

MEDTRONIC INC
Form 10-Q
September 04, 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 July 26, 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 August 29, 2013: 997,467,900

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

MEDTRONIC, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended	
	July 26, 2013	July 27, 2012
	(in millions, except per share data)	
Net sales	\$4,083	\$4,008
Costs and expenses:		
Cost of products sold	1,022	973
Research and development expense	360	385
Selling, general, and administrative expense	1,416	1,405
Special charges	40	—
Restructuring charges	18	—
Acquisition-related items	(96	) 5
Amortization of intangible assets	86	80
Other expense, net	44	39
Interest expense, net	40	33
Total costs and expenses	2,930	2,920
Earnings before income taxes	1,153	1,088
Provision for income taxes	200	224
Net earnings	\$953	\$864
Basic earnings per share	\$0.94	\$0.84
Diluted earnings per share	\$0.93	\$0.83
Basic weighted average shares outstanding	1,009.7	1,029.8
Diluted weighted average shares outstanding	1,021.2	1,037.1
Cash dividends declared per common share	\$0.2800	\$0.2600

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	
	July 26, 2013	July 27, 2012
	(in millions)	
Net earnings	\$953	\$864
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on investments, net of tax expense (benefit) of \$(54) and \$3, respectively	(95	) 6
Translation adjustment	(3	) (116)
Net change in retirement obligations, net of tax expense of \$9 and \$13, respectively	14	30
Unrealized gain on derivatives, net of tax expense of \$0 and \$20, respectively	—	38
Other comprehensive loss	(84	) (42)
Comprehensive income	\$869	\$822

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

MEDTRONIC, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	July 26, 2013	April 26, 2013
	(in millions, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$828	\$919
Investments	10,576	10,211
Accounts receivable, less allowance of \$101 and \$98, respectively	3,627	3,727
Inventories	1,778	1,712
Tax assets	576	539
Prepaid expenses and other current assets	705	744
Total current assets	18,090	17,852
Property, plant, and equipment	6,192	6,152
Accumulated depreciation	(3,748)	(3,662)
Property, plant, and equipment, net	2,444	2,490
Goodwill	10,333	10,329
Other intangible assets, net	2,620	2,673
Long-term tax assets	188	232
Other assets	1,297	1,324
Total assets	\$34,972	\$34,900
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$1,543	\$910
Accounts payable	627	681
Accrued compensation	712	1,011
Accrued income taxes	118	88
Deferred tax liabilities	15	16
Other accrued expenses	1,270	1,244
Total current liabilities	4,285	3,950
Long-term debt	9,637	9,741
Long-term accrued compensation and retirement benefits	774	752
Long-term accrued income taxes	1,214	1,168
Long-term deferred tax liabilities	343	340
Other long-term liabilities	200	278
Total liabilities	16,453	16,229

Commitments and contingencies (Notes 3 and 19)

Shareholders' equity:

Preferred stock— par value \$1.00	—	—
Common stock— par value \$0.10	100	102
Retained earnings	18,995	19,061
Accumulated other comprehensive loss	(576	) (492
)
Total shareholders' equity	18,519	18,671
Total liabilities and shareholders' equity	\$34,972	\$34,900

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

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

	Three months ended		
	July 26, 2013	July 27, 2012	
	(in millions)		
Operating Activities:			
Net earnings	\$953	\$864	
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	208	197	
Amortization of debt discount and issuance costs	2	23	
Acquisition-related items	(96)	) 5	
Provision for doubtful accounts	14	14	
Deferred income taxes	30	(16))
Stock-based compensation	31	36	
Change in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	85	214	
Inventories	(95)	) (61)
Accounts payable and accrued liabilities	(330)	) (67)
Other operating assets and liabilities	181	129	
Certain litigation charges, net	—	(6)
Net cash provided by operating activities	983	1,332	
Investing Activities:			
Acquisitions, net of cash acquired	(17	) (23)
Additions to property, plant, and equipment	(78	) (103)
Purchases of investments	(2,757	) (2,740)
Sales and maturities of investments	2,195	1,895	
Other investing activities, net	(9	) (5)
Net cash used in investing activities	(666	) (976)
Financing Activities:			
Acquisition-related contingent consideration	(1	) (15)
Change in short-term borrowings, net	761	(284)
Repayment of short-term borrowings (maturities greater than 90 days)	(125	) (200)
Proceeds from short-term borrowings (maturities greater than 90 days)	—	575	
Payments on long-term debt	(4	) (6)
Dividends to shareholders	(281	) (267)
Issuance of common stock	568	24	
Repurchase of common stock	(1,340	) (470)
Net cash used in financing activities	(422)	(643)	
Effect of exchange rate changes on cash and cash equivalents	14	(76)
Net change in cash and cash equivalents	(91	) (363)

Cash and cash equivalents at beginning of period	919	1,172
Cash and cash equivalents at end of period	\$828	\$809
Supplemental Cash Flow Information		
Cash paid for:		
Income taxes	\$70	\$109
Interest	27	32

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

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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, comprehensive income, 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 26, 2013.

The Company revised the classification of certain outstanding checks previously classified as a reduction of cash and cash equivalents in the prior period condensed consolidated balance sheet to accounts payable and revised the prior period condensed consolidated statement of cash flows for the associated impact. These revisions are considered immaterial.

The Company's fiscal years 2014, 2013, and 2012 will end or ended on April 25, 2014, April 26, 2013, and April 27, 2012, respectively.

Note 2 – New Accounting Pronouncements

Recently Adopted

In December 2011 and January 2013, the Financial Accounting Standards Board (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. The Company retrospectively adopted this accounting guidance in the first quarter of fiscal year 2014. The required disclosures are included in Note 9. Since the accounting guidance only requires disclosure, its adoption did 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 Company adopted this accounting guidance in the first quarter of fiscal year 2014 and its adoption did not have a material impact on the Company's consolidated financial statements. As indefinite-lived intangible assets are tested for impairment annually in the third quarter, the amended guidance will not be applied until the third quarter of fiscal year 2014.

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. In the first quarter of fiscal year 2014, the Company prospectively adopted this guidance. The required disclosures are included in Note 18. Since the accounting guidance only impacts disclosure requirements, its adoption did not have a material impact on the Company's consolidated financial statements.

Not Yet Adopted

In March 2013, the FASB issued amended guidance on a parent company's accounting for the cumulative translation adjustment (CTA) recorded in AOCI associated with a foreign entity. The amendment requires a parent to release into net income the CTA related to its investment in a foreign entity when it either sells a part or all of its investment in, or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. This accounting guidance is

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

effective for the Company beginning in the first quarter of fiscal year 2015, with early adoption permitted. Subsequent to adoption, this amended guidance would impact the Company's financial position and results of operations prospectively in the instance of an event or transaction described above.

In July 2013, the FASB issued amended guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented as a reduction of a deferred tax asset when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists, with certain exceptions. This accounting guidance is effective prospectively for the Company beginning in the first quarter of fiscal year 2015, with early adoption permitted. While the Company is currently evaluating the impact, its adoption is not expected to have a material impact on the Company's consolidated financial statements.

Note 3 – Acquisitions and Acquisition-Related Items

The Company had no significant acquisitions during the three months ended July 26, 2013 or July 27, 2012.

Acquisition-Related Items

During the three months ended July 26, 2013, the Company recorded net income from acquisition-related items of \$96 million primarily related to the reduction in the fair value of contingent consideration associated with the Ardian, Inc. (Ardian) acquisition. The Ardian contingent earn-out is based on annual revenue growth through fiscal year 2015, and the reduction in fair value is due to a continued slower commercial ramp in Europe and the extended U.S. regulatory process.

During the three months ended July 27, 2012, the Company recorded net charges from acquisition-related items of \$5 million related to the change in fair value of contingent consideration liabilities associated with acquisitions subsequent to April 29, 2009.

Contingent Consideration

Certain of the Company's business combinations and 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 consideration on the acquisition date for all acquisitions subsequent to April 24, 2009. The fair value of the contingent 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 liability on a recurring basis using Level 3 inputs. See Note 7 for further information regarding fair value measurements.

Contingent consideration liabilities are measured to fair value using projected payment dates, discount rates, probabilities of payment, and projected revenues (for revenue-based considerations). 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, probabilities of payment, discount rates, or projected payment dates may result in higher (lower) fair value measurements. Fluctuations in any of the inputs in isolation may result in a significantly lower (higher) fair value measurement.

The recurring Level 3 fair value measurements of the contingent consideration liability include the following significant unobservable inputs:

(\$ in millions)	Fair Value at July 26, 2013	Valuation Technique	Unobservable Input	Range
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Revenue-based payments	\$41	Discounted cash flow	Discount rate	13% - 24%
			Probability of payment	100%
			Projected fiscal year of payment	2014 - 2019
Product development-based payments	\$4	Discounted cash flow	Discount rate	5.9%
			Probability of payment	100%
			Projected fiscal year of payment	2016

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

At July 26, 2013, the estimated maximum 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 \$200 million. The Company estimates the milestones or other conditions associated with the contingent consideration will be reached in fiscal year 2014 and thereafter.

The fair value of contingent consideration associated with acquisitions subsequent to April 24, 2009 as of July 26, 2013 and April 26, 2013 was \$45 million and \$142 million, respectively. As of July 26, 2013, \$31 million was reflected in other long-term liabilities and \$14 million was reflected in other accrued expenses in the condensed consolidated balance sheets. As of April 26, 2013, \$120 million was reflected in other long-term liabilities and \$22 million was reflected in other accrued expenses in the condensed consolidated balance sheets. The portion of the contingent consideration related to the acquisition date fair value of contingent consideration have been reported as financing activities in the condensed consolidated statements of cash flows. 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 consideration associated with acquisitions subsequent to April 24, 2009:

(in millions)	Three months ended	
	July 26, 2013	July 27, 2012
Beginning Balance	\$142	\$231
Purchase price contingent consideration	—	5
Contingent consideration payments	(1	) (26
Change in fair value of contingent consideration	(96	) 5
Ending Balance	\$45	\$215
Subsequent Acquisition		

On August 7, 2013, the Company acquired Cardiocom, LLC (Cardiocom), a privately held developer and provider of integrated solutions for the management of chronic diseases such as heart failure, diabetes, and hypertension.

Cardiocom's products and services include remote monitoring and patient-centered software to enable efficient care coordination and specialized telehealth nurse support. The total value of the transaction, net of Cardiocom's cash, was approximately \$193 million.

Note 4 – Special Charges and Certain Litigation Charges, Net

Special Charges

During the three months ended July 26, 2013, consistent with the Company's commitment to improving the health of people and communities throughout the world, the Company made a \$40 million charitable contribution to the Medtronic Foundation, which is a related party non-profit organization.

During the three months ended July 27, 2012, there were no special charges.

Certain Litigation Charges, Net

The Company classifies material litigation reserves and gains recognized as certain litigation charges, net. During the three months ended July 26, 2013 and July 27, 2012, there were no certain litigation charges, net.

Note 5 – Restructuring Charges

Fiscal Year 2013 Initiative

The fiscal year 2013 initiative was designed to scale back the Company's infrastructure in slower growing areas of the business, while continuing to invest in geographies, businesses, and products where faster growth is anticipated. A number of factors have contributed to ongoing challenging market dynamics, including increased pricing pressure, various governmental austerity measures, and the U.S. medical device excise tax. In the first quarter of fiscal year 2014, the Company recorded an \$18 million restructuring charge, which is the final charge related to the fiscal year 2013 initiative and consisted primarily of contract termination costs of \$14 million and other related costs of \$4 million. In the fourth quarter of fiscal year 2013, the Company recorded a \$192 million restructuring charge, which

consisted of employee termination costs of \$150 million, asset write-downs of \$13 million, contract termination costs of \$18 million, and other related costs of \$11 million. Of the \$13 million of asset write-downs, \$10 million related to inventory write-offs of discontinued product lines and production-related asset impairments, and therefore, was recorded within cost of products sold in the consolidated statements of earnings.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As of the end of the fourth quarter of fiscal year 2013, the Company identified approximately 2,000 positions for elimination to be achieved through involuntary and voluntary separation. Of the 2,000 positions identified, approximately 1,000 positions have been eliminated as of July 26, 2013. The fiscal year 2013 initiative is scheduled to be substantially complete by the end of the fourth quarter of fiscal year 2014.

A summary of the activity related to the fiscal year 2013 initiative is presented below:

(in millions)	Employee Termination Costs	Other Costs	Total
Balance as of April 26, 2013	\$147	\$23	\$170
Restructuring charges	—	18	18
Payments	(41)	) (17	) (58
Balance as of July 26, 2013	\$106	\$24	\$130

Note 6 – Investments

The Company holds investments consisting primarily of marketable debt and equity securities. The carrying amounts of cash and cash equivalents approximate fair value due to their short maturities.

Information regarding the Company's investments at July 26, 2013 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	\$4,801	\$37	\$(33	) \$4,805
Auction rate securities	118	—	(11	) 107
Mortgage-backed securities	1,067	4	(12	) 1,059
U.S. government and agency securities	3,631	7	(39	) 3,599
Foreign government and agency securities	29	—	—	29
Certificates of deposit	6	—	—	6
Other asset-backed securities	628	1	(2	) 627
Debt funds	436	3	(9	) 430
Marketable equity securities	69	58	—	127
Trading securities:				
Exchange-traded funds	47	8	—	55
Cost method, equity method, and other investments	616	—	—	NA
Total	\$11,448	\$118	\$(106) \$10,844

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information regarding the Company's investments at April 26, 2013 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	\$4,587	\$78	\$(4	) \$4,661
Auction rate securities	118	—	(15	) 103
Mortgage-backed securities	1,050	8	(5	) 1,053
U.S. government and agency securities	3,882	17	(1	) 3,898
Foreign government and agency securities	38	—	—	38
Certificates of deposit	6	—	—	6
Other asset-backed securities	539	2	—	541
Marketable equity securities	82	75	(2	) 155
Trading securities:				
Exchange-traded funds	45	5	—	50
Cost method, equity method, and other investments	549	—	—	NA
Total	\$10,896	\$185	\$(27	) \$10,505

Information regarding the Company's condensed consolidated balance sheets presentation at July 26, 2013 and April 26, 2013 is as follows:

(in millions)	July 26, 2013		April 26, 2013	
	Investments	Other Assets	Investments	Other Assets
Available-for-sale securities	\$10,521	\$268	\$10,161	\$294
Trading securities	55	—	50	—
Cost method, equity method, and other investments	—	616	—	549
Total	\$10,576	\$884	\$10,211	\$843

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, aggregated by investment category as of July 26, 2013 and April 26, 2013:

(in millions)	July 26, 2013			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$2,243	\$(31)	\$13	\$(2)
Auction rate securities	—	—	107	(11)
Mortgage-backed securities	697	(9)	44	(3)
U.S. government and agency securities	1,630	(39)	—	—
Other asset-backed securities	301	(2)	—	—
Debt funds	155	(9)	—	—
Total	\$5,026	\$(90)	\$164	\$(16)
(in millions)	April 26, 2013			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$544	\$(1)	\$13	\$(3)
Auction rate securities	—	—	103	(15)
Mortgage-backed securities	195	(1)	44	(4)
U.S. government and agency securities	291	(1)	—	—
Marketable equity securities	14	(2)	—	—
Total	\$1,044	\$(5)	\$160	\$(22)

Activity related to the Company's investment portfolio is as follows:

(in millions)	Three months ended			
	July 26, 2013		July 27, 2012	
	Debt (a)	Equity (b)	Debt (a)	Equity (b)
Proceeds from sales	\$2,163	\$32	\$1,871	\$24
Gross realized gains	6	18	17	8
Gross realized losses	(5)	—	(3)	—
Impairment losses recognized	—	—	—	(6)

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

(b) Includes marketable equity securities, cost method, equity method, exchange-traded funds, and other investments. Credit losses represent the difference between the present value of cash flows expected to be collected on certain mortgage-backed securities and auction rate securities and the amortized cost of these securities. 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. As of both July 26, 2013 and April 26, 2013, the credit loss portion of other-than-temporary impairments on debt securities was \$9 million. The total other-than-temporary impairment losses on available-for-sale debt securities for the three months ended July 26, 2013 and July 27, 2012 were not significant.

MEDTRONIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The July 26, 2013 balance of available-for-sale debt securities, excluding debt funds which have no single maturity date, 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)	July 26, 2013
Due in one year or less	\$1,512
Due after one year through five years	6,847
Due after five years through ten years	1,759
Due after ten years	114
Total	\$10,232

As of July 26, 2013 and April 26, 2013, the aggregate carrying amount of equity and other securities without a quoted market price and accounted for using the cost or equity method was \$616 million and \$549 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 other comprehensive income (loss) in the condensed consolidated statements of comprehensive income and unrealized gains and losses on trading securities are recorded in interest 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 7 – 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 non-recurring 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 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 6 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 26, 2013.

See the section below titled Valuation Techniques for further discussion of how the Company determines fair value for investments.

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 fair value hedges.

These items are marked-to-market at each reporting period.

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MEDTRONIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 July 26, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	\$4,805	\$—	\$4,795	\$10
Auction rate securities	107	—	—	107
Mortgage-backed securities	1,059	—	1,044	15
U.S. government and agency securities	3,599	1,639	1,960	—
Foreign government and agency securities	29	—	29	—
Certificates of deposit	6	—	6	—
Other asset-backed securities	627	—	627	—
Debt funds	430	—	430	—
Marketable equity securities	127	127	—	—
Exchange-traded funds	55	55	—	—
Derivative assets	314	186	128	—
Total assets	\$11,158	\$2,007	\$9,019	\$132
Liabilities:				
Derivative liabilities	\$73	\$58	\$15	\$—
Contingent consideration associated with acquisitions subsequent to April 24, 2009	45	—	—	45
Total liabilities	\$118	\$58	\$15	\$45
(in millions)	Fair Value as of April 26, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	\$4,661	\$—	\$4,651	\$10
Auction rate securities	103	—	—	103
Mortgage-backed securities	1,053	—	1,039	14
U.S. government and agency securities	3,898	1,833	2,065	—
Foreign government and agency securities	38	—	38	—
Certificates of deposit	6	—	6	—
Other asset-backed securities	541	—	541	—
Marketable equity securities	155	155	—	—
Exchange-traded funds	50	50	—	—
Derivative assets	394	213	181	—
Total assets	\$10,899	\$2,251	\$8,521	\$127
Liabilities:				
Derivative liabilities	\$58	\$40	\$18	\$—
Contingent consideration associated with acquisitions subsequent to April 24, 2009	142	—	—	142
Total liabilities	\$200	\$40	\$18	\$142

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

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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, debt funds, 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, and certain mortgage-backed securities. 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 by 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 consideration and related liabilities for all acquisitions subsequent to April 24, 2009. See Note 3 for further information regarding contingent consideration.

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 July 26, 2013:

	Valuation Technique	Unobservable Input	Range (Weighted Average)
Auction rate securities	Discounted cash flow	Years to principal recovery	2 yrs. - 12 yrs. (3 yrs.)
		Illiquidity premium	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 transfers between Level 1, Level 2, or Level 3 during the three months ended July 26, 2013 or July 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.

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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 months ended July 26, 2013 and July 27, 2012:

Three months ended July 26, 2013

(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities	Other asset-backed securities
Balance as of April 26, 2013	\$ 127	\$ 10	\$ 103	\$ 14	\$—
Total unrealized gains (losses) included in other comprehensive income	5	—	4	1	—
Balance as of July 26, 2013	\$ 132	\$ 10	\$ 107	\$ 15	\$—

Three months ended July 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 27, 2012	\$ 172	\$ 10	\$ 127	\$ 29	\$ 6
Total unrealized gains (losses) included in other comprehensive income	2	—	2	—	—
Settlements	(1)	—	—	(1)	—
Balance as of July 27, 2012	\$ 173	\$ 10	\$ 129	\$ 28	\$ 6

Assets and Liabilities that are Measured at Fair Value on a Non-recurring Basis

Non-financial assets such as equity and other securities that are accounted for using the cost or equity method, goodwill and in-process research and development (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 other assets in the condensed consolidated balance sheets. The aggregate carrying amount of these investments was 616 million as of July 26, 2013 and \$549 million as of April 26, 2013. These cost or equity method investments are measured at fair value on a non-recurring 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 July 26, 2013. During the three months ended July 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 in impairment charges during the three months ended July 27, 2012, which 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 \$2.255 billion as of July 26, 2013 and \$2.310 billion as of April 26, 2013.

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. The inputs used in the fair value analysis fall within Level 3 of the fair value hierarchy due to the use of significant unobservable inputs to determine fair value. The Company did not record any significant intangible asset impairments during the three months ended July 26, 2013 or July 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 \$10.333 billion as of July 26, 2013 and \$10.329 billion as of April 26, 2013. The aggregate carrying amount of IPR&D was \$365 million as of July 26, 2013 and \$363 million as of April 26, 2013. The fair value of the Company's goodwill and IPR&D is not estimated if there is no change in events or circumstances that indicate the carrying amount of goodwill or IPR&D may be impaired. The Company did not record any goodwill or IPR&D impairments during the three months ended July 26, 2013 or July 27, 2012. However, due to the nature of IPR&D projects, the Company may experience future delays or failures to obtain

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regulatory approvals to conduct clinical trials, failures of such clinical trials, delays or failures to obtain required market 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 record any significant impairments of property, plant, and equipment during the three months ended July 26, 2013 or July 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 July 26, 2013 was \$10.269 billion compared to a principal value of \$9.928 billion, and as of April 26, 2013 was \$10.820 billion compared to a principal value of \$9.928 billion. Fair value was estimated using quoted market prices for the publicly registered senior notes, classified as Level 1 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 8 – Financing Arrangements

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 July 26, 2013 and April 26, 2013, outstanding commercial paper totaled \$670 million and \$125 million, respectively. During the three months ended July 26, 2013, the weighted average original maturity of the commercial paper outstanding was approximately 24 days, and the weighted average interest rate was 0.08 percent. The issuance of commercial paper reduces the amount of credit available under the Company's existing lines of credit.

Lines of Credit

The Company has a \$2.250 billion syndicated credit facility which expires on December 17, 2017 (Credit Facility). The Credit Facility provides the Company with the ability to increase its borrowing capacity by an additional \$750 million at any time during the term of the agreement. At each anniversary date of the Credit Facility, but not more than twice prior to the maturity date, the Company can also request a one-year extension of the maturity date. The Credit Facility provides backup funding for the commercial paper program. As of July 26, 2013 and April 26, 2013, 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 July 26, 2013.

Bank Borrowings

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

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Long-term debt consisted of the following:

(in millions, except interest rates)	Maturity by Fiscal Year	Payable as of July 26, 2013	Payable as of April 26, 2013
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
1.375 percent five-year 2013 senior notes	2018	1,000	1,000
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
2.750 percent ten-year 2013 senior notes	2023	1,250	1,250
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
4.000 percent thirty-year 2013 senior notes	2043	750	750
Interest rate swaps	2015 - 2022	89	181
Deferred gains from interest rate swap terminations	-	43	50
Capital lease obligations	2015 - 2025	147	152
Bank borrowings	2015	3	3
Discount	2018-2043	(20	) (20
Total Long-Term Debt		\$9,637	\$9,741

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 July 26, 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 8 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 26, 2013.

As of July 26, 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, \$500 million 2.625 percent 2011 Senior Notes due 2016, \$500 million 4.125 percent 2011 Senior Notes due 2021, and \$675 million 3.125 percent 2012 Senior Notes due 2022. For additional information regarding the interest rate swap agreements, refer to Note 9.

Note 9 – 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 and liabilities. 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 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 July 26, 2013 and April 26, 2013 was \$6.623 billion and \$6.812 billion, respectively. The aggregate currency exchange rate gains were \$3 million and \$19 million for the three months ended July 26, 2013 and July 27, 2012, respectively. These gains represent the net impact to the condensed consolidated statements of earnings for the exchange rate derivative instruments presented below, as well as the remeasurement gains (losses) on foreign currency denominated assets and liabilities.

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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, statements of earnings, and statements of cash flows.

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 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 July 26, 2013 and April 26, 2013, was \$1.919 billion and \$2.059 billion, respectively.

The amount and location of the gains in the condensed consolidated statements of earnings related to derivative instruments, not designated as hedging instruments, for the three months ended July 26, 2013 and July 27, 2012 are as follows:

(in millions)		Three months ended	
Derivatives Not Designated as Hedging Instruments	Location	July 26, 2013	July 27, 2012
Foreign currency exchange rate contracts	Other expense, net	\$29	\$47

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 months ended July 26, 2013 or July 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 months ended July 26, 2013 or July 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 July 26, 2013 and April 26, 2013, was \$4.704 billion and \$4.753 billion, respectively, and will mature within the subsequent three-year period.

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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 months ended July 26, 2013 and July 27, 2012 are as follows:

Three months ended July
26, 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	\$(27)	) Other expense, net	\$32
		Cost of products sold	(15)
Total	\$(27)	)	\$17

Three months ended July
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	\$130	Other expense, net	\$23
		Cost of products sold	(2)
Total	\$130		\$21

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 July 26, 2013, the Company had \$500 million of fixed pay, forward starting interest rate swaps with a weighted average fixed rate of 2.68 percent in anticipation of planned debt issuances.

During the three months ended July 26, 2013, the Company reclassified \$2 million of the effective portion of losses on forward starting interest rate derivative instruments from accumulated other comprehensive loss to interest expense, net. During the three months ended July 27, 2012, there were no significant amounts related to the effective portion of gains (losses) on forward starting interest rate derivative instruments reclassified from accumulated other comprehensive loss to interest expense, net.

The market value of outstanding forward starting interest rate swap derivative instruments at July 26, 2013 and April 26, 2013 was an unrealized gain (loss) of \$25 million and \$(18) million, respectively. These unrealized gains (losses) were recorded in other assets and other long-term liabilities, respectively, with the offsets recorded in accumulated other comprehensive loss in the condensed consolidated balance sheets.

As of both July 26, 2013 and April 26, 2013, the Company had \$22 million in after-tax net unrealized losses associated with cash flow hedging instruments recorded in accumulated other comprehensive loss. The Company expects that \$45 million of unrealized gains as of July 26, 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 earnings. The gains (losses) from terminating the interest rate swap agreements are recorded in long-term debt, increasing (decreasing) the outstanding balances of the related debt, and amortized as a reduction (addition) of interest expense, net over the remaining life of the debt. The cash flows from the termination of the interest rate swap agreements are reported as operating activities in the condensed consolidated statements of cash flows.

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

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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 both July 26, 2013 and April 26, 2013, 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 July 26, 2013, the Company had interest rate swap agreements 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 9 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 26, 2013.

The market value of outstanding interest rate swap agreements was a net \$89 million unrealized gain and the market value of the hedged item was a net \$89 million unrealized loss at July 26, 2013, which were recorded in other assets and other long-term liabilities with the offsets 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 months ended July 26, 2013 or July 27, 2012.

During the three months ended July 26, 2013 and July 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 months ended July 26, 2013 or July 27, 2012 on firm commitments that no longer qualify as fair value hedges.

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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 July 26, 2013 and April 26, 2013. 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.

July 26, 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	\$ 142	Other accrued expenses	\$47
Interest rate contracts	Other assets	128	Other long-term liabilities	15
Foreign currency exchange rate contracts	Other assets	44	Other long-term liabilities	10
Total derivatives designated as hedging instruments		\$314		\$72
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$—	Other accrued expenses	\$1
Total derivatives not designated as hedging instruments		\$—		\$1
Total derivatives		\$314		\$73

April 26, 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	\$ 150	Other accrued expenses	\$34
Interest rate contracts	Other assets	181	Other long-term liabilities	18
Foreign currency exchange rate contracts	Other assets	63	Other long-term liabilities	5
Total derivatives designated as hedging instruments		\$394		\$57
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$—	Other accrued expenses	\$1
Total derivatives not designated as hedging instruments		\$—		\$1
Total derivatives		\$394		\$58

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The Company has elected to present the fair value of derivative assets and liabilities within the condensed consolidated balance sheets on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation. The following table provides information as if the Company had elected to offset the asset and liability balances of derivative instruments, netted in accordance with various criteria as stipulated by the terms of the master netting arrangements with each of the counterparties. Derivatives not subject to master netting arrangements are not eligible for net presentation.

July 26, 2013		Gross Amount Not Offset on the Balance Sheet		
(in millions)	Gross Amount of Recognized Assets (Liabilities)	Financial Instruments	Cash Collateral (Received) or Pledged	Net Amount
Derivative Assets				
Foreign currency exchange rate contracts	\$ 186	\$(48)	\$(13)	\$ 125
Interest rate contracts	128	(25)	(4)	99
	\$ 314	\$(73)	\$(17)	\$ 224
Derivative Liabilities				
Foreign currency exchange rate contracts	\$(58)	\$ 58	\$—	\$—
Interest rate contracts	(15)	15	—	—
	\$(73)	\$ 73	\$—	\$—
Total	\$ 241	\$—	\$(17)	\$ 224
April 26, 2013		Gross Amount Not Offset on the Balance Sheet		
(in millions)	Gross Amount of Recognized Assets (Liabilities)	Financial Instruments	Cash Collateral (Received) or Pledged	Net Amount
Derivative Assets				
Foreign currency exchange rate contracts	\$ 213	\$(42)	\$(24)	\$ 147
Interest rate contracts	181	(16)	(6)	159
	\$ 394	\$(58)	\$(30)	\$ 306
Derivative Liabilities				
Foreign currency exchange rate contracts	\$(40)	\$ 40	\$—	\$—
Interest rate contracts	(18)	18	—	—
	\$(58)	\$ 58	\$—	\$—
Total	\$ 336	\$—	\$(30)	\$ 306

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 agreements, either party is 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 noted in the above table, as of July 26, 2013 and April 26, 2013, collateral was posted by its counterparties. The collateral received was recorded in cash and cash equivalents, with the offset recorded in other accrued expenses on the condensed consolidated balance sheets.

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

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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) may continue to increase the average length of time it takes the Company to collect on its outstanding trade receivables in these countries as certain payment patterns have been impacted. As of July 26, 2013 and April 26, 2013, the Company's aggregate accounts receivable balance for Italy, Spain, Portugal, and Greece, net of the allowance for doubtful accounts, was \$783 million and \$770 million, respectively. The Company continues to monitor the creditworthiness of customers located in these and other geographic areas. In the past, trade receivable balances with certain customers in these countries have accumulated over time and were subsequently settled as large lump-sum payments. 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. For certain Greece customers, collectability is not reasonably assured for revenue transactions and the Company defers revenue recognition until all revenue recognition criteria are met. As of July 26, 2013 and April 26, 2013, the Company's deferred revenue balance for certain Greece customers was \$14 million and \$21 million, respectively. As of July 26, 2013 and April 26, 2013, no one customer represented more than 10 percent of the Company's outstanding accounts receivable.

Note 10 – 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)	July 26, 2013	April 26, 2013
Finished goods	\$1,201	\$1,174
Work in process	253	248
Raw materials	324	290
Total	\$1,778	\$1,712

Note 11 – Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill for the three months ended July 26, 2013 are as follows:

(in millions)	Cardiac and Vascular Group	Restorative Therapies Group	Diabetes Group	Total
Balance as of April 26, 2013	\$2,624	\$6,361	\$1,344	\$10,329
Currency adjustment, net	—	4	—	4
Balance as of July 26, 2013	\$2,624	\$6,365	\$1,344	\$10,333

Balances of intangible assets, net, excluding goodwill, as of July 26, 2013 and April 26, 2013 are as follows:

(in millions)	Purchased Technology and Patents	Trademarks and Tradenames	Acquired IPR&D	Other	Total
Other intangible assets as of July 26, 2013:					
Original cost	\$3,900	\$408	\$365	\$112	\$4,785
Accumulated amortization	(1,764)	(323)	—	(78)	(2,165)
Carrying value	\$2,136	\$85	\$365	\$34	\$2,620
Other intangible assets as of April 26, 2013:					
Original cost	\$3,896	\$408	\$363	\$104	\$4,771
Accumulated amortization	(1,702)	(320)	—	(76)	(2,098)

Carrying value	\$2,194	\$88	\$363	\$28	\$2,673
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Amortization expense for the three months ended July 26, 2013 and July 27, 2012 was \$86 million and \$80 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
Fiscal Year	Amortization
	Expense
Remaining 2014	\$252
2015	321
2016	309
2017	287
2018	271
2019	226
Thereafter	589
Total estimated amortization expense	\$2,255

Note 12 – 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 three months ended July 26, 2013 and July 27, 2012 consisted of the following:

(in millions)	Three months ended	
	July 26, 2013	July 27, 2012
Balance at the beginning of the period	\$35	\$31
Warranty claims provision	11	6
Settlements made	(8)	(6)
Balance at the end of the period	\$38	\$31

Note 13 – Interest Expense, Net

Interest income and interest expense for the three months ended July 26, 2013 and July 27, 2012 are as follows:

(in millions)	Three months ended	
	July 26, 2013	July 27, 2012
Interest income	\$(50)	\$(56)
Interest expense	90	89
Interest expense, net	\$40	\$33

Interest income includes interest earned on the Company's cash, cash equivalents, and investments, the net realized and unrealized gain or loss on trading securities, ineffectiveness gains on interest rate derivative instruments, and the net realized gain or loss on the sale or impairment of available-for-sale debt securities.

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

debt issuance costs and debt discounts.

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Note 14 – Income Taxes

The Company's effective tax rate for the three months ended July 26, 2013 and July 27, 2012 was 17.3 percent and 20.6 percent, respectively. The decrease in the Company's effective tax rate for the three months ended July 26, 2013 was primarily due to the extension of the U.S. federal research and development tax credit on January 2, 2013, the tax impact of special charges, restructuring charges, and acquisition-related items, the finalization of certain income tax returns, and changes to uncertain tax position reserves.

During the three months ended July 26, 2013, the Company recorded a \$3 million net benefit associated with the finalization of certain income tax returns and changes to uncertain tax position reserves. These tax adjustments are operational in nature and are recorded in the provision for income taxes on the condensed consolidated statement of earnings.

During the three months ended July 26, 2013, the Company's gross unrecognized tax benefits increased from \$1.068 billion to \$1.105 billion. In addition, the Company has accrued interest and penalties of \$98 million as of July 26, 2013. If all of the Company's unrecognized tax benefits were recognized, approximately \$1.065 billion would impact the Company's effective tax rate. The Company records the gross unrecognized tax benefit as a long-term liability, 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.

As of July 26, 2013, there were no changes to significant unresolved matters with the U.S. Internal Revenue Service or foreign tax authorities from what the Company disclosed in its Annual Report on Form 10-K for the year ended April 26, 2013.

Note 15 – 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	
	July 26, 2013	July 27, 2012
Numerator:		
Net earnings	\$953	\$864
Denominator:		
Basic – weighted average shares outstanding	1,009.7	1,029.8
Effect of dilutive securities:		
Employee stock options	6.6	1.4
Employee restricted stock units	4.8	5.7
Other	0.1	0.2
Diluted – weighted average shares outstanding	1,021.2	1,037.1
Basic earnings per share:	\$0.94	\$0.84

Diluted earnings per share:	\$0.93	\$0.83
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The calculation of weighted average diluted shares outstanding excludes options for approximately 9 million and 48 million shares of common stock for the three months ended July 26, 2013 and July 27, 2012, respectively, because their effect would be anti-dilutive on the Company's earnings per share.

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Note 16 – 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 months ended July 26, 2013 and July 27, 2012:

(in millions)	Three months ended	
	July 26, 2013	July 27, 2012
Stock options	\$8	\$11
Restricted stock awards	19	21
Employee stock purchase plan	4	4
Total stock-based compensation expense	\$31	\$36
Cost of products sold	\$3	\$3
Research and development expense	6	7
Selling, general, and administrative expense	22	26
Total stock-based compensation expense	\$31	\$36
Income tax benefits	(8	) (10
Total stock-based compensation expense, net of tax	\$23	\$26

Note 17 – 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 months ended July 26, 2013 and July 27, 2012:

(in millions)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Post-Retirement Benefits	
	Three months ended		Three months ended		Three months ended	
	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012	July 26, 2013	July 27, 2012
Service cost	\$27	\$26	\$14	\$11	\$5	\$5
Interest cost	24	23	7	7	3	4
Expected return on plan assets	(35	) (32	) (9	) (8	) (5	) (4
Amortization of net actuarial loss	21	18	2	2	—	1
Net periodic benefit cost	\$37	\$35	\$14	\$12	\$3	\$6

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Note 18 – Accumulated Other Comprehensive Loss

In the first quarter of fiscal year 2014, the Company prospectively adopted guidance issued by the FASB that requires additional disclosure related to the impact of reclassification adjustments out of AOCI on net income. Changes in AOCI by component are as follows:

(in millions)	Unrealized Gain (Loss) on Investments	Cumulative Translation Adjustments (a)	Net Change in Retirement Obligations	Unrealized Gain (Loss) on Derivatives	Total Accumulated Other Comprehensive Loss
Balance as of April 26, 2013, net of tax	\$97	\$ 285	\$ (852)	\$ (22)	\$ (492)
Other comprehensive (loss) income before reclassifications, before tax	(131)	(3)	—	15	(119)
Tax benefit (expense)	48	—	—	(5)	43
Other comprehensive (loss) income before reclassifications, net of tax	(83)	(3)	—	10	(76)
Reclassifications, before tax	(18)	—	23	(15)	(10)
Tax benefit (expense)	6	—	(9)	5	2
Reclassifications, net of tax	(12) (b)	—	14 (c)	(10) (d)	(8)
Other comprehensive (loss) income, net of tax	(95)	(3)	14	—	(84)
Balance as of July 27, 2013, net of tax	\$2	\$ 282	\$ (838)	\$ (22)	\$ (576)

(a) Taxes are not provided on cumulative translation adjustments as substantially all translation adjustments relate to earnings that are intended to be indefinitely reinvested outside the U.S. Includes translation of the unrealized gains (losses) on certain foreign exchange rate derivatives held by non-U.S. functional currency entities.

(b) Represents net realized gains on sales of available-for-sale securities that were reclassified from AOCI to other expense, net (see Note 6).

(c) Includes net amortization of prior service costs and actuarial losses included in net periodic benefit cost (see Note 17).

(d) Relates to foreign currency cash flow hedges that were reclassified from AOCI to other expense, net or cost of products sold and forward starting interest rate derivative instruments that were reclassified from AOCI to interest expense, net (see Note 9).

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. On June 24, 2013, the Court of Appeals for the Federal

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Circuit affirmed the District Court's order. 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, as of that time, of \$74 million. On November 13, 2012, the Court of Appeals for the Federal Circuit upheld the jury verdict. Medtronic filed a petition for certiorari to the United States Supreme Court on May 6, 2013. 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 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 three European patents and seeking injunctive and other relief. On June 14, 2013, the Mannheim court dismissed Edwards' case on the merits that Medtronic's CoreValve transcatheter valve infringes the "Cribier" patent. On July 12, 2013, the Mannheim court found that Medtronic's CoreValve transcatheter valve infringes the "Spenser" patent and issued an injunction against Medtronic's sale or use of the CoreValve product in Germany. Medtronic has appealed the court's finding of infringement. On August 26, 2013, Edwards posted a 50 million Euro bond, as mandated by the court, to enforce the injunction. A third proceeding is pending, with a trial hearing scheduled for December 20, 2013. 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.

INFUSE Product Liability Litigation

As of September 3, 2013, plaintiffs have filed approximately 450 lawsuits against the Company in the U.S. state and federal courts alleging personal injury from the INFUSE bone graft product. Certain law firms have advised the Company that they may bring a large number of similar claims against the Company in the future. 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.

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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. On March 25, 2013, the Court dismissed the case without prejudice. 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, making allegations similar to those in the Kococinski case.

West Virginia Pipe Trades and Phil Pace, on June 27 and July 3, 2013, respectively, filed putative class action complaints against Medtronic and certain of its officers in the U.S. District Court for the District of Minnesota, alleging that the defendants made false and misleading public statements regarding the INFUSE Bone Graft product during the period of December 8, 2010 through August 3, 2011. 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. Medtronic filed a petition for certiorari to the United States Supreme Court on March 15, 2013, which the Supreme Court granted on May 20, 2013. 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

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, Illinois, and Washington. The Company is fully cooperating with these requests.

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.

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 U.S. Department of Justice 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.

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On May 6, 2013, the Company received a letter from the United States Attorney's Office for the District of Minnesota requesting information relating to the Company's compliance with the Trade Agreements Act. 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 management evaluates performance and allocates resources based on profit and loss from operations before income taxes and interest expense, net, not including special charges, restructuring charges, 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 26, 2013.

In the third quarter of fiscal year 2013, the Company revised its management organizational structure and separated the Diabetes business from the Restorative Therapies Group. This change did not impact the manner in which the Company internally manages and reports the results of the Diabetes business or the Restorative Therapies Group. As a result, for fiscal year 2013, the Company continued to function in two reportable segments and two operating segments, consisting of the Cardiac and Vascular Group and the Restorative Therapies Group. In the first quarter of fiscal year 2014, the Company amended the way in which management evaluates performance and allocates resources for the Diabetes business including separating the Diabetes business from the Restorative Therapies Group. As a result, the Company began to operate under three reportable segments and three operating segments with the Diabetes business operating as a separate group. Accordingly, the segment information for the prior year has been restated to present three reportable segments.

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 three businesses: Spine, Neuromodulation, 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, and ear, nose, and throat conditions. The primary products sold by the Company's Diabetes Group include those for diabetes management.

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	
	July 26, 2013	July 27, 2012
Cardiac and Vascular Group	\$2,160	\$2,115
Restorative Therapies Group	1,554	1,529
Diabetes Group	369	364
Total Net Sales	\$4,083	\$4,008

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(in millions)	Three months ended	
	July 26, 2013	July 27, 2012
Cardiac and Vascular Group	\$756	\$738
Restorative Therapies Group	421	399
Diabetes Group	75	90
Total Reportable Segments' Earnings Before Income Taxes	1,252	1,227
Special charges	(40)