

MEDTRONIC INC  
Form 10-Q  
March 06, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 25, 2013

Commission File Number 1-7707

MEDTRONIC, INC.

(Exact name of registrant as specified in its charter)

Minnesota

41-0793183

(State of incorporation)

(I.R.S. Employer  
Identification No.)

710 Medtronic Parkway

Minneapolis, Minnesota 55432

(Address of principal executive offices) (Zip Code)

(763) 514-4000

(Registrant's telephone number, including area code)

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.

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

Shares of common stock, \$.10 par value, outstanding on March 1, 2013: 1,013,805,980

TABLE OF CONTENTS

Item	Description	Page
	<u>PART I</u>	
1.	<u>Financial Statements</u>	<u>1</u>
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
4.	<u>Controls and Procedures</u>	<u>53</u>
	<u>PART II</u>	
1.	<u>Legal Proceedings</u>	<u>54</u>
1A.	<u>Risk Factors</u>	<u>54</u>
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
6.	<u>Exhibits</u>	<u>54</u>

---

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## MEDTRONIC, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
	(in millions, except per share data)			
Net sales	\$4,027	\$3,918	\$12,130	\$11,887
Costs and expenses:				
Cost of products sold	999	931	2,992	2,842
Research and development expense	376	364	1,148	1,097
Selling, general, and administrative expense	1,401	1,371	4,223	4,161
Certain litigation charges, net	—	—	245	—
Acquisition-related items	(55	) 15	(44	) (1
Amortization of intangible assets	88	84	247	255
Other expense, net	17	67	119	316
Interest expense, net	46	33	103	103
Total costs and expenses	2,872	2,865	9,033	8,773
Earnings from continuing operations before income taxes	1,155	1,053	3,097	3,114
Provision for income taxes	167	208	599	587
Earnings from continuing operations	988	845	2,498	2,527
Discontinued operations, net of tax:				
Earnings from operations of Physio-Control	—	15	—	32
Physio-Control divestiture-related costs	—	(9	) —	(17
Deferred income tax benefit on sale	—	84	—	84
Earnings from discontinued operations	—	90	—	99
Net earnings	\$988	\$935	\$2,498	\$2,626
Basic earnings per share:				
Earnings from continuing operations	\$0.98	\$0.80	\$2.45	\$2.39
Net earnings	\$0.98	\$0.89	\$2.45	\$2.48
Diluted earnings per share:				
Earnings from continuing operations	\$0.97	\$0.80	\$2.43	\$2.37
Net earnings	\$0.97	\$0.88	\$2.43	\$2.47
Basic weighted average shares outstanding	1,012.5	1,054.4	1,020.7	1,058.5
Diluted weighted average shares outstanding	1,021.0	1,060.2	1,028.7	1,064.1
Cash dividends declared per common share	\$0.2600	\$0.2425	\$0.7800	\$0.7275

The accompanying notes are an integral part of these condensed consolidated financial statements.



## MEDTRONIC, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
	(in millions)			
Net earnings	\$988	\$935	\$2,498	\$2,626
Other comprehensive income/(loss), net of tax:				
Unrealized gain/(loss) on investments, net of tax expense/(benefit) of \$(19), \$(89), \$(15), and \$(61), respectively	(33	) (150	) (26	) (102
Translation adjustment	40	(85	) 13	(168
Net change in retirement obligations, net of tax expense of \$7, \$6, \$26, and \$18, respectively	10	15	45	38
Unrealized gain/(loss) on derivatives, net of tax expense/(benefit) of \$(2), \$59, \$(18), and \$106, respectively	(5	) 101	(31	) 181
Other comprehensive income/(loss)	12	(119	) 1	(51
Comprehensive income	\$1,000	\$816	\$2,499	\$2,575

The accompanying notes are an integral part of these condensed consolidated financial statements.

MEDTRONIC, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	January 25, 2013	April 27, 2012
	(in millions, except per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,298	\$ 1,248
Short-term investments	1,166	1,344
Accounts receivable, less allowances of \$106 and \$100, respectively	3,532	3,808
Inventories	1,889	1,800
Deferred tax assets, net	564	640
Prepaid expenses and other current assets	712	675
<b>Total current assets</b>	<b>9,161</b>	<b>9,515</b>
Property, plant, and equipment	6,136	5,796
Accumulated depreciation	(3,634)	(3,323)
Property, plant, and equipment, net	2,502	2,473
Goodwill	10,341	9,934
Other intangible assets, net	2,758	2,647
Long-term investments	9,321	7,705
Long-term deferred tax assets, net	484	504
Other assets	382	305
<b>Total assets</b>	<b>\$34,949</b>	<b>\$33,083</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$4,104	\$3,274
Accounts payable	569	565
Accrued compensation	864	912
Accrued income taxes	207	65
Deferred tax liabilities, net	10	33
Other accrued expenses	1,204	1,008
<b>Total current liabilities</b>	<b>6,958</b>	<b>5,857</b>
Long-term debt	7,314	7,359
Long-term accrued compensation and retirement benefits	838	759
Long-term accrued income taxes	1,002	1,005
Long-term deferred tax liabilities, net	639	611
Other long-term liabilities	362	379

Edgar Filing: MEDTRONIC INC - Form 10-Q

Total liabilities	17,113	15,970
Commitments and contingencies (Notes 4 and 19)		
Shareholders' equity:		
Preferred stock— par value \$1.00	—	—
Common stock— par value \$0.10	101	104
Retained earnings	18,207	17,482
Accumulated other comprehensive loss	(472	) (473 )
Total shareholders' equity	17,836	17,113
Total liabilities and shareholders' equity	\$34,949	\$33,083

The accompanying notes are an integral part of these condensed consolidated financial statements.

MEDTRONIC, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Nine months ended	
	January 25, 2013	January 27, 2012
	(in millions)	
Operating Activities:		
Net earnings	\$2,498	\$2,626
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	610	633
Amortization of discount on senior convertible notes	69	63
Acquisition-related items	(67)	) 32
Provision for doubtful accounts	34	49
Deferred income taxes	39	(181)
Stock-based compensation	119	124
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	255	(124)
Inventories	(58)	) (202)
Accounts payable and accrued liabilities	(25)	) 74
Other operating assets and liabilities	68	571
Certain litigation charges, net	245	—
Certain litigation payments	(91)	) (239)
Net cash provided by operating activities	3,696	3,426
Investing Activities:		
Acquisitions, net of cash acquired	(820)	) (556)
Additions to property, plant, and equipment	(336)	) (374)
Purchases of marketable securities	(7,746)	) (5,714)
Sales and maturities of marketable securities	6,396	4,495
Other investing activities, net	(4)	) (32)
Net cash used in investing activities	(2,510)	) (2,181)
Financing Activities:		
Acquisition-related contingent consideration	(17)	) (62)
Change in short-term borrowings, net	(9)	) 197
Repayment of short-term borrowings (maturities greater than 90 days)	(1,850)	) (2,500)
Proceeds from short-term borrowings (maturities greater than 90 days)	2,625	2,525
Payments on long-term debt	(10)	) (24)
Dividends to shareholders	(797)	) (769)
Issuance of common stock	158	67
Repurchase of common stock	(1,247)	) (780)
Net cash used in financing activities	(1,147)	(1,346)
Effect of exchange rate changes on cash and cash equivalents	11	(91)



Net change in cash and cash equivalents	50	(192 )
Cash and cash equivalents at beginning of period	1,248	1,382
Cash and cash equivalents at end of period	\$ 1,298	\$ 1,190

Supplemental Cash Flow Information

Cash paid for:

Income taxes	\$422	\$226
Interest	226	197

The condensed consolidated statement of cash flows for the prior period includes the activities of the discontinued operations. The accompanying notes are an integral part of these condensed consolidated financial statements.

MEDTRONIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial condition, and cash flows in conformity with U.S. GAAP. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of Medtronic, Inc. and its subsidiaries (Medtronic or the Company) for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date of the financial statements and during the reporting period. Actual results could materially differ from these estimates. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended April 27, 2012.

On January 30, 2012, the Company completed its sale of Physio-Control. Beginning in the third quarter of fiscal year 2012, the results of operations, assets, and liabilities of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, are classified as discontinued operations. All information in the following notes to the condensed consolidated financial statements includes only results from continuing operations (excluding Physio-Control) for all periods presented, unless otherwise noted. For further information regarding discontinued operations, see Note 3.

The Company's fiscal years 2013, 2012, and 2011 will end or ended on April 26, 2013, April 27, 2012, and April 29, 2011, respectively.

#### Note 2 – New Accounting Pronouncements

##### Recently Adopted

In June 2011, and as subsequently amended in December 2011, the Financial Accounting Standards Board (FASB) issued final guidance on the presentation of comprehensive income. Under the newly issued guidance, net income and comprehensive income may only be presented either as one continuous statement or in two separate, but consecutive statements. The Company retrospectively adopted this guidance in the first quarter of fiscal year 2013, with comprehensive income shown as a separate statement immediately following the condensed consolidated statements of earnings. Since the new guidance only relates to presentation, its adoption did not impact the Company's financial position, results of operations, or cash flows.

In September 2011, the FASB updated the accounting guidance related to annual and interim goodwill impairment testing. The updated accounting guidance allows entities to first assess qualitative factors before performing a quantitative assessment of the fair value of a reporting unit. If it is determined on the basis of qualitative factors that the fair value of the reporting unit is more likely than not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. The Company adopted this guidance in the first quarter of fiscal year 2013. The adoption did not have a material impact on the Company's consolidated financial statements.

##### Not Yet Adopted

In December 2011 and January 2013, the FASB issued new accounting guidance related to disclosures on offsetting assets and liabilities on the balance sheet. This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. This

accounting guidance is required to be applied retrospectively and is effective for the Company beginning in the first quarter of fiscal year 2014. Since the accounting guidance only impacts disclosure requirements, its adoption will not have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB updated the accounting guidance related to annual and interim indefinite-lived intangible asset impairment testing. The updated accounting guidance allows entities to first assess qualitative factors before performing a quantitative assessment of the fair value of indefinite-lived intangible assets. If it is determined on the basis of qualitative factors that the fair value of indefinite-lived intangible assets is more likely than not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. The updated guidance is effective

MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

for the Company beginning in the first quarter of fiscal year 2014 with early adoption permitted under certain circumstances. The Company will adopt this accounting guidance in the first quarter of fiscal year 2014 and does not expect it to have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB expanded the disclosure requirements with respect to changes in accumulated other comprehensive income (AOCI). Under this new guidance, companies will be required to disclose the amount of income (or loss) reclassified out of AOCI to each respective line item on the statements of earnings where net income is presented. The guidance allows companies to elect whether to disclose the reclassification either in the notes to the financial statements or

parenthetically on the face of the financial statements. This update is effective for the Company beginning in the fourth quarter of fiscal 2013. Since the accounting guidance only impacts disclosure requirements, its adoption will not have a material impact on the Company's consolidated financial statements.

## Note 3 – Discontinued Operations

Beginning in the third quarter of fiscal year 2012, the results of operations, assets, and liabilities of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, are classified as discontinued operations.

On January 30, 2012, the Company completed the sale of the Physio-Control business to Bain Capital Partners, LLC. The Company sold \$164 million in net assets and received \$386 million in net cash, excluding potential earn-outs. Additionally, the Company entered into a Transition Services Agreement (TSA) with Physio-Control in which the Company is providing transition services to ensure continuity of operations for Physio-Control as it establishes stand-alone processes separate from Medtronic. The TSA requires the Company to continue to provide certain back-office support functions to Physio-Control in the areas of finance, facilities, human resources, customer service, IT, quality and regulatory, and operations. The timeframe for these services is expected to extend through the end of fiscal year 2013. The Company is being compensated for the services specified in the TSA. The Company records the income earned from the TSA in other expense, net in the condensed consolidated statements of earnings.

The following is a summary of the operating results of Physio-Control for discontinued operations for the three and nine months ended January 27, 2012:

(in millions)	Three months ended January 27, 2012	Nine months ended January 27, 2012
Discontinued operations:		
Net sales	\$112	\$323
Earnings from operations of Physio-Control	\$23	\$48
Physio-Control divestiture-related costs	(12	) (24
Income tax expense	(5	) (9
Deferred income tax benefit on sale	84	84
Earnings from discontinued operations	\$90	\$99

During the three and nine months ended January 27, 2012, the Company recorded an \$84 million deferred income tax benefit in discontinued operations. In accordance with the authoritative guidance, the Company was required to establish a deferred tax asset on the difference between its tax and book basis in the shares of Physio-Control, up to the expected amount of the gain. In the fourth quarter of fiscal year 2012 the deferred income tax benefit was reversed upon finalization of the sale. Additionally, during the three months ended January 27, 2012, the Company recorded \$12 million of Physio-Control divestiture-related costs in discontinued operations. During the nine months ended January 27, 2012, the Company reclassified \$12 million of Physio-Control divestiture-related costs previously

recorded in acquisition-related items within continuing operations on the condensed consolidated statements of earnings in the first and second quarters of fiscal year 2012 to discontinued operations. For further information on Physio-Control assets and liabilities sold, see Note 3 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 27, 2012.

Note 4 – Acquisitions and Acquisition-Related Items

The Company had various acquisitions and other acquisition-related activity during the first three quarters of fiscal years 2013 and 2012. Certain acquisitions were accounted for as business combinations as noted below. In accordance with authoritative guidance on business combination accounting, the assets and liabilities of the company acquired were recorded as of the acquisition date, at their respective fair values, and consolidated with the Company. The purchase price is recorded based on

MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

estimates of the fair values of assets acquired and liabilities assumed. The pro forma impact of these acquisitions was not significant, individually or in the aggregate, to the results of the Company for the three and nine months ended January 25, 2013 or January 27, 2012. The results of operations related to each company acquired have been included in the Company's consolidated statements of earnings since the date each company was acquired.

Three and nine months ended January 25, 2013

## China Kanghui Holdings

On November 1, 2012, the Company acquired China Kanghui Holdings (Kanghui). Kanghui is a Chinese manufacturer and distributor of orthopedic products in trauma, spine, and joint reconstruction. Total consideration for the transaction was approximately \$816 million. The total value of the transaction, net of Kanghui's cash, was approximately \$797 million. Based upon the preliminary acquisition valuation, the Company acquired \$288 million of technology-based intangible assets and \$53 million of tradenames and customer-related intangible assets that had a weighted average estimated useful life of 11 years at the time of acquisition and \$401 million of goodwill. Acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of Kanghui as a business combination. The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed. The preliminary purchase price has been allocated as follows:

(in millions)

Current assets	\$ 110
Property, plant, and equipment	56
Intangible assets	341
Goodwill	401
Other assets	10
Total assets acquired	918
Current liabilities	30
Long-term deferred tax liabilities, net	71
Other long-term liabilities	1
Total liabilities assumed	102
Net assets acquired	\$816

## Acquisition-Related Items

During the three and nine months ended January 25, 2013, the Company recorded net gains from acquisition-related items of \$55 million and \$44 million, respectively, including gains of \$70 million and \$67 million, respectively, related to the change in fair value of contingent milestone payments associated with acquisitions subsequent to April 29, 2009. The change in fair value of contingent milestone payments is primarily related to the change in fair value of Ardian, Inc. contingent commercial milestone payments, which are based on annual revenue growth through fiscal year 2015, due to current slower commercial ramp in Europe. Additionally, during the three and nine months ended January 25, 2013, the Company incurred transaction costs of \$10 million and \$13 million, respectively, in connection with the acquisition of Kanghui and an IPR&D impairment charge of \$5 million related to a technology recently acquired by the Structural Heart business. During the nine months ended January 25, 2013, the Company incurred \$5 million of transaction costs related to the divestiture of the Physio-Control business.

Three and nine months ended January 27, 2012

## Salient Surgical Technologies, Inc.

On August 31, 2011, the Company acquired Salient Surgical Technologies, Inc. (Salient). Salient develops and markets devices for haemostatic sealing of soft tissue and bone incorporating advanced energy technology. Salient's devices are used in a variety of surgical procedures including orthopedic surgery, spine, open abdominal, and thoracic

procedures. Total consideration for the transaction was approximately \$497 million. Medtronic had previously invested in Salient and held an 8.9 percent ownership position in the company. Net of this ownership position, the transaction value was approximately \$452 million. Based upon the acquisition valuation, the Company acquired \$154 million of technology-based intangible assets that had an estimated useful life of 12 years at the time of acquisition, \$44 million of in-process research and development (IPR&D), \$49 million of net tangible liabilities, and \$348 million of goodwill. The value attributable to IPR&D has been capitalized as an indefinite-lived

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

intangible asset. The IPR&D primarily relates to the future launch of Salient's concentric wire product. Acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of Salient as a business combination. During the first quarter of fiscal year 2013, the Company recorded minor adjustments to other intangible assets, goodwill, and long-term deferred tax liabilities as a result of finalizing the valuation for fair value of intangible assets acquired. The Company recorded the identifiable assets acquired and liabilities assumed at fair value as follows:

(in millions)

Current assets	\$20
Property, plant, and equipment	11
IPR&D	44
Other intangible assets	154
Goodwill	348
Other assets	1
Total assets acquired	578
Current liabilities	43
Long-term deferred tax liabilities, net	38
Total liabilities assumed	81
Net assets acquired	\$497

## PEAK Surgical, Inc.

On August 31, 2011, the Company acquired PEAK Surgical, Inc. (PEAK). PEAK develops and markets tissue dissection devices incorporating advanced energy technology. Total consideration for the transaction was approximately \$113 million. Medtronic had previously invested in PEAK and held an 18.9 percent ownership position in the company. Net of this ownership position, the transaction value was approximately \$96 million. Based upon the acquisition valuation, the Company acquired \$74 million of technology-based intangible assets that had an estimated useful life of 12 years at the time of acquisition, \$17 million of net tangible liabilities, and \$56 million of goodwill. Acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of PEAK as a business combination. The Company recorded the identifiable assets acquired and liabilities assumed at fair value on the acquisition date as follows:

(in millions)

Current assets	\$5
Property, plant, and equipment	5
Other intangible assets	74
Goodwill	56
Total assets acquired	140
Current liabilities	10
Long-term deferred tax liabilities, net	17
Total liabilities assumed	27
Net assets acquired	\$113

## Acquisition-Related Items

During the three and nine months ended January 27, 2012, the Company recorded net charges (net gain) from acquisition-related items of \$15 million and \$(1) million, respectively, including charges of \$15 million and \$32 million, respectively, related to the change in fair value of contingent consideration. Additionally, in connection with the acquisitions of Salient and PEAK, the Company recognized gains of \$32 million and \$6 million, respectively,



during the nine months ended January 27, 2012 on its previously held investments. In connection with these acquisitions, the Company began to assess and formulate a plan for the elimination of duplicative positions and the termination of certain contractual obligations. As a result, the Company incurred approximately \$5 million of certain acquisition-related costs, which include legal fees, severance costs, change in control costs, and contract termination costs.

MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Contingent Consideration

Certain of the Company's business combinations or purchases of intellectual property involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones and/or various other favorable operating conditions. Payment of the additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels or achieving product development targets. Contingent consideration is recorded at the estimated fair value of the contingent milestone payments on the acquisition date for all acquisitions subsequent to April 24, 2009. The fair value of the contingent milestone consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within acquisition-related items in the condensed consolidated statements of earnings. The Company measures the initial liability and remeasures the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements. See Note 8 for further information regarding fair value measurements.

Contingent consideration liabilities are remeasured to fair value each reporting period using projected revenues, discount rates, probabilities of payment, and projected payment dates. Projected contingent payment amounts are discounted back to the current period using a discounted cash flow model. Projected revenues are based on the Company's most recent internal operational budgets and long-range strategic plans. Increases (decreases) in projected revenues and probabilities of payment may result in higher (lower) fair value measurements. Increases (decreases) in discount rates and the projected time to payment may result in lower (higher) fair value measurements. Increases (decreases) in any of those inputs in isolation may result in a significantly lower (higher) fair value measurement. The recurring Level 3 fair value measurements of the contingent consideration include the following significant unobservable inputs:

(\$ in millions)	Fair Value at January 25, 2013	Valuation Technique	Unobservable Input	Range
Revenue-based payments	\$137	Discounted cash flow	Discount rate	13% - 24%
			Probability of payment	95% - 100%
			Projected fiscal year of payment	2013 - 2019
			Discount rate	5.9%
Product development-based payments	\$4	Discounted cash flow	Probability of payment	100%
			Projected fiscal year of payment	2016

At January 25, 2013, the estimated maximum potential amount of undiscounted future contingent consideration that the Company is expected to make associated with all completed business combinations or purchases of intellectual property prior to April 24, 2009 was approximately \$223 million. The milestones associated with the contingent consideration must be reached in future periods ranging from fiscal years 2013 to 2018 in order for the consideration to be paid.

The fair value of contingent milestone payments associated with acquisitions subsequent to April 24, 2009 was remeasured as of January 25, 2013 and April 27, 2012 at \$141 million and \$231 million, respectively. As of January 25, 2013, \$122 million was reflected in other long-term liabilities and \$19 million was reflected in other accrued expenses in the condensed consolidated balance sheet. As of April 27, 2012, \$200 million was reflected in other long-term liabilities and \$31 million was reflected in other accrued expenses in the condensed consolidated balance sheet. The portion of the milestone payments related to the acquisition date fair value of contingent consideration has been reported as financing activities in the condensed consolidated statements of cash flows.

Edgar Filing: MEDTRONIC INC - Form 10-Q

Amounts paid in excess of the original acquisition date fair value of contingent consideration have been reported as operating activities in the condensed consolidated statements of cash flows. The following table provides a reconciliation of the beginning and ending balances of contingent milestone payments associated with acquisitions subsequent to April 24, 2009 measured at fair value that used significant unobservable inputs (Level 3):

(in millions)	Three months ended		Nine months ended		
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012	
Beginning Balance	\$213	\$288	\$231	\$335	
Purchase price contingent consideration	—	—	5	2	
Contingent milestone payments	(2	) —	(28	) (66	)
Change in fair value of contingent consideration	(70	) 15	(67	) 32	
Ending Balance	\$141	\$303	\$141	\$303	

MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 5 – Certain Litigation Charges, Net

The Company classifies material litigation reserves and gains recognized as certain litigation charges, net.

During the three months ended January 25, 2013, there were no certain litigation charges, net. During the nine months ended January 25, 2013, the Company recorded certain litigation charges, net of \$245 million relating to probable and reasonably estimated damages resulting from patent litigation with Edwards Lifesciences, Inc. See Note 19 for additional information.

During the three and nine months ended January 27, 2012, there were no certain litigation charges, net.

## Note 6 – Restructuring Charges

During the three and nine months ended January 25, 2013 and January 27, 2012, the Company did not incur any restructuring charges.

## Fiscal Year 2012 Initiative

In the fourth quarter of fiscal year 2012, the Company recorded a \$118 million restructuring charge, which consisted of employee termination costs of \$66 million, asset write-downs of \$9 million, contract termination costs of \$30 million, and other related costs of \$13 million. The fiscal year 2012 initiative was designed to reduce general, administrative, and indirect distribution costs in certain organizations within the Company while prioritizing investment in research and development, and sales and marketing in those organizations within the Company where faster growth is anticipated, such as emerging markets and new therapies.

In connection with the fiscal year 2012 initiative, as of the end of the fourth quarter of fiscal year 2012, the Company had identified approximately 1,000 positions for elimination to be achieved through involuntary and voluntary separation. Of the 1,000 positions identified in April 2012, approximately 600 positions have been eliminated as of January 25, 2013. The fiscal year 2012 initiative is scheduled to be substantially complete by the end of the fourth quarter of fiscal year 2013.

A summary of the activity related to the fiscal year 2012 initiative is presented below:

(in millions)	Fiscal Year 2012 Initiative			
	Employee Termination Costs	Asset Write-downs	Other Costs	Total
Balance as of April 29, 2011	\$—	\$—	\$—	\$—
Restructuring charges	66	9	43	118
Payments/write-downs	(2	) (9	) (16	) (27
Balance as of April 27, 2012	\$64	\$—	\$27	\$91
Payments/write-downs	(26	) —	(17	) (43
Balance as of July 27, 2012	\$38	\$—	\$10	\$48
Payments/write-downs	(17	) —	(4	) (21
Balance as of October 26, 2012	\$21	\$—	\$6	\$27
Payments/write-downs	(5	) —	(1	) (6
Balance as of January 25, 2013	\$16	\$—	\$5	\$21



MEDTRONIC, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 7 – Investments

The Company holds short-term and long-term investments, which consist primarily of marketable debt and equity securities.

Information regarding the Company's short-term and long-term investments at January 25, 2013 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	\$4,171	\$60	\$(7	) \$4,224
Auction rate securities	153	—	(19	) 134
Mortgage-backed securities	1,050	8	(8	) 1,050
U.S. government and agency securities	3,755	11	(3	) 3,763
Foreign government and agency securities	34	—	—	34
Certificates of deposit	6	—	—	6
Other asset-backed securities	504	4	—	508
Marketable equity securities	117	123	(7	) 233
Trading securities:				
Exchange-traded funds	45	4	—	49
Cost method, equity method, and other investments	486	—	—	486
Total short-term and long-term investments	\$10,321	\$210	\$(44	) \$10,487

Information regarding the Company's short-term and long-term investments at April 27, 2012 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	\$3,501	\$47	\$(7	) \$3,541
Auction rate securities	153	—	(26	) 127
Mortgage-backed securities	840	9	(10	) 839
U.S. government and agency securities	3,046	38	—	3,084
Foreign government and agency securities	67	—	—	67
Certificates of deposit	47	—	—	47
Other asset-backed securities	535	3	(1	) 537
Marketable equity securities	100	158	(5	) 253
Trading securities:				
Exchange-traded funds	45	2	(1	) 46
Cost method, equity method, and other investments	508	—	—	508
Total short-term and long-term investments	\$8,842	\$257	\$(50	) \$9,049

Information regarding the Company's available-for-sale and trading securities at January 25, 2013 and April 27, 2012 is as follows:

(in millions)	January 25, 2013		April 27, 2012	
	Short-term	Long-term	Short-term	Long-term
Available-for-sale securities	\$1,166	\$8,786	\$1,344	\$7,151
Trading securities	—	49	—	46
Total	\$1,166	\$8,835	\$1,344	\$7,197



## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables show the gross unrealized losses and fair values of the Company's available-for-sale securities that have been in a continuous unrealized loss position deemed to be temporary for less than 12 months and for more than 12 months, aggregated by investment category as of January 25, 2013 and April 27, 2012:

(in millions)	January 25, 2013			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$1,038	\$(4 )	\$23	\$(3 )
Auction rate securities	—	—	134	(19 )
Mortgage-backed securities	459	(3 )	54	(5 )
U.S. government and agency securities	1,459	(3 )	—	—
Other asset-backed securities	37	—	2	—
Marketable equity securities	13	(7 )	—	—
Total	\$3,006	\$(17 )	\$213	\$(27 )
(in millions)	April 27, 2012			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$664	\$(4 )	\$16	\$(3 )
Auction rate securities	—	—	127	(26 )
Mortgage-backed securities	218	(2 )	57	(8 )
Other asset-backed securities	55	—	9	(1 )
Marketable equity securities	24	(5 )	—	—
Total	\$961	\$(11 )	\$209	\$(38 )

At January 25, 2013, the Company concluded that the unrealized losses associated with the available-for-sale securities detailed above were not other-than-temporary as the Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, before recovery of the amortized cost basis.

Activity related to the Company's short-term and long-term investment portfolio is as follows:

(in millions)	Three months ended			
	January 25, 2013		January 27, 2012	
	Debt (a)	Equity (b)	Debt (a)	Equity (b)
Proceeds from sales	\$1,506	\$25	\$1,486	\$28
Gross realized gains	9	16	21	17
Gross realized losses	(5 )	—	(6 )	—
Impairment losses recognized	—	—	(1 )	—
(in millions)	Nine months ended			
	January 25, 2013		January 27, 2012	
	Debt (a)	Equity (b)	Debt (a)	Equity (b)(c)
Proceeds from sales	\$6,306	\$90	\$4,453	\$81
Gross realized gains	51	52	45	72
Gross realized losses	(12 )	—	(13 )	—
Impairment losses recognized	—	(10 )	(2 )	(4 )

(a) Includes available-for-sale debt securities.

(b) Includes marketable equity securities, cost method, equity method, exchange-traded funds, and other investments.



(c) As a result of the Salient and PEAK acquisitions, the Company recognized a non-cash gain of \$38 million during the nine months ended January 27, 2012 on its previously held minority investments.

12

---

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The total other-than-temporary impairment losses on available-for-sale debt securities for the three and nine months ended January 25, 2013 were not significant. The total other-than-temporary impairment losses on available-for-sale debt securities for the three and nine months ended January 27, 2012 were \$2 million and \$5 million, respectively, of which \$1 million and \$3 million, respectively, were recognized in other comprehensive income and less than \$1 million and \$2 million, respectively, were recognized in earnings. These charges relate to credit losses on certain mortgage-backed securities and other asset-backed securities. The amount of credit losses represents the difference between the present value of cash flows expected to be collected on these securities and the amortized cost. Based on the Company's assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which invested, the Company believes it has recorded all necessary other-than-temporary impairments as the Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, before recovery of the amortized cost.

The following tables show the credit loss portion of other-than-temporary impairments on debt securities held by the Company as of the dates indicated and the corresponding changes in such amounts:

(in millions)	Three months ended	
	January 25, 2013	January 27, 2012
Beginning Balance	\$20	\$20
Additional credit losses recognized on securities previously impaired	—	1
Credit losses recognized on securities previously not impaired	—	—
Reductions for securities sold during the period	(2	) —
Ending Balance	\$18	\$21
(in millions)	Nine months ended	
	January 25, 2013	January 27, 2012
Beginning Balance	\$20	\$20
Additional credit losses recognized on securities previously impaired	—	1
Credit losses recognized on securities previously not impaired	—	1
Reductions for securities sold during the period	(2	) (1
Ending Balance	\$18	\$21

The January 25, 2013 balance of available-for-sale debt securities by contractual maturity is shown in the following table at fair value. Within the table, maturities of mortgage-backed securities have been allocated based upon timing of estimated cash flows, assuming no change in the current interest rate environment. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(in millions)	January 25, 2013
Due in one year or less	\$1,681
Due after one year through five years	6,898
Due after five years through ten years	1,010
Due after ten years	130
Total debt securities	\$9,719

As of January 25, 2013 and April 27, 2012, the aggregate carrying amount of equity and other securities without a quoted market price and accounted for using the cost or equity method was \$486 million and \$508 million, respectively. The total carrying value of these investments is reviewed quarterly for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable. The fair value of cost or equity

method investments is not adjusted if there are no identified events or changes in circumstances that may have a material adverse effect on the fair value of the investment.

Gains and losses realized on trading securities and available-for-sale debt securities are recorded in interest expense, net in the condensed consolidated statements of earnings. Gains and losses realized on marketable equity securities, cost method, equity method, and other investments are recorded in other expense, net in the condensed consolidated statements of earnings. In addition, unrealized gains and losses on available-for-sale debt securities are recorded in accumulated other comprehensive loss in the condensed consolidated balance sheets and unrealized gains and losses on trading securities are recorded in interest

MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

expense, net in the condensed consolidated statements of earnings. Gains and losses from the sale of investments are calculated based on the specific identification method.

## Note 8 – Fair Value Measurements

The Company follows the authoritative guidance on fair value measurements and disclosures, with respect to assets and liabilities that are measured at fair value on both a recurring and nonrecurring basis. Under this guidance, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Descriptions of the three levels of the fair value hierarchy are discussed in Note 7 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 27, 2012.

See the section below titled Valuation Techniques for further discussion of how the Company determines fair value for financial assets and liabilities.

## Assets and Liabilities That Are Measured at Fair Value on a Recurring Basis

The authoritative guidance is principally applied to financial assets and liabilities such as marketable equity securities and debt and equity securities that are classified and accounted for as trading, available-for-sale, and derivative instruments. Derivatives include cash flow hedges, freestanding derivative forward contracts, and interest rate swaps. These items are marked-to-market at each reporting period. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis:

(in millions)	Fair Value as of January 25, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Corporate debt securities	\$4,224	\$—	\$4,214	\$10
Auction rate securities	134	—	—	134
Mortgage-backed securities	1,050	—	1,024	26
U.S. government and agency securities	3,763	1,953	1,810	—
Foreign government and agency securities	34	—	34	—
Certificates of deposit	6	—	6	—
Other asset-backed securities	508	—	502	6
Marketable equity securities	233	233	—	—
Exchange-traded funds	49	49	—	—
Derivative assets	284	116	168	—
<b>Total assets</b>	<b>\$10,285</b>	<b>\$2,351</b>	<b>\$7,758</b>	<b>\$176</b>
<b>Liabilities:</b>				
Derivative liabilities	\$162	\$88	\$74	\$—

Total liabilities	\$162	\$88	\$74	\$—
-------------------	-------	------	------	-----

14

---

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in millions)	Fair Value as of April 27, 2012	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Corporate debt securities	\$3,541	\$—	\$3,531	\$10
Auction rate securities	127	—	—	127
Mortgage-backed securities	839	—	810	29
U.S. government and agency securities	3,084	1,511	1,573	—
Foreign government and agency securities	67	—	67	—
Certificates of deposit	47	—	47	—
Other asset-backed securities	537	—	531	6
Marketable equity securities	253	253	—	—
Exchange-traded funds	46	46	—	—
Derivative assets	254	87	167	—
<b>Total assets</b>	<b>\$8,795</b>	<b>\$1,897</b>	<b>\$6,726</b>	<b>\$172</b>
<b>Liabilities:</b>				
Derivative liabilities	\$82	\$37	\$45	\$—
<b>Total liabilities</b>	<b>\$82</b>	<b>\$37</b>	<b>\$45</b>	<b>\$—</b>

## Valuation Techniques

Financial assets that are classified as Level 1 securities include highly liquid government bonds within U.S. government and agency securities, marketable equity securities, and exchange-traded funds for which quoted market prices are available. In addition, the Company has determined that foreign currency forward contracts will be included in Level 1 as these are valued using quoted market prices in active markets which have identical assets or liabilities. The valuation for most fixed maturity securities are classified as Level 2. Financial assets that are classified as Level 2 include corporate debt securities, U.S. government and agency securities, foreign government and agency securities, certificates of deposit, other asset-backed securities, and certain mortgage-backed securities whose value is determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data such as pricing for similar securities, recently executed transactions, cash flow models with yield curves, and benchmark securities. In addition, interest rate swaps are included in Level 2 as the Company uses inputs other than quoted prices that are observable for the asset. The Level 2 derivative instruments are primarily valued using standard calculations and models that use readily observable market data as their basis.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable. Level 3 financial assets also include certain investment securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. Level 3 investment securities primarily include certain corporate debt securities, auction rate securities, certain mortgage-backed securities, and certain other asset-backed securities for which there was a decrease in the observability of market pricing for these investments. At January 25, 2013, with the exception of auction rate securities, these securities were valued using third-party pricing sources that incorporate transaction details such as contractual terms, maturity, timing, and amount of expected future cash flows, as well as assumptions about liquidity and credit valuation adjustments of market participants. The fair value of auction rate securities is estimated by the Company using a discounted cash flow model, which incorporates significant unobservable inputs. The significant unobservable inputs used in the fair value measurement of the Company's auction rate securities are years to principal recovery and the illiquidity premium that is incorporated into the discount rate. Significant increases (decreases) in any of those inputs in isolation would result in a significantly

lower (higher) fair value of the securities. Additionally, the Company uses level 3 inputs in the measurement of contingent milestone payments and related liabilities for all acquisitions subsequent to April 24, 2009. See Note 4 for further information regarding contingent consideration.

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table represents the range of unobservable inputs utilized in the fair value measurement of auction rate securities classified as Level 3 as of January 25, 2013:

	Valuation Technique	Unobservable Input	Range (Weighted Average)
Auction rate securities	Discounted cash flow	Years to principal recovery Illiquidity premium	2 yrs - 12 yrs (3 yrs) 6%

The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the end of the fiscal quarter in which the actual event or change in circumstances that caused the transfer occurs. There were no significant transfers between Level 1, Level 2, or Level 3 during the three or nine months ended January 25, 2013 or January 27, 2012. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The following tables provide a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3) for the three and nine months ended January 25, 2013 and January 27, 2012:

Three months ended January 25, 2013

(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities	Other asset-backed securities
Balance as of October 26, 2012	\$ 171	\$ 10	\$ 129	\$ 27	\$ 5
Total unrealized gains/(losses) included in other comprehensive income	5	(1	) 5	—	1
Balance as of January 25, 2013	\$ 176	\$ 9	\$ 134	\$ 27	\$ 6

Three months ended January 27, 2012

(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities	Other asset-backed securities
Balance as of October 28, 2011	\$ 174	\$ 10	\$ 127	\$ 31	\$ 6
Total realized losses and other-than-temporary impairment losses included in earnings	(1	) —	—	(1	) —
Total unrealized gains/(losses) included in other comprehensive income	6	—	6	—	—
Settlements	(1	) —	—	(1	) —
Balance as of January 27, 2012	\$ 178	\$ 10	\$ 133	\$ 29	\$ 6

Nine months ended January 25, 2013

(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities	Other asset-backed securities
---------------	---------------------------	---------------------------	-------------------------	----------------------------	-------------------------------



Edgar Filing: MEDTRONIC INC - Form 10-Q

Balance as of April 27, 2012	\$172	\$10	\$127	\$29	\$6
Total unrealized gains/(losses) included in other comprehensive income	6	(1	) 7	—	—
Settlements	(2	) —	—	(2	) —
Balance as of January 25, 2013	\$176	\$9	\$134	\$27	\$6

Nine months ended January 27, 2012

(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities	Other asset-backed securities	
Balance as of April 29, 2011	\$191	\$17	\$133	\$35	\$6	
Total realized losses and other-than-temporary impairment losses included in earnings	(3	) (1	) —	(1	) (1	)
Total unrealized gains/(losses) included in other comprehensive income	1	1	—	(1	) 1	
Settlements	(11	) (7	) —	(4	) —	
Balance as of January 27, 2012	\$178	\$10	\$133	\$29	\$6	

MEDTRONIC, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Non-financial assets such as equity and other securities that are accounted for using the cost or equity method, goodwill and IPR&D, intangible assets, and property, plant, and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized.

The Company holds investments in equity and other securities that are accounted for using the cost or equity method, which are classified as long-term investments in the condensed consolidated balance sheets. The aggregate carrying amount of these investments was \$486 million as of January 25, 2013 and \$508 million as of April 27, 2012. These cost or equity method investments are measured at fair value on a nonrecurring basis. The fair value of the Company's cost or equity method investments is not estimated if there are no identified events or changes in circumstance that may have a significant adverse effect on the fair value of these investments. The Company did not record any impairment charges related to cost method investments during the three months ended January 25, 2013 and January 27, 2012. During the nine months ended January 25, 2013 and January 27, 2012, the Company determined that the fair values of certain cost method investments were below their carrying values and that the carrying values of these investments were not expected to be recoverable within a reasonable period of time. As a result, the Company recognized \$6 million and \$4 million in impairment charges during the nine months ended January 25, 2013 and January 27, 2012, respectively. The impairment charges related to the cost method investments were recorded in other expense, net in the condensed consolidated statements of earnings. These investments fall within Level 3 of the fair value hierarchy, due to the use of significant unobservable inputs to determine fair value, as the investments are privately held entities without quoted market prices. To determine the fair value of these investments, the Company used all pertinent financial information that was available related to the entities, including financial statements and market participant valuations from recent and proposed equity offerings.

The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an intangible asset (asset group) may not be recoverable. The aggregate carrying amount of intangible assets, excluding IPR&D, was \$2.392 billion as of January 25, 2013 and \$2.277 billion as of April 27, 2012. When events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable, the Company calculates the excess of an intangible asset's carrying value over its undiscounted future cash flows. If the carrying value is not recoverable, an impairment loss is recorded based on the amount by which the carrying value exceeds the fair value. During the three months ended January 25, 2013 and January 27, 2012, the Company determined that a change in events and circumstances indicated that the carrying amount of certain intangible assets, representing less than five percent of the total aggregate carrying amount of intangible assets, may not be fully recoverable. During the three months ended January 25, 2013, the carrying amount of one intangible asset was less than the undiscounted future cash flows, therefore the Company assessed the asset's fair value and recorded an impairment of \$2 million. The Company did not record any additional intangible asset impairments during the three or nine months ended January 25, 2013. The Company did not record any intangible asset impairments during the three or nine months ended January 27, 2012.

The Company assesses the impairment of goodwill and IPR&D annually in the third quarter and whenever events or changes in circumstances indicate that the carrying amount may be impaired. The aggregate carrying amount of goodwill was \$10.341 billion as of January 25, 2013 and \$9.934 billion as of April 27, 2012. The aggregate carrying amount of IPR&D was \$366 million as of January 25, 2013 and \$370 million as of April 27, 2012. During the three months ended January 25, 2013 and January 27, 2012, the Company performed its annual impairment reviews of goodwill and IPR&D. The goodwill impairment review requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The Company calculated the excess of each reporting unit's goodwill carrying value over its fair value utilizing a discounted future cash flow analysis. As a result of the analysis performed, the fair value of each reporting unit's goodwill was deemed to be greater than the carrying value. The Company did not record any goodwill impairments during the three and nine months ended January 25, 2013 or

January 27, 2012. Similar to the goodwill impairment test, the IPR&D impairment test requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The Company calculated the excess of the IPR&D asset carrying values over their fair values utilizing a discounted future cash flow analysis. As a result of the analysis performed during the three months ended January 25, 2013, the fair value of IPR&D assets related to a technology recently acquired by the Structural Heart business was deemed to be less than the carrying value, resulting in a pre-tax impairment loss of \$5 million that was recorded in acquisition-related items in the condensed consolidated statement of earnings. The Company did not record any additional IPR&D impairments during the nine months ended January 25, 2013. As a result of the analysis performed during the three months ended January 27, 2012, the fair value of each IPR&D asset was deemed to be greater than the carrying value, resulting in no IPR&D impairments during the three and nine months ended January 27, 2012. Due to the nature of IPR&D projects, the Company may experience delays or failures to obtain regulatory approvals to conduct clinical trials, failures of such clinical trials, delays or failures to obtain required market

MEDTRONIC, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

clearances or other failures to achieve a commercially viable product, and as a result, may record impairment losses in the future.

The Company assesses the impairment of property, plant, and equipment whenever events or changes in circumstances indicate that the carrying amount of property, plant, and equipment assets may not be recoverable. The Company did not recognize any significant impairments of property, plant, and equipment during the three and nine months ended January 25, 2013 or January 27, 2012.

Financial Instruments Not Measured at Fair Value

The estimated fair value of the Company's long-term debt, including the short-term portion, as of January 25, 2013 was \$9.970 billion compared to a principal value of \$9.126 billion, and as of April 27, 2012 was \$9.965 billion compared to a principal value of \$9.138 billion. Fair value was estimated using quoted market prices for the public registered senior notes and senior convertible notes, classified as Level 1 within the fair value hierarchy, and quoted market prices for similar instruments for the term loan on capital lease buyout, classified as Level 2 within the fair value hierarchy. The fair values and principal values consider the terms of the related debt and exclude the impacts of debt discounts and derivative/hedging activity.

Note 9 – Financing Arrangements

Senior Convertible Notes

In April 2006, the Company issued \$2.200 billion of 1.625 percent Senior Convertible Notes due 2013 (2013 Senior Convertible Notes). The 2013 Senior Convertible Notes were issued at par and pay interest in cash semi-annually in arrears on April 15 and October 15 of each year. The 2013 Senior Convertible Notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness.

Concurrent with the issuance of the 2013 Senior Convertible Notes, the Company purchased call options on its common stock in private transactions. The call options allow the Company to receive shares of the Company's common stock and/or cash from counterparties equal to the amounts of common stock and/or cash related to the excess conversion value that it would pay to the holders of the 2013 Senior Convertible Notes upon conversion. In separate transactions, the Company sold warrants to issue shares of the Company's common stock at an exercise price of \$76.56 per share in private transactions. Pursuant to these transactions, warrants for 41 million shares of the Company's common stock may be settled over a specified period beginning in July 2013.

Based on existing guidance, the purchased call option contracts were recorded as a reduction of equity and the warrants were recorded as an addition to equity as of the trade date. Existing guidance states that a reporting entity shall not consider contracts to be derivative instruments if the contract issued or held by the reporting entity is both indexed to its own stock and classified in shareholders' equity in its statement of financial position. The Company concluded that the purchased call options and sold warrants were indexed to its own stock and should be classified in shareholders' equity and not separated as a derivative.

The Company accounted for the 2013 Senior Convertible Notes in accordance with the authoritative guidance for convertible debt, which requires the proceeds from the issuance of the 2013 Senior Convertible Notes to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the 2013 Senior Convertible Notes are expected to be outstanding as additional non-cash interest expense.

The following table provides equity and debt information for the 2013 Senior Convertible Notes under the convertible debt guidance:

(in millions)	January 25, 2013	April 27, 2012
Carrying amount of the equity component	\$547	\$547
Principal amount of the 2013 Senior Convertible Notes	\$2,200	\$2,200
Unamortized discount	(20	) (90 )

Net carrying amount	\$2,180	\$2,110
---------------------	---------	---------

18

---

MEDTRONIC, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

As of January 25, 2013, the unamortized balance of the debt discount will be amortized over the remaining life of the 2013 Senior Convertible Notes, which is approximately three months. The following tables provide interest rate and interest expense amounts related to the 2013 Senior Convertible Notes:

(in millions, except interest rate)	Three months ended			
	January 25, 2013	January 27, 2012		
Effective interest rate	6.03	% 6.03	%	
Interest cost related to contractual interest coupon	\$9	\$9		
Interest cost related to amortization of the discount	\$23	\$22		
(in millions, except interest rate)	Nine months ended			
	January 25, 2013	January 27, 2012		
Effective interest rate	6.03	% 6.03	%	
Interest cost related to contractual interest coupon	\$27	\$27		
Interest cost related to amortization of the discount	\$69	\$65		

#### Commercial Paper

The Company maintains a commercial paper program that allows the Company to have a maximum of \$2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of January 25, 2013 and April 27, 2012, outstanding commercial paper totaled \$1.635 billion and \$950 million, respectively. During the three and nine months ended January 25, 2013, the weighted average original maturity of the commercial paper outstanding was approximately 104 days and 84 days, respectively, and the weighted average interest rate was 0.20 percent and 0.18 percent, respectively. The issuance of commercial paper reduces the amount of credit available under the Company's existing lines of credit.

#### Bank Borrowings

Bank borrowings consist primarily of borrowings from non-U.S. banks at interest rates considered favorable by management and where natural hedges can be gained for foreign exchange purposes and borrowings from U.S. banks.

#### Lines of Credit

The Company has a \$2.250 billion syndicated credit facility dated December 17, 2012 which expires on December 17, 2017 (Credit Facility). The Credit Facility provides the Company with the ability to increase its capacity by an additional \$750 million at any time during the term of the agreement. The Company can also request a maximum of two one-year extensions of the Credit Facility maturity date, at each anniversary date of the Credit Facility. The Credit Facility provides backup funding for the commercial paper program, and therefore, the issuance of commercial paper reduces the amount of credit available under the committed lines of credit. The Credit Facility replaced the Company's four-year \$2.250 billion syndicated credit facility which was scheduled to expire on December 9, 2014. As of January 25, 2013 and April 27, 2012, no amounts were outstanding on the committed lines of credit.

Interest rates are determined by a pricing matrix, based on the Company's long-term debt ratings, assigned by Standard & Poor's Ratings Services and Moody's Investors Service. Facility fees are payable on the credit facilities and are determined in the same manner as the interest rates. The agreements also contain customary covenants, all of which the Company remains in compliance with as of January 25, 2013.

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Long-term debt consisted of the following:

(in millions, except interest rates)	Maturity by Fiscal Year	Payable as of January 25, 2013	Payable as of April 27, 2012
4.500 percent five-year 2009 senior notes	2014	\$550	\$550
3.000 percent five-year 2010 senior notes	2015	1,250	1,250
4.750 percent ten-year 2005 senior notes	2016	600	600
2.625 percent five-year 2011 senior notes	2016	500	500
5.600 percent ten-year 2009 senior notes	2019	400	400
4.450 percent ten-year 2010 senior notes	2020	1,250	1,250
4.125 percent ten-year 2011 senior notes	2021	500	500
3.125 percent ten-year 2012 senior notes	2022	675	675
6.500 percent thirty-year 2009 senior notes	2039	300	300
5.550 percent thirty-year 2010 senior notes	2040	500	500
4.500 percent thirty-year 2012 senior notes	2042	400	400
Interest rate swaps	2015 - 2022	168	167
Gains from interest rate swap terminations	-	66	102
Capital lease obligations	2014 - 2025	155	165
Total Long-Term Debt		\$7,314	\$7,359

## Senior Notes

The Company has outstanding unsecured senior obligations including those indicated as "senior notes" in the long-term debt table above (collectively, the Senior Notes). The Senior Notes rank equally with all other unsecured and unsubordinated indebtedness of the Company. The indentures under which the Senior Notes were issued contain customary covenants, all of which the Company remains in compliance with as of January 25, 2013. The Company used the net proceeds from the sale of the Senior Notes primarily for working capital and general corporate uses, which include the repayment of other indebtedness of the Company. For additional information regarding the terms of these agreements, refer to Note 9 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 27, 2012.

As of January 25, 2013, the Company had interest rate swap agreements designated as fair value hedges of certain underlying fixed rate obligations including the Company's \$1.250 billion 3.000 percent 2010 Senior Notes due 2015, \$600 million 4.750 percent 2005 Senior Notes due 2015, the Company's \$500 million 2.625 percent 2011 Senior Notes due 2016, the Company's \$500 million 4.125 percent 2011 Senior Notes due 2021, and the Company's \$675 million 3.125 percent 2012 Senior Notes due 2022. For additional information regarding the interest rate swap agreements, refer to Note 10.

## Note 10 – Derivatives and Foreign Exchange Risk Management

The Company uses operational and economic hedges, as well as currency exchange rate derivative contracts and interest rate derivative instruments to manage the impact of currency exchange and interest rate changes on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate changes, the Company enters into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets, liabilities, and probable commitments. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. The primary currencies of the derivative instruments are the Euro and the Japanese Yen. The Company does not enter into currency exchange rate derivative contracts for speculative purposes. The gross notional amount of all currency exchange rate derivative instruments outstanding at January 25, 2013 and April 27, 2012 was \$6.610 billion and \$5.136 billion, respectively. The aggregate currency exchange rate gains for the three and

nine months ended January 25, 2013 were \$17 million and \$11 million, respectively. The aggregate currency exchange rate (losses) for the three and nine months ended January 27, 2012 were \$(35) million and \$(168) million, respectively. These gains/(losses) represent the net impact to the condensed consolidated statements of earnings for the derivative instruments presented below, offset by remeasurement gains/(losses) on foreign currency denominated assets and liabilities.

The information that follows explains the various types of derivatives and financial instruments used by the Company, how and why the Company uses such instruments, how such instruments are accounted for, and how such instruments impact the Company's condensed consolidated balance sheets and statements of earnings.



MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Freestanding Derivative Forward Contracts

Freestanding derivative forward contracts are used to offset the Company's exposure to the change in value of specific foreign currency denominated assets and liabilities. These derivatives are not designated as hedges, and therefore, changes in the value of these forward contracts are recognized in earnings, thereby offsetting the current earnings effect of the related change in U.S. dollar value of foreign currency denominated assets and liabilities. The cash flows from these contracts are reported as operating activities in the condensed consolidated statements of cash flows. The gross notional amount of these contracts, not designated as hedging instruments, outstanding as of January 25, 2013 and April 27, 2012, was \$1.662 billion and \$2.039 billion, respectively.

The amount of (losses)/gains and location of the (losses)/gains in the condensed consolidated statements of earnings related to derivative instruments, not designated as hedging instruments, for the three and nine months ended January 25, 2013 and January 27, 2012 are as follows:

(in millions)		Three months ended	
		January 25, 2013	January 27, 2012
Derivatives Not Designated as Hedging Instruments	Location		
Foreign currency exchange rate contracts	Other expense, net	\$(4	) \$46
(in millions)		Nine months ended	
Derivatives Not Designated as Hedging Instruments	Location	January 25, 2013	January 27, 2012
Foreign currency exchange rate contracts	Other expense, net	\$(24	) \$66

## Cash Flow Hedges

## Foreign Currency Exchange Rate Risk

Forward contracts designated as cash flow hedges are designed to hedge the variability of cash flows associated with forecasted transactions denominated in a foreign currency that will take place in the future. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. No gains or losses relating to ineffectiveness of cash flow hedges were recognized in earnings during the three and nine months ended January 25, 2013 or January 27, 2012. No components of the hedge contracts were excluded in the measurement of hedge ineffectiveness and no hedges were derecognized or discontinued during the three and nine months ended January 25, 2013 or January 27, 2012. The cash flows from these contracts are reported as operating activities in the condensed consolidated statements of cash flows. The gross notional amount of these contracts, designated as cash flow hedges, outstanding at January 25, 2013 and April 27, 2012, was \$4.948 billion and \$3.097 billion, respectively, and will mature within the subsequent three-year period.

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The amount of (losses)/gains and location of the (losses)/gains in the condensed consolidated statements of earnings and other comprehensive income (OCI) related to foreign currency exchange rate contract derivative instruments designated as cash flow hedges for the three and nine months ended January 25, 2013 and January 27, 2012 are as follows:

Three months ended

January 25, 2013

(in millions)	Gross (Losses)/Gains Recognized in OCI on Effective Portion of Derivative	Effective Portion of (Losses)/Gains on Derivative Reclassified from Accumulated Other Comprehensive Loss into Income	
		Location	Amount
Derivatives in Cash Flow Hedging Relationships	Amount		
Foreign currency exchange rate contracts	\$(20)	) Other expense, net	\$22
		Cost of products sold	4
Total	\$(20)	)	\$26

Three months ended

January 27, 2012

(in millions)	Gross (Losses)/Gains Recognized in OCI on Effective Portion of Derivative	Effective Portion of (Losses)/Gains on Derivative Reclassified from Accumulated Other Comprehensive Loss into Income	
		Location	Amount
Derivatives in Cash Flow Hedging Relationships	Amount		
Foreign currency exchange rate contracts	\$201	) Other expense, net	\$(24)
		Cost of products sold	(1)
Total	\$201	)	\$(25)

Nine months ended January

25, 2013

(in millions)	Gross (Losses)/Gains Recognized in OCI on Effective Portion of Derivative	Effective Portion of (Losses)/Gains on Derivative Reclassified from Accumulated Other Comprehensive Loss into Income	
		Location	Amount
Derivatives in Cash Flow Hedging Relationships	Amount		
Foreign currency exchange rate contracts	\$(21)	) Other expense, net	\$64
		Cost of products sold	5
Total	\$(21)	)	\$69

Nine months ended January

27, 2012

(in millions)	Gross (Losses)/Gains Recognized in OCI on Effective Portion of Derivative	Effective Portion of (Losses)/Gains on Derivative Reclassified from

Accumulated Other Comprehensive Loss into  
Income

Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount
Foreign currency exchange rate contracts	\$332	Other expense, net	\$(133 )
		Cost of products sold	14 )
Total	\$332		\$(119 )

## Forecasted Debt Issuance Interest Rate Risk

Forward starting interest rate derivative instruments designated as cash flow hedges are designed to manage the exposure to interest rate volatility with regard to future issuances of fixed-rate debt. For forward starting interest rate derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and beginning in the period or periods in which the planned debt issuance occurs, the gain or loss is then reclassified into interest expense, net over the term of the related debt. As of January 25, 2013, the Company had \$1.250 billion of pay fixed, forward starting interest rate swaps with a weighted average fixed rate of 2.78 percent, which were entered into in advance of planned debt issuances.

The market value of outstanding forward starting interest rate swap derivative instruments at January 25, 2013 and April 27, 2012 was an unrealized loss of \$74 million and \$45 million, respectively. These unrealized losses were recorded in other long-term liabilities with the offset recorded in OCI in the condensed consolidated balance sheets. As of January 25, 2013 and April 27, 2012, the Company had \$(26) million and \$6 million, respectively, in after-tax net unrealized (losses)/gains associated with cash flow hedging instruments recorded in accumulated other comprehensive loss.

MEDTRONIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company expects that \$7 million of unrealized gains as of January 25, 2013 will be reclassified into the condensed consolidated statements of earnings over the next 12 months.

#### Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. Interest rate derivative instruments designated as fair value hedges are designed to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

As of January 25, 2013 and April 27, 2012, the Company had interest rate swaps in gross notional amounts of \$2.625 billion designated as fair value hedges of underlying fixed rate obligations. As of January 25, 2013, outstanding interest rate swap agreements were designated as fair value hedges of underlying fixed rate obligations including the Company's \$1.250 billion 3.000 percent 2010 Senior Notes due 2015, the \$600 million 4.750 percent 2005 Senior Notes due 2015, the \$500 million 2.625 percent 2011 Senior Notes due 2016, the \$500 million 4.125 percent 2011 Senior Notes due 2021, and the \$675 million 3.125 percent 2012 Senior Notes due 2022. For additional information regarding the terms of the Company's interest rate swap agreements, refer to Note 10 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 27, 2012.

The market value of outstanding interest rate swap agreements was a \$168 million unrealized gain and the market value of the hedged item was a \$168 million unrealized loss at January 25, 2013, which were recorded in other assets with the offset recorded in long-term debt in the condensed consolidated balance sheet. No hedge ineffectiveness was recorded as a result of these fair value hedges for the three and nine months ended January 25, 2013. No hedge ineffectiveness was recorded as a result of these fair value hedges for the three months ended January 27, 2012 and less than \$1 million was recorded for the nine months ended January 27, 2012, which was recorded as an increase in interest expense, net in the condensed consolidated statements of earnings.

During the three and nine months ended January 25, 2013 and January 27, 2012, the Company did not have any ineffective fair value hedging instruments. In addition, the Company did not recognize any gains or losses during the three and nine months ended January 25, 2013 or January 27, 2012 on firm commitments that no longer qualify as fair value hedges.

MEDTRONIC, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Balance Sheet Presentation

The following table summarizes the location and fair value amounts of derivative instruments reported in the condensed consolidated balance sheets as of January 25, 2013 and April 27, 2012. The fair value amounts are presented on a gross basis and are segregated between derivatives that are designated and qualify as hedging instruments and those that are not, and are further segregated by type of contract within those two categories.

January 25, 2013

(in millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$75	Other accrued expenses	\$58
Interest rate contracts	Other assets	168	Other long-term liabilities	74
Foreign currency exchange rate contracts	Other assets	40	Other long-term liabilities	30
Total derivatives designated as hedging instruments		\$283		\$162
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$1	Other accrued expenses	\$—
Total derivatives not designated as hedging instruments		\$1		\$—
Total derivatives April 27, 2012		\$284		\$162
(in millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$74	Other accrued expenses	\$33
Interest rate contracts	Other assets	167	Other long-term liabilities	45
Foreign currency exchange rate contracts	Other assets	13	Other long-term liabilities	2
Total derivatives designated as hedging instruments		\$254		\$80
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$—	Other accrued expenses	\$2
Total derivatives not designated as hedging instruments		\$—		\$2
Total derivatives		\$254		\$82

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of interest-bearing investments, forward exchange derivative contracts, and trade accounts receivable. The Company maintains cash and cash equivalents, investments, and certain other financial instruments (including currency exchange rate and interest rate derivative contracts) with various major financial institutions. The Company performs periodic evaluations of the relative credit standings of these financial institutions and limits the amount of credit exposure with any one institution. In addition, the Company has collateral credit agreements with its primary derivatives counterparties. Under these

MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

agreements, either party may be required to post eligible collateral when the market value of transactions covered by the agreement exceeds specific thresholds, thus limiting credit exposure for both parties. As of January 25, 2013 and April 27, 2012, no collateral was posted by either the Company or its counterparties.

Global concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. However, a significant amount of trade receivables are with hospitals that are dependent upon governmental health care systems in many countries. The current economic conditions in many countries outside the U.S. (particularly the economic challenges faced by Italy, Spain, Portugal, and Greece), have deteriorated and may continue to increase the average length of time it takes the Company to collect on its outstanding accounts receivable in these countries as certain payment patterns have been impacted. Historically, accounts receivable balances with certain customers in these countries have accumulated over time and were subsequently settled as large lump-sum payments. As of January 25, 2013 and April 27, 2012, the Company's aggregate accounts receivable balance for Italy, Spain, Portugal, and Greece, net of the allowance for doubtful accounts, was \$753 million and \$967 million, respectively. In the first quarter of fiscal year 2013, the Company received a \$212 million payment in Spain. Although the Company does not currently foresee a significant credit risk associated with the outstanding accounts receivable, repayment is dependent upon the financial stability of the economies of these countries. As of January 25, 2013 and April 27, 2012, no one customer represented more than 10 percent of the Company's outstanding accounts receivable.

## Note 11 – Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis. Inventory balances are as follows:

(in millions)	January 25, 2013	April 27, 2012
Finished goods	\$1,266	\$1,175
Work in process	282	288
Raw materials	341	337
Total	\$1,889	\$1,800

## Note 12 – Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill for the nine months ended January 25, 2013 are as follows:

(in millions)	Cardiac and Vascular Group	Restorative Therapies Group	Total
Balance as of April 27, 2012	\$2,636	\$7,298	\$9,934
Goodwill as a result of acquisitions	—	413	413
Purchase accounting adjustments, net	—	1	1
Currency adjustment, net	(2	) (5	) (7
Balance as of January 25, 2013	\$2,634	\$7,707	\$10,341

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Balances of intangible assets, net, excluding goodwill, as of January 25, 2013 and April 27, 2012 are as follows:

(in millions)	Purchased Technology and Patents	Trademarks and Tradenames	Acquired IPR&D	Other	Total
Amortizable intangible assets as of January 25, 2013:					
Original cost	\$3,898	\$408	\$366	\$121	\$4,793
Accumulated amortization	(1,626)	(317)	—	(92)	(2,035)
Carrying value	\$2,272	\$91	\$366	\$29	\$2,758
Amortizable intangible assets as of April 27, 2012:					
Original cost	\$3,604	\$373	\$370	\$148	\$4,495
Accumulated amortization	(1,440)	(307)	—	(101)	(1,848)
Carrying value	\$2,164	\$66	\$370	\$47	\$2,647

Amortization expense for the three and nine months ended January 25, 2013 was \$88 million and \$247 million, respectively, and for the three and nine months ended January 27, 2012 was \$84 million and \$255 million, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets, excluding any possible future amortization associated with acquired IPR&D, which has not met technological feasibility, is as follows:

(in millions)	Estimated Amortization Expense
Fiscal Year	
Remaining 2013	\$86
2014	337
2015	320
2016	307
2017	286
2018	270
Thereafter	786
Total estimated amortization expense	\$2,392

## Note 13 – Warranty Obligation

The Company offers a warranty on various products. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the product is sold. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The amount of the reserve recorded is equal to the net costs to repair or otherwise satisfy the claim. The Company includes the warranty obligation in other accrued expenses and other long-term liabilities on the Company's condensed consolidated balance sheets. The Company includes the covered costs associated with field actions, if any, in cost of products sold in the Company's condensed consolidated statements of earnings.

Changes in the Company's product warranty obligations during the nine months ended January 25, 2013 and January 27, 2012 consisted of the following:

(in millions)	Nine months ended	
	January 25, 2013	January 27, 2012
Balance at the beginning of the period	\$31	\$35



Edgar Filing: MEDTRONIC INC - Form 10-Q

Warranty claims provision	17	14	
Settlements made	(15	) (19	)
Balance at the end of the period	\$33	\$30	

26

---

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 14 – Interest Expense, Net

Interest income and interest expense for the three and six months ended January 25, 2013 and January 27, 2012 are as follows:

(in millions)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Interest income	\$(52	) \$(56	) \$(179	) \$(148
Interest expense	98	89	282	251
Interest expense, net	\$46	\$33	\$103	\$103

Interest income includes interest earned on the Company's cash and cash equivalents, short- and long-term investments, the net realized and unrealized gain or loss on trading securities, ineffectiveness on interest rate derivative instruments, and the net realized gain or loss on the sale or impairment of available-for-sale debt securities. See Note 7 for further discussion of these items.

Interest expense includes the expense associated with the interest on the Company's outstanding borrowings, including short- and long-term instruments, ineffectiveness on interest rate derivative instruments, and the amortization of debt issuance costs and debt discounts.

## Note 15 – Income Taxes

The Company's effective tax rates from continuing operations for the three and nine months ended January 25, 2013 were 14.46 percent and 19.34 percent, respectively, compared to 19.75 percent and 18.85 percent, respectively, for the three and nine months ended January 27, 2012. The changes in the Company's effective tax rate for the three and nine months ended January 25, 2013 were primarily due to the net tax impact of acquisition-related items, certain litigation charges, net, the retroactive renewal and extension of the U.S. federal research and development tax credit, the finalization of certain income tax returns, resolution of certain income tax audits, changes to uncertain tax position reserves, and the tax impact of foreign dividend distributions.

During the three months ended January 25, 2013, the Company recorded a \$29 million net benefit associated with the retroactive renewal and extension of the U.S. federal research and development tax credit for the first four months of calendar year 2012, finalization of certain income tax returns, the resolution of certain income tax audits, and changes to uncertain tax position reserves. These tax adjustments are operational in nature and are recorded in provision for income taxes on the condensed consolidated statement of earnings.

During the nine months ended January 25, 2013, the Company's gross unrecognized tax benefits increased from \$917 million to \$924 million. In addition, the Company has accrued interest and penalties of \$82 million as of January 25, 2013. If all of the Company's unrecognized tax benefits were recognized, approximately \$888 million would impact the Company's effective tax rate. The Company records the gross unrecognized tax benefit in long-term accrued income taxes in the condensed consolidated balance sheets, as it does not expect significant payments to occur or the total amount of unrecognized tax benefits to change significantly over the next 12 months.

The Company will continue to recognize interest and penalties related to income tax matters in the provision for income taxes in the condensed consolidated statements of earnings and record the liability in the current or long-term accrued income taxes in the condensed consolidated balance sheets, as appropriate.

Tax audits associated with the allocation of income, and other complex issues, may require an extended period of time to resolve and may result in income tax adjustments if changes to the Company's allocation are required between jurisdictions with different tax rates. Tax authorities periodically review the Company's tax returns and propose adjustments to the Company's tax filings. The U.S. Internal Revenue Service (IRS) has settled its audits with the Company for all years through fiscal year 2004. Tax years settled with the IRS may remain open for foreign tax audits and competent authority proceedings. Competent authority proceedings are a means to resolve intercompany pricing disagreements between countries.

In March 2009, the IRS issued its audit report for fiscal years 2005 and 2006. The Company reached agreement with the IRS on some but not all matters. On December 23, 2010, the IRS issued a statutory notice of deficiency with respect to the remaining issues. The Company filed a Petition with the U.S. Tax Court on March 21, 2011 objecting to the deficiency. During October and November of 2012, the Company reached resolution with the IRS on various matters, including the deductibility of a settlement payment. The remaining unresolved issues relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, which is one of the Company's key manufacturing sites.

MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In October 2011, the IRS issued its audit report for fiscal years 2007 and 2008. The Company reached agreement with the IRS on some but not all matters related to these fiscal years. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary in Puerto Rico, and proposed adjustments associated with the tax effects of the Company's acquisition of Kyphon. Associated with the Kyphon acquisition, Medtronic entered into an intercompany transaction whereby the Kyphon U.S. tangible assets were sold to another wholly-owned Medtronic subsidiary in a taxable transaction. The IRS has disagreed with the Company's valuation of these assets and proposed that all U.S. goodwill, the value of the ongoing business, and the value of the workforce in place related to the Kyphon acquisition be included in the tangible asset sale. The Company disagrees that these items were sold, as well as with the IRS valuation of these items. The IRS continues to evaluate the overall transaction that Medtronic entered into and because a foreign subsidiary acquired part of Kyphon directly from the Kyphon shareholders, the IRS has argued that a deemed taxable event occurred. The Company disagrees with the IRS and is currently attempting to resolve these matters at the IRS Appellate level and will proceed through litigation, if necessary.

The Company's reserve for the uncertain tax positions related to these significant unresolved matters with the IRS, as described above, is subject to a high degree of estimation and management judgment. Resolution of these significant unresolved matters, or positions taken by the IRS or foreign tax authorities during future tax audits, could have a material impact on the Company's financial results in future periods. The Company continues to believe that its reserves for uncertain tax positions are appropriate and have meritorious defenses for its tax filings and will vigorously defend them during the audit process, appellate process, and through litigation in courts, as necessary.

## Note 16 – Earnings Per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding, increased by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued and reduced by the number of shares the Company could have repurchased from the proceeds from issuance of the potentially dilutive shares. Potentially dilutive shares of common stock include stock options and other stock-based awards granted under stock-based compensation plans and shares committed to be purchased under the employee stock purchase plan.

The table below sets forth the computation of basic and diluted earnings per share:

(in millions, except per share data)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Numerator:				
Earnings from continuing operations	\$988	\$845	\$2,498	\$2,527
Earnings from discontinued operations	—	90	—	99
Net earnings	\$988	\$935	\$2,498	\$2,626
Denominator:				
Basic – weighted average shares outstanding	1,012.5	1,054.4	1,020.7	1,058.5
Effect of dilutive securities:				
Employee stock options	3.0	0.8	2.3	0.7
Employee restricted stock units	5.4	4.8	5.6	4.7
Other	0.1	0.2	0.1	0.2
Diluted – weighted average shares outstanding	1,021.0	1,060.2	1,028.7	1,064.1
Basic earnings per share:				
Earnings from continuing operations	\$0.98	\$0.80	\$2.45	\$2.39
Earnings from discontinued operations	\$—	\$0.09	\$—	\$0.09

Edgar Filing: MEDTRONIC INC - Form 10-Q

Net earnings	\$0.98	\$0.89	\$2.45	\$2.48
Diluted earnings per share:				
Earnings from continuing operations	\$0.97	\$0.80	\$2.43	\$2.37
Earnings from discontinued operations	\$—	\$0.08	\$—	\$0.09
Net earnings*	\$0.97	\$0.88	\$2.43	\$2.47

\* - All earnings per share amounts have been rounded to the nearest \$0.01, and therefore, may not sum.

28

---

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The calculation of weighted average diluted shares outstanding excludes options for approximately 40 million shares of common stock for both the three and nine months ended January 25, 2013, and approximately 53 million shares of common stock for both the three and nine months ended January 27, 2012, because their effect would be anti-dilutive on the Company's earnings per share. For the three and nine months ended January 25, 2013 and January 27, 2012, common share equivalents related to the Company's \$2.200 billion of 2013 Senior Convertible Notes were anti-dilutive as the market price of the Company's stock was below the conversion price of the 2013 Senior Convertible Notes and, therefore, were excluded from the calculation of weighted average diluted shares.

## Note 17 – Stock-Based Compensation

Under the fair value recognition provisions of U.S. GAAP for accounting for stock-based compensation, the Company measures stock-based compensation expense at the grant date based on the fair value of the award and recognizes the compensation expense over the requisite service period, which is generally the vesting period.

The following table presents the components and classification of stock-based compensation expense recognized for the three and nine months ended January 25, 2013 and January 27, 2012:

(in millions)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Stock options	\$9	\$12	\$36	\$48
Restricted stock awards	23	19	74	66
Employee stock purchase plan	2	3	9	10
Total stock-based compensation expense	\$34	\$34	\$119	\$124
Cost of products sold	\$3	\$3	\$10	\$10
Research and development expense	7	6	24	22
Selling, general, and administrative expense	24	25	85	92
Total stock-based compensation expense	\$34	\$34	\$119	\$124
Income tax benefits	(10	) (9	) (34	) (35
Total stock-based compensation expense, net of tax	\$24	\$25	\$85	\$89

## Note 18 – Retirement Benefit Plans

The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), post-retirement medical plans (post-retirement benefits), defined contribution savings plans, and termination indemnity plans, covering substantially all U.S. employees and many employees outside the U.S. The net periodic benefit cost of the plans includes the following components for the three and nine months ended January 25, 2013 and January 27, 2012:

(in millions)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Post-Retirement Benefits	
	Three months ended January 25, 2013	January 27, 2012 (a)	Three months ended January 25, 2013	January 27, 2012 (a)	Three months ended January 25, 2013	January 27, 2012 (a)
Service cost	\$26	\$23	\$11	\$11	\$5	\$5
Interest cost	23	22	7	7	4	4
Expected return on plan assets	(32	) (30	) (8	) (9	) (4	) (4
Amortization of net actuarial loss	18	11	2	1	1	1
Net periodic benefit cost	\$35	\$26	\$12	\$10	\$6	\$6



MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in millions)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Post-Retirement Benefits	
	Nine months ended		Nine months ended		Nine months ended	
	January 25, 2013	January 27, 2012 (a)	January 25, 2013	January 27, 2012 (a)	January 25, 2013	January 27, 2012 (a)
Service cost	\$78	\$69	\$33	\$33	\$15	\$15
Interest cost	69	66	21	21	12	12
Expected return on plan assets	(96 )	(90 )	(24 )	(27 )	(12 )	(12 )
Amortization of net actuarial loss	54	33	6	3	3	3
Net periodic benefit cost	\$105	\$78	\$36	\$30	\$18	\$18

(a) Components of the net periodic benefit cost for the three and nine months ended January 27, 2012 include balances related to Physio-Control.

## Note 19 – Contingencies

The Company is involved in a number of legal actions. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief (including injunctions barring the sale of products that are the subject of the lawsuit), that could require significant expenditures or result in lost revenues. In accordance with U.S. GAAP, the Company records a liability in the consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete scientific facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties, fines or punitive damages; or could result in a change in business practice. While it is not possible to predict the outcome for most of the matters discussed, the Company believes it is possible that costs associated with them could have a material adverse impact on the Company's consolidated earnings, financial position, or cash flows.

## Litigation with Wyeth and Cordis Corporation

On February 22, 2008, Wyeth and Cordis Corporation (Cordis) filed a lawsuit against the Company and its subsidiary, Medtronic AVE, Inc., in U.S. District Court for the District of New Jersey, alleging that Medtronic's Endeavor drug-eluting stent infringes three U.S. "Morris" patents alleged to be owned by Wyeth and exclusively licensed to Cordis. On January 19, 2012, the Court found the patent claims asserted against Medtronic to be invalid and entered an Order and Judgment in favor of Medtronic and the other defendants. Wyeth and Cordis have appealed. The Company is indemnified for the claims made by Wyeth and Cordis. The Company has not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

## Litigation with Edwards Lifesciences, Inc.

On March 19, 2010, the U.S. District Court for the District of Delaware added Medtronic CoreValve LLC (CoreValve) as a party to litigation pending between Edwards Lifesciences, Inc. (Edwards) and CoreValve, Inc. In the litigation, Edwards asserted that CoreValve's transcatheter aortic valve replacement product infringed three U.S. "Andersen" patents owned by Edwards. Before trial, the court granted summary judgment to Medtronic as to two of the three patents. Following a trial, on April 1, 2010 a jury found that CoreValve willfully infringed a claim on the



remaining Andersen patent and awarded total lost profit and royalty damages of \$74 million. On November 13, 2012, the U.S. Court of Appeals for the Federal Circuit upheld the jury verdict and in February 2013, the court denied Medtronic's petition for rehearing en banc. Medtronic recorded an expense of \$245 million related to probable and reasonably estimated damages for this matter in the second quarter of fiscal year 2013, of which \$84 million was paid on February 28, 2013.

On March 12, 2010, Edwards served a second lawsuit in the Delaware court upon CoreValve, Medtronic Vascular, and Medtronic, asserting that Medtronic's transcatheter aortic valve replacement product from CoreValve infringed three U.S. Andersen patents owned by Edwards, including two of the patents that were the subject of the first lawsuit. Medtronic has moved to dismiss the lawsuit. Also pending in the Delaware court is Edwards' claim that the CoreValve transcatheter aortic valve replacement product infringes a Cribier patent. This claim is scheduled for trial in calendar year 2014. The Company has

MEDTRONIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from these matters.

Edwards has also brought actions in Europe alleging patent infringement. Edwards previously asserted that the CoreValve product infringed an Andersen patent in Germany and the United Kingdom, which is a counterpart to the U.S. Andersen patents. Courts in both countries found that the CoreValve product does not infringe the European Andersen patent and dismissed both cases. On August 30, 2012 Edwards commenced a proceeding in Mannheim, Germany, alleging that Medtronic's CoreValve transcatheter valve infringes two European patents. The Company has not recorded an expense related to damages in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

**Sprint Fidelis Product Liability Matters**

In 2007, a putative class action was filed in the Ontario Superior Court of Justice in Canada seeking damages for personal injuries allegedly related to the Company's Sprint Fidelis family of defibrillation leads. On October 20, 2009, the court certified a class proceeding but denied class certification on plaintiffs' claim for punitive damages. Pretrial proceedings are underway. The Company has not recorded an expense related to damages in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

**Shareholder Related Matters**

On March 12, 2012, Charlotte Kococinski filed a shareholder derivative action against both the Company and certain of its current and former officers and members of the Board of Directors in the U.S. District Court for the District of Minnesota, setting forth certain allegations, including a claim that defendants violated various purported duties in connection with the INFUSE bone graft product and otherwise. In May 2012, Daniel Himmel and the Saratoga Advantage Trust commenced two other separate shareholder derivative actions in Hennepin County, Minnesota, District Court against the same defendants, and making allegations similar to those, in the Kococinski case. The Company has not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from these matters.

**Mirowski**

Medtronic is a licensee to the RE 38,119 patent ('119 Patent) and RE 38,897 patent ('897 Patent) owned by Mirowski Family Ventures, LLC (Mirowski) relating to the treatment of hemodynamic dysfunction. Medtronic and Mirowski dispute the application of the '119 and '897 Patents to certain Medtronic cardiac resynchronization products. On December 17, 2007, Medtronic filed an action in U.S. District Court for the District of Delaware seeking a declaration that none of its products infringe any valid claims of either the '119 or '897 Patents. If certain conditions are fulfilled, the '119 and/or '897 Patents are determined to be valid, and the Medtronic products are found to infringe the '119 and/or '897 Patents, Medtronic will be obligated to pay royalties to Mirowski based upon sales of certain cardiac resynchronization therapy-defibrillator (CRT-D) products. On March 30, 2011, the trial court entered a judgment of non-infringement in Medtronic's favor. On September 16, 2012, the Federal Circuit reversed and remanded the trial court's decision for a new trial, based on its holding that the trial court did not properly allocate the burden of proof in the initial proceedings. On February 4, 2013, the court denied Medtronic's petition for rehearing. The Company has not recorded an expense pursuant to U.S. GAAP requirements in connection with this matter because any loss is not probable or reasonably estimable. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

**Other Matters**

On September 25, 2007 and November 16, 2007, the Company received letters from the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ), respectively, requesting information relating to any potential violations of the U.S. Foreign Corrupt Practices Act in connection with the sale of medical devices in several non-U.S. countries. A number of competitors have publicly disclosed receiving similar letters. Subsequently, the SEC and DOJ have made additional requests for information from the Company. The Company is fully cooperating with these requests.

The Company has received subpoenas or document requests from certain government bodies seeking information regarding sales, marketing, clinical and other information relating to the INFUSE bone graft product, including civil investigative demands from the Attorneys General in Massachusetts, California, Oregon, and Illinois. The Company is fully cooperating with these requests.

MEDTRONIC, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

On September 16, 2009, the Company received a subpoena from the Office of Inspector General for the Department of Health and Human Services in the Eastern District of California requesting production of documents relating to the Company's cardiac rhythm medical devices, including revenue, sales, marketing, and promotional documents, documents relating to reimbursement communications to customers pertaining to the devices, documents relating to scientific studies and registries pertaining to the devices, and documents relating to payments or items of value provided to customers. The Company is fully cooperating with this inquiry. Allegations relating to post-market clinical studies in this matter were resolved as part of the settlement agreement reached with the DOJ, on behalf of the U.S. Attorney's Office for the District of Minnesota, in November 2011.

On March 12, 2010, the Company received a civil investigative demand from the DOJ pursuant to the federal False Claims Act seeking information regarding the Company's knowledge about claims to Medicare for the implantation of implantable cardioverter defibrillators (ICDs), including reimbursement advice given by the Company, payments to persons or entities involved in decisions about implantation of ICDs, and the national coverage determination relating to ICDs. The Company is fully cooperating with this inquiry.

On October 14, 2010, the Company received a subpoena issued by the U.S. Attorney's Office for the Western District of New York pursuant to the Health Insurance Portability & Accountability Act of 1996, relating to the Company's sales, marketing, and reimbursement support practices regarding certain neurostimulation devices. The Company is fully cooperating with this inquiry.

On November 9, 2010, the French Competition Authority commenced an investigation of the Company, along with a number of other medical device companies, and the companies' trade association, Syndicat National de l'Industrie des Technologies Medicales (SNITEM), to determine whether such companies or SNITEM engaged in any anticompetitive practices in responding to tenders to purchase certain medical devices. The Company is fully cooperating with the investigation.

On August 24, 2011, the Company received a letter from the DOJ requesting information relating to the Company's practices regarding the replacement of insulin pumps for Medicare beneficiaries. The Company is fully cooperating with this inquiry.

The Company has not recorded an expense related to losses in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from these matters.

In the normal course of business, the Company periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of the Company's products or the negligence of its personnel or claims alleging that its products infringe third-party patents or other intellectual property. The Company's maximum exposure under these indemnification provisions cannot be estimated, and the Company has not accrued any liabilities within the consolidated financial statements. Historically, the Company has not experienced significant losses on these types of indemnifications.

#### Note 20 – Segment and Geographic Information

##### Segment information

The Company's Cardiac and Vascular Group consists of four businesses: Cardiac Rhythm Disease Management (CRDM), Coronary, Structural Heart, and Endovascular. The primary products sold by this operating segment include those for cardiac rhythm disorders and cardiovascular disease. The Company's Restorative Therapies Group consists of four businesses: Spine, Neuromodulation, Diabetes, and Surgical Technologies. The primary products sold by this operating segment include those for spinal conditions and musculoskeletal trauma, neurological disorders, urological and digestive disorders, diabetes, and ear, nose, and throat conditions.

The Company's management evaluates performance and allocates resources based on profit and loss from operations before income taxes and interest expense, net, not including restructuring charges, net, certain litigation charges, net, and acquisition-related items. The accounting policies of the reportable segments are the same as those described in

the summary of significant accounting policies in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 27, 2012.

## MEDTRONIC, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Net sales of the Company's reportable segments include end-customer revenues from the sale of products they each develop and manufacture or distribute. Net sales and earnings before income taxes by reportable segment are as follows:

(in millions)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Cardiac and Vascular Group	\$2,100	\$2,029	\$6,352	\$6,230
Restorative Therapies Group	1,927	1,889	5,778	5,657
Total Net Sales	\$4,027	\$3,918	\$12,130	\$11,887
(in millions)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Cardiac and Vascular Group	\$687	\$657	\$2,093	\$2,008
Restorative Therapies Group	548	518	1,590	1,489
Total Reportable Segments' Earnings Before Income Taxes	1,235	1,175	3,683	3,497
Certain litigation charges, net	—	—	(245	) —
Acquisition-related items	55	(15	) 44	1
Interest expense, net	(46	) (33	) (103	) (103
Corporate	(89	) (74	) (282	) (281
Earnings From Continuing Operations Before Income Taxes	\$1,155	\$1,053	\$3,097	\$3,114

The following table presents the Company's net assets by reportable segment:

(in millions)	January 25, 2013	April 27, 2012
Cardiac and Vascular Group	\$6,908	\$7,004
Restorative Therapies Group	12,011	11,313
Total Net Assets of Reportable Segments	18,919	18,317
Short-term borrowings	(4,104	) (3,274
Long-term debt	(7,314	) (7,359
Corporate	10,335	9,429
Total Net Assets	\$17,836	\$17,113

## Geographic information

Net sales to external customers by geography are as follows:

(in millions)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
United States	\$2,171	\$2,145	\$6,687	\$6,530
Europe and Canada	1,020	1,046	2,998	3,135
Asia Pacific	660	574	1,926	1,760
Other Foreign	176	153	519	462
Total Net Sales	\$4,027	\$3,918	\$12,130	\$11,887



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

UNDERSTANDING OUR FINANCIAL INFORMATION

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Medtronic, Inc. and its subsidiaries (Medtronic or the Company). For a full understanding of financial condition and results of operations, you should read this discussion along with management's discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the year ended April 27, 2012. In addition, you should read this discussion along with our condensed consolidated financial statements and related notes thereto as of January 25, 2013.

Beginning in the third quarter of fiscal year 2012, the results of operations, assets, and liabilities of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, are classified as discontinued operations. All information in the following management's discussion and analysis of financial condition and results of operations includes only results from continuing operations (excluding Physio-Control) for all periods presented, unless otherwise noted. For further information regarding discontinued operations, see Note 3 to the current period's condensed consolidated financial statements.

Financial Trends

Throughout this management's discussion and analysis, you will read about transactions or events that materially contribute to or reduce earnings and materially affect financial trends. We refer to these transactions and events as special charges (such as asset impairments), restructuring charges, net, certain litigation charges, net, acquisition-related items, or certain tax adjustments. These charges, or benefits, result from facts and circumstances that vary in frequency and/or impact to operations. While understanding these charges or benefits is important to understanding and evaluating financial trends, other transactions or events may also have a material impact on financial trends. A complete understanding of the special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments is necessary in order to estimate the likelihood that such financial trends will continue.

EXECUTIVE LEVEL OVERVIEW

Medtronic is the global leader in medical technology - alleviating pain, restoring health, and extending life for millions of people around the world. We develop, manufacture, and market our medical devices in more than 120 countries. Our primary products include those for cardiac rhythm disorders, cardiovascular disease, neurological disorders, spinal conditions and musculoskeletal trauma, urological and digestive disorders, diabetes, and ear, nose, and throat conditions.

We operate under two reportable segments and two operating segments, the Cardiac and Vascular Group (composed of the CRDM, Coronary, Structural Heart, and Endovascular businesses) and the Restorative Therapies Group (composed of the Spine, Neuromodulation, Diabetes, and Surgical Technologies businesses).

Net earnings for the third quarter of fiscal year 2013 were \$988 million, or \$0.97 per diluted share, as compared to net earnings of \$935 million, or \$0.88 per diluted share for the same period in the prior fiscal year, representing an increase of 6 percent and 10 percent, respectively. Net earnings for the three months ended January 25, 2013 included acquisition-related items that increased net earnings by \$57 million after-tax (\$55 million pre-tax). Net earnings for the three months ended January 27, 2012 included acquisition-related items that decreased net earnings by \$15 million after-tax (\$15 million pre-tax). See further discussion of these charges in the "Certain Litigation Charges, Net, Restructuring Charges and Acquisition-Related Items" section of this management's discussion and analysis.

Net earnings for the nine months ended January 25, 2013 were \$2.498 billion, or \$2.43 per diluted share, as compared to net earnings of \$2.626 billion, or \$2.47 per diluted share for the same period in the prior fiscal year, representing a decrease of 5 percent and 2 percent, respectively. Net earnings for the nine months ended January 25, 2013 included certain litigation charges, net and certain acquisition-related items that decreased net earnings by \$189 million after-tax (\$201 million pre-tax). Net earnings for the nine months ended January 27, 2012 included acquisition-related items that increased net earnings by \$1 million after-tax (\$1 million pre-tax). See further discussion of these charges in the "Certain Litigation Charges, Net, Restructuring Charges and Acquisition-Related Items" section of this management's discussion and analysis.





The table below illustrates net sales by operating segment for the three and nine months ended January 25, 2013 and January 27, 2012:

(dollars in millions)	Three months ended			Nine months ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Cardiac and Vascular Group	\$2,100	\$2,029	3 %	\$6,352	\$6,230	2 %
Restorative Therapies Group	1,927	1,889	2	5,778	5,657	2
Total Net Sales	\$4,027	\$3,918	3 %	\$12,130	\$11,887	2 %

Net sales for the three and nine months ended January 25, 2013 were \$4.027 billion and \$12.130 billion, respectively, an increase of 3 percent and 2 percent, respectively, over the same periods in the prior fiscal year. Foreign currency translation had an unfavorable impact of \$41 million and \$279 million on net sales for the three and nine months ended January 25, 2013, respectively, when compared to the same periods in the prior fiscal year. The net sales increase for the three and nine months ended January 25, 2013 was driven by 3 percent and 2 percent growth, respectively, in our Cardiac and Vascular Group and 2 percent growth for both periods in our Restorative Therapies Group. The Cardiac and Vascular Group's performance for the three and nine months ended January 25, 2013 was primarily a result of strong net sales in Coronary, Endovascular, and AF Solutions, and solid growth in Structural Heart, partially offset by declines in CRDM defibrillation and pacing systems. The Cardiac and Vascular Group's performance for the three and nine months ended January 25, 2013 was favorably impacted by new products, partially offset by competitive pricing pressures and continued negative growth of certain markets, particularly defibrillation and pacing systems. However, in the first three quarters of fiscal year 2013, the U.S. defibrillation systems market continued to show signs of stabilization. Our Restorative Therapies Group's performance for the three and nine months ended January 25, 2013 was favorably impacted by strong net sales in Surgical Technologies, as well as solid growth in Neuromodulation and Diabetes, partially offset by declines in Spine, primarily driven by bone morphogenetic protein (BMP) and balloon kyphoplasty (BKP). The Restorative Therapies Group's performance for the three and nine months ended January 25, 2013 was favorably impacted by the recent launches and strong continued adoption of notable products, the acquisitions of Salient and PEAK in the second quarter of fiscal year 2012, and continued signs of stabilization in the U.S. Core Spine market, and negatively impacted by continued pricing and competitive pressures. See our discussion in the "Net Sales" section of this management's discussion and analysis for more information on the results of our significant operating segments.

We remain committed to our Mission of developing lifesaving and life-enhancing therapies to alleviate pain, restore health, and extend life.

#### CRITICAL ACCOUNTING ESTIMATES

We have adopted various accounting policies to prepare the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.) (U.S. GAAP). Our most significant accounting policies are disclosed in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 27, 2012.

The preparation of the condensed consolidated financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, asset impairment, legal proceedings, IPR&D, contingent consideration, warranty obligations, product liability, self-insurance, pension and post-retirement obligations, sales returns and discounts, stock-based compensation, valuation of equity and debt securities, and income tax reserves are updated as appropriate, which in most cases is quarterly. We base our estimates on historical experience, actuarial valuations, or various assumptions that are believed to be reasonable under the circumstances.

Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) material changes in the estimates are reasonably likely to occur from period to period. Our critical accounting estimates include the following:

Legal Proceedings

We are involved in a number of legal actions involving product liability, intellectual property disputes, shareholder derivative actions, securities class actions, and other class actions. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief (including injunctions barring the sale of products that are the subject of the lawsuit), that could require significant expenditures or result in lost revenues. In accordance with U.S. GAAP, we record a liability in our condensed consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any

other, the minimum amount of the range is accrued. If a loss is reasonably possible, but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the condensed consolidated financial statements. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete scientific facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties, fines, or punitive damages; or could result in a change in business practice. Our significant legal proceedings are discussed in Note 19 to the current period's condensed consolidated financial statements. While it is not possible to predict the outcome for most of the matters discussed in Note 19 to the current period's condensed consolidated financial statements, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position, or cash flows.

#### Tax Strategies

Our effective tax rate is based on income, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may or may not prevail. These reserves are established and adjusted in accordance with the principles of U.S. GAAP. Under U.S. GAAP, if we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the amount that is greater than 50 percent likely of being realized upon settlement. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions and tax liabilities. We reevaluate the technical merits of our tax positions and recognize an uncertain tax benefit, or derecognize a previously recorded tax benefit, when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves. Although we believe that we have adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on our effective tax rate in future periods.

In the event there is a special charge, restructuring charge, net, certain litigation charge, net, and/or acquisition-related items recognized in our operating results, the tax cost or benefit attributable to that item is separately calculated and recorded. Because the effective rate can be significantly impacted by these discrete items that take place in the period, we often refer to our tax rate using both the effective rate and the non-GAAP nominal tax rate. The non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments. We believe this resulting non-GAAP financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods. Investors should consider this non-GAAP measure in addition to, and not as a substitute for, financial performance measures prepared in accordance with U.S. GAAP. In addition, this non-GAAP financial measure may not be the same or similar to measures presented by other companies.

Tax regulations require certain items to be included in the tax return at different times than when those items are required to be recorded in the condensed consolidated financial statements. As a result, our effective tax rate reflected in our condensed consolidated financial statements is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our consolidated statements of earnings. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in our condensed consolidated financial statements for which payment has been deferred or expense has already been taken as a deduction on our tax return but has not yet been recognized as an expense in our condensed consolidated statements of earnings.

The Company's overall tax rate from continuing operations including the tax impact of certain litigation charges, net, and certain acquisition-related items resulted in an effective tax rate of 14.46 percent and 19.34 percent for the three and nine months ended January 25, 2013, respectively. Excluding the impact of the certain litigation charges, net, and acquisition-related items for the three and nine months ended January 25, 2013, our operational and tax strategies have resulted in a non-GAAP nominal tax rate of 15.37 percent and 18.53 percent, respectively, versus the U.S. Federal statutory rate of 35.0 percent. An increase in our nominal tax rate of 1 percent would result in an additional income tax provision for the three and nine months ended January 25, 2013 of approximately \$11 million and \$33 million, respectively. See discussion of our tax rate and the tax adjustments in the "Income Taxes" section of this management's discussion and analysis.

#### Valuation of Other Intangible Assets, Including IPR&D, Goodwill, and Contingent Consideration

When we acquire a business, the purchase price is allocated, as applicable, among identifiable intangible assets, including IPR&D, net tangible assets, and goodwill as required by U.S. GAAP. Our policy defines IPR&D as the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the portion of the purchase price allocated to other intangible assets and IPR&D requires us to make significant estimates. These estimates include the amount and timing of projected future cash flows, the discount rate used to discount those cash flows to present value, the assessment of the asset's life cycle, and the consideration of legal, technical, regulatory, economic, and competitive risks. The amount of the purchase price allocated to other intangible assets, including IPR&D, and net tangible assets is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of measurement in accordance with accepted valuation standards.

IPR&D included in a business combination is capitalized as an indefinite-lived intangible asset. Development costs incurred after the acquisition are expensed as incurred. Upon receipt of regulatory approval, the indefinite-lived intangible asset is then accounted for as a finite-lived intangible asset and amortized on a straight-line basis over its estimated useful life. If the research and development project is subsequently abandoned, the indefinite-lived asset is charged to expense. IPR&D acquired outside of a business combination is expensed immediately.

Due to the uncertainty associated with research and development projects, there is risk that actual results will differ materially from the original cash flow projections and that the research and development project will result in a successful commercial product. The risks associated with achieving commercialization include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, delay or failure to obtain required market clearances, delays or issues with patent issuance, or validity and litigation.

Contingent consideration is recorded at the acquisition date at the estimated fair value of the contingent consideration milestone payments for all acquisitions subsequent to April 24, 2009. The acquisition date fair value is measured based on the consideration expected to be transferred (probability-weighted), discounted back to present value. The discount rate used is determined at the time of measurement in accordance with accepted valuation methods. The fair value of the contingent milestone consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within acquisition-related items in our condensed consolidated statements of earnings. Changes to the fair value of contingent consideration liability can result from changes in discount rates, the timing and amount of revenue estimates, or in the timing or likelihood of achieving the milestones which trigger payment. Using different valuation assumptions including revenue or cash flow projections, growth rates, discount rates, or probabilities of achieving the milestones could impact the purchase price allocations at the time of acquisition, future amortization expense, and future remeasurement of the estimated fair value of contingent consideration.

Goodwill is the excess of the purchase price over the fair value of net assets, including IPR&D, of acquired businesses. Goodwill is tested for impairment annually or whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows. Our estimates associated with the goodwill impairment test are considered critical due to the amount of goodwill recorded on our condensed consolidated balance sheets and the judgment required in determining fair value, including projected future cash flows. Goodwill was \$10.341 billion and \$9.934 billion as of January 25, 2013 and April 27, 2012, respectively. Other intangible assets include patents, trademarks, purchased technology, and IPR&D (since April 25, 2009). Intangible assets with a definite life are amortized on a straight-line or accelerated basis, as appropriate, with estimated useful lives ranging from three to 20 years. IPR&D is tested for impairment annually and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. We review other definite-lived intangible assets for impairment whenever events or circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. Our impairment assessments are based on an estimated future cash flow approach that requires significant judgment with respect to future revenue and expense growth rates, selection of appropriate discount rate, asset groupings, and other assumptions and estimates. We use estimates that are consistent with our business plans and a market participant view of the assets being evaluated. Actual results may differ from our

estimates due to a number of factors including, among others, changes in competitive conditions, timing of regulatory approval, changes in worldwide economic conditions, and fluctuations in foreign currency exchange rates. These risk factors are discussed in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended April 27, 2012. These other intangible assets, net of accumulated amortization, were \$2.758 billion and \$2.647 billion as of January 25, 2013 and April 27, 2012, respectively.

#### NEW ACCOUNTING PRONOUNCEMENTS

Information regarding new accounting pronouncements is included in Note 2 to the current period's condensed consolidated financial statements.

#### DISCONTINUED OPERATIONS

On January 30, 2012, we completed the sale of the Physio-Control business to Bain Capital Partners, LLC. We have classified the results of operations of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, as discontinued operations in the consolidated statements of earnings for all periods presented. For more information regarding discontinued operations, refer to Note 3 to the current period's condensed consolidated financial statements.

#### ACQUISITIONS

Three and nine months ended January 25, 2013

On November 1, 2012, we acquired China Kanghui Holdings (Kanghui). Kanghui is a Chinese manufacturer and distributor of orthopedic products in trauma, spine, and joint reconstruction. Total consideration for the transaction was approximately \$816 million. The total value of the transaction, net of Kanghui's cash, was approximately \$797 million.

Nine months ended January 27, 2012

On August 31, 2011, we acquired Salient Surgical Technologies, Inc. (Salient). Salient develops and markets devices for haemostatic sealing of soft tissue and bone incorporating advanced energy technology. Salient's devices are used in a variety of surgical procedures including orthopedic surgery, spine, open abdominal, and thoracic procedures. Total consideration for the transaction was approximately \$497 million. We had previously invested in Salient and held an 8.9 percent ownership position in the company. In connection with the acquisition of Salient, we recognized a gain on our previously held investment of \$32 million, which was recorded within acquisition-related items in the condensed consolidated statement of earnings in the second quarter of fiscal year 2012. Net of this ownership position, the transaction value was approximately \$452 million.

On August 31, 2011, we acquired PEAK Surgical, Inc. (PEAK). PEAK develops and markets tissue dissection devices incorporating advanced energy technology. Total consideration for the transaction was approximately \$113 million. We had previously invested in PEAK and held an 18.9 percent ownership position in the company. In connection with the acquisition of PEAK, we recognized a gain on our previously held investment of \$6 million, which was recorded within acquisition-related items in the condensed consolidated statement of earnings in the second quarter of fiscal year 2012. Net of this ownership position, the transaction value was approximately \$96 million.

In addition to the acquisitions above, we periodically acquire certain tangible and intangible assets from enterprises that do not otherwise qualify for accounting as a business combination. These transactions are largely reflected in the condensed consolidated statements of cash flows as a component of investing activities under other investing activities, net.



## NET SALES

The table below illustrates net sales by product line and operating segment for the three and nine months ended January 25, 2013 and January 27, 2012:

(dollars in millions)	Three months ended			Nine months ended		
	January 25, 2013	January 27, 2012	% Change	January 25, 2013	January 27, 2012	% Change
Defibrillation Systems	\$654	\$674	(3)%	\$2,019	\$2,078	(3)%
Pacing Systems	459	467	(2)	1,401	1,485	(6)
AF and Other	58	51	14	171	149	15
CARDIAC RHYTHM DISEASE MANAGEMENT	1,171	1,192	(2)	3,591	3,712	(3)
CORONARY	445	382	16	1,307	1,148	14
STRUCTURAL HEART	272	265	3	823	806	2
ENDOVASCULAR	212	190	12	631	564	12
TOTAL CARDIAC AND VASCULAR GROUP	2,100	2,029	3	6,352	6,230	2
Core Spine	639	640	—	1,932	1,966	(2)
BMP	114	144	(21)	388	482	(20)
SPINE	753	784	(4)	2,320	2,448	(5)
NEUROMODULATION	447	419	7	1,320	1,237	7
DIABETES	377	367	3	1,119	1,089	3
SURGICAL TECHNOLOGIES	350	319	10	1,019	883	15
TOTAL RESTORATIVE THERAPIES GROUP	1,927	1,889	2	5,778	5,657	2
TOTAL	\$4,027	\$3,918	3%	\$12,130	\$11,887	2%

Net sales for the three and nine months ended January 25, 2013 were unfavorably impacted by foreign currency translation of \$41 million and \$279 million, respectively, when compared to the same periods of the prior fiscal year. The primary exchange rate movements that impacted our consolidated net sales growth were the U.S. dollar as compared to the Euro and the Japanese Yen. The impact of foreign currency fluctuations on net sales was not indicative of the impact on net earnings due to the offsetting foreign currency impact on operating costs and expenses and our hedging activities. See “Item 3 – Quantitative and Qualitative Disclosures About Market Risk” and Note 10 to the current period’s condensed consolidated financial statements for further details on currency exchange rate derivative instruments and our related risk management strategies.

## Cardiac and Vascular Group

The Cardiac and Vascular Group is composed of the CRDM, Coronary, Structural Heart, and Endovascular businesses. The Cardiac and Vascular Group’s products include pacemakers, implantable defibrillators, leads and delivery systems, ablation products, electrophysiology catheters, products for the treatment of atrial fibrillation (AF), information systems for the management of patients with CRDM devices, coronary and peripheral stents and related delivery systems, therapies for uncontrolled hypertension, endovascular stent graft systems, heart valve replacement technologies, cardiac tissue ablation systems, and open heart and coronary bypass grafting surgical products. The Cardiac and Vascular Group’s net sales for the three and nine months ended January 25, 2013 were \$2.100 billion and \$6.352 billion, an increase of 3 percent and 2 percent, respectively, over the same periods in the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales for the three and nine months ended January 25, 2013 of \$30 million and \$191 million, respectively, when compared to the same periods in the prior fiscal year. The Cardiac and Vascular Group’s performance for the three and nine months ended January 25, 2013 was primarily a result of strong net sales in Coronary, Endovascular, and AF Solutions, and solid growth in Structural Heart, partially offset by declines in CRDM defibrillation and pacing systems. Additionally, the Cardiac and Vascular Group’s performance was favorably impacted by new products, partially offset by competitive pricing pressures and continued negative growth of certain markets, particularly defibrillation and pacing systems. Further, in the third quarter of fiscal

year 2013, declining growth rates in Western Europe negatively impacted the Cardiac and Vascular Group's performance. See the more detailed discussion of each business's performance below.

CRDM net sales for the three and nine months ended January 25, 2013 were \$1.171 billion and \$3.591 billion, a decrease of 2 percent and 3 percent, respectively, over the same periods in the prior fiscal year. Net sales of our defibrillation system products

for the three and nine months ended January 25, 2013 declined primarily due to market declines in the U.S. and Western Europe and unfavorable foreign currency translation. In fiscal year 2012, CRDM net sales were unfavorably impacted by a declining U.S. defibrillation systems market. However, in the first three quarters of fiscal year 2013, the U.S. defibrillation systems market showed signs of stabilization. In addition, in the first three quarters of fiscal year 2013, U.S. procedure volumes increased slightly, while the rate of pricing declines was consistent with the prior year. The U.S. and Western Europe markets were adversely affected by a number of factors, including competition and pricing pressures. The continued acceptance of our shock reduction and lead integrity alert technologies, strong lead-to-port ratios, and worldwide share gains partially offset the decline in net sales of our defibrillation system products. Worldwide net sales of our pacing system products for the three and nine months ended January 25, 2013 declined primarily due to unfavorable foreign currency translation, declines in the U.S. market caused by pricing pressures, and to a lesser extent, declining implant volumes, and pricing pressures in the Western Europe market. The decline in net sales of our pacing system products was partially offset by international share gains driven mostly by the launch of our Advisa DR MRI SureScan pacemaker in Japan late in the second quarter of fiscal year 2013. Worldwide net sales of our AF Solutions products increased for the three and nine months ended January 25, 2013 primarily due to the continued global acceptance of the Arctic Front Cardiac CryoAblation Catheter system. Coronary net sales for the three and nine months ended January 25, 2013 were \$445 million and \$1.307 billion, an increase of 16 percent and 14 percent, respectively, over the same periods in the prior fiscal year. The increase in Coronary net sales for the three and nine months ended January 25, 2013 was primarily due to the continued strength of our Resolute Integrity drug-eluting coronary stent. We launched Resolute Integrity in Japan in the second quarter of fiscal year 2013 and in the U.S. in the fourth quarter of fiscal year 2012. Resolute Integrity's deliverability and unique diabetes indication has continued to receive strong customer acceptance. Growth was partially offset by unfavorable foreign currency translation as well as pricing pressures and competitive launches in Western Europe. Structural Heart net sales for the three and nine months ended January 25, 2013 were \$272 million and \$823 million, respectively, an increase of 3 percent and 2 percent, respectively, over the same periods in the prior fiscal year. The increase in Structural Heart net sales for the three and nine months ended January 25, 2013 was primarily driven by strong sales of the CoreValve transcatheter aortic heart valves and growth in our cardiopulmonary product lines. Growth was partially offset by unfavorable foreign currency translation and slowing market growth rates and increased competitive pressure in Western Europe. Endovascular net sales for the three and nine months ended January 25, 2013 were \$212 million and \$631 million, respectively, an increase of 12 percent for both periods over the same periods in the prior fiscal year. The increase in Endovascular net sales for the three and nine months ended January 25, 2013 was led by recent new product launches. Growth was driven by the Endurant Abdominal Aortic Aneurysm (AAA) Stent Graft System, which launched in Japan in the third quarter of fiscal year 2012, as well as the Valiant Captivia Thoracic Stent Graft System, which launched in the U.S. in the fourth quarter of fiscal year 2012 and in Japan and China in the first quarter of fiscal year 2013. Strong worldwide sales of our peripheral stent products also contributed to the growth. Growth was partially offset by unfavorable foreign currency translation and increased competitive pressure in the U.S. Looking ahead, we expect our Cardiac and Vascular Group could be impacted by the following:

- Increasing pricing pressures, competition, and declining hospital inventory levels.
- Fluctuations in U.S. and certain Western Europe market growth rates for our defibrillation and pacing system products.
- Market acceptance and future growth from the Evera family of ICDs, which received Conformité Européene (CE) Mark approval in February 2013. The Evera family of ICDs have increased battery longevity, advanced shock reduction technology, and a contoured shape with thin, smooth edges that better fits inside the body.
- Future growth from the Viva/Brava family of CRT-D devices. The Viva/Brava family of CRT-D devices utilizes a new algorithm, called AdaptivCRT, which improves patients' response rate to CRT-D therapy by preserving the patients' normal heart rhythms and continually adapting to individual patient needs. Our Viva/Brava CRT-D devices received CE Mark approval in August 2012.
- Continued and future growth from the Advisa DR MRI SureScan pacing system. The Advisa DR MRI SureScan is our second-generation magnetic resonance imaging (MRI) pacing system and is the first system to combine advanced

pacing technology with proven MRI access. The Advisa DR MRI SureScan was launched in Europe during the fourth quarter of fiscal year 2010, in the U.S. in February 2013, and in Japan, where it is the first and only MRI pacing system, in the second quarter of fiscal year 2013.

Continued and future growth from the Arctic Front system, including the second generation Arctic Front Advance Cardiac Cryoballoon launched in the second fiscal quarter of fiscal year 2013. The Arctic Front system is a cryoballoon indicated for the treatment of drug refractory paroxysmal atrial fibrillation. The cryoballoon treatment involves a minimally invasive procedure that efficiently creates circumferential lesions around the pulmonary vein, which is the source of erratic electrical signals that cause irregular heartbeat.

Continued acceptance of the Resolute Integrity drug-eluting coronary stent and the Integrity bare metal stent. The Resolute Integrity drug-eluting coronary stent was launched in Japan at the end of August 2012, in the U.S. in February 2012, and in Europe in August 2010. Also, in February 2013, the U.S. Food and Drug Administration (FDA) approved longer lengths of our Resolute Integrity drug-eluting coronary stent, providing access to a larger portion of the US DES market. The Integrity platform features a laser-fused sinusoidal technology that is designed to significantly improve flexibility and conformability compared to other technologies. While the global stent market continues to experience year-over-year declines, to date we have been successful in gaining share with this stent platform in those geographies where the product has been approved.

Continued and future acceptance of renal denervation therapies. Commercially, we are still in the pre-reimbursement phase in many countries, and will likely remain in that phase until we obtain additional clinical data. Our Symplicity Catheter System, which addresses uncontrolled hypertension through renal denervation, or ablation of the nerves lining the renal arteries, has received CE Mark approval and Australia's Therapeutic Goods Administration listing, and was approved in Canada by the Therapeutic Products Directorate in the fourth quarter of fiscal year 2012. We continue to enroll patients in our U.S. pivotal study and remain on track for U.S. approval in fiscal year 2015.

Continued growth in Japan from the Endurant AAA Stent Graft System, and continued growth worldwide of the Valiant Captivia Thoracic Stent Graft System. The Endurant AAA Stent Graft System received Pharmaceuticals and Medical Devices Agency approval and was launched in Japan during the third quarter of fiscal year 2012. The Valiant Captivia Thoracic Stent Graft System was launched in the U.S. in the fourth quarter of fiscal year 2012 and in Japan and China in the first quarter of fiscal year 2013.

Continued and future acceptance of the Endurant II AAA Stent Graft System. Our Endurant II AAA Stent Graft System was launched in Europe in the third quarter of fiscal year 2012 and in the U.S. in the first quarter of fiscal year 2013.

Continued acceptance of our CoreValve transcatheter heart valve technologies for the replacement of the aortic valve. The CoreValve System has received CE Mark approval and is currently available outside the U.S. The CoreValve 31 millimeter received CE Mark approval in the first quarter of fiscal year 2012. The CoreValve Evolut 23 millimeter valve, which promotes better sealing and provides future recapturability, was launched in Europe in the late first quarter of fiscal year 2013. Additionally, we continue to make progress on the CoreValve System in the U.S. pivotal study; and remain on track to commercialize in the U.S. in fiscal year 2015.

#### Restorative Therapies Group

The Restorative Therapies Group is composed of the Spine, Neuromodulation, Diabetes, and Surgical Technologies businesses. Products in the Restorative Therapies Group include products for various areas of the spine, bone graft substitutes, biologic products, trauma, implantable neurostimulation therapies and drug delivery devices for the treatment of chronic pain, movement disorders, obsessive-compulsive disorder (OCD), overactive bladder, urinary retention, fecal incontinence and gastroparesis, external insulin pumps, subcutaneous continuous glucose monitoring (CGM) systems, products to treat conditions of the ear, nose, and throat, and devices that incorporate advanced energy technology. Additionally, this group manufactures and sells image-guided surgery and intra-operative imaging systems. The Restorative Therapies Group's net sales for three and nine months ended January 25, 2013 were \$1.927 billion and \$5.778 billion, respectively, an increase of 2 percent for both periods over the same periods in the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales for the three and nine months ended January 25, 2013 of \$11 million and \$88 million, respectively, compared to the same periods in the prior fiscal year. The Restorative Therapies Group's performance for the three and nine months ended January 25, 2013 was favorably impacted by strong net sales in Surgical Technologies, as well as solid growth in Neuromodulation and Diabetes, partially offset by declines in Spine, primarily driven by BMP (comprised of INFUSE bone graft (InductOs in the European Union) sales) and BKP. The Restorative Therapies Group's performance was favorably impacted by the

recent launches and continued adoption of notable products, the acquisitions of Salient and PEAK in the

41

---

second quarter of fiscal year 2012, and continued signs of stabilization in the U.S. Core Spine market, and negatively impacted by continued pricing and competitive pressures. See the more detailed discussion of each business's performance below.

Spine net sales for the three and nine months ended January 25, 2013 were \$753 million and \$2.320 billion, a decrease of 4 percent and 5 percent, respectively, over the same periods in the prior fiscal year. Spine's performance for the three and nine months ended January 25, 2013 was negatively impacted by continued pricing and competitive pressures, a challenging reimbursement environment in certain of our major markets, and unfavorable foreign currency translation. The U.S. Core Spine market continued to show signs of stabilization in the first three quarters of fiscal year 2013, as supported by the flat first and third quarter markets and no significant changes in the underlying market conditions, including procedure trends, pricing pressure, or competitive dynamics. A strong contributing factor to the decline in Spine net sales for the three and nine months ended January 25, 2013 was a decline in BMP net sales of 21 percent and 20 percent, respectively, over the same periods in the prior fiscal year. Significant declines in U.S. sales of INFUSE bone graft have continued since the June 2011 articles in The Spine Journal as further described below. Core Spine net sales remained flat and declined 2 percent for the three and nine months ended January 25, 2013, respectively, primarily driven by negative performance in BKP. BKP net sales for the three and nine months ended January 25, 2013 declined 11 percent and 10 percent, respectively, when compared to the same periods in the prior fiscal year. The decline in BKP net sales was due to the continued decrease in demand and competitive pricing pressures. The decline in Core Spine from BKP was partially offset by recent launches of our new products and therapies, including the second quarter launch of AMT implants, and the Capstone Control, as well as the continued adoption of Solera and other biologics products, including MAGNIFUSE and GRAFTON. Our Spine business has also benefited from our focus on enabling technologies, including the O-Arm imaging, StealthStation navigation, and Powerease powered surgical instruments.

Neuromodulation net sales for the three and nine months ended January 25, 2013 were \$447 million and \$1.320 billion, an increase of 7 percent for both periods over the same periods in the prior fiscal year. The increase in net sales for the three and nine months ended January 25, 2013 was primarily due to the continued U.S. adoption of RestoreSensor spinal cord stimulator, sales of InterStim Therapy for overactive bladder, urinary retention, and bowel control, and new implant growth of Activa PC and RC deep brain stimulation (DBS) systems for movement disorders. Diabetes net sales for the three and nine months ended January 25, 2013 were \$377 million and \$1.119 billion, respectively, an increase of 3 percent for both periods over the same periods in the prior fiscal year. The increase in net sales for the three and nine months ended January 25, 2013 was led by international sales from our CGM products, partially offset by slower growth in insulin pump sales as we await the approval of MiniMed 530G in the U.S. and MiniMed 640G in Europe. Additionally, we deferred \$9 million of revenue in the U.S. as we plan to convert some of the recently sold pumps to the new technology once it is approved.

Surgical Technologies net sales for the three and nine months ended January 25, 2013 were \$350 million and \$1.019 billion, an increase of 10 percent and 15 percent, respectively, over the same periods in the prior fiscal year. The increase in net sales for the three and nine months ended January 25, 2013 was driven by strong sales of our StealthStation S7 surgical navigation system, Midas Rex powered surgical equipment, Aquamantys bipolar sealers, and PEAK PlasmaBlade electrosurgical products. The second quarter of fiscal year 2012 acquisition of Salient and PEAK contributed to the increase in sales for the nine months ended January 25, 2013. Additionally, net sales were positively impacted by balanced growth of disposables and service revenue across our Power Systems, Monitoring, Imaging, and Navigation platforms.

Looking ahead, we expect our Restorative Therapies Group could be impacted by the following:

- Changes in procedural volumes, competitive and pricing pressure and mix impacts from changes in our product offerings.

- Market acceptance of innovative new products, such as our Solera product line, Bryan ACD Instrument Set, and other biologics products, including MAGNIFUSE and GRAFTON products, and POWEREASE, a powered instrument solution for Solera.

- Continued market penetration with our BKP technology. We anticipate additional competitors to continue to enter the U.S. market in the future, while numerous competitors offer alternatives in Europe.

Market acceptance of BKP. We remain focused on generating evidence to better demonstrate the clinical and economic benefits for BKP.

In view of our premarket approval of AMPLIFY rhBMP-2 Matrix lapsing on January 25, 2013, we continue to evaluate options for obtaining approval of the rhBMP-2 technology for use in posterolateral spinal fusion procedures in patients with degenerative disc disease, including products with new formulations and carriers.



Spine sales continue to be negatively impacted by the June 2011 articles in The Spine Journal, and by the reaction from inquiries by governmental authorities relating to our INFUSE bone graft product. The Spine Journal articles suggested that some physicians' peer-reviewed studies may have underreported complications and adverse events associated with INFUSE. These articles did not question the integrity of the data provided by Medtronic to the FDA for product approval or the disclosure of safety issues on the product's Instructions for Use for approved indications. Medtronic believes that the safety data reported to the FDA supports the safe use of INFUSE bone graft for the approved indications. However, because questions had been raised about the peer-reviewed literature, in August 2011 we provided a grant to Yale University (Yale) to oversee two independent, systematic reviews of data from completed clinical studies of INFUSE bone graft, as well as data from other Medtronic studies of rhBMP-2, the protein used in INFUSE. While the timing is not within our control, we expect the systematic reviews to be published in early fiscal year 2014. INFUSE bone graft U.S. net sales declined 22 percent and 21 percent, respectively, for the three and nine months ended January 25, 2013 when compared to the same periods in the prior fiscal year.

Integration of China Kanghui Holdings (Kanghui), into the Restorative Therapies Group. Kanghui was acquired on November 1, 2012. Kanghui has a broad portfolio of trauma and spine products focused on the growing value segment, and is beginning to expand into large-joint reconstruction. We hope that this acquisition will increase our competitive position in the global value segment for orthopedic products.

On December 3, 2012, Medtronic and Shandong Weigao Group Medical Polymer Company Limited, Medtronic's partner in a joint venture to distribute spinal and orthopedic products in China, signed a Separation Agreement to terminate early their joint venture established in 2007. The termination of the joint venture is contingent upon receipt of the requisite approvals from the relevant Chinese regulatory authorities. Pursuant to the terms of the agreement, Medtronic's exclusive distribution agreement with the joint venture to distribute Medtronic's spinal products in China terminated effective December 31, 2012. We believe this Separation Agreement will not materially impact the financial results of the Company.

Continued acceptance of the Restore family of pain stimulators to treat chronic pain, including RestoreSensor, which is currently available in the U.S. and certain international markets. RestoreSensor is a neurostimulator for chronic pain that automatically adjusts to the patients' position changes.

European adoption of stimulators and leads approved for full-body MRI scans to treat chronic pain.

Continued and future acceptance of our current indications for Medtronic DBS Therapy for the treatment of movement disorders, Epilepsy (approved in Europe) and OCD. The DBS Therapy portfolio includes Activa PC, our small and advanced primary cell battery, and Activa RC, a rechargeable DBS device. Additionally, Activa SC, a single-channel primary cell device, was approved in the U.S. and Europe in fiscal year 2011 and launched in Japan during the fourth quarter of fiscal year 2012. A study published in the fourth quarter of fiscal year 2013 by The New England Journal of Medicine shows that the use of our DBS therapy provides benefits for patients with early motor complications from Parkinson's disease when compared with other therapies.

Continued acceptance of InterStim Therapy for the treatment of the symptoms of overactive bladder, urinary retention, and bowel control.

Resolution of issue with the FDA relating to our Neuromodulation business. In July 2012, we received an FDA warning letter regarding findings related primarily to our Neuromodulation corrective and preventative action (CAPA) and complaint handling processes. We are currently working with the FDA to resolve the issues. While this warning letter may limit our ability to launch new Neuromodulation products in the U.S. until it is resolved, it is not expected to have a material impact on our financial results.

Continued acceptance from both physicians and patients of insulin-pump therapy and CGM therapy and continued acceptance and improved reimbursement of CGM technologies. The Veo insulin pump is available in certain international markets and offers low-glucose suspend, which assists in protecting against the risk of hypoglycemia by automatically suspending insulin delivery when glucose falls below a specified threshold set by the user. In the U.S., we are anticipating FDA approval of the MiniMed 530G insulin pump and Enlite sensor later this spring or summer. The Enlite sensor has been available in certain international markets since the fourth quarter of fiscal year 2011. We expect approval of our next-generation MiniMed 640G pump system in Western Europe this summer.

Continued contributions from Salient and PEAK to our Surgical Technologies business. Salient and PEAK were acquired in August 2011. Salient develops and markets devices for haemostatic sealing of soft tissue

43

---

and bone incorporating advanced energy technology. Salient's devices are used in a variety of surgical procedures including orthopedic surgery, spine, open abdominal, and thoracic procedures. PEAK develops and markets tissue dissection devices incorporating advanced energy technology. PEAK's PlasmaBlade tissue dissection device is based on proprietary technology that represents an important advance in radiofrequency surgical technologies. We believe these acquisitions have increased our competitive position in this market.

Continued acceptance of the Surgical Technologies StealthStation S7 and O-Arm Imaging Systems, especially with Synergy Spine 2.0 and the O-Arm 3.1.4.

#### COSTS AND EXPENSES

The following is a summary of major costs and expenses as a percent of net sales:

	Three months ended		Nine months ended		
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012	
Cost of products sold	24.8	% 23.8	% 24.7	% 23.9	%
Research and development	9.3	9.3	9.5	9.2	
Selling, general, and administrative	34.8	35.0	34.8	35.0	
Certain litigation charges, net	—	—	2.0	—	
Acquisition-related items	(1.4	) 0.4	(0.4	) —	
Amortization of intangible assets	2.2	2.1	2.0	2.1	
Other expense, net	0.4	1.7	1.0	2.7	
Interest expense, net	1.1	0.8	0.8	0.9	
Cost of Products Sold					

Cost of products sold for the three and nine months ended January 25, 2013, as a percent of net sales, increased 1.0 percentage point for the three months ended January 25, 2013 to 24.8 percent and increased 0.8 of a percentage point for the nine months ended January 25, 2013 to 24.7 percent. Cost of products sold as a percent of net sales in the three months ended January 25, 2013 was negatively impacted primarily by unfavorable foreign currency, and to a lesser extent, shifts in product mix. Cost of products sold as a percent of net sales in the nine months ended January 25, 2013 was negatively impacted primarily by unfavorable foreign currency. We continue to focus on mitigating pricing pressure through our five-year, \$1.2 billion cost of products sold reduction program.

#### Research and Development

We have continued to invest in new technologies to drive long-term future growth. For the three and nine months ended January 25, 2013, research and development spending was \$376 million and \$1.148 billion, respectively, or 9.3 and 9.5 percent of net sales, respectively. For the three and nine months ended January 25, 2013, research and development expense as a percent of net sales remained constant and increased 0.3 of a percentage point, respectively, as compared to the same periods of the prior fiscal year.

We remain committed to developing technological enhancements and new indications for existing products, and less invasive and new technologies for new and emerging markets to address unmet medical needs. That commitment leads to our initiation and participation in many clinical trials each fiscal year as the demand for clinical and economic evidence remains high. Furthermore, we expect our development activities to help reduce patient care costs and the length of hospital stays in the future. In addition to our investment in research and development, we continue to access new technologies in areas served by our existing businesses, as well as in new areas, through acquisitions, licensing agreements, alliances, and certain strategic equity investments.

## Selling, General, and Administrative

Selling, general, and administrative expense for the three and nine months ended January 25, 2013 was \$1.401 billion and \$4.223 billion, respectively, which as a percent of net sales decreased by 0.2 of a percentage point to 34.8 percent for both periods as compared to the same periods of the prior fiscal year. For the three and nine months ended January 25, 2013, selling, general, and administrative expense was positively impacted by our continued focus on several initiatives to leverage our expenses while continuing to invest in new product launches and adding to our sales force in faster growing businesses and geographies. The impact of these initiatives was partially offset in the nine months ended January 25, 2013 by incremental bad debt from a single distributor in Greece. For the three and nine months ended January 27, 2012, we incurred incremental bad debt expense in our Diabetes business and in Italy.

## Certain Litigation Charges, Net, Restructuring Charges and Acquisition-Related Items

Certain litigation charges, net and acquisition-related items for the three and nine months ended January 25, 2013 and January 27, 2012 were as follows:

(in millions)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
Certain litigation charges, net	\$—	\$—	\$245	\$—
Acquisition-related items	(55	) 15	(44	) (1
Net tax impact of certain litigation charges, net and acquisition-related items	(2	) —	(12	) —
Total certain litigation charges, net and acquisition-related items, net of tax	\$(57	) \$15	\$189	\$(1

## Restructuring

During the three and nine months ended January 25, 2013 and January 27, 2012, we did not incur any restructuring charges.

## Fiscal Year 2012 Initiative

In the fourth quarter of fiscal year 2012, the Company recorded a \$118 million restructuring charge, which consisted of employee termination costs of \$66 million, asset write-downs of \$9 million, contract termination costs of \$30 million, and other related costs of \$13 million. The fiscal year 2012 initiative was designed to reduce general, administrative, and indirect distribution costs in certain organizations within the Company while prioritizing investment in research and development, and sales and marketing in those organizations within the Company where faster growth is anticipated, such as emerging markets and new therapies.

In connection with the fiscal year 2012 initiative, as of the end of the fourth quarter of fiscal year 2012, the Company had identified approximately 1,000 positions for elimination to be achieved through involuntary and voluntary separation. Of the 1,000 positions identified in April 2012, approximately 600 positions have been eliminated as of January 25, 2013. The fiscal year 2012 initiative is scheduled to be substantially complete by the end of the fourth quarter of fiscal year 2013 and is expected to produce annualized operating savings of approximately \$100 to \$125 million. These savings will arise mostly from reduced compensation expense.

## Certain Litigation Charges, Net

We classify material litigation reserves and gains recognized as certain litigation charges, net. During the three months ended January 25, 2013 there were no certain litigation charges, net. During the nine months ended January 25, 2013, we recorded certain litigation charges, net of \$245 million relating to probable and reasonably estimated damages resulting from patent litigation with Edwards Lifesciences, Inc. See Note 19 for additional information.

During the three and nine months ended January 27, 2012, there were no certain litigation charges, net.

## Acquisition-Related Items

During the three months ended January 25, 2013, we recorded net income from acquisition-related items of \$55 million, including income of \$70 million related to the change in fair value of contingent milestone payments associated with acquisitions subsequent to April 29, 2009. The change in fair value of contingent milestone payments is primarily related to the change in fair value of Ardian, Inc. contingent commercial milestone payments, which are based on annual revenue growth through fiscal year 2015, due to current slower commercial ramp in Europe.

Additionally, we incurred transaction costs of \$10

45

---

million in connection with the acquisition of Kanghui and an IPR&D impairment charge of \$5 million related to a technology recently acquired by the Structural Heart business.

During the three months ended January 27, 2012, we recorded net charges from acquisition-related items of \$15 million related to the change in fair value of contingent milestone payments associated with acquisitions subsequent to April 29, 2009.

During the nine months ended January 25, 2013, we recorded net income from acquisition-related items of \$44 million, including income of \$67 million related to the change in fair value of contingent milestone payments associated with acquisitions subsequent to April 29, 2009. In connection with the acquisition of Kanghui, we recorded transaction costs of \$13 million. Additionally, we recorded an IPR&D impairment charge of \$5 million related to a technology recently acquired by the Structural Heart business and transaction costs of \$5 million related to the divestiture of the Physio-Control business.

During the nine months ended January 27, 2012, we recorded income from acquisition-related items of \$1 million, including charges of \$32 million related to the change in fair value of contingent milestone payments associated with acquisitions subsequent to April 29, 2009. In connection with the acquisitions of Salient and PEAK, we recognized gains of \$32 million and \$6 million, respectively, on our previously-held investments. In connection with these acquisitions, we began to assess and formulate a plan for the elimination of duplicative positions and the termination of certain contractual obligations. As a result, we incurred approximately \$5 million of certain acquisition-related costs, which included legal fees, severance costs, changes in control costs, and contract termination costs.

#### Amortization of Intangible Assets

Amortization of intangible assets includes the amortization expense of our definite-lived intangible assets consisting of patents, trademarks, tradenames, purchased technology, and other intangible assets. For the three and nine months ended January 25, 2013, amortization expense was \$88 million and \$247 million, respectively, as compared to \$84 million and \$255 million for the same periods of the prior fiscal year. The \$4 million increase in amortization expense for the three months ended January 25, 2013 was primarily due to the third quarter fiscal year 2013 acquisition of Kanghui, partially offset by reduced ongoing amortization expense due to certain intangible assets that became fully amortized. The \$8 million decrease in amortization expense for the nine months ended January 25, 2013 was primarily due to certain intangible assets that became fully amortized and life extension of certain patents, thereby reducing ongoing amortization expense, partially offset by amortization expense related to the third quarter fiscal year 2013 acquisition of Kanghui and second quarter fiscal year 2012 acquisitions of Salient and PEAK.

#### Other Expense, Net

Other expense, net includes royalty income and expense, realized equity security gains and losses, realized foreign currency transactions and derivative gains and losses, impairment charges on equity securities, the Puerto Rico excise tax, and the medical device excise tax. For the three and nine months ended January 25, 2013, other expense, net was \$17 million and \$119 million, respectively, as compared to \$67 million and \$316 million, respectively, for the same periods in the prior fiscal year. For the three and nine months ended January 25, 2013, the net expense decreased \$50 million and \$197 million, respectively, primarily due to the impact of foreign currency gains and losses. For the three and nine months ended January 25, 2013, total foreign currency gains recorded in other expense, net were \$12 million and \$5 million, respectively, compared to losses of \$33 million and \$180 million, respectively, in the same periods in the prior fiscal year. The decrease for the nine months ended January 25, 2013, was also driven by gains on certain available-for-sale marketable equity securities realized during the second quarter of fiscal year 2013, partially offset by higher royalty expense in our Coronary business.

The medical device excise tax for the three and nine months ended January 25, 2013 was not significant. We estimate that our fiscal year 2013 excise tax fee (impacting only the last four months for fiscal year 2013) could be up to \$25 million pre-tax. We estimate our annual excise tax fee could be within the range of \$100 to \$150 million pre-tax.

#### Interest Expense, Net

Interest expense, net includes interest earned on our cash and cash equivalents, short- and long-term investments, interest incurred on our outstanding borrowings, amortization of debt issuance costs and debt discounts, the net realized and unrealized gain or loss on trading securities, ineffectiveness on interest rate derivative instruments, and the net realized gain or loss on the sale or impairment of available-for-sale debt securities. For the three and nine

months ended January 25, 2013, we had interest expense, net of \$46 million and \$103 million, respectively, as compared to interest expense, net of \$33 million and \$103 million for the same periods of the prior fiscal year. The increase in interest expense, net during the three months ended January 25, 2013 over the same period in the prior fiscal year was primarily the result of decreased interest income driven by realized gains on available-for-sale debt securities during the third quarter of fiscal year 2012 and increased interest expense

from higher outstanding debt balances as compared to the same periods of the prior fiscal year. For the nine months ended January 25, 2013, interest expense, net remained consistent with the same period in the prior fiscal year as a result of realized gains during the second quarter of fiscal year 2013 on sales of available-for-sale debt securities and increased interest income from higher investment balances in comparison to the same period in the prior fiscal year, offset by increased interest expense from higher outstanding debt balances as compared to the same period of the prior fiscal year.

#### INCOME TAXES

(dollars in millions)	Three months ended		Nine months ended		
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012	
Provision for income taxes	\$167	\$208	\$599	\$587	
Effective tax rate	14.46	% 19.75	% 19.34	% 18.85	%
Net tax impact of acquisition-related items and certain litigation charges, net	0.91	(0.29)	) (0.81)	) —	
Non-GAAP nominal tax rate (1)	15.37	% 19.46	% 18.53	% 18.85	%

Non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments. We believe that the resulting non-GAAP financial measure provides useful (1) information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods. Investors should consider this non-GAAP measure in addition to, and not as a substitute for, financial performance measures prepared in accordance with U.S. GAAP. In addition, this non-GAAP financial measure may not be the same or similar to measures presented by other companies.

Our effective tax rates from continuing operations for the three and nine months ended January 25, 2013 were 14.46 percent and 19.34 percent, respectively, compared to 19.75 percent and 18.85 percent, respectively, for the three and nine months ended January 27, 2012. The changes in our effective tax rate for the three and nine months ended January 25, 2013 was primarily due to the net tax impact of acquisition-related items, certain litigation charges, net, the retroactive renewal and extension of the U.S. federal research and development tax credit, the finalization of certain income tax returns, resolution of certain income tax audits, changes to uncertain tax position reserves, and the tax impact of foreign dividend distributions.

Our non-GAAP nominal tax rates for the three and nine months ended January 25, 2013 were 15.37 percent and 18.53 percent, respectively, compared to 19.46 percent and 18.85 percent, respectively, for the three and nine months ended January 27, 2012. The decrease in our non-GAAP nominal tax rates for the three and nine months ended January 25, 2013 as compared to the same periods of the prior fiscal year was primarily due to the retroactive renewal and extension of the U.S. federal research and development tax credit, the finalization of certain income tax returns, resolution of certain income tax audits, changes to uncertain tax position reserves, and the tax impact of foreign dividend distributions.

Tax audits associated with the allocation of income, and other complex issues, may require an extended period of time to resolve and may result in income tax adjustments if changes to our allocation are required between jurisdictions with different tax rates. Tax authorities periodically review our tax returns and propose adjustments to our tax filings. The IRS has settled its audits with us for all years through fiscal year 2004. Tax years settled with the IRS may remain open for foreign tax audits and competent authority proceedings. Competent authority proceedings are a means to resolve intercompany pricing disagreements between countries.

In March 2009, the IRS issued its audit report for fiscal years 2005 and 2006. We reached agreement with the IRS on some but not all matters. On December 23, 2010, the IRS issued a statutory notice of deficiency with respect to the remaining issues. We filed a Petition with the U.S. Tax Court on March 21, 2011 objecting to the deficiency. During October and November of 2012, we reached resolution with the IRS on various matters, including the deductibility of a settlement payment. The remaining unresolved issues relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, which is one of our key manufacturing sites.



In October 2011, the IRS issued its audit report for fiscal years 2007 and 2008. We reached agreement with the IRS on some but not all matters related to these fiscal years. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary in Puerto Rico, and proposed adjustments associated with the tax effects of our acquisition of Kyphon. Associated with the Kyphon acquisition, we entered into an intercompany transaction whereby the Kyphon U.S. tangible assets were sold to another wholly-owned Medtronic subsidiary in a taxable transaction. The IRS has disagreed with our valuation of these assets and proposed that all U.S. goodwill, the value of the ongoing business, and the value of the workforce in place related to the Kyphon acquisition be included in the tangible asset sale. We disagree that

these items were sold, as well as with the IRS valuation of these items. The IRS continues to evaluate the overall transaction that Medtronic entered into and because a foreign subsidiary acquired part of Kyphon directly from the Kyphon shareholders, the IRS has argued that a deemed taxable event occurred. We disagree with the IRS and are currently attempting to resolve these matters at the IRS Appellate level and will proceed through litigation, if necessary.

Our reserve for the uncertain tax positions related to these significant unresolved matters with the IRS, as described above, is subject to a high degree of estimation and management judgment. Resolution of these significant unresolved matters, or positions taken by the IRS or foreign tax authorities during future tax audits, could have a material impact on our financial results in future periods. We continue to believe that our reserves for uncertain tax positions are appropriate and that we have meritorious defenses for our tax filings and will vigorously defend them during the audit process, appellate process, and through litigation in courts, as necessary.

See Note 15 to the condensed consolidated financial statements for additional information.

#### LIQUIDITY AND CAPITAL RESOURCES

(dollars in millions)	January 25, 2013	April 27, 2012
Working capital	\$2,203	\$3,658
Current ratio*	1.3:1.0	1.6:1.0
Cash, cash equivalents, and short-term investments	\$2,464	\$2,592
Long-term investments in debt, marketable equity, and trading securities**	8,835	7,197
Total	\$11,299	\$9,789
Short-term borrowings and long-term debt	11,418	10,633
Net cash position***	\$(119)	\$(844)

\* Current ratio is the ratio of current assets to current liabilities.

\*\* Long-term investments include debt securities with a maturity date greater than one year from the end of the period, marketable equity, and trading securities and exclude cost method minority investments.

\*\*\* Net cash position is the sum of cash, cash equivalents, short-term investments, and long-term investments in debt, marketable equity, and trading securities less short-term borrowings and long-term debt.

As of January 25, 2013, we believe our strong balance sheet and liquidity provide us with flexibility in the future. We believe our existing cash and investments, as well as our \$2.250 billion syndicated credit facility and related commercial paper program (\$1.635 billion of commercial paper outstanding as of January 25, 2013), will satisfy our foreseeable working capital requirements for at least the next 12 months. However, we periodically consider various financing alternatives and may, from time to time, seek to take advantage of favorable interest rate environments or other market conditions. We also generally expect to refinance maturities of long-term debt. In the fourth quarter of fiscal year 2013, we have \$2.2 billion of convertible debt that we intend to refinance. At January 25, 2013, our Standard & Poor's Ratings Services and Moody's Investors Service ratings remain unchanged as compared to those ratings at April 27, 2012 with long-term debt ratings of A+ and A1, respectively, and short-term debt ratings of A-1+ and P-1, respectively.

Our net cash position at the end of the third quarter of fiscal year 2013, as defined above, increased by \$725 million as compared to the fiscal year ended April 27, 2012.

We have future contractual obligations and other minimum commercial commitments that are entered into in the normal course of business. We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position, or cash flows. See the "Off-Balance Sheet Arrangements and Long-Term Contractual Obligations" section of this management's discussion and analysis for further information.

Note 19 to the current period's condensed consolidated financial statements provides information regarding amounts we have accrued related to significant legal proceedings. In accordance with U.S. GAAP, we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated.

A significant amount of our earnings occur outside the U.S., and are deemed to be indefinitely reinvested in non-U.S. subsidiaries, resulting in a majority of our cash, cash equivalents, and investments being held by such non-U.S.

subsidiaries. As of January 25, 2013 and April 27, 2012, approximately \$10.990 billion and \$9.121 billion, respectively, of cash, cash equivalents, and short- and long-term investments in marketable debt and equity securities were held by our non-U.S. subsidiaries. These funds are available for use by our worldwide operations; however, if these funds were repatriated to the U.S. or used for U.S. operations, the amounts would generally be subject to U.S. tax. As a result, we continue to accumulate

earnings overseas for investment in our business outside the U.S. and to use cash generated from U.S. operations and short- and long-term borrowings to meet our U.S. cash needs. Should we require more capital in the U.S. than is generated by our domestic operations, we could elect to repatriate earnings from our non-U.S. subsidiaries or raise additional capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, or other dilution of our earnings.

Cash, cash equivalents, and short-term investments at April 27, 2012 also include \$153 million of cash invested in short-term instruments held in an indemnification trust established for self-insurance coverage for our directors and officers. In August 2012, we purchased \$300 million of directors and officers insurance coverage and commenced termination of the previously established self-insurance indemnification trust. The termination of the Company's indemnification trust, including the liquidation of approximately \$153 million thereunder, was completed during the second quarter of fiscal year 2013.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include U.S. government and agency securities, foreign government and agency securities, corporate debt securities, certificates of deposit, mortgage-backed securities, other asset-backed securities, and auction rate securities. Some of our investments may experience reduced liquidity due to changes in market conditions and investor demand. Our auction rate security holdings have experienced reduced liquidity in recent years due to the change in investor demand. Although our auction rate securities are currently illiquid and other securities could become illiquid, we believe we could liquidate a substantial amount of our portfolio without incurring a material impairment loss. For the three and nine months ended January 25, 2013, the total other-than-temporary impairment losses on available-for-sale debt securities were not significant. Based on our assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which we are invested, we believe we have recorded all necessary other-than-temporary impairments as we do not have the intent to sell, nor is it more likely than not that we will be required to sell, before recovery of the amortized cost. However, as of January 25, 2013, we have \$37 million of gross unrealized losses on our aggregate short-term and long-term available-for-sale debt securities of \$9.719 billion; if market conditions deteriorate, some of these holdings may experience other-than-temporary impairment in the future which could have a material impact on our financial results. Management is required to use estimates and assumptions in its valuation of our investments, which requires a high degree of judgment, and therefore, actual results could differ materially from those estimates. See Note 8 to the current period's condensed consolidated financial statements for additional information regarding fair value measurements.

#### SUMMARY OF CASH FLOWS

(in millions)	Nine months ended	
	January 25, 2013	January 27, 2012
Cash provided by (used in):		
Operating activities	\$3,696	\$3,426
Investing activities	(2,510)	(2,181)
Financing activities	(1,147)	(1,346)
Effect of exchange rate changes on cash and cash equivalents	11	(91)
Net change in cash and cash equivalents	\$50	\$(192)
Operating Activities		

Our net cash provided by operating activities was \$3.696 billion for the nine months ended January 25, 2013 compared to \$3.426 billion provided by operating activities for the nine months ended January 27, 2012. The \$270 million increase in net cash provided by operating activities was primarily attributable to an increase in accounts receivable collections, primarily in certain Southern European countries, partially offset by a decrease in accrued income taxes due to the timing of certain tax payments during the nine months ended January 25, 2013, compared to the nine months ended January 27, 2012.

#### Investing Activities

Our net cash used in investing activities was \$2.510 billion for the nine months ended January 25, 2013 compared to \$2.181 billion used in investing activities for the nine months ended January 27, 2012. The \$329 million increase in net cash used in investing activities during the nine months ended January 25, 2013 compared to the same period in the prior fiscal year was primarily attributable to the current year acquisition of Kanghui.

Financing Activities

Our net cash used in financing activities was \$1.147 billion for the nine months ended January 25, 2013 compared to \$1.346 billion used in financing activities for the nine months ended January 27, 2012. The \$199 million decrease in net cash used in

financing activities was primarily attributable to \$544 million of increased levels of short-term borrowings and higher levels of common stock issuances under stock purchase and award plans, partially offset by increased cash returned to shareholders in the form of repurchase of common stock and dividends for the nine months ended January 25, 2013 compared to the same period in the prior fiscal year.

#### OFF-BALANCE SHEET ARRANGEMENTS AND LONG-TERM CONTRACTUAL OBLIGATIONS

We acquire assets still in development, enter into research and development arrangements, and sponsor certain clinical trials that often require milestone and/or royalty payments to a third-party, contingent upon the occurrence of certain future events. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. In addition, if required by the arrangement, we may have to make royalty payments based on a percentage of sales related to the product under development or in the event that regulatory approval for marketing is obtained. In situations where we have no ability to influence the achievement of the milestone or otherwise avoid the payment, we have included those milestone or minimum royalty payments in the following table. However, the majority of these arrangements give us the discretion to unilaterally make the decision to stop development of a product or cease progress of a clinical trial, which would allow us to avoid making the contingent payments. Although we are unlikely to cease development if a device successfully achieves clinical testing objectives, these payments are not included in the table of contractual obligations because of the contingent nature of these payments and our ability to avoid them if we decided to pursue a different path of development or testing. See Note 4 to the current period's condensed consolidated financial statements for additional information regarding contingent consideration.

In the normal course of business, we periodically enter into agreements that require us to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of our products or the negligence of our personnel or claims alleging that our products infringe third-party patents or other intellectual property. Our maximum exposure under these indemnification provisions cannot be estimated, and we have not accrued any liabilities within our condensed consolidated financial statements or included any indemnification provisions in our commitments table. Historically, we have not experienced significant losses on these types of indemnification obligations.

We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position, or cash flows. Presented below is a summary of contractual obligations and other minimum commercial commitments as of January 25, 2013. See Note 9 to the current period's condensed consolidated financial statements for additional information regarding long-term debt. Additionally, see Note 15 to the current period's condensed consolidated financial statements for additional information regarding accrued income tax obligations, which are not reflected in the table below.

(in millions)	Maturity by Fiscal Year						
	Total	Remaining 2013	2014	2015	2016	2017	Thereafter
Contractual obligations related to off-balance sheet arrangements:							
Operating leases <sup>(1)</sup>	\$307	\$38	\$98	\$65	\$42	\$23	\$41
Inventory purchases <sup>(2)</sup>	166	41	107	11	1	—	6
Commitments to fund minority investments/contingent acquisition consideration <sup>(3)</sup>	337	16	16	97	10	100	98
Interest payments <sup>(4)</sup>	3,029	162	289	264	212	185	1,917
Other <sup>(5)</sup>	156	25	67	37	3	2	22
<b>Total</b>	<b>\$3,995</b>	<b>\$282</b>	<b>\$577</b>	<b>\$474</b>	<b>\$268</b>	<b>\$310</b>	<b>\$2,084</b>
Contractual obligations reflected in the balance sheet:							
Long-term debt, including current portion <sup>(6)</sup>	\$9,126	\$2,201	\$550	\$1,250	\$1,100	\$—	\$4,025

Edgar Filing: MEDTRONIC INC - Form 10-Q

Capital leases	167	3	13	13	12	30	96
Total	\$9,293	\$2,204	\$563	\$1,263	\$1,112	\$30	\$4,121

(1) Certain leases require us to pay real estate taxes, insurance, maintenance, and other operating expenses associated with the leased premises. These future costs are not included in the schedule above.

50

---

We have included inventory purchase commitments which are legally binding and specify minimum purchase (2) quantities. These purchase commitments do not exceed our projected requirements and are in the normal course of business. These commitments do not include open purchase orders.

Certain commitments related to the funding of cost or equity method investments and/or previous acquisitions are contingent upon the achievement of certain product-related milestones and various other favorable operational conditions. While it is not certain if and/or when these payments will be made, the maturity dates included in this (3) table reflect our best estimates. In accordance with authoritative accounting guidance on business combinations effective in fiscal year 2010, we are required to record the fair value of contingent acquisition considerations as a liability on the consolidated balance sheets on a prospective basis, therefore, contingent acquisition considerations are not included in the off-balance sheet disclosure for acquisitions subsequent to April 24, 2009.

Interest payments in the table above reflect the contractual interest payments on our outstanding debt, and exclude (4) the impact of the debt discount amortization on the Senior Convertible Notes and impact of interest rate swap agreements. See Note 9 to the current period's condensed consolidated financial statements for additional information regarding our debt agreements.

(5) These obligations include certain research and development arrangements.

Long-term debt in the table above includes the \$1.075 billion of 2012 Senior Notes, \$1.000 billion of 2011 Senior Notes, \$3.000 billion of 2010 Senior Notes, \$1.250 billion of 2009 Senior Notes, \$2.200 billion of Senior (6) Convertible Notes, \$600 million of 2005 Senior Notes, and certain bank borrowings. The table above excludes the debt discount, the fair value impact of outstanding interest rate swap agreements, and the unamortized gains from terminated interest rate swap agreements. See Notes 9 and 10 to the current period's condensed consolidated financial statements for additional information regarding the interest rate swap agreements.

#### DEBT AND CAPITAL

Our capital structure consists of equity and interest-bearing debt. Interest-bearing debt as a percentage of total interest-bearing debt and equity was 39 percent as of January 25, 2013 and 38 percent as of April 27, 2012.

#### Share Repurchase Program

As part of our focus on returning value to our shareholders, shares are repurchased from time to time. In June 2011, our Board of Directors authorized the repurchase of 75 million shares of our common stock. During the three and nine months ended January 25, 2013, we repurchased approximately 3.9 million and 31.2 million shares, respectively, at an average price per share of \$41.72 and \$39.97, respectively. As of January 25, 2013, we had approximately 27.2 million shares remaining under the current buyback authorization by the Board of Directors.

#### Financing Arrangements

We use a combination of bank borrowings and commercial paper issuances to fund our short-term financing needs. Short-term debt, including the current portion of our long-term debt and capital lease obligations, as of January 25, 2013, was \$4.104 billion compared to \$3.274 billion as of April 27, 2012. We utilize a combination of Senior Convertible Notes and Senior Notes to meet our long-term financing needs. Long-term debt as of January 25, 2013 was \$7.314 billion compared to \$7.359 billion as of April 27, 2012. For more information on our financing arrangements, see Note 9 to the current period's condensed consolidated financial statements.

#### Credit Arrangements and Debt Ratings

We maintain a commercial paper program that allows us to have a maximum of \$2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of January 25, 2013 and April 27, 2012, outstanding commercial paper totaled \$1.635 billion and \$950 million, respectively. During the three and nine months ended January 25, 2013, the weighted average original maturity of the commercial paper outstanding was approximately 104 days and 84 days, respectively, and the weighted average interest rate was 0.20 percent and 0.18 percent, respectively. The issuance of commercial paper reduces the amount of credit available under our existing lines of credit.

We have a \$2.250 billion Credit Facility dated December 17, 2012 which expires on December 17, 2017. The Credit Facility provides backup funding for the commercial paper program and may also be used for general corporate purposes. The Credit Facility provides us with the ability to increase its capacity by an additional \$750 million at any time during the term of the agreement. The Credit Facility replaced our four-year \$2.250 billion



syndicated credit facility which was scheduled to expire on December 9, 2014. As of January 25, 2013 and April 27, 2012, no amounts were outstanding on the committed lines of credit.

In connection with the issuance of the 2012 Senior Notes, Standard and Poor's Ratings Services and Moody's Investors Service issued long-term debt ratings of A+ and A1, respectively, and short-term debt ratings of A-1+ and P-1, respectively. These

ratings remain unchanged as compared to those at April 27, 2012. For more information on credit arrangements, see Note 9 to the current period's condensed consolidated financial statements.

#### OPERATIONS OUTSIDE OF THE UNITED STATES

The table below illustrates U.S. net sales versus net sales outside the U.S. for the three and nine months ended January 25, 2013 and January 27, 2012:

(in millions)	Three months ended		Nine months ended	
	January 25, 2013	January 27, 2012	January 25, 2013	January 27, 2012
U.S. net sales	\$2,171	\$2,145	\$6,687	\$6,530
Non-U.S. net sales	1,856	1,773	5,443	5,357
Total net sales	\$4,027	\$3,918	\$12,130	\$11,887

For the three and nine months ended January 25, 2013, consolidated net sales outside the U.S. increased 5 percent and 2 percent, respectively, over the same periods of the prior fiscal year. Foreign currency had an unfavorable impact of \$41 million and \$279 million on net sales during the three and nine months ended January 25, 2013, respectively. For the three and nine months ended January 25, 2013, our performance outside the U.S. was primarily a result of strong net sales in Endovascular and Surgical Technologies, and solid growth in our Structural Heart, Neuromodulation, and Diabetes businesses, offset by unfavorable foreign currency translation and declines in CRDM defibrillation systems and Spine BMP.

Net sales outside the U.S. are accompanied by certain financial risks, such as collection of receivables, which typically have longer payment terms. We monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. However, a significant amount of our outstanding accounts receivable are with national health care systems in many countries. The current economic conditions in many countries outside the U.S. (particularly the economic challenges faced by Italy, Spain, Portugal, and Greece) have deteriorated and may continue to increase the average length of time it takes to collect on our outstanding accounts receivable in these countries. We continue to monitor the creditworthiness of customers located in these and other geographic areas. In the past, accounts receivable balances with certain customers in these countries accumulated over time and were subsequently settled as large lump sum payments. Although we do not currently foresee a significant credit risk associated with a material portion of these receivables, repayment is dependent upon the financial stability of the economies of those countries. We have concluded that collectability is not reasonably assured for revenue transactions with certain Greece distributors, and therefore, have deferred revenue recognition until all revenue recognition criteria are met in the future. As of January 25, 2013 and April 27, 2012, our remaining deferred revenue balance for certain Greece distributors was \$19 million and \$15 million, respectively. Outstanding gross receivables from customers outside the U.S. totaled \$2.258 billion and \$2.408 billion, as of January 25, 2013 and April 27, 2012, respectively, or 62 percent of total outstanding accounts receivable as of both dates.

#### CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

This Quarterly Report on Form 10-Q, and other written reports and oral statements made by or with the approval of one of the Company's executive officers from time to time, may include "forward-looking" statements. Forward-looking statements broadly involve our current expectations or forecasts of future results. Our forward-looking statements generally relate to our growth and growth strategies, financial results, product development, research and development strategy, regulatory approvals, competitive strengths, restructuring initiatives, intellectual property rights, litigation and tax matters, mergers and acquisitions, divestitures, market acceptance of our products, accounting estimates, financing activities, ongoing contractual obligations, working capital adequacy, our effective tax rate, and sales efforts. Such statements can be identified by the use of terminology such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "looking ahead," "may," "plan," "possible," "potential," "project," "should," "will," and similar expressions. One must carefully consider forward-looking statements and understand that such statements may be affected by inaccurate assumptions and may involve a variety of risks and uncertainties, known and unknown, including, among others, risks related to competition in the medical device industry, reduction or interruption in our supply, quality problems, liquidity, decreasing prices, adverse regulatory action, litigation results, self-insurance, commercial insurance, health care policy changes, and international operations, as well as those discussed in the

sections entitled “Risk Factors” and “Government Regulation and Other Considerations” in our Annual Report on Form 10-K for the year ended April 27, 2012. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. We intend to take advantage of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statements, and are including this sentence for the express purpose of enabling us to use the protections of such safe harbor with respect to all forward-looking statements.

We undertake no obligation to update any statement we make, but investors are advised to consult all other disclosures by us in our filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q, and 8-K, in which we discuss in

more detail various important factors that could cause actual results to differ from expected or historical results. In addition, actual results may differ materially from those anticipated due to a number of factors, including, among others, those discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended April 27, 2012. It is not possible to foresee or identify all such factors. As such, investors should not consider any list of such factors to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Due to the global nature of our operations, we are exposed to currency exchange rate changes. In a period where the U.S. dollar is strengthening/weakening as compared to other currencies, our revenues and expenses denominated in foreign currencies are translated into U.S. dollars at a lower/higher value than they would be in an otherwise constant currency exchange rate environment.

We use operational and economic hedges, as well as currency exchange rate derivative instruments, to manage the impact of currency exchange rate changes on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate changes, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets, liabilities, and probable commitments. At inception of the contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. The primary currencies of the derivative instruments are the Euro and Japanese Yen. We do not enter currency exchange rate derivative instruments for speculative purposes.

The gross notional amount of all currency exchange rate derivative instruments outstanding at January 25, 2013 and April 27, 2012 was \$6.610 billion and \$5.136 billion, respectively. At January 25, 2013, these contracts were in an unrealized gain position of \$28 million. A sensitivity analysis of changes in the fair value of all foreign currency exchange rate derivative contracts at January 25, 2013 indicates that, if the U.S. dollar uniformly strengthened/weakened by 10 percent against all currencies, the fair value of these contracts would increase/decrease by approximately \$538 million, respectively. Any gains and losses on the fair value of derivative contracts would be largely offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis. We are also exposed to interest rate changes affecting our investments in interest rate sensitive instruments, which include our fixed-to-floating interest rate swap agreements. A sensitivity analysis of the impact on our interest rate sensitive financial instruments of a hypothetical 10 percent change in short-term interest rates, compared to interest rates as of January 25, 2013, indicates that the fair value of these instruments would correspondingly change by \$27 million.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include U.S. government and agency securities, foreign government and agency securities, corporate debt securities, certificates of deposit, mortgage-backed securities, other asset-backed securities, and auction rate securities. For a discussion of current market conditions and the impact on our financial condition and results of operations, please see the "Liquidity and Capital Resources" section of the current period's management's discussion and analysis. For additional discussion of market risk, see Notes 7 and 10 to the current period's condensed consolidated financial statements.

### Item 4. Controls and Procedures

#### Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) and changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective.

#### Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the

Company's internal control over financial reporting.

53

---

## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

A discussion of the Company's policies with respect to legal proceedings is included in the management's discussion and analysis and our legal proceedings and other loss contingencies are described in Note 19 to the current period's condensed consolidated financial statements.

## Item 1A. Risk Factors

In addition to the information set forth in this report, you should carefully consider the risk factors discussed in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended April 27, 2012, as updated in the Company's Quarterly Report on Form 10-Q for the period ended July 27, 2012, which could materially affect our business, financial condition, or future results.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

The following table provides information about the shares repurchased by the Company during the third quarter of fiscal year 2013:

Fiscal Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
10/27/12-11/23/12	3,908,551	\$41.72	3,908,551	27,240,261
11/24/12-12/28/12	—	—	—	27,240,261
12/29/12-1/25/13	—	—	—	27,240,261
Total	3,908,551	\$41.72	3,908,551	27,240,261

In June 2011, the Company's Board of Directors authorized the repurchase of 75 million shares of the Company's (1) common stock. As authorized by the Board of Directors our program expires when its total number of authorized shares has been repurchased.

## Item 6. Exhibits

## (a) Exhibits

- 12.1 Medtronic, Inc. Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements 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.

Medtronic, Inc.  
(Registrant)

Date: March 6, 2013

/s/ Omar Ishrak  
Omar Ishrak  
Chairman and Chief Executive Officer

Date: March 6, 2013

/s/ Gary L. Ellis  
Gary L. Ellis  
Senior Vice President and  
Chief Financial Officer