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 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 ☒ 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 25, 2014: 979,516,413

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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.

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.

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.

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.

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.

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.

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
			Discount rate	13.5% - 24%
Revenue-based payments	$62	Discounted cash flow	Probability of payment	100%
			Projected fiscal year of payment	2015 - 2019
			Discount rate	5.5%
Product development-based payments	$25	Discounted cash flow	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.

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.

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

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)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	$ 5,504	$ 55	$ (17)	$ 5,542
Auction rate securities	109	—	(12)	97
Mortgage-backed securities	1,337	7	(8)	1,336
U.S. government and agency securities	3,138	7	(29)	3,116
Foreign government and agency securities	67	—	—	67
Certificates of deposit	54	—	—	54
Other asset-backed securities	540	2	—	542
Debt funds	2,143	9	(29)	2,123
Marketable equity securities	47	15	(13)	49
Trading securities:				
Exchange-traded funds	54	13	—	67
Cost method, equity method, and other investments	666	—	—	NA
Total	$ 13,659	$ 108	$ (108)	$ 12,993

Information regarding the Company's condensed consolidated balance sheet presentation at July 25, 2014 and April 25, 2014 is as follows:

	July 25, 2014		April 25, 2014	
(in millions)	Investments	Other Assets	Investments	Other Assets
Available-for-sale securities	$ 12,557	$ 195	$ 12,771	$ 155
Trading securities	69	—	67	—
Cost method, equity method, and other investments	—	618	—	666
Total	$ 12,626	$ 813	$ 12,838	$ 821

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 25, 2014 and April 25, 2014:

	July 25, 2014			
	Less than 12 months		More than 12 months	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$ 1,200	$ (5)	$ 273	$ (5)
Auction rate securities	—	—	99	(10)
Mortgage-backed securities	353	(3)	333	(5)
U.S. government and agency securities	754	(1)	784	(21)
Debt funds	454	(1)	141	(7)
Marketable equity securities	21	(17)	—	—
Total	$ 2,782	$ (27)	$ 1,630	$ (48)

	April 25, 2014			
	Less than 12 months		More than 12 months	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$ 1,601	$ (14)	$ 50	$ (3)
Auction rate securities	—	—	97	(12)
Mortgage-backed securities	682	(7)	28	(1)
U.S. government and agency securities	1,500	(27)	46	(2)
Debt funds	1,224	(29)	—	—
Marketable equity securities	25	(13)	—	—
Total	$ 5,032	$ (90)	$ 221	$ (18)

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

	Three months ended			
	July 25, 2014		July 26, 2013	
(in millions)	Debt (a)	Equity (b)	Debt (a)	Equity (b)
Proceeds from sales	$ 1,830	$ 23	$ 2,163	$ 32
Gross realized gains	11	19	6	18
Gross realized losses	(3)	—	(5)	—
Impairment losses recognized	—	(1)	—	—

(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 July 25, 2014 and April 25, 2014, the credit loss portion of other-than-temporary impairments on debt securities was $4 million. The total reductions for available-for-sale debt securities sold during the three months ended July 25, 2014 and July 26, 2013 were not significant. The total other-than-temporary impairment losses on available-for-sale debt securities for the three months ended July 25, 2014 and July 26, 2013 were not significant.

The July 25, 2014 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. 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 25, 2014
Due in one year or less	$ 1,426
Due after one year through five years	5,961
Due after five years through ten years	2,689
Due after ten years	141
Total	$ 10,217

As of July 25, 2014 and April 25, 2014, the aggregate carrying amount of equity and other securities without a quoted market price and accounted for using the cost or equity method was $618 million and $666 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 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 nonrecurring basis. Under this guidance, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. 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 25, 2014.

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 and contingent consideration associated with acquisitions subsequent to April 24, 2009. Derivatives include cash flow hedges, freestanding derivative forward contracts, and fair value hedges. These items are marked-to-market at each reporting period.

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 25, 2014	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	$ 5,484	$ —	$ 5,475	$ 9
Auction rate securities	99	—	—	99
Mortgage-backed securities	1,254	—	1,254	—
U.S. government and agency securities	2,733	1,135	1,598	—
Foreign government and agency securities	78	—	78	—
Certificates of deposit	71	—	71	—
Other asset-backed securities	498	—	498	—
Debt funds	2,486	—	2,486	—
Marketable equity securities	49	49	—	—
Exchange-traded funds	69	69	—	—
Derivative assets	176	96	80	—
Total assets	$ 12,997	$ 1,349	$ 11,540	$ 108
Liabilities:				
Derivative liabilities	$ 68	$ 68	$ —	$ —
Contingent consideration associated with acquisitions subsequent to April 24, 2009	87	—	—	87
Total liabilities	$ 155	$ 68	$ —	$ 87

(in millions)	Fair Value as of April 25, 2014	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	$ 5,542	$ —	$ 5,533	$ 9
Auction rate securities	97	—	—	97
Mortgage-backed securities	1,336	—	1,336	—
U.S. government and agency securities	3,116	1,251	1,865	—
Foreign government and agency securities	67	—	67	—
Certificates of deposit	54	—	54	—
Other asset-backed securities	542	—	542	—
Debt funds	2,123	—	2,123	—
Marketable equity securities	49	49	—	—
Exchange-traded funds	67	67	—	—
Derivative assets	175	89	86	—
Total assets	$ 13,168	$ 1,456	$ 11,606	$ 106
Liabilities:				
Derivative liabilities	$ 127	$ 116	$ 11	$ —
Contingent consideration associated with acquisitions subsequent to April 24, 2009	68	—	—	68
Total liabilities	$ 195	$ 116	$ 11	$ 68

Valuation Techniques

Financial assets that are classified as Level 1 securities include highly liquid government bonds within U.S. government and agency securities, marketable equity securities, and exchange-traded funds for which quoted market prices are available. In addition, the Company has determined that foreign currency forward contracts will be included in Level 1 as these are valued using quoted market prices in active markets which have identical assets or liabilities.

The valuation for most fixed maturity securities are classified as Level 2. Financial assets that are classified as Level 2 include corporate debt securities, U.S. government and agency securities, foreign government and agency securities, certificates of deposit, other asset-backed securities, 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 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 the unobservable inputs utilized in the fair value measurement of the auction rate securities classified as Level 3 as of July 25, 2014:

	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 25, 2014 or July 26, 2013. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

The following tables provide a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3) for the three months ended July 25, 2014 and July 26, 2013:

Three months ended July 25, 2014

(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities
Balance as of April 25, 2014	$ 106	$ 9	$ 97	$ —
Total unrealized gains included in other comprehensive income	2	—	2	—
Balance as of July 25, 2014	$ 108	$ 9	$ 99	$ —

Three months ended July 26, 2013

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

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

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

The Company holds investments in equity and other securities that are accounted for using the cost or equity method, which are classified as *other assets* in the condensed consolidated balance sheets. The aggregate carrying amount of these investments was $618 million as of July 25, 2014 and $666 million as of April 25, 2014. These cost or equity method investments are measured at fair value on a nonrecurring basis. The fair value of the Company's cost or equity method investments is not estimated if there are no identified events or changes in circumstance that may have a significant adverse effect on the fair value of these investments. The Company did not record any significant impairment charges related to cost method investments during the three months ended July 25, 2014 and did not record any impairment charges to cost method investments during the three months ended July 26, 2013. 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 available related to the entities, including financial statements and market participant valuations from recent and proposed equity offerings.

The Company assesses the impairment of goodwill annually in the third quarter and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The aggregate carrying amount of goodwill was $10.696 billion and $10.593 billion as of July 25, 2014 and April 25, 2014, respectively.

Impairment testing for goodwill is performed at the reporting unit level. The test for impairment of goodwill requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The Company calculates the excess of each reporting unit's fair value over its carrying amount, including goodwill, utilizing a discounted cash flow analysis. The Company did not record any goodwill impairments during the three months ended July 25, 2014 or July 26, 2013.

The recently acquired businesses of Cardiocom and Kanghui are separate reporting units and are tested for goodwill impairment independently; therefore, they are more sensitive to changes in assumptions impacting fair value. The carrying amount of goodwill was $410 million and $123 million for the Kanghui and Cardiocom reporting units, respectively, as of July 25, 2014. As of the date of the annual goodwill impairment test, the fair values of these two reporting units exceeded their respective carrying values by more than 10 percent.

The Company assesses the impairment of IPR&D annually in the third quarter and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The aggregate carrying amount of IPR&D was $116 million and $119 million as of July 25, 2014 and April 25, 2014, respectively. The majority of IPR&D at July 25, 2014 is related to IN.PACT family of drug-eluting balloons. Similar to the goodwill impairment test, the IPR&D impairment test requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The

Company calculates the excess of IPR&D asset fair values over their carrying values utilizing a discounted future cash flow analysis. The Company did not record any IPR&D impairments during the three months ended July 25, 2014 or July 26, 2013. Due to the nature of IPR&D projects, the Company may experience future delays or failures to obtain 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 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 $2.225 billion as of July 25, 2014 and $2.167 billion as of April 25, 2014. 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 25, 2014 or July 26, 2013.

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. As part of the Company's restructuring initiatives, the Company recorded property, plant, and equipment impairments of $9 million during the three months ended July 25, 2014 in *restructuring charges, net* in the condensed consolidated statements of earnings. For further discussion of the restructuring initiatives refer to Note 5. The Company did not record any significant impairments of property, plant, and equipment during the three months ended July 26, 2013.

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 25, 2014 was $11.873 billion compared to a principal value of $11.375 billion, and as of April 25, 2014 was $11.856 billion compared to a principal value of $11.375 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 25, 2014, outstanding commercial paper totaled $830 million. No amounts were outstanding as of April 25, 2014. During the three months ended July 25, 2014, the weighted average original maturity of the commercial paper outstanding was approximately 28 days, and the weighted average interest rate was 0.10 percent. The issuance of commercial paper reduces the amount of credit available under the Company's existing line of credit.

Line 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 25, 2014 and April 25, 2014, no amounts were outstanding on the committed line 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 Facility and are determined in the same manner as the interest rates. The agreement also contains customary covenants, all of which the Company remains in compliance with as of July 25, 2014.

Other Credit Agreements

In conjunction with the Pending Acquisition of Covidien, on June 15, 2014, Medtronic, Inc. entered into a senior unsecured bridge credit agreement (the Bridge Credit Agreement) among Medtronic, Inc., New Medtronic, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent. Under the Bridge Credit Agreement, Bank of America, N.A.

has committed to provide Medtronic, Inc. with unsecured financing in an aggregate principal amount of up to $2.8 billion for a 364-day period from the date that any loans are funded under the Bridge Credit Agreement. The commitments are intended to be drawn to finance, in part, the cash component of the acquisition consideration and certain transaction expenses to the extent Medtronic, Inc. does not arrange for alternative financing prior to the consummation of the Pending Acquisition. New Medtronic has guaranteed the obligations of Medtronic, Inc. under the Bridge Credit Agreement. If Medtronic, Inc. draws loans under the Bridge Credit Agreement, it intends to refinance any debt incurred thereunder.

Medtronic, Inc. expects that it, New Medtronic and IrSub will require approximately an additional $13.2 billion in order to finance the remaining cash component of the acquisition consideration, excluding certain transaction expenses. Medtronic, Inc. expects that it, or its affiliates, will have cash equivalents in such amount available to it by the time of the consummation of the Pending Acquisition. In order to backstop the anticipated amount of cash on hand at the consummation of the Pending Acquisition, on June 15, 2014, IrSub entered into a senior unsecured cash bridge credit agreement (the Cash Bridge Credit Agreement and together with the Bridge Credit Agreement, the Credit Agreements) among IrSub, New Medtronic, the lenders from time to time party thereto and Bank of America as administrative agent. Under the Cash Bridge Credit Agreement, Bank of America, N.A. has committed to provide IrSub with unsecured financing in an aggregate principal amount of up to $13.5 billion for a 60-day period from the date that any loans are funded under the Cash Bridge Credit Agreement. New Medtronic has also guaranteed the obligations of IrSub under the Cash Bridge Credit Agreement and each of Medtronic, Inc. and Covidien has agreed to provide additional guarantees of such obligations following the consummation of the Pending Acquisition. IrSub is not currently planning to draw funds under the Cash Bridge Credit Agreement. Instead, IrSub expects to obtain intercompany loans on arm's length terms from certain Medtronic, Inc. affiliates using proceeds of the liquidation of cash equivalents by such Medtronic, Inc. affiliates. If IrSub draws loans under the Cash Bridge Credit Agreement, such loans would be expected to be repaid from the proceeds of intercompany loans on arm's length terms from certain Medtronic, Inc. affiliates using proceeds from the liquidation of cash equivalents by such Medtronic, Inc. affiliates.

The funding of the loans under each Credit Agreement (the Closing Date) is conditioned on, among other things, the consummation of the Pending Acquisition and the absence of certain events of defaults described in each Credit Agreement. The commitments under each Credit Agreement automatically terminate on the earliest of (a) the funding and disbursement of the loans to the borrower on the Closing Date, (b) the occurrence of certain mandatory cancellation events or (c) March 15, 2015 (or if all but certain conditions under the Transaction Agreement have been completed, one year after June 15, 2015).

For further information regarding the Pending Acquisition, see Note 3 to the condensed consolidated financial statements.

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.

Long-Term Debt

Long-term debt consisted of the following:

(in millions, except interest rates)	Maturity by Fiscal Year	Payable as of July 25, 2014	Payable as of April 25, 2014
4.750 percent ten-year 2005 senior notes	2016	$ 600	$ 600
2.625 percent five-year 2011 senior notes	2016	500	500
Floating rate three-year 2014 senior notes	2017	250	250
0.875 percent three-year 2014 senior notes	2017	250	250
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
3.625 percent ten-year 2014 senior notes	2024	850	850
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
4.625 percent thirty-year 2014 senior notes	2044	650	650
Interest rate swaps	2016 - 2022	71	56
Deferred gains from interest rate swap terminations	-	15	20
Capital lease obligations	2016 - 2025	136	139
Discount	2017 - 2044	(24)	(25)
Total Long-Term Debt		$ 10,323	$ 10,315

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 25, 2014. The Company used the net proceeds from the sale of the Senior Notes primarily for working capital and general corporate uses, which includes 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 25, 2014.

As of July 25, 2014, 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 classified as short-term borrowings, $600 million 4.750 percent 2005 Senior Notes, $500 million 2.625 percent 2011 Senior Notes, $500 million 4.125 percent 2011 Senior Notes, and $675 million 3.125 percent 2012 Senior Notes. 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 25, 2014 and April 25, 2014 was $7.306 billion and $8.051 billion, respectively. The aggregate currency exchange rate (losses) gains for the three months ended July 25, 2014 and July 26, 2013 were $(12) million and $3 million, respectively. These (losses) 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 (losses) gains on foreign currency denominated assets and liabilities.

The information that follows explains the various types of derivatives and financial instruments used by the Company, how and why the Company uses such instruments, how such instruments are accounted for, and how such instruments impact the Company's condensed consolidated balance sheets, 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 at July 25, 2014 and April 25, 2014, was $1.985 billion and $2.202 billion, respectively.

The amount and location of the (losses) gains in the condensed consolidated statements of earnings related to derivative instruments, not designated as hedging instruments, for the three months ended July 25, 2014 and July 26, 2013 are as follows:

(in millions)		**Three months ended**	
Derivatives Not Designated as Hedging Instruments	**Location**	**July 25, 2014**	**July 26, 2013**
Foreign currency exchange rate contracts	Other expense, net	$ (24)	$ 29

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 25, 2014 or July 26, 2013. 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 25, 2014 or July 26, 2013. 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 25, 2014 and April 25, 2014, was $5.321 billion and $5.849 billion, respectively, and will mature within the subsequent three-year period.

The amount of gains (losses) and location of the gains (losses) 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 25, 2014 and July 26, 2013 are as follows:

Three months ended July 25, 2014				
(in millions)	Gross Gains (Losses) Recognized in OCI on Effective Portion of Derivative	Effective Portion of Gains (Losses) on Derivative Reclassified from AOCI into Income		
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	
Foreign currency exchange rate contracts	$ 62	Other expense, net	$	2
		Cost of products sold		(3)
Total	$ 62		$	(1)

Three months ended July 26, 2013				
(in millions)	Gross Gains (Losses) Recognized in OCI on Effective Portion of Derivative	Effective Portion of Gains (Losses) on Derivative Reclassified from AOCI into Income		
Derivatives in Cash Flow Hedging Relationships	Amount	Location	Amount	
Foreign currency exchange rate contracts	$ (27)	Other expense, net	$	32
		Cost of products sold		(15)
Total	$ (27)		$	17

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. The effective portion of the gains or losses on the forward starting interest rate derivative instrument that is designated and qualifies as a cash flow hedge is reported as a component of *accumulated other comprehensive loss.* Beginning in the period in which the planned debt issuance occurs and the related derivative instrument is terminated, the effective portion of the gains or losses is then reclassified into *interest expense, net* over the term of the related debt. Any portion of the gains or losses that is determined to be ineffective is immediately recognized in interest expense, net. As of July 25, 2014, the Company had $250 million of fixed pay, forward starting interest rate swaps with a weighted average fixed rate of 2.83 percent in anticipation of planned debt issuances.

For both the three months ended July 25, 2014 and July 26, 2013, the Company reclassified $2 million of the effective portion of the net losses on forward starting interest rate derivative instruments from *accumulated other comprehensive loss* to *interest expense, net*.

The unrealized gain (loss) of outstanding forward starting interest rate swap derivative instruments as of July 25, 2014 was not significant and as of April 25, 2014 was $7 million. Unrealized gains (losses) of outstanding forward starting interest rate swap derivative instruments were recorded in *other assets* and *long-term liabilities,* with the offset recorded in *accumulated other comprehensive loss* in the condensed consolidated balance sheets.

As of July 25, 2014 and April 25, 2014, the Company had $(7) million and $(44) million, respectively, in after-tax net unrealized (losses) associated with cash flow hedging instruments recorded in *accumulated other comprehensive loss*. The Company expects that $6 million of after-tax net unrealized gains as of July 25, 2014 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.

Interest rate derivative instruments designated as fair value hedges are designed to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

The gains (losses) from terminated interest rate swap agreements are recorded in long-term debt, increasing (decreasing) the outstanding balances of the debt, and amortized as a reduction (addition) of interest expense, net over the remaining life of the

related 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.

As of both July 25, 2014 and April 25, 2014, 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 25, 2014, 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 classified as short-term borrowings, the $600 million 4.750 percent 2005 Senior Notes, the $500 million 2.625 percent 2011 Senior Notes, the $500 million 4.125 percent 2011 Senior Notes, and the $675 million 3.125 percent 2012 Senior Notes. 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 25, 2014.

The market value of outstanding interest rate swap agreements was a net $80 million unrealized gain and the market value of the hedged item was a net $80 million unrealized loss at July 25, 2014, which were recorded in *other assets, prepaid expenses and other current assets,* and *other long-term liabilities* with the offsets recorded in *long-term debt and short-term borrowings* 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 25, 2014 or July 26, 2013.

During the three months ended July 25, 2014 and July 26, 2013, 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 25, 2014 or July 26, 2013 on firm commitments that no longer qualify as fair value hedges.

Balance Sheet Presentation

The following tables summarize the location and fair value amounts of derivative instruments reported in the condensed consolidated balance sheets as of July 25, 2014 and April 25, 2014. 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 25, 2014

	Asset Derivatives		Liability Derivatives	
(in millions)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Interest rate contracts	Prepaid expenses and other current assets	$ 9	Other accrued expenses	$ —
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	72	Other accrued expenses	52
Interest rate contracts	Other assets	71	Other long-term liabilities	—
Foreign currency exchange rate contracts	Other assets	23	Other long-term liabilities	15
Total derivatives designated as hedging instruments		$ 175		$ 67
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	$ 1	Other accrued expenses	$ 1
Total derivatives not designated as hedging instruments		$ 1		$ 1
Total derivatives		$ 176		$ 68

April 25, 2014

	Asset Derivatives		Liability Derivatives	
(in millions)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Interest rate contracts	Prepaid expenses and other current assets	$ 13	Other accrued expenses	$ —
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	81	Other accrued expenses	84
Interest rate contracts	Other assets	73	Other long-term liabilities	11
Foreign currency exchange rate contracts	Other assets	8	Other long-term liabilities	30
Total derivatives designated as hedging instruments		$ 175		$ 125
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	$ —	Other accrued expenses	$ 2
Total derivatives not designated as hedging instruments		$ —		$ 2
Total derivatives		$ 175		$ 127

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 25, 2014		**Gross Amount Not Offset on the Balance Sheet**		
(in millions)	**Gross Amount of Recognized Assets (Liabilities)**	**Financial Instruments**	**Cash Collateral (Received) or Posted**	**Net Amount**
Derivative Assets				
Foreign currency exchange rate contracts	$ 96	$ (50)	$ —	$ 46
Interest rate contracts	80	(11)	—	69
	$ 176	$ (61)	$ —	$ 115
Derivative Liabilities				
Foreign currency exchange rate contracts	$ (68)	$ 61	$ —	$ (7)
	$ (68)	$ 61	$ —	$ (7)
Total	$ 108	$ —	$ —	$ 108

April 25, 2014		**Gross Amount Not Offset on the Balance Sheet**		
(in millions)	**Gross Amount of Recognized Assets (Liabilities)**	**Financial Instruments**	**Cash Collateral (Received) or Posted**	**Net Amount**
Derivative Assets				
Foreign currency exchange rate contracts	$ 89	$ (64)	$ —	$ 25
Interest rate contracts	86	(31)	—	55
	$ 175	$ (95)	$ —	$ 80
Derivative Liabilities				
Foreign currency exchange rate contracts	$ (116)	$ 84	$ —	$ (32)
Interest rate contracts	(11)	11	—	—
	$ (127)	$ 95	$ —	$ (32)
Total	$ 48	$ —	$ —	$ 48

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 25, 2014 April 25, 2014, no collateral was received or posted from its counterparties.

Global concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. However, a significant amount of trade receivables are with hospitals that are dependent upon governmental health care systems in many countries. The current economic conditions in many countries

outside the U.S. (particularly the economic challenges faced by Italy, Spain, Portugal, and Greece) 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 25, 2014 and April 25, 2014, the Company's aggregate accounts receivable balance for Italy, Spain, Portugal, and Greece, net of the allowance for doubtful accounts, was $619 million and $628 million, respectively. The Company continues to monitor the creditworthiness of customers located in these and other geographic areas. In the past, accounts receivable balances with certain customers in these countries have accumulated over time and were subsequently settled as large lump-sum payments. In the fourth quarter of fiscal year 2014, the Company received a $106 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 distributors, collectability is not reasonably assured for revenue transactions and the Company defers revenue recognition until all revenue recognition criteria are met. As of July 25, 2014 and April 25, 2014, the Company's deferred revenue balance for certain Greece distributors was $17 million and $15 million, respectively. As of July 25, 2014 and April 25, 2014, no one customer represented more than 10% 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 25, 2014	April 25, 2014
Finished goods	$ 1,235	$ 1,196
Work in process	283	247
Raw materials	318	282
Total	$ 1,836	$ 1,725

Note 11 – Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill for the three months ended July 25, 2014 are as follows:

(in millions)	Cardiac and Vascular Group	Restorative Therapies Group	Diabetes Group	Total
Balance as of April 25, 2014	$ 2,881	$ 6,368	$ 1,344	$ 10,593
Goodwill as a result of acquisitions	50	49	—	99
Other adjustments, net	(2)	—	—	(2)
Currency adjustment, net	5	1	—	6
Balance as of July 25, 2014	$ 2,934	$ 6,418	$ 1,344	$ 10,696

Balances of other intangible assets, net, excluding goodwill as of July 25, 2014 and April 25, 2014 are as follows:

(in millions)	Purchased Technology and Patents	Trademarks and Tradenames	Acquired IPR&D	Other	Total
Other intangible assets as of July 25, 2014:					
Original cost	$ 3,992	$ 408	$ 116	$ 190	$ 4,706
Accumulated amortization	(1,946)	(337)	—	(82)	(2,365)
Carrying value	$ 2,046	$ 71	$ 116	$ 108	$ 2,341
Other intangible assets as of April 25, 2014:					
Original cost	$ 3,857	$ 408	$ 119	$ 200	$ 4,584
Accumulated amortization	(1,878)	(332)	—	(88)	(2,298)
Carrying value	$ 1,979	$ 76	$ 119	$ 112	$ 2,286

Amortization expense for the three months ended July 25, 2014 and July 26, 2013 was $87 million and $86 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) Fiscal Year	Estimated Amortization Expense
Remaining 2015	$ 275
2016	331
2017	309
2018	293
2019	249
2020	204
Thereafter	564
Total estimated amortization expense	$ 2,225

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* in the 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 25, 2014 and July 26, 2013 consisted of the following:

	Three months ended	
(in millions)	July 25, 2014	July 26, 2013
Balance at the beginning of the period	$ 32	$ 35
Warranty claims provision	6	11
Settlements made	(7)	(8)
Balance at the end of the period	$ 31	$ 38

Note 13 – Interest Expense, Net

Interest income and interest expense for the three months ended July 25, 2014 and July 26, 2013 are as follows:

	Three months ended	
(in millions)	July 25, 2014	July 26, 2013
Interest income	$ (92)	$ (50)
Interest expense	97	90
Interest expense, net	$ 5	$ 40

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 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 on interest rate derivative instruments, amortization of terminated interest rate swap agreements, and the amortization of debt issuance costs and debt discounts.

Note 14 – Income Taxes

The Company's effective tax rates for the three months ended July 25, 2014 and July 26, 2013 were 19.6 percent and 17.3 percent, respectively. The increase in the Company's effective tax rate for the three months ended July 25, 2014 was primarily due to the tax impact of special charges, restructuring charges, net, acquisition-related items, and the expiration of the U.S. federal research and development tax credit on December 31, 2013, partially offset by the benefit from year-over-year changes in operational results by jurisdiction.

During the three months ended July 25, 2014, the Company's gross unrecognized tax benefits increased from $1.172 billion to $1.234 billion. In addition, the Company has accrued gross interest and penalties of $157 million as of July 25, 2014. If all of the Company's unrecognized tax benefits were recognized, approximately $1.138 billion would impact the Company's effective tax rate. The Company has recorded the gross unrecognized tax benefits 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 current or long-term *accrued income taxes* in the condensed consolidated balance sheets, as appropriate.

As of July 25, 2014, 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 25, 2014.

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:

	Three months ended	
(in millions, except per share data)	**July 25, 2014**	**July 26, 2013**
Numerator:		
Net earnings	$ 871	$ 953
Denominator:		
Basic – weighted average shares outstanding	992.6	1,009.7
Effect of dilutive securities:		
Employee stock options	7.5	6.6
Employee restricted stock units	5.0	4.8
Other	0.1	0.1
Diluted – weighted average shares outstanding	1,005.2	1,021.2
Basic earnings per share:	$ 0.88	$ 0.94
Diluted earnings per share:	$ 0.87	$ 0.93

The calculation of weighted average diluted shares outstanding excludes options for approximately 9 million shares of common stock for the three months ended July 26, 2013, respectively, because their effect would be anti-dilutive on the Company's earnings per share. For the three months ended July 25, 2014, there were no options that would have an anti-dilutive effect on the Company's earnings per share.

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 25, 2014 and July 26, 2013:

	Three months ended	
(in millions)	**July 25, 2014**	**July 26, 2013**
Stock options	$ 6	$ 8
Restricted stock awards	23	19
Employee stock purchase plan	5	4
Total stock-based compensation expense	$ 34	$ 31
Cost of products sold	$ 4	$ 3
Research and development expense	6	6
Selling, general, and administrative expense	24	22
Total stock-based compensation expense	$ 34	$ 31
Income tax benefits	(9)	(8)
Total stock-based compensation expense, net of tax	$ 25	$ 23

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 25, 2014 and July 26, 2013:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Post-Retirement Benefits	
	Three months ended		Three months ended		Three months ended	
(in millions)	**July 25, 2014**	**July 26, 2013**	**July 25, 2014**	**July 26, 2013**	**July 25, 2014**	**July 26, 2013**
Service cost	$ 26	$ 27	$ 15	$ 14	$ 5	$ 5
Interest cost	26	24	8	7	4	3
Expected return on plan assets	(39)	(35)	(10)	(9)	(6)	(5)
Amortization of net actuarial loss	16	21	3	2	—	—
Net periodic benefit cost	$ 29	$ 37	$ 16	$ 14	$ 3	$ 3

Note 18 – Accumulated Other Comprehensive Income (Loss)

Changes in AOCI by component are as follows:

(in millions)	Unrealized Gain (Loss) on Available-for-Sale Securities	Cumulative Translation Adjustments (a)	Net Change in Retirement Obligations	Unrealized Gain (Loss) on Derivatives	Total Accumulated Other Comprehensive (Loss) Income
Balance as of April 25, 2014, net of tax	$ (6)	$ 218	$ (765)	$ (44)	$ (597)
Other comprehensive income before reclassifications, before tax	107	1	4	55	167
Tax expense	(39)	—	—	(19)	(58)
Other comprehensive income before reclassifications, net of tax	68	1	4	36	109
Reclassifications, before tax	(21)	—	19	3	1
Tax benefit (expense)	7	—	(6)	(2)	(1)
Reclassifications, net of tax	(14) (b)	—	13 (c)	1 (d)	—
Other comprehensive income, net of tax	54	1	17	37	109
Balance as of July 25, 2014, net of tax	$ 48	$ 219	$ (748)	$ (7)	$ (488)

(in millions)	Unrealized Gain (Loss) on Available-for-Sale Securities	Cumulative Translation Adjustments (a)	Net Change in Retirement Obligations	Unrealized Gain (Loss) on Derivatives	Total Accumulated Other Comprehensive (Loss) Income
Balance as of April 26, 2013, net of tax	$ 97	$ 205	$ (852)	$ 58	$ (492)
Other comprehensive (loss) income before reclassifications, before tax	(131)	(5)	—	18	(118)
Tax benefit (expense)	48	—	—	(6)	42
Other comprehensive (loss) income before reclassifications, net of tax	(83)	(5)	—	12	(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)	(5)	14	2	(84)
Balance as of July 26, 2013, net of tax	$ 2	$ 200	$ (838)	$ 60	$ (576)

(a) Taxes are not provided on CTA as substantially all translation adjustments relate to earnings that are intended to be indefinitely reinvested outside the U.S.
(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.

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 August 26, 2014, plaintiffs had filed approximately 750 lawsuits against the Company in the U.S. state and federal courts, reflecting approximately 1,200 individual personal injury claims 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 estimates those law firms represent approximately 3,600 additional unfiled claimants. The Company recorded an expense of $140 million in fiscal year 2014, related to probable and reasonably estimated damages in connection with these matters.

Other INFUSE Litigation

On June 5, 2014, Humana, Inc. filed a lawsuit for unspecified monetary damages in the U.S. District Court for the Western District of Tennessee, alleging that Medtronic violated federal racketeering (RICO) law and various state laws, by conspiring with physicians to promote unapproved uses of INFUSE. The Company has not recorded an expense related to damages in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

Shareholder Related Matters

On March 12, 2012, Charlotte Kokocinski 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 *Kokocinski* case. On July 1, 2014, Road Carriers Local 707 Welfare & Pension Funds filed a shareholder derivative action in Hennepin County, Minnesota, District Court against the same defendants making allegations similar to those in the *Kokocinski, Himmel,* and *Saratoga Advantage Trust* cases. On July 24, 2014, Anne Shirley Cutler filed a shareholder derivative action in Hennepin County, Minnesota, District Court against certain of the same defendants making allegations similar to those in the *Kokocinski, Himmel,* and *Saratoga Advantage Trust* cases as well as allegations that defendants violated purported duties in connection with the Synchromed pain pump system.

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.

On July 2, 2014, Lewis Merenstein filed a putative shareholder class action in Hennepin County, Minnesota, District Court seeking to enjoin the potential acquisition of Covidien. The lawsuit names Medtronic, Covidien, and each member of the Medtronic board as defendants, and alleges that the directors breached their fiduciary duties to shareholders with regard to the potential acquisition. On August 21, 2014, Kenneth Steiner filed a putative shareholder class action in Hennepin County, Minnesota, District Court, also seeking an injunction to prevent the potential Covidien acquisition. On July 10, 2014, Richard Taxman filed a putative shareholder class action in the U.S. District Court for the District of Massachusetts also seeking to enjoin the potential acquisition, and naming Medtronic, Covidien, and the members of the Covidien board of directors as

defendants. On August 26, 2014, William Cobb filed a putative shareholder class action in Suffolk County Superior Court, Massachusetts, asserting claims similar to those asserted in *Taxman*. The Company has not recorded any 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's petition for certiorari to the U.S. Supreme Court was granted, and on January 22, 2014, the Supreme Court reversed the Federal Circuit's decision regarding the burden of proof. On March 11, 2014, the Federal Circuit affirmed the trial court's judgment of non-infringement. On August 6, 2014, Mirowski filed a petition for certiorari to the U.S. Supreme Court asking for further review of the Federal Circuit's affirmance. 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 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. The Company recorded an expense of $3 million in the first quarter of fiscal year 2015, related to probable and reasonably estimated damages in connection with this matter.

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 December 3, 2013, the Company received a subpoena for records from the U.S. 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.

Except as described above, 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, net, certain litigation charges, net, and acquisition-related items. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended April 25, 2014.

The Company operates under three reportable segments and three operating segments. The Company's Cardiac and Vascular Group consists of three businesses: Cardiac Rhythm & Heart Failure, Coronary & Structural Heart, and Aortic & Peripheral. 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:

	Three months ended	
(in millions)	**July 25, 2014**	**July 26, 2013**
Cardiac and Vascular Group	$ 2,254	$ 2,160
Restorative Therapies Group	1,603	1,554
Diabetes Group	416	369
Total Net Sales	$ 4,273	$ 4,083

	Three months ended	
(in millions)	**July 25, 2014**	**July 26, 2013**
Cardiac and Vascular Group	$ 712	$ 756
Restorative Therapies Group	410	421
Diabetes Group	120	75
Total Reportable Segments' Earnings Before Income Taxes	1,242	1,252
Special charges	—	(40)
Restructuring charges, net	(30)	(18)
Acquisition-related items	(41)	96
Interest expense, net	(5)	(40)
Corporate	(83)	(97)
Earnings Before Income Taxes	$ 1,083	$ 1,153

Geographic information

Net sales to external customers by geography are as follows:

	Three months ended	
(in millions)	**July 25, 2014**	**July 26, 2013**
United States	$ 2,333	$ 2,206
Europe and Canada	1,081	1,046
Asia-Pacific	649	656
Other Foreign	210	175
Total Net Sales	$ 4,273	$ 4,083

Certain prior period net sales to external customers by geography have been corrected to conform to the current period classification. These revisions are considered immaterial.

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

UNDERSTANDING OUR FINANCIAL INFORMATION

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Medtronic, Inc. and its subsidiaries (Medtronic or the Company). For a full understanding of financial condition and results of operations, you should read this discussion along with management's discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the year ended April 25, 2014. In addition, you should read this discussion along with our condensed consolidated financial statements and related notes thereto as of July 25, 2014.

Financial Trends

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

EXECUTIVE LEVEL OVERVIEW

Medtronic is the global leader in medical technology - alleviating pain, restoring health, and extending life for millions of people around the world. We develop, manufacture, and market our medical devices in more than 140 countries. Our primary products include those for cardiac rhythm disorders, cardiovascular disease, neurological disorders, spinal conditions and musculoskeletal trauma, urological and digestive disorders, diabetes, and ear, nose, and throat conditions.

We operate under three reportable segments and three operating segments, the Cardiac and Vascular Group (composed of the Cardiac Rhythm & Heart Failure, Coronary & Structural Heart, and Aortic & Peripheral businesses), the Restorative Therapies Group (composed of the Spine, Neuromodulation, and Surgical Technologies businesses), and the Diabetes Group. In the first quarter of fiscal year 2015, we realigned our Cardiac and Vascular Group businesses with a specific focus on comprehensive disease management. This change did not impact our reportable segments or operating segments. See Note 20 to the current period's condensed consolidated financial statements for additional discussion related to our segment reporting.

Net earnings for the first quarter of fiscal year 2015 were $871 million, or $0.87 per diluted share, as compared to net earnings of $953 million, or $0.93 per diluted share for the same period in the prior fiscal year, representing a decrease of 9 percent and 6 percent, respectively. The decrease in net earnings and diluted earnings per share compared to the same period in the prior fiscal year was primarily driven by the favorable change in fair value of contingent consideration payments in the prior year. Net earnings for the three months ended July 25, 2014 included restructuring charges, net and acquisition-related items that decreased net earnings by an aggregate of $63 million ($71 million pre-tax). Net earnings for the three months ended July 26, 2013 included after-tax special charges, restructuring charges, and acquisition-related items that increased net earnings by an

aggregate of $55 million ($38 million pre-tax). See further discussion of these items in the "Special Charges, Restructuring Charges, Net, and Acquisition-Related Items" section of this management's discussion and analysis.

The table below illustrates net sales by operating segment for the three months ended July 25, 2014 and July 26, 2013:

	Three months ended		
(dollars in millions)	July 25, 2014	July 26, 2013	% Change
Cardiac and Vascular Group	$ 2,254	$ 2,160	4%
Restorative Therapies Group	1,603	1,554	3
Diabetes Group	416	369	13
Total Net Sales	**$ 4,273**	**$ 4,083**	**5%**

Net sales for the three months ended July 25, 2014 were $4.273 billion, an increase of 5 percent compared to the same period in the prior fiscal year. Foreign currency translation had a favorable impact of $34 million on net sales for the three months ended July 25, 2014 compared to the same period in the prior fiscal year. Net sales growth was driven by a 4 percent increase in our Cardiac and Vascular Group, 3 percent increase in our Restorative Therapies Group, and 13 percent increase in our Diabetes Group compared to the same period in the prior fiscal year. The Cardiac and Vascular Group's performance for the three months ended July 25, 2014 was primarily a result of strong net sales in Low Power and AF and Other, solid growth in Structural Heart and Aortic & Peripheral, partially offset by declines in High Power and Coronary. Additionally, the Cardiac and Vascular Group's performance for the three months ended July 25, 2014 was favorably affected by new products and the August 2013 acquisition of Cardiocom and January 2014 acquisition of TYRX, Inc. (TYRX). The Restorative Therapies Group's performance for the three months ended July 25, 2014 was favorably impacted by strong growth in Neuromodulation and solid growth in Surgical Technologies, partially offset by declines in Spine, primarily driven by BMP (composed of INFUSE bone graft (InductOs in the European Union)) and Core Spine. The Diabetes Group's performance for the three months ended July 25, 2014 was due to strong net sales in the U.S driven by the ongoing launch of the MiniMed 530G System with Enlite Sensor as well as strong net sales in international markets driven by continued adoption and use of the Veo insulin pump with low-glucose suspend and Enlite continuous glucose monitoring (CGM) sensor. See our discussion in the "Net Sales" section of this management's discussion and analysis for more information on the results of our operating segments.

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

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.

In conjunction with the Pending Acquisition of Covidien, on June 15, 2014, Medtronic, Inc. entered into a senior unsecured bridge credit agreement (the Bridge Credit Agreement) among Medtronic, Inc., New Medtronic, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent. Under the Bridge Credit Agreement, Bank of America, N.A. has committed to provide Medtronic, Inc. with unsecured financing in an aggregate principal amount of up to $2.8 billion for a 364-day period from the date that any loans are funded under the Bridge Credit Agreement. The commitments are intended to be drawn to finance, in part, the cash component of the acquisition consideration and certain transaction expenses to the extent Medtronic, Inc. does not arrange for alternative financing prior to the consummation of the Pending Acquisition. New Medtronic has guaranteed the obligations of Medtronic, Inc. under the Bridge Credit Agreement. If Medtronic, Inc. draws loans under the Bridge Credit Agreement, it intends to refinance any debt incurred thereunder.

Medtronic, Inc. expects that it, New Medtronic and IrSub will require approximately an additional $13.2 billion in order to finance the remaining cash component of the acquisition consideration, excluding certain transaction expenses. Medtronic, Inc. expects that it, or its affiliates, will have cash equivalents in such amount available to it by the time of the consummation of the Pending Acquisition. In order to backstop the anticipated amount of cash on hand at the consummation of the Pending Acquisition, on June 15, 2014, IrSub entered into a senior unsecured cash bridge credit agreement (the Cash Bridge Credit Agreement and together with the Bridge Credit Agreement, the Credit Agreements) among IrSub, New Medtronic, the lenders from time to time party thereto and Bank of America as administrative agent. Under the Cash Bridge Credit Agreement, Bank of America, N.A. has committed to provide IrSub with unsecured financing in an aggregate principal amount of up to $13.5 billion for a 60-day period from the date that any loans are funded under the Cash Bridge Credit Agreement. New Medtronic has also guaranteed the obligations of IrSub under the Cash Bridge Credit Agreement and each of Medtronic, Inc. and Covidien has agreed to provide additional guarantees of such obligations following the consummation of the Pending Acquisition. IrSub is not currently planning to draw funds under the Cash Bridge Credit Agreement. Instead, IrSub expects to obtain intercompany loans on arm's length terms from certain Medtronic, Inc. affiliates using proceeds of the liquidation of cash equivalents by such Medtronic, Inc. affiliates. If IrSub draws loans under the Cash Bridge Credit Agreement, such loans would be expected to be repaid from the proceeds of intercompany loans on arm's length terms from certain Medtronic, Inc. affiliates using proceeds from the liquidation of cash equivalents by such Medtronic, Inc. affiliates.

The funding of the loans under each Credit Agreement (the Closing Date) is conditioned on, among other things, the consummation of the Pending Acquisition and the absence of certain events of defaults described in each Credit Agreement. The commitments under each Credit Agreement automatically terminate on the earliest of (a) the funding and disbursement of the loans to the borrower on the Closing Date, (b) the occurrence of certain mandatory cancellation events or (c) March 15, 2015 (or if all but certain conditions under the Transaction Agreement have been completed, one year after June 15, 2015).

For additional information concerning the Pending Acquisition, New Medtronic has filed with the Securities and Exchange Commission (the SEC) a registration statement on Form S-4 that includes the preliminary Joint Proxy Statement of Medtronic, Inc. and Covidien that also constitutes a preliminary Prospectus of New Medtronic. The registration statement is not complete and will be further amended. Medtronic and Covidien plan to mail to their respective shareholders the final Joint Proxy Statement/Prospectus (including the Arrangement) in connection with the transactions.

CRITICAL ACCOUNTING ESTIMATES

We have adopted various accounting policies to prepare the condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP). Our most significant accounting policies are disclosed in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 25, 2014.

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

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

Legal Proceedings

We are involved in a number of legal actions involving product liability, intellectual property disputes, shareholder derivative actions, securities class actions, and other class actions. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief (including injunctions barring the sale of products that are the subject of the lawsuit), that could require significant expenditures or result in lost revenues. In accordance with U.S. GAAP, we record a liability in our condensed consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible, but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the condensed consolidated financial statements. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete scientific facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties, fines, or punitive damages; or could result in a change in business practice. Our significant legal proceedings are discussed in Note 19 to the current period's condensed consolidated financial statements. While it is not possible to predict the outcome for most of the matters discussed in Note 19 to the current period's condensed consolidated financial statements, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position, or cash flows.

Tax Strategies

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

In the event there is a special charge, restructuring charge, certain litigation charge, net, and/or acquisition-related items recognized in our operating results, the tax cost or benefit attributable to that item is separately calculated and recorded. Because the effective rate can be significantly impacted by these discrete items that take place in the period, we often refer to our tax rate using both the effective rate and the non-GAAP nominal tax rate. The non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments. We believe this resulting non-GAAP

financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods. Investors should consider this non-GAAP measure in addition to, and not as a substitute for, financial performance measures prepared in accordance with U.S. GAAP. In addition, this non-GAAP financial measure may not be the same or similar to measures presented by other companies.

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

The Company's overall tax rate including the tax impact of restructuring charges, net and acquisition-related items resulted in an effective tax rate of 19.6 percent for the three months ended July 25, 2014. Excluding the impact of the restructuring charges, net and acquisition-related items for the three months ended July 25, 2014, our operational and tax strategies have resulted in a non-GAAP nominal tax rate of 19.1 percent versus the U.S. Federal statutory rate of 35.0 percent. An increase in our nominal tax rate of 1 percent would result in an additional income tax provision for the three months ended July 25, 2014 of approximately $12 million. See discussion of our tax rate and the tax adjustments in the "Income Taxes" section of this management's discussion and analysis.

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

When we acquire a business, the assets acquired, including IPR&D, and liabilities assumed are recorded at their respective fair values as of the acquisition date. Our policy defines IPR&D as the fair value of those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the fair value of intangible assets, including IPR&D, acquired as part of a business combination requires us to make significant estimates. These estimates include the amount and timing of projected future cash flows, the discount rate used to discount those cash flows to present value, the assessment of the asset's life cycle, and the consideration of legal, technical, regulatory, economic, and competitive risks. The fair value assigned to other intangible assets, including IPR&D, is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of measurement in accordance with accepted valuation standards.

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

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

Goodwill is the excess of the purchase price (consideration transferred) over the estimated fair value of net assets, including IPR&D, of acquired businesses. Goodwill is tested for impairment annually in the third quarter or whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows. Our estimates associated with the goodwill impairment test are considered critical due to the amount of goodwill recorded on our condensed consolidated balance sheets and the judgment required in determining fair value, including projected future cash flows. Goodwill was $10.696 billion and $10.593 billion as of July 25, 2014 and April 25, 2014, respectively.

Other intangible assets include patents, trademarks, purchased technology, and IPR&D (since April 25, 2009). Intangible assets with a definite life are amortized on a straight-line or accelerated basis, as appropriate, with estimated useful lives ranging from three to 20 years. IPR&D is tested for impairment annually in the third quarter and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. We review other definite-lived intangible assets for

impairment whenever events or circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. Our impairment reviews are based on an estimated future cash flow approach that requires significant judgment with respect to future revenue and expense growth rates, selection of appropriate discount rate, asset groupings, and other assumptions and estimates. We use estimates that are consistent with our business plans and a market participant view of the assets being evaluated. Actual results may differ from our estimates due to a number of factors including, among others, changes in competitive conditions, timing of regulatory approval, results of clinical trials, changes in worldwide economic conditions, and fluctuations in foreign currency exchange rates. These risk factors are discussed in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended April 25, 2014. Other intangible assets, net of accumulated amortization, were $2.341 billion and $2.286 billion as of July 25, 2014 and April 25, 2014, respectively.

Contingent consideration is recorded at the acquisition date at the estimated fair value of the contingent consideration for all acquisitions subsequent to April 24, 2009. The acquisition date fair value is measured based on the consideration expected to be transferred (probability-weighted), discounted back to present value. The discount rate used is determined at the time of measurement in accordance with accepted valuation methods. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within *acquisition-related items* in our condensed consolidated statements of earnings. Changes to the fair value of contingent consideration can result from changes in discount rates, the timing and amount of revenue estimates, or in the timing or likelihood of achieving the milestones which trigger payment. Using different valuation assumptions including revenue or cash flow projections, growth rates, discount rates, or probabilities of achieving the milestones result in different fair value measurements, future amortization expense, and expense in the current or future periods. Contingent consideration was $87 million and $68 million as of July 25, 2014 and April 25, 2014, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

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

ACQUISITIONS

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.

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.

On December 30, 2013, we acquired 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 our fiscal years 2015 and 2016.

NET SALES

The table below illustrates net sales by product line and operating segment for the three months ended July 25, 2014 and July 26, 2013:

(dollars in millions)	Three months ended July 25, 2014	July 26, 2013	% Change
High Power	$ 627	$ 655	(4)%
Low Power	525	474	11
AF & Other	104	64	63
CARDIAC RHYTHM & HEART FAILURE	1,256	1,193	5
Coronary	428	435	(2)
Structural Heart	338	313	8
CORONARY & STRUCTURAL HEART	766	748	2
AORTIC & PERIPHERAL	232	219	6
TOTAL CARDIAC & VASCULAR GROUP	2,254	2,160	4
Core Spine	552	563	(2)
Interventional Spine	81	78	4
BMP	110	124	(11)
SPINE	743	765	(3)
NEUROMODULATION	479	428	12
SURGICAL TECHNOLOGIES	381	361	6
TOTAL RESTORATIVE THERAPIES GROUP	1,603	1,554	3
DIABETES GROUP	416	369	13
TOTAL	$ 4,273	$ 4,083	5%

Net sales for the three months ended July 25, 2014 were favorably impacted by foreign currency translation of $34 million when compared to the same period of the prior fiscal year. The primary exchange rate movements that impacted our consolidated net sales growth was the U.S. dollar as compared to the Euro. The impact of foreign currency fluctuations on net sales was not indicative of the impact on net earnings due to foreign currency impact on operating costs and expenses and our hedging activities. See “Item 3 – Quantitative and Qualitative Disclosures About Market Risk”, Note 9 to the current period’s condensed consolidated financial statements, and our Annual Report on Form 10-K for the year ended April 25, 2014 for further details on foreign currency instruments and our related risk management strategies.

Cardiac and Vascular Group

The Cardiac and Vascular Group is composed of the Cardiac Rhythm & Heart Failure, Coronary & Structural Heart, and Aortic & Peripheral businesses. The Cardiac and Vascular Group's products, with a specific focus on comprehensive disease management, include pacemakers, insertable and external cardiac monitors, implantable defibrillators, leads and delivery systems, ablation products, electrophysiology catheters, products for the treatment of atrial fibrillation (AF), information systems for the management of patients with Cardiac Rhythm & Heart Failure devices, products designed to reduce surgical site infections, coronary and peripheral stents and related delivery systems, therapies for uncontrolled hypertension, endovascular stent graft systems, heart valve replacement technologies, cardiac tissue ablation systems, and open heart and coronary bypass grafting surgical products. The Cardiac and Vascular Group also includes Cardiocom and Cath Lab Managed Services (CLMS). The Cardiac and Vascular Group’s net sales for the three months ended July 25, 2014 were $2.254 billion, an increase of 4 percent compared to the same period in the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended July 25, 2014 of $22 million compared to the same period in the prior fiscal year. The Cardiac and Vascular Group’s performance for the three months ended July 25, 2014 was primarily a result of strong net sales in Low Power and AF and Other, solid growth in Structural Heart and Aortic & Peripheral, partially offset by declines in High Power and Coronary. Additionally, the Cardiac and Vascular Group’s performance for the three months ended July 25, 2014 was favorably affected by new products and the August 2013 acquisition of Cardiocom and January 2014 acquisition of TYRX. See the more detailed discussion of each business’s performance below.

Cardiac Rhythm & Heart Failure net sales for the three months ended July 25, 2014 were $1.256 billion, an increase of 5 percent compared to the same period in the prior fiscal year. Net sales of our High Power products for the three months ended July 25, 2014 decreased primarily due to net sales declines in the U.S. Net sales of our High Power products in the U.S. were impacted by declines in implant volumes. International net sales were flat compared to the same period in the prior fiscal year driven by the success of our Attain Performa quadripolar CRT-D system, offset by pricing pressures in certain international markets. Worldwide net sales of our Low Power products for the three months ended July 25, 2014 increased primarily driven by the strong ongoing global launch of Reveal LINQ insertable cardiac monitor. AF and Other net sales increased primarily due to the continued global acceptance of the Arctic Front Advance Cardiac CryoAblation Catheter (Arctic Front) system and net sales from the acquisition of Cardiocom and CLMS.

Coronary & Structural Heart net sales for the three months ended July 25, 2014 were $766 million, an increase of 2 percent compared to the same period in the prior fiscal year. Coronary net sales decreased primarily due to pricing pressures in the U.S., Western Europe, and India, partially offset by worldwide share gains in drug-eluting stents, driven by the continued strength of our Resolute Integrity drug-eluting coronary stent. We launched small vessel sizes of this product in Japan in the second quarter of fiscal year 2014. Structural Heart net sales increased primarily driven by strong execution on the ongoing U.S. launch of CoreValve transcatheter aortic heart valve. Growth was negatively affected by a difficult comparison in Germany, where customers made advanced purchases of CoreValve product during the first quarter of fiscal year 2014 in anticipation of the since resolved CoreValve injunction.

Aortic & Peripheral net sales for the three months ended July 25, 2014 were $232 million, an increase of 6 percent compared to the same period in the prior fiscal year. The increase in Aortic & Peripheral net sales for the three months ended July 25, 2014 was driven by strong sales of our Valiant Captivia Thoracic Stent Graft System, as well as the Endurant II Abdominal Aortic Aneurysm (AAA) Stent Graft System in Japan. For the three months ended July 25, 2014, growth was partially offset by the divestiture of a reentry catheter product line in the second quarter of fiscal year 2014, the removal of a peripheral below-the-knee product from the market, and increased competitive and pricing pressures in the U.S, Western Europe, and Japan.

Looking ahead, we expect our Cardiac and Vascular Group could be impacted by the following:

- Increasing competition, fluctuations in foreign currency, and continued pricing pressures.
- Continued acceptance and future growth from Reveal LINQ, our next-generation insertable cardiac monitor launched in international and U.S. markets in the third and fourth quarters of fiscal year 2014, respectively.
- Continued and future growth from the Arctic Front system, including the second generation Arctic Front Advance Cardiac Cryoballoon. The Arctic Front system is a cryoballoon indicated for the treatment of drug refractory paroxysmal atrial fibrillation. The cryoballoon treatment involves a minimally invasive procedure that efficiently creates circumferential lesions around the pulmonary vein, which studies have indicated is the source of erratic electrical signals that cause irregular heartbeat.
- Continued acceptance and future growth from the Viva/Brava family of CRT-D devices and the Attain Performa portfolio of quadripolar leads. The Viva/Brava family of CRT-D devices utilizes a new algorithm, called AdaptivCRT, which improves patients' response rates to CRT-D therapy by preserving the patients' normal heart rhythms and continually adapts to individual patient needs. Our Viva/Brava CRT-D devices received CE Mark approval in August 2012, received U.S. FDA approval in May 2013, and launched in Japan in the third quarter of fiscal year 2014. Paired with Viva/Brava Quad CRT-D, Attain Performa leads provide additional options for physicians to optimize patient therapy. Our Attain Performa quadripolar lead system received CE Mark approval in March 2013, launched in Japan in the third quarter of fiscal year 2014, and received U.S. FDA approval in August 2014.
- Integration of TYRX into the Cardiac and Vascular Group. TYRX was acquired in January 2014. We believe that this proprietary technology reduces infections that can result from device implants. Currently, we are leveraging this technology in the Cardiac Rhythm & Heart Failure business, and ultimately we intend to leverage this technology in other businesses such as Neuromodulation.
- Integration of Corventis into the Cardiac and Vascular Group. Corventis was acquired in June 2014.
- Continued acceptance and future growth from the Evera family of ICDs. The Evera family of ICDs has increased battery longevity, advanced shock reduction technology, and a contoured shape with thin, smooth edges that better fits inside the body. We received CE Mark approval for our Evera MRI SureScan ICD, the only ICD system approved for full-body MRI scans, late in the fourth quarter of fiscal year 2014.

- Continued acceptance and future growth from the Advisa DR MRI SureScan pacing system. The Advisa DR MRI SureScan is our second-generation MRI pacing system and is the first system to combine advanced pacing technology with proven MRI access. In the third quarter of fiscal year 2014, we received expanded labeling for full-body MRI scans from the U.S. FDA.
- Acceptance of Cardiocom's remote telemonitoring solutions business for the management of chronic diseases such as heart failure, diabetes, and hypertension. Cardiocom was acquired in August 2013. In the third quarter of fiscal year 2014, Cardiocom launched a readmission reduction program focused on minimizing heart failure readmission penalties for U.S. hospitals.
- Acceptance of our CLMS business. CLMS provides a unique service offering, whereby we enter into long-term contracts with hospitals, both within Europe and in certain other regions around the world, to upgrade and more effectively manage their cath lab and hybrid operating rooms.
- Continued acceptance of our CoreValve transcatheter heart valve technologies for the replacement of the aortic valve. We received U.S. FDA approval for our CoreValve transcatheter aortic heart valve for extreme risk patients in the U.S in the third quarter of fiscal year 2014. We received U.S. FDA approval for high risk patients in June 2014.
- Continued acceptance of the Resolute Integrity drug-eluting coronary stent and the Integrity bare metal stent. We launched small vessel sizes and longer lengths of our Resolute Integrity drug-eluting coronary stent in Japan during the second and third quarters of fiscal year 2014, respectively. The global stent market continues to experience pricing pressure resulting from government austerity programs and reimbursement cuts in Western Europe, Japan, and India.
- Continued worldwide growth of the Valiant Captivia Thoracic Stent Graft System. We received U.S. FDA approval of a dissection indication for the Valiant Captivia Thoracic Stent Graft System in January 2014.
- Continued and future acceptance of the Endurant II AAA Stent Graft System.

Restorative Therapies Group

The Restorative Therapies Group is composed of the Spine, Neuromodulation, and Surgical Technologies businesses. The Restorative Therapies Group includes products for various areas of the spine, bone graft substitutes, biologic products, trauma, implantable neurostimulation therapies and drug delivery systems for the treatment of chronic pain, movement disorders, obsessive-compulsive disorder (OCD), overactive bladder, urinary retention, fecal incontinence and gastroparesis, products to treat conditions of the ear, nose, and throat, systems that incorporate advanced energy surgical instruments, and products for surgical thermal ablation and thermal tumor therapy. Additionally, this group manufactures and sells image-guided surgery and intra-operative imaging systems. The Restorative Therapies Group's net sales for the three months ended July 25, 2014 were $1.603 billion, an increase of 3 percent compared to the same period in the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended July 25, 2014 of $8 million, compared to the same period in the prior fiscal year. The Restorative Therapies Group's performance for the three months ended July 25, 2014 was favorably impacted by strong growth in Neuromodulation and solid growth in Surgical Technologies, partially offset by declines in Spine, primarily driven by BMP and Core Spine. See the more detailed discussion of each business's performance below.

Spine net sales for the three months ended July 25, 2014 were $743 million, a decrease of 3 percent compared to the same period in the prior fiscal year. The decrease in Spine's net sales for the three months ended July 25, 2014 was primarily driven by declines in BMP and Core Spine, partially offset by growth in Interventional Spine. For the three months ended July 25, 2014, net sales for interventional spine grew 4%, primarily driven by our focus on market development strategies in the U.S., Germany, and Japan. Net sales in BMP for the three months ended July 25, 2014 declined 11 percent compared to the same period in the prior fiscal year, driven primarily by a reduction in usage of INFUSE bone grafts due to surgeon and patient selection, payer pushback, and the overall use of smaller kits. Core Spine net sales declined 2 percent for the three months ended July 25, 2014 compared to the same periods in the prior fiscal year, driven primarily by short-term pressure in the U.S. as a result of inventory rebalancing and the timing of new product launches. For the three months ended July 25, 2014, the U.S. Core Spine market was relatively flat.

Neuromodulation net sales for the three months ended July 25, 2014 were $479 million, an increase of 12 percent compared to the same period in the prior fiscal year. The increase in net sales for the three months ended July 25, 2014 was primarily due to strong global growth of our RestoreSensor SureScan MRI system, Gastroenterology & Urology Systems implants in the U.S., and our Activa deep brain stimulation (DBS) systems for movement disorders as a result of both continued referral development in the U.S. and international momentum from the EARLYSTIM data. Net sales of our SureScan MRI system demonstrate our continued strength in the market as we maintained market share leadership globally.

Surgical Technologies net sales for the three months ended July 25, 2014 were $381 million, an increase of 6 percent compared to the same period in the prior fiscal year. The increase in net sales for the three months ended July 25, 2014 was driven by continued worldwide net sales growth across the portfolio of ENT, Neurosurgery, and Advanced Energy. Growth for the three months ended July 25, 2014 was driven by strong growth of Midas Rex products, monitoring, and the Aquamantys Transcollation and PEAK PlasmaBlade technologies, as well as growth in CSF management and power systems. We completed the acquisition of Visualase at the end of Q1, adding a MRI-guided laser ablation technology to our broad suite of neuroscience solutions for neurosurgery.

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

- Changes in procedural volumes, competitive and pricing pressure, reimbursement challenges, impacts from changes in the mix of our product offerings, and fluctuations in foreign currency.
- Market acceptance and continued adoption of innovative new products, such as our Solera spine fixation system, BRYAN Cervical Artificial Disc, our other biologics products, including MagniFuse and Grafton products, and the PRESTIGE LP Cervical Artificial Disc, which received U.S. FDA approval subsequent to July 25, 2014.
- Market acceptance of premium balloon kyphoplasty (BKP) within Interventional Spine. We remain focused on communicating the clinical and economic benefits for BKP and will continue to tailor this product offering to meet market needs and respond to competitive challenges. We anticipate additional continued pricing pressures and competitive alternatives in the U.S. and European markets. Additionally, opportunities for growth exist in vertebroplasty and other vertebral compression fractures (VCF) treatments. We continue to evaluate global markets and specific therapies for ways to treat more patients with VCF.
- Acceptance of Kanghui's broad portfolio of trauma, spine, and large-joint reconstruction products focused on the growing global value segment.
- Adoption rates of stimulators and leads approved for full-body MRI scans to treat chronic pain in major markets around the world. Our European launch occurred in fiscal year 2013. Our launches in the U.S., Japan, and Australia occurred in fiscal year 2014.
- Continued acceptance of the non-MRI pain stimulators to treat chronic pain, including RestoreSensor, which is currently available in the U.S. and certain international markets. RestoreSensor is a neurostimulator for chronic pain that automatically adjusts to the patients' position changes.
- Resolution of issues with the U.S. FDA relating to our Neuromodulation business. In July 2012, we received a U.S. FDA warning letter regarding findings related primarily to our Neuromodulation corrective and preventative action (CAPA) and complaint handling processes. We are currently working with the U.S. FDA to resolve the issues. This warning letter may limit our ability to launch certain new Neuromodulation products in the U.S. until it is resolved.
- Continued and future acceptance of our current indications for Medtronic DBS Therapy for the treatment of movement disorders, epilepsy (approved in Europe), and OCD. The DBS Therapy portfolio includes Activa PC, our small and advanced primary cell battery, and Activa RC, a rechargeable DBS device.
- Continued acceptance of InterStim Therapy for the treatment of the symptoms of overactive bladder, urinary retention, and bowel incontinence. We launched InterStim Therapy for the treatment of the symptoms of bowel incontinence in Japan during the fourth quarter of fiscal year 2014.
- Continued growth from Advanced Energy products and strategies to focus on its four core markets of orthopedic, spine, breast surgery, and Cardiac Rhythm & Heart Failure replacements.
- Continued acceptance of the Surgical Technologies StealthStation S7 and O-Arm Imaging Systems.
- Continued acceptance and growth of intraoperative nerve monitoring during surgical procedures utilizing the NIM-Response 3.0 during head and neck surgical procedures. Additionally, continued growth in nerve monitoring utilizing the NIM Eclipse system during spinal surgical procedures.

Diabetes Group

The Diabetes Group products include insulin pumps, CGM systems, insulin pump consumables, and therapy management software. The Diabetes Group's net sales for the three months ended July 25, 2014 were $416 million, an increase of 13 percent over the same period in the prior fiscal year. Foreign currency translation had a $4 million favorable impact on net sales for the

three months ended July 25, 2014 compared to the same period in the prior fiscal year. The Diabetes Group's performance was primarily the result of 16 percent growth in the U.S. for the three months ended July 25, 2014 compared to the same period in the prior fiscal year. Growth in the U.S. was driven by the ongoing launch of the MiniMed 530G System with Enlite Sensor. Approval was obtained late in the second quarter of fiscal year 2014. Net sales in the international markets increased 9 percent for the three months ended July 25, 2014 compared to the same period in the prior fiscal year. The Diabetes Group's performance in international markets was favorably affected by the continued adoption and use of the Veo insulin pump with low-glucose suspend and Enlite CGM sensor.

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

- Potential risk of pricing pressures, reduction in reimbursement rates, and fluctuations in foreign currency.
- Changes in medical reimbursement policies and programs. Continued acceptance and improved reimbursement of CGM technologies.
- Continued acceptance from both physicians and patients of insulin-pump and CGM therapy.
- Continued and future growth of the MiniMed 530G System, available in the U.S., which includes the insulin pump and Enlite sensor. This is the first system in the U.S. that assists in protecting against the risk of hypoglycemia by automatically suspending insulin delivery when glucose falls below a specified threshold.
- We are working with the U.S. FDA to address its questions on the Diabetes quality system, included in its September 2013 warning letter. This warning letter may limit our ability to launch certain new diabetes products in the U.S. until it is resolved.
- Acceptance and future growth from our next-generation pump system the MiniMed 640G. We expect to launch the MiniMed 640G pump system in certain international markets beginning in the second quarter of fiscal year 2015.

COSTS AND EXPENSES

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

	Three months ended	
	July 25, 2014	July 26, 2013
Cost of products sold	25.9%	25.0 %
Research and development expense	8.5	8.8
Selling, general, and administrative expense	35.2	34.7
Special charges	—	1.0
Restructuring charges, net	0.7	0.4
Acquisition-related items	1.0	(2.4)
Amortization of intangible assets	2.0	2.1
Other expense, net	1.2	1.1
Interest expense, net	0.1	1.0

Cost of Products Sold

Cost of products sold as a percent of net sales was higher than our historical levels and increased 0.9 of a percentage point for the three months ended July 25, 2014 compared to the same period in the prior fiscal year. Cost of products sold as a percent of net sales in the three months ended July 25, 2014 was negatively impacted by unfavorable foreign currency, product mix shifts in Cardiac Rhythm and Heart Failure, and reduced reimbursement in Japan as a result of its biennial pricing adjustments. We continue to mitigate pricing pressure through our five-year $1.2 billion cost of products sold reduction program.

Research and Development

We have continued to invest in new technologies to drive future growth. Research and development expense for the three months ended July 25, 2014 was $365 million. For the three months ended July 25, 2014, research and development expense as a percent of net sales decreased 0.3 of a percentage point as compared to the same period in the prior fiscal year. The decrease in research and development expense as a percent of net sales for the three months ended July 25, 2014 was driven by higher net sales as a result of new product launches. Research and development expense remained relatively flat compared to the same period in the prior fiscal year.

Selling, General, and Administrative

Selling, general, and administrative expense for the three months ended July 25, 2014 was $1.506 billion. For the three months ended July 25, 2014, selling, general, and administrative expense as a percent of net sales increased 0.5 of a percentage point as compared to the same period in the prior fiscal year. This increase was primarily a result of investments to drive CoreValve sales and higher incentive payments due to performance of new product launches.

Special Charges, Restructuring Charges, Net, and Acquisition-Related Items

Special charges, restructuring charges, net, and acquisition-related items for the three months ended July 25, 2014 and July 26, 2013 were as follows:

	Three months ended	
(in millions)	July 25, 2014	July 26, 2013
Special charges	$ —	$ 40
Restructuring charges, net	30	18
Acquisition-related items	41	(96)
Net tax impact of special charges, restructuring charges, net, and acquisition-related items	(8)	(17)
Total special charges, restructuring charges, net, and acquisition-related items, net of tax	$ 63	$ (55)

Special Charges

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

Restructuring Charges, Net

Fiscal Year 2014 Initiative

The fiscal year 2014 initiative primarily related to our 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, we 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, we 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.

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

The fiscal year 2014 initiative is scheduled to be substantially complete by the end of the fourth quarter of fiscal year 2015 and is expected to produce annualized operating savings of approximately $60 to $75 million. These savings will arise mostly from reduced compensation expense.

Fiscal Year 2013 Initiative

The fiscal year 2013 initiative was designed to scale back our infrastructure in slower growing areas of our business, while continuing to invest in geographies, businesses, and products where we anticipate faster growth. 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, we 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, we 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 first quarter of fiscal year 2015, we 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.

Acquisition-Related Items

During the three months ended July 25, 2014, we recorded acquisition-related items of $41 million primarily due to costs incurred in connection with the pending Covidien acquisition.

During the three months ended July 26, 2013, we recorded net income from acquisition-related items of $96 million related to the change in fair value of contingent consideration associated with Ardian, Inc. (Ardian) acquisition.

Amortization of Intangible Assets

Amortization of intangible assets includes the amortization expense of our definite-lived intangible assets consisting of patents, trademarks, tradenames, purchased technology, and other intangible assets. For the three months ended July 25, 2014, amortization expense was $87 million, as compared to $86 million for the same periods of the prior fiscal year. For the three months ended July 25, 2014, the slight increase in amortization expense over the same period in the prior fiscal year of $1 million was primarily due to the second quarter fiscal year 2014 acquisition of Cardiocom and the third quarter fiscal year 2014 acquisition of TYRX, partially offset by reduced ongoing amortization expense from certain intangible assets that became fully amortized.

Other Expense, Net

Other expense, net includes royalty income and expense, realized equity security gains and losses, realized foreign currency transaction and derivative gains and losses, impairment charges on equity securities, the Puerto Rico excise tax, and the U.S. medical device excise tax. For the three months ended July 25, 2014, other expense, net was $51 million as compared to $44 million for the same period in the prior fiscal year. For the three months ended July 25, 2014, the net expense increased $7 million primarily due to the impact of foreign currency gains and losses, partially offset by gains on certain available-for-sale marketable equity securities. For the three months ended July 25, 2014, total foreign currency losses recorded in other expense, net were $9 million compared to gains of $18 million in the same period in the prior fiscal year.

Interest Expense, Net

Interest expense, net includes interest earned on our cash, cash equivalents, and investments, interest incurred on our outstanding borrowings, amortization of debt issuance costs and debt discounts, the net realized and unrealized gain or loss on trading securities, ineffectiveness on interest rate derivative instruments, amortization of terminated interest rate swap agreements, and the net realized gain or loss on the sale or impairment of available-for-sale debt securities. For the three months ended July 25, 2014, interest expense, net was $5 million, as compared to $40 million for the same period of the prior fiscal year. The decrease in interest expense, net during the three months ended July 25, 2014 was driven by an increase in interest income due to higher yielding investments earned on a higher investment balance as a result of changes in our investment strategy.

INCOME TAXES

(dollars in millions)	Three months ended July 25, 2014	Three months ended July 26, 2013
Provision for income taxes	$ 212	$ 200
Effective tax rate	19.6%	17.3%
Net tax impact of special charges, restructuring charges, net, and acquisition-related items	(0.5)	2.2
Non-GAAP nominal tax rate(1)	19.1%	19.5%

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

Our effective tax rate for the three months ended July 25, 2014 was 19.6 percent, compared to 17.3 percent for the three months ended July 26, 2013. The increase in our effective tax rate was primarily due to the tax impact of special charges, restructuring charges, net, acquisition-related items, and the expiration of the U.S. federal research and development tax credit on December 31, 2013, partially offset by the benefit from year-over-year changes in operational results by jurisdiction. Our non-GAAP nominal tax rate for the three months ended July 25, 2014 was 19.1 percent, compared to 19.5 percent for the three months ended July 26, 2013. The decrease in our non-GAAP nominal tax rate was primarily due to the year-over-year changes in operational results by jurisdiction, partially offset by the expiration of the U.S. federal research and development tax credit on December 31, 2013.

As of July 25, 2014, there were no changes to significant unresolved matters with the U.S. Internal Revenue Service or foreign tax authorities from what we disclosed in our Annual Report on Form 10-K for the year ended April 25, 2014.

See Note 14 to the condensed consolidated financial statements for additional information.

LIQUIDITY AND CAPITAL RESOURCES

(dollars in millions)	July 25, 2014	April 25, 2014
Working capital	$ 15,337	$ 15,651
Current ratio*	3.8:1.0	3.8:1.0
Cash, cash equivalents, and current investments	$ 13,962	$ 14,241
Less: Short-term borrowings and long-term debt	12,800	11,928
Net cash position**	$ 1,162	$ 2,313

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

** Net cash position is the sum of cash, cash equivalents, and current investments less short-term borrowings and long-term debt and excludes non-current investments that are not considered readily available to fund current operations.

As of July 25, 2014, we believe our strong balance sheet and liquidity provide us with flexibility for the future. We believe our existing cash and investments, as well as our $2.250 billion syndicated credit facility and related commercial paper program ($830 million of commercial paper outstanding as of July 25, 2014), will satisfy our foreseeable working capital requirements for at least the next 12 months. However, we periodically consider various financing alternatives and may, from time to time, seek to take advantage of favorable interest rate environments or other market conditions. We also generally expect to refinance current maturities of long-term debt. See Note 8 to the current period's condensed consolidated financial statements for additional information regarding the Company's long-term debt. At July 25, 2014, our Moody's ratings remain unchanged as compared to those at April 25, 2014 with a long-term debt rating of A2 and short-term debt rating of P-1. S&P Ratings Services' long-term debt rating and short-term debt rating remain unchanged at AA- and A-1+, respectively, as compared to the ratings at April 25, 2014. Subsequent to our announcement regarding our planned $42.9 billion acquisition of Covidien, on June 16, 2014, S&P Ratings Services placed Medtronic's long-term debt rating of AA- on CreditWatch, reflecting its expectation of a potential future one- or two- notch downgrade, as a result of the anticipated increase in net leverage, if the transaction is consummated. S&P Ratings Services also noted that they expect to lower Medtronic's short-term debt rating from A-1+ to A-1 if the transaction goes through as expected. We do not expect this CreditWatch to have a significant impact on our liquidity or future flexibility to access additional liquidity given our strong balance sheet, our syndicated credit facility and related

commercial paper program discussed above and within the “Debt and Capital” section of this management’s discussion and analysis, and the Bridge Credit Agreement and Cash Bridge Credit Agreement (Credit Agreements) entered into in June 2014. See the "Executive Level Overview - Pending Acquisition of Covidien plc" section of this management's discussion and analysis for additional information regarding our planned acquisition of Covidien and related Credit Agreements.

Our net cash position as of July 25, 2014, as defined above, decreased by $1,151 million as compared to April 25, 2014. The decrease was primarily related to the $750 million settlement payment made to Edwards Lifesciences Corporation (Edwards) on May 23, 2014.

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

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

A significant amount of our earnings occur outside the U.S., and are indefinitely reinvested in non-U.S. subsidiaries, resulting in a majority of our cash, cash equivalents, and investments being held by such non-U.S. subsidiaries. As of July 25, 2014 and April 25, 2014, approximately $13.914 billion and $13.968 billion, respectively, of cash, cash equivalents, and investments in marketable debt and equity securities were held by our non-U.S. subsidiaries. These funds are available for use by our non-U.S. operations. To fund a portion of the planned acquisition of Covidien, we expect to liquidate approximately $13.5 billion of these assets and lend the cash and cash equivalents on an arm's length, intercompany basis to the subsidiary of New Medtronic that will use that cash to effect the acquisition. We continue to be focused on goals to grow our business through increased globalization of the Company with emerging markets continuing to be a significant driver of potential growth. However, if these funds were repatriated to the U.S. or used for U.S. operations, the amounts would generally be subject to U.S. tax. As a result, we continue to accumulate earnings overseas for investment in operations outside the U.S. and to use cash generated from U.S. operations as well as short- and long-term borrowings to meet our U.S. cash needs. Should we require more capital in the U.S. than is generated by our U.S. operations, we could elect to repatriate earnings from our non-U.S. subsidiaries or raise additional capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, or other dilution of our earnings.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include U.S. government and agency securities, foreign government and agency securities, corporate debt securities, certificates of deposit, mortgage-backed securities, other asset-backed securities, debt funds, and auction rate securities. Some of our investments may experience reduced liquidity due to changes in market conditions and investor demand. Our auction rate security holdings continue to experience reduced liquidity due to low investor demand. Although our auction rate securities are currently illiquid and other securities could become illiquid, we believe we could liquidate a substantial amount of our portfolio without incurring a material impairment loss.

For the three months ended July 25, 2014, the total other-than-temporary impairment losses on available-for-sale debt securities were not significant. Based on our assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which we are invested, we believe we have recorded all necessary other-than-temporary impairments as we do not have the intent to sell, nor is it more likely than not that we will be required to sell, before recovery of cost. As of July 25, 2014, we have $58 million of gross unrealized losses on our aggregate short-term and long-term available-for-sale debt securities of $12.703 billion; if market conditions deteriorate, some of these holdings may experience other-than-temporary impairment in the future which could have a material impact on our financial results. Management is required to use estimates and assumptions in its valuation of our investments, which requires a high degree of judgment, and therefore, actual results could differ materially from those estimates. See Note 7 to the current period’s condensed consolidated financial statements for additional information regarding fair value measurements.

SUMMARY OF CASH FLOWS

(in millions)	Three months ended July 25, 2014	Three months ended July 26, 2013
Cash provided by (used in):		
Operating activities	$ 310	$ 983
Investing activities	(6)	(666)
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)

Operating Activities

Our net cash provided by operating activities was $310 million for the three months ended July 25, 2014 compared to $983 million for the three months ended July 26, 2013. The $673 million decrease in net cash provided by operating activities was primarily attributable to the $750 million settlement payment made to Edwards on May 23, 2014.

Investing Activities

Our net cash used in investing activities was $6 million for the three months ended July 25, 2014 compared to $666 million for the three months ended July 26, 2013. The $660 million decrease in net cash used in investing activities during the three months ended July 25, 2014 was primarily attributable to decreased net purchases of marketable securities compared to the same period in the prior fiscal year.

Financing Activities

Our net cash used in financing activities was $355 million for the three months ended July 25, 2014 compared to $422 million for the three months ended July 26, 2013. The $67 million decrease in net cash used in financing activities was primarily attributable to lower levels of common stock issuances under employee stock purchase and award plans partially offset by a slightly lower amount of common stock repurchases compared to the same period in the prior year.

OFF-BALANCE SHEET ARRANGEMENTS AND LONG-TERM CONTRACTUAL OBLIGATIONS

We acquire assets still in development, enter into research and development arrangements, and sponsor certain clinical trials that often require milestone and/or royalty payments to a third-party, contingent upon the occurrence of certain future events. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. In addition, if required by the arrangement, we may have to make royalty payments based on a percentage of sales related to the product under development or in the event that regulatory approval for marketing is obtained. In situations where we have no ability to influence the achievement of the milestone or otherwise avoid the payment, we have included those milestone or minimum royalty payments in the following table. However, the majority of these arrangements give us the discretion to unilaterally make the decision to stop development of a product or cease progress of a clinical trial, which would allow us to avoid making the contingent payments. Although we are unlikely to cease development if a device successfully achieves clinical testing objectives, these payments are not included in the table of contractual obligations because of the contingent nature of these payments and our ability to avoid them if we decided to pursue a different path of development or testing. See Note 3 to the current period's condensed consolidated financial statements for additional information regarding contingent consideration.

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

We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position, or cash flows. Presented below is a summary of contractual obligations and other minimum commercial commitments as of July 25, 2014. See Note 8 to the current period's condensed consolidated financial statements for additional information regarding long-term debt. Additionally, see Note 14 to the current period's condensed consolidated financial statements for additional information regarding accrued income tax obligations, which are not reflected in the table below.

		Maturity by Fiscal Year					
(in millions)	Total	Remaining 2015	2016	2017	2018	2019	Thereafter
Contractual obligations related to off-balance sheet arrangements:							
Operating leases[1]	$ 276	$ 91	$ 80	$ 46	$ 22	$ 12	$ 25
Inventory purchases[2]	171	102	57	6	—	—	6
Commitments to fund minority investments/contingent acquisition consideration[3]	550	68	53	151	41	40	197
Interest payments[4]	5,019	404	350	320	324	311	3,310
Other[5]	183	52	37	20	9	3	62
Total	$ 6,199	$ 717	$ 577	$ 543	$ 396	$ 366	$ 3,600
Contractual obligations reflected in the balance sheet:							
Long-term debt, including current portion[6]	$ 11,375	$ 1,250	$ 1,100	$ 500	$ 1,000	$ 400	$ 7,125
Capital leases	151	12	12	31	18	19	59
Total	$ 11,526	$ 1,262	$ 1,112	$ 531	$ 1,018	$ 419	$ 7,184

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

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

(3) Certain commitments related to the funding of cost or equity method investments and/or previous acquisitions are contingent upon the achievement of certain product-related milestones and various other favorable operational conditions, and estimated royalty obligations. While it is not certain if and/or when these payments will be made, the maturity dates included in this table reflect our best estimates.

(4) Interest payments in the table above reflect the contractual interest payments on our outstanding debt, and exclude the impact of the debt discount amortization and impact of interest rate swap agreements. See Note 8 to the current period's condensed consolidated financial statements for additional information regarding our debt agreements.

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

(6) Long-term debt in the table above includes the $2.000 billion of 2014 Senior Notes, $3.000 billion of 2013 Senior Notes, $1.075 billion of 2012 Senior Notes, $1.000 billion of 2011 Senior Notes, $3.000 billion of 2010 Senior Notes, $700 million of 2009 Senior Notes, and $600 million of 2005 Senior Notes. The table above excludes the debt discount, the fair value impact of outstanding interest rate swap agreements, and the unamortized gains from terminated interest rate swap agreements. See Notes 8 and 9 to the current period's condensed consolidated financial statements for additional information regarding the interest rate swap agreements.

On June 15, 2014, we entered into a Transaction Agreement relating to the Pending Acquisition of Covidien, as described above within the "Executive Overview - Pending Acquisition of Covidien plc" section of this management's discussion and analysis. Among other things the Transaction Agreement 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. For further information regarding the Pending Acquisition, see the "Executive Overview - Pending Acquisition of Covidien plc" section of this management's discussion and analysis.

DEBT AND CAPITAL

Our capital structure consists of equity and interest-bearing debt. Interest-bearing debt as a percentage of total interest-bearing debt and equity was 40 percent as of July 25, 2014 and 38 percent as of April 25, 2014.

Share Repurchase Program

As part of our focus on returning value to our shareholders, shares are repurchased from time to time. In June 2013, our Board of Directors authorized the repurchase 80 million shares of our common stock. During the three months ended July 25, 2014, we repurchased approximately 17.1 million shares at an average price per share of $62.45. As of July 25, 2014, we had approximately 42.4 million shares remaining under the current buyback authorization by our Board of Directors.

Financing Arrangements

We use a combination of bank borrowings and commercial paper issuances to fund our short-term financing needs. Short-term debt, including the current portion of our long-term debt and capital lease obligations, as of July 25, 2014, was $2.477 billion compared to $1.613 billion as of April 25, 2014. We utilize Senior Notes to meet our long-term financing needs. Long-term debt as of July 25, 2014 was $10.323 billion compared to $10.315 billion as of April 25, 2014. For more information on our financing arrangements, see Note 8 to the current period's condensed consolidated financial statements.

Credit Arrangements and Debt Ratings

We maintain a commercial paper program that allows us to have a maximum of $2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of July 25, 2014, outstanding commercial paper totaled $830 million. No amounts were outstanding as of April 25, 2014. During the three months ended July 25, 2014, the weighted average original maturity of the commercial paper outstanding was approximately 28 days, and the weighted average interest rate was 0.10 percent. The issuance of commercial paper reduces the amount of credit available under our existing lines of credit.

We have a $2.250 billion syndicated credit facility dated December 17, 2012, which expires on December 17, 2017 (Credit Facility). The Credit Facility provides backup funding for the commercial paper program and may also be used for general corporate purposes. The Credit Facility provides us with the ability to increase its borrowing capacity by an additional $750 million at any time during the term of the agreement. As of July 25, 2014 and April 25, 2014, no amounts were outstanding on the committed line of credit.

In conjunction with the Pending Acquisition of Covidien, on June 15, 2014, Medtronic, Inc. entered into a senior unsecured bridge credit agreement (the Bridge Credit Agreement) among Medtronic, Inc., New Medtronic, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent. Under the Bridge Credit Agreement, Bank of America, N.A. has committed to provide Medtronic, Inc. with unsecured financing in an aggregate principal amount of up to $2.8 billion for a 364-day period from the date that any loans are funded under the Bridge Credit Agreement. The commitments are intended to be drawn to finance, in part, the cash component of the acquisition consideration and certain transaction expenses to the extent Medtronic, Inc. does not arrange for alternative financing prior to the consummation of the Pending Acquisition. New Medtronic has guaranteed the obligations of Medtronic, Inc. under the Bridge Credit Agreement. If Medtronic, Inc. draws loans under the Bridge Credit Agreement, it intends to refinance any debt incurred thereunder.

Medtronic, Inc. expects that it, New Medtronic and IrSub will require approximately an additional $13.2 billion in order to finance the remaining cash component of the acquisition consideration, excluding certain transaction expenses. Medtronic, Inc. expects it, or its affiliates, will have cash equivalents in such amount available to it by the time of the consummation of the Pending Acquisition. In order to backstop the anticipated amount of cash on hand at the consummation of the Pending Acquisition, on June 15, 2014, IrSub entered into a senior unsecured cash bridge credit agreement (the Cash Bridge Credit Agreement and together with the Bridge Credit Agreement, the Credit Agreements) among IrSub, New Medtronic, the lenders from time to time party thereto and Bank of America as administrative agent. Under the Cash Bridge Credit Agreement, Bank of America, N.A. has committed to provide IrSub with unsecured financing in an aggregate principal amount of up to $13.5 billion for a 60-day period from the date that any loans are funded under the Cash Bridge Agreement. New Medtronic has also guaranteed the obligations of IrSub under the Cash Bridge Credit Agreement and each of Medtronic, Inc. and Covidien has agreed to provide additional guarantees of such obligations following the consummation of the Pending Acquisition. IrSub is not currently planning to draw funds under the Cash Bridge Credit Agreement. Instead, IrSub expects to obtain intercompany loans on arm's length terms from certain Medtronic, Inc. affiliates using proceeds of the liquidation of cash equivalents by such Medtronic, Inc. affiliates. If IrSub draws loans under the Cash Bridge Credit Agreement, such loans would be expected to be repaid from the proceeds of intercompany loans on arm's length terms from certain Medtronic, Inc. affiliates using proceeds from the liquidation of cash equivalents by such Medtronic, Inc. affiliates. See the "Executive Level Overview - Pending

Acquisition of Covidien plc" section of this management's discussion and analysis for additional information regarding our Pending Acquisition of Covidien and related Credit Agreements.

At July 25, 2014, our Moody's ratings remain unchanged as compared to those at April 25, 2014 with a long-term debt rating of A2 and short-term debt rating of P-1. S&P Ratings Services' long-term debt rating and short-term debt rating remain unchanged at AA- and A-1+, respectively, as compared to the ratings at April 25, 2014. Subsequent to our announcement regarding our planned $42.9 billion acquisition of Covidien, on June 16, 2014, S&P Ratings Services placed Medtronic's long-term debt rating of AA- on CreditWatch, reflecting its expectation of a potential future one- or two- notch downgrade, as a result of the anticipated increase in net leverage, if the transaction is consummated. S&P Ratings Services also noted that they expect to lower Medtronic's short-term debt rating from A-1+ to A-1 if the transaction goes through as expected. We do not expect this CreditWatch to have a significant impact on our liquidity or future flexibility to access additional liquidity given our strong balance sheet, our syndicated credit facility and related commercial paper program discussed above and within the "Liquidity and Capital Resources" section of this management's discussion and analysis, and the Credit Agreements entered into in June 2014.

For more information on credit arrangements, see Note 8 to the current period's condensed consolidated financial statements.

OPERATIONS OUTSIDE OF THE UNITED STATES

The table below illustrates U.S. net sales versus net sales outside the U.S. for the three months ended July 25, 2014 and July 26, 2013:

	Three months ended	
(in millions)	**July 25, 2014**	**July 26, 2013**
U.S. net sales	$ 2,333	$ 2,206
Non-U.S. net sales	1,940	1,877
Total net sales	$ 4,273	$ 4,083

For the three months ended July 25, 2014, consolidated net sales outside the U.S. increased 3 percent compared to the same period in the prior fiscal year. Foreign currency had a favorable impact of $34 million on net sales during the three months ended July 25, 2014. For the three months ended July 25, 2014, net sales growth outside of the U.S. was led by strong growth in Neuromodulation, Diabetes, AF and Other, Surgical Technologies, and Aortic & Peripheral, solid growth in Core Spine, and Interventional Spine, and favorable foreign currency, partially offset by slight declines in Structural Heart and Low Power. Structural Heart growth in Western Europe was negatively affected by a difficult comparison in Germany, where customers made advanced purchases of CoreValve product during the first quarter of fiscal year 2014 in anticipation of the since resolved CoreValve injunction.

Net sales outside the U.S. are accompanied by certain financial risks, such as changes in foreign currency exchange rates and collection of receivables, which typically have longer payment terms. We monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. However, a significant amount of our outstanding accounts receivable are with national health care systems in many countries. We continue to monitor the economic conditions in many countries outside the U.S. (particularly Italy, Spain, Portugal, and Greece) and the average length of time it takes to collect on our outstanding accounts receivable in these countries. As of July 25, 2014 and April 25, 2014, the aggregate accounts receivable balance for Italy, Spain, Portugal, and Greece, net of allowance for doubtful accounts, was $619 million and $628 million, respectively. We also continue to monitor the creditworthiness of customers located in these and other geographic areas. In the past, accounts receivable balances with certain customers in these countries accumulated over time and were subsequently settled as large lump sum payments. Although we do not currently foresee a significant credit risk associated with a material portion of these receivables, repayment is dependent upon the financial stability of the economies of those countries. For certain Greece customers, collectability is not reasonably assured for revenue transactions and we defer revenue recognition until all revenue recognition criteria are met. As of July 25, 2014 and April 25, 2014, our remaining deferred revenue balance for certain Greece distributors was $17 million and $15 million, respectively. Outstanding gross receivables from customers outside the U.S. totaled $2.370 billion as of July 25, 2014, or 62 percent of total outstanding accounts receivable, and $2.421 billion as of April 25, 2014, or 61 percent of total outstanding accounts receivable.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

This Quarterly Report on Form 10-Q, and other written reports and oral statements made by or with the approval of one of the Company's executive officers from time to time, may include "forward-looking" statements. Forward-looking statements broadly include our current expectations or forecasts of future results. Our forward-looking statements generally relate to our growth and growth strategies, financial results, product development and launches, research and development strategy,

regulatory approvals, competitive strengths, restructuring and cost-saving initiatives, intellectual property rights, litigation and tax matters, government investigations, mergers and acquisitions (including our pending acquisition of Covidien), divestitures, market acceptance of our products, accounting estimates, financing activities, ongoing contractual obligations, working capital adequacy, our effective tax rate, and sales efforts. Such statements can be identified by the use of terminology such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "looking ahead," "may," "plan," "possible," "potential," "project," "should," "will," and similar words or expressions. One must carefully consider forward-looking statements and understand that such statements may be affected by inaccurate assumptions and may involve a variety of risks and uncertainties, known and unknown, including, among others, risks related to competition in the medical device industry, reduction or interruption in our supply, quality problems, liquidity, decreasing prices, changes in applicable tax rates, adverse regulatory action, litigation results, self-insurance, commercial insurance, health care policy changes, international operations, inability to obtain approvals required to complete the pending acquisition of Covidien, and failure to complete the pending acquisition of Covidien or, if completed, failure to achieve the intended benefits of the acquisition or disruption of our current plans and operations, as well as those discussed in the sections entitled "Risk Factors" and "Government Regulation and Other Considerations" in our Annual Report on Form 10-K for the year ended April 25, 2014. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. We intend to take advantage of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statements, and are including this sentence for the express purpose of enabling us to use the protections of the safe harbor with respect to all forward-looking statements.

We undertake no obligation to update any statement we make, but investors are advised to consult all other disclosures by us in our filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q, and 8-K, in which we discuss in more detail various important factors that could cause actual results to differ from expected or historical results. In addition, actual results may differ materially from those anticipated due to a number of factors, including, among others, those discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended April 25, 2014. It is not possible to foresee or identify all such factors. As such, investors should not consider any list of such factors to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

We use operational and economic hedges, as well as currency exchange rate derivative instruments, to manage the impact of currency exchange rate fluctuations on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate fluctuations, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities. At inception of the contract, the derivative instrument 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. Fluctuations in the currency exchange rates of currency exposures that are unhedged, such as in certain emerging markets, may result in future earnings and cash flow volatility. We do not enter into currency exchange rate derivative instruments for speculative purposes.

The gross notional amount of all currency exchange rate derivative instruments outstanding at July 25, 2014 and April 25, 2014 was $7.306 billion and $8.051 billion, respectively. At July 25, 2014, these contracts were in an unrealized gain position of $29 million. A sensitivity analysis of changes in the fair value of all foreign currency exchange rate derivative contracts at July 25, 2014 indicates that, if the U.S. dollar uniformly strengthened/weakened by 10 percent against all currencies, the fair value of these contracts would increase/decrease by approximately $538 million. Any gains and losses on the fair value of derivative contracts would generally be offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis. We are also exposed to interest rate changes affecting our investments in interest rate sensitive instruments, which include our marketable debt securities, fixed-to-floating interest rate swap agreements, and forward starting interest rate swap agreements. A sensitivity analysis of the impact on our interest rate sensitive financial instruments of a hypothetical 10 basis point change in interest rates, compared to interest rates as of July 25, 2014, indicates that the fair value of these instruments would correspondingly change by $57 million.

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

For additional discussion of market risk, see Notes 6 and 9 to the current period's condensed consolidated financial statements.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

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

Changes in internal control over financial reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Issuer Purchases of Equity Securities

The following table provides information about the shares repurchased by the Company during the first quarter of fiscal year 2015:

Fiscal Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
4/26/2014-5/23/2014	5,037,661	$ 59.57	5,037,661	54,380,442
5/24/2014-6/27/2014	4,912,400	64.14	4,912,400	49,468,042
6/28/2014-7/25/2014	7,104,300	63.33	7,104,300	42,363,742
Total	17,054,361	$ 62.45	17,054,361	42,363,742

(1) In June 2013, the Company's Board of Directors authorized the repurchase of 80 million shares of the Company's common stock. As authorized by the Board of Directors our program expires when its total number of authorized shares has been repurchased.

Item 6. Exhibits

(a) Exhibits

2.1	Transaction Agreement, dated as of June 15, 2014, by and among Covidien public limited company, Medtronic, Inc., Kalani I Limited, Makani II Limited, Aviation Acquisition Co., Inc. and Aviation Merger Sub, LLC, incorporated herein by reference to Exhibit 2.1 to our Current Report on Form 8-K, filed with the Commission on June 16, 2014.
2.2	Appendix III to the Rule 2.5 Announcement (Conditions Appendix), incorporated herein by reference to Exhibit 2.2 to our Current Report on Form 8-K, filed with the Commission on June 16, 2014.
2.3	Expenses Reimbursement Agreement, dated as of June 15, 2014, by and between Covidien public limited company and Medtronic, Inc., incorporated herein by reference to Exhibit 2.3 to our Current Report on Form 8-K, filed with the Commission on June 16, 2014.
3.1	Medtronic, Inc. Amended and Restated Articles of Incorporation (as amended through August 25, 2014), incorporated herein by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed with the Commission on August 26, 2014.
3.2	Bylaws of Medtronic, Inc. (as amended through May 30, 2014), incorporated herein by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed with the Commission on June 2, 2014.
10.1	Senior Unsecured Bridge Credit Agreement, dated as of June 15, 2014, by and among Medtronic, Inc., Kalani I Limited, the lenders from time to time party thereto, and Bank of America, N.A., as administrative agent, incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Commission on June 18, 2014.
10.2	Senior Unsecured Cash Bridge Credit Agreement, dated as of June 15, 2014, by and among Makani II Limited, Kalani I Limited, the lenders from time to time party thereto, and Bank of America, N.A., as administrative agent, incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed with the Commission on June 18, 2014.
10.3	Medtronic, Inc. 2014 Employees Stock Purchase Plan
*10.4	Letter Agreement by and between Medtronic, Inc. and Bradley E. Lerman dated May 2, 2014
*10.5	Letter Agreement by and between Medtronic, Inc. and Hooman Hakami dated April 29, 2014
12.1	Medtronic, Inc. Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

*Exhibits that are management contracts or compensatory plans or arrangements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Medtronic, Inc.
(Registrant)

Date: August 29, 2014

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

Date: August 29, 2014

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

Exhibit 10.3

MEDTRONIC, INC.
2014 EMPLOYEES STOCK PURCHASE PLAN

1.Purpose of Plan. Medtronic, Inc. (hereinafter referred to as the "Company") proposes to grant to Employees of the Company and of certain of its Subsidiaries the opportunity to purchase common stock of the Company. Such common stock shall be purchased pursuant to this Plan, which is the MEDTRONIC, INC. 2014 EMPLOYEES STOCK PURCHASE PLAN (hereinafter referred to as the "Plan"). The Company intends that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended, and shall be construed in a manner consistent with the requirements of Section 423, or any successor provision, and the regulations thereunder. The Plan is intended to encourage stock ownership by all Employees of a Participating Employer, and to be an incentive to them to remain in its employ, improve operations, increase profits and contribute more significantly to the Company's success.

2.Definitions.

(a) "Board of Directors" shall mean the Company's Board of Directors.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Committee" shall mean three or more directors designated by the Board of Directors to administer the Plan under Paragraph 3 hereof, who are considered to be non-employee directors within the meaning of Rule 16b-3 of the Exchange Act.

(d) "Corporate Transaction" shall mean (i) a dissolution or liquidation of the Company, (ii) a sale of substantially all of the assets of the Company, (iii) a merger, consolidation or reorganization of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or (iv) a statutory share exchange or consolidation (or similar corporate transaction) involving capital stock of the Company.

(e) "Employee" shall mean any individual who, as of the eligibility date established under Paragraph 5 hereof, is classified as a regular employee, of the Company or a Participating Employer; provided, however, that classification of regular employee shall not exclude any employee that would not be permitted to be excluded from the Plan under Section 423 of the Internal Revenue Code. If a person is not considered to be a regular employee of the Company or a Participating Employer in accordance with the preceding sentence, a subsequent determination by the Company, a Participating Employer, any governmental agency, or a court that the person is a common law employee of the Company or a Participating Employer, even if such determination is applicable to prior years, will not have a retroactive effect for purposes of eligibility to participate in the Plan.

(f) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(g) "Internal Revenue Code" shall mean the U.S. Internal Revenue Code of 1986, as amended.

(h) "Participant" shall mean an Employee who has elected to participate in the Plan.

(i) "Participating Employer" shall mean Medtronic, Inc. and all of its Subsidiaries (or any of their successors and assigns, by merger, purchase or otherwise, that thereby become

Subsidiaries), except for those Subsidiaries that Medtronic, Inc. elects from time to time, by resolution duly adopted by its Board of Directors, the Committee or the Committee's delegate pursuant to Paragraph 3 hereof, to be ineligible to participate in this Plan.

(j) "Purchase Period" shall mean a period during which Participants are eligible to purchase shares of the Company's common stock according to the terms of the Plan. Purchase Periods shall be calendar quarters with the first such quarterly Purchase Period commencing January 1, 2015 and terminating March 31, 2015, and succeeding quarterly Purchase Periods following consecutively thereafter.

(k) "Rate of Exchange" shall mean the Rate of Exchange used by the Company to record transactions on its financial records each month in which the payroll deductions or refunds are processed.

(l) "Salary" shall mean the amount paid during the applicable Purchase Period by the Participating Employer to or for the Participant as cash compensation, including, without limitation, sales commissions, formula bonus and short-term incentive plan payments, overtime, Salary continuation payments and sick pay. Salary shall be calculated before deduction of (A) any income or employment tax withholdings or (B) any contributions made by the Participant to any Code Section 401(k) salary deferral plan or Code Section 125 cafeteria benefit program now or hereafter established by the Company or any Participating Employer. Salary shall not include any contributions made on the Participant's behalf by the Company or any Participating Employer to any employee benefit or welfare plan now or hereafter established (other than Code Section 401(k) or Code Section 125 contributions deducted from such Salary).

(m) "Subsidiary" shall mean any corporation in the chain of corporations defined as a subsidiary of the Company in Section 424(f) of the Internal Revenue Code or any successor provision.

(n) "Termination of Employment" shall mean an Employee's complete termination of employment with Medtronic, Inc. and all of its Subsidiaries. In the event that any Subsidiary of Medtronic, Inc. ceases to be a Subsidiary of Medtronic, Inc., the Employees of such Subsidiary shall be considered to have terminated their employment as of the date such Subsidiary ceases to be a Subsidiary, whether or not they continue in employment with such former Subsidiary.

3.Administration. The Committee shall administer the Plan. Subject to the express provisions of the Plan, the Committee shall have full authority, in its discretion, to interpret and construe any and all provisions of the Plan, to adopt rules and regulations for administering the Plan, and to make all other determinations deemed necessary or advisable for administering the Plan. The Committee's determination on the foregoing matters shall be conclusive. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted or stock issued under the Plan.

The Board of Directors shall fill all vacancies on the Committee and may remove any member of the Committee at any time, with or without cause. All determinations of the Committee shall be made by a majority vote of its members. Any decision which is made in writing and signed by a majority of the members of the Committee shall be effective as fully as though made by a majority vote at a meeting duly called and held.

4.Duration And Purchase Periods Of The Plan. The Plan will commence as of January 1, 2015, and will terminate ten (10) years thereafter, unless extended by the Board of Directors. Notwithstanding the foregoing, this Plan shall be considered of no force or effect and any options granted hereunder shall be considered null and void unless the

holders of a majority of all of the issued and outstanding shares of the common stock of the Company approve the Plan within the twelve (12) consecutive month period immediately preceding or following the date of adoption of the Plan by the Board of Directors.

The Plan shall be carried out in a series of consecutive calendar quarters with the first such quarterly Purchase Period commencing January 1, 2015, and ending March 31, 2015. Each Purchase Period shall commence immediately after termination of the previous Purchase Period. In the event that all of the stock reserved for grant of options hereunder is issued pursuant to the terms hereof prior to the commencement of one or more of the scheduled Purchase Periods, or the number of shares remaining for optioning is so small, in the opinion of the Committee, as to render administration of any succeeding Purchaser Period impracticable, such Purchase Period or Purchase Periods may be canceled. Notwithstanding anything in the Plan to the contrary, the Board of Directors, the Committee or the Committee's delegate pursuant to Paragraph 3 hereof may, in its, her or his discretion, designate a different commencement date for a Purchase Period.

5.Eligibility. Each Employee who is employed by a Participating Employer immediately preceding the commencement date of a Purchase Period shall be eligible to participate in the Plan for such Purchase Period, provided that he or she has satisfied the enrollment requirements described in Paragraph 6.

6.Participation. Participation in the Plan is voluntary. An eligible Employee may elect to participate in the Plan for any Purchase Period by completing the Plan payroll deduction form provided by his or her Participating Employer and delivering it to the Participating Employer or its designated representative not later than the date preceding the commencement date of the Purchase Period specified by the Senior Vice President, Chief Human Resources Officer of the Company (or such other individual as may be designated by the Committee), which form shall comply with the requirement of Section 423(b)(5) of the Code that all Employees who elect to participate in the Plan shall have the same rights and privileges. All forms under the Plan may be paper and/or electronic in nature.

An Employee who elects to participate in the Plan for any Purchase Period shall be deemed to have elected to participate in the Plan for each subsequent consecutive Purchase Period unless such Participant elects to discontinue payroll deductions during a Purchase Period or exercises his or her right to withdraw all amounts previously withheld as provided in Paragraph 9(a). In this event, the Participant must submit a change of election form or a new payroll deduction form, as the case may be, to participate in the Plan for any subsequent Purchase Period. The Participant may also increase his or her participation for any subsequent Purchase Period by submitting a new payroll deduction form during the enrollment period prior to that Purchase Period.

7.Payroll Deductions.

(a) Each Employee electing to participate shall indicate such election on the Plan payroll deduction form by designating that percentage of his or her Salary that he or she wishes to have deducted. Such percentage shall be stated in whole percentage points and shall be not less than two percent (2%) nor more than ten percent (10%) of the Participant's Salary, or such other minimum and maximum percentages as the Committee or Senior Vice President, Chief Human Resources Officer (or such other individual as may be designated by the Committee), may establish from time to time prior to the start date of a Purchase Period, but not to exceed fifteen percent (15%).

Payroll deductions for a Participant shall commence on the first payday coinciding with or immediately following the commencement date of the Purchase Period and shall terminate on the last payday immediately prior to or coinciding with the termination date of that Purchase Period, unless

sooner terminated by the Participant as provided in Paragraphs 7(b) or 9 hereof. The authorized deductions shall be made over the pay periods of such Purchase Period by deducting from the Participant's Salary for each such pay period that percentage as specified by the Participant as of the commencement date of the Purchase Period. Except for a Participant's rights to reduce or discontinue deductions pursuant to Paragraphs 7(b) and 9 hereof, the same percentage deduction shall be applied against the Participant's Salary for each pay period during such Purchase Period, whether or not the Participant's Salary level increases or decreases after the commencement date of such Purchase Period.

The extent to which a Participant may actually exercise his or her option shall be based upon the amount actually withheld for such Participant as of the termination date of the Purchase Period.

(b) A Participant shall not be entitled to increase the percentage amount to be deducted in a given Purchase Period after the delivery deadline specified in Paragraph 6 for filing his or her payroll deduction form. The Participant may elect at any time prior to or during a Purchase Period to decrease the percentage amount to be so deducted or discontinue any further deductions in a given Purchase Period by filing an amended election form at least ten (10) days prior to the first payroll date as of which such decrease or discontinued deduction is to become effective, or such other date as determined by the Committee or Senior Vice President, Human Resources (or such other individual as may be designated by the Committee) prior to the start date of a Purchase Period. In the event of such a decrease or discontinuance of deductions, the extent to which such Participant may exercise his or her option as of the termination date of the Purchase Period shall depend upon the amount actually withheld through payroll deductions for such Participant. A Participant may also completely discontinue participation in the Plan as provided in Paragraph 9 hereof.

(c) Payroll deductions which are authorized by Participants who are paid compensation in foreign currency shall be maintained in payroll deduction accounts (as provided in Paragraph 11) in the country in which such Participant is employed until exercise of the option. Upon exercise of the option granted to such Participant, the amount so withheld shall be used to purchase up to the maximum number of shares of stock which is subject to that Participant's option pursuant to Paragraph 8(a)(i) below, determined on the basis of the Rate of Exchange for currency as of the exercise date. Upon exercise of the option, the option price shall be paid to the Company in dollars after having been converted at the Rate of Exchange as of the exercise date, and the extent to which the Participant may exercise his or her option is dependent, in part, upon the Rate of Exchange as of such date.

8.Options.

(a) **Grant of Option**.

(i) **Number Of Shares.** A Participant who is employed by the Participating Employer as of the commencement date of a Purchase Period shall be granted an option at termination date of that Purchase Period to purchase that number of whole shares of common stock of the Company by dividing the total amount actually credited to that Participant's account under Paragraph 7 hereof by the option price set forth in Paragraph 8(a)(ii), provided such option shall be subject to the limitations in Paragraph 8(a)(iv).

(ii) **Option Price.** The option price per share for such common stock shall be eighty-five percent (85%) of the fair market value per share of such common stock on the termination date of the Purchase Period.

(iii) **Fair Market Value.** The fair market value of the Company's common stock on such date (or the last preceding business day if such date is a Saturday, Sunday or holiday) shall be computed as follows:

A. If the Company's common stock shall be listed on any national securities exchange, then such price shall be computed on the basis of the closing sale price of the common stock on such exchange on such date, or, if no sale of the common stock has occurred on such exchange on that date, on the next preceding date on which there was a sale of the common stock;

B. If the common stock shall not be so listed, then such price shall be the mean between the highest bid and asked prices quoted by a recognized market maker in the common stock on such date; or

C. If the common stock shall not be so listed and such bid and asked prices shall not be so quoted, then such price shall be determined by an investment banking firm acceptable to the Company.

(iv) **Limitations On Purchase.** Anything herein to the contrary notwithstanding:

A. A Participant shall not have the right to purchase common stock under all employee stock purchase plans of the Company, its Subsidiaries or its parent, if any, at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) of fair market value of such stock as determined at the time such option is granted (which is equal to $21,250 of stock at 85% of fair market value on the termination date of the Purchase Period) for each calendar year in which such option is outstanding at any time.

B. No Employee shall be granted an option if, immediately after the grant, such Employee would own stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company, its parent, if any, or of any Subsidiary of the Company. For purposes of determining stock ownership under this subparagraph (B), the rules of Section 424(d) of the Internal Revenue Code, or any successor provision, shall apply, and stock that the Employee may purchase under outstanding options shall be treated as stock owned by the Employee.

C. The Committee may, in its discretion, limit the number of shares available for option grants during any Purchase Period, as it deems appropriate.

(b) **Exercise of Option.** Except as otherwise specified in Paragraph 9, the Participant's option for the purchase of such number of shares of common stock as determined pursuant to Paragraph 8(a) will be exercised automatically for him or her as of the termination date of that Purchase Period. In no event shall a Participant be allowed to exercise his or her option for more shares than can be purchased with the payroll deductions actually credited to his or her account during such Purchase Period, whether or not the deductions actually credited are less than the full amount to be credited as determined on the commencement date of the Purchase Period pursuant to Paragraph 7(a) hereof, it being intended that the sufficiency of amounts actually credited to a Participant's account be a condition to the exercise of the option by such Participant.

(i) Fractional shares of common stock will not be issued under the Plan. For Participants who use their funds to purchase the maximum amount of stock permissible at the end of a Purchase Period, any cash amount that remains in the Participant's account because it is insufficient to purchase a whole share of common stock shall be held in the account until the exercise date of the next subsequent Purchase Period, at which time it will be included in the funds used to purchase common stock for that Purchase Period, except as set forth in

Paragraph 9 or the Committee, in its discretion, elects to pay out such cash amount to Participants.

(ii) Upon issuance of the common stock to the Participant at the end of a Purchase Period, the dividends payable on such stock will be automatically reinvested in the Company's common stock under the Medtronic, Inc. Dividend Reinvestment Plan (the "DRP") unless the Committee, in its discretion, determines otherwise. The Participant has the right, upon written notice to the Company's designated agent, to elect instead to receive the dividends directly by check.

(c) **Issuance And Delivery Of Stock.** As promptly as practicable after the termination date of any Purchase Period, the Company will issue the stock purchased under the Plan. The Company may determine, in its discretion, the manner of delivery of common stock purchased under the Plan, which may be by electronic account entry into new or existing accounts, delivery of stock certificates or such other means as the Company, in its discretion, deems appropriate. The Company may, in its discretion, hold such stock on behalf of the Participants during the restricted period set forth in Paragraph 8(d) below.

(d) **Restrictions On Resale Or Transfer Of Stock.** Shares of common stock acquired by a Participant hereunder may not be sold or transferred until after the earlier of: (1) the one-year anniversary of the date on which the shares were issued; or (2) the death of the Participant. Notwithstanding the preceding sentence, the Committee may require that the Participant not transfer such shares for any additional period determined by the Committee to be necessary to ensure that the Company or any Participating Employer is able to meet its reporting requirements pursuant to Section 423 of the Internal Revenue Code.

Any attempt by the Participant to sell or transfer such shares in violation of this Paragraph 8(d) shall be considered null and void and of no force or effect. During such restricted transfer period, each certificate and account evidencing such shares of common stock shall bear an appropriate legend or stop transfer order, respectively, referring to the terms, restrictions and conditions applicable to the transfer of such shares.

9.Withdrawal Or Termination Of Participation.

(a) **Withdrawal.** A Participant may, preceding the termination date of a Purchase Period, withdraw all payroll deductions then credited to his or her account by giving written notice to his or her Participating Employer. Upon receipt of such notice of withdrawal, all payroll deductions credited to the Participant's account will be paid to him or her and no further payroll deductions will be made for such Participant during that Purchase Period. In such case, no option shall be granted the Participant under that Purchase Period. Partial withdrawals of payroll deductions may not be made. In order to be effective, this notice must be provided to the Participating Employer by the date during the Purchase Period specified by the Senior Vice President, Chief Human Resources Officer (or such other individual as may be designated by the Committee).

(b) **Termination Of Employment.** If a Participant's employment shall be terminated for any reason prior to the termination date of any Purchase Period in which he or she is participating, no option shall be granted to such Participant under the Plan and the payroll deductions credited to his or her account shall be returned to him or her.

(c) **Death.** If the Participant dies before the termination date of any Purchase Period of the Plan in which he or she is participating, the payroll deductions credited to the Participant's account shall be paid to the Participant's estate.

10.Stock Reserved For Options.

(a) Twenty-two million (22,000,000) shares of common stock of the Company, ten cents ($.10) par value per share (or the number and kind of securities to which such shares may be adjusted in accordance with Paragraph 12), are reserved for issuance upon the exercise of options granted under the Plan. Shares subject to the unexercised portion of any lapsed or expired option may again be subject to option under the Plan.

(b) If, as of the beginning of a Purchase Period, the total number of shares of common stock for which options are to be granted for the Purchase Period exceeds the number of shares then remaining available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding) and if the Committee does not elect to cancel such Purchase Period pursuant to Paragraph 4, the Committee shall make a pro rata allocation of the shares remaining available in as nearly a uniform and equitable manner as practicable. In such event, the payroll deductions to be made pursuant to the Plan that would otherwise become effective on such commencement date shall be reduced accordingly. The Committee shall give written notice of such reduction to each Participant affected.

(c) The Participant (or, if permitted pursuant to Paragraph 10(d) hereof, the joint tenant named thereunder) shall have no rights as a shareholder with respect to any shares subject to the Participant's option until the date of issuance of such shares to such Participant. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the issuance date of such stock, except as otherwise provided pursuant to Paragraph 12.

(d) The shares of common stock to be delivered to a Participant pursuant to the exercise of an option under the Plan will be registered in the name of the Participant or, if the Committee permits and the Participant so directs by written notice to the Committee prior to the termination date of that Purchase Period of the Plan, in the names of the Participant and one other person as joint tenants with rights of survivorship, to the extent permitted by law. Any shares of stock so registered in the names of the Participant and his or her joint tenant shall be subject to any applicable restrictions on the right to transfer such shares during such Participant's lifetime as otherwise provided in Paragraph 8 hereof.

11. Accounting And Use of Funds. Payroll deductions for each Participant shall be credited to an account established under the Plan. A Participant may not make any separate cash payments into such account. Such account shall be solely for bookkeeping purposes and no separate fund or trust shall be established hereunder. All funds from payroll deductions received or held by the Participating Employers under the Plan may be used, without limitation, for any corporate purpose by the Participating Employers who shall not be obligated to segregate such funds. Such accounts shall not bear interest.

12. Adjustment Provision. Subject to any required action by the shareholders of the Company, in the event that (i) the issued and outstanding shares of common stock of the Company are changed into or exchanged for a different number or kind of shares or securities of the Company or of another issuer, (ii) additional shares or new or different securities are distributed with respect to the outstanding shares of the common stock of the Company, through a reorganization or merger to which the Company is a party, or through a combination, consolidation, recapitalization, reclassification, stock split, stock dividend, reverse stock split, spin-off transaction, stock consolidation or other capital change or adjustment, effected without receipt of consideration by the Company, or (iii) should the value of outstanding shares of Common Stock be substantially reduced as a result of a spin-off transaction or an extraordinary dividend or distribution, then equitable adjustments shall automatically be made to (a) the maximum number and class of securities issuable under the Plan, (b) the number and class of securities and the price per share in effect under each outstanding option, and (c) the maximum number and

class of securities purchasable by each Participant (or, in total by all Participants if any such limitation is in effect) under the Plan on any one purchase date.

In the event of a Corporate Transaction, the Board of Directors may either: (i) amend or adjust the provisions of this Plan to provide for the acceleration of the current Purchase Period and the exercise of options thereunder; or (ii) continue the Plan with respect to completion of the then current Purchase Period and the exercise of options thereunder. In the event of such continuance, Participants shall have the right to exercise their options as to an equivalent number of shares of stock of the corporation succeeding the Company by reason of such sale, merger, consolidation, liquidation or other event, as provided pursuant to Section 424(a) of the Internal Revenue Code, or any successor provision. The grant of an option pursuant to the Plan shall not limit in any way the right or power of the Company or Board of Directors to make adjustments, reclassifications, reorganizations or changes in the Company's capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

13. **Non-Transferability Of Options.** Options granted under any Purchase Period of the Plan shall not be transferable and shall be exercisable only by the optionee.

Neither payroll deductions credited to a Participant's account, nor any rights with regard to the exercise of an option or the receipt of common stock under any Purchase Period of the Plan may be assigned, transferred, pledged or otherwise disposed of in any way by the Participant. Any such attempted assignment, transfer, pledge or other disposition shall be null and void and without effect, except that a Participating Employer may, at its option, treat such act as an election to withdraw funds in accordance with Paragraph 9(a).

14. **Amendment and Termination.** The Plan may be terminated at any time by the Board of Directors provided that, except as permitted pursuant to Paragraph 12, no such termination will take effect with respect to any completed Purchase Period. Also, the Board may, from time to time, amend the Plan as it may deem proper and in the best interests of the Company or as may be necessary to comply with Section 423 of the Internal Revenue Code or other applicable laws or regulations, provided that no such amendment shall, without prior approval of the stockholders of the Company: (a) increase the total number of shares for which options may be granted under the Plan (except as provided in Paragraph 12); (b) permit payroll deductions at a rate in excess of ten percent (10%) of a Participant's compensation or such other permissible maximum contribution established by the Committee or Senior Vice President, Chief Human Resources Officer (or such other individual as may be designated by the Committee); (c) impair any outstanding option without the consent of the optionee (except as provided in Paragraph 12); (d) change the Employees or class of Employees eligible to participate under the Plan; or (e) materially increase the benefits accruing to Participants under the Plan.

15. **Notices.** All notices or other communications in connection with the Plan or any Purchase Period thereof shall be in the form specified by the Committee and shall be deemed to have been duly given when sent to the Participant at his or her last known address, or the Participant's designated personal representative or beneficiary, or to the Participating Employer or its designated representative, as the case may be.

16. **Alteration of Plan Terms to Comply with Foreign Law; Establishment of Non-Statutory Plans.** Notwithstanding any other provision of the Plan, the Committee or the Senior Vice President, Chief Human Resources Officer of the Company (or such other individual as may be designated by the Committee) may, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have participants, (i) modify the terms and conditions of the Plan as applicable to individuals outside the United States to comply with applicable foreign laws; (ii) establish sub-plans and modify administrative procedures and other terms and procedures, to the extent

such actions may be necessary or advisable (any such sub-plans and/or modifications shall be attached to this Plan as appendices); and (iii) take any action deemed advisable to comply with any necessary local governmental regulatory exemptions or approvals; provided, however, that no action may be taken hereunder that would violate any securities law, tax law or any other applicable law or cause the Plan not to comply with Section 423 of the Internal Revenue Code of 1986, as amended.

Exhibit 10.4

Medtronic, Inc.
710 Medtronic Parkway
Minneapolis, MN 55432-5604
(763) 514-4000`

May 2, 2014

Mr. Bradley E. Lerman

Dear Brad,

It is with great pleasure that I extend this offer of employment at Medtronic, Inc. ("Medtronic"). Every employee at Medtronic plays a role in changing what it means to live with chronic disease. We are excited to have you join us as we continue to innovate to improve the lives of patients. The following are the terms of the offer of employment:

1. Title

Senior Vice President, General Counsel and Corporate Secretary, Medtronic Inc.

In this role, you will serve as a member of the Medtronic Executive Committee, reporting to me. In the position, you shall have the responsibilities and duties commensurate with the General Counsel role at Medtronic, and such other duties and responsibilities that are assigned by me.

2. Employment Location

Your assignment with Medtronic will be located at our Medtronic world headquarters in Minneapolis (Fridley) Minnesota; subject to business travel consistent with your duties and responsibilities. For a period of time following your Start Date, you are approved to work and travel from Medtronic's office in Washington DC with the understanding that reimbursement of travel costs to and from the world headquarters in Minneapolis, Minnesota is considered taxable income by the IRS. Please see Section 9 for more details regarding relocation and commuter compensation. Relocation to the Twin Cities Metro must occur no later than August, 2016.

3. Employment Start Date

("Start Date"): May 27, 2014

4. Base Salary

Your annual base salary will be $700,000 per year (less applicable withholdings and deductions) commencing upon your Start Date and paid in accordance with Medtronic's standard payroll practices.

5. Medtronic Incentive Plan ("MIP")

You will be eligible to participate in the annual Medtronic Incentive Plan ("MIP"), beginning with the Fiscal Year 2015 MIP. Your participation will be effective as of the start of Fiscal Year 2015 with a target payout of 85% of your FY15 base salary. Your actual payout for FY15 will be determined by the achievement of Medtronic Incentive

Plan measures and will be based on your full-year base salary for FY15, and will not be prorated based on your Start Date. Additional information will be provided about MIP following your Start Date.

6. Annual Long-Term Incentive Plan

You will be eligible to participate in Medtronic's Long-Term Incentive Plan (LTIP) beginning with Fiscal Year 2015. The total target value of your FY15 LTIP is $1,875,000 and is comprised of the following components:

- ***Annual Long-Term Performance Plan ("LTPP")***
  Beginning with the FY2015-FY2017 phase of the three-year performance cycle, you will be eligible to participate in the Long-Term Performance Plan ("LTPP"). Your target annualized award will be $625,000 (subject to the terms and conditions of the LTPP). Your participation will begin on your Start Date, however, your LTPP award will be based on your full annual target award for the FY2015 – FY2017 LTPP period, and will not be prorated based on your Start Date. The payout is based on company performance against pre-determined performance measures. The LTPP award agreement will be provided to you following approval of the FY15 – FY17 LTPP by Medtronic's Compensation Committee of the Board of Directors. Subject to approval by the Compensation Committee, you will also be eligible to participate in subsequent 3-year phases that commence annually in succeeding fiscal years, to the extent such plans are implemented and subject to the terms and conditions of the LTPP plan document

- ***Annual Nonqualified Stock Option Grant***
  You will be eligible for annual stock option awards beginning with Fiscal Year 2015. The anticipated grant date will be July 28, 2014 for FY2015 awards. The current grant amount (aggregate exercise price) is approximately $2,500,000 (targeted grant date value of $625,000 as of the date of this letter) and vests 25% per year beginning one year after the date of grant. All terms and conditions of any stock option awards will be described in the stock option agreement that is delivered to you following the grant date. Your nonqualified stock option awards are subject to approval by the Compensation Committee of the Board of Directors.

- ***Performance-Based Restricted Stock Unit Grant***
  Beginning in Fiscal Year 2015, you will be eligible for annual grants of performance-based restricted stock units. The FY15 grant date will be July 28, 2014. The current grant date target is $625,000 and vests 100% on the third anniversary of the date of grant, provided that the minimum company performance threshold is met. The performance threshold is set by the Compensation Committee and is communicated following the grant date. All terms and conditions of any restricted stock unit awards will be described in the restricted stock unit agreement provided following the grant date. Annual performance-based restricted stock unit awards are subject to approval by the Compensation Committee of the Board of Directors.

7. Special New Hire Cash Bonus

To help mitigate the loss of certain compensation from your current employer, you will be eligible to receive a new hire cash bonus in the amount of $1,000,000 (less applicable withholdings and deductions). 50% of the bonus will be paid to you within 90 calendar days following your Start Date with Medtronic; 25% will be paid 12 months following your Start Date; and the remaining 25% will be paid 24 months following your Start Date.

8. One-time, New Hire Restricted Stock Unit Grant

To help mitigate the loss of certain earned, unvested compensation from your current employer, you will be granted a one-time, restricted stock unit award with a grant date value of $2,000,000, which is scheduled to be granted on July 28, 2014. The Restricted Stock Unit grant will vest 50% on the first anniversary of the grant date with the remaining 50% vesting on the second anniversary of the grant date. Vesting is subject to the attainment by the Company of $1.00 diluted EPS threshold for the fiscal year ending prior to each vesting date.

The actual number of units for the total grant will be determined by the grant date value divided by the market closing price for Medtronic common stock on July 28, 2014. The award is subject to approval by the Compensation Committee of the Board of Directors. All terms and conditions of the restricted stock unit award will be described in the restricted stock unit agreement provided following the grant date.

9. Relocation and Commuter Assistance

No later than August, 2016, you will be expected to relocate permanently to the Twin Cities Metro to facilitate daily access to Medtronic's world headquarters. Medtronic will provide you with relocation benefits under its "Comprehensive Plus" relocation plan for homeowners (attached).

During the interim period prior to your relocation to the Twin Cities Metro area in Minnesota, you will be approved to use Medtronic's Washington D.C. Office with the expectation that you will maintain a regular travel schedule to Medtronic's world headquarters in Minneapolis, Minnesota as required by your job responsibilities. You will be responsible to pay for your air travel, ground transportation, and living expenses while commuting to and from Medtronic's world headquarters. Medtronic's U.S. Relocation Department is available to assist you in securing your living accommodations and can also assist if you would like to relocate any of your personal vehicles and goods in advance of your planned relocation.

Under Medtronic's Commuter Policy, the company will provide you with a $6,000 per pay period ($156,000 annualized) before-tax commuter allowance that is intended to help defray your cost of commuting. Commuter reimbursement is taxable under IRS rules and therefore the $6,000 will be including with your bi-weekly pay and is subject to applicable tax withholdings and deductions

10. Employee Benefits

You will be offered the same benefits as all other U.S. employees of Medtronic, including any benefits commensurate with your job level, upon meeting eligibility requirements as provided for in the Plan documents. An overview of Medtronic's Benefit Programs will be included with the New Hire Employment Document Package that will be sent following your acceptance of this offer. Enrollment in Medtronic's Benefits, including Health, Wellness, and Retirement programs will occur during your new hire orientation.

11. Business Allowance

In order to defray the cost of an automobile, tax preparation and financial planning, or other related expenses, you will be provided with an annual allowance of $24,000 (paid bi-weekly and subject to applicable withholdings and deductions). A Business Allowance Program Brochure will be included with your New Hire Package.

12. Executive Physical Exam

In addition, you will be provided with a periodic medical examination under the Company's Executive Physical Examination program. Details about the program are included with the Business Allowance Program Brochure.

13. Stock Ownership Policy

Medtronic's policy requires Section 16b officers to maintain Medtronic stock equal to three (3) times annual salary. Until the ownership guideline is met, officers must retain 50% of the after-tax shares following settlement of equity compensation awards, including stock option exercises and restricted stock vesting. Once the guideline is met, executives must retain 50% after-tax shares for one year following grant of equity compensation awards. All shares of Medtronic stock owned by you, including the after tax value of vested unexercised stock options and the after tax value of unvested restricted stock unit awards, count towards satisfying the stock ownership guideline.

14. Deferred Compensation Plan

You will be eligible to participate in the next calendar year phase of Medtronic's Capital Accumulation Plan ("CAP"), subject to the terms of the CAP, which will provide for deferral of calendar year 2014 compensation. If desired, you may enroll in the 2014 CAP during your new hire orientation. Enrollment for 2015 deferral will occur in October, 2014.

15. Employee Agreement

As a condition of this offer of employment with Medtronic and as a condition of receiving the benefits identified herein, you must sign the standard Employee Agreement, which specifies certain employment terms and conditions. You must sign and return the agreement no later than your first day of employment with Medtronic.

16. Eligibility Documents

As required by federal law, Medtronic must verify that its employees are eligible to work in the United States. On or before your first day of employment, you will be required to certify that you are a citizen of the U.S., a noncitizen national of the U.S., a lawful permanent resident, or an alien authorized to work in the U.S. Please bring acceptable supporting documents (as listed on the reverse side of the I-9 Form) to your first day of work. A Designated Medtronic Representative will then review your documentation and complete section 2 on Form I-9. Failure to produce the required documentation within 72 hours (unless a government authorized extension applies) may result in termination of employment. Medtronic is also a participant in the Department of Homeland Security's E-Verify system. An employee hired on or after September 8, 2009 will be subject to E-Verify **only after** a Form I-9 has been completed for the employee. Medtronic does not tolerate the discrimination of applicants and employees based upon their national origin and citizenship (or immigration) status or any protected status when verifying employment eligibility through completion of the Form I-9 and the use of E-Verify

17. Substance Abuse Testing

A condition of your employment at Medtronic is the successful completion of a drug screening test. A drug screening will be arranged at a location convenient for you after your acceptance the formal offer. If you do not take the test, our offer will be rescinded. If you do not pass the test, you will receive a letter from our medical review officer providing you with the opportunity to explain the positive test result or to ask for a retest of the same sample at your expense.

18. Mandatory Quality, Ethics and Compliance Training

As a further condition of your employment with Medtronic, you will be required to complete Medtronic's Quality Fundamentals training and general ethics and compliance training, including a certification related to our code of conduct within 30 days of your acceptance of this offer. Please note that it is your responsibility to make sure that you complete this training.

19. Other General Provisions

Medtronic is offering you this position based on your skills and background, and believes you can perform your new duties without the use or reliance upon any confidential information or trade secrets of your current or former employers. Medtronic does not and will not encourage, induce, require, condone, or accept the disclosure or use of such information during your employment with the company.

Medtronic further expects you to take reasonable steps to protect your current and former employers' proprietary information (including returning any and all confidential or proprietary materials or documents to your current employer when you leave) and to abide by any other confidentiality and applicable non-solicitation agreements with your current or former employers. Your signature below confirms your assurances in this regard and your agreement to abide by the guidelines above. Medtronic has made this offer of employment to you based on these assurances.

Medtronic is committed to providing reasonable accommodations so that all individuals may participate fully in their employment. If you need accommodations because of a medical condition, or a religious belief or practice, please discuss your request with your Human Resources partner, who will work with you to evaluate accommodation options.

All payments hereunder are subject to applicable withholdings and deductions.

After you have reviewed the terms of this letter, please indicate your acceptance by signing one copy in the space provided below and returning it to me. We look forward to your early response.

I know that you will find Medtronic a rewarding place to continue your career. I look forward to welcoming you to Medtronic.

Best regards,

Omar Ishrak
Chairman and Chief Executive Officer

Enclosures:

- *Employee Agreement*
- *Comprehensive Plus Relocation Program Brochure*

I, Bradley E. Lerman, ACCEPT THIS OFFER OF EMPLOYMENT AND AGREE TO THE TERMS AND CONDITIONS OUTLINED IN THIS LETTER. I UNDERSTAND THAT PROOF OF MY IDENTITY AND EMPLOYMENT ELIGIBILITY IS A CONDITION OF EMPLOYMENT, AND I MUST PROVIDE MEDTRONIC WITH PROOF OF MY IDENTITY AND EMPLOYMENT ELIGIBILITY TO QUALIFY FOR EMPLOYMENT. I UNDERSTAND THAT IF I PROVIDE FALSE OR MISLEADING INFORMATION, I MAY BE DISQUALIFIED FROM EMPLOYMENT.

_____ _____

Bradley E. Lerman Date

Exhibit 10.5

Medtronic, Inc.
710 Medtronic Parkway
Minneapolis, MN 55432-5604

(763) 514-4000`

April 29, 2014

Mr. Hooman Hakami

Dear Hooman,

It is with great pleasure that I extend this offer of employment at Medtronic, Inc. ("Medtronic"). Every employee at Medtronic plays a role in changing what it means to live with chronic disease. We are excited to have you join us as we continue to innovate to improve the lives of patients. The following are the terms of the offer of employment:

1. Title

Executive Vice President and President, Medtronic Diabetes.

In this role, you will serve as a member of the Medtronic Executive Committee, reporting to me. In the position, you shall have the responsibilities and duties commensurate with leading the Global Diabetes Business Group at Medtronic, and such other duties and responsibilities that are assigned by me.

2. Employment Location

Your assignment with Medtronic will be located at our Diabetes headquarters in Northridge, California; subject to business travel consistent with your duties and responsibilities. For the first year following your Start Date you are approved to work and travel from your current home office in Wisconsin with the understanding that any reimbursement of travel costs to and from the Diabetes headquarters in Northridge California is considered taxable income by the IRS. Please see Section 10 for more details regarding relocation and commuter compensation. Relocation must occur no later than June, 2015.

3. Employment Start Date

("Start Date"): To Be Determined

4. Base Salary

Your annual base salary will be $550,000 per year (less applicable tax withholdings and deductions) commencing upon your Start Date and paid in accordance with Medtronic's standard payroll practices.

5. Medtronic Incentive Plan ("MIP")

You will be eligible to participate in the annual Medtronic Incentive Plan ("MIP"), beginning with the Fiscal Year 2015 MIP. Your participation will be effective as of the start of Fiscal Year 2015 with a target payout of 85% of your FY15 base salary. Your actual payout for FY15 will be determined by the achievement of Medtronic Incentive Plan measures and will be based on your full-year salary for FY15, and will not be prorated based on your Start Date. Additional information will be provided about MIP following your Start Date.

6. Annual Long-Term Incentive Plan

You will be eligible to participate in Medtronic's Long-Term Incentive Plan (LTIP) beginning with Fiscal Year 2015. The total target value of your FY15 LTIP is $1,400,000 and is comprised of the following components:

- ***Annual Long-Term Performance Plan ("LTPP")***
  Beginning with the FY2015-FY2017 phase of the three-year performance cycle, you will be eligible to participate in the Long-Term Performance Plan ("LTPP"). Your target annualized award will be $466,667 (subject to the terms and conditions of the LTPP). Your participation will begin on your Start Date; however, your LTPP award will be based on your full annual target award for the FY2015 - FY2017 LTPP period, and will not be prorated based on your Start Date. The payout is based on company performance against pre-determined performance measures. The LTPP award agreement will be provided to you following approval of the FY15 - FY17 LTPP by Medtronic's Compensation Committee of the Board of Directors. Subject to approval by the Compensation Committee, you will also be eligible to participate in subsequent 3-year phases that commence annually in succeeding fiscal years, to the extent such plans are implemented and subject to the terms and conditions of the LTPP plan document.

- ***Annual Nonqualified Stock Option Grant***
  You will be eligible for annual stock option awards beginning with Fiscal Year 2015. The anticipated grant date will be July 28, 2014 for FY2015 awards. The current grant amount (aggregate exercise price) is approximately $1,866,664 (targeted grant date value of $466,666 as of the date of this letter) and vests 25% per year beginning one year after the date of grant. All terms and conditions of any stock option awards will be described in the stock option agreement that is delivered to you following the grant date. Your nonqualified stock option awards are subject to approval by the Compensation Committee of the Board of Directors.

- ***Performance-Based Restricted Stock Unit Grant***
  Beginning in Fiscal Year 2015, you will be eligible for annual grants of performance-based restricted stock units. The FY15 grant date will be July 28, 2014. The current grant date target is $466,667 and vests 100% on the third anniversary of the date of grant, provided that the minimum company performance threshold is met. The performance threshold is set by the Compensation Committee and is communicated following the grant date. All terms and conditions of any restricted stock unit awards will be described in the restricted stock unit agreement provided following the grant date. Annual performance-based restricted stock unit awards are subject to approval by the Compensation Committee of the Board of Directors.

7. Special New Hire Cash Bonus

To help mitigate the loss of certain earned, unpaid compensation from your current employer, you will be eligible to receive a new hire cash bonus in the amount of $500,000 (less applicable withholdings and deductions). The full amount will be paid to you within 90 calendar days following your Start Date with Medtronic.

8. One-time, New Hire Nonqualified Stock Option Grant

To help mitigate the loss of certain earned, unvested compensation from your current employer, you will be granted a one-time stock option award with a targeted grant date value of $1,150,000, which is scheduled to be granted on July 28, 2014. The grant amount (aggregate exercise price of the options) is $4,600,000 and vests 25% per year beginning one year after the date of grant. The actual number of options for the total grant will be determined by the aggregate exercise price of the options divided by the market closing price for Medtronic common stock on July 28, 2014. All terms and conditions of any stock option awards will be described in the stock option agreement that is delivered to you following the grant date. Your nonqualified stock option awards are subject to approval by the Compensation Committee of the Board of Directors.

9. One-time, New Hire Restricted Stock Unit Grant

To help mitigate the loss of certain earned, unvested compensation from your current employer, you will be granted a one-time restricted stock unit award with a grant date value of $1,150,000, which is scheduled to be granted on July 28, 2014. The Restricted Stock Unit grant will vest 100% on the fourth anniversary of the grant date and is subject to the attainment by the Company of $1.00 diluted EPS threshold for the fiscal year ending prior to each vesting date.

The actual number of units for the total grant will be determined using the grant date value of $1,150,000 divided by the market closing price for Medtronic common stock on July 28, 2014. The award is subject to approval by the Compensation Committee of the Board of Directors. All terms and conditions of the restricted stock unit award will be described in the restricted stock unit agreement provided following the grant date.

10. Relocation and Commuter Assistance

No later than June, 2015, you will be expected to relocate permanently to Southern California to facilitate daily access to the Diabetes Business headquarters in Northridge, California. Medtronic will provide you with relocation benefits under its “Comprehensive Plus” relocation plan for homeowners (attached). As an addendum to the relocation plan, Medtronic will supersede the standard “loss on sale” protection formula and instead cover 75% of a loss on sale up to a maximum of $200,000.

During the interim period prior to your relocation to Southern California, you will be approved to office out of your home in Wisconsin with the expectation that you will maintain a regular travel schedule to the Diabetes headquarters in Northridge California, as required by your job responsibilities. You will be responsible to pay for your air travel, ground transportation, and living expenses while commuting to the Diabetes headquarters. Medtronic’s Relocation Assistance Department is available to assist you in identifying your living accommodations and can also assist if you would like to relocate any of your personal vehicles and goods in advance of your planned relocation.

Under Medtronic's Commuter Policy, the company will provide you with a $7,000 per pay period ($182,000 annualized) before-tax commuter allowance that is intended to help defray your cost of commuting. Commuter reimbursement is taxable under IRS rules and therefore the $7,000 will be included with your bi-weekly pay and is subject to applicable tax withholdings and deductions. At the end of each three month period following the Start Date, you may request a re-evaluation of the Commuter Assistance Benefit based actual experience. To re-evaluate the allowance, expense records must be submitted and any change to the amount must be approved by Medtronic's Chairman and CEO and Chief Human Resources Officer.

11. Employee Benefits

You will be offered the same benefits as all other U.S. employees of Medtronic, including any benefits commensurate with your job level, upon meeting eligibility requirements as provided for in the Plan documents. An overview of Medtronic's Benefit Programs will be included with the New Hire Employment Document Package that will be sent following your acceptance of this offer. Enrollment in Medtronic's Benefits, including Health, Wellness, and Retirement programs will occur during your new hire orientation.

Additionally, Medtronic will provide a special non-qualified supplemental retirement benefit that is in addition to the standard benefit provided to employees. The special benefit calculation is designed to mitigate the estimated value difference between your pension with GE and the pension benefit you accrue with Medtronic. The benefit will be calculated and accrued annually based on analysis of the GE and Medtronic Pension Programs. Accruals for the differential will be made through last Fiscal Year of your employment with Medtronic with the final amount calculated as of the date of employment termination or retirement. The special benefit will be accrued under Medtronic's non-qualified supplemental retirement plan and, as such, is an unfunded benefit.

Please see the attached (Schedule A) for the assumptions used to calculate the special non-qualified supplemental retirement benefit and the estimated Net Present Value of the benefit based on the information provided to Medtronic by you

12. Business Allowance

In order to defray the cost of an automobile, tax preparation and financial planning, or other related expenses, you will be provided with an annual allowance of $24,000 (paid bi-weekly and subject to applicable withholdings and deductions). A Business Allowance Program Brochure will be provided with your new hire information.

13. Executive Physical Exam

In addition, you will be provided with a periodic medical examination under the Company's Executive Physical Examination program. Details about the program are included with the Business Allowance Program Brochure.

14. Stock Ownership Policy

Medtronic's policy requires Section 16b officers to maintain Medtronic stock equal to three (3) times annual salary. Until the ownership guideline is met, officers must retain 50% of the after-tax shares following settlement of equity compensation awards, including stock option exercises and restricted stock vesting. Once the guideline is met, executives must retain 50% after-tax shares for one year following grant of equity compensation awards. All shares of Medtronic stock owned by you, including the after tax value of vested unexercised stock options and the after tax value of unvested restricted stock unit awards, count towards satisfying the stock ownership guideline.

15. Deferred Compensation Plan

You will be eligible to participate in the next calendar year phase of Medtronic's Capital Accumulation Plan ("CAP"), subject to the terms of the CAP, which will provide for deferral of calendar year 2014 compensation. If desired, you may enroll in the 2014 CAP during your new hire orientation. Enrollment for 2015 deferral will occur in October, 2014.

16. Employee Agreement

As a condition of this offer of employment with Medtronic and as a condition of receiving the benefits identified herein, you must sign the standard Employee Agreement, which specifies certain employment terms and conditions. You must sign and return the agreement no later than your first day of employment with Medtronic.

17. Severance

In the event you are terminated without cause (as defined in Medtronic's Change of Control Plan), Medtronic's standard Severance Practice that applies while you are a Section 16b Officer provides to you the following benefits, provided that you sign and do not revoke a Severance Agreement and Release:

- A lump sum equal to two (2.0) times your annual base salary
- The lesser of two (2.0) times your target annual MIP or two (2.0) times the most recent quarterly estimate of your actual annual MIP payout, in lump sum.
- A lump sum equal to 100% of the premiums for twenty-four (24) months of continued health and dental benefits to be paid within 10 business days of the last day worked.
- Executive placement services of appropriate duration with a mutually agreeable vendor
- Please note that long-term incentive awards will be treated consistent with the terms and conditions of the grants

Medtronic reserves the right to amend severance practices at any time.

18. Eligibility Documents

As required by federal law, Medtronic must verify that its employees are eligible to work in the United States. On or before your first day of employment, you will be required to certify that you are a citizen of the U.S., a noncitizen national of the U.S., a lawful permanent resident, or an alien authorized to work in the U.S. Please bring acceptable supporting documents (as listed on the reverse side of the I-9 Form) to your first day of work. A Designated Medtronic Representative will then review your documentation and complete section 2 on Form I-9. Failure to produce the required documentation within 72 hours (unless a government authorized extension applies) may result in termination of employment. Medtronic is also a participant in the Department of Homeland Security's E-Verify system. An employee hired on or after September 8, 2009 will be subject to E-Verify **only after** a Form I-9 has been completed for the employee. Medtronic does not tolerate the discrimination of applicants and employees based upon their national origin and citizenship (or immigration) status or any protected status when verifying employment eligibility through completion of the Form I-9 and the use of E-Verify

19. Substance Abuse Testing

A condition of your employment at Medtronic is the successful completion of a drug screening test. A drug screening will be arranged at a location convenient for you after your acceptance the formal offer. If you do not take the test, our offer will be rescinded. If you do not pass the test, you will receive a letter from our medical review officer providing you with the opportunity to explain the positive test result or to ask for a retest of the same sample at your expense.

20. Mandatory Quality, Ethics and Compliance Training

As a further condition of your employment with Medtronic, you will be required to complete Medtronic's Quality Fundamentals training and general ethics and compliance training, including a certification related to our code of conduct within 30 days of your acceptance of this offer. Please note that it is your responsibility to make sure that you complete this training.

21. Other General Provisions

Medtronic is offering you this position based on your skills and background, and believes you can perform your new duties without the use or reliance upon any confidential information or trade secrets of your current or former employers. Medtronic does not and will not encourage, induce, require, condone, or accept the disclosure or use of such information during your employment with the company.

Medtronic further expects you to take reasonable steps to protect your current and former employers' proprietary information (including returning any and all confidential or proprietary materials or documents to your current employer when you leave) and to abide by any other confidentiality and applicable non-solicitation agreements with your current or former employers. Your signature below confirms your assurances in this regard and your agreement to abide by the guidelines above. Medtronic has made this offer of employment to you based on these assurances.

Medtronic is committed to providing reasonable accommodations so that all individuals may participate fully in their employment. If you need accommodations because of a medical condition, or a religious belief or practice, please discuss your request with your Human Resources partner, who will work with you to evaluate accommodation options.

All payments hereunder are subject to applicable withholdings and deductions.

Please contact me if you have any questions regarding the terms of this offer. After you have reviewed the terms of this letter, please indicate your acceptance by signing one copy in the space provided below and returning it to me. We look forward to your early response.

I know that you will find Medtronic a rewarding place to continue your career. I look forward to welcoming you to Medtronic.

Best regards,

Omar Ishrak
Chairman and Chief Executive Officer

Enclosures:
- *Employee Agreement*
- *Comprehensive Plus Relocation Program Brochure*

I, Hooman Hakami, accept this offer of employment and agree to the terms and conditions outlined in this letter. I understand that proof of my identity and employment eligibility is a condition of employment, and I must provide Medtronic with proof of my identity and employment eligibility to qualify for employment. I understand that if I provide false or misleading information, I may be disqualified from employment.

_____ _____

Hooman Hakami Date

Schedule A
April 30, 2014

Estimated Present Value Calculation for Pension Plan Make-up

Beginning Base/Incentive	$	550,000
Target Annual Incentive		85%
Annual Quality Compensation Increase		3.0%
Retirement age		60
Current Age as of 1/1/2014		43
Rate of return in Personal Pension Investment Account[1]		7.0%
Discount Rate		5.0%

	FUTURE VALUE AGE 60	PREENT VALUE AGE 43
Medtronic Personal Investment Account[1]	1,648,386	719,185
GE Pension (Based on Information Provided)[2]	N/A	3,700,000
	Difference[3]	2,980,815

Notes

1. Assumes election of Medtronic Personal Investment Account (PIA) Pension Option
2. Present Value of GE Pension to be verified by pension statement from GE
3. Medtronic's "make-up" pension benefit will be accrued annually to the company's Non-qualified Supplemental Retirement Plan and is not funded. Final "make-up" pension amount will be determined by Medtronic's formula at time of retirement or termination of employment.
4. Medtronic’s standard three-year pension vesting period applies.

EXHIBIT 12.1

MEDTRONIC, INC. COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for the three months ended July 25, 2014 was computed based on Medtronic's current quarterly report on Form 10-Q. The ratio of earnings to fixed charges for the fiscal years ended April 25, 2014, April 26, 2013, April 27, 2012, April 29, 2011, and April 30, 2010 was computed based on Medtronic's historical consolidated financial information.

(in millions, except ratio of earnings to fixed charges)	Three months ended July 25, 2014	Year ended April 25, 2014	Year ended April 26, 2013	Year ended April 27, 2012	Year ended April 29, 2011	Year ended April 30, 2010
Earnings:						
Earnings from continuing operations before income taxes	$ 1,083	$ 3,705	$ 4,251	$ 4,145	$ 3,664	$ 3,944
Noncontrolling interest (income) loss	—	(1)	(1)	8	8	7
Capitalized interest (1)	(1)	(4)	(4)	(4)	(4)	(4)
	$ 1,082	$ 3,700	$ 4,246	$ 4,149	$ 3,668	$ 3,947
Fixed Charges:						
Interest expense, gross (2)	$ 97	$ 379	$ 392	$ 353	$ 454	$ 406
Rent interest factor (3)	11	45	42	46	44	46
	$ 108	$ 424	$ 434	$ 399	$ 498	$ 452
Earnings before income taxes and fixed charges	$ 1,190	$ 4,124	$ 4,680	$ 4,548	$ 4,166	$ 4,399
Ratio of earnings to fixed charges	11	10	11	11	8	10

(1) Capitalized interest relates to construction projects in process.

(2) Interest expense consists of interest on indebtedness.

(3) Approximately one-third of rental expense is deemed representative of the interest factor.

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Omar Ishrak, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medtronic, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 29, 2014

/s/ Omar Ishrak

Omar Ishrak
Chairman and Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Gary L. Ellis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medtronic, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 29, 2014

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

EXHIBIT 32.1

Certification of Chief Executive Officer
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with this quarterly report on Form 10-Q of Medtronic, Inc. for the quarter ended July 25, 2014, the undersigned hereby certifies, in his capacity as Chief Executive Officer of Medtronic, Inc., for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Medtronic, Inc.

Date: August 29, 2014

/s/ Omar Ishrak

Omar Ishrak
Chairman and Chief Executive Officer

EXHIBIT 32.2

Certification of Chief Financial Officer
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with this quarterly report on Form 10-Q of Medtronic, Inc. for the quarter ended July 25, 2014, the undersigned hereby certifies, in his capacity as Chief Financial Officer of Medtronic, Inc., for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Medtronic, Inc.

Date: August 29, 2014

/s/ Gary L. Ellis

Gary L. Ellis
Executive Vice President and
Chief Financial Officer