

Covidien plc
Form 10-Q
May 04, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 30, 2012

or

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

001-33259

(Commission File Number)

COVIDIEN PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

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Ireland
(State or other jurisdiction of
incorporation or organization)

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

20 On Hatch, Lower Hatch Street

Dublin 2, Ireland

Telephone: +353 1 438-1700

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of ordinary shares outstanding as of April 30, 2012 was 482,278,133.

Table of Contents

COVIDIEN PLC

INDEX TO FORM 10-Q

	Page
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	2
<u>Consolidated Statements of Income for the Quarters and Six Months Ended March 30, 2012 and March 25, 2011</u>	2
<u>Consolidated Balance Sheets as of March 30, 2012 and September 30, 2011</u>	3
<u>Consolidated Statements of Cash Flows for the Six Months Ended March 30, 2012 and March 25, 2011</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	44
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 3. <u>Defaults Upon Senior Securities</u>	45
Item 5. <u>Other Information</u>	45
Item 6. <u>Exhibits</u>	45
<u>Signatures</u>	46

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****COVIDIEN PLC****CONSOLIDATED STATEMENTS OF INCOME****Quarters and Six Months Ended March 30, 2012 and March 25, 2011****(in millions, except per share data)**

	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Net sales	\$ 2,946	\$ 2,801	\$ 5,844	\$ 5,570
Cost of goods sold	1,240	1,205	2,437	2,403
Gross profit	1,706	1,596	3,407	3,167
Selling, general and administrative expenses	914	853	1,821	1,714
Research and development expenses	167	130	311	249
Restructuring charges (credits), net	16	(2)	30	51
Shareholder settlement income				(11)
Operating income	609	615	1,245	1,164
Interest expense	(51)	(50)	(102)	(102)
Interest income	6	6	12	11
Other income (expense), net	4	(1)	6	12
Income from continuing operations before income taxes	568	570	1,161	1,085
Income tax expense	77	111	176	194
Income from continuing operations	491	459	985	891
Income (loss) from discontinued operations, net of income taxes	6	(4)	6	(9)
Net income	\$ 497	\$ 455	\$ 991	\$ 882
Basic earnings per share:				
Income from continuing operations	\$ 1.02	\$ 0.93	\$ 2.04	\$ 1.80
Income (loss) from discontinued operations	0.01	(0.01)	0.01	(0.02)
Net income	1.03	0.92	2.05	1.78
Diluted earnings per share:				
Income from continuing operations	\$ 1.01	\$ 0.92	\$ 2.02	\$ 1.79
Income (loss) from discontinued operations	0.01	(0.01)	0.01	(0.02)
Net income	1.02	0.91	2.04	1.77
Weighted-average number of shares outstanding:				
Basic	483	494	483	495
Diluted	487	499	487	498
Cash dividends declared per ordinary share	\$ 0.45	\$ 0.40	\$ 0.45	\$ 0.40

See Notes to Consolidated Financial Statements.

Table of Contents**COVIDIEN PLC****CONSOLIDATED BALANCE SHEETS**

At March 30, 2012 and September 30, 2011

(in millions, except share data)

	March 30, 2012	September 30, 2011
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,663	\$ 1,503
Accounts receivable trade, less allowance for doubtful accounts of \$43 and \$39	1,874	1,744
Inventories	1,640	1,513
Prepaid expenses and other current assets	905	1,013
Total current assets	6,082	5,773
Property, plant and equipment, net	2,769	2,705
Goodwill	7,961	7,683
Intangible assets, net	2,836	2,764
Due from former parent and affiliate	589	583
Other assets	917	866
Total Assets	\$ 21,154	\$ 20,374
Liabilities and Shareholders Equity		
Current Liabilities:		
Current maturities of long-term debt	\$ 511	\$ 11
Accounts payable	591	576
Accrued and other current liabilities	1,462	1,611
Income taxes payable	50	97
Guaranteed contingent tax liabilities	29	105
Total current liabilities	2,643	2,400
Long-term debt	3,824	4,197
Income taxes payable	1,660	1,629
Guaranteed contingent tax liabilities	597	555
Other liabilities	1,899	1,776
Total Liabilities	10,623	10,557
Commitments and contingencies (note 14)		
Shareholders Equity:		
Preference shares, \$0.20 par value, 125,000,000 authorized; none issued		
Ordinary shares, \$0.20 par value, 1,000,000,000 authorized; 516,981,129 and 513,786,482 issued	103	103
Ordinary shares held in treasury at cost; 34,871,052 and 31,828,437	(1,594)	(1,436)
Additional paid-in capital	6,978	6,844
Retained earnings	4,682	3,908
Accumulated other comprehensive income	362	398
Total Shareholders Equity	10,531	9,817
Total Liabilities and Shareholders Equity	\$ 21,154	\$ 20,374

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See Notes to Consolidated Financial Statements.

Table of Contents**COVIDIEN PLC****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Six Months Ended March 30, 2012 and March 25, 2011

(in millions)

	Six Months Ended	
	March 30, 2012	March 25, 2011
Cash Flows From Operating Activities:		
Net income	\$ 991	\$ 882
(Income) loss from discontinued operations, net of income taxes	(6)	9
Income from continuing operations	985	891
Adjustments to reconcile net cash provided by continuing operating activities:		
Depreciation and amortization	306	287
Share-based compensation	41	55
Deferred income taxes	(73)	26
Provision for losses on accounts receivable and inventory	12	30
Other non-cash items	5	18
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(143)	(71)
Inventories	(133)	(107)
Accounts payable	17	(28)
Income taxes	70	(12)
Accrued and other liabilities	(176)	(161)
Other	5	(29)
Net cash provided by operating activities	916	899
Cash Flows From Investing Activities:		
Capital expenditures	(250)	(167)
Acquisition-related payments, net of cash acquired	(352)	
Sale of investments	3	14
Other	2	(6)
Net cash used in investing activities	(597)	(159)
Cash Flows From Financing Activities:		
Net issuance (repayment) of commercial paper	132	(215)
Repayment of debt	(3)	(254)
Dividends paid	(217)	(198)
Repurchase of shares	(158)	(102)
Proceeds from exercise of share options	81	73
Other	13	4
Net cash used in financing activities	(152)	(692)
Effect of currency rate changes on cash	(7)	16
Net increase in cash and cash equivalents	160	64

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Cash and cash equivalents at beginning of period	1,503	1,565
Cash and cash equivalents at end of period	\$ 1,663	\$ 1,629

See Notes to Consolidated Financial Statements.

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

Basis of Presentation The accompanying financial statements reflect the consolidated operations of Covidien plc and its subsidiaries (Covidien or the Company). The unaudited consolidated financial statements have been prepared in United States dollars, in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results may differ from those estimates. In management's opinion, the unaudited consolidated financial statements contain all normal recurring adjustments necessary for a fair presentation of the interim results reported. The year-end balance sheet data were derived from audited consolidated financial statements, but do not include all of the annual disclosures required by GAAP; accordingly, these financial statements should be read in conjunction with the Company's audited consolidated financial statements in its Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Recently Adopted 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). The Company adopted this amendment in the second quarter of fiscal 2012. The required disclosures regarding fair value measurements are presented in note 12.

2. Acquisitions and License Agreement

BÂRRX Medical, Inc. On January 5, 2012, the Company's Medical Devices segment acquired all of the outstanding equity of BÂRRX Medical, Inc. (BÂRRX), a developer of bipolar radiofrequency ablation devices used in the treatment of Barrett's esophagus syndrome, for total consideration of \$393 million. The total purchase consideration was comprised of an upfront cash payment of \$322 million, net of cash acquired of \$16 million, and the fair value of contingent consideration of \$71 million. The contingent consideration, which could total \$75 million, consists of a milestone payment related to the achievement of health insurance coverage targets for procedures utilizing BÂRRX devices. The acquisition of BÂRRX expands the Company's ability to treat gastrointestinal diseases.

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

(Dollars in millions)	
Deferred tax assets (current)	\$ 27
Other current assets ⁽¹⁾	27
Intangible assets	139
Goodwill (non-tax deductible)	266
Other assets	2
Total assets acquired	461
Current liabilities	6
Deferred tax liabilities (non-current)	46
Contingent consideration	71
Total liabilities assumed	123
Net assets acquired	\$ 338

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- ⁽¹⁾ This amount includes \$6 million of accounts receivable, which is also the gross contractual value. As of the acquisition date, the fair value of accounts receivable approximated carrying value.

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

Intangible assets acquired consist of the following:

(Dollars in Millions)	Amount	Weighted-Average Amortization Period
Completed technology	\$ 85	15 years
Customer relationships	54	11 years
	\$ 139	13 years

The primary factors which contributed to an acquisition price in excess of the fair value of net assets acquired and the establishment of goodwill were the strategic benefit of adding a clinically proven radiofrequency ablation device to the Company's surgical energy device product portfolio and the synergies expected to result from combining infrastructures and reducing operational expenses.

As of March 30, 2012, the Company had not yet finalized its valuation of certain deferred tax assets and deferred tax liabilities for BÂRRX, the impact of which is not expected to have a material effect on the Company's financial condition.

The amount of net sales and operating loss included in the Company's results for the quarter and six months ended March 30, 2012 resulting from the acquisition of BÂRRX were \$8 million and \$7 million, respectively.

Maya Medical On April 20, 2012, the Company's Medical Devices segment acquired Maya Medical, a developer of a treatment for hypertension, for an upfront cash payment of \$60 million. The Company may be required to pay up to an additional \$170 million if certain regulatory and sales milestones are achieved. 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 June 29, 2012.

Newport Medical Instruments, Inc. On May 1, 2012, the Company's Medical Devices segment acquired Newport Medical Instruments, Inc. (Newport Medical), a designer and manufacturer of ventilators, for approximately \$108 million in cash. The acquisition of Newport Medical complements the Company's existing portfolio of acute care and home care ventilation solutions and broadens the Company's ventilation platforms. 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 June 29, 2012.

License Agreement During the second quarter of fiscal 2012, the Company's Medical Devices segment entered into an exclusive licensing agreement which grants Covidien patent and product rights for two medical device product candidates that are designed to remove peripheral artery blockages. This licensing arrangement included an upfront cash payment of \$12 million, which was included in research and development expenses. In addition, during the second quarter of fiscal 2012, the Company made a regulatory milestone payment of \$5 million, which was capitalized as an intangible asset. Covidien may also be required to make additional payments of up to \$60 million if certain regulatory and sales milestones are achieved.

3. Restructuring Charges (Credits), 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

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

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:

(Dollars in Millions)	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Medical Devices	\$ 13	\$ (3)	\$ 24	\$ 60
Pharmaceuticals	5		11	
Medical Supplies	1		2	(10)
Corporate	2	1	2	1
Restructuring and related charges, net	21	(2)	39	51
Less: accelerated depreciation	(5)		(9)	
Restructuring charges (credits), net	\$ 16	\$ (2)	\$ 30	\$ 51

During the first six months 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.

Net restructuring and related charges are comprised of the following:

(Dollars in Millions)	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Acquisition-related restructuring actions	\$ 7	\$ 2	\$ 8	\$ 22
2011 program	12		26	
2009 and 2007 programs	2	(4)	5	29
Restructuring and related charges (credits), net	21	(2)	39	51
Less: non-cash charges, including accelerated depreciation	(6)	(1)	(10)	(2)
Total charges expected to be settled in cash	\$ 15	\$ (3)	\$ 29	\$ 49

Table of Contents

COVIDIEN PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table summarizes cash activity for restructuring reserves related to acquisitions for the six months ended March 30, 2012:

(Dollars in Millions)	Employee Severance and Benefits	Other	Total
Balance at September 30, 2011	\$ 10	\$ 2	\$ 12
Charges	1	8	9
Changes in estimate	(1)		(1)
Cash payments	(4)	(2)	(6)
Balance at March 30, 2012	\$ 6	\$ 8	\$ 14

The following table summarizes cash activity for restructuring reserves related to the 2011 and prior programs for the six months ended March 30, 2012, 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	22	1	23
Changes in estimate	(2)		(2)
Cash payments	(17)	(13)	(30)
Balance at March 30, 2012	\$ 48	\$ 40	\$ 88

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	\$ 48
Pharmaceuticals	20
Corporate	9
Total	\$ 77

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

(Dollars in Millions)

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	March 30, 2012	September 30, 2011
Accrued and other current liabilities	\$ 59	\$ 66
Other liabilities	43	43
Restructuring reserves	\$ 102	\$ 109

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****4. Other Income (Expense), Net**

Other income (expense), net was comprised of the following:

(Dollars in Millions)	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Income under Tax Sharing Agreement (note 13)	\$ 6	\$ 12	\$ 7	\$ 20
Loss on investments, net	(2)	(13)	(1)	(8)
Other income (expense), net	\$ 4	\$ (1)	\$ 6	\$ 12

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.

5. Earnings Per Share

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

(in Millions)	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Basic shares	483	494	483	495
Effect of share options and restricted shares	4	5	4	3
Diluted shares	487	499	487	498

The computation of diluted earnings per share for the quarter and six months ended March 30, 2012, excludes approximately 1 million and 5 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. For the quarter and six months ended March 25, 2011, the computation of diluted earnings per share excludes approximately 2 million and 10 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.

6. Comprehensive Income

Comprehensive income was comprised of the following:

(Dollars in Millions)	Quarters Ended	Six Months Ended
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	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Net income	\$ 497	\$ 455	\$ 991	\$ 882
Currency translation	59	154	(38)	121
Unrealized gain on derivatives, net of income taxes	1	3	1	4
Change related to benefit plans, net of income taxes		(4)	1	(4)
Total comprehensive income	\$ 557	\$ 608	\$ 955	\$ 1,003

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****7. Inventories**

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

(Dollars in Millions)	March 30, 2012	September 30, 2011
Purchased materials and manufactured parts	\$ 356	\$ 316
Work in process	351	310
Finished goods	933	887
Inventories	\$ 1,640	\$ 1,513

8. Goodwill and Intangible Assets

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

(Dollars in Millions)	Medical Devices	Pharmaceuticals	Medical Supplies	Total
Goodwill at September 30, 2011	\$ 6,786	\$ 508	\$ 389	\$ 7,683
Acquisitions	282			282
Currency translation	(4)			(4)
Goodwill at March 30, 2012	\$ 7,064	\$ 508	\$ 389	\$ 7,961

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

(Dollars in Millions)	March 30, 2012		September 30, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable:				
Completed technology	\$ 2,347	\$ 831	\$ 2,208	\$ 761
Customer relationships	856	131	801	108
Licenses	217	81	216	74
Trademarks	68	33	68	31
Other	44	26	45	26
Total	\$ 3,532	\$ 1,102	\$ 3,338	\$ 1,000
Non-Amortizable:				
Trademarks	\$ 356		\$ 357	

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In-process research and development	50	69
Total	\$ 406	\$ 426

Intangible asset amortization expense for the quarters ended March 30, 2012 and March 25, 2011 was \$54 million and \$50 million, respectively. Intangible asset amortization for the six months ended March 30, 2012 and March 25, 2011 was \$105 million and \$99 million, respectively.

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****9. Retirement Plans**

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

(Dollars in Millions)	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Service cost	\$ 5	\$ 6	\$ 10	\$ 11
Interest cost	10	11	21	22
Expected return on plan assets	(10)	(11)	(21)	(22)
Amortization of net actuarial loss	6	6	12	12
Settlements and curtailments		6		8
Net periodic benefit cost	\$ 11	\$ 18	\$ 22	\$ 31

The net periodic benefit cost for postretirement benefit plans for the quarters and six months ended March 30, 2012 and March 25, 2011 was not material.

10. 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 13.

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

In connection with the sale of the Specialty Chemicals business, the Company provided the purchaser with an indemnification for various risks, including environmental, health, safety, tax and other matters, some of which have an indefinite term. However, the most significant portion of this indemnification relates to environmental, health and safety matters, which has a term of 17 years. A liability of \$22 million relating to this indemnification was included on the Company's consolidated balance sheet at both March 30, 2012 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 \$79 million. In addition, the Company was required to pay \$30 million into an escrow account as collateral, of which \$27 million remained in other assets on the consolidated balance sheet at March 30, 2012.

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

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****11. Derivative Instruments**

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

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

Interest Rate Exposure

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 March 30, 2012 and September 30, 2011, the amount of this loss that remained in accumulated other comprehensive income was \$42 million and \$45 million, respectively.

Foreign Exchange Exposure

Derivatives not Designated as Hedging Instruments The Company's operations outside the United States are significant. As a result, the Company has foreign exchange exposure on the translation of the financial statements and on transactions denominated in foreign currencies. The Company's policy is to use various forward and option contracts to economically manage foreign currency exposures on accounts and notes receivable, accounts payable, intercompany loans and forecasted transactions that are denominated in certain foreign currencies, principally the euro and yen, as well as 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 March 30, 2012, the Company had foreign currency forward and option contracts outstanding with a notional amount of \$816 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:

(Dollars in Millions)	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Cost of goods sold	\$ (1)	\$ (10)	\$ 6	\$ (10)
Selling, general and administrative expenses	(2)	(2)	(7)	(5)
	\$ (3)	\$ (12)	\$ (1)	\$ (15)

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***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)	March 30, 2012	September 30, 2011
Derivative Assets:		
Prepaid expenses and other current assets	\$ 17	\$ 40
Accrued and other current liabilities	5	1
	\$ 22	\$ 41
Derivative Liabilities:		
Prepaid expenses and other current assets	\$ 2	\$ 5
Accrued and other current liabilities	15	24
	\$ 17	\$ 29

12. 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 March 30, 2012 and September 30, 2011:

(Dollars in Millions)	March 30, 2012	Basis of Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign currency contracts	\$ 22	\$	\$ 22	\$
Debt and equity securities held in rabbi trust	35	18	17	
Total assets at fair value	\$ 57	\$ 18	\$ 39	\$
Liabilities:				
Foreign currency contracts	\$ 17	\$	\$ 17	\$
Deferred compensation liabilities	95		95	
Contingent consideration	85			85

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Total liabilities at fair value	\$ 197	\$	\$ 112	\$ 85
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Table of Contents

COVIDIEN PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in Millions)	Basis of Fair Value Measurement			
	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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 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.

Contingent consideration As discussed in note 2, during the second quarter of fiscal 2012, the Company recorded contingent consideration of \$71 million associated with the acquisition of BÂRRX. This contingent consideration, which could total \$75 million, is based on the achievement of health insurance coverage targets for procedures utilizing BÂRRX devices. In addition, during the second quarter of fiscal 2012, the Company recorded contingent consideration of \$13 million associated with another acquisition. This contingent consideration, which could total \$20 million, is based on the achievement of sales targets. The fair values of the contingent consideration were measured based on the probability-weighted present value of the payments expected to be made.

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

The fair values of contingent consideration are based on significant unobservable inputs, including management estimates and assumptions and, accordingly, have been classified as level 3 within the fair value hierarchy. These liabilities will be re-measured each reporting period and changes in the fair values will be included in selling, general and administrative expenses in the consolidated statements of income. Following is a reconciliation of changes in the fair value of contingent consideration for both the quarter and six months ended March 30, 2012:

(Dollars in Millions)	
Fair value at September 30, 2011	\$
Fair value of acquired liabilities	84
Changes in fair value	1
Fair value at March 30, 2012	\$ 85

Financial Instruments Not Measured at Fair Value

The fair value of cash and cash equivalents approximate carrying value since cash equivalents consist of liquid investments with a maturity of three months or less (level 1). The fair value of restricted cash is equivalent to its carrying value of \$53 million and \$60 million as of March 30, 2012 and September 30, 2011, respectively (level 1). The Company's life insurance contracts are carried at cash surrender value (level 3). The fair value of these contracts approximates the carrying value of \$88 million at both March 30, 2012 and September 30, 2011. The fair value of long-term debt, including both current and non current maturities, is based upon quoted prices in active markets for similar instruments (level 2) and was approximately \$4.904 billion and \$4.781 billion at March 30, 2012 and September 30, 2011, respectively. It is not practicable to estimate the fair value of the Company's guaranteed contingent tax liability and the related 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.

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.

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

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)	March 30, 2012	September 30, 2011
Accounts receivable, net in Spain, Italy and Portugal	\$ 698	\$ 563
Percentage of total accounts receivable, net	37%	32%

Net sales to customers in Spain, Italy and Portugal totaled \$176 million and \$186 million during the quarters ended March 30, 2012 and March 25, 2011, respectively. Net sales to customers in Spain, Italy and Portugal totaled \$336 million and \$355 million during the six months ended March 30, 2012 and March 25, 2011, respectively.

13. Transactions with Former Parent and Affiliate

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

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

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

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

Table of Contents

COVIDIEN PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 to 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 March 30, 2012, the Company is the primary obligor to the taxing authorities for \$1.660 billion of contingent tax liabilities that are recorded on the consolidated balance sheet, of which \$1.091 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 net receivable from Tyco International and TE Connectivity totaling \$587 million at both March 30, 2012 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. During the first six months of fiscal 2012, the Company received a net reimbursement payment totaling \$9 million from Tyco International and TE Connectivity.

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. Current and non-current liabilities totaling \$626 million and \$660 million related to these guarantees were included on the Company's consolidated balance sheet at March 30, 2012 and September 30, 2011, respectively. During the first six months of fiscal 2012, the Company made payments totaling \$34 million to Tyco International and TE Connectivity, which represents the 42% reimbursement required pursuant to the Tax Sharing Agreement for applicable tax and interest payments made by Tyco International and TE Connectivity.

14. Commitments and Contingencies

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

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

Table of Contents

COVIDIEN PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

multi-district litigation in the United States District Court for the Northern District of West Virginia and cases in 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 March 30, 2012, there were approximately 360 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 six months 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 very 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 March 30, 2012, there were approximately 11,500 asbestos liability cases pending against Mallinckrodt.

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

Environmental Proceedings

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup and timing of future cash flows is difficult to predict, given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. As of March 30, 2012, the Company concluded that it was probable that it would incur remedial costs in the range of \$176 million to \$295 million. As of March 30, 2012, the Company concluded that the best estimate within this range was \$176 million, of which \$24

Table of Contents

COVIDIEN PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

million was included in accrued and other current liabilities and \$152 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 March 30, 2012, the Company estimates that the cost to comply with these proposed remediation alternatives at this site ranges from \$94 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 March 30, 2012 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.

Tyco International Legal Proceedings

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

Table of Contents

COVIDIEN PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Tyco International's outstanding litigation matters. As of March 25, 2011, there were no remaining securities lawsuits outstanding. Accordingly, during the first six months of fiscal 2011, the Company recorded income of \$11 million related to the reversal of its portion of the remaining reserves that had previously been established.

Compliance Matters

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 income tax returns of the Company and its subsidiaries 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 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.

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

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.

15. 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).

Selected information by business segment is as follows:

(Dollars in Millions)	Quarters Ended		Six Months Ended	
	March 30, 2012	March 25, 2011	March 30, 2012	March 25, 2011
Net sales⁽¹⁾ :				
Medical Devices	\$ 2,004	\$ 1,877	\$ 3,988	\$ 3,754
Pharmaceuticals	508	490	998	960
Medical Supplies	434	434	858	856
	\$ 2,946	\$ 2,801	\$ 5,844	\$ 5,570
Operating income:				
Medical Devices	\$ 609	\$ 582	\$ 1,262	\$ 1,164
Pharmaceuticals	92	86	175	157
Medical Supplies	47	59	102	122
Operating income of reportable segments	748	727	1,539	1,443
Unallocated amounts:				

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Corporate expenses	(96)	(106)	(182)	(207)
Legal charges (note 14)			(47)	
Restructuring and related (charges) credits, net (note 3)	(21)	2	(39)	(51)
Separation costs ⁽²⁾	(6)		(10)	
Charges associated with acquisitions and licensing arrangement ⁽³⁾	(16)	(8)	(16)	(32)
Shareholder settlement income				11
Consolidated operating income	\$ 609	\$ 615	\$ 1,245	\$ 1,164

⁽¹⁾ Amounts represent sales to external customers. Intersegment sales are not significant.

⁽²⁾ Amounts represent costs incurred related to the separation of the Company's Pharmaceuticals segment.

⁽³⁾ Current period amounts primarily relate to an upfront payment made in connection with a license agreement, which is discussed in note 2. Prior year amounts represent charges included in cost of goods sold related to the sale of acquired inventory that had been written up to fair value upon acquisition.

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

CIFSA, a Luxembourg company, is a holding company that owns, directly or indirectly, substantially all of the operating subsidiaries of Covidien plc. CIFSA is the issuer of the Company's senior notes and commercial paper, 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 March 30, 2012****(dollars in millions)**

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	\$	\$	\$	\$ 2,946	\$	\$ 2,946
Cost of goods sold				1,240		1,240
Gross profit				1,706		1,706
Selling, general and administrative expenses	45			869		914
Research and development expenses				167		167
Restructuring charges, net				16		16
Operating (loss) income	(45)			654		609
Interest expense			(52)	1		(51)
Interest income				6		6
Other income				4		4
Equity in net income of subsidiaries	590	592	480		(1,662)	
Intercompany interest and fees	(50)	(2)	164	(112)		
Income from continuing operations before income taxes	495	590	592	553	(1,662)	568
Income tax (benefit) expense	(2)			79		77
Income from continuing operations	497	590	592	474	(1,662)	491
Income from discontinued operations, net of income taxes				6		6
Net income	\$ 497	\$ 590	\$ 592	\$ 480	\$ (1,662)	\$ 497

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF INCOME****Quarter Ended March 25, 2011****(dollars in millions)**

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	\$	\$	\$	\$ 2,801	\$	\$ 2,801
Cost of goods sold				1,205		1,205
Gross profit				1,596		1,596
Selling, general and administrative expenses	4		1	848		853
Research and development expenses				130		130
Restructuring credits, net				(2)		(2)
Operating (loss) income	(4)		(1)	620		615
Interest expense			(52)	2		(50)
Interest income				6		6
Other expense, net				(1)		(1)
Equity in net income of subsidiaries	474	475	369		(1,318)	
Intercompany interest and fees	(24)	(1)	159	(134)		
Income from continuing operations before income taxes	446	474	475	493	(1,318)	570
Income tax (benefit) expense	(9)			120		111
Income from continuing operations	455	474	475	373	(1,318)	459
Loss from discontinued operations, net of income taxes				(4)		(4)
Net income	\$ 455	\$ 474	\$ 475	\$ 369	\$ (1,318)	\$ 455

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF INCOME****Six Months Ended March 30, 2012****(dollars in millions)**

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	\$	\$	\$	\$ 5,844	\$	\$ 5,844
Cost of goods sold				2,437		2,437
Gross profit				3,407		3,407
Selling, general and administrative expenses	48		1	1,772		1,821
Research and development expenses				311		311
Restructuring charges, net				30		30
Operating (loss) income	(48)		(1)	1,294		1,245
Interest expense			(103)	1		(102)
Interest income				12		12
Other income				6		6
Equity in net income of subsidiaries	1,098	1,101	880		(3,079)	
Intercompany interest and fees	(63)	(3)	325	(259)		
Income from continuing operations before income taxes	987	1,098	1,101	1,054	(3,079)	1,161
Income tax (benefit) expense	(4)			180		176
Income from continuing operations	991	1,098	1,101	874	(3,079)	985
Income from discontinued operations, net of income taxes				6		6
Net income	\$ 991	\$ 1,098	\$ 1,101	\$ 880	\$ (3,079)	\$ 991

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF INCOME****Six Months Ended March 25, 2011****(dollars in millions)**

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	\$	\$	\$	\$ 5,570	\$	\$ 5,570
Cost of goods sold				2,403		2,403
Gross profit				3,167		3,167
Selling, general and administrative expenses	7		1	1,706		1,714
Research and development expenses				249		249
Restructuring charges, net				51		51
Shareholder settlement income				(11)		(11)
Operating (loss) income	(7)		(1)	1,172		1,164
Interest expense			(104)	2		(102)
Interest income				11		11
Other income, net				12		12
Equity in net income of subsidiaries	941	943	732		(2,616)	
Intercompany interest and fees	(61)	(2)	316	(253)		
Income from continuing operations before income taxes	873	941	943	944	(2,616)	1,085
Income tax (benefit) expense	(9)			203		194
Income from continuing operations	882	941	943	741	(2,616)	891
Loss from discontinued operations, net of income taxes				(9)		(9)
Net income	\$ 882	\$ 941	\$ 943	\$ 732	\$ (2,616)	\$ 882

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEET****At March 30, 2012****(dollars in millions)**

	Covidien plc	Covidien Ltd.	CIFSA	Other Subsidiaries	Consolidating Adjustments	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 1	\$	\$ 237	\$ 1,425	\$	\$ 1,663
Accounts receivable trade, net				1,874		1,874
Inventories				1,640		1,640
Intercompany receivable	27	51		17	(95)	
Prepaid expenses and other current assets	3			902		905
Total current assets	31	51	237	5,858	(95)	6,082
Property, plant and equipment, net	2			2,767		2,769
Goodwill				7,961		7,961
Intangible assets, net				2,836		2,836
Due from former parent and affiliate				589		589
Investment in subsidiaries	12,932	13,554	10,772		(37,258)	
Intercompany loans receivable		93	11,842	4,971	(16,906)	
Other assets			21	896		917
Total Assets	\$ 12,965	\$ 13,698	\$ 22,872	\$ 25,878	\$ (54,259)	\$ 21,154
Liabilities and Shareholders Equity						
Current Liabilities:						
Current maturities of long-term debt	\$	\$	\$ 503	\$ 8	\$	\$ 511
Accounts payable	5			586		591
Intercompany payable	17			78	(95)	
Accrued and other current liabilities	109		84	1,269		1,462
Income taxes payable				50		50
Guaranteed contingent tax liabilities				29		29
Total current liabilities	131		587	2,020	(95)	2,643
Long-term debt			3,760	64		3,824
Income taxes payable				1,660		1,660
Guaranteed contingent tax liabilities				597		597
Intercompany loans payable	2,302	766	4,971	8,867	(16,906)	
Other liabilities	1			1,898		1,899
Total Liabilities	2,434	766	9,318	15,106	(17,001)	10,623
Shareholders Equity	10,531	12,932	13,554	10,772	(37,258)	10,531

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Total Liabilities and Shareholders Equity	\$ 12,965	\$ 13,698	\$ 22,872	\$ 25,878	\$ (54,259)	\$ 21,154
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Table of Contents**COVIDIEN PLC****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	981		1,013
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

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Total Liabilities and Shareholders Equity	\$ 11,888	\$ 12,572	\$ 22,854	\$ 26,462	\$ (53,402)	\$ 20,374
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Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Six Months Ended March 30, 2012****(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	\$ (77)	\$ (183)	\$ 253	\$ 923	\$	\$ 916
Cash Flows From Investing Activities:						
Capital expenditures				(250)		(250)
Acquisition-related payments, net of cash acquired				(352)		(352)
Sale of investments				3		3
Net increase in intercompany loans			(1,737)		1,737	
Increase in investment in subsidiary			(285)		285	
Other				2		2
Net cash used in investing activities			(2,022)	(597)	2,022	(597)
Cash Flows From Financing Activities:						
Net issuance of commercial paper			132			132
Repayment of debt				(3)		(3)
Dividends paid	(217)					(217)
Repurchase of shares	(158)					(158)
Proceeds from exercise of share options	81					81
Net intercompany loan borrowings	365	183		1,189	(1,737)	
Intercompany dividend received (paid)			1,705	(1,705)		
Capital contribution				285	(285)	
Other	7			6		13
Net cash provided by (used in) financing activities	78	183	1,837	(228)	(2,022)	(152)
Effect of currency rate changes on cash				(7)		(7)
Net increase in cash and cash equivalents	1		68	91		160
Cash and cash equivalents at beginning of period			169	1,334		1,503
	\$ 1	\$	\$ 237	\$ 1,425	\$	\$ 1,663

Cash and cash equivalents at end of period

28

Table of Contents**COVIDIEN PLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Six Months Ended March 25, 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	\$ (9)	\$ (1)	\$ 210	\$ 699	\$	\$ 899
Cash Flows From Investing Activities:						
Capital expenditures				(167)		(167)
Sale of investments				14		14
Net increase in intercompany loans			(373)		373	
Other				(6)		(6)
Net cash used in investing activities			(373)	(159)	373	(159)
Cash Flows From Financing Activities:						
Net repayment of commercial paper			(215)			(215)
Repayment of debt			(250)	(4)		(254)
Dividends paid	(198)					(198)
Repurchase of shares	(102)					(102)
Proceeds from exercise of share options	73					73
Net intercompany loan borrowings	203	1		169	(373)	
Intercompany dividend received (paid)			490	(490)		
Other	33			(29)		4
Net cash provided by (used in) financing activities	9	1	25	(354)	(373)	(692)
Effect of currency rate changes on cash				16		16
Net increase (decrease) in cash and cash equivalents			(138)	202		64
Cash and cash equivalents at beginning of period	1		399	1,165		1,565
Cash and cash equivalents at end of period	\$ 1	\$	\$ 261	\$ 1,367	\$	\$ 1,629

Table of Contents

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

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

Table of Contents

Acquisitions

On January 5, 2012, we acquired BÂRRX Medical, Inc. (BÂRRX), a developer of bipolar radiofrequency ablation devices used in the treatment of Barrett's esophagus syndrome, for total considerations of \$393 million. The total purchase consideration was comprised of an upfront cash payment of \$322 million, net of cash acquired of \$16 million, and the fair value of contingent consideration of \$71 million. The contingent consideration, which could total \$75 million, consists of a milestone payment related to the achievement of health insurance coverage targets for procedures utilizing BÂRRX devices. The acquisition of BÂRRX expands our ability to treat gastrointestinal diseases.

In April 2012, we acquired Maya Medical, a developer of a treatment for hypertension, for an upfront cash payment of \$60 million. We may be required to pay up to an additional \$170 million if certain regulatory and sales milestones are achieved.

In May 2012, we acquired Newport Medical, a designer and manufacturer of ventilators, for approximately \$108 million in cash. The acquisition of Newport Medical complements our existing portfolio of acute care and home care ventilation solutions and broadens our ventilation platforms.

In March 2012, we entered into a definitive agreement to acquire superDimension, Ltd., a developer of minimally invasive interventional pulmonology devices, for approximately \$300 million in cash, with possible future earnout payments of up to \$50 million based on the achievement of specific milestones. The acquisition of superDimension will allow Covidien to deliver more comprehensive solutions in the evaluation and treatment of lung disease. The transaction is subject to customary closing conditions, including receipt of certain regulatory approvals, and is expected to be completed during the third quarter of fiscal 2012.

In April 2012, we entered into a definitive agreement to acquire Oridion Systems Ltd. (Oridion), a developer of patient monitoring systems, for approximately \$300 million in cash, net of cash acquired. The acquisition of Oridion complements our existing product portfolio of pulse oximeters and monitoring products. The transaction is subject to the approval of Oridion's shareholders and customary closing conditions, including receipt of certain regulatory approvals. The transaction is expected to be completed during the third quarter of fiscal 2012.

Licensing Agreement

During the second quarter of fiscal 2012, our Medical Devices segment entered into an exclusive licensing agreement which grants us product rights for two medical device patent and product candidates that are designed to remove peripheral artery blockages. This licensing arrangement included an upfront cash payment of \$12 million, which was included in research and development expenses. In addition, during the second quarter of fiscal 2012, we made a regulatory milestone payment of \$5 million, which was capitalized as an intangible asset. We may also be required to make additional payments of up to \$60 million if certain regulatory and sales milestones are achieved.

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 March 30, 2012, we had incurred \$77 million of net restructuring charges under the 2011 program since its inception.

Table of Contents**Results of Operations****Quarters and Six Months Ended March 30, 2012 and March 25, 2011**

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

(Dollars in Millions)	Quarters Ended				Six Months Ended			
	March 30, 2012		March 25, 2011		March 30, 2012		March 25, 2011	
Net sales	\$ 2,946	100.0%	\$ 2,801	100.0%	\$ 5,844	100.0%	\$ 5,570	100.0%
Cost of goods sold	1,240	42.1	1,205	43.0	2,437	41.7	2,403	43.1
Gross profit	1,706	57.9	1,596	57.0	3,407	58.3	3,167	56.9
Selling, general and administrative expenses	914	31.0	853	30.5	1,821	31.2	1,714	30.8
Research and development expenses	167	5.7	130	4.6	311	5.3	249	4.5
Restructuring charges (credits), net	16	0.5	(2)	(0.1)	30	0.5	51	0.9
Shareholder settlement income							(11)	(0.2)
Operating income	609	20.7	615	22.0	1,245	21.3	1,164	20.9
Interest expense	(51)	(1.7)	(50)	(1.8)	(102)	(1.7)	(102)	(1.8)
Interest income	6	0.2	6	0.2	12	0.2	11	0.2
Other income (expense), net	4	0.1	(1)		6	0.1	12	0.2
Income from continuing operations before income taxes	568	19.3	570	20.3	1,161	19.9	1,085	19.5
Income tax expense	77	2.6	111	4.0	176	3.0	194	3.5
Income from continuing operations	491	16.7	459	16.4	985	16.9	891	16.0
Income (loss) from discontinued operations, net of income taxes	6	0.2	(4)	(0.1)	6	0.1	(9)	(0.2)
Net income	\$ 497	16.9	\$ 455	16.2	\$ 991	17.0	\$ 882	15.8

Net sales Our net sales in the second quarter of fiscal 2012 increased \$145 million, or 5.2%, to \$2.946 billion, compared with \$2.801 billion in the second quarter of fiscal 2011. Our net sales for the first six months of fiscal 2012 increased \$274 million, or 4.9%, to \$5.844 billion, compared to \$5.570 billion in the first six months of fiscal 2011. The increases in net sales for both periods were driven by sales growth within our Medical Devices segment. These increases were slightly offset by unfavorable currency exchange rate fluctuations of \$19 million and \$16 million for the second quarter and first six months of fiscal 2012, respectively.

Net sales generated by our businesses in the United States were \$1.631 billion and \$1.546 billion for the second quarter of fiscal 2012 and 2011, respectively, and \$3.224 billion and \$3.073 billion for the first six months of fiscal 2012 and 2011, respectively. Our non-U.S. businesses generated net sales of \$1.315 billion and \$1.255 billion for the second quarter of fiscal 2012 and 2011, respectively, and \$2.620 billion and \$2.497 billion for the first six months of fiscal 2012 and 2011, respectively. Our business outside the United States accounted for approximately 45% of our net sales for the second quarters and six months ended of both fiscal 2012 and 2011.

Table of Contents

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

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth ⁽²⁾
	March 30, 2012	March 25, 2011			
Net Sales ⁽¹⁾					
U.S.	\$ 1,631	\$ 1,546	5%	%	5%
Other Americas	179	174	3	(3)	6
Europe	684	672	2	(4)	6
Asia-Pacific	452	409	11	4	7
	\$ 2,946	\$ 2,801	5	(1)	6

(Dollars in Millions)	Six Months Ended		Percentage Change	Currency Impact	Operational Growth ⁽²⁾
	March 30, 2012	March 25, 2011			
Net Sales ⁽¹⁾					
U.S.	\$ 3,224	\$ 3,073	5%	%	5%
Other Americas	349	346	1	(3)	4
Europe	1,343	1,327	1	(3)	4
Asia-Pacific	928	824	13	5	8
	\$ 5,844	\$ 5,570	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 \$79 million and \$68 million for the second quarter of fiscal 2012 and 2011, respectively and \$154 million and \$132 million for the first six months 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 42.1% and 41.7% of net sales in the second quarter and first six months of fiscal 2012, respectively, compared to 43.0% and 43.1% of net sales in the second quarter and first six months of fiscal 2011, respectively. The decreases in cost of goods sold as a percent of net sales for both fiscal 2012 periods were primarily attributable to favorable mix of businesses and manufacturing cost reductions.

Selling, general and administrative expenses Selling, general and administrative expenses in the second quarter of fiscal 2012 increased \$61 million, or 7.2%, to \$914 million, compared with the second quarter of fiscal 2011, and increased \$107 million, or 6.2%, to \$1.821 billion, compared with the first six months of fiscal 2011. The increases in selling, general and administrative expenses for both fiscal 2012 periods were primarily due to increased selling and marketing expenses resulting from sales force expansion, primarily in the emerging markets. Legal charges of \$47 million recorded during the first six months of fiscal 2012 related to indemnification obligations for certain claims pertaining to all known pending and estimated future pelvic mesh product liability cases also contributed to the increase in selling, general and administrative expenses during the first six months of fiscal 2012.

Research and development expenses Research and development expenses increased \$37 million, or 28.5%, to \$167 million in the second quarter of fiscal 2012, compared with the second quarter of fiscal 2011, and increased \$62 million, or 24.9%, to \$311 million in the first six months of fiscal 2012, compared to the first six

Table of Contents

months of fiscal 2011. Both current year periods include a \$12 million upfront payment made in connection with a license agreement entered into by our Medical Devices segment. The remaining increases of \$25 million and \$50 million for the quarter and first six months of fiscal 2012, respectively, primarily resulted from increased spending within our Medical Devices segment to support our growth initiatives. As a percentage of our net sales, research and development expenses was 5.7% and 5.3% for the second quarter and first six months of fiscal 2012, respectively, compared to 4.6% and 4.5% for the second quarter and first six months of fiscal 2011, respectively.

Restructuring charges (credits), net During the second quarter and first six months of fiscal 2012, we recorded net restructuring and related charges of \$21 million and \$39 million, respectively, of which charges of \$5 million and \$9 million, respectively, related to accelerated depreciation and were included in cost of goods sold. The remaining amounts of \$16 million and \$30 million for the quarter and first six months of fiscal 2012, respectively, primarily related to severance and employee benefit costs incurred under our 2011 program.

We recorded net restructuring credits of \$2 million during the second quarter of fiscal 2011, and restructuring charges of \$51 million during the first six months of fiscal 2011. The charges recorded during the first six months of fiscal 2011 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 recent acquisitions by our Medical Devices segment. In addition, during the first six months of fiscal 2011, we reversed \$15 million of restructuring reserves under our 2009 program, \$10 million of which resulted from the determination that one of the restructuring actions within our Medical Supplies segment was no longer cost effective. Additional information regarding our restructuring charges is provided in note 3 to our consolidated financial statements.

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

Operating income In the second quarter of fiscal 2012, operating income decreased \$6 million to \$609 million, compared with operating income of \$615 million in the second quarter of fiscal 2011. The decrease in operating income for the second quarter of fiscal 2012 compared with the same prior year period was primarily due to increased selling and marketing expenses resulting from sales force expansion, a \$37 million increase in research and development expense and a \$23 million increase in net restructuring and related charges. These decreases to operating income were partially offset by the gross profit resulting from increased sales volume within our Medical Devices segment.

In the first six months of fiscal 2012, operating income increased \$81 million to \$1.245 billion, compared with operating income of \$1.164 billion in the first six months of fiscal 2011. The increase in operating income for the first six months of fiscal 2012 compared with the same prior year period was primarily due to the gross profit resulting from increased sales volume within our Medical Devices segment. The increase in operating income was partially offset by a \$62 million increase in research and development expenses and \$47 million of legal charges recorded during the first six months of fiscal 2012 related to indemnification obligations for certain claims pertaining to all known pending and estimated future pelvic mesh product liability cases.

Table of Contents**Analysis of Operating Results by Segment**

Net sales by segment are shown in the following table:

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Medical Devices	\$ 2,004	\$ 1,877	7%	%	7%
Pharmaceuticals	508	490	4	(1)	5
Medical Supplies	434	434			
	\$ 2,946	\$ 2,801	5	(1)	6

(Dollars in Millions)	Six Months Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Medical Devices	\$ 3,988	\$ 3,754	6%	%	6%
Pharmaceuticals	998	960	4	(1)	5
Medical Supplies	858	856		(1)	1
	\$ 5,844	\$ 5,570	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				Six Months Ended			
	March 30, 2012		March 25, 2011		March 30, 2012		March 25, 2011	
Medical Devices	\$ 609	30.4%	\$ 582	31.0%	\$ 1,262	31.6%	\$ 1,164	31.0%
Pharmaceuticals	92	18.1	86	17.6	175	17.5	157	16.4
Medical Supplies	47	10.8	59	13.6	102	11.9	122	14.3
Operating income of reportable segments	748	25.4	727	26.0	1,539	26.3	1,443	25.9
Unallocated amounts:								
Corporate expenses	(96)		(106)		(182)		(207)	
Legal charges					(47)			
Restructuring and related (charges) credits, net	(21)		2		(39)		(51)	
Separation costs ⁽¹⁾	(6)				(10)			
Charges associated with acquisitions and licensing arrangement ⁽²⁾	(16)		(8)		(16)		(32)	
Shareholder settlement income							11	
Consolidated operating income	\$ 609		\$ 615		\$ 1,245		\$ 1,164	

⁽¹⁾ Amounts represent costs incurred related to the separation of our Pharmaceuticals segment.

⁽²⁾ Current period amounts primarily relate to an upfront payment made in connection with a license agreement. Prior year amounts represent charges included in cost of goods sold related to the sale of acquired inventory that had been written up to fair value upon acquisition.

Table of Contents**Medical Devices**

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

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Endomechanical Instruments	\$ 577	\$ 557	4%	(1)%	5%
Energy Devices	318	283	12	(2)	14
Soft Tissue Repair Products	222	220	1	(1)	2
Vascular Products	390	333	17		17
Oximetry & Monitoring Products	220	211	4	(1)	5
Airway & Ventilation Products	185	185		(1)	1
Other Products	92	88	5	2	3
	\$ 2,004	\$ 1,877	7		7
U.S.	\$ 904	\$ 839	8%	%	8%
Non-U.S.	1,100	1,038	6	(1)	7
	\$ 2,004	\$ 1,877	7		7

Net sales for the second quarter of fiscal 2012 increased \$127 million, or 7%, to \$2.004 billion, compared with \$1.877 billion for the second quarter of fiscal 2011. The increase in net sales for the segment was driven by increased sales of Vascular Products, Energy Devices and Endomechanical Instruments. The increase in sales for Vascular Products was primarily due to increased sales of neurovascular, peripheral vascular 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, led by our Tri-Staple reloads.

Operating income for the second quarter of fiscal 2012 increased \$27 million to \$609 million, compared with \$582 million for the second quarter of fiscal 2011. Our operating margin was 30.4% for the second quarter of fiscal 2012, compared with 31.0% for the second 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. This increase to operating income was partially offset by an increase in selling and marketing expenses resulting from sales force expansion, primarily in the emerging markets, and an increase in research and development expense to support our growth initiatives.

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

(Dollars in Millions)	Six Months Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Endomechanical Instruments	\$ 1,158	\$ 1,125	3%	%	3%
Energy Devices	639	553	16		16
Soft Tissue Repair Products	440	441			
Vascular Products	777	665	17	1	16
Oximetry & Monitoring Products	427	416	3		3
Airway & Ventilation Products	366	371	(1)		(1)
Other Products	181	183	(1)	1	(2)
	\$ 3,988	\$ 3,754	6		6
U.S.	\$ 1,799	\$ 1,688	7%	%	7%

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Non-U.S.	2,189	2,066	6	6
	\$ 3,988	\$ 3,754	6	6

Table of Contents

Net sales for the first six months of fiscal 2012 increased \$234 million, or 6%, to \$3.988 billion, compared with \$3.754 billion for the first six months 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, peripheral vascular 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, partially offset by a decrease in sales of laparoscopy instruments.

Operating income for the first six months of fiscal 2012 increased \$98 million to \$1.262 billion, compared with \$1.164 billion for the first six months of fiscal 2011. Our operating margin was 31.6% for the first six months of fiscal 2012, compared with 31.0% for the first six months 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. This increase to operating income was partially offset by an increase in selling and marketing expenses resulting from sales force expansion, primarily in the emerging markets, and an increase in research and development expense to support our growth initiatives.

Pharmaceuticals

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

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Specialty Pharmaceuticals	\$ 142	\$ 106	34%	%	34%
Active Pharmaceutical Ingredients	114	121	(6)	(1)	(5)
Contrast Products	135	154	(12)	(1)	(11)
Radiopharmaceuticals	117	109	7	(1)	8
	\$ 508	\$ 490	4	(1)	5
U.S.	\$ 344	\$ 326	6%	%	6%
Non-U.S.	164	164		(2)	2
	\$ 508	\$ 490	4	(1)	5

Net sales for the second quarter of fiscal 2012 increased \$18 million to \$508 million, compared with \$490 million for the second quarter of fiscal 2011. This increase was primarily driven by increased sales of Specialty Pharmaceuticals driven by sales of EXALGO® and PENNSAID®, and to a lesser extent increased sales of generic pharmaceuticals. These increases were partially offset by decreased sales of Contrast Products and Active Pharmaceutical Ingredients. The sales decline within Contrast Products primarily resulted from lower sales of Optiray contrast agent and the loss of a customer contract. The decrease in sales of Active Pharmaceutical Ingredients, was primarily due to lower narcotics sales resulting from the timing of customer orders.

Operating income for the second quarter of fiscal 2012 increased \$6 million to \$92 million, compared with \$86 million for the second quarter of fiscal 2011. Our operating margin was 18.1% for the second quarter of fiscal 2012, compared with 17.6% for the second quarter of fiscal 2011. The increase in operating income was primarily due to favorable product mix and increased sales volume. These increases to operating income were partially offset by increases in general and administrative expenses, primarily resulting from environmental costs and bad debt expense.

Table of Contents

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

(Dollars in Millions)	Six Months Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Specialty Pharmaceuticals	\$ 276	\$ 237	16%	%	16%
Active Pharmaceutical Ingredients	216	205	5	(1)	6
Contrast Products	280	297	(6)	(2)	(4)
Radiopharmaceuticals	226	221	2	(1)	3
	\$ 998	\$ 960	4	(1)	5
U.S.	\$ 667	\$ 634	5%	%	5%
Non-U.S.	331	326	2	(1)	3
	\$ 998	\$ 960	4	(1)	5

Net sales for the first six months of fiscal 2012 increased \$38 million to \$998 million, compared with \$960 million for the first six months of fiscal 2011. This increase was primarily driven by increased sales of Specialty Pharmaceuticals driven by sales of EXALGO® and PENNSAID® and, to a lesser extent, increased sales of narcotics within Active Pharmaceutical Ingredients. These increases were partially offset by decreased sales of Contrast Products resulting primarily from lower sales of Optiray contrast agent.

Operating income for the first six months of fiscal 2012 increased \$18 million to \$175 million, compared with \$157 million for the first six months of fiscal 2011. Our operating margin was 17.5% for the first six months of fiscal 2012, compared with 16.4% for the first six months of fiscal 2011. The increase in operating income was primarily due to favorable product mix and increased sales volume. These increases to operating income were partially offset by increases in general and administrative expenses, primarily resulting from environmental costs and bad debt expense.

Medical Supplies

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

(Dollars in Millions)	Quarters Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Nursing Care Products	\$ 196	\$ 198	(1)%	%	(1)%
Medical Surgical Products	112	108	4		4
SharpSafety Products	72	75	(4)	(1)	(3)
Original Equipment Manufacturer (OEM) Products	54	53	2	(1)	3
	\$ 434	\$ 434			
U.S.	\$ 383	\$ 381	1%	%	1%
Non-U.S.	51	53	(4)	(4)	
	\$ 434	\$ 434			

Net sales for the second quarter of fiscal 2012 remained level with the second quarter of fiscal 2011. Increased sales of Medical Surgical Products, driven by electrodes and operating room products, were offset by lower sales of SharpSafety Products. In addition, increased sales of incontinence products within Nursing Care Products were more than offset by decreased sales of woundcare products.

Table of Contents

Operating income for the second quarter of fiscal 2012 decreased \$12 million to \$47 million, compared with \$59 million for the second quarter of fiscal 2011. Our operating margin was 10.8% for the second quarter of fiscal 2012, compared with 13.6% for the second quarter of fiscal 2011. The decrease in operating income and margin primarily resulted from pricing pressure and increased freight expense, driven by fuel costs.

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

(Dollars in Millions)	Six Months Ended		Percentage Change	Currency Impact	Operational Growth
	March 30, 2012	March 25, 2011			
Nursing Care Products	\$ 394	\$ 390	1%	%	1%
Medical Surgical Products	221	213	4		4
SharpSafety Products	142	149	(5)	(1)	(4)
Original Equipment Manufacturer (OEM) Products	101	104	(3)		(3)
	\$ 858	\$ 856		(1)	1
U.S.	\$ 758	\$ 751	1%	%	1%
Non-U.S.	100	105	(5)	(3)	(2)
	\$ 858	\$ 856		(1)	1

Net sales for the first six months of fiscal 2012 increased \$2 million to \$858 million, compared with \$856 million for the first six months of fiscal 2011. Increased sales of Medical Surgical Products, driven by higher sales of electrodes and, to a lesser extent, operating room products were partially offset by decreased sales of SharpSafety Products. Increased sales of incontinence products within Nursing Care Products were largely offset by decreased sales of woundcare and urology products.

Operating income for the first six months of fiscal 2012 decreased \$20 million to \$102 million, compared with \$122 million for the first six months of fiscal 2011. Our operating margin was 11.9% for the first six months of fiscal 2012, compared with 14.3% for the first six months of fiscal 2011. The decrease in operating income and margin primarily resulted from pricing pressure and increased freight and warehousing expense, largely due to fuel costs.

Corporate

Corporate expenses were \$96 million and \$106 million for the second quarter of fiscal 2012 and fiscal 2011, respectively, and \$182 million and \$207 million for the first six months of fiscal 2012 and fiscal 2011, respectively. Lower legal and environmental expenses contributed to the decrease in corporate expenses for both current year periods. The timing of stock-based compensation expense recognition, and an overall decrease in annual stock-based compensation expense, also contributed to the decrease in corporate expenses for the first six months of fiscal 2012, compared to the same prior year period.

Non-Operating Items*Interest Expense and Interest Income*

During the second quarters of fiscal 2012 and 2011, interest expense was \$51 million and \$50 million, respectively, and interest income was \$6 million in each period. During the first six months of both fiscal 2012 and 2011, interest expense was \$102 million. Interest income was \$12 million and \$11 million for the first six months of fiscal 2012 and 2011, respectively.

Other Income (Expense), net

During the second quarter and first six months of fiscal 2012, we recorded other income, net of \$4 million and \$6 million, respectively. Other income, net for the second quarter and first six months of fiscal 2012 includes

Table of Contents

income of \$6 million and \$7 million, respectively, and corresponding increases to our receivable from Tyco International Ltd. and TE Connectivity Ltd. (formerly Tyco Electronics Ltd.). These amounts reflect 58% of the interest and other income taxes payable amounts recorded that are subject to the Tax Sharing Agreement.

We recorded other expense, net of \$1 million during the second quarter of fiscal 2011, and other income, net of \$12 million during the first six months of fiscal 2011. These amounts include net losses on investments of \$13 million and \$8 million for the second quarter and first six months of fiscal 2011, respectively. In addition, income of \$12 million and \$20 million and corresponding increases to our receivable from Tyco International and TE Connectivity, is included for the second quarter and first six months of fiscal 2011, respectively.

Income Tax Expense

Income tax expense was \$77 million and \$111 million on income from continuing operations before income taxes of \$568 million and \$570 million for the second quarters of fiscal 2012 and 2011, respectively. This resulted in effective tax rates of 13.6% and 19.5% for the second quarters of fiscal 2012 and 2011, respectively. Income tax expense was \$176 million and \$194 million on income from continuing operations before income taxes of \$1.161 billion and \$1.085 billion for the first six months of fiscal 2012 and 2011, respectively. This resulted in effective tax rates of 15.2% and 17.9% for the first six months of fiscal 2012 and 2011, respectively. The decreases in the effective tax rates for the second quarter and first six months of fiscal 2012, compared to the comparative prior year periods, resulted primarily from the implementation of tax planning strategies, including the release of a valuation allowance, partially offset by 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.

Six Months Ended March 30, 2012 Cash Flow Activity

The net cash provided by operating activities of \$916 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 \$360 million, driven largely by an increase in accounts receivable of \$143 million, an increase in inventory of \$133 million and the annual payout of cash bonuses for performance in the prior fiscal year. In fiscal 2012, we expect to make net indemnification payments of totaling approximately \$50 million related to pre-separation tax matters under the Tax Sharing Agreement, of which a net payment of \$25 million was made during the first six months of fiscal 2012.

The net cash used in investing activities of \$597 million was primarily due to acquisition-related payments of \$352 million, primarily associated with the acquisition of BÂRRX and capital expenditures of \$250 million. For the full year fiscal 2012, we expect capital expenditures to be in the range of \$475 to \$500 million.

The net cash used in financing activities of \$152 million was primarily due to dividend payments of \$217 million and share repurchases of \$158 million, partially offset by net proceeds from the issuance of commercial paper of \$132 million.

Capitalization

Shareholders' equity was \$10.531 billion, or \$21.84 per share, at March 30, 2012, 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 \$991 million, partially offset by dividends declared of \$217 million and the repurchase of shares of \$158 million.

Table of Contents

The following table contains several key measures to gauge our financial condition and liquidity at March 30, 2012:

(Dollars in Millions)	March 30, 2012	September 30, 2011
Cash and cash equivalents	\$ 1,663	\$ 1,503
Current maturities of long-term debt	511	11
Long-term debt	3,824	4,197
Total debt	4,335	4,208
Shareholders' equity	10,531	9,817
Debt-to-total capital ratio	29%	30%

We are required to maintain an available unused balance under our \$1.5 billion revolving credit facility sufficient to support amounts outstanding under our commercial paper program. At March 30, 2012, we had \$247 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

On January 19, 2012, the Board of Directors declared a quarterly cash dividend of \$0.225 per share, which was paid during the second quarter of fiscal 2012. Dividend payments totaled \$217 million for the first six months of fiscal 2012.

On March 14, 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 April 4, 2012. The dividend is payable on May 7, 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 14 to our consolidated financial statements and in Part II, Item 1 of this 10-Q.

Income Taxes

Our income tax returns are periodically examined by various tax authorities. The 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 13 to our consolidated financial statements. Tyco International has the right to administer, control and settle all U.S. income tax audits for periods prior to the separation. We have potential liabilities related to these income tax returns and have included our best estimate of potential liabilities for these years within our current and non-current taxes payable. With respect to these potential income tax liabilities from all of these years, we believe that the amounts recorded in our consolidated financial statements as current or non-current taxes payable are adequate.

Table of Contents

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 \$1.660 billion of contingent tax liabilities that are recorded on the consolidated balance sheet at March 30, 2012, \$1.091 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 net receivable from Tyco International and TE Connectivity of \$587 million as of March 30, 2012, substantially all of which is non-current. This amount primarily reflects 58% of our contingent tax liabilities that are subject to the Tax Sharing Agreement. If Tyco International and TE Connectivity default on their obligations to us under the Tax Sharing Agreement, however, we would be liable for the entire amount of such liabilities. The IRS has concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and proposed tax adjustments, several of which also affect our income tax returns for years after 2000. Tyco International has appealed certain of the tax adjustments proposed by the IRS and we believe that some of these adjustments 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

Table of Contents

sufficiency of the liability. Current and non-current liabilities totaling \$626 million and \$660 million relating to these guarantees were included on our consolidated balance sheet at March 30, 2012 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.

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 March 30, 2012 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 \$79 million. In addition, we were required to pay \$30 million into an escrow account as collateral, of which \$27 million remained in other assets on the consolidated balance sheet at March 30, 2012.

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

Critical Accounting Policies and Estimates

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

We believe that our accounting policies for revenue recognition, inventories, property, plant and equipment, intangible assets, business combinations, goodwill, contingencies, pension and postretirement benefits, guarantees and income taxes are based on, among other things, judgments and assumptions made by management that include inherent risks and uncertainties. There have been no significant changes to the above critical accounting policies or in the underlying accounting assumptions and estimates used in such policies from those disclosed in our annual consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued an amendment to the 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 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.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

The risk factors discussed in Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 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 March 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

We are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes, as described in our Annual Report on form 10-K for the fiscal year ended September 30, 2011. There were no material developments during the quarter ended March 30, 2012 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
12/31/11 01/27/12		\$		\$ 1,800,416,161
01/28/12 03/02/12	2,868,500	\$ 52.29	2,868,500	\$ 1,650,419,804
03/03/12 03/30/12		\$		\$ 1,650,419,804

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	

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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 March 30, 2012 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.

Table of Contents

SIGNATURES

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

COVIDIEN PUBLIC LIMITED COMPANY

By: */s/* **Richard G. Brown, Jr.**
Richard G. Brown, Jr.

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

/s/ **Charles J. Dockendorff**
Charles J. Dockendorff

**Executive Vice President and Chief Financial
Officer**

(Principal Financial Officer)

Date: May 4, 2012