Medical Devices	\$ 19	\$ 6	\$ 79	\$ 19
Pharmaceuticals		5		7
Medical Supplies	10	13		31
Corporate	3	1	4	(1)
<b>Total restructuring charges, net</b>	<b>\$ 32</b>	<b>\$ 25</b>	<b>\$ 83</b>	<b>\$ 56</b>

Restructuring charges, net are comprised of the following:

(Dollars in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
Acquisition-related restructuring actions	\$ 4	\$ 2	\$ 26	\$ 8
2011 program	15		15	
2009 program	13	23	43	46
2007 program			(1)	2
<b>Total restructuring charges, net</b>	<b>32</b>	<b>25</b>	<b>83</b>	<b>56</b>
Less: non-cash charges	(2)		(4)	(1)
<b>Total charges expected to be settled in cash</b>	<b>\$ 30</b>	<b>\$ 25</b>	<b>\$ 79</b>	<b>\$ 55</b>

The following table summarizes cash activity for restructuring reserves related to acquisitions for the nine months ended June 24, 2011:

(Dollars in Millions)	Employee Severance and Benefits	Other <sup>(1)</sup>	Total

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Balance at September 24, 2010	\$	9	\$	2	\$	11
Charges		9		19		28
Changes in estimate		(1)		(1)		(2)
Cash payments		(5)		(17)		(22)
Balance at June 24, 2011	\$	12	\$	3	\$	15

(1) Substantially all of these amounts relate to the cancellation of distributor and supplier agreements.

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table summarizes cash activity for restructuring reserves related to the 2011, 2009 and 2007 programs, substantially all of which relates to employee severance and benefits, for the nine months ended June 24, 2011:

<b>(Dollars in Millions)</b>	<b>2011 Program</b>	<b>2009 Program</b>	<b>2007 Program</b>	<b>Total</b>
Balance at September 24, 2010	\$	\$ 55	\$ 11	\$ 66
Charges	13	57		70
Changes in estimate		(16)	(1)	(17)
Cash payments		(34)	(4)	(38)
Currency translation			1	1
Balance at June 24, 2011	\$ 13	\$ 62	\$ 7	\$ 82

During the first nine months of fiscal 2011, the Company reversed \$16 million of restructuring reserves under the 2009 program, \$10 million of which resulted from the determination that one of the restructuring actions within the Medical Supplies segment was no longer cost effective.

Restructuring reserves are reported on the Company's consolidated balance sheets as follows:

<b>(Dollars in Millions)</b>	<b>June 24, 2011</b>	<b>September 24, 2010</b>
Accrued and other current liabilities	\$ 54	\$ 62
Other liabilities	43	15
Restructuring reserves	\$ 97	\$ 77

**4. Other (Expense) Income, Net**

<b>(Dollars in Millions)</b>	<b>Quarters Ended</b>		<b>Nine Months Ended</b>	
	<b>June 24, 2011</b>	<b>June 25, 2010</b>	<b>June 24, 2011</b>	<b>June 25, 2010</b>
(Loss) income under Tax Sharing Agreement (note 13)	\$ (13)	\$ 22	\$ 7	\$ 48
Income (loss) on investments, net	1	(1)	(7)	1
Other (expense) income, net	\$ (12)	\$ 21	\$	\$ 49

(Loss) income under Tax Sharing Agreement represents the decrease or increase to the receivable from Tyco International and TE Connectivity Ltd. (formerly Tyco Electronics Ltd.). These amounts reflect 58% of the interest and other income tax payable amounts released and/or recorded during each period that will be subject to the Tax Sharing Agreement.

**5. Earnings Per Share**

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The weighted-average ordinary shares used in the computations of basic and diluted earnings per share were as follows:

(in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
Basic shares	495	501	495	500
Effect of share options and restricted shares	5	3	4	5
Diluted shares	500	504	499	505

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

For the quarter and nine months ended June 24, 2011, approximately 2 million and 7 million, respectively, of options and restricted share awards were not included in the computation of diluted earnings per share, because either the effect would have been anti-dilutive or the performance criteria related to the awards had not yet been met. For the quarter and nine months ended June 25, 2010 approximately 10 million and 8 million, respectively, of options and restricted share awards were not included in the computation of diluted earnings per share, because either the effect would have been anti-dilutive or the performance criteria related to the awards had not yet been met.

**6. Comprehensive Income**

Comprehensive income was comprised of the following:

(Dollars in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
Net income	\$ 535	\$ 364	\$ 1,417	\$ 1,189
Currency translation	53	(150)	174	(364)
Unrealized gain on derivatives, net of income taxes	1	2	5	2
Change related to benefit plans, net of income taxes	(1)	(1)	(5)	1
<b>Total comprehensive income</b>	<b>\$ 588</b>	<b>\$ 215</b>	<b>\$ 1,591</b>	<b>\$ 828</b>

**7. Inventories**

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

(Dollars in Millions)	June 24, 2011	September 24, 2010
Purchased materials and manufactured parts	\$ 328	\$ 283
Work in process	339	315
Finished goods	861	783
<b>Inventories</b>	<b>\$ 1,528</b>	<b>\$ 1,381</b>

**8. Goodwill and Intangible Assets**

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

(Dollars in Millions)	Medical Devices	Pharmaceuticals	Medical Supplies	Total
Goodwill at September 24, 2010	\$ 6,778	\$ 508	\$ 389	\$ 7,675
Currency translation and other	25			25



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Goodwill at June 24, 2011	\$ 6,803	\$	508	\$	389	\$ 7,700
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**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

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

(Dollars in Millions)	June 24, 2011		September 24, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortizable:</b>				
Completed technology	\$ 2,199	\$ 734	\$ 2,129	\$ 620
Customer relationships	804	98	801	64
Other	331	128	323	110
<b>Total</b>	<b>\$ 3,334</b>	<b>\$ 960</b>	<b>\$ 3,253</b>	<b>\$ 794</b>
<b>Non-Amortizable:</b>				
Trademarks	\$ 359		\$ 356	
In-process research and development	90		134	
<b>Total</b>	<b>\$ 449</b>		<b>\$ 490</b>	

Intangible asset amortization expense for the quarters ended June 24, 2011 and June 25, 2010 was \$51 million and \$29 million, respectively. Intangible asset amortization expense for the nine months ended June 24, 2011 and June 25, 2010 was \$150 million and \$83 million, respectively.

**9. Retirement Plans**

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

(Dollars in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
Service cost	\$ 5	\$ 5	\$ 16	\$ 15
Interest cost	11	12	33	36
Expected return on plan assets	(10)	(10)	(32)	(31)
Amortization of net actuarial loss	6	6	18	17
Amortization of prior service cost				1
Settlements and curtailments	1	5	9	5
<b>Net periodic benefit cost</b>	<b>\$ 13</b>	<b>\$ 18</b>	<b>\$ 44</b>	<b>\$ 43</b>

The net periodic benefit cost for postretirement benefit plans for the quarters and nine months ended June 24, 2011 and June 25, 2010 was not material.

**10. Guarantees**

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Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, the Company entered into certain guarantee commitments and indemnifications with Tyco International and TE Connectivity, which are discussed in note 13.

In disposing of assets or businesses, the Company often provides representations, warranties and indemnities to cover various risks including, unknown damage to the assets, environmental risks involved in the

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**Table of Contents**

**COVIDIEN PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. Except as discussed below, the Company generally does not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, the Company has no reason to believe that these uncertainties would have a material adverse effect on its results of operations, financial condition or cash flows.

In connection with the sale of the Specialty Chemicals business, the Company provided the purchaser with an indemnification for various risks, including environmental, health, safety, tax and other matters, some of which have an indefinite term. However, the most significant portion of this indemnification relates to environmental, health and safety matters, which has a term of 17 years. A liability of \$22 million relating to this indemnification was included on the Company's consolidated balance sheet at both June 24, 2011 and September 24, 2010. The value of the environmental, health and safety guarantee was measured based on the probability-weighted present value of the costs expected to be incurred to address environmental claims proposed under the indemnity. The maximum future payments the Company could be required to make under the indemnification provided to the purchaser is \$82 million. In addition, the Company was required to pay \$30 million into an escrow account as collateral, which is included in other assets on the consolidated balance sheet.

The Company has recorded liabilities for known indemnifications included as part of environmental liabilities, which are discussed in note 14. In addition, the Company is liable for product performance; however in the opinion of management, such obligations will not significantly affect the Company's results of operations, financial condition or cash flows.

**11. Derivative Instruments**

The Company is exposed to certain risks relating to its business operations. Risks that relate to interest rate exposure, foreign exchange exposure and certain commodity price exposures are managed by using derivative instruments. The Company uses interest rate swaps to manage interest rate exposure. Foreign currency option and forward contracts are used to economically manage the foreign exchange exposures of operations outside the United States. Swap contracts on commodities are periodically entered into to manage the price risk associated with forecasted purchases of commodities used in the Company's manufacturing processes.

The Company recognizes all derivative instruments as either assets or liabilities at fair value on the balance sheet. Changes in a derivative financial instrument's fair value are recognized in earnings unless specific hedge criteria are met. The Company has designated certain interest rate lock contracts and certain commodity swap contracts as cash flow hedges. The Company has not designated the foreign currency forward and option contracts as hedging instruments.

*Interest Rate Exposure*

*Fair Value Hedges* The Company manages interest rate exposure through the use of interest rate swap transactions with financial institutions acting as principal counterparties to convert a portion of fixed-rate debt to variable-rate debt. These transactions are designated as fair value hedges. During the first nine months of fiscal 2011, the Company entered into interest rate swaps on \$300 million principal amount of its 6.0% senior notes due 2017. Under these contracts, the Company receives fixed amounts of interest applicable to the underlying notes and pays a floating amount based upon the three month U.S. Dollar London interbank offered rate. The fair

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

value of the interest rate swaps as of June 24, 2011 was \$11 million. The location and amount of gain (loss) on the hedged fixed-rate debt attributable to changes in the market interest rates and the offsetting gain (loss) on the related interest rate swaps were as follows:

(Dollars in Millions)	Gain (loss) on swaps		Gain (loss) on borrowings	
	Quarter Ended June 24, 2011	Nine Months Ended June 24, 2011	Quarter Ended June 24, 2011	Nine Months Ended June 24, 2011
<b>Income statement location</b>				
Interest expense	\$ 13	\$ 11	\$ (13)	\$ (11)

*Cash Flow Hedges* During fiscal 2007, Covidien International Finance S.A. (CIFSA), a wholly-owned subsidiary of the Company, entered into a series of forward interest rate lock contracts to hedge the risk of variability in the market interest rates prior to the issuance of fixed rate senior notes. The rate locks were designated as cash flow hedges at inception and were terminated in fiscal 2007 and fiscal 2008 prior to the issuance of the notes in accordance with their terms. The rate locks were considered to be highly effective, accordingly, the loss that resulted upon termination of the rate locks was recorded in accumulated other comprehensive income and is being reclassified to interest expense over the terms of the notes. As of June 24, 2011 and September 24, 2010, the amount of this loss that remained in accumulated other comprehensive income was \$46 million and \$49 million, respectively.

*Foreign Exchange Exposure*

*Derivatives not Designated as Hedging Instruments* The Company's operations outside the United States are significant. As a result, 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 economically manage foreign currency exposures on accounts and notes receivable, accounts payable, intercompany loans and forecasted transactions that are denominated in certain foreign currencies, principally the euro and yen, as well as approximately 20 other currencies. The Company generally manages its exposure for forecasted transactions for the upcoming 12 months. All forward and option contracts are recorded on the balance sheet at fair value. At June 24, 2011, the Company had foreign currency forward and option contracts outstanding with a notional amount of \$839 million. These contracts do not meet the necessary criteria to qualify for hedge accounting. Accordingly, all associated changes in fair value are recognized in earnings.

The net (loss) gain on foreign exchange forward and option contracts not designated as hedging instruments and related hedged items are included in the following income statement captions in the amounts shown:

(Dollars in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
Cost of goods sold	\$ (6)	\$ 7	\$ (16)	\$ 22
Selling, general and administrative expenses	(7)	8	(12)	(1)
	\$ (13)	\$ 15	\$ (28)	\$ 21

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Fair Value of Derivative Instruments*

The following table summarizes the classification and fair values of derivative instruments reported in the consolidated balance sheets:

(Dollars in Millions)	Balance sheet location	June 24, 2011		September 24, 2010	
		Fair value of Derivative Assets	Fair value of Derivative Liabilities	Fair value of Derivative Assets	Fair value of Derivative Liabilities
<b>Derivative instruments designated as hedges:</b>					
Interest rate swaps	Other assets	\$ 11	\$	\$	\$
<b>Derivative instruments not designated as hedges:</b>					
Foreign exchange contracts	Prepaid and other current assets	12		16	4
Foreign exchange contracts	Accrued and other current liabilities	1	25		20
Total derivative instruments not designated as hedges		13	25	16	24
Total derivative instruments		\$ 24	\$ 25	\$ 16	\$ 24

**12. Financial Instruments and Fair Value Measurements**

The following table provides a summary of the significant assets and liabilities that are measured at fair value on a recurring basis at June 24, 2011:

(Dollars in Millions)	June 24, 2011	Basis of Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Foreign currency contracts	\$ 13	\$	\$ 13	\$
Interest rate swaps	11		11	
Debt and equity securities held in rabbi trust	35	26	9	

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Total assets at fair value	\$ 59	\$ 26	\$ 33	\$
<b>Liabilities</b>				
Foreign currency contracts	\$ 25	\$	\$ 25	\$
Deferred compensation liabilities	96		96	
Total liabilities at fair value	\$ 121	\$	\$ 121	\$

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table provides a summary of the significant assets and liabilities that are measured at fair value on a recurring basis at September 24, 2010:

(Dollars in Millions)	September 24, 2010	Basis of Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Foreign currency contracts	\$ 16	\$	\$ 16	\$
Debt and equity securities held in rabbi trust	33	25	8	
Total assets at fair value	\$ 49	\$ 25	\$ 24	\$
<b>Liabilities</b>				
Foreign currency contracts	\$ 24	\$	\$ 24	\$
Deferred compensation liabilities	78		78	
Contingent payments	71			71
Total liabilities at fair value	\$ 173	\$	\$ 102	\$ 71

*Foreign currency contracts* The fair values of foreign currency contracts were measured using significant other observable inputs and valued by reference to over-the-counter quoted market prices for similar instruments. The Company does not believe that the fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on its results of operations, financial condition or cash flows.

*Debt and equity securities held in rabbi trust* Debt securities held in the rabbi trust consist primarily of U.S. government and agency securities and corporate bonds. Where 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.

*Deferred compensation liabilities* The Company maintains a non-qualified deferred compensation plan in the United States, which permits eligible employees to defer a portion of their compensation. A record keeping 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 retirement plan and the account balance fluctuates with the investment returns on those funds.



**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

*Contingent payments* In connection with the acquisition of ev3, the Company assumed an agreement to pay milestone-based contingent payments of up to \$75 million upon the U.S. Food and Drug Administration pre-market approval of the Pipeline® Embolization Device. The fair value of the contingent payments was measured based on the probability-weighted present value of the consideration expected to be transferred. The changes in the fair value shown in the following reconciliation are included in selling, general and administrative expenses:

<b>(Dollars in Millions)</b>	<b>Quarter Ended June 24, 2011</b>	<b>Nine Months Ended June 24, 2011</b>
Balance at beginning of period	\$ 75	\$ 71
Change in fair value		4
Settlement	(75)	(75)
Fair value at June 24, 2011	\$	\$

*Fair Value of Financial Instruments*

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, investments, amounts due from former parent and affiliate, accounts payable, debt and derivative financial instruments. The fair value of cash and cash equivalents, accounts receivable, investments and accounts payable approximated their carrying values at June 24, 2011 and September 24, 2010. The fair value of the Company's unsecured senior notes was approximately \$4.445 billion and \$4.627 billion at June 24, 2011 and September 24, 2010, respectively. The carrying value of the senior notes was \$3.994 billion and \$4.243 billion at June 24, 2011 and September 24, 2010, respectively. It is not practicable to estimate the fair value of the amounts due to or from former parent and affiliate.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, derivative financial instruments and accounts receivable. The Company invests its excess cash in deposits or money market funds and diversifies the concentration of cash among different financial institutions that have at least an A credit rating. Counterparties to the Company's derivative financial instruments are limited to major financial institutions with at least an A/A2 long-term debt rating. While the Company does not require collateral or other security to be furnished by the counterparties to its derivative financial instruments, it minimizes exposure to credit risk by dealing with a diversified group of major financial institutions and actively monitoring outstanding positions.

Concentrations of credit risk with respect to trade accounts receivable are generally limited due to the Company's large number of customers and their diversity across many geographic areas. A portion of the Company's trade accounts receivable outside the United States, however, include 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 continually evaluates all government receivables, particularly in Greece, Spain, Italy, Portugal and other parts of Western Europe for potential collection risks associated with the availability of government funding and reimbursement practices.

The most significant payment delays the Company has experienced relate to accounts receivable associated with the national healthcare system in Greece. However, during the first nine months of fiscal 2011, the



**Table of Contents**

**COVIDIEN PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

Company received \$98 million in non-interest bearing government bonds from the Greek government to satisfy debts it had incurred from 2007 to 2009. The Company sold substantially all of these bonds for proceeds of \$71 million during the nine months ended June 24, 2011. As a result of these transactions, the Company recorded a \$4 million gain, net of the reserves that had previously been established on the related receivables.

**13. Transactions with Former Parent and Affiliate**

*Separation and Distribution Agreement* On June 29, 2007, the Company entered into a Separation and Distribution Agreement with Tyco International and TE Connectivity. Under this agreement, subject to certain exceptions contained in the Tax Sharing Agreement, Covidien, Tyco International and TE Connectivity assumed 42%, 27% and 31%, respectively, of certain of Tyco International's contingent and other corporate liabilities, primarily consolidated securities litigation and any actions with respect to the separation brought by any third party. These contingent and other corporate liabilities do not include liabilities that specifically relate to one of the three separated companies, which were allocated solely to the relevant company.

*Tax Sharing Agreement* On June 29, 2007, the Company entered into a Tax Sharing Agreement, under which the Company shares responsibility for certain of its, Tyco International's and TE Connectivity's income tax liabilities for periods prior to the separation. Covidien, Tyco International and TE Connectivity share 42%, 27% and 31%, respectively, of U.S. income tax liabilities that arise from adjustments made by tax authorities to its, Tyco International's and TE Connectivity's U.S. income tax returns, certain income tax liabilities arising from adjustments made by tax authorities to intercompany transactions or similar adjustments, and certain taxes attributable to internal transactions undertaken in anticipation of the separation. All costs and expenses associated with the management of these tax liabilities are being shared equally among the parties. The Company is responsible for all of its own taxes that are not shared pursuant to the Tax Sharing Agreement.

All the tax liabilities of Tyco International that were associated with the Company's business became Covidien's tax liabilities following the separation. Although Covidien shares certain of these tax liabilities with Tyco International and TE Connectivity pursuant to the Tax Sharing Agreement, Covidien is primarily liable for all of these liabilities. Accordingly, if Tyco International and TE Connectivity default on their obligations to Covidien under the Tax Sharing Agreement, Covidien would be liable for the entire amount of these liabilities.

If any party to the Tax Sharing Agreement were to default in its obligation to another party to pay its share of the distribution taxes that arise as a result of no party's fault, each non-defaulting party would be required to pay, equally with any other non-defaulting party, the amounts in default. In addition, if another party to the Tax Sharing Agreement that is responsible for all or a portion of an income tax liability were to default in its payment of such liability to a taxing authority, the Company could be legally liable under applicable tax law for such liabilities and be required to make additional tax payments. Accordingly, under certain circumstances, the Company may be obligated to pay amounts in excess of the Company's agreed upon share of its, Tyco International's and TE Connectivity's tax liabilities.

The Company has used available information to develop its best estimates for certain assets and liabilities related to periods prior to separation, including amounts subject to or impacted by the provisions of the Tax Sharing Agreement. Although the Company believes its estimates are adequate, the outcome of any potential litigation is uncertain and could result in a significant increase in its liability for taxes arising prior to June 29, 2007. The actual amounts that Covidien may be required to ultimately accrue or pay under the Tax Sharing Agreement could vary depending upon the outcome of the unresolved tax matters, which may not occur for several years, especially if certain matters are litigated. Final determination of the balances will be made in

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**Table of Contents**

**COVIDIEN PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

subsequent periods, primarily related to certain pre-separation tax liabilities and tax years open for examination. These balances will also be impacted by the filing of final or amended income tax returns in certain jurisdictions where those returns include a combination of Tyco International, Covidien and/or TE Connectivity legal entities for periods prior to the separation.

At June 24, 2011, the Company is the primary obligor to the taxing authorities for \$1.936 billion of contingent tax liabilities that are recorded on the consolidated balance sheet, of which \$1.426 billion relates to periods prior to the separation and which is shared with Tyco International and TE Connectivity pursuant to the Tax Sharing Agreement. At September 24, 2010, the Company was the primary obligor to the taxing authorities for \$1.986 billion of contingent tax liabilities that were recorded on the consolidated balance sheet.

*Income Tax Receivables* The Company has a current and non-current receivable from Tyco International and TE Connectivity totaling \$758 million and \$724 million at June 24, 2011 and September 24, 2010, respectively. This receivable, which reflects 58% of the contingent tax liabilities that are subject to the Tax Sharing Agreement, is classified as due from former parent and affiliate on the consolidated balance sheets. Adjustments to this receivable are recorded in other (expense) income, net.

*Guaranteed Tax Liabilities* The Company has certain guarantee commitments and indemnifications with Tyco International and TE Connectivity, primarily related to certain contingent tax liabilities. A current and non-current liability totaling \$716 million relating to these guarantees was included on the Company's consolidated balance sheet at both June 24, 2011 and September 24, 2010.

**14. Commitments and Contingencies**

The Company is subject to various legal proceedings and claims, including patent infringement claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. Management 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 proceedings, based upon the Company's experience, current information and applicable law, management does not expect that these proceedings will have a material adverse effect on the Company's financial condition. However, one or more of the proceedings could have a material adverse effect on the Company's results of operations or cash flows for a future period. The most significant of these matters are discussed below.

*Antitrust Litigation*

The Company was involved in an antitrust case with Natchitoches Parish Hospital Service District in which Natchitoches Parish Hospital alleged anticompetitive conduct by the Company in violation of federal antitrust laws. During the first nine months of fiscal 2010, the Company paid \$32.5 million to resolve all claims in this case. Accordingly, the Company recorded a \$32.5 million legal charge in selling, general and administrative expenses during the nine months ended June 25, 2010.

*Products Liability Litigation*

Mallinckrodt Inc., a subsidiary of the Company, is one of four manufacturers of gadolinium-based contrast agents involved in litigation alleging that administration of these agents causes development of a recently identified disease, nephrogenic systemic fibrosis, in a small number of patients with advanced renal impairment. The litigation includes a federal multi-district litigation in the United States District Court for the Northern

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**Table of Contents**

**COVIDIEN PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

District of Ohio and cases in various state courts. Generally, complaints allege design and manufacturing defects, failure to warn, breach of warranty, fraud and violations of various state consumer protection laws. The Company believes that it has meritorious defenses to these complaints and will vigorously defend against them. When appropriate, the Company settles cases. As of June 24, 2011, there were 35 cases pending in which the plaintiff has either documented or specifically alleged use of the Company's Optimark product. 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 cases, the Company believes that the final resolution of all known claims, after taking into account amounts already accrued and insurance coverage, will not have a material adverse effect on the Company's results of operations, financial condition or cash flows.

*Asbestos Matters*

Mallinckrodt Inc. is 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 incorporating asbestos. A limited number of the cases allege premises liability, based on claims that individuals were exposed to asbestos while on Mallinckrodt's property. Each case typically names dozens of corporate defendants in addition to Mallinckrodt. 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 Mallinckrodt 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 vigorously defend these lawsuits. When appropriate, the Company settles claims; however, amounts paid to settle and defend all asbestos claims have been immaterial. As of June 24, 2011, there were approximately 11,500 asbestos liability cases pending against Mallinckrodt.

The Company estimates pending asbestos claims and claims that were incurred but not reported, as well as related insurance recoveries. 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 and insurance coverage, will not have a material adverse effect on its results of operations, financial condition or cash flows.

*Environmental Proceedings*

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup and timing of future cash flows 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. As of June 24, 2011, the Company concluded that it was probable that it would incur remedial costs in the range of \$183 million to \$307 million. As of June 24, 2011, the Company concluded that the best estimate within this range was \$190 million, of which \$21 million was included in accrued and other current liabilities and \$169 million was included in other liabilities on the consolidated balance sheet. The most significant of these liabilities pertains to a site in Orrington, Maine, which is discussed below. The Company believes that any potential payment of such estimated amounts will not have a material adverse effect on its results of operations, financial condition or cash flows.

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**Table of Contents**

**COVIDIEN PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

Mallinckrodt LLC, a subsidiary of the Company, is a successor to a company which owned and operated a chemical manufacturing facility in Orrington, Maine from 1967 until 1982. Mallinckrodt is responsible for the costs of completing an environmental site investigation required by the United States Environmental Protection Agency (EPA) and the Maine Department of Environmental Protection (MDEP). Based on the site investigation, Mallinckrodt submitted a Corrective Measures Study plan and identified a preferred alternative which was submitted to the EPA and MDEP for approval in 2004. MDEP disagreed with the proposed alternative and served a compliance order on Mallinckrodt LLC (now known as Mallinckrodt US LLC) and United States Surgical Corporation in December 2008. The compliance order included a directive to remove a significant volume of soils at the site. On December 19, 2008, Mallinckrodt filed an appeal with the Maine Board of Environmental Protection (Maine Board) to challenge the terms of the compliance order. A hearing before the Maine Board began on January 25, 2010 and concluded on February 4, 2010. On August 19, 2010, the Maine Board modified the MDEP order and issued a final order requiring removal of two landfills, capping of the remaining three landfills, installation of a groundwater extraction system and long-term monitoring of the site and the three remaining landfills.

On September 17, 2010, Mallinckrodt appealed the final order issued by the Maine Board in Maine Superior Court. On appeal Mallinckrodt has requested that the Superior Court invalidate the Maine Board's final order in its entirety or in the alternative, reverse or modify the final order to eliminate the requirements that Mallinckrodt remove one of the two landfills and recap the remaining three landfills. Mallinckrodt also appealed certain administrative requirements of the final order. The Company has assessed the status of this matter and has concluded that it is more likely than not that the Maine Board's final order will be either invalidated, reversed or modified, and, further, intends to vigorously pursue all available means to achieve such result.

As of June 24, 2011, the Company estimates that the cost to comply with these proposed remediation alternatives at this site ranges from \$98 million to \$165 million. These amounts are included in the range of aggregate environmental remediation costs described above. However, there are still significant uncertainties in the outcome of the pending litigation, and the Company continues to disagree with the level of remediation outlined in the Maine Board's final order.

The Company has also recorded asset retirement obligations (AROs) for the estimated future costs primarily associated with legal obligations to decommission two facilities within the Pharmaceuticals segment. As of June 24, 2011 and September 24, 2010, the Company's AROs were \$83 million and \$79 million, respectively. The increase in the AROs during the first nine months of fiscal 2011 resulted from interest accretion and foreign currency translation. The Company believes that any potential payment of such estimated amounts will not have a material adverse effect on its results of operations, financial condition or cash flows.

*Other Matters*

The Company is a defendant in a number of other pending legal proceedings incidental 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 results of operations, financial condition or cash flows.

*Tyco International Legal Proceedings*

As discussed in note 13, pursuant to the Separation and Distribution Agreement, the Company assumed a portion of Tyco International's contingent and other corporate liabilities, including potential liabilities related to

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**Table of Contents**

**COVIDIEN PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

certain of Tyco International's outstanding litigation matters. As of June 24, 2011, there were no remaining securities lawsuits outstanding. Accordingly, during the first nine months of fiscal 2011, the Company recorded income of \$11 million related to the reversal of its portion of the remaining reserves that had previously been established.

*Compliance Matters*

Tyco International has received and responded to various allegations that certain improper payments were made in recent years by Tyco International subsidiaries, including subsidiaries which are now part of the Company. During 2005, Tyco International reported to the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC) the investigative steps and remedial measures that it had taken in response to the allegations. Tyco International also informed the DOJ and the SEC that it retained outside counsel to perform a company-wide baseline review of its policies, controls and practices with respect to compliance with the Foreign Corrupt Practices Act (FCPA), that it would continue to make periodic progress reports to these agencies and that it would present its factual findings upon conclusion of the baseline review. The Company has continued to communicate with the DOJ and SEC to provide updates on the baseline review and follow-up investigations, including, as appropriate, briefings concerning additional instances of potential improper conduct identified by the Company in the course of its ongoing compliance activities. To date, the baseline review and other compliance reviews have revealed that some past business practices may not comply with Covidien and FCPA requirements. The Company believes that it has adequate amounts recorded related to these matters, the amount of which is not significant.

*Income Taxes*

The Company's and its subsidiaries income tax returns are periodically examined by various tax authorities. The U.S. Internal Revenue Service (IRS) has commenced its examination of the Company's U.S. federal income tax returns for the years 2008 and 2009. Open periods for examination also include certain periods during which the Company was a subsidiary of Tyco International. The resolution of these matters is subject to the conditions set forth in the Tax Sharing Agreement. Tyco International has the right to administer, control and settle all U.S. income tax audits for periods prior to the separation. The Company has potential liabilities related to these income tax returns and has included its best estimate of potential liabilities for these years within the current and non-current taxes payable. With respect to these potential income tax liabilities from all of these years, Covidien believes that the amounts recorded in its financial statements as current or non-current taxes payable are adequate.

The IRS has concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and proposed tax adjustments, several of which also affect Covidien's income tax returns for years after 2000. Tyco International has appealed certain of the tax adjustments proposed by the IRS and Covidien believes that some of these adjustments are likely to be resolved within the next 12 months. With respect to other adjustments, Tyco International has indicated that settlement is unlikely. In the event that Tyco International is unable to resolve these issues in the IRS administrative process, Tyco International will likely contest certain adjustments related to disallowed deductions through litigation. While Covidien believes that the amounts recorded as non-current taxes payable or guaranteed contingent tax liabilities related to these adjustments are adequate, the timing and outcome of such litigation is highly uncertain and could have a significant effect on our consolidated financial statements.

The IRS continues to audit certain of Tyco International's U.S. federal income tax returns for the years 2001 through 2004. Tyco International and the IRS have entered into settlements related to certain outstanding tax matters arising in this audit cycle, which otherwise remains open and subject to examination and resolution of other matters. In addition, the IRS has commenced its examination of certain of Tyco International's U.S. federal income tax returns for the years 2005 through 2007.

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

In connection with the settlements of the 1997 through 2000 and 2001 through 2004 U.S. audit cycles and other non-U.S. audits, the Company estimates that it will be required to make a payment of approximately \$314 million, net of refunds, within the next 12 months, which is included in current income taxes payable on the consolidated balance sheet. Pursuant to the Tax Sharing Agreement, Covidien will receive net payments totaling approximately \$149 million from Tyco International and TE Connectivity, which is classified as the current portion of due from former parent and affiliate on the consolidated balance sheet. Covidien will also be required to reimburse Tyco International and TE Connectivity \$162 million for its portion of their settlements. This amount is classified as the current portion of guaranteed contingent tax liabilities on the consolidated balance sheet.

The resolution of issues arising from the 1997 through 2000, 2001 through 2004 and 2005 through 2007 U.S. audit cycles and other non-U.S. audits, as well as other settlements or statute of limitations expirations, could result in a significant change in the Company's unrecognized tax benefits. The Company estimates that within the next 12 months, its gross uncertain tax positions, exclusive of interest, could decrease by as much as \$412 million, as a result of such settlements or statute expirations. At September 24, 2010, the Company's estimate of the decrease in the amount of gross uncertain tax positions, exclusive of interest, as a result of settlements or statute expirations in the upcoming 12 months was \$745 million. The decrease in this amount was primarily due to changes in the estimated timing of the Company's expected settlements. These estimates of changes to unrecognized tax benefits may not be representative of actual outcomes. Finalizing audits with the relevant taxing authorities can include formal administrative and legal proceedings, and, as a result, it is difficult to estimate the timing and range of possible change related to the Company's unrecognized tax benefits.

**15. Segment Data**

Selected information by business segment is as follows:

(Dollars in Millions)	Quarters Ended		Nine Months Ended	
	June 24, 2011	June 25, 2010	June 24, 2011	June 25, 2010
<b>Net sales<sup>(1)</sup> :</b>				
Medical Devices	\$ 1,985	\$ 1,630	\$ 5,739	\$ 4,942
Pharmaceuticals	500	507	1,460	1,526
Medical Supplies	441	427	1,297	1,291
	\$ 2,926	\$ 2,564	\$ 8,496	\$ 7,759
<b>Operating income:</b>				
Medical Devices	\$ 613	\$ 512	\$ 1,777	\$ 1,549
Pharmaceuticals	80	83	237	268
Medical Supplies	59	70	181	208
Operating income of reportable segments	752	665	2,195	2,025
Unallocated amounts:				
Corporate expenses	(105)	(96)	(312)	(311)
Restructuring charges, net	(32)	(25)	(83)	(56)
Acquisition-related charges <sup>(2)</sup>		(5)	(32)	(5)
Shareholder settlement income and legal charge			11	(33)
Consolidated operating income	\$ 615	\$ 539	\$ 1,779	\$ 1,620



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- (1) Amounts represent sales to external customers. Intersegment sales are not significant.
- (2) Amount for the nine months ended June 24, 2011 represents charges included in cost of goods sold related to the sale of acquired inventory that had been written up to fair value upon acquisition.

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****16. Covidien International Finance S.A.**

CIFSA, a Luxembourg company, is a holding company that owns, directly or indirectly, substantially all of the operating subsidiaries of Covidien plc. CIFSA is the issuer of the Company's senior notes and commercial paper and the borrower under the revolving credit facility, all of which are fully and unconditionally guaranteed by both Covidien plc and Covidien Ltd., the owners of CIFSA. The following information provides the composition of the Company's income, assets, liabilities, equity and cash flows by relevant group within the Company: Covidien plc and Covidien Ltd. as the guarantors, CIFSA as issuer of the debt and the operating companies that represent assets of CIFSA. There are no other subsidiary guarantees. Condensed consolidating financial information for Covidien plc, Covidien Ltd. and CIFSA, on a stand-alone basis, is presented using the equity method of accounting for subsidiaries.

**CONDENSED CONSOLIDATING STATEMENT OF INCOME****Quarter Ended June 24, 2011****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Net sales</b>	\$	\$	\$	\$ 2,926	\$	\$ 2,926
Cost of goods sold				1,255		1,255
<b>Gross profit</b>				1,671		1,671
Selling, general and administrative expenses	4		1	881		886
Research and development expenses				138		138
Restructuring charges, net				32		32
<b>Operating (loss) income</b>	(4)		(1)	620		615
Interest expense			(50)	(1)		(51)
Interest income				6		6
Other expense, net				(12)		(12)
Equity in net income of subsidiaries	519	521	413		(1,453)	
Intercompany interest and fees	18	(2)	159	(175)		
<b>Income from continuing operations before income taxes</b>	533	519	521	438	(1,453)	558
Income tax (benefit) expense	(2)			28		26
<b>Income from continuing operations</b>	535	519	521	410	(1,453)	532
Income from discontinued operations, net of income taxes				3		3
<b>Net income</b>	\$ 535	\$ 519	\$ 521	\$ 413	\$ (1,453)	\$ 535



**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF INCOME****Quarter Ended June 25, 2010****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Net sales</b>	\$	\$	\$	\$ 2,564	\$	\$ 2,564
Cost of goods sold				1,138		1,138
<b>Gross profit</b>				1,426		1,426
Selling, general and administrative expenses	3			750		753
Research and development expenses				109		109
Restructuring charges				25		25
<b>Operating (loss) income</b>	(3)			542		539
Interest expense			(54)			(54)
Interest income				6		6
Other income, net				21		21
Equity in net income of subsidiaries	390	391	428		(1,209)	
Intercompany interest and fees	(23)	(1)	17	7		
<b>Income from continuing operations before income taxes</b>	364	390	391	576	(1,209)	512
Income tax expense				160		160
<b>Income from continuing operations</b>	364	390	391	416	(1,209)	352
Income from discontinued operations, net of income taxes				12		12
<b>Net income</b>	\$ 364	\$ 390	\$ 391	\$ 428	\$ (1,209)	\$ 364

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF INCOME****Nine Months Ended June 24, 2011****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Net sales</b>	\$	\$	\$	\$ 8,496	\$	\$ 8,496
Cost of goods sold				3,658		3,658
<b>Gross profit</b>				4,838		4,838
Selling, general and administrative expenses	11		2	2,587		2,600
Research and development expenses				387		387
Restructuring charges, net				83		83
Shareholder settlement income				(11)		(11)
<b>Operating (loss) income</b>	(11)		(2)	1,792		1,779
Interest expense			(154)	1		(153)
Interest income				17		17
Equity in net income of subsidiaries	1,460	1,464	1,145		(4,069)	
Intercompany interest and fees	(43)	(4)	475	(428)		
<b>Income from continuing operations before income taxes</b>	1,406	1,460	1,464	1,382	(4,069)	1,643
Income tax (benefit) expense	(11)			231		220
<b>Income from continuing operations</b>	1,417	1,460	1,464	1,151	(4,069)	1,423
Loss from discontinued operations, net of income taxes				(6)		(6)
<b>Net income</b>	\$ 1,417	\$ 1,460	\$ 1,464	\$ 1,145	\$ (4,069)	\$ 1,417

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF INCOME****Nine Months Ended June 25, 2010****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Net sales</b>	\$	\$	\$	\$ 7,759	\$	\$ 7,759
Cost of goods sold				3,421		3,421
<b>Gross profit</b>				4,338		4,338
Selling, general and administrative expenses	10		1	2,330		2,341
Research and development expenses				321		321
Restructuring charges				56		56
<b>Operating (loss) income</b>	(10)		(1)	1,631		1,620
Interest expense			(140)			(140)
Interest income				17		17
Other income, net				49		49
Equity in net income of subsidiaries	1,269	1,272	1,364		(3,905)	
Intercompany interest and fees	(70)	(3)	49	24		
<b>Income from continuing operations before income taxes</b>	1,189	1,269	1,272	1,721	(3,905)	1,546
Income tax expense				371		371
<b>Income from continuing operations</b>	1,189	1,269	1,272	1,350	(3,905)	1,175
Income from discontinued operations, net of income taxes				14		14
<b>Net income</b>	\$ 1,189	\$ 1,269	\$ 1,272	\$ 1,364	\$ (3,905)	\$ 1,189

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEET****At June 24, 2011****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Assets</b>						
Current Assets:						
Cash and cash equivalents	\$ 2	\$	\$ 261	\$ 1,492	\$	\$ 1,755
Accounts receivable trade, net				1,880		1,880
Inventories				1,528		1,528
Intercompany receivable	51	28		21	(100)	
Prepaid expenses and other current assets	1		2	835		838
Due from former parent and affiliate				149		149
<b>Total current assets</b>	<b>54</b>	<b>28</b>	<b>263</b>	<b>5,905</b>	<b>(100)</b>	<b>6,150</b>
Property, plant and equipment, net	1			2,684		2,685
Goodwill				7,700		7,700
Intangible assets, net				2,823		2,823
Due from former parent and affiliate				609		609
Investment in subsidiaries	11,531	12,148	10,891		(34,570)	
Intercompany loans receivable		93	10,833	5,742	(16,668)	
Other assets			32	734		766
<b>Total Assets</b>	<b>\$ 11,586</b>	<b>\$ 12,269</b>	<b>\$ 22,019</b>	<b>\$ 26,197</b>	<b>\$ (51,338)</b>	<b>\$ 20,733</b>
<b>Liabilities and Shareholders Equity</b>						
Current Liabilities:						
Current maturities of long-term debt	\$	\$	\$ 90	\$ 6	\$	\$ 96
Accounts payable				603		603
Intercompany payable	21			79	(100)	
Accrued and other current liabilities			35	1,346		1,381
Income taxes payable				288		288
Guaranteed contingent tax liabilities				162		162
<b>Total current liabilities</b>	<b>21</b>		<b>125</b>	<b>2,484</b>	<b>(100)</b>	<b>2,530</b>
Long-term debt			4,005	65		4,070
Income taxes payable				1,622		1,622
Guaranteed contingent tax liabilities				554		554
Intercompany loans payable	1,322	738	5,741	8,867	(16,668)	
Other liabilities				1,714		1,714
<b>Total Liabilities</b>	<b>1,343</b>	<b>738</b>	<b>9,871</b>	<b>15,306</b>	<b>(16,768)</b>	<b>10,490</b>

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Shareholders Equity	10,243	11,531	12,148	10,891	(34,570)	10,243
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 11,586</b>	<b>\$ 12,269</b>	<b>\$ 22,019</b>	<b>\$ 26,197</b>	<b>\$ (51,338)</b>	<b>\$ 20,733</b>



**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEET****At September 24, 2010****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Assets</b>						
Current Assets:						
Cash and cash equivalents	\$ 1	\$	\$ 399	\$ 1,165	\$	\$ 1,565
Accounts receivable trade, net				1,708		1,708
Inventories				1,381		1,381
Intercompany receivable	32	200		16	(248)	
Prepaid expenses and other current assets	4			837		841
Due from former parent and affiliate				245		245
<b>Total current assets</b>	<b>37</b>	<b>200</b>	<b>399</b>	<b>5,352</b>	<b>(248)</b>	<b>5,740</b>
Property, plant and equipment, net	1			2,607		2,608
Goodwill				7,675		7,675
Intangible assets, net				2,949		2,949
Due from former parent and affiliate				479		479
Investment in subsidiaries	9,886	10,300	9,856		(30,042)	
Intercompany loans receivable		94	9,926	5,174	(15,194)	
Other assets			23	913		936
<b>Total Assets</b>	<b>\$ 9,924</b>	<b>\$ 10,594</b>	<b>\$ 20,204</b>	<b>\$ 25,149</b>	<b>\$ (45,484)</b>	<b>\$ 20,387</b>
<b>Liabilities and Shareholders Equity</b>						
Current Liabilities:						
Current maturities of long-term debt	\$	\$	\$ 250	\$ 5	\$	\$ 255
Accounts payable			1	585		586
Intercompany payable	15			233	(248)	
Accrued and other current liabilities	100		88	1,442		1,630
Income taxes payable				547		547
Guaranteed contingent tax liabilities				108		108
<b>Total current liabilities</b>	<b>115</b>		<b>339</b>	<b>2,920</b>	<b>(248)</b>	<b>3,126</b>
Long-term debt			4,391	60		4,451
Income taxes payable				1,565		1,565
Guaranteed contingent tax liabilities				608		608
Intercompany loans payable	835	708	5,174	8,477	(15,194)	
Other liabilities				1,663		1,663
<b>Total Liabilities</b>	<b>950</b>	<b>708</b>	<b>9,904</b>	<b>15,293</b>	<b>(15,442)</b>	<b>11,413</b>

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Shareholders Equity	8,974	9,886	10,300	9,856	(30,042)	8,974
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 9,924</b>	<b>\$ 10,594</b>	<b>\$ 20,204</b>	<b>\$ 25,149</b>	<b>\$ (45,484)</b>	<b>\$ 20,387</b>

**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Nine Months Ended June 24, 2011****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>						
Net cash (used in) provided by continuing operating activities	\$ (23)	\$ 169	\$ 270	\$ 1,193	\$	\$ 1,609
<b>Cash Flows From Investing Activities:</b>						
Capital expenditures				(303)		(303)
Sale of investments				14		14
Acquisition-related payments				(13)		(13)
Acquisition of licenses and technology				(4)		(4)
Net increase in intercompany loans			(341)		341	
Increase in investment in subsidiary		(199)			199	
Other				(9)		(9)
Net cash used in continuing investing activities		(199)	(341)	(315)	540	(315)
<b>Cash Flows From Financing Activities:</b>						
Net repayment of commercial paper			(307)			(307)
Repayment of debt			(250)	(4)		(254)
Dividends paid	(297)					(297)
Repurchase of shares	(378)					(378)
Proceeds from exercise of share options	164					164
Payment of contingent consideration				(71)		(71)
Net intercompany loan borrowings	487	30		(176)	(341)	
Intercompany dividend received (paid)			490	(490)		
Capital contribution from parent				199	(199)	
Other	48			(35)		13
Net cash provided by (used in) continuing financing activities	24	30	(67)	(577)	(540)	(1,130)
Effect of currency rate changes on cash				26		26
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1</b>		<b>(138)</b>	<b>327</b>		<b>190</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1</b>		<b>399</b>	<b>1,165</b>		<b>1,565</b>

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<b>Cash and cash equivalents at end of period</b>	\$	2	\$	\$ 261	\$	1,492	\$	\$ 1,755
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**Table of Contents****COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Nine Months Ended June 25, 2010****(dollars in millions)**

	<b>Covidien plc</b>	<b>Covidien Ltd.</b>	<b>CIFSA</b>	<b>Other Subsidiaries</b>	<b>Consolidating Adjustments</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>						
Net cash (used in) provided by continuing operating activities	\$ (8)	\$ (39)	\$ (119)	\$ 1,641	\$	\$ 1,475
<b>Cash Flows From Investing Activities:</b>						
Capital expenditures	(1)			(272)		(273)
Sale of investments				7		7
Acquisition-related payments, net of cash acquired				(189)		(189)
Acquisition of licenses and technology				(70)		(70)
Interest in class action settlement fund				(33)		(33)
Divestitures				18		18
Net increase in intercompany loans			(7,115)		7,115	
Other				6		6
Net cash used in continuing investing activities	(1)		(7,115)	(533)	7,115	(534)
<b>Cash Flows From Financing Activities:</b>						
Net repayment of commercial paper			(1)			(1)
Repayment of debt				(87)		(87)
Dividends paid	(270)					(270)
Repurchase of shares	(78)					(78)
Proceeds from exercise of share options	105					105
Net intercompany loan borrowings	251	39		6,825	(7,115)	
Intercompany dividend received (paid)			7,353	(7,353)		
Other			(11)	7		(4)
Net cash provided by (used in) continuing financing activities	8	39	7,341	(608)	(7,115)	(335)
<b>Discontinued Operations:</b>						
Net cash provided by discontinued operating activities				43		43
Net cash used in discontinued investing activities				(9)		(9)
Net cash provided by discontinued operations				34		34
Effect of currency rate changes on cash				16		16

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<b>Net (decrease) increase in cash and cash equivalents</b>	(1)	107	550	656		
<b>Cash and cash equivalents at beginning of period</b>	1	135	1,331	1,467		
<b>Cash and cash equivalents at end of period</b>	\$	\$	\$ 242	\$ 1,881	\$	\$ 2,123

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## **Table of Contents**

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes included in this Quarterly Report. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs and involve risks, uncertainties and assumptions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those discussed under the headings Risk Factors and Forward-Looking Statements in both our Annual Report on Form 10-K for the fiscal year ended September 24, 2010 and in this Quarterly Report.

#### ***Overview***

We develop, manufacture and sell healthcare products for use in clinical and home settings. Our mission is to create and deliver innovative healthcare solutions, developed in ethical collaboration with medical professionals, which enhance the quality of life for patients and improve outcomes for our customers and our shareholders. We manage and operate our business through the following three segments:

*Medical Devices* includes the development, manufacture and sale of endomechanical instruments, soft tissue repair products, energy devices, oximetry and monitoring products, airway and ventilation products, products used in vascular therapies and other medical products.

*Pharmaceuticals* includes the development, manufacture and distribution of specialty pharmaceuticals, active pharmaceutical ingredients, contrast products and radiopharmaceuticals.

*Medical Supplies* includes the development, manufacture and sale of nursing care products, medical surgical products, SharpSafety products and original equipment manufacturer (OEM) products.

#### ***Healthcare Reform***

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act were enacted in the United States, which includes provisions that would impose a 2.3% excise tax on the sale of certain of our medical device and supply products in the United States starting in 2013. In addition, the new legislation includes a \$28 billion fee on the branded pharmaceutical industry over nine years starting in 2011 and a \$2.8 billion annual fee on branded pharmaceuticals thereafter. The amount of branded pharmaceutical fee payable by each company is based upon market share. Since our branded pharmaceutical sales currently represent a small portion of the total market, we do not expect this annual assessment to have a significant impact on Covidien. The medical devices tax, however, may have a significant impact on our results of operations. We are still evaluating the potential impact that this tax may have on our overall business. This new legislation increases our cost of doing business. If this cost is not offset by increased demand for our products, cost reductions or price increases, we could experience lower margins and profitability and our business and results of operations could be materially and adversely affected. In addition to the excise tax and annual fee described above, the new legislation contains numerous other provisions, many of which pertain to health insurance plans, which could impact our financial results in future periods.

#### ***Restructuring Initiatives***

During the third quarter of fiscal 2011, we launched a restructuring program, designed to improve our cost structure. This program includes actions across all three segments as well as corporate. We expect to incur total charges of approximately \$275 million 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 2014.

In fiscal 2009, we launched a restructuring program designed to improve our cost structure. This program includes actions across all three segments as well as corporate. We expect to incur total charges of approximately \$200 million under this program, which are recorded as the specific actions required to execute on these

**Table of Contents**

initiatives are identified and approved. The anticipated expenditures primarily relate to employee severance and benefits. As of June 24, 2011, we had incurred \$158 million of net restructuring charges under the 2009 program since its inception and expect to incur most of the remaining charges by the end of 2011. This program excludes restructuring actions associated with acquisitions. In addition to continuing to incur charges under the 2009 program, we also expect to incur additional charges as restructuring actions stemming from our recent acquisitions are implemented.

**Results of Operations****Quarters and Nine Months Ended June 24, 2011 and June 25, 2010**

The following table presents results of operations, including percentage of net sales:

(Dollars in Millions)	Quarters Ended				Nine Months Ended			
	June 24, 2011		June 25, 2010		June 24, 2011		June 25, 2010	
<b>Net sales</b>	\$ 2,926	100.0%	\$ 2,564	100.0%	\$ 8,496	100.0%	\$ 7,759	100.0%
Cost of goods sold	1,255	42.9	1,138	44.4	3,658	43.1	3,421	44.1
<b>Gross profit</b>	1,671	57.1	1,426	55.6	4,838	56.9	4,338	55.9
Selling, general and administrative expenses	886	30.3	753	29.4	2,600	30.6	2,341	30.2
Research and development expenses	138	4.7	109	4.3	387	4.6	321	4.1
Restructuring charges, net	32	1.1	25	1.0	83	1.0	56	0.7
Shareholder settlement income					(11)	(0.1)		
<b>Operating income</b>	615	21.0	539	21.0	1,779	20.9	1,620	20.9
Interest expense	(51)	(1.7)	(54)	(2.1)	(153)	(1.8)	(140)	(1.8)
Interest income	6	0.2	6	0.2	17	0.2	17	0.2
Other (expense) income, net	(12)	(0.4)	21	0.8			49	0.6
<b>Income from continuing operations before income taxes</b>	558	19.1	512	20.0	1,643	19.3	1,546	19.9
Income tax expense	26	0.9	160	6.2	220	2.6	371	4.8
<b>Income from continuing operations</b>	532	18.2	352	13.7	1,423	16.7	1,175	15.1
Income (loss) from discontinued operations, net of income taxes	3	0.1	12	0.5	(6)	(0.1)	14	0.2
<b>Net income</b>	\$ 535	18.3	\$ 364	14.2	\$ 1,417	16.7	\$ 1,189	15.3

*Net sales* Our net sales in the third quarter of fiscal 2011 increased \$362 million, or 14%, to \$2.926 billion, compared with \$2.564 billion in the third quarter of fiscal 2010. Our net sales in the first nine months of fiscal 2011 increased \$737 million, or 9%, to \$8.496 billion, compared with \$7.759 billion in the first nine months of fiscal 2010. Favorable currency exchange rate fluctuations resulted in increases in net sales of \$132 million and \$156 million for the third quarter and first nine months of fiscal 2011, respectively. The remaining increase in net sales for both periods were driven by sales growth within our Medical Devices segment, largely attributable to the acquisition of ev3 Inc., partially offset by decreased sales within our Pharmaceuticals segment, primarily resulting from the divestiture of our nuclear pharmacies within the United States during the third quarter of fiscal 2010.

Net sales generated by our businesses in the United States were \$1.580 billion and \$1.413 billion for the third quarter of fiscal 2011 and 2010, respectively, and \$4.653 billion and \$4.222 billion for the first nine months of fiscal 2011 and 2010, respectively. Our non-U.S. businesses generated net sales of \$1.346 billion and \$1.151 billion for the third quarter of fiscal 2011 and 2010, respectively, and \$3.843 billion and \$3.537 billion for the





**Table of Contents**

first nine months of fiscal 2011 and 2010, respectively. Our business outside the United States accounted for approximately 46% and 45% of our net sales for the third quarter of fiscal 2011 and 2010, respectively, and 45% and 46% for the first nine months of fiscal 2011 and 2010, respectively. Japan represented approximately 8% of our net sales for both the third quarter and first nine months of fiscal 2011. Our results of operations for these periods were not adversely impacted by the natural disasters that occurred during the second quarter of fiscal 2011 in Japan.

Net sales by geographic area are shown in the following tables:

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth <sup>(1)</sup>
	June 24, 2011	June 25, 2010			
U.S.	\$ 1,580	\$ 1,413	12%	%	12%
Other Americas	191	160	19	7	12
Europe	721	637	13	12	1
Asia-Pacific	434	354	23	13	10
	\$ 2,926	\$ 2,564	14	5	9

(Dollars in Millions)	Nine Months Ended		Percentage Change	Currency Impact	Operational Growth <sup>(1)</sup>
	June 24, 2011	June 25, 2010			
U.S.	\$ 4,653	\$ 4,222	10%	%	10%
Other Americas	537	483	11	5	6
Europe	2,048	2,007	2	2	
Asia-Pacific	1,258	1,047	20	9	11
	\$ 8,496	\$ 7,759	9	2	7

<sup>(1)</sup> Operational growth, a non-GAAP financial measure, measures the change in sales between current and prior year periods using a constant currency, the exchange rate in effect during the applicable prior year period. We have provided this non-GAAP financial measure because we believe it provides meaningful information regarding our results on a consistent and comparable basis for the periods presented. Management uses this non-GAAP financial measure, in addition to GAAP financial measures, to evaluate our operating results. It is also one of the performance metrics that determines management incentive compensation. This non-GAAP financial measure should be considered supplemental to and not a substitute for our reported financial results prepared in accordance with GAAP.

*Cost of goods sold* Cost of goods sold was 42.9% and 43.1% of net sales in the third quarter and first nine months of fiscal 2011, respectively, compared with 44.4% and 44.1% of net sales in the third quarter and first nine months of fiscal 2010, respectively. The decrease in cost of goods sold as a percent of net sales for the first nine months of fiscal 2011 compared to the comparative prior year period was primarily attributable to a more favorable mix of businesses resulting primarily from acquisitions and divestitures in the prior year, as well as manufacturing cost reductions. The decrease for the first nine months of fiscal 2011 was partially offset by \$32 million of charges in cost of goods sold related to the sale of acquired inventory that had been written up to fair value upon the acquisition of ev3 and increased raw material prices.

*Selling, general and administrative expenses* Selling, general and administrative expenses in the third quarter of fiscal 2011 increased \$133 million, or 18%, to \$886 million, compared with \$753 million in the third quarter of fiscal 2010. Selling, general and administrative expenses in the first nine months of fiscal 2011 increased \$259 million, or 11%, to \$2.600 billion, compared with \$2.341 billion in the first nine months of fiscal 2010. The increases in selling, general and administrative expenses for both fiscal 2011 periods were largely due to increased costs, primarily selling and marketing, resulting from recent acquisitions within our Medical Devices segment.

**Table of Contents**

**Research and development expenses** Research and development expenses increased \$29 million, or 27%, to \$138 million in the third quarter of fiscal 2011, compared with the third quarter of fiscal 2010, and increased \$66 million, or 21%, to \$387 million in the first nine months of fiscal 2011, compared with the same prior year period. These increases resulted from additional spending within our Medical Devices segment, primarily resulting from recent acquisitions and, to a lesser extent, increased spending within our Pharmaceuticals segment. As a percentage of our net sales, research and development expenses was 4.7% and 4.6% for the third quarter and first nine months of fiscal 2011, respectively, compared with 4.3% and 4.1% for the third quarter and first nine months of fiscal 2010, respectively.

**Restructuring charges, net** During the third quarter and first nine months of fiscal 2011, we recorded net restructuring charges of \$32 million and \$83 million, respectively. The charges recorded during the first nine months of fiscal 2011 primarily related to severance and employee benefit costs incurred under our 2009 and 2011 programs and the cancellation of distributor and supplier agreements associated with recent acquisitions by our Medical Devices segment. In addition, during the first nine months of fiscal 2011, we reversed \$16 million of restructuring reserves under our 2009 program, \$10 million of which resulted from the determination that one of the restructuring actions within our Medical Supplies segment was no longer cost effective. During the third quarter and first nine months of fiscal 2010, we recorded restructuring charges of \$25 million and \$56 million, respectively, primarily related to severance costs across all segments.

**Shareholder settlement income** During fiscal 2011, the remaining securities lawsuits were resolved. Accordingly, during the first nine months of fiscal 2011, we recorded income of \$11 million related to the reversal of our portion of the remaining reserves that had previously been established.

**Operating income** In the third quarter of fiscal 2011, operating income increased \$76 million to \$615 million, compared with operating income of \$539 million in the third quarter of fiscal 2010. The increase in operating income for the third quarter of fiscal 2011 compared to the third quarter of fiscal 2010 was primarily due to increased sales volume within our Medical Devices segment, largely attributable to the acquisition of ev3. The current year period also benefitted from the absence of a \$19 million charge related to the write-down of accounts receivable associated with the national healthcare system in Greece. These increases to operating income were partially offset by increased costs resulting from acquisitions.

In the first nine months of fiscal 2011, operating income increased \$159 million to \$1.779 billion, compared with operating income of \$1.620 billion in the first nine months of fiscal 2010. The increase in operating income for the first nine months of fiscal 2011 compared to the comparative prior year period was primarily due to increased sales volume within our Medical Devices segment, largely attributable to the acquisition of ev3. The current year period also benefitted from the absence of a \$33 million legal charge incurred in the prior year to settle an antitrust case. These increases in operating income were partially offset by increased costs resulting from acquisitions and \$27 million of incremental net restructuring charges.

**Analysis of Operating Results by Segment**

Net sales by segment are shown in the following tables:

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Medical Devices	\$ 1,985	\$ 1,630	22%	7%	15%
Pharmaceuticals	500	507	(1)	3	(4)
Medical Supplies	441	427	3	1	2
	\$ 2,926	\$ 2,564	14	5	9

**Table of Contents**

(Dollars in Millions)	Nine Months Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Medical Devices	\$ 5,739	\$ 4,942	16%	3%	13%
Pharmaceuticals	1,460	1,526	(4)	1	(5)
Medical Supplies	1,297	1,291			
	\$ 8,496	\$ 7,759	9	2	7

Operating income by segment and as a percentage of segment net sales is shown in the following table:

(Dollars in Millions)	Quarters Ended				Nine Months Ended			
	June 24, 2011		June 25, 2010		June 24, 2011		June 25, 2010	
Medical Devices	\$ 613	30.9%	\$ 512	31.4%	\$ 1,777	31.0%	\$ 1,549	31.3%
Pharmaceuticals	80	16.0	83	16.4	237	16.2	268	17.6
Medical Supplies	59	13.4	70	16.4	181	14.0	208	16.1
Operating income of reportable segments	752	25.7	665	25.9	2,195	25.8	2,025	26.1
Unallocated amounts:								
Corporate expenses	(105)		(96)		(312)		(311)	
Restructuring charges, net	(32)		(25)		(83)		(56)	
Acquisition-related charges <sup>(1)</sup>			(5)		(32)		(5)	
Shareholder settlement income and legal charge					11		(33)	
Consolidated operating income	\$ 615		\$ 539		\$ 1,779		\$ 1,620	

<sup>(1)</sup> Amounts for the quarter and nine months ended June 24, 2011 represent charges included in cost of goods sold related to the sale of acquired inventory that had been written up to fair value upon acquisition.

**Medical Devices**

Net sales for Medical Devices by groups of products and by geography for the third quarter of fiscal 2011 and 2010 were as follows:

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Endomechanical Instruments	\$ 593	\$ 533	11%	7%	4%
Soft Tissue Repair Products	229	209	10	7	3
Energy Devices	301	252	19	6	13
Oximetry & Monitoring Products	211	189	12	5	7
Airway & Ventilation Products	183	178	3	7	(4)
Vascular Products	368	175	110	6	104
Other Products	100	94	6	8	(2)
	\$ 1,985	\$ 1,630	22	7	15
U.S.	\$ 874	\$ 685	28%	%	28%
Non-U.S.	1,111	945	18	12	6

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\$ 1,985	\$ 1,630	22	7	15
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Net sales for the third quarter of fiscal 2011 increased \$355 million, or 22%, to \$1.985 billion, compared with \$1.630 billion for the third quarter of fiscal 2010. Favorable currency exchange fluctuations positively impacted net

**Table of Contents**

sales for the segment by \$110 million. The remaining increase in net sales for the segment was driven by increased sales of Vascular Products, Energy Devices and Endomechanical Instruments. The increase in sales for Vascular Products was primarily due to the acquisition of ev3, which resulted in an additional \$171 million in net sales for the segment. The increase in Energy Devices sales resulted primarily from higher sales volume of vessel sealing products in the United States and Europe. Finally, the increase in sales of Endomechanical Instruments primarily resulted from higher sales volume of stapling devices in the United States.

Operating income for the third quarter of fiscal 2011 increased \$101 million to \$613 million, compared with \$512 million for the third quarter of fiscal 2010. Our operating margin was 30.9% for the third quarter of fiscal 2011, compared with 31.4% for the third quarter of fiscal 2010. The increase in our operating income was primarily attributable to increased gross profit on the favorable sales performance for the overall segment discussed above, as well as the absence of a \$19 million charge related to the write-down of accounts receivable associated with the national healthcare system in Greece. These increases to operating income were partially offset by increased costs related to acquisitions, particularly selling, general and administrative expenses.

Net sales for Medical Devices by groups of products and by geography for the first nine months of fiscal 2011 and 2010 were as follows:

(Dollars in Millions)	Nine Months Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Endomechanical Instruments	\$ 1,718	\$ 1,604	7%	3%	4%
Soft Tissue Repair Products	670	641	5	3	2
Energy Devices	854	733	17	3	14
Oximetry & Monitoring Products	627	563	11	1	10
Airway & Ventilation Products	554	585	(5)	3	(8)
Vascular Products	1,033	521	98	3	95
Other Products	283	295	(4)	6	(10)
	\$ 5,739	\$ 4,942	16	3	13
U.S.	\$ 2,562	\$ 2,035	26%	%	26%
Non-U.S.	3,177	2,907	9	5	4
	\$ 5,739	\$ 4,942	16	3	13

Net sales for the first nine months of fiscal 2011 increased \$797 million, or 16%, to \$5.739 billion, compared with \$4.942 billion for the first nine months of fiscal 2010. Favorable currency exchange rate fluctuations positively impacted net sales for the segment by \$139 million. The remaining increase in net sales for the segment was driven by increased sales of Vascular Products, Energy Devices, Endomechanical Instruments and Oximetry & Monitoring Products. The increase in Vascular Products sales was primarily due to the acquisition of ev3, which resulted in an additional \$462 million in net sales for the segment. The increase in net sales for Energy Devices and Endomechanical Instruments resulted primarily from higher sales volume of vessel sealing products and stapling devices, respectively, largely attributable to sales of new products. Finally, the increase in sales for Oximetry & Monitoring Products was primarily driven by higher sales volume of sensors resulting from the prior year acquisition of Somanetics Corporation. These increases in net sales were somewhat offset by a decrease in sales of Airway & Ventilation Products resulting from strong sales in the prior year due to the H1N1 pandemic.

Operating income for the first nine months of fiscal 2011 increased \$228 million to \$1.777 billion, compared with \$1.549 billion for the first nine months of fiscal 2010. Our operating margin was 31.0% for the first nine months of fiscal 2011, compared with 31.3% for the first nine months of fiscal 2010. The increase in our operating income was primarily attributable to increased gross profit on the favorable sales performance for the overall segment discussed above, partially offset by increased costs related to acquisitions, particularly selling, general and administrative expenses.

**Table of Contents****Pharmaceuticals**

Net sales for Pharmaceuticals by groups of products and by geography for the third quarter of fiscal 2011 and 2010 were as follows:

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Specialty Pharmaceuticals	\$ 120	\$ 127	(6)%	%	(6)%
Active Pharmaceutical Ingredients	107	103	4	3	1
Contrast Products	157	150	5	5	
Radiopharmaceuticals	116	127	(9)	3	(12)
	\$ 500	\$ 507	(1)	3	(4)
U.S.	\$ 322	\$ 352	(9)%	%	(9)%
Non-U.S.	178	155	15	10	5
	\$ 500	\$ 507	(1)	3	(4)

Net sales for the third quarter of fiscal 2011 decreased \$7 million to \$500 million, compared with \$507 million for the third quarter of fiscal 2010. This decrease was driven by a decline in Radiopharmaceuticals net sales resulting from the divestiture of our nuclear pharmacies within the United States during the third quarter of fiscal 2010 and a decline in sales of our branded products, which stemmed primarily from the inventory stocking for PENNSAID® and EXALGO® launched in the third quarter of fiscal 2010. These decreases were partially offset by increased sales of generic pharmaceuticals, primarily the fentanyl lozenge and patch.

Operating income for the third quarter of fiscal 2011 decreased \$3 million to \$80 million, compared with \$83 million for the third quarter of fiscal 2010. Our operating margin was 16.0% for the third quarter of fiscal 2011, compared with 16.4% for the third quarter of fiscal 2010. The decrease in operating income was primarily due to increased research and development and environmental expenses, partially offset by a decrease in selling and marketing spending.

Net sales for Pharmaceuticals by groups of products and by geography for the first nine months of fiscal 2011 and 2010 were as follows:

(Dollars in Millions)	Nine Months Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Specialty Pharmaceuticals	\$ 357	\$ 373	(4)%	%	(4)%
Active Pharmaceutical Ingredients	312	302	3	1	2
Contrast Products	454	437	4	2	2
Radiopharmaceuticals	337	414	(19)		(19)
	\$ 1,460	\$ 1,526	(4)	1	(5)
U.S.	\$ 956	\$ 1,057	(10)%	%	(10)%
Non-U.S.	504	469	7	3	4
	\$ 1,460	\$ 1,526	(4)	1	(5)

Net sales for the first nine months of fiscal 2011 decreased \$66 million, or 4%, to \$1.460 billion, compared with \$1.526 billion for the first nine months of fiscal 2010. This decrease primarily resulted from a decline in Radiopharmaceuticals and, to a much lesser extent, Specialty Pharmaceuticals net sales. The decrease in Radiopharmaceuticals sales resulted from the divestiture of our nuclear pharmacies within the United States





**Table of Contents**

during the third quarter of fiscal 2010. The decrease in Specialty Pharmaceuticals sales was attributable to a decline in sales of our older branded products, primarily resulting from generic competition, partially offset by sales of PENNSAID® and EXALGO®.

Operating income for the first nine months of fiscal 2011 decreased \$31 million to \$237 million, compared with \$268 million for the first nine months of fiscal 2010. Our operating margin was 16.2% for the first nine months of fiscal 2011, compared with 17.6% for the first nine months of fiscal 2010. The decrease in operating income was primarily due to the decrease in gross profit resulting from the overall segment sales decline discussed above. In addition, the decline in operating income and margin resulted from increased research and development expenses and increased selling and marketing expenses to support our recent product launches, partially offset by decreased legal costs.

**Medical Supplies**

Net sales for Medical Supplies by groups of products and by geography for the third quarter of fiscal 2011 and 2010 were as follows:

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Nursing Care Products	\$ 199	\$ 194	3%	2%	1%
Medical Surgical Products	110	102	8	4	4
SharpSafety Products	77	77		(1)	1
Original Equipment Manufacturer (OEM) Products	55	54	2	1	1
	\$ 441	\$ 427	3	1	2
U.S.	\$ 384	\$ 376	2%	%	2%
Non-U.S.	57	51	12	13	(1)
	\$ 441	\$ 427	3	1	2

Net sales for the third quarter of fiscal 2011 increased \$14 million, or 3%, to \$441 million, compared with \$427 million for the third quarter of fiscal 2010. The increase in net sales for the segment was driven by increased sales of Medical Surgical Products and, to a lesser extent, Nursing Care Products. The increase in sales of Medical Surgical Products was largely attributable to sales of a new disposable lead wire system, while the sales increase in Nursing Care Products resulted from higher sales of incontinence and enteral feeding products.

Operating income for the third quarter of fiscal 2011 decreased \$11 million to \$59 million, compared with \$70 million for the third quarter of fiscal 2010. Our operating margin was 13.4% for the third quarter of fiscal 2011, compared with 16.4% for the third quarter of fiscal 2010. The decrease in operating income and margin primarily resulted from increased raw material costs, partially offset by the overall segment sales performance discussed above.

**Table of Contents**

Net sales for Medical Supplies by groups of products and by geography for the first nine months of fiscal 2011 and 2010 were as follows:

(Dollars in Millions)	Nine Months Ended		Percentage Change	Currency Impact	Operational Growth
	June 24, 2011	June 25, 2010			
Nursing Care Products	\$ 589	\$ 586	1%	1%	%
Medical Surgical Products	323	311	4	1	3
SharpSafety Products	226	240	(6)		(6)
Original Equipment Manufacturer (OEM) Products	159	154	3		3
	\$ 1,297	\$ 1,291			
U.S.	\$ 1,135	\$ 1,130	%	%	%
Non-U.S.	162	161	1	2	(1)
	\$ 1,297	\$ 1,291			

Net sales for the first nine months of fiscal 2011 increased \$6 million to \$1.297 billion, compared with \$1.291 billion for the first nine months of fiscal 2010. The increase in net sales for the segment was primarily driven by increased sales of Medical Surgical Products largely attributable to sales of a new disposable lead wire system. This increase was partially offset by a decline in sales of SharpSafety Products primarily resulting from stronger sales in the comparative prior year period due to the H1N1 flu pandemic.

Operating income for the first nine months of fiscal 2011 decreased \$27 million to \$181 million, compared with \$208 million for the first nine months of fiscal 2010. Our operating margin was 14.0% for the first nine months of fiscal 2011, compared with 16.1% for the first nine months of fiscal 2010. The decrease in operating income and margin resulted from increased raw material costs.

**Corporate**

Corporate expense was \$105 million for the third quarter of fiscal 2011, compared with \$96 million for the third quarter of fiscal 2010 and \$312 million for the first nine months of fiscal 2011, compared with \$311 million for the comparative prior year period.

**Non-Operating Items***Interest Expense and Interest Income*

During the third quarters of fiscal 2011 and 2010, interest expense was \$51 million and \$54 million, respectively, and interest income was \$6 million in each period. During the first nine months of fiscal 2011 and 2010, interest expense was \$153 million and \$140 million, respectively, and interest income was \$17 million in each period. The increase in interest expense during the first nine months of fiscal 2011, compared with the comparative prior year periods was due to the issuance of \$1.5 billion in senior notes during the fourth quarter of fiscal 2010, partially offset by the repayment of our \$250 million 5.2% senior notes upon maturity. These increases were more than offset by the favorable impact of interest rate swaps entered into in 2011, resulting in an overall decrease in interest expense for the third quarter of fiscal 2011 compared to the comparative prior year quarter.

*Other (Expense) Income, net*

During the third quarter of fiscal 2011, we recorded other expense, net of \$12 million, which includes expense of \$13 million and a corresponding decrease to our receivable from Tyco International Ltd. and TE Connectivity Ltd. (formerly Tyco Electronics Ltd.). During the first nine months of fiscal 2011, we recorded

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## **Table of Contents**

other income of \$7 million and a corresponding increase to our receivable from Tyco International and TE Connectivity. These amounts reflect 58% of interest and other income taxes payable recorded and/or released during each period that will be subject to the Tax Sharing Agreement. The \$7 million of income recorded during the first nine months of fiscal 2011 was offset by a \$7 million net loss on investments.

During the third quarter and first nine months of fiscal 2010, we recorded other income of \$21 million and \$49 million, respectively. These amounts include income of \$22 million and \$48 million and corresponding increases to our receivable from Tyco International and TE Connectivity, for the third quarter and first nine months of fiscal 2010, respectively.

### *Income Taxes*

Income tax expense was \$26 million and \$160 million on income from continuing operations before income taxes of \$558 million and \$512 million for the third quarters of fiscal 2011 and 2010, respectively. This resulted in effective tax rates of 4.7% and 31.3% for the third quarters of fiscal 2011 and 2010, respectively. Income tax expense was \$220 million and \$371 million on income from continuing operations before income taxes of \$1.643 billion and \$1.546 billion for the first nine months of fiscal 2011 and 2010, respectively. This resulted in effective tax rates of 13.4% and 24.0% for the first nine months of fiscal 2011 and 2010, respectively. The decrease in the effective tax rate for the third quarter and first nine months of fiscal 2011, compared to the comparative prior year periods resulted primarily from a favorable settlement reached with certain non-U.S. taxing authorities and, to a lesser extent, the release of certain U.S. and non-U.S. uncertain tax positions due to statute expirations. In addition, the decrease in the effective tax rate in both current year periods resulted from an increase in earnings in lower tax jurisdictions, the retroactive reenactment of the U.S. research and development tax credit and the implementation of our tax planning strategies.

### *Discontinued Operations*

In fiscal 2010, we sold our Specialty Chemicals business within our Pharmaceuticals segment, which was included in discontinued operations.

## **Liquidity and Capital Resources**

Our ability to fund our capital needs will be affected by our ongoing ability to generate cash from operations and access to the capital markets. We believe, however, that our cash balances and other sources of liquidity, primarily our committed credit facility, will be sufficient to allow us to fund operations for the foreseeable future and continue to invest in growth opportunities.

### *Nine Months Ended June 24, 2011 Cash Flow Activity*

The net cash provided by operating activities of \$1.609 billion was primarily attributable to income from continuing operations, as adjusted for depreciation and amortization, partially offset by an increase in inventory of \$175 million. We estimate that within the next 12 months we will make a net payment of \$327 million in connection with the settlements of U.S. tax audits for the years 1997 through 2004 and other non-U.S. audits, of which approximately \$220 is expected to occur in fiscal 2011. These amounts include the net payments expected to be made under the Tax Sharing Agreement.

The net cash used in investing activities of \$315 million was primarily due to capital expenditures of \$303 million.

The net cash used in financing activities of \$1.130 billion was primarily the result of the repayment of \$307 million under our commercial paper program and the repayment of our \$250 million 5.2% senior notes upon maturity. In addition, we paid \$378 million to repurchase shares and made dividend payments of \$297 million.

## **Table of Contents**

### ***Capitalization***

Shareholders' equity was \$10.243 billion, or \$20.78 per share, at June 24, 2011, compared with \$8.974 billion, or \$18.13 per share, at September 24, 2010. Net income of \$1.417 billion, favorable changes in currency exchange rates of \$174 million and proceeds from the exercise of options of \$164 million, were partially offset by the repurchase of shares of \$378 million and dividends declared of \$198 million during the first nine months of fiscal 2011.

At June 24, 2011, total debt was \$4.166 billion and cash was \$1.755 billion, compared with total debt of \$4.706 billion and cash of \$1.565 billion at September 24, 2010. The decrease in our total debt primarily resulted from the partial repayment of amounts outstanding under our commercial paper program and the repayment of our \$250 million 5.2% senior notes upon maturity. Total debt as a percentage of total capitalization (total debt and shareholders' equity) was 29% at June 24, 2011, compared with 34% at September 24, 2010.

We are required to maintain an available unused balance under our \$1.425 billion revolving credit facility sufficient to support amounts outstanding under our commercial paper program. At June 24, 2011, we had \$90 million of commercial paper outstanding and no amount outstanding under the credit facility.

Our credit facility agreement contains a covenant limiting our ratio of debt to earnings before interest, income taxes, depreciation and amortization. In addition, the agreement contains other customary covenants, none of which we consider restrictive to our operations. We are currently in compliance with all of our debt covenants.

### ***Dividends***

Dividend payments totaled \$297 million for the first nine months of fiscal 2011. On July 20, 2011, the Board of Directors declared a quarterly cash dividend of \$0.20 per share to shareholders of record at the close of business on August 1, 2011. The dividend is payable on August 19, 2011.

### ***Share Repurchases***

During the first nine months of fiscal 2011, we purchased approximately 7.3 million shares for \$375 million under our \$1.0 billion share repurchase program. Since inception of the share repurchase program, we have purchased approximately 13.8 million shares for \$625 million. We also repurchase shares from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted shares and to settle certain option exercises. During the first nine months of fiscal 2011, we spent \$3 million to acquire shares in connection with such share-based awards.

### ***Commitments and Contingencies***

#### ***Legal Proceedings***

We are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes, as described in our Annual Report on Form 10-K for the fiscal year ended September 24, 2010. We believe 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 proceedings, based upon our experience, current information and applicable law, we do not expect that these proceedings will have a material adverse effect on our financial condition. However, one or more of the proceedings could have a material adverse effect on our results of operations or cash flows for a future period. Further information regarding our legal proceedings is provided in note 14 to our consolidated financial statements and in Part II, Item 1 of this 10-Q.

#### ***Income Taxes***

Our income tax returns are periodically examined by various tax authorities. The U.S. Internal Revenue Service (IRS) has commenced its examination of our U.S. federal income tax returns for the years 2008 and

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**Table of Contents**

2009. Open periods for examination also include certain periods during which we were a subsidiary of Tyco International. The resolution of the matters arising during periods during which we were a Tyco International subsidiary is subject to the conditions set forth in the Tax Sharing Agreement discussed in note 13 to our consolidated financial statements. Tyco International has the right to administer, control and settle all U.S. income tax audits for periods prior to the separation. We have potential liabilities related to these income tax returns and have included our best estimate of potential liabilities for these years within our current and non-current taxes payable. With respect to these potential income tax liabilities from all of these years, we believe that the amounts recorded in our consolidated financial statements as current or non-current taxes payable are adequate.

In accordance with the Tax Sharing Agreement, we share certain contingent liabilities relating to unresolved tax matters of Tyco International for periods prior to the separation, with Covidien assuming 42%, Tyco International 27% and TE Connectivity 31% of the total amount. We are the primary obligor to the taxing authorities for \$1.936 billion of contingent tax liabilities that are recorded on the consolidated balance sheet at June 24, 2011, \$1.426 billion of which relates to periods prior to the separation and which is shared with Tyco International and TE Connectivity pursuant to the Tax Sharing Agreement. The actual amounts that we may be required to ultimately accrue or pay under the Tax Sharing Agreement could vary depending upon the outcome of the unresolved tax matters, some of which may not be resolved for several years.

In addition, pursuant to the terms of the Tax Sharing Agreement, we have recorded a current and long-term receivable from Tyco International and TE Connectivity of \$149 million and \$609 million, respectively, which are classified as due from former parent and affiliate on our consolidated balance sheet at June 24, 2011. These receivables primarily reflect 58% of our contingent tax liabilities that are subject to the Tax Sharing Agreement. If Tyco International and TE Connectivity default on their obligations to us under the Tax Sharing Agreement, however, we would be liable for the entire amount of such liabilities.

The IRS has concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and proposed tax adjustments, several of which also affect our income tax returns for years after 2000. Tyco International has appealed certain of the tax adjustments proposed by the IRS and we believe that some of these adjustments are likely to be resolved within the next 12 months. With respect to other adjustments, Tyco International has indicated that settlement is unlikely. In the event that Tyco International is unable to resolve these issues in the IRS administrative process, Tyco International will likely contest certain adjustments related to disallowed deductions through litigation. While we believe that the amounts recorded as non-current taxes payable or guaranteed contingent tax liabilities related to these adjustments are adequate, the timing and outcome of such litigation is highly uncertain and could have a significant effect on our consolidated financial statements.

The IRS continues to audit certain of Tyco International's U.S. federal income tax returns for the years 2001 through 2004. Tyco International and the IRS have entered into settlements related to certain outstanding tax matters arising in this audit cycle, which otherwise remains open and subject to examination and resolution of other matters. In addition, the IRS has commenced its examination of certain of Tyco International's U.S. federal income tax returns for the years 2005 through 2007.

In connection with the settlements of the 1997 through 2000 and 2001 through 2004 U.S. audit cycles and other non-U.S. audits, we estimate that we will be required to make a payment of approximately \$314 million, net of refunds, within the next 12 months, which is included in current income taxes payable on the consolidated balance sheet. Pursuant to the Tax Sharing Agreement, we will receive net payments totaling approximately \$149 million from Tyco International and TE Connectivity, which is classified as the current portion of due from former parent and affiliate on the consolidated balance sheet. We will also be required to reimburse Tyco International and TE Connectivity \$162 million for our portion of their settlements. This amount is classified as the current portion of guaranteed contingent tax liabilities on the consolidated balance sheet.

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**Table of Contents**

The resolution of issues arising from the 1997 through 2000, 2001 through 2004 and 2005 through 2007 U.S. audit cycles and other non-U.S. audits, as well as other settlements or statute of limitations expirations, could result in a significant change in our unrecognized tax benefits. We estimate that within the next 12 months, our gross uncertain tax positions, exclusive of interest could decrease by as much as \$412 million, as a result of such settlements or expirations. At September 24, 2010, our estimate of the decrease in the amount of gross uncertain tax positions, exclusive of interest, as a result of settlements or statute expirations in the upcoming 12 months was \$745 million. The decrease in this amount was primarily due to changes in the estimated timing of our expected settlements. These estimates of changes to unrecognized tax benefits may not be representative of actual outcomes. Finalizing audits with the relevant taxing authorities can include formal administrative and legal proceedings, and, as a result, it is difficult to estimate the timing and range of possible change related to our unrecognized tax benefits.

***Guarantees***

Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and TE Connectivity. These guarantee arrangements and indemnifications primarily relate to certain contingent tax liabilities; we assumed and are responsible for 42% of these liabilities. Regarding the guarantees, if any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. These arrangements were valued upon our separation from Tyco International using appraisals and a liability related to these guarantees was recorded on our balance sheet, the offset of which was reflected as a reduction in shareholders' equity.

Each reporting period, we evaluate the potential loss which we believe is probable as a result of our commitments under the Agreements. To the extent such potential loss exceeds the amount recorded on our balance sheet, an adjustment will be required to increase the recorded liability to the amount of such potential loss. This guarantee is not amortized because no predictable pattern of performance currently exists. As a result, the liability generally will be reduced upon release from our obligations under the Agreements, which may not occur for some years. In addition, as payments are made to indemnified parties, such payments are recorded as reductions to the liability and the impact of such payments is considered in the periodic evaluation of the sufficiency of the liability. A current and non-current liability totaling \$716 million relating to these guarantees was included on our consolidated balance sheet at both June 24, 2011 and September 24, 2010.

In disposing of assets or businesses, we often provide representations, warranties and indemnities to cover various risks, 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 and legal fees related to periods prior to disposition. Except as discussed below, we generally do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we have no reason to believe that these uncertainties would have a material adverse effect on our results of operations, financial condition or cash flows.

In connection with the sale of our Specialty Chemicals business, we provided the purchaser with an indemnification for various risks, including environmental, health, safety, tax and other matters, some of which have an indefinite term. However, the most significant portion of this indemnification relates to environmental, health and safety matters, which has a term of 17 years. A liability of \$22 million relating to this indemnification was included on our consolidated balance sheet as of June 24, 2011. The value of the environmental, health and safety guarantee was measured based on the probability-weighted present value of the costs expected to be incurred to address environmental claims proposed under the indemnity. The maximum future payments we could be required to make under the indemnification provided to the purchaser is \$82 million. In addition, we were required to pay \$30 million into an escrow account as collateral, which is included in other assets on the consolidated balance sheet.

**Table of Contents**

We have recorded liabilities for known indemnifications included as part of environmental liabilities, which are discussed in note 14 to our consolidated financial statements. In addition, we are liable for product performance; however in the opinion of management, such obligations will not significantly affect our results of operations, financial condition or cash flows.

**Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use judgment in making estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities.

We believe that our accounting policies for revenue recognition, inventories, property, plant and equipment, intangible assets, business combinations, goodwill, contingencies, pension and postretirement benefits, guarantees and income taxes are based on, among other things, judgments and assumptions made by management that include inherent risks and uncertainties. There have been no significant changes to the above critical accounting policies or in the underlying accounting assumptions and estimates used in such policies from those disclosed in our annual consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended September 24, 2010.

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**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this report that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words believe, expect, plan, intend, anticipate, estimate, predict, potential, continue, may, should or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements.

The risk factors discussed in Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 24, 2010 and in this Quarterly Report could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business. We expressly disclaim any obligation to update these forward-looking statements other than as required by law.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**  
*Foreign Currency Exposures*

We use forward currency exchange contracts on accounts and notes receivable, accounts payable, intercompany loan balances and forecasted transactions that are denominated in certain foreign currencies. Based on a sensitivity analysis of our existing forward contracts outstanding at June 24, 2011, a 10% appreciation of the U.S. dollar from the June 24, 2011 market rates would increase the unrealized value of our forward contracts on our balance sheet by \$48 million, while a 10% depreciation of the U.S. dollar would decrease the unrealized value of forward contracts on our balance sheet by \$59 million. However, such gains or losses on these contracts would ultimately be offset by the gains or losses on the revaluation or settlement of the underlying transactions.

*Interest Rate Exposures*

We manage interest rate exposure through the use of interest rate swap transactions with financial institutions acting as principal counterparties to convert a portion of fixed-rate debt to variable-rate debt. These transactions are designated as fair value hedges. During the first nine months of fiscal 2011, we entered into interest rate swaps on \$300 million principal amount of our 6.0% senior notes due 2017. Under these contracts, we receive fixed amounts of interest applicable to the underlying notes and pay a floating amount based upon the three month U.S. Dollar London interbank offered rate. A 25 basis point increase or decrease in interest rates relative to interest rates as of June 24, 2011 would have an immaterial effect on our annual earnings and on the fair value of our fixed-rate debt and interest rate swaps.

**Item 4. Controls and Procedures**  
*Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.



**Table of Contents**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of that date, our disclosure controls and procedures were effective.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended June 24, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes, as described in our Annual Report on form 10-K for the fiscal year ended September 24, 2010. Other than as described below, there were no material developments during the quarter ended June 24, 2011 related to previously described legal proceedings.

On May 2, 2011, the U.S. Attorney's Office for the District of Massachusetts issued a subpoena to ev3 Inc., one of our subsidiaries, requesting production of documents relating to the following neurovascular products: Onyx<sup>®</sup>, Axium and Concerto. ev3 will comply as required with the terms of the subpoena.

**Item 1A. Risk Factors**

There have been no significant changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended September 24, 2010. Please refer to the "Risks Factors" section in our Annual Report for a discussion of risks to which our business, financial condition, results of operations and cash flows are subject.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs
3/26/11 4/22/11		\$		\$ 650,011,452
4/23/11 5/27/11	4,926,500	\$ 55.8659	4,926,500	\$ 374,788,269
5/28/11 6/24/11		\$		\$ 374,788,269

**Item 3. Defaults Upon Senior Securities**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit  
Number

Exhibit

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- 31.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 101\* The following materials from the Covidien plc Quarterly Report on Form 10-Q for the quarterly period ended June 24, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) related notes.

\* Furnished herewith.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**COVIDIEN PUBLIC LIMITED COMPANY**

By: /s/ RICHARD G. BROWN, JR.  
**Richard G. Brown, Jr.**

**Vice President, Chief Accounting Officer and  
Corporate Controller**

/s/ CHARLES J. DOCKENDORFF  
**Charles J. Dockendorff**

**Executive Vice President and Chief Financial  
Officer**

**(Principal Financial Officer)**

Date: July 29, 2011