MEDTRONIC INC
Form 10-Q
August 29, 2014

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

ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 25, 2014

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 ý No o

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 ý No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller Reporting Company o

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

Shares of common stock, $.10 par value, outstanding on August 25, 2014: 979,516,413

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
MEDTRONIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three months ended	
	July 25, 2014	July 26, 2013
	(in millions, except per share data)	
Net sales	$4,273	$4,083
Costs and expenses:		
Cost of products sold	1,105	1,022
Research and development expense	365	360
Selling, general, and administrative expense	1,506	1,416
Special charges	—	40
Restructuring charges, net	30	18
Acquisition-related items	41	(96)
Amortization of intangible assets	87	86
Other expense, net	51	44
Interest expense, net	5	40
Total costs and expenses	3,190	2,930
Earnings before income taxes	1,083	1,153
Provision for income taxes	212	200
Net earnings	$871	$953
Basic earnings per share	$0.88	$0.94
Diluted earnings per share	$0.87	$0.93
Basic weighted average shares outstanding	992.6	1,009.7
Diluted weighted average shares outstanding	1,005.2	1,021.2
Cash dividends declared per common share	$0.305	$0.280

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 25, 2014	July 26, 2013
	(in millions)	
Net earnings	$871	$953
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on available-for-sale securities, net of tax expense (benefit) of $32 and $(54), respectively	54	(95)
Translation adjustment	1	(5)
Net change in retirement obligations, net of tax expense of $6 and $9, respectively	17	14
Unrealized gain on derivatives, net of tax expense of $21 and $1, respectively	37	2
Other comprehensive income (loss)	109	(84)
Comprehensive income	$980	$869

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

2

MEDTRONIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 25, 2014	April 25, 2014
	(in millions, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,336	$1,403
Investments	12,626	12,838
Accounts receivable, less allowances of $116 and $115, respectively	3,690	3,811
Inventories	1,836	1,725
Tax assets	599	736
Prepaid expenses and other current assets	683	697
Total current assets	20,770	21,210
Property, plant, and equipment	6,541	6,439
Accumulated depreciation	(4,165)	(4,047)
Property, plant, and equipment, net	2,376	2,392
Goodwill	10,696	10,593
Other intangible assets, net	2,341	2,286
Long-term tax assets	199	300
Other assets	1,172	1,162
Total assets	$37,554	$37,943
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Short-term borrowings	$2,477	$1,613
Accounts payable	685	742
Accrued compensation	787	1,015
Accrued income taxes	153	164
Deferred tax liabilities	19	19
Other accrued expenses	1,312	2,006
Total current liabilities	5,433	5,559
Long-term debt	10,323	10,315
Long-term accrued compensation and retirement benefits	680	662
Long-term accrued income taxes	1,251	1,343
Long-term deferred tax liabilities	377	386
Other long-term liabilities	242	235

Total liabilities	18,306	18,500
Commitments and contingencies (Notes 3 and 19)		
Shareholders’ equity:		
Preferred stock— par value $1.00	—	—
Common stock— par value $0.10	99	100
Retained earnings	19,637	19,940
Accumulated other comprehensive loss	(488)	(597)
Total shareholders’ equity	19,248	19,443
Total liabilities and shareholders’ equity	$37,554	$37,943

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

3

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

	Three months ended	
	July 25, 2014	July 26, 2013
	(in millions)	
Operating Activities:		
Net earnings	$871	$953
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	215	208
Amortization of debt issuance costs	3	2
Acquisition-related items	2	(96)
Provision for doubtful accounts	8	14
Deferred income taxes	98	30
Stock-based compensation	34	31
Other, net	(12)	—
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	94	85
Inventories	(96)	(95)
Accounts payable and accrued liabilities	(163)	(330)
Other operating assets and liabilities	17	181
Certain litigation payments	(761)	—
Net cash provided by operating activities	310	983
Investing Activities:		
Acquisitions, net of cash acquired	(146)	(17)
Additions to property, plant, and equipment	(109)	(78)
Purchases of investments	(1,600)	(2,757)
Sales and maturities of investments	1,853	2,195
Other investing activities, net	(4)	(9)
Net cash used in investing activities	(6)	(666)
Financing Activities:		
Acquisition-related contingent consideration	(5)	(1)
Change in short-term borrowings, net	862	761
Repayment of short-term borrowings (maturities greater than 90 days)	—	(125)
Payments on long-term debt	(3)	(4)
Dividends to shareholders	(304)	(281)
Issuance of common stock	154	568
Repurchase of common stock	(1,065)	(1,340)
Other financing activities	6	—
Net cash used in financing activities	(355)	(422)
Effect of exchange rate changes on cash and cash equivalents	(16)	14

Net change in cash and cash equivalents	(67)	(91)
Cash and cash equivalents at beginning of period	1,403	919
Cash and cash equivalents at end of period	$1,336	$828
Supplemental Cash Flow Information		
Cash paid for:		
Income taxes	$146	$70
Interest	22	27

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

4

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

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, 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 25, 2014.

The Company’s fiscal years 2015, 2014, and 2013 will end or ended on April 24, 2015, April 25, 2014, and April 26, 2013, respectively.

Note 2 – New Accounting Pronouncements

Recently Adopted

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. The Company prospectively adopted this accounting guidance in the first quarter of fiscal year 2015 and its adoption did not have a material impact on the Company’s consolidated financial statements.

In March 2013, the FASB issued amended guidance on a parent company's accounting for the cumulative translation adjustment (CTA) recorded in accumulated other comprehensive income (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, or no longer holds a controlling financial interest, in a subsidiary or group of assets within a foreign entity. This accounting guidance is effective prospectively for the Company in the first quarter of fiscal year 2015. This amended guidance had no immediate impact on the Company's financial position or results of operations as the Company had no event or transaction described above.

Not Yet Adopted

In April 2014, the FASB issued amended guidance for reporting discontinued operations. The amended guidance changes the criteria for determining when the results of operations are to be reported as discontinued operations and expands the related disclosure requirements. The guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or classified as held for sale which is a strategic shift that has, or will have, a major effect on financial position and results of operations. This accounting guidance is effective prospectively for the Company beginning in the first quarter of fiscal year 2016, with early adoption permitted. The adoption is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance is effective for the Company beginning in the first quarter of fiscal year 2018 using one of two prescribed retrospective methods. Early adoption is not permitted. The Company is evaluating the impact of the amended revenue recognition guidance on the Company's consolidated financial statements.

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

Note 3 – Acquisitions and Acquisition-Related Items

The Company had various acquisitions and other acquisition-related activity during the first quarter of fiscal years 2015 and 2014. Certain acquisitions were accounted for as business combinations as noted below. In accordance with authoritative guidance on business combination accounting, the assets and liabilities of the company acquired were recorded as of the acquisition date, at their respective fair values, and consolidated. The pro forma impact of these acquisitions was not significant, individually or in the aggregate, to the results of the Company for the three months ended July 25, 2014 or July 26, 2013. The results of operations related to each company acquired have been included in the Company's condensed consolidated statements of earnings since the date each company was acquired.

Pending Acquisition of Covidien plc

On June 15, 2014, Medtronic, Inc. entered into a Transaction Agreement (the Transaction Agreement) by and among Medtronic, Inc., Covidien public limited company, an Irish public limited company (Covidien), Medtronic Holdings Limited (f/k/a Kalani I Limited), a private limited company organized under the laws of Ireland that will be renamed Medtronic plc (New Medtronic), Makani II Limited, a private limited company organized under the laws of Ireland and a wholly-owned subsidiary of New Medtronic (IrSub), Aviation Acquisition Co., Inc., a Minnesota corporation (U.S. AcquisitionCo), and Aviation Merger Sub, LLC, a Minnesota limited liability company and a wholly-owned subsidiary of U.S. AcquisitionCo (MergerSub). Under the terms of the Transaction Agreement, (i) New Medtronic and IrSub will acquire Covidien (the Acquisition) pursuant to the Irish Scheme of Arrangement under Section 201, and a capital reduction under Sections 72 and 74, of the Irish Companies Act of 1963 (the Arrangement) and (ii) MergerSub will merge with and into Medtronic, Inc., with Medtronic, Inc. continuing as the surviving corporation in the merger (such merger, the Merger, and the Merger together with the Acquisition, the Pending Acquisition). As a result of the Pending Acquisition, both Medtronic, Inc. and Covidien will become wholly-owned direct or indirect subsidiaries of New Medtronic.

(a) At the effective time of the Arrangement, Covidien shareholders will be entitled to receive $35.19 in cash and 0.956 of a newly issued New Medtronic share (the Arrangement Consideration) in exchange for each Covidien share held by such shareholders, and (b) at the effective time of the Merger, each share of Medtronic, Inc. common stock will be converted into the right to receive one New Medtronic share. The total cash and stock value of the Pending Acquisition is approximately $42.9 billion based on Medtronic, Inc.'s closing share price of $60.70 on June 13, 2014. It is expected that immediately after the closing of the Pending Acquisition, Covidien shareholders will own approximately 30 percent of New Medtronic on a fully diluted basis. Shares of New Medtronic are expected to trade on the New York Stock Exchange.

The Transaction Agreement may be terminated by mutual written consent of the parties. The Transaction Agreement also contains certain termination rights, including, among others, the right of either party to terminate if (a) the Arrangement has not become effective by March 15, 2015 (the End Date), subject to certain conditions, provided that the End Date will be extended to June 15, 2015 in certain circumstances, (b) the Covidien or Medtronic, Inc. shareholder approvals are not obtained, (c) the other party breaches its representations and covenants and such breach would result in the closing conditions not being satisfied, subject to a cure period, (d) the Irish High Court declines to sanction the Arrangement, unless both parties agree to appeal the decision, or (e) there is a failure of the tax condition as described in Medtronic, Inc.'s Current Report on Form 8-K filed with the SEC on June 16, 2014. Covidien also has the right, prior to the receipt of Covidien shareholder approval, to terminate the Transaction Agreement to accept a Covidien Superior Proposal (as defined in the Transaction Agreement) in certain circumstances.

The Transaction Agreement also provides that Medtronic, Inc. must pay Covidien a termination fee of $850 million if the Transaction Agreement is terminated because the Medtronic, Inc. board of directors changes its recommendation for the transaction and the Medtronic, Inc. shareholders vote against the Transaction, and either (i) Covidien obtained the requisite Covidien shareholder approval or (ii) Medtronic, Inc. effected such termination prior to the completion of the Covidien shareholder meeting.

The consummation of the Pending Acquisition is subject to certain conditions, including approvals by Medtronic, Inc. and Covidien shareholders. In addition, the proposed transaction requires regulatory clearances in the U.S., the European Union, China, and certain other countries. The Pending Acquisition is expected to close in the fourth calendar quarter of 2014 or early 2015. Covidien is a global health care products company that creates innovative medical solutions for better patient outcomes and delivers value through clinical leadership and excellence. Covidien develops, manufactures, and sells a diverse range of industry-leading medical device and supply products.

See Note 8 to the condensed consolidated financial statements for further information regarding the financing of the Pending Acquisition.

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

Visualase, Inc.
On July 25, 2014, the Company acquired Visualase, Inc. (Visualase), a privately held developer of minimally invasive MRI guided laser ablation for surgical applications. Total consideration for the transaction was approximately $97 million. Based upon a preliminary acquisition valuation, the Company acquired $66 million of technology-based intangible assets with an estimated useful life of 10 years at the time of acquisition and $49 million of goodwill. The acquired goodwill is not deductible for tax purposes.
Corventis, Inc.
On June 20, 2014, the Company acquired Corventis, Inc. (Corventis), a privately held developer of wearable, wireless technologies for cardiac disease. Total consideration for the transaction was approximately $131 million, including settlement of outstanding debt to Medtronic of $50 million. Based upon a preliminary acquisition valuation, the Company acquired $80 million of technology-based intangible assets with an estimated useful life of 16 years at the time of acquisition and $50 million of goodwill. The acquired goodwill is not deductible for tax purposes.
TYRX, Inc.
On December 30, 2013, the Company acquired TYRX, Inc. (TYRX), a privately held developer of antibiotic drug and implanted medical device combinations. TYRX's products include those designed to reduce surgical site infections associated with implantable pacemakers, defibrillators, and spinal cord neurostimulators. Under the terms of the agreement, the transaction included an initial up-front payment of $159 million, representing a purchase price amount that was net of acquired cash, including the assumption and settlement of existing TYRX debt and direct acquisition costs. Total consideration for the transaction was approximately $222 million, which included estimated fair values for product development-based and revenue-based contingent consideration of $25 million and $35 million, respectively. The product development-based contingent consideration includes a future potential payment of $40 million upon achieving certain milestones, and the revenue-based contingent consideration payments would be equal to TYRX's actual annual revenue growth for the Company's fiscal years 2015 and 2016. Based upon a preliminary acquisition valuation, the Company acquired $94 million of technology-based intangible assets with an estimated useful life of 14 years at the time of acquisition and $132 million of goodwill. The acquired goodwill is not deductible for tax purposes.
The fair values of the assets acquired and liabilities assumed are as follows:

(in millions)	
Current assets	$6
Property, plant, and equipment	1
Intangible assets	94
Goodwill	132
Total assets acquired	233
Current liabilities	4
Long-term deferred tax liabilities, net	7
Total liabilities assumed	11
Net assets acquired	$222

The Company accounted for the acquisitions of Corventis, Visualase, and TYRX as business combinations using the acquisition method of accounting.
Subsequent Acquisitions
On August 26, 2014, the Company acquired NGC Medical S.p.A. (NGC), a privately-held Italian company that offers a broad suite of hospital managed services. Medtronic had previously invested in NGC and held a 30 percent ownership position in that company. The total consideration, net of this previously-held ownership position, was approximately $238 million.

On August 25, 2014, the Company acquired Sapiens Steering Brain Stimulation, a privately-held developer of deep brain stimulation technologies. The total consideration for the transaction was approximately $200 million.

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

Acquisition-Related Items
During the three months ended July 25, 2014, the Company recorded acquisition-related items of $41 million primarily due to costs incurred in connection with the pending Covidien acquisition (an SEC filing fee, amortization of bridge financing fees, advisory, legal, and other costs).
During the three months ended July 26, 2013, the Company recorded net income from acquisition-related items of $96 million related to the change in fair value of contingent consideration payments associated with Ardian, Inc. (Ardian) acquisition, which is based on annual revenue growth through fiscal year 2015.
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. For business combinations subsequent to April 24, 2009, a liability is recorded for the estimated fair value of the contingent consideration on the acquisition date. The fair value of the contingent consideration is remeasured at each reporting period and 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.
The fair value of contingent consideration is measured 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 a higher (lower) fair value measurement. Fluctuations in any of the inputs may result in a significantly lower (higher) fair value measurement.
The recurring Level 3 fair value measurements of contingent consideration include the following significant unobservable inputs:

($ in millions)	Fair Value at July 25, 2014	Valuation Technique	Unobservable Input	Range
Revenue-based payments	$62	Discounted cash flow	Discount rate	13.5% - 24%
			Probability of payment	100%
			Projected fiscal year of payment	2015 - 2019
Product development-based payments	$25	Discounted cash flow	Discount rate	5.5%
			Probability of payment	75%
			Projected fiscal year of payment	2018

At July 25, 2014, 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 $198 million. The Company estimates the milestones or other conditions associated with the contingent consideration will be reached in fiscal year 2015 and thereafter.

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

The fair value of contingent consideration associated with acquisitions subsequent to April 24, 2009, as of July 25, 2014 and April 25, 2014, was $87 million and $68 million, respectively. As of July 25, 2014, $68 million was reflected in other long-term liabilities and $19 million was reflected in other accrued expenses in the condensed consolidated balance sheets. As of April 25, 2014, $51 million was reflected in other long-term liabilities and $17 million was reflected in other accrued expenses in the condensed consolidated balance sheets. The portion of the contingent consideration paid related to the acquisition date fair value is reported as financing activities in the condensed consolidated statements of cash flows. Amounts paid in excess of the original acquisition date fair value are 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:

	Three months ended	
(in millions)	July 25, 2014	July 26, 2013
Beginning Balance	$68	$142
Purchase price contingent consideration	23	—
Contingent consideration payments	(5)	(1)
Change in fair value of contingent consideration	1	(96)
Ending Balance	$87	$45

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.

Certain Litigation Charges, Net

The Company classifies material litigation reserves and gains recognized as certain litigation charges, net. During the three months ended July 25, 2014 and July 26, 2013, there were no certain litigation charges, net.

Note 5 – Restructuring Charges, Net

Fiscal Year 2014 Initiative

The fiscal year 2014 initiative primarily related to the Company's renal denervation business, certain manufacturing shut-downs, and a reduction of back-office support functions in Europe. In the fourth quarter of fiscal year 2014, the Company recorded a $116 million restructuring charge, which consisted of employee termination costs of $65 million, asset write-downs of $26 million, contract termination costs of $3 million, and other related costs of $22 million. Of the $26 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 condensed consolidated statements of earnings. In the first quarter of fiscal year 2015, the Company recorded a $38 million restructuring charge, which was the final charge related to the fiscal year 2014 initiative and consisted primarily of contract termination and other related costs of $28 million. The fiscal year 2014 initiative is scheduled to be substantially complete by the end of the fourth quarter of fiscal year 2015.

As a result of certain employees identified for elimination finding other positions within the Company and revisions to particular strategies, the Company recorded a $6 million reversal of excess restructuring reserves in the first quarter of fiscal year 2015.

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

A summary of the activity related to the fiscal year 2014 initiative is presented below:

(in millions)	Employee Termination Costs	Asset Write-downs	Other Costs	Total
Balance as of April 25, 2014	$64	$—	$11	$75
Restructuring charges	1	9	28	38
Payments/write-downs	(17)	(9)	(19)	(45)
Reversal of excess accrual	(6)	—	—	(6)
Balance as of July 25, 2014	$42	$—	$20	$62

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 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 condensed consolidated statements of earnings. In the first quarter of fiscal year 2014, the Company recorded an $18 million restructuring charge, which was 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 first quarter of fiscal year 2015, the Company recorded a $2 million reversal of excess restructuring reserves as a result of certain employees identified for elimination finding other positions within the Company and revisions to particular strategies.

As a result of certain legal requirements outside the U.S., the fiscal year 2013 initiative is scheduled to be substantially complete by the end of the third quarter of fiscal year 2016.

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 25, 2014	$23	$1	$24
Payments	(5)	(1)	(6)
Reversal of excess accrual	(2)	—	(2)
Balance as of July 25, 2014	$16	$—	$16

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

Note 6 – Investments

The Company holds investments consisting primarily of marketable debt and equity securities.

Information regarding the Company's investments at July 25, 2014 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	$5,429	$65	$(10)	$5,484
Auction rate securities	109	—	(10)	99
Mortgage-backed securities	1,252	10	(8)	1,254
U.S. government and agency securities	2,748	7	(22)	2,733
Foreign government and agency securities	78	—	—	78
Certificates of deposit	71	—	—	71
Other asset-backed securities	497	1	—	498
Debt funds	2,446	48	(8)	2,486
Marketable equity securities	52	14	(17)	49
Trading securities:				
Exchange-traded funds	54	15	—	69
Cost method, equity method, and other investments	618	—	—	NA
Total	$13,354	$160	$(75)	$12,821

Information regarding the Company's investments at April 25, 2014 is as follows:

(in millions)