Covidien plc
Form 10-Q
February 03, 2012
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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 December 30, 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)

Ireland	**98-0624794**
(State or other jurisdiction of incorporation or organization)	**(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 x 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 x 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	x	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 x

The number of ordinary shares outstanding as of January 30, 2012 was 483,338,786.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

COVIDIEN PLC

CONSOLIDATED STATEMENTS OF INCOME

Quarters Ended December 30, 2011 and December 24, 2010

(in millions, except per share data)

	Quarters Ended December 30, 2011	Quarters Ended December 24, 2010
Net sales	$ 2,898	$ 2,769
Cost of goods sold	1,197	1,198
Gross profit	1,701	1,571
Selling, general and administrative expenses	907	861
Research and development expenses	144	119
Restructuring charges, net	14	53
Shareholder settlement income		(11)
Operating income	636	549
Interest expense	(51)	(52)
Interest income	6	5
Other income	2	13
Income from continuing operations before income taxes	593	515
Income tax expense	99	83
Income from continuing operations	494	432
Loss from discontinued operations, net of income taxes		(5)
Net income	$ 494	$ 427
Basic earnings per share:		
Income from continuing operations	$ 1.02	$ 0.87
Loss from discontinued operations		(0.01)
Net income	1.02	0.86
Diluted earnings per share:		
Income from continuing operations	$ 1.02	$ 0.87
Loss from discontinued operations		(0.01)
Net income	1.02	0.86
Weighted-average number of shares outstanding:		
Basic	483	495
Diluted	486	498
Cash dividends declared per ordinary share	$	$

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

At December 30, 2011 and September 30, 2011

(in millions, except share data)

	December 30, 2011	September 30, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,767	$ 1,503
Accounts receivable trade, less allowance for doubtful accounts of $38 and $39	1,782	1,744
Inventories	1,552	1,513
Prepaid expenses and other current assets	923	1,009
Due from former parent and affiliate	6	4
Total current assets	6,030	5,773
Property, plant and equipment, net	2,734	2,705
Goodwill	7,667	7,683
Intangible assets, net	2,707	2,764
Due from former parent and affiliate	583	583
Other assets	864	866
Total Assets	$ 20,585	$ 20,374
Liabilities and Shareholders Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 510	$ 11
Accounts payable	539	576
Accrued and other current liabilities	1,195	1,611
Income taxes payable	63	97
Guaranteed contingent tax liabilities	105	105
Total current liabilities	2,412	2,400
Long-term debt	3,925	4,197
Income taxes payable	1,635	1,629
Guaranteed contingent tax liabilities	555	555
Other liabilities	1,817	1,776
Total Liabilities	10,344	10,557
Commitments and contingencies (note 13)		
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; 514,800,989 and 513,786,482 issued	103	103
Ordinary shares held in treasury at cost; 31,939,018 and 31,828,437	(1,441)	(1,436)
Additional paid-in capital	6,876	6,844
Retained earnings	4,401	3,908
Accumulated other comprehensive income	302	398
Total Shareholders Equity	10,241	9,817

Total Liabilities and Shareholders Equity	$ 20,585	$ 20,374

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Quarters Ended December 30, 2011 and December 24, 2010

(in millions)

	Quarters Ended December 30, 2011	Quarters Ended December 24, 2010
Cash Flows From Operating Activities:		
Net income	$ 494	$ 427
Loss from discontinued operations, net of income taxes		5
Income from continuing operations	494	432
Adjustments to reconcile net cash provided by continuing operating activities:		
Depreciation and amortization	151	141
Share-based compensation	18	32
Deferred income taxes	6	11
Provision for losses on accounts receivable and inventory	6	17
Other non-cash items	(8)	(8)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(79)	(39)
Inventories	(58)	(42)
Accounts payable	(33)	(3)
Income taxes	11	(93)
Accrued and other liabilities	(249)	(228)
Other	8	(11)
Net cash provided by operating activities	267	209
Cash Flows From Investing Activities:		
Capital expenditures	(131)	(87)
Other	5	(9)
Net cash used in investing activities	(126)	(96)
Cash Flows From Financing Activities:		
Net issuance (repayment) of commercial paper	230	(92)
Repayment of debt	(2)	(253)
Dividends paid	(109)	(99)
Repurchase of shares	(5)	(102)
Proceeds from exercise of share options	6	13
Other	9	2
Net cash provided by (used in) financing activities	129	(531)
Effect of currency rate changes on cash	(6)	3
Net increase (decrease) in cash and cash equivalents	264	(415)
Cash and cash equivalents at beginning of period	1,503	1,565

Cash and cash equivalents at end of period	$ 1,767	$ 1,150

See Notes to Consolidated Financial Statements.

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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 30, 2011.

2. Restructuring Charges, Net

In 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 charges of approximately $275 million under this program as the specific actions to execute on these initiatives are identified and approved, most of which are expected to be incurred by the end of fiscal 2014. This program excludes restructuring actions associated with acquisitions.

In fiscal 2009 and 2007, the Company launched a $200 million and a $150 million restructuring program, respectively, both of which were also designed to improve the Company s cost structure. The Company recorded charges as the specific actions required to execute on these initiatives were identified and approved. The 2009 and 2007 programs were both substantially completed during fiscal 2011.

Net restructuring and related charges, including actions associated with acquisitions, by segment are as follows:

	Quarters Ended	
(Dollars in Millions)	**December 30, 2011**	**December 24, 2010**
Medical Devices	$ 11	$ 63
Pharmaceuticals	6	
Medical Supplies	1	(10)
Restructuring and related charges, net	18	53
Less: accelerated depreciation	(4)	
Restructuring charges, net	$ 14	$ 53

During the first quarter of fiscal 2011, the Company reversed $10 million of restructuring reserves under the 2009 program, due to the determination that one of the restructuring actions within the Medical Supplies segment was no longer cost effective.

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Net restructuring and related charges are comprised of the following:

(Dollars in Millions)	Quarters Ended December 30, 2011	Quarters Ended December 24, 2010
Acquisition-related restructuring actions	$ 1	$ 20
2011 program	14	
2009 program	3	33
Restructuring and related charges, net	18	53
Less: non-cash charges, including accelerated depreciation	(4)	(1)
Total charges expected to be settled in cash	$ 14	$ 52

The following table summarizes cash activity for restructuring reserves related to acquisitions for the quarter ended December 30, 2011:

(Dollars in Millions)	Employee Severance and Benefits	Other	Total
Balance at September 30, 2011	$ 10	$ 2	$ 12
Charges	1		1
Cash payments	(1)		(1)
Balance at December 30, 2011	$ 10	$ 2	$ 12

The following table summarizes cash activity for restructuring reserves related to the 2011 and prior programs for the quarter ended December 30, 2011, substantially all of which relates to employee severance and benefits:

(Dollars in Millions)	2011 Program	2009 and 2007 Programs	Total
Balance at September 30, 2011	$ 45	$ 52	$ 97
Charges	13	1	14
Changes in estimate	(1)		(1)
Cash payments	(10)	(8)	(18)
Currency translation	(2)		(2)
Balance at December 30, 2011	$ 45	$ 45	$ 90

Net restructuring and related charges, including associated asset impairments, incurred cumulative to date related to the 2011 program is as follows:

(Dollars in Millions)	**2011 Program**
Medical Devices	$ 43
Pharmaceuticals	15
Corporate	7
Total	$ 65

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

(Dollars in Millions)	December 30, 2011	September 30, 2011
Accrued and other current liabilities	$ 60	$ 66
Other liabilities	42	43
Restructuring reserves	$ 102	$ 109

3. Other Income

Other income was comprised of the following:

	Quarters Ended	
(Dollars in Millions)	December 30, 2011	December 24, 2010
Income under Tax Sharing Agreement (note 12)	$ 1	$ 8
Income on investments	1	5
Other income	$ 2	$ 13

Income under Tax Sharing Agreement represents the increase to the receivable from Tyco International Ltd. and TE Connectivity Ltd. These amounts reflect 58% of the interest and other income taxes payable amounts recorded during each period that are subject to the Tax Sharing Agreement.

4. Earnings Per Share

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

	Quarters Ended	
(in Millions)	December 30, 2011	December 24, 2010
Basic shares	483	495
Effect of share options and restricted shares	3	3
Diluted shares	486	498

The computation of diluted earnings per share for the quarters ended December 30, 2011 and December 24, 2010, excludes approximately 10 million and 18 million shares, respectively, of options and restricted share awards because either the effect would have been anti-dilutive or the performance criteria related to the awards had not yet been met.

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5. Comprehensive Income

Comprehensive income was comprised of the following:

	Quarters Ended	
(Dollars in Millions)	December 30, 2011	December 24, 2010
Net income	$ 494	$ 427
Currency translation	(97)	(33)
Unrealized gain on derivatives, net of income taxes		1
Change related to benefit plans, net of income taxes	1	
Total comprehensive income	$ 398	$ 395

6. Inventories

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

(Dollars in Millions)	December 30, 2011	September 30, 2011
Purchased materials and manufactured parts	$ 348	$ 316
Work in process	312	310
Finished goods	892	887
Inventories	$ 1,552	$ 1,513

7. 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 30, 2011	$ 6,786	$ 508	$ 389	$ 7,683
Currency translation	(16)			(16)
Goodwill at December 30, 2011	$ 6,770	$ 508	$ 389	$ 7,667

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

	December 30, 2011		September 30, 2011	
(Dollars in Millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable:				
Completed technology	$ 2,201	$ 789	$ 2,208	$ 761
Customer relationships	800	118	801	108
Other	327	135	329	131
Total	$ 3,328	$ 1,042	$ 3,338	$ 1,000
Non-Amortizable:				
Trademarks	$ 354		$ 357	
In-process research and development	67		69	
Total	$ 421		$ 426	

Intangible asset amortization expense for the quarters ended December 30, 2011 and December 24, 2010 was $51 million and $49 million, respectively.

8. Retirement Plans

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

	Quarters Ended	
(Dollars in Millions)	December 30, 2011	December 24, 2010
Service cost	$ 5	$ 5
Interest cost	11	11
Expected return on plan assets	(11)	(11)
Amortization of net actuarial loss	6	6
Settlements and curtailments		2
Net periodic benefit cost	$ 11	$ 13

The net periodic benefit cost for postretirement benefit plans for the quarters ended December 30, 2011 and December 24, 2010 was not material.

9. Guarantees

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 12.

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 sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and

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(Unaudited)

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 December 30, 2011 and September 30, 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 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 sheets.

The Company has recorded liabilities for known indemnifications included as part of environmental liabilities, which are discussed in note 13. 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.

10. 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

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 amortized to interest expense over the terms of the notes. As of December 30, 2011 and September 30, 2011, the amount of this loss that remained in accumulated other comprehensive income was $43 million and $45 million, respectively.

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(Unaudited)

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 over 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 consolidated balance sheet at fair value. At December 30, 2011, the Company had foreign currency forward and option contracts outstanding with a notional amount of $808 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 location and amount of the net gain (loss) on foreign exchange forward and option contracts not designated as hedging instruments and related hedged items were as follows:

	Quarters Ended	
(Dollars in Millions)	**December 30, 2011**	**December 24, 2010**
Cost of goods sold	$ 7	$
Selling, general and administrative expenses	(5)	(3)
	$ 2	$ (3)

Fair Value of Derivative Instruments

The fair value of foreign exchange forward and option contracts not designated as hedging instruments are included in the following consolidated balance sheet captions in the amounts shown:

(Dollars in Millions)	**December 30, 2011**	**September 30, 2011**
Derivative Assets:		
Prepaid expenses and other current assets	$ 36	$ 40
Accrued and other current liabilities	1	1
	$ 37	$ 41
Derivative Liabilities:		
Prepaid expenses and other current assets	$ 7	$ 5
Accrued and other current liabilities	16	24
	$ 23	$ 29

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11. Financial Instruments and Fair Value Measurements

The following tables provide a summary of the significant assets and liabilities that are measured at fair value on a recurring basis at December 30, 2011:

		Basis of Fair Value Measurement	
(Dollars in Millions)	**December 30, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Assets:			
Foreign currency contracts	$ 37	$	$ 37
Debt and equity securities held in rabbi trust	34	16	18
Total assets at fair value	$ 71	$ 16	$ 55
Liabilities:			
Foreign currency contracts	$ 23	$	$ 23
Deferred compensation liabilities	95		95
Total liabilities at fair value	$ 118	$	$ 118

The following tables provide a summary of the significant assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011:

		Basis of Fair Value Measurement	
(Dollars in Millions)	**September 30, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Assets:			
Foreign currency contracts	$ 41	$	$ 41
Debt and equity securities held in rabbi trust	33	15	18
Total assets at fair value	$ 74	$ 15	$ 59
Liabilities:			

Foreign currency contracts	$	29	$		$	29
Deferred compensation liabilities		93				93
Total liabilities at fair value	$	122	$		$	122

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

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 December 30, 2011 and September 30, 2011. The fair value of CIFSA s unsecured senior notes was approximately $4.538 billion and $4.567 billion at December 30, 2011 and September 30, 2011, respectively. The carrying value of the senior notes was $3.994 billion at both December 30, 2011 and September 30, 2011. 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 a Moody s and Standard & Poor s long-term debt rating of A/A2. 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. Deteriorating credit and economic conditions in parts of Western Europe, particularly in Spain, Italy and Portugal, may continue to increase the average length of time it takes the Company to collect its accounts receivable in certain regions within these countries.

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The Company continually evaluates all government receivables for potential collection risks associated with the availability of government funding and reimbursement practices. If the financial condition of customers or the countries healthcare systems continue to deteriorate such that their ability to make payments is uncertain, charges may be required in future periods. The Company s aggregate accounts receivable, net of the allowance for doubtful accounts, in Spain, Italy and Portugal and as a percent of the Company s total accounts receivable at the end of each period are as follows:

(Dollars in Millions)	December 30, 2011	September 30, 2011
Accounts receivable, net in Spain, Italy and Portugal	$ 597	$ 563
Percentage of total accounts receivable, net	34%	32%

Net sales to customers in Spain, Italy and Portugal totaled $160 million and $169 million during the first quarters of fiscal 2012 and 2011, respectively.

12. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 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 December 30, 2011, the Company is the primary obligor to the taxing authorities for $1.635 billion of contingent tax liabilities that are recorded on the consolidated balance sheet, of which $1.082 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 30, 2011, the Company was the primary obligor to the taxing authorities for $1.631 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 $589 million and $587 million at December 30, 2011 and September 30, 2011, respectively. These receivables, which reflect 58% of the contingent tax liabilities that are subject to the Tax Sharing Agreement, are classified as due from former parent and affiliate on the consolidated balance sheets. Adjustments to these receivables are recorded in other income.

Guaranteed Contingent 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 $660 million relating to these guarantees was included on the Company s consolidated balance sheet at both December 30, 2011 and September 30, 2011.

13. 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.

Products Liability Litigation

The Company currently is involved in litigation in various state and federal courts against manufacturers of transvaginal pelvic mesh products alleging personal injuries resulting from the implantation of those products. Two subsidiaries of the Company have supplied pelvic mesh product to one of the manufacturers named in the litigation and the Company is indemnifying that manufacturer on certain claims. The litigation includes a federal multi-district litigation in the United States District Court for the Northern District of West Virginia and cases in

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various state courts. Generally, complaints allege design and manufacturing claims, failure to warn, breach of warranty, fraud, violations of state consumer protection laws and loss of consortium claims. The Company believes that it has meritorious defenses to these claims and is vigorously defending against them. As of December 30, 2011, there were approximately 210 cases pending believed to involve products manufactured by Company subsidiaries. During fiscal 2011, the Company recorded a charge of $46 million for all known pending and estimated future claims, net of anticipated insurance recoveries. During the first quarter of fiscal 2012, the Company continued to receive claims and used the claims data to update its estimate of future claims. Accordingly, the Company recorded an additional charge of $47 million, which is included in selling, general and administrative expenses. The liability and insurance receivable are included in other liabilities and other assets, respectively, on the consolidated balance sheets. The Company believes that it has adequate amounts recorded relating to these matters based on current information. While the Company believes that the final disposition 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, it is not possible at this time to determine with certainty the ultimate outcome of these matters or the effect of potential future claims.

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 December 30, 2011, there were approximately 11,400 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 December 30, 2011, the Company

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concluded that it was probable that it would incur remedial costs in the range of $175 million to $312 million. As of December 30, 2011, the Company concluded that the best estimate within this range was $181 million, of which $22 million was included in accrued and other current liabilities and $159 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.

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 December 30, 2011, the Company estimates that the cost to comply with these proposed remediation alternatives at this site ranges from $96 million to $168 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. At both December 30, 2011 and September 30, 2011, the Company s AROs were $53 million. 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.

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Tyco International Legal Proceedings

As discussed in note 12, 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 certain of Tyco International s outstanding litigation matters. As of December 24, 2010, there were no remaining securities lawsuits outstanding. Accordingly, during the first quarter 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

Prior to the separation from Tyco International, Tyco International received and responded to various allegations that certain improper payments were made 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) continues to audit 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 income taxes payable. With respect to these potential income tax liabilities from all of these years, Covidien believes that the amounts recorded in its consolidated financial statements as current or non-current income 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 relating to certain Tyco International subsidiaries 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

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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 the 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 and 2005 through 2007 audit cycles. Tyco International and the IRS have entered into settlements related to certain outstanding tax matters arising in the 2001 through 2004 U.S. audit cycle, which otherwise remains open and subject to examination and resolution of other matters.

The resolution of tax matters arising from the 1997 through 2007 U.S. audits, non-U.S. audits and other settlements or statute of limitations expirations, could result in a significant change in the Company s unrecognized tax benefits. However, the Company does not expect that the total amount of unrecognized tax benefits will significantly change over the next 12 months.

14. Segment Data

The Company s three reportable segments are as follows:

Medical Devices includes the development, manufacture and sale of endomechanical instruments, energy devices, soft tissue repair products, vascular products, oximetry and monitoring products, airway and ventilation products 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 products (OEM).

The Company has aggregated the following five operating segments into the Medical Devices reportable segment based upon their similar operational and economic characteristics: General Surgery in the United States and Europe, Vascular in the United States and Europe, Respiratory & Monitoring Solutions in the United States and Europe, Developed Markets (Canada, Japan, Australia and New Zealand) and Emerging Markets (Latin America, Asia, Eastern Europe, the Middle East and Africa).

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Selected information by business segment is as follows:

	Quarters Ended	
(Dollars in Millions)	**December 30, 2011**	**December 24, 2010**
Net sales[1] :		
Medical Devices	$ 1,984	$ 1,877
Pharmaceuticals	490	470
Medical Supplies	424	422
	$ 2,898	$ 2,769
Operating income:		
Medical Devices	$ 653	$ 582
Pharmaceuticals	83	71
Medical Supplies	55	63
Operating income of reportable segments	791	716
Unallocated amounts:		
Corporate expenses	(86)	(101)
Legal charges (note 13)	(47)	
Restructuring and related charges, net (note 2)	(18)	(53)
Separation costs[2]	(4)	
Acquisition-related charges[3]		(24)
Shareholder settlement income		11
Consolidated operating income	$ 636	$ 549

(1) Amounts represent sales to external customers. Intersegment sales are not significant.
(2) Amount represents costs incurred related to the separation of our Pharmaceuticals segment.
(3) Amount 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.

15. Subsequent Event

On January 5, 2012, the Company acquired BÂRRX Medical, Inc. for approximately $325 million, with future earn out payments of up to $75 million possible based on achievement of specific milestones. BÂRRX is a developer of bipolar radiofrequency ablation devices used in the treatment of Barrett s esophagus syndrome. The acquisition of BÂRRX expands the Company s ability to treat gastrointestinal diseases. Due to the limited time since the acquisition date, the Company has not yet completed the initial accounting for this business combination. The amounts recognized for the major classes of assets acquired and liabilities assumed as of the acquisition date will be provided in the Company s Quarterly Report on Form 10-Q for the quarter ended March 30, 2012.

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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, both of which are fully and unconditionally guaranteed by Covidien plc and Covidien Ltd., the owners of CIFSA. In addition, CIFSA is the borrower under the revolving credit facility, which is fully and unconditionally guaranteed by Covidien plc. 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 December 30, 2011

(dollars in millions)

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	$	$	$	$ 2,898	$	$ 2,898
Cost of goods sold				1,197		1,197
Gross profit				1,701		1,701
Selling, general and administrative expenses	3		1	903		907
Research and development expenses				144		144
Restructuring charges, net				14		14
Operating (loss) income	(3)		(1)	640		636
Interest expense			(51)			(51)
Interest income				6		6
Other income				2		2
Equity in net income of subsidiaries	508	509	400		(1,417)	
Intercompany interest and fees	(13)	(1)	161	(147)		
Income before income taxes	492	508	509	501	(1,417)	593
Income tax (benefit) expense	(2)			101		99
Net income	$ 494	$ 508	$ 509	$ 400	$ (1,417)	$ 494

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CONDENSED CONSOLIDATING STATEMENT OF INCOME

Quarter Ended December 24, 2010

(dollars in millions)

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	$	$	$	$ 2,769	$	$ 2,769
Cost of goods sold				1,198		1,198
Gross profit				1,571		1,571
Selling, general and administrative expenses	3			858		861
Research and development expenses				119		119
Restructuring charges, net				53		53
Shareholder settlement income				(11)		(11)
Operating (loss) income	(3)			552		549
Interest expense			(52)			(52)
Interest income				5		5
Other income				13		13
Equity in net income of subsidiaries	467	468	363		(1,298)	
Intercompany interest and fees	(37)	(1)	157	(119)		
Income from continuing operations before income taxes	427	467	468	451	(1,298)	515
Income tax expense				83		83
Income from continuing operations	427	467	468	368	(1,298)	432
Loss from discontinued operations, net of income taxes				(5)		(5)
Net income	$ 427	$ 467	$ 468	$ 363	$ (1,298)	$ 427

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

At December 30, 2011

(dollars in millions)

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Assets						
Current Assets:						
Cash and cash equivalents	$	$	$ 59	$ 1,708	$	$ 1,767
Accounts receivable trade, net				1,782		1,782
Inventories				1,552		1,552
Intercompany receivable	37			150	(187)	
Prepaid expenses and other current assets	4			919		923
Due from former parent and affiliate				6		6
Total current assets	41		59	6,117	(187)	6,030
Property, plant and equipment, net	2			2,732		2,734
Goodwill				7,667		7,667
Intangible assets, net				2,707		2,707
Due from former parent and affiliate				583		583
Investment in subsidiaries	12,279	12,898	10,209		(35,386)	
Intercompany loans receivable		94	11,416	4,411	(15,921)	
Other assets			21	843		864
Total Assets	$ 12,322	$ 12,992	$ 21,705	$ 25,060	$ (51,494)	$ 20,585
Liabilities and Shareholders Equity						
Current Liabilities:						
Current maturities of long-term debt	$	$	$ 503	$ 7	$	$ 510
Accounts payable				539		539
Intercompany payable	21	129		37	(187)	
Accrued and other current liabilities	1		34	1,160		1,195
Income taxes payable				63		63
Guaranteed contingent tax liabilities				105		105
Total current liabilities	22	129	537	1,911	(187)	2,412
Long-term debt			3,859	66		3,925
Income taxes payable				1,635		1,635
Guaranteed contingent tax liabilities				555		555
Intercompany loans payable	2,058	584	4,411	8,868	(15,921)	
Other liabilities	1			1,816		1,817
Total Liabilities	2,081	713	8,807	14,851	(16,108)	10,344

Shareholders Equity	10,241	12,279	12,898	10,209	(35,386)	10,241
Total Liabilities and Shareholders Equity	$ 12,322	$ 12,992	$ 21,705	$ 25,060	$ (51,494)	$ 20,585

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

At September 30, 2011

(dollars in millions)

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Assets						
Current Assets:						
Cash and cash equivalents	$	$	$ 169	$ 1,334	$	$ 1,503
Accounts receivable trade, net				1,744		1,744
Inventories				1,513		1,513
Intercompany receivable	23			153	(176)	
Prepaid expenses and other current assets	3		29	977		1,009
Due from former parent and affiliate				4		4
Total current assets	26		198	5,725	(176)	5,773
Property, plant and equipment, net	2			2,703		2,705
Goodwill				7,683		7,683
Intangible assets, net				2,764		2,764
Due from former parent and affiliate				583		583
Investment in subsidiaries	11,860	12,478	11,340		(35,678)	
Intercompany loans receivable		94	11,294	6,160	(17,548)	
Other assets			22	844		866
Total Assets	$ 11,888	$ 12,572	$ 22,854	$ 26,462	$ (53,402)	$ 20,374
Liabilities and Shareholders Equity						
Current Liabilities:						
Current maturities of long-term debt	$	$	$ 3	$ 8	$	$ 11
Accounts payable				576		576
Intercompany payable	24	129		23	(176)	
Accrued and other current liabilities	109		83	1,419		1,611
Income taxes payable				97		97
Guaranteed contingent tax liabilities				105		105
Total current liabilities	133	129	86	2,228	(176)	2,400
Long-term debt			4,129	68		4,197
Income taxes payable				1,629		1,629
Guaranteed contingent tax liabilities				555		555
Intercompany loans payable	1,937	583	6,161	8,867	(17,548)	
Other liabilities	1			1,775		1,776
Total Liabilities	2,071	712	10,376	15,122	(17,724)	10,557

Shareholders Equity		9,817		11,860	12,478		11,340		(35,678)	9,817
Total Liabilities and Shareholders Equity	$	11,888	$	12,572	$ 22,854	$	26,462	$	(53,402)	$ 20,374

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Quarter Ended December 30, 2011

(dollars in millions)

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Cash Flows From Operating Activities:						
Net cash (used in) provided by operating activities	$ (39)	$ (1)	$ 91	$ 216	$	$ 267
Cash Flows From Investing Activities:						
Capital expenditures				(131)		(131)
Net increase in intercompany loans			(1,871)		1,871	
Other				5		5
Net cash used in investing activities			(1,871)	(126)	1,871	(126)
Cash Flows From Financing Activities:						
Net issuance of commercial paper			230			230
Repayment of debt				(2)		(2)
Dividends paid	(109)					(109)
Repurchase of shares	(5)					(5)
Proceeds from exercise of share options	23			(17)		6
Net intercompany loan borrowings	121	1		1,749	(1,871)	
Intercompany dividend received (paid)			1,440	(1,440)		
Other	9					9
Net cash provided by financing activities	39	1	1,670	290	(1,871)	129
Effect of currency rate changes on cash				(6)		(6)
Net (decrease) increase in cash and cash equivalents			(110)	374		264
Cash and cash equivalents at beginning of period			169	1,334		1,503
Cash and cash equivalents at end of period	$	$	$ 59	$ 1,708	$	$ 1,767

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(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Quarter Ended December 24, 2010

(dollars in millions)

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Cash Flows From Operating Activities:						
Net cash provided by operating activities	$ 11	$	$ 52	$ 146	$	$ 209
Cash Flows From Investing Activities:						
Capital expenditures				(87)		(87)
Net increase in intercompany loans			(505)		505	
Other				(9)		(9)
Net cash used in investing activities			(505)	(96)	505	(96)
Cash Flows From Financing Activities:						
Net repayment of commercial paper			(92)			(92)
Repayment of debt			(250)	(3)		(253)
Dividends paid	(99)					(99)
Repurchase of shares	(102)					(102)
Proceeds from exercise of share options	13					13
Net intercompany loan borrowings	156			349	(505)	
Intercompany dividend received (paid)			490	(490)		
Other	20			(18)		2
Net cash (used in) provided by financing activities	(12)		148	(162)	(505)	(531)
Effect of currency rate changes on cash				3		3
Net decrease in cash and cash equivalents	(1)		(305)	(109)		(415)
Cash and cash equivalents at beginning of period	1		399	1,165		1,565
Cash and cash equivalents at end of period	$	$	$ 94	$ 1,056	$	$ 1,150

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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 30, 2011 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, energy devices, soft tissue repair products, vascular products, oximetry and monitoring products, airway and ventilation products, 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.

Separation

In December 2011, we announced a plan to spin off our pharmaceuticals business into a standalone public company. We anticipate that the transaction will be in the form of a distribution that will be tax-free to U.S. shareholders of a new publicly traded stock in the new pharmaceuticals company. Completion of the transaction is expected to be subject to certain conditions, including, among others, receipt of regulatory approvals, assurance as to the tax-free status of the spin-off of the pharmaceuticals business to our U.S. shareholders, the effectiveness of a Form 10 registration statement to be filed with the U.S. Securities and Exchange Commission and final approval by our Board of Directors. We currently expect that completion of the transaction could take up to 18 months; however, there can be no assurance regarding the ultimate timing of the proposed transaction or that the transaction will be completed.

Healthcare Reform

In March 2010, the Patient Protection and Affordable Care Act was enacted in the United States. This legislation includes a provision that imposes a 2.3% excise tax on the sale of certain medical devices by a manufacturer, producer or importer of such devices in the United States starting after December 31, 2012. The legislation also 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, this annual assessment has not had a significant impact on Covidien. The medical devices tax, however, may have a significant impact on our results of operations. While we are waiting for further regulations to be established, we continue to evaluate the potential impact that this tax may have on our overall business. U.S. net sales of potentially taxable medical devices represented approximately 30% to 40% of our total net sales in fiscal 2011 and, therefore, this tax burden may have a material, negative impact on our results of operations and our cash flows. 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 adversely impact our financial results in future periods.

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Acquisition

On January 5, 2012, we acquired BÂRRX Medical, Inc. for approximately $325 million, with future earn out payments of up to $75 million possible based on achievement of specific milestones. BÂRRX is a developer of bipolar radiofrequency ablation devices used in the treatment of Barrett s esophagus syndrome. The acquisition of BÂRRX expands our ability to treat gastrointestinal diseases.

Restructuring Initiatives

In 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. Savings from this program are estimated to be $175 million to $225 million on an annualized basis once the program is completed. As of December 30, 2011, we had incurred $65 million of net restructuring charges under the 2011 program since its inception.

Results of Operations

Quarters Ended December 30, 2011 and December 24, 2010

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

	Quarters Ended			
(Dollars in Millions)	**December 30, 2011**		**December 24, 2010**	
Net sales	$ 2,898	100.0%	$ 2,769	100.0%
Cost of goods sold	1,197	41.3	1,198	43.3
Gross profit	1,701	58.7	1,571	56.7
Selling, general and administrative expenses	907	31.3	861	31.1
Research and development expenses	144	5.0	119	4.3
Restructuring charges, net	14	0.5	53	1.9
Shareholder settlement income			(11)	(0.4)
Operating income	636	21.9	549	19.8
Interest expense	(51)	(1.8)	(52)	(1.9)
Interest income	6	0.2	5	0.2
Other income	2	0.1	13	0.5
Income from continuing operations before income taxes	593	20.5	515	18.6
Income tax expense	99	3.4	83	3.0
Income from continuing operations	494	17.0	432	15.6
Loss from discontinued operations, net of income taxes			(5)	(0.2)
Net income	$ 494	17.0	$ 427	15.4

Net sales Our net sales in the first quarter of fiscal 2012 increased $129 million, or 5%, to $2.898 billion, compared with $2.769 billion in the first quarter of fiscal 2011. The increase in net sales was driven by sales growth within our Medical Devices segment and, to a much lesser extent, our Pharmaceuticals segment.

Net sales generated by our businesses in the United States were $1.593 billion and $1.527 billion for the first quarter of fiscal 2012 and 2011, respectively. Our non-U.S. businesses generated net sales of $1.305 billion and $1.242 billion for the first quarter of fiscal 2012 and 2011, respectively. Our business outside the United States accounted for approximately 45% of our net sales for both the first quarter of fiscal 2012 and 2011.

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

(Dollars in Millions)	Quarters Ended				
Net Sales[1]	December 30, 2011	December 24, 2010	Percentage Change	Currency Impact	Operational Growth[2]
U.S.	$ 1,593	$ 1,527	4%	%	4%
Other Americas	170	172	(1)	(4)	3
Europe	659	655	1	(1)	2
Asia-Pacific	476	415	15	5	10
	$ 2,898	$ 2,769	5		5

(1) Sales to external customers are reflected in the regions based on the reporting entity that records the transaction. U.S. sales include sales of neurovascular and peripheral products exported to customers outside the United States and invoiced in multiple currencies of approximately $75 million and $65 million for the first quarter of fiscal 2012 and 2011, respectively. Accordingly, these U.S. sales are subject to the effects of changes in foreign currency exchange rates.

(2) 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 41.3% and 43.3% of net sales in the first quarter of fiscal 2012 and fiscal 2011, respectively. The decrease in cost of goods sold as a percent of net sales was primarily attributable to the impact of currency translation, favorable mix of businesses and manufacturing cost reductions.

Selling, general and administrative expenses Selling, general and administrative expenses in the first quarter of fiscal 2012 increased $46 million, or 5%, to $907 million, compared with $861 million in the first quarter of fiscal 2011. The increase in selling, general and administrative expenses was primarily due to $47 million of legal charges recorded during the first quarter of fiscal 2012 related to indemnification obligations for certain claims pertaining to all known pending and estimated future pelvic mesh product liability cases.

Research and development expenses Research and development expenses increased $25 million, or 21%, to $144 million in the first quarter of fiscal 2012, compared with the first quarter of fiscal 2011. The increase resulted primarily from increased spending within our Medical Devices segment to support our growth initiatives and, to a much lesser extent, within our Pharmaceuticals segment. As a percentage of our net sales, research and development expenses was 5.0% and 4.3% for the first quarter of fiscal 2012 and fiscal 2011, respectively.

Restructuring charges, net During the first quarter of fiscal 2012, we recorded net restructuring and related charges of $18 million, of which $4 million related to accelerated depreciation and was included in cost of goods sold. The remaining $14 million primarily related to severance and employee benefit costs incurred under our 2011 program.

During the first quarter of fiscal 2011, we recorded restructuring net charges of $53 million, comprised of restructuring charges of $63 million, partially offset by changes in estimates of $10 million. The $63 million of restructuring charges primarily related to severance and employee benefit costs incurred under our 2009 program and, to a lesser extent, the cancellation of distributor and supplier agreements and severance costs related to actions associated with acquisitions by our Medical Devices segment in fiscal 2010. In addition, during the first

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quarter of fiscal 2011, we determined that one of the restructuring actions within our Medical Supplies segment was no longer cost effective. Accordingly, we reversed $10 million of restructuring reserves. Additional information regarding our restructuring charges is provided in note 2 to our consolidated financial statements.

Shareholder settlement income During fiscal 2011, the remaining securities lawsuits were resolved. Accordingly, during the first quarter 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 first quarter of fiscal 2012, operating income increased $87 million to $636 million, compared with operating income of $549 million in the first quarter of fiscal 2011. The increase in operating income for the first quarter of fiscal 2012 compared with the same prior year period was primarily due to increased sales volume within our Medical Devices segment. The first quarter of fiscal 2012 also benefitted from a $39 million decrease in net restructuring and related charges. These increases in operating income were partially offset by $47 million of legal charges recorded during the first quarter of fiscal 2012 related to indemnification obligations for certain claims pertaining to all known pending and estimated future pelvic mesh product liability cases and increased research and development expenses of $25 million.

Analysis of Operating Results by Segment

Net sales by segment are shown in the following table:

(Dollars in Millions)	Quarters Ended December 30, 2011	Quarters Ended December 24, 2010	Percentage Change	Currency Impact	Operational Growth
Medical Devices	$ 1,984	$ 1,877	6%	1%	5%
Pharmaceuticals	490	470	4	(1)	5
Medical Supplies	424	422		(1)	1
	$ 2,898	$ 2,769	5		5

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

(Dollars in Millions)	Quarters Ended December 30, 2011		Quarters Ended December 24, 2010	
Medical Devices	$ 653	32.9%	$ 582	31.0%
Pharmaceuticals	83	16.9	71	15.1
Medical Supplies	55	13.0	63	14.9
Operating income of reportable segments	791	27.3	716	25.9
Unallocated amounts:				
Corporate expenses	(86)		(101)	
Legal charges	(47)			
Restructuring and related charges, net	(18)		(53)	
Separation costs[1]	(4)			
Acquisition-related charges[2]			(24)	
Shareholder settlement income			11	
Consolidated operating income	$ 636		$ 549	

(1) Amount represents costs incurred related to the separation of our Pharmaceuticals segment.

(2)

Amount 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.

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Medical Devices

Net sales for Medical Devices by groups of products and by geography for the first quarter of fiscal 2012 and 2011 are as follows:

(Dollars in Millions)	Quarters Ended December 30, 2011	Quarters Ended December 24, 2010	Percentage Change	Currency Impact	Operational Growth
Endomechanical Instruments	$ 581	$ 568	2%	%	2%
Energy Devices	321	270	19		19
Soft Tissue Repair Products	218	221	(1)		(1)
Vascular Products	387	332	17	1	16
Oximetry & Monitoring Products	207	205	1		1
Airway & Ventilation Products	181	186	(3)		(3)
Other Products	89	95	(6)	1	(7)
	$ 1,984	$ 1,877	6	1	5
U.S.	$ 895	$ 849	5%	%	5%
Non-U.S.	1,089	1,028	6	1	5
	$ 1,984	$ 1,877	6	1	5

Net sales for the first quarter of fiscal 2012 increased $107 million, or 6%, to $1.984 billion, compared with $1.877 billion for the first quarter of fiscal 2011. The increase in net sales for the segment was driven by increased sales of Vascular Products and Energy Devices and, to a lesser extent, Endomechanical Instruments. The increase in sales for Vascular Products was primarily due to increased sales of neurovascular and chronic venous insufficiency products. The increase in Energy Devices sales resulted primarily from higher sales volume of vessel sealing products, most notably in the United States. Finally, the increase in sales of Endomechanical Instruments primarily resulted from higher sales volume of stapling devices.

Operating income for the first quarter of fiscal 2012 increased $71 million to $653 million, compared with $582 million for the first quarter of fiscal 2011. Our operating margin was 32.9% for the first quarter of fiscal 2012, compared with 31.0% for the first quarter of fiscal 2011. The increase in our operating income was primarily attributable to increased gross profit on the favorable sales performance for the overall segment discussed above. These increases to operating income were partially offset by increases in selling and marketing and research and development expenses to support our growth initiatives, particularly within emerging markets.

Pharmaceuticals

Net sales for Pharmaceuticals by groups of products and by geography for the first quarter of fiscal 2012 and 2011 are as follows:

(Dollars in Millions)	Quarters Ended December 30, 2011	Quarters Ended December 24, 2010	Percentage Change	Currency Impact	Operational Growth
Specialty Pharmaceuticals	$ 134	$ 131	2%	%	2%
Active Pharmaceutical Ingredients	102	84	21		21
Contrast Products	145	143	1	(2)	3
Radiopharmaceuticals	109	112	(3)	(1)	(2)
	$ 490	$ 470	4	(1)	5
U.S.	$ 323	$ 308	5%	%	5%
Non-U.S.	167	162	3	(1)	4

$ 490	$	470	4	(1)	5

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Net sales for the first quarter of fiscal 2012 increased $20 million to $490 million, compared with $470 million for the first quarter of fiscal 2011. This increase was primarily driven by increased sales of narcotics within Active Pharmaceutical Ingredients, as we had sufficient quota to supply customers in some products in which there were market shortages. Increased sales of our EXALGO® and PENNSAID® branded products were offset by decreased sales of generic pharmaceuticals.

Operating income for the first quarter of fiscal 2012 increased $12 million to $83 million, compared with $71 million for the first quarter of fiscal 2011. Our operating margin was 16.9% for the first quarter of fiscal 2012, compared with 15.1% for the first quarter of fiscal 2011. The increase in operating income was primarily due to increased gross profit on the favorable sales performance discussed above.

Medical Supplies

Net sales for Medical Supplies by groups of products and by geography for the first quarter of fiscal 2012 and 2011 are as follows:

	Quarters Ended				
(Dollars in Millions)	**December 30, 2011**	**December 24, 2010**	**Percentage Change**	**Currency Impact**	**Operational Growth**
Nursing Care Products	$ 198	$ 192	3%	%	3%
Medical Surgical Products	109	105	4		4
SharpSafety Products	70	74	(5)		(5)
Original Equipment Manufacturer (OEM) Products	47	51	(8)		(8)
	$ 424	$ 422		(1)	1
U.S.	$ 375	$ 370	1%	%	1%
Non-U.S.	49	52	(6)	(2)	(4)
	$ 424	$ 422		(1)	1

Net sales for the first quarter of fiscal 2012 increased $2 million to $424 million, compared with $422 million for the first quarter of fiscal 2011. The increase in net sales for the segment was driven by increased sales of Nursing Care Products and Medical Surgical Products. The increase in sales of Nursing Care Products resulted from higher sales of incontinence products, while the sales increase of Medical Surgical Products was largely attributable to sales of the disposable lead wire system which was introduced in February 2011. These increases were partially offset by a decrease in sales of SharpSafety primarily due to unfavorable pricing and a decrease in sales of OEM Products.

Operating income for the first quarter of fiscal 2012 decreased $8 million to $55 million, compared with $63 million for the first quarter of fiscal 2011. Our operating margin was 13.0% for the first quarter of fiscal 2012, compared with 14.9% for the first quarter of fiscal 2011. The decrease in operating income and margin primarily resulted from the unfavorable pricing discussed above and increased freight and warehousing costs.

Corporate

Corporate expenses were $86 million and $101 million for the first quarter of fiscal 2012 and fiscal 2011, respectively. The decrease was primarily due to the timing of stock-based compensation expense recognition and, to a lesser extent, an overall decrease in annual stock-based compensation expense.

Non-Operating Items

Interest Expense and Interest Income

During the first quarters of fiscal 2012 and 2011, interest expense was $51 million and $52 million, respectively, and interest income was $6 million for the first quarter of fiscal 2012 and $5 million for the first quarter of fiscal 2011.

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Other Income

During the first quarters of fiscal 2012 and 2011, we recorded other income of $2 million and $13 million, respectively. The $13 million includes income of $8 million and a corresponding increase to our receivable from Tyco International Ltd. and TE Connectivity Ltd. This amount reflects 58% of the interest and other income taxes payable amounts recorded that are subject to the Tax Sharing Agreement.

Income Tax Expense

Income tax expense was $99 million and $83 million on income from continuing operations before income taxes of $593 million and $515 million for the first quarters of fiscal 2012 and 2011, respectively. This resulted in effective tax rates of 16.7% and 16.1% for the first quarters of fiscal 2012 and 2011, respectively. The increase in the effective tax rate for the first quarter of fiscal 2012 resulted primarily from the expiration of the U.S. research and development credit as of December 31, 2011 and the retroactive re-enactment of the 2010 credit during the first quarter of fiscal 2011.

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.

Quarter Ended December 30, 2011 Cash Flow Activity

The net cash provided by operating activities of $267 million was primarily attributable to income from continuing operations, as adjusted for depreciation and amortization, partially offset by a net change in working capital of $400 million, driven largely by the annual payout of cash bonuses in the quarter for performance in the prior fiscal year and, to a lesser extent, the semi-annual payment of interest on our public debt. In fiscal 2012, we expect to make an indemnification payment of approximately $100 million to TE Connectivity related to pre-separation tax matters under the Tax Sharing Agreement.

The net cash used in investing activities of $126 million was primarily due to capital expenditures of $131 million. For the full year fiscal 2012, we expect capital expenditures to be in the range of $500 to $550 million.

The net cash provided by financing activities of $129 million was primarily the result of net proceeds from the issuance of commercial paper of $230 million, partially offset by dividend payments of $109 million.

Capitalization

Shareholders equity was $10.241 billion, or $21.21 per share, at December 30, 2011, compared with $9.817 billion, or $20.37 per share, at September 30, 2011. The increase in shareholders equity was primarily due to net income of $494 million, partially offset by unfavorable changes in currency exchange rates of $97 million.

The following table contains several key measures to gauge our financial condition and liquidity at December 30, 2011:

(Dollars in Millions)	December 30, 2011	September 30, 2011
Cash and cash equivalents	$ 1,767	$ 1,503
Current maturities of long-term debt	510	11
Long-term debt	3,925	4,197
Total debt	4,435	4,208
Shareholders equity	10,241	9,817
Debt-to-total capital ratio	30%	30%

We are required to maintain an available unused balance under our $1.500 billion revolving credit facility sufficient to support amounts outstanding under our commercial paper program. At December 30, 2011, we had $345 million of commercial paper outstanding and no borrowings 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 $109 million for the first quarter of fiscal 2012. On January 19, 2012, the Board of Directors declared a quarterly cash dividend of $0.225 per share to shareholders of record at the close of business on January 30, 2012. The dividend is payable on February 22, 2012.

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 30, 2011. 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 13 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 IRS continues to examine our U.S. federal income tax returns for the years 2008 and 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 in which we were a Tyco International subsidiary is subject to the conditions set forth in the Tax Sharing Agreement discussed in note 12 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 $1.635 billion of contingent tax liabilities that are recorded on the consolidated balance sheet at December 30, 2011, $1.082 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 receivable from Tyco International and TE Connectivity of $589 million as of December 30, 2011, substantially all of which is non-current. This amount primarily reflects 58% of our contingent tax liabilities that are subject to the Tax

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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 relating to certain Tyco International subsidiaries 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 and the 2005 through 2007 audit cycles. Tyco International and the IRS have entered into settlements related to certain outstanding tax matters arising in these audit cycles, which otherwise remain open and subject to examination and resolution of other matters.

The resolution of tax matters arising from the 1997 through 2007 U.S. audits, non-U.S. audits, and other settlements or statute of limitations expirations, could result in a significant change in our unrecognized tax benefits. However, we do not expect that the total amount of unrecognized tax benefits will significantly change over the next 12 months.

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 $660 million relating to these guarantees was included on our consolidated balance sheet at December 30, 2011 and September 30, 2011, respectively.

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.

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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 at both December 30, 2011 and September 30, 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.

We have recorded liabilities for known indemnifications included as part of environmental liabilities, which are discussed in note 13 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 30, 2011.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) updated the accounting guidance related to fair value measurements. This amendment results in convergence of fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (IFRS). We are required to comply with this amendment beginning in the second quarter of fiscal 2012. The adoption of this amendment is not expected to have a material impact on our results of operations, financial condition or cash flows.

In June 2011, the FASB issued an amendment to the disclosure requirements for presentation of comprehensive income. Under this amendment, we can elect to present items of net income and other comprehensive income in a single continuous statement or in two separate, but consecutive, statements. We are required to comply with this new disclosure requirement beginning in the first quarter of fiscal 2013.

In September 2011, the FASB issued an amendment to goodwill impairment testing. This amendment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We are required to comply with this amendment beginning in the first quarter of fiscal 2013. The adoption of this amendment is not expected to have a material impact on our results of operations, financial condition or cash flows.

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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 30, 2011 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*

There have been no significant changes in our exposures to market risk during the first quarter of fiscal 2012. Refer to Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 for further discussion of our exposures to market risk.

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.

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 December 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 30, 2011. There were no material developments during the quarter ended December 30, 2011 related to previously described legal proceedings.

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 30, 2011. 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
10/01/11 10/28/11		$		$ 1,800,416,161
10/29/11 12/02/11		$		$ 1,800,416,161
12/03/11 12/30/11		$		$ 1,800,416,161

Item 3. ***Defaults Upon Senior Securities***

None.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

Exhibit Number	Exhibit
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 December 30, 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.

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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: February 3, 2012