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**From:** Cowick, Nicole A [Cowick, Nicole A]  
**Sent:** 10/5/2010 3:57:20 PM  
**To:** Rees, Dale J; Fischer, David STLP  
**CC:** Wagner, Clayton P; Kilper, Jeff J  
**Subject:** FW: Purchase Obligations 9/24/10  
**Attachments:** 10 (528 KB).msg  
**Importance:** High

Dale/Dave

The question that I need clarification for is the following:

We should only be reporting amounts on the purchase obligation schedule that is not paid/accrued at 9/24/10. Clayton has wrote that the Mikart and Pisgah Labs obligations have been accrued. If this is the case, we should not be reporting these amounts. Can you clarify? If this is the case, can you confirm that the entire amount of the purchase obligations has been accrued \$1,937,875? I have attached Clayton's original email with the files that he sent to me for your review.

I will need an answer on this early today as this schedule is due to Mansfield end of day today.

Thank you,  
Niki

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**From:** Wagner, Clayton P  
**Sent:** Tuesday, October 05, 2010 9:20 AM  
**To:** Cowick, Nicole A; Rees, Dale J; Fischer, David STLP; Kilper, Jeff J  
**Subject:** Re: Purchase Obligations 9/24/10

The contract specified a dollar amount but the supplier has to make more in order to provide the contract quantity and our view has been we have to take their entire run, based on my understanding of our conversation back in may with jeff and Dale

I think the liability was recorded in May but I'm not sure where

Dale or Dave can you please help Nicole on this. I'm at an offsite meeting today with the site staff

Thanks  
Clay

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**From:** Cowick, Nicole A  
**To:** Wagner, Clayton P  
**Sent:** Tue Oct 05 09:10:25 2010  
**Subject:** RE: Purchase Obligations 9/24/10

Clayton,

Can you please explain your variance comment "Obligation to take actual minimum run qty, not contract amount for imipramine pamoate". I am sorry, but I don't understand what you are saying.

Also, you wrote that this is accrued to slow/nonmoving reserve. Is this correct? If we are reporting this as a future purchase obligation, it shouldn't be paid or accrued as of 9/24/10. Please clarify.

Thank you!  
Niki

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**From:** Wagner, Clayton P  
**Sent:** Monday, October 04, 2010 3:19 PM  
**To:** Cowick, Nicole A; Fischer, David STLP  
**Subject:** RE: Purchase Obligations 9/24/10

<< File: Purchase Obligations Support Mikart Pisgah Q4 100410.xls >> << File: Purchase Obligations variances 9-24-10 Hobart.xls >> << File: FY10 Purchase Obligations Questionnaire Hobart.xls >> << File: FY10 SEC Quarterly Template\_v9 2010\_qtr Hobart.xls >>

Sorry for the delay.

Dave, these schedules reflect obligations for Mikart (Magnacet products) and Pisgah Labs (imipramine pamoate).

Clay

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**From:** Cowick, Nicole A  
**Sent:** Friday, September 24, 2010 11:08 AM  
**To:** Bouchon, Jane F; Erdal, Dean L; Fischer, David STLP; Huels, Keith A; Jaeger, Mark; Jepsen, John F; Kuemmel, Jerry D.; Lafeber, Terese E; Lasker, Karen L; Lewis, Greg L (MKG - Greenville, IL); Lucas-Tebeau, Robyn; Postier, Sheridan; Shumake, Pam J; Sparks, Dick C; Thomas, Angie F; Wagner, Clayton P; Lawson, Marc ; Minier, Jennifer M; Joyner, Renae P.; Coleman, Shawn ; Brueggeman, Patrick S  
**Cc:** Giles, David; Ware, Janice  
**Subject:** Purchase Obligations 9/24/10  
**Importance:** High

All,

For our year-end reporting requirements, please complete the Purchase Obligation Questionnaire attached below along with the Purchase Obligations tab in the attached SEC Quarterly Template as of 9/24/10 and email to me by Friday, October 1st. As a reminder, all purchase obligations should be included. A purchase obligation is a legally bound contract to purchase a certain amount of goods or services. The terms must be defined. In addition, please see the notes below for what should be included. If there are significant fluctuations from the obligations reported for 3rd Qtr FY2010, please explain what has caused the variance. I have also attached a variance file that you should complete to go along with the template. Please look at the entire variance file and fill out all of the columns pertaining to your obligation. Requesting this information up front should hopefully decrease some of the questions received from Mansfield. Please note that there are 3 tabs (MALLINCDEL, NPBINC, and ASPECT) in the variance file. **(Marc Lawson - make sure to include Somanetics this time also).**

- Please be sure to report as rolling quarters. For example, Year 1 should include obligations from (Q1 FY11 - Q4 FY11), etc.
- Only include purchase obligations where there is a non-cancelable contract signed on or before September 24, 2010 or you have a Non-Cancelable Purchase order.
- Non-cancelable means that if we stopped production of that item, or if the company went out of business today, we would still have to pay for that material, service, etc. (Just because we need something for production and wouldn't want to cancel, does not mean that it is non-cancelable.)
- Only include the amount we are required to purchase according to the contract- not the total amount of open PO's issued or intended to be issued unless they are non-cancelable. For example, if a signed contract obligates us to purchase 425 metric tons over the year, and through 9/24/10 we have purchased 300 metric tons, then the remaining obligation of 125 metric tons is all that should be reported. It is irrelevant if we have PO's issued for 200 metric tons, unless those additional 75 PO's are non-cancelable.
- It does not matter if we have an Irrevocable Letter of Credit issued on a PO. That PO is still not included in our purchase obligation template unless it cannot be canceled. (These Letters of Credit are reported on a separate schedule by Treasury).

Here is additional information (same as last quarter) regarding purchase obligations.

"For purchase obligation, if you can cancel the purchase orders, but you have to negotiate to get out of the agreement, and/or you have to pay penalties to get out of the agreement, you should include these kinds of purchase orders in your schedule."

"Your business will have to make a determination on whether they expect the penalty to be significant enough to preclude the purchase obligation from being cancelled."

Thank you  
Niki

<< File: FY10 SEC Quarterly Template\_v9.2010\_qtr.xls >> << File: FY10 Purchase Obligations Questionnaire.xls >> << File: Purchase Obligations variances 6-25-10.xls >>

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