ST JUDE MEDICAL INC

FORM 10-K
(Annual Report)

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Industry	Medical Equipment & Supplies
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

Commission File No. 0-8672

ST. JUDE MEDICAL, INC.

(Exact name of registrant as specified in its charter)

MINNESOTA	**41-1276891**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Lillehei Plaza **St. Paul, Minnesota 55117**	**(651) 483-2000**
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Common Stock ($.10 par value)	**New York Stock Exchange**
Preferred Stock Purchase Rights	**New York Stock Exchange**
(Title of class)	(Name of exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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, and (2) has been subject to such filing requirements

for the past 90 days.
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check One):
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately $16.0 billion at July 2, 2005 (the last trading day of the registrant's most recently completed second fiscal quarter), when the closing sale price of such stock, as reported on the New York Stock Exchange, was $44.00 per share.

The Registrant had 369,113,808 shares of its $0.10 par value Common Stock outstanding as of March 1, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2005, are incorporated by reference into Parts I and II. Portions of the Company's Proxy Statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III.

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PART I

Item 1. BUSINESS

General

St. Jude Medical, Inc., together with its subsidiaries (collectively St. Jude, St. Jude Medical, the Company, we or us) develops, manufactures and distributes cardiovascular medical devices for the global cardiac rhythm management, cardiac surgery, cardiology, and atrial fibrillation therapy areas and implantable neuromodulation devices. Our five operating segments are Cardiac Rhythm Management (CRM), Neuromodulation (Neuro), Cardiac Surgery (CS), Cardiology (CD) and Atrial Fibrillation (AF). Each operating segment focuses on developing and manufacturing products for its respective therapy area. Our principal products in each operating segment are as follows: CRM – bradycardia pacemaker systems (pacemakers) and tachycardia implantable cardioverter defibrillator systems (ICDs); CS – mechanical and tissue heart valves and valve repair products; Neuro – neurostimulation devices; CD – vascular closure devices, guidewires, hemostatis introducers and other interventional cardiology products; and AF – electrophysiology (EP) catheters, advanced cardiac mapping systems and ablation systems.

We market and sell our products through both a direct sales force and independent distributors. The principal geographic markets for our products are the United States, Europe and Japan. We also sell our products in Canada, Latin America, Australia, New Zealand and the Asia-Pacific region. St. Jude Medical was incorporated in Minnesota in 1976.

Effective with the acquisition of Advanced Neuromodulation Systems, Inc. (ANS) on November 29, 2005, we formed the Neuromodulation Division to focus efforts on the related therapy areas. Neuromodulation is the delivery of very small, precise doses of electric current or drugs directly to nerve sites and is aimed at treating patients suffering from chronic pain or other disabling nervous system disorders. The estimated $1 billion neuromodulation medical device market has experienced historical growth of over 20% during the last several years. Several potential therapeutic areas such as Parkinson's disease, essential tremor, migraine headaches, depression, obsessive compulsive disorder, obesity, angina, interstitial cystitis and tinnitus may also provide opportunities for revenue growth. We expect to facilitate the flow of new and innovative products in CRM and in Neuro by using the research and engineering expertise of both operating segments, as well as our manufacturing resources. See "Acquisitions and Minority Investments" for more information regarding the ANS acquisition.

Effective January 1, 2005, we formed the Cardiology Division to facilitate management's focus not only on the Angio-Seal™ product line, but also on other products in the cardiology markets. We intend to build on the market leadership of the Angio-Seal™ vascular closure product line through selective investments in emerging therapies in the interventional cardiology market. Our acquisition of the businesses of Velocimed, LLC (Velocimed) in 2005 provides us with immediate access to embolic protection, patent foramen ovale closure and guidewire support system product platforms that serve growing segments of the interventional cardiology market. See "Acquisitions and Minority Investments" for more information regarding the Velocimed acquisition.

We also formed the Atrial Fibrillation Division effective January 1, 2005 to focus efforts on the related therapy areas. We expanded our product portfolio in atrial fibrillation through the acquisition of Endocardial Solutions, Inc. (ESI) in 2005, building upon our acquisitions of Epicor, Inc. (Epicor) and Irvine Biomedical, Inc. (IBI) in 2004. See "Acquisitions and Minority Investments" for more information regarding these acquisitions. We believe that atrial fibrillation is a prevalent, debilitating disease state that is not effectively treated at this time. Device technologies are emerging that may provide therapeutic improvements compared to current treatments. In addition, the electrophysiologist, the medical specialist who treats atrial fibrillation with devices, is also the primary customer of ICDs. We believe that providing advanced atrial fibrillation products to electrophysiologists will generate goodwill that may lead to increased ICD sales.

We aggregate our five operating segments into two reportable segments based primarily upon their similar operational and economic characteristics: CRM/CS/Neuro and CD/AF. Our performance by reportable segment is included in Note 11 of the Consolidated Financial Statements in the Financial Report included in our 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K.

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The table below shows net sales and percentage of total net sales contributed by each of our five operating segments for the fiscal years ended 2005, 2004 and 2003:

Net Sales *(in thousands)*	**2005**	**2004**	**2003**
Cardiac rhythm management	$ 1,924,846	$ 1,473,770	$ 1,240,376
Cardiac surgery	273,873	274,979	270,933
Cardiology	437,769	388,584	296,369
Atrial fibrillation	253,810	156,840	124,836
Neuromodulation	24,982	—	—
	$ 2,915,280	$ 2,294,173	$ 1,932,514

Percentage of Total Net Sales	**2005**	**2004**	**2003**
Cardiac rhythm management	66.0%	64.3%	64.2%
Cardiac surgery	9.4%	12.0%	14.0%
Cardiology	15.0%	16.9%	15.3%
Atrial fibrillation	8.7%	6.8%	6.5%
Neuromodulation	0.9%	—	—

Principal Products

Cardiac Rhythm Management : Our pacemaker systems treat patients with hearts that beat too slowly, a condition known as bradycardia. Typically implanted pectorally, just below the collarbone, pacemakers monitor the heart's rate and, when necessary, deliver low-level electrical impulses that stimulate an appropriate heartbeat. The pacemaker is connected to the heart by one to three leads that carry the electrical impulses to the heart and information from the heart back to the pacemaker. An external programmer enables the physician to retrieve diagnostic information from the pacemaker and reprogram the pacemaker in accordance with the patient's changing needs. Single-chamber pacemakers sense and stimulate only one chamber of the heart (atrium or ventricle), while dual-chamber devices can sense and pace in both the upper atrium and lower ventricle chambers. Bi-ventricular pacemakers can sense and pace in three chambers: (atrium and both ventricle chambers).

Our current pacing products include the new Victory® product line as well as Team ADx® pacemakers, a group comprised of the Identity® ADx, Integrity® ADx, and Verity™ ADx families of devices.

The Victory® line was approved by the U.S. Food and Drug Administration (FDA) in December 2005. The Victory® and Victory® XL family models provide the enhancements of previous St. Jude Medical families, while adding new capabilities such as automatic P-wave and R-wave measurements with trends, lead monitoring and automatic polarity switch, follow-up electrograms, Ventricular Intrinsic Preference (VIP ^{TM}) to reduce right ventricle pacing and a ventricular rate during automatic mode switch histogram.

The Identity® DR and Identity® XL DR devices were approved by the FDA in November 2001, with the rest of the Team ADx™ devices receiving FDA approval in May 2003. The Team ADx devices received European CE Mark in August 2003. The Identity® ADx family models maintain the therapeutic advancements of previous St. Jude Medical pacemakers, including the AF Suppression™ algorithm and the Beat-by-Beat™ AutoCapture™ Pacing System. This family offers atrial tachycardia and atrial fibrillation arrhythmia diagnostics. The Integrity® ADx devices offer programmable electrograms. These features are designed to help physicians better manage pacemaker patients suffering from atrial fibrillation–the world's most common cardiac arrhythmia.

We also offer Identity® pacemakers with enhanced electrograms; and Integrity® and Integrity® µ (Micro) pacemaker models, built on the Affinity® platform with its Beat-by-Beat™ AutoCapture™ Pacing System. Other pacing products include the Affinity® pacemakers, and the Entity® family of pacemakers, containing the Omnisense® activity-based sensor. These pacemaker families contain many advanced features and diagnostic capabilities to optimize cardiac therapy. All are small and physiologic in shape to enhance patient comfort. The Microny® II SR+ and Microny® K are the world's smallest pacemakers. The Microny® SR+ and the Regency® pacemaker families are available worldwide.

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The Identity® ADx, Integrity® ADx, Verity™ ADx, Identity®, Integrity®, Affinity®, Entity® and Microny® and Regency® families of pacemakers all offer the unique Beat-by-Beat™ AutoCapture™ Pacing System. The AutoCapture™ Pacing System enables the pacemaker to monitor every paced beat to verify that the heart has been stimulated (known as capture), delivers a back-up pulse in the event of noncapture, continuously measures threshold, and makes adjustments in energy output to match changing patient needs. In addition, the Identity® ADx, Integrity® ADx, Identity® and Integrity® pacemakers include St. Jude Medical's AF Suppression™ Algorithm, a therapy designed to suppress

atrial fibrillation.

We also market low-voltage device-based ventricular resynchronization systems (bi-ventricular) designed for the treatment of heart failure and suppression of atrial fibrillation. Within the United States, our pacemakers are the only bi-ventricular pacing devices indicated for use in patients with chronic atrial fibrillation who have been treated with atrioventricular nodal ablation. These device systems include the Frontier™ and Frontier II™ (FDA approved in August 2004 and CE Mark approved in September 2004) bi-ventricular stimulation devices, designed to enhance cardiac function by synchronizing the contractions of the heart's two ventricles, and the Aescula® and QuickSite™ LV pacing leads. For placement of these leads, we provide the following delivery systems and accessories: the CPS Luminary™, Alliance™, Seal-Away™ CS, and Apeel™ Catheter Delivery Systems, and the CPS Venture™ wire.

Our current pacing leads include the Tendril® SDX (models 1688 and 1488), and Tendril® DX active-fixation lead families, and the IsoFlex® S, IsoFlex P and Passive Plus® DX passive-fixation lead families, all available worldwide. All these lead families feature steroid elution, which helps suppress the body's inflammatory response to a foreign object. The passive fixation Membrane® EX lead family is also currently available outside the United States.

Our ICD systems treat patients with hearts that beat inappropriately fast, a condition known as tachycardia. ICDs monitor the heartbeat and deliver higher energy electrical impulses, or "shocks," to terminate ventricular tachycardia (VT) and ventricular fibrillation (VF). In VT, the lower chambers of the heart contract at an abnormally rapid rate and typically deliver less blood to the body's tissues and organs. VT can progress to VF, in which the heart beats so rapidly and erratically that it can no longer pump blood. Like pacemakers, ICDs are typically implanted pectorally, connected to the heart by leads, and programmed non-invasively.

Our full ICD product offering includes the Epic®+ VR/DR and Epic® VR/DR ICDs, and the Atlas®+ VR/DR. We received FDA approval and European CE Mark of the Epic®+ VR/DR ICDs in April 2003, and FDA approval and European CE Mark of the Atlas®+ VR/DR ICDs in October 2003. The Epic® ICD family devices are very small ICDs that deliver 30 joules of energy. The Atlas®+ ICD family devices offer high energy and small size without compromising charge times, longevity or feature set flexibility. The Epic®+ DR ICD and the Atlas®+ DR ICD both contain St. Jude Medical's AF Suppression™ algorithm, which is clinically proven to reduce atrial fibrillation burden.

Our ICDs are used with the single and dual-shock electrode Riata® transvenous defibrillation leads. The Riata® integrated bipolar single and dual-shock leads were FDA approved and launched in April 2004 and received European CE mark in May 2004. The Riata® leads are an advanced family of small-diameter, steroid-eluting, active or passive fixation defibrillation leads. The Riata® ST leads, FDA approved in June 2005, are new models with a smaller lead diameter and are available in silicone lead bodies as well as a version using an advanced new polymer (Optim™).

In June 2004, we received FDA approval for our line of products designed to treat heart failure. These products included the Atlas+ HF, a high output cardiac resynchronization therapy device (CRT-D) with 36 joules delivered and 42 joules stored; the Epic® HF, with 30 joules delivered; the Aescula Model 1055K left-ventricular lead; and the QuickSite Models 1056T and 1056K, left-ventricular leads with less than a 1% dislodgment rate.

In November 2004, we received FDA approval for our Atlas®+ HF and Epic® HF ICDs with the ventricle to ventricle (V-V) timing feature. V-V timing allows the clinician to program the timing between the two ventricles to optimize ventricular function and cardiac output, which may further increase the number of responders to CRT. Full launch activities began in December 2004.

In December 2004, we launched the QuickSite Bipolar Model 1056T left-ventricular lead in Europe and launched the product in the United States in mid 2005.

Our pacemakers and ICDs interact with an external device referred to as a programmer. A programmer has two general functions. First, a programmer is used at the time of pacemaker and ICD implants to establish the initial therapeutic settings of these devices as determined by the physician. A programmer is also used for follow-up patient visits, which usually occur every three to 12 months, to download stored diagnostic information from the implanted devices and to verify appropriate therapeutic settings.

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Since the introduction of programmable pacemakers in about 1977, all pacemaker manufacturers, including St. Jude Medical, have retained title to their programmers which are used by their field sales force or by physicians and nurses or technicians. Although we derive no direct revenue from the use of our programmers, new pacemakers and ICDs generally require the use of our programmer at the time of implant and follow-up.

In December 2005, we received FDA approval for the Merlin™ programmer. This completely redesigned programmer has a larger display, built-in full-size printer, touch screen and advanced new user interface. The programmer is a result of detailed customer research activities to optimize ease of use and to set new standards for efficient and effective in-clinic follow-up. we expect to receive FDA approval for the software of the

Merlin™ programmer during the first half of 2006.

St. Jude's Model 3510 universal series pacemaker and ICD programmer is an easy-to-use programmer that supports our pacemakers and ICDs. The Model 3510 universal series programmer allows the physician to utilize the diagnostic and therapeutic capabilities of our pacemakers and ICDs.

Housecall Plus, approved for use in the United States and Europe, is a remote monitoring system for St. Jude Medical ICDs (Atlas, Atlas+, Atlas+ HF, Epic, Epic+, Epic HF) that works with standard analog telephone lines. It consists of a dedicated receiver (mini desktop computer) and a small answering machine sized transmitter. Physicians can better manage their increased number of ICD patients by conducting remote follow-up sessions efficiently, obtaining complete diagnostics in real time (similar to an in-office data interrogation), and choosing how they wish to use/operate the system. Patients can use the device in their own home while interacting with a live technician to assist them in transmission.

Cardiac Surgery : Heart valve replacement or repair may be necessary because the natural heart valve has deteriorated due to congenital defects or disease. Heart valves facilitate the one-way flow of blood in the heart and prevent significant backflow of blood into the heart and between the heart's chambers. We offer both mechanical and tissue replacement heart valves and valve repair products. St. Jude Medical® mechanical heart valves have been implanted in over 1.5 million patients worldwide. The SJM Regent® mechanical heart valve was approved for sale in Europe in December 1999 and received FDA approval for U.S. market release in March 2002. In the United States, we market the Toronto SPV® stentless tissue valve, which received FDA approval in 1997. We received FDA approval for U.S. market release of the SJM Biocor® stented tissue heart valve in August 2005. Outside the United States, we market the SJM Epic™ stented tissue heart valve, the SJM Biocor® stented tissue valve, the Toronto SPV® stentless tissue valve and the Toronto Root™ tissue valve. The Toronto Root® tissue valve is a stentless aortic root bioprosthesis used when aortic root disease accompanies valve disease. The Toronto Root® tissue valve is currently in U.S. and Canadian clinical studies. The SJM Epic™ stented tissue heart valves are also currently in U.S. clinical studies.

We also offer a line of heart valve repair products, including the semi-rigid SJM® Séguin annuloplasty ring, the fully flexible SJM Tailor® annuloplasty ring and a rigid saddle-shaped annuloplasty ring. Annuloplasty rings are prosthetic devices used to repair diseased or damaged mitral heart valves.

Neuromodulation : Effective with the acquisition of ANS in November 2005, we formed the Neuromodulation Division to focus efforts on the related therapy areas. Within the neuromodulation market, there are two main categories of treatment: neurostimulation, in which an implantable device delivers electrical current directly to targeted nerve sites, and implantable drug infusion systems, in which an implanted pump delivers drugs through a catheter directly to targeted nerve sites.

Neurostimulation for the treatment of chronic pain involves delivering low-level electrical impulses via an implanted device (sometimes referred to as a "pacemaker for pain") directly to the spinal cord or peripheral nerves. This stimulation interferes with the transmission of pain signals to the brain and inhibits or blocks the sensation of pain felt by the patient. This stimulation of nerves at or near the site where pain is perceived replaces the painful sensations with a sensation called "paresthesia," which is often described as a tingling or massaging sensation. Neurostimulation for chronic pain is generally used to manage sharp, intense and constant pain arising from nerve damage or nervous system disorders. A neurostimulation system typically consists of three components: a pulse generator/receiver produces the electric current directed to the lead(s) and is generally implanted under the patient's skin; a programmer/transmitter is used to program the power supply and to adjust the intensity, frequency and duration of the stimulation; and leads carry the electrical impulses to the targeted nerve sites. Clinical results demonstrate that many patients who are implanted with a neurostimulation system experience a substantial reduction in pain, an increase in activity level, a reduction in use of narcotics and a reduction in hospitalization.

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We offer a wide array of neurostimulation systems including radio frequency powered systems, conventional implantable pulse generators and rechargeable implantable pulse generators. We currently market three neurostimulation product platforms worldwide: Renew® radio frequency (RF) systems; Genesis® implantable pulse generator (IPG) systems, which include conventional and rechargeable battery models; and Eon™ IPG rechargeable systems.

Renew® is used for treatment of chronic pain of the trunk and limbs and features a small implanted component (an RF receiver). Renew® consists of the implanted RF receiver/pulse generator and leads and a transmitter containing a power source that is worn externally. The system is powered with the help of an antenna that is attached to the patient's skin with a removable belt or an adhesive pad. Because Renew® has a rechargeable, external power source, we believe it is best suited for patients with complex, changing or multi-extremity pain patterns that require higher power levels for treatment when battery management, even when rechargeable systems are available, is problematic.

Genesis® is also used for treatment of chronic pain of the trunk and limbs and is a clinically proven system that offers a high battery capacity to size ratio and flexibility in addressing different pain patterns and other technological advances, which provide us with a competitive advantage in this class of product. The GenesisXP™ IPG system offers a greater battery capacity, resulting in enhanced longevity and/or additional power to

treat more complex pain. Conventional IPGs like Genesis® and GenesisXP™ are well-suited for patients with relatively simple pain or modest power requirements and for patients who would have difficulty managing a rechargeable system or an RF system. The GenesisRC™ rechargeable IPG system, a rechargeable battery version in the Genesis® family, can be recharged externally, allowing for higher energy outputs for extended periods of time and resulting in greater patient convenience and treatment options for patients who need these features.

In March 2005, the FDA approved the Eon™ rechargeable IPG system for sale in the United States. Like GenesisRC™, Eon™ features a high capacity battery that gives it a long projected life. Also, like GenesisRC™, it offers more time between charges and a fast recharge rate for greater patient convenience. However, Eon™ features an IPG roughly the same size as the Genesis IPG™, which is substantially smaller than the GenesisRC™ IPG. Eon also can power up to 16 electrodes in a dual 8-electrode lead configuration, similar to the Renew® system, which permits greater coverage of the spinal cord and more programming flexibility. Eon™ is indicated as an aid in the management of chronic intractable pain of the trunk and/or limbs, including unilateral or bilateral pain associated with failed back surgery syndrome, intractable low back pain and leg pain.

We currently market Rapid Programmer®, an innovative programming platform designed to allow clinicians to quickly and efficiently test patients intraoperatively and to program postoperatively. This palm-sized programmer features a touch screen interface, which clinicians can easily navigate to create multiple programs, adjust variables and generate pain and stimulation maps. In February 2006, we launched the Rapid Programmer® 3.0, which provides an easy-to-use interface, enhanced graphics and significant programming advances. The Rapid Programmer® 3.0 is intended to deliver more efficient and effective patient care and is designed to decrease the average postoperative programming time.

We market a broad variety of leads, which are intended to give clinicians the flexibility to meet a range of patient needs. Our leads can be divided into two types: percutaneous and paddle leads. The percutaneous lead offering is headed by the 8-contact Octrode® and 4-contact Quattrode® lead designs. These leads are joined by the Axxess® percutaneous lead. With the smallest diameter of any percutaneous lead in the market, the Axxess® lead is designed to facilitate implantation and steering during lead placement. Our paddle lead offering features the Lamitrode® family of leads, which, in addition to the Lamitrode® lead, includes the Lamitrode S-Series™ and C-Series™ leads. Lamitrode S-Series™ leads have a small paddle lead profile, which is intended to ease insertion, and an integrated stylet, which is engineered to improve steering and control during implantation. Lamitrode C-Series™ leads are shaped to mimic the curve of the epidural space of the spine, and as such, are designed to facilitate lead placement and to help to reduce lead migration. Also notable among the Lamitrode® lead family is the Lamitrode® lead with the Tripole 8™ configuration. This lead features a unique three-column electrode array designed to focus stimulation more precisely.

The neurostimulation market is constantly changing with the emergence of potential indications like deep brain and cortical stimulation for the treatment of Parkinson’s disease, essential tremor, migraine headaches, depression, obsessive compulsive disorder, obesity, angina, interstitial cystitis and tinnitus. We have plans to expand our presence in the neurostimulation market by obtaining regulatory approvals for multiple targeted indications and have clinical trials planned in 2006 for those indications.

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We received an IDE from the FDA permitting physicians to implant the Libra™ Deep Brain Stimulation (DBS) System to investigate the safety and efficacy of Libra™ systems to treat essential tremor and Parkinson’s disease. We also received approval from the FDA for an interstitial cystitis pilot study. We have also received approvals in Canada and the Netherlands to conduct a multi-center pilot study for chronic, treatment-resistant depression. Physicians recently began implanting Libra™ systems under the essential tremor and Parkinson’s disease studies and have also completed the first Libra™ system implants under the Canadian depression pilot study. Patients were enrolled and underwent screening trial implants in the interstitial cystitis studies in January 2006.

We also received approval from the FDA to expand a feasibility study to a pivotal study of neurostimulation for the treatment of migraine headache. We have submitted a modification to the previously conditionally approved pivotal trial protocol to the FDA and also obtained an amendment to the IDE that allowed us to broaden the indicated population. The first implants under the migraine headache study occurred in the fourth quarter of 2005.

In addition to the planned pivotal studies to treat migraine headache, essential tremor, Parkinson’s disease, and the pilot studies to treat chronic, treatment-resistant depression and interstitial cystitis, we are working on the potential application of our platform technologies to address obesity, tinnitus, angina, ischemic pain associated with peripheral vascular disease, obsessive compulsive disorder and traumatic brain injury, among other indications.

Cardiology : We produce specialized disposable cardiovascular devices, including vascular closure devices, angiography catheters, bipolar temporary pacing catheters, percutaneous catheter introducers and diagnostic guidewires.

Our vascular closure devices are used to close femoral artery puncture sites following angioplasty, stenting and diagnostic and certain peripheral procedures. We expect to launch the Angio-Seal V-Twist Integrated Platform (Angio-Seal VIP) vascular closure system in the first quarter of 2006. The product has already received approval in the United States and Europe. A current trial is underway that compares the performance of

Angio-Seal VIP to manual compression and to an existing competitor's product in percutaneous coronary interventions. These cases are typically the most challenging to seal. Early results of the trial presented at the 2005 Transcatheter Cardiovascular Therapeutics (TCT) meeting in Washington, D.C. indicated that Angio-Seal VIP may offer better performance in these types of procedures. In addition to the performance and ease of use benefits offered from Angio-Seal STS and STS Plus, Angio-Seal VIP features a larger (and wider) collagen footprint and smoother deployment.

In 2005, we made a strategic decision to focus our resources on therapeutic interventional markets. In most cases, these markets are not fully matured, and therefore, our sales representatives may provide additional support to the physicians. As part of this decision, we decided to exit the angiographic catheter market and utilize our resources to acquire Velocimed, a company that was focused on embolic protection, patent foramen ovale (PFO) closure and guidewire support systems.

We launched the Proxis™ Embolic Protection System in Europe in 2005. The Proxis™ system provides embolic protection for saphenous vein grafts by placing the device proximal to the lesion. As opposed to distal systems, the Proxis™ provides protection during guidewire crossing, side branches as well as those procedures that cannot utilize distal protection systems due to patient anatomy. Results of the U.S. Proxis™ randomized clinical trial were presented at the 2005 TCT meeting in Washington, D.C. The data showed a lower major adverse cardiac event rate in the Proxis™ arm versus the patients that utilized distal protection systems or no protection at all. The device is currently under review by the FDA for U.S. approval.

Also launched in 2005 internationally was the Premere™ PFO Closure System. A PFO is a congenital flap, or tunnel, that exists between the left and right atrium of the heart. Currently, certain physicians believe there may be a link between a PFO and recurrent strokes as well as migraine headaches. The Premere™ system is being investigated in the United States under an Investigational Device Exemptions (IDE) trial to determine if there is a reduction in the occurrence of migraine headaches between patients that have and have not had their PFO closed with the Premere™ system. The Premere™ system differs from other currently available systems today. The following are the key differences: independent anchors allow the system to conform to the anatomy, tactile feedback, and a smaller surface area and adjustable tether.

We also launched the Venture™ Wire Control catheter in 2005. This product provides the physician with the ability to navigate tortuous coronary anatomy by having a 90 degree deflectable tip as well as providing additional guidewire support that is sometimes necessary for crossing chronic total occlusions.

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Our bipolar temporary pacing catheters are inserted percutaneously for temporary use (ranging from less than one hour to a maximum of one week) with external pacemakers to provide patient stabilization prior to implantation of a permanent pacemaker, following a heart attack, or during surgical procedures. We produce and market several designs of bipolar temporary pacing catheters, including our Pacel™ biopolar pacing catheters, which are available in both torque control and flow-directed models with a broad range of curve choices and electrode spacing options.

Percutaneous catheter introducers are used to create passageways for cardiovascular catheters from outside the human body through the skin into a vein, artery or other location inside the body. Our percutaneous catheter introducer products consist primarily of peel-away and non peel-away sheaths, sheaths with and without hemostasis valves, dilators, guidewires, repositioning sleeves and needles. These products are offered in a variety of sizes and packaging configurations. Diagnostic guidewires, such as St. Jude's GuideRight™ and HydroSteer™ guidewires, are used in conjunction with percutaneous catheter introducers to aid in the introduction of intravascular catheters. Our diagnostic guidewires are available in multiple lengths and incorporate a surface finish for lasting lubricity.

Atrial Fibrillation : Electrophysiology (EP) is the study of the heart's electrical activity, which helps control how quickly and effectively the heart beats. EP catheters and introducers are placed into the human heart through blood vessels in order to diagnose and treat cardiac arrhythmias (abnormal heart rhythms).

We offer a variety of EP products in multiple configurations. For diagnosing arrhythmias, our Supreme™ and Response™ fixed-curve catheters and Livewire™ steerable diagnostic catheters provide options for physicians dealing with unique anatomical situations. Swartz™ Guiding Introducers and the Telesheath™ Left Atrial Introducer System provide a stable foundation in the left atrium, guiding catheters to precise locations. We also released in mid-2005 the Agilis™ Steerable introducer, a tool that provides additional stability and facilitates the delivery of ablation catheters in challenging anatomical situations. Finally, our Livewire TC™ Ablation catheters apply therapeutic radiofrequency energy to cardiac tissue, helping to manage or cure many cardiac arrhythmias.

During the fourth quarter of 2004, we initiated a limited market release of our Epicor™ Cardiac Ablation System (Epicor™ System). This technology was acquired as part of our Epicor acquisition in June 2004. By applying high intensity focused ultrasound (HIFU) to the outside of a beating heart, the Epicor™ System creates cardiac ablation lesions without the need to put the patient on a heart-lung bypass machine. The primary components of our Epicor™ System include the Ablation Control System™ that generates and controls the ultrasound energy, the UltraCinch™ that wraps around the heart and creates a long linear lesion and the UltraWand™ that allows for additional linear lesions to be customized by the physician.

In January 2005, we completed our acquisition of ESI, a manufacturer of advanced mapping systems for arrhythmias. The EnSite® System is used by electrophysiologists to create three-dimensional models of cardiac chambers and collect and display timing and voltage information on the chamber model to facilitate accurate diagnosis and direct the delivery of ablation therapy. Along with the EnSite® System hardware, a procedure performed with the EnSite® System requires the use of either the EnSite® Array noncontact mapping catheter or EnSite® NavX patch kits.

Competition
The medical device market is intensely competitive and is characterized by extensive research and development and rapid technological change. Our competitors range from small start-up companies to larger companies which have significantly greater resources and broader product offerings, and we anticipate that in the coming years, other large companies will enter certain markets in which we currently hold a strong position. In addition, we expect that competition will continue to intensify with the increased use of strategies such as consigned inventory and reduced pricing. Our customers consider many factors when choosing suppliers, including product reliability, clinical outcomes, product availability, inventory consignment, price and product services provided by the manufacturer, and market share can shift as a result of technological innovation, product field actions and safety alerts and other business factors.

We are one of the three principal manufacturers and suppliers in the global bradycardia pacemaker market, with approximately 25% bradycardia market share in all major developed geographies. Our primary competitors in this market are Medtronic, Inc. and Guidant Corporation. We are also one of three principal manufacturers and suppliers in the highly competitive global ICD market. Our other two competitors, Medtronic, Inc. and Guidant Corporation, account for approximately 80% of the worldwide ICD sales. These two competitors are larger than us and have invested substantial amounts in ICD research and development.

We are the world's leading manufacturer and supplier in the mechanical heart valve market, which includes two other principal manufacturers and suppliers (CarboMedics and ATS Medical, Inc.) and several smaller manufacturers. We also compete against two principal tissue heart valve manufacturers (Edwards Lifesciences Corporation and Medtronic, Inc.) and many other smaller manufacturers.

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We are one of three principal manufacturers of neurostimulation devices. Our primary competitors are Medtronic, Inc. and Boston Scientific Corporation. The neuromodulation market is one of medical technology's fastest growing segments. Competitive pressures will increase in the future as Medtronic, Inc. and Boston Scientific Corporation attempt to secure and grow their positions in the neuromodulation market.

The global cardiology therapy area is growing and has numerous competitors. Over 75% of our sales in this area are from vascular closure devices. We currently hold the number one market position in the highly competitive vascular closure device market. Other vascular closure device competitors include Abbott Laboratories and Datascope Corp. We anticipate other large companies will enter this market in the coming years, which will likely increase competition.

The atrial fibrillation therapy area is broadening to include multiple therapy methods. The marketplace currently embraces multiple methods of treating atrial fibrillation. Treatments include drugs, external electrical cardioversion and defibrillation, implantable defibrillators and open-heart surgery. As a result we have numerous competitors in the emerging atrial fibrillation market. Larger competitors may expend their presence in the atrial fibrillation market by leveraging their CRM capabilities.

Patents and Licenses
Our policy is to protect our intellectual property rights related to our medical devices. Where appropriate, we apply for U.S. and foreign patents. In those instances where we have acquired technology from third parties, we have sought to obtain rights of ownership to the technology through the acquisition of underlying patents or licenses. We have a technology license agreement that provides access to a significant number of patents covering a broad range of technology used in our pacemaker and ICD systems. The patents expire at various dates through the year 2014. The costs deferred under this technology license agreement are recorded on the balance sheet in other long-term assets and are being recognized as an expense over the term of the underlying patents' lives. The license had a net carrying value of $109.2 million and $132.9 million at December 31, 2005 and 2004, respectively.

While we believe design, development, regulatory and marketing aspects of the medical device business represent the principal barriers to entry, we also recognize that our patents and license rights may make it more difficult for competitors to market products similar to those we produce. We can give no assurance that any of our patent rights, whether issued, subject to license, or in process, will not be circumvented or invalidated. Furthermore, there are numerous existing and pending patents on medical products and biomaterials. There can be no assurance that our existing or planned products do not or will not infringe such rights or that others will not claim such infringement. No assurance can be given that we will be able to prevent competitors from challenging our patents or entering markets we currently serve.

Research and Development
We are focused on the development of new products and on improvements to existing products. Research and development expense reflects the cost of these activities, as well as the costs to obtain regulatory approvals of certain new products and processes and to maintain the highest

quality standards with respect to existing products. Our research and development expenses were $369.2 million (12.7% of net sales) in 2005, $281.9 million (12.3% of net sales) in 2004 and $241.1 million (12.5% of net sales) in 2003. We also expensed $179.2 million and $9.1 million of purchased in-process research and development in connection with acquisitions we completed in 2005 and 2004, respectively.

Acquisitions and Minority Investments
In addition to generating growth internally through our own research and development activities, we also make strategic acquisitions and investments to access new technologies and therapy areas. We expect to continue to make acquisitions and investments in future periods to strengthen our business.

On December 30, 2005, we completed the acquisition of Savacor, Inc. (Savacor) for $49.7 million, net of cash acquired, plus additional contingent payments related to product development milestones for regulatory approvals and related to revenues in excess of minimum future targets. Savacor was a development-stage company that has a small implantable sensor device in clinical trials both in the United States and internationally that measures left atrial pressure and body temperature to help physicians detect and manage symptoms associated with progressive heart failure. Increased pressure in the left atrium is a predictor of pulmonary congestion, which is the leading cause of hospitalization for congestive heart failure patients.

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On November 29, 2005, we completed the acquisition of ANS for $61.25 per share in cash. ANS designs, develops, manufactures and markets implantable neuromodulation devices used primarily to manage chronic severe pain. ANS had been publicly traded on the NASDAQ market under the ticker symbol ANSI. Net consideration paid was $1,353.9 million, which includes closing costs less cash acquired. ANS has become the Neuromodulation Division of St. Jude Medical.

On April 6, 2005, we completed the acquisition of Velocimed for $70.9 million, net of cash acquired, plus additional contingent payments tied to revenues in excess of minimum future targets, and a milestone payment upon FDA approval of the Premere™ patent foramen ovale closure system (Premere™) prior to December 31, 2010. Velocimed develops and manufactures specialty interventional cardiology devices.

On January 13, 2005, we completed the acquisition of ESI for $279.4 million, net of cash acquired. ESI had been publicly traded on the NASDAQ market under the ticker symbol ECSI. ESI develops, manufactures and markets the EnSite® System used for the navigation and localization of diagnostic and therapeutic catheters used by physician specialists to diagnose and treat cardiac rhythm disorders.

On October 7, 2004, we completed the acquisition of the remaining capital stock of IBI. IBI develops and sells EP catheter products used by physician specialists to diagnose and treat cardiac rhythm disorders. We had previously made a minority investment in IBI in April 2003 through our acquisition of Getz Bros. Co., Ltd. (Getz Japan). We paid $50.6 million in 2004 to acquire the remaining IBI capital stock. In December 2005, we made a contingent purchase consideration payment of $4.8 million to original IBI shareholders as a result of FDA approval of the Cardiac Ablation Generator and Therapy™ EP catheters. This ablation system is composed of catheters connected to a generator which delivers radiofrequency or ultrasound energy through the catheter to create lesions through ablation of cardiac tissue.

On June 8, 2004, we completed the acquisition of the remaining capital stock of Epicor. Epicor is focused on developing products which use HIFU to ablate cardiac tissue. We had previously made a minority investment in Epicor in May 2003. We paid $185.0 million in 2004 to acquire the remaining Epicor capital stock.

On April 1, 2003, we completed the acquisition of Getz Japan, a distributor of medical technology products in Japan and our largest volume distributor in Japan. We paid 26.9 billion Japanese Yen in cash to acquire 100% of the outstanding common stock of Getz Japan. Net consideration paid was $219.2 million, which includes closing costs less cash acquired. We also acquired the net assets of Getz Bros. & Co. (Aust.) Pty. Limited and Medtel Pty. Limited related to the distribution of our products in Australia for $6.2 million in cash, including closing costs.

On January 12, 2005, we made an initial equity investment of $12.5 million in ProRhythm, Inc. (ProRhythm), a privately-held company that is focused on the development of a HIFU catheter-based ablation system for the treatment of atrial fibrillation. The initial investment resulted in approximately a 9% ownership interest. In connection with making the initial equity investment, we also entered into a purchase and option agreement with ProRhythm. Under the terms of the agreement, we had the option to make an additional $12.5 million equity investment. On February 1, 2006 we made an additional $12.5 million investment in ProRhythm, increasing our total ownership interest to 18%. We also have the exclusive right, but not the obligation, through the later of three months after the date ProRhythm delivers certain clinical trial data or March 31, 2007, to acquire the remaining capital stock of ProRhythm for $125.0 million in cash, with additional cash consideration payable to the non-St. Jude Medical shareholders after the consummation of the acquisition if ProRhythm achieves certain performance-related milestones.

Marketing and Distribution
Our products are sold in more than 100 countries throughout the world. No distributor organization or single customer accounted for more than 10% of 2005, 2004 or 2003 consolidated net sales.

In the United States, we sell directly to hospitals primarily through a direct sales force. In Europe, we have direct sales organizations selling in 21 countries. In Japan, we sell directly to hospitals through a direct sales force due to our acquisition of Getz Japan on April 1, 2003, and we also continue to use longstanding independent distributor relationships. Throughout the rest of the world, we use a combination of independent distributors and direct sales forces.

Group purchasing organizations (GPO) and independent delivery networks (IDN) and large single accounts such as the Veterans Administration in the United States continue to consolidate purchasing decisions for some of our hospital customers. We have contracts in place with many of these organizations. In some circumstances, our inability to obtain a contract with a GPO or IDN could adversely affect our efforts to sell products to that organization's hospitals.

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International Operations
Our net sales and long-lived assets by significant geographic areas are presented in Note 11 of the Consolidated Financial Statements in the Financial Report included in St. Jude Medical's 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K.

Our international business is subject to special risks such as: foreign currency exchange controls and fluctuations; the imposition of or increase in import or export duties, surtaxes, tariffs or customs duties; the imposition of import or export quotas or other trade restrictions; longer accounts receivable cycles; and other international regulatory, economic and political problems. Currency exchange rate fluctuations relative to the U.S. dollar can affect reported consolidated revenues and net earnings. We may hedge a portion of this exposure from time to time to reduce the effect of foreign currency rate fluctuations on net earnings. See the "Market Risk" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Financial Report included in St. Jude Medical's 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K.

Seasonality
Our quarterly net sales are influenced by many factors, including new product introductions, acquisitions, regulatory approvals, patient holiday schedules and other factors. Net sales in the third quarter are typically lower than other quarters of the year as a result of patient tendencies to defer, if possible, cardiac procedures during the summer months and from the seasonality of the U.S. and European markets, where summer vacation schedules normally result in fewer procedures.

Suppliers
We purchase raw materials and other products from numerous suppliers. Our manufacturing requirements comply with the rules and regulations of the FDA, which mandates validation of materials prior to use in our products. We purchase certain supplies used in our manufacturing processes from single sources due to quality considerations, costs or constraints resulting from regulatory requirements. Agreements with certain suppliers are terminable by either party upon short notice and we have been advised periodically by some suppliers that in an effort to reduce their potential product liability exposure, they may terminate sales of products to customers that manufacture implantable medical devices. While some of these suppliers have modified their positions and have indicated a willingness to continue to provide a product temporarily until an alternative vendor or product can be qualified (or even to reconsider the supply relationship), where a particular single-source supply relationship is terminated, we may not be able to establish additional or replacement suppliers for certain components or materials quickly. A reduction or interruption by a sole-source supplier of the supply of materials or key components used in the manufacturing of our products or an increase in the price of those materials or components could adversely affect our business, financial condition and results of operations.

Government Regulation
Our products, development activities and manufacturing processes are subject to extensive and rigorous regulation by the FDA pursuant to the Federal Food, Drug, and Cosmetic Act (FDCA), by comparable agencies in foreign countries and by other regulatory agencies and governing bodies. Under the FDCA and associated regulations, manufacturers of medical devices must comply with certain regulations that cover the composition, labeling, testing, clinical study, manufacturing, packaging and distribution of medical devices. Medical devices must receive FDA clearance or approval before they can be commercially marketed in the United States. The most comprehensive level of approval requires the completion of an FDA-approved clinical evaluation program and submission and approval of a PMA application before a device may be commercially marketed. Our mechanical and tissue heart valves, ICDs, pacemakers and certain leads, certain neurostimulation devices and certain EP catheter applications are subject to this level of approval or as a supplement to a PMA. Other leads and lead delivery tools, annuloplasty ring products, other neurostimulation devices and other EP and cardiology products are currently marketed under the less rigorous 510(k) pre-market notification procedure of the FDCA.

Furthermore, our international business is subject to medical device laws in individual countries outside the United States. Most major markets for medical devices outside the United States require clearance, approval or compliance with certain standards before a product can be commercially marketed. The applicable laws range from extensive device approval requirements in some countries for all or some of our products, to requests for data or certifications in other countries. Generally, international regulatory requirements are increasing. In the European Union, the regulatory systems have been consolidated, and approval to market in all European Union countries (represented by the CE Mark) can be obtained through one agency. The process of obtaining marketing clearance from the FDA and foreign regulatory agencies for new products

or with respect to enhancements or modifications to existing products can take a significant period of time, require the expenditure of substantial resources, involve rigorous pre-clinical and clinical testing, require changes to the products and result in limitations on the indicated uses of the product.

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The FDA conducts inspections prior to approval of a PMA application to determine compliance with the quality system regulations that cover manufacturing and design. In addition, the FDA may require testing and surveillance programs to monitor the effects of approved products that have been commercialized, and may prevent or limit further marketing of products based on the results of these post-marketing programs. At any time after approval of a product, the FDA may conduct periodic inspections to determine compliance with both the FDA's Quality System Regulation (QSR) requirements and/or current medical device reporting regulations. Product approvals by the FDA can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial approval. The failure to comply with regulatory standards or the discovery of previously unknown problems with a product or manufacturer could result in fines, delays or suspensions of regulatory clearances, seizures or recalls of products (with the attendant expenses), the banning of a particular device, an order to replace or refund the cost of any device previously manufactured or distributed, operating restrictions and criminal prosecution, as well as decreased sales as a result of negative publicity and product liability claims.

We are required to register with the FDA as a device manufacturer and as a result, we are subject to periodic inspection by the FDA for compliance with the FDA's QSR requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. In addition, the federal Medical Device Reporting regulations require us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections by the FDA. In the European Community, we are required to maintain certain International Organization for Standardization (ISO) certifications in order to sell products and we undergo periodic inspections by notified bodies to obtain and maintain these certifications.

The FDA also regulates recordkeeping for medical devices and reviews hospital and manufacturers' required reports of adverse experiences to identify potential problems with FDA-authorized devices. Regulatory actions may be taken by the FDA due to adverse experience reports.

Diagnostic-related group (DRG) and Ambulatory Patient Classification (APC) reimbursement schedules dictate the amount that the U.S. government, through the Centers for Medicare and Medicaid Services, will reimburse hospitals for care of persons covered by Medicare. In response to rising Medicare and Medicaid costs, several legislative proposals are under consideration that would restrict future funding increases for these programs. Changes in current DRG and APC reimbursement levels could have an adverse effect on our domestic pricing flexibility.

More generally, major third-party payors for hospital services in the United States and abroad continue to work to contain healthcare costs and the introduction of cost containment incentives, combined with closer scrutiny of healthcare expenditures by both private health insurers and employers, has resulted in increased discounts and contractual adjustments to hospital charges for services performed and in the shifting of services between inpatient and outpatient settings. Initiatives to limit the growth of healthcare costs, including price regulation, are also underway in several countries in which we do business. Implementation of healthcare reforms in the United States and in significant overseas markets such as Germany, Japan and other countries may limit the price of, or the level at, which reimbursement is provided for our products.

The United States Medicare-Medicaid Anti-kickback law generally prohibits payments to physicians or other purchasers of medical products under these government programs in exchange for the purchase of a product. Many foreign countries have similar laws. We subscribe to the AdvaMed Code (AdvaMed is a U.S. medical device industry trade association) which limits certain marketing and other practices in our relationship with product purchasers. We also adhere to many similar codes in countries outside the United States.

Federal and state laws protect the confidentiality of certain patient health information, including patient records, and restrict the use and disclosure of such information. In particular, in October 2002, the U.S. Department of Health and Human Services issued patient privacy rules under the Health Insurance Portability and Accountability Act of 1996 (HIPAA privacy rule). The HIPAA privacy rule governs the use and disclosure of protected health information by "covered entities," which are healthcare providers that submit electronic claims, health plans and healthcare clearinghouses. Other than to the extent we self-insure part of our employee health benefits plans, the HIPAA privacy rule only affects us indirectly. Our policy is to work with customers and business partners in their HIPAA compliance efforts.

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Some medical device regulatory agencies have begun to consider whether to continue to permit the sale of medical devices that incorporate any bovine material because of concerns about Bovine Spongiform Encephalopathy (BSE), sometimes referred to as “mad cow disease,” a disease which has sometimes been transmitted to humans through the consumption of beef. We are not aware of any reported cases of transmission of BSE through medical products. Some of our products (Angio-Seal™ and vascular grafts) use bovine collagen. In addition, some of the tissue heart valves which we market incorporate bovine pericardial material. We are cooperating with the regulatory agencies considering these issues.

Product Liability

The design, manufacture and marketing of medical devices of the types we produce entail an inherent risk of product liability claims. Our products are often used in intensive care settings with seriously ill patients, and many of the medical devices we manufacture and sell are designed to be implanted in the human body for long periods of time or indefinitely. There are a number of factors that could result in an unsafe condition or injury to, or death of, a patient with respect to these or other products which we manufacture or sell, including component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information. Product liability claims may be brought by individuals or by groups seeking to represent a class.

We are currently the subject of various product liability claims, including several lawsuits which may be allowed to proceed as class actions in the United States and Canada. The outcome of litigation, particularly class action lawsuits, is difficult to assess or quantify. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. In addition, product liability claims may be asserted against the Company in the future, relative to events that are not known to management at the present time.

Insurance

Problems with our products can result in product liability claims or a field action, safety alert or advisory notice relating to the product. Our product liability insurance coverage is designed to help protect us against a catastrophic claim. Our current product liability policies (for the period April 1, 2005 through June 15, 2006) provide $400 million of insurance coverage, with a $100 million deductible per occurrence.

Our facilities could be materially damaged by earthquakes, hurricanes and other natural disasters or catastrophic circumstances. California earthquake insurance is currently difficult to obtain, extremely costly, and restrictive with respect to scope of coverage. Our earthquake insurance for our significant CRM manufacturing facilities located in Sylmar and Sunnyvale, California, provides $30 million of insurance coverage in the aggregate, with a deductible equal to 5% of the total value of the facility and contents involved in the claim. Consequently, despite this insurance coverage, we could incur uninsured losses and liabilities arising from an earthquake near one or both of our California manufacturing facilities as a result of various factors, including the severity and location of the earthquake, the extent of any damage to our manufacturing facilities, the impact of an earthquake on our California workforce and on the infrastructure of the surrounding communities and the extent of damage to our inventory and work in process. While we believe that our exposure to significant losses from a California earthquake could be partially mitigated by our ability to manufacture some of our CRM products at our Swedish manufacturing facility, the losses could have a material adverse effect on our business for an indeterminate period of time before this manufacturing transition is complete and operates without significant problem. Furthermore, our manufacturing facility in Puerto Rico may suffer damage as a result of hurricanes which are frequent in the Caribbean and which could result in lost production and additional expenses to us to the extent any such damage is not fully covered by our hurricane and business interruption insurance.

Employees

As of December 31, 2005, we had over 10,000 employees. our employees are not represented by any labor organizations, with the exception of our employees in Sweden and certain employees in France. We have never experienced a work stoppage as a result of labor disputes. We believe that our relationship with our employees is generally good.

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Executive Officers of the Registrant

The following is a list of our executive officers as of February 16, 2006. For each position, the dates in parentheses indicate the year during which each executive officer began serving in such capacity.

Name	Age	Position
Daniel J. Starks	51	Chairman (2004), President (2001) and Chief Executive Officer (2004)
John C. Heinmiller	51	Executive Vice President (2004) and Chief Financial Officer (1998)
Paul R. Buckman	50	President, Cardiology (2004)
Christopher G. Chavez	50	President, Neuromodulation (2005)
Michael J. Coyle	43	President, Cardiac Rhythm Management (2001)
George J. Fazio	46	President, Cardiac Surgery (2004)

Joseph H. McCullough	56	President, International (2001)
Michael T. Rousseau	50	President, U.S. Sales (2001)
Jane J. Song	43	President, Atrial Fibrillation (2004)
Angela D. Craig	34	Vice President, Corporate Relations (2006)
David C. Fetah	45	Vice President, Human Resources (2005)
William J. McGarry	48	Vice President, Information Technology (2005) and Chief Information Officer (2005)
Thomas R. Northenscold	48	Vice President, Administration (2003)
Kevin T. O'Malley	54	Vice President (1994), General Counsel (1994) and Secretary (1996)
Donald J. Zurbay	38	Vice President (2006) and Corporate Controller (2004)

Mr. Starks has served on St. Jude Medical's Board of Directors since 1996 and has been Chairman, President and Chief Executive Officer of St. Jude Medical since May 12, 2004. Previously, Mr. Starks was President and Chief Operating Officer of St. Jude Medical since February 1, 2001. From April 1998 to February 2001, he was President and Chief Executive Officer of our Cardiac Rhythm Management Division, and prior to that, Mr. Starks was Chief Executive Officer and President, Daig Corporation, a wholly-owned subsidiary of St. Jude Medical. Mr. Starks serves on the Board of Directors of Urologix, Inc., a urology medical device company.

Mr. Heinmiller joined St. Jude Medical in May 1996 as a part of our acquisition of Daig Corporation, where Mr. Heinmiller had served as Vice President of Finance and Administration since 1995. In May 1998, he was named Vice President of Corporate Business Development. In September 1998, he was appointed Vice President, Finance and Chief Financial Officer and in May 2004 was promoted to Executive Vice President.

Mr. Buckman joined St. Jude Medical in 2004 as President, Cardiology Division. In 2004, Mr. Buckman served as Vice President of Marketing for Guidant Corporation, a medical device company. From 2001 to 2004, he was Founder, Chairman and Chief Executive Officer of ev3 LLC, a medical device company focused on endovascular therapies. Prior to founding ev3 LLC, Mr. Buckman served as President of the Scimed Division of Scimed Life Systems, Inc./Boston Scientific Corporation, a medical device company, from 2000 to 2001.

Mr. Chavez joined St. Jude Medical as President, Neuromodulation Division, as part of our acquisition of ANS in November 2005. From April 1998 to 2005, he served as President, Chief Executive Officer and Director of ANS. Mr. Chavez serves on the Board of Directors of Advanced Medical Optics, Inc., an optical medical device company.

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Mr. Coyle joined St. Jude Medical in 1994 as Director, Business Development. He served as President and Chief Operating Officer of Daig Corporation, a wholly-owned subsidiary of St. Jude Medical, from 1997 to 2001 and was appointed President, Cardiac Rhythm Management, in February 2001. Mr. Coyle serves on the Board of Directors of VNUS Medical Systems, Inc., a company that develops and markets medical devices to treat peripheral vein disorders.

Mr. Fazio joined St. Jude Medical in 1992 and served as the General Manager of St. Jude Medical Canada, Inc., based in Mississauga, Ontario, Canada, until being named President, Health Care Services in May 1999. In July 2001, he was appointed President of St. Jude Medical Europe and in August 2004 was named President, Cardiac Surgery Division.

Mr. McCullough joined St. Jude Medical in 1994 as a Cardiac Rhythm Management Regional Sales Director. He became Director of Cardiac Rhythm Management Marketing in 1996 and was named Vice President of Cardiac Rhythm Management Marketing in January 1997. In December 1997, Mr. McCullough was appointed Cardiac Rhythm Management Business Unit Director. He became Vice President, Cardiac Rhythm Management Europe and Managing Director of the Company's manufacturing operations in Veddesta, Sweden, in January 1999, and Senior Vice President, Cardiac Rhythm Management Europe in August 1999. He has served as President, International Division since July 2001.

Mr. Rousseau joined St. Jude Medical in 1999 as Senior Vice President, Cardiac Rhythm Management Global Marketing. In August 1999, Cardiac Rhythm Management Marketing and Sales were combined under his leadership. In January 2001, he was named President, U.S. Cardiac Rhythm Management Sales, and in July 2001 he was named President, U.S. Division.

Ms. Song joined St. Jude Medical in 1998 as Senior Vice President, Cardiac Rhythm Management Operations. In May 2002 she was appointed President, Cardiac Surgery and in August 2004 was appointed President, Atrial Fibrillation Division.

Ms. Craig joined St. Jude Medical in May 2005 as Vice President of Communications and served in that position until being named Vice

President, Corporate Relations, in January 2006. Prior to joining St. Jude Medical, Ms. Craig spent 12 years with Smith & Nephew plc, a medical device company headquartered in London, England where she served as Director of Communications prior to serving as Vice President of U.S. Public Relations and Investor Relations from 2003 to 2005.

Mr. Fetah joined St. Jude Medical as Vice President, Human Resources in February 2005. From 2000 to 2005, Mr. Fetah served as Vice President, Human Resources and Administration at Western Digital Corporation, a publicly held computer storage design and manufacturing company.

Mr. McGarry joined St. Jude Medical as Vice President, Information Technology and Chief Information Officer in September 2005. From 2001 to 2005, Mr. McGarry served as Vice President, Enterprise Applications, at Medtronic, Inc., a medical device company, where he was responsible for managing global enterprise applications development and deployment.

Mr. Northenscold joined St. Jude Medical in 2001 as Vice President, Finance and Administration of Daig Corporation, a wholly-owned subsidiary of St. Jude Medical. In March 2003, he was appointed Vice President, Administration. Prior to joining St. Jude Medical, Mr. Northenscold worked at PPT Vision, Inc., an industrial technology and automation company, where he served as Division General Manager from January 1999 to September 2001.

Mr. O'Malley joined St. Jude Medical in 1994 as Vice President and General Counsel. Since December 1996, he has also served as Corporate Secretary.

Mr. Zurbay joined St. Jude Medical in 2003 as Director of Corporate Finance. In 2004, Mr. Zurbay was named Corporate Controller, and in January 2006 he was named Vice President and Corporate Controller. From 1999 to 2003, he served as Senior Audit Manager at PricewaterhouseCoopers LLP, a national public accounting firm.

Availability of SEC Reports
We make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practical after they are filed or furnished to the U.S. Securities and Exchange Commission (SEC). Such reports are available on our website (http://www.sjm.com) under Company Information section "Investor Relations" or can be obtained by contacting our Investor Relations group at 1.800.552.7664 or at St. Jude Medical, Inc., One Lillehei Plaza, St. Paul, Minnesota 55117. Information included on our website is not deemed to be incorporated into this Form 10-K.

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Item 1A. RISK FACTORS

Our business faces many risks. Any of the risks discussed below, or elsewhere in this Form 10-K or our other SEC filings, could have a material impact on our business, financial condition or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.

We face intense competition and may not be able to keep pace with the rapid technological changes in the medical devices industry.

The medical device market is intensely competitive and is characterized by extensive research and development and rapid technological change. Our customers consider many factors when choosing suppliers, including product reliability, clinical outcomes, product availability, inventory consignment, price and product services provided by the manufacturer, and market share can shift as a result of technological innovation, product field actions and safety alerts and other business factors. Our competitors range from small start-up companies to larger companies which have significantly greater resources and broader product offerings than us, and we anticipate that in the coming years, other large companies will enter certain markets in which we currently hold a strong position. For example, Boston Scientific is in the process of acquiring one of our principal competitors, Guidant Corporation. In addition, we expect that competition will continue to intensify with the increased use of strategies such as consigned inventory and reduced pricing. Our sales in the second half of 2005 have benefited from product recalls by certain of our competitors and may decrease once these competitors overcome these issues. Product introductions or enhancements by competitors which have advanced technology, better features or lower pricing may make our products or proposed products obsolete or less competitive. As a result, we will be required to devote continued efforts and financial resources to bring our products under development to market, enhance our existing products and develop new products for the medical marketplace. If we fail to develop new products, enhance existing products or compete effectively, our business, financial condition and results of operations will be adversely affected.

We are subject to stringent domestic and foreign medical device regulation which may impede the approval process for our products, hinder our development activities and manufacturing processes and, in some cases, result in the recall or seizure of previously approved products.

Our products, development activities and manufacturing processes are subject to extensive and rigorous regulation by the FDA pursuant to the FDCA, by comparable agencies in foreign countries and by other regulatory agencies and governing bodies. Under the FDCA and associated regulations, manufacturers of medical devices must comply with certain regulations that cover the composition, labeling, testing, clinical study, manufacturing, packaging and distribution of medical devices. In addition, medical devices must receive FDA clearance or approval before they can be commercially marketed in the United States, and the FDA may require testing and surveillance programs to monitor the effects of approved products that have been commercialized and can prevent or limit further marketing of a product based on the results of these post-marketing programs. Furthermore, most major markets for medical devices outside the United States require clearance, approval or compliance with certain standards before a product can be commercially marketed. The process of obtaining marketing approval or clearance from the FDA and foreign regulatory agencies for new products or with respect to enhancements or modifications to existing products could take a significant period of time, require the expenditure of substantial resources, involve rigorous pre-clinical and clinical testing, require changes to the products and result in limitations on the indicated uses of the product. We cannot assure you that we will receive the required approval or clearance from the FDA and foreign regulatory agencies for new products or modifications to existing products on a timely basis. The failure to receive approval or clearance for significant new products on a timely basis could have a material adverse effect on our financial condition and results of operations.

At any time after approval of a product, the FDA may conduct periodic inspections to determine compliance with both the FDA's Quality System Regulation (QSR) requirements and/or current medical device reporting regulations. Product approvals by the FDA can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial approval. The failure to comply with regulatory standards or the discovery of previously unknown problems with a product or manufacturer could result in fines, delays or suspensions of regulatory clearances, seizures or recalls of products (with the attendant expenses), the banning of a particular device, an order to replace or refund the cost of any device previously manufactured or distributed, operating restrictions and criminal prosecution, as well as decreased sales as a result of negative publicity and product liability claims, and could have a material adverse effect on our financial condition and results of operations.

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We may not be able to meet regulatory quality standards applicable to our manufacturing process.

We are required to register with the FDA as a device manufacturer and as a result, we are subject to periodic inspection by the FDA for compliance with the FDA's QSR requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. In addition, the federal Medical Device Reporting regulations require us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections by the FDA. In the European Community, we are required to maintain certain International Organization for Standardization (ISO) certifications in order to sell products and we undergo periodic inspections by notified bodies to obtain and maintain these certifications. If we or our manufacturers fail to adhere to QSR or ISO requirements, this could delay production of our products and lead to fines, difficulties in obtaining regulatory clearances, recalls or other consequences, which could in turn have a material adverse effect on our financial condition and results of operations.

If we are unable to protect our intellectual property effectively, our financial condition and results of operations could be adversely affected.

Patents and other proprietary rights are essential to our business and our ability to compete effectively with other companies is dependent upon the proprietary nature of our technologies. We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop, maintain and strengthen our competitive position. We seek to protect these, in part, through confidentiality agreements with certain employees, consultants and other parties. We pursue a policy of generally obtaining patent protection in both the United States and in key foreign countries for patentable subject matter in our proprietary devices and also attempt to review third-party patents and patent applications to the extent publicly available to develop an effective patent strategy, avoid infringement of third-party patents, identify licensing opportunities and monitor the patent claims of others. We currently own numerous United States and foreign patents and have numerous patent applications pending. We are also a party to various license agreements pursuant to which patent rights have been obtained or granted in consideration for cash, cross-licensing rights or royalty payments. We cannot assure you that any pending or future patent applications will result in issued patents, that any current or future patents issued to or licensed by us will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide a competitive advantage to us or prevent competitors from entering markets which we currently serve. Any required license may not be available to us on acceptable terms, if at all. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technologies as us. In addition, we may have to take legal action in the future to protect our trade secrets or know-how or to defend them against claimed infringement of the rights of others. Any legal action of that type could be costly and time consuming to us and we cannot assure you that any lawsuit will be successful. The invalidation of key patents or proprietary rights which we own or an unsuccessful outcome in lawsuits to protect our intellectual property could have a material adverse effect on our financial condition and results of operations.

Pending and future patent litigation could be costly and disruptive to us and may have an adverse effect on our financial condition and results of operations.

We operate in an industry that is susceptible to significant patent litigation and, in recent years, it has been common for companies in the medical device field to aggressively challenge the rights of other companies to prevent the marketing of new devices. Companies that obtain patents for products or processes that are necessary for or useful to the development of our products may bring legal actions against us claiming infringement and at any given time, we generally are involved as both a plaintiff and a defendant in a number of patent infringement and other intellectual property-related actions. Among other matters, we are currently defending three significant ongoing patent infringement actions brought against us by one of our principal competitors, Guidant Corporation. We are also defending Intellectual property litigation is expensive and complex and its outcome is difficult to predict. Any pending or future patent litigation may result in significant royalty or other payments or injunctions that can prevent the sale of products and may cause a significant diversion of the efforts of our technical and management personnel. While we intend to defend any such lawsuits vigorously, we cannot assure you that we will be successful. In the event that our right to market any of our products is successfully challenged or if we fail to obtain a required license or are unable to design around a patent, our financial condition and results of operations could be materially adversely affected.

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Pending and future product liability claims and litigation may adversely affect our financial condition and results of operations.

The design, manufacture and marketing of medical devices of the types we produce entail an inherent risk of product liability claims. Our products are often used in intensive care settings with seriously ill patients, and many of the medical devices we manufacture and sell are designed to be implanted in the human body for long periods of time or indefinitely. There are a number of factors that could result in an unsafe condition or injury to, or death of, a patient with respect to these or other products which we manufacture or sell, including component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information. Product liability claims may be brought by individuals or by groups seeking to represent a class.

We are currently the subject of various product liability claims, including several lawsuits which may be allowed to proceed as class actions in the United States and Canada. The outcome of litigation, particularly class action lawsuits, is difficult to assess or quantify. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. For example, in January 2000, we initiated a voluntary field action to replace products incorporating Silzone® coating, which was used in certain of our mechanical heart valves and heart valve repair products. After our voluntary field action, we were sued in various jurisdictions and now have cases pending in the United States, Canada, the United Kingdom, Ireland and France which have been brought by some patients alleging complications and past or future costs arising either from the surgical removal or, alternatively, from the continued implantation and maintenance of products incorporating Silzone® coating over and above the medical monitoring all replacement heart valve patients receive. Some of the cases involving Silzone®-coated products have been settled, others have been dismissed and still others are ongoing. The complaints in the ongoing individual cases in the United States request damages ranging from $10,000 to $120.5 million and in some cases, seek an unspecified amount, and the complaints in the Canadian class actions request damages ranging from the equivalent of $1.3 million to $1.7 billion. We believe that the final resolution of the Silzone®-coated product cases will take several years and we cannot reasonably estimate the time frame in which any potential settlements or judgments would be paid out or the amounts of any such settlements or judgments. In addition, the cost to defend any future litigation, whether Silzone®-related or not, may be significant. While we believe that many settlements and judgments relating to the Silzone® litigation and our other litigation may be covered in whole or in part under our product liability insurance policies and existing reserves, any costs not so covered could have a material adverse effect on our financial condition and results of operations.

We may be unable to obtain appropriate levels of product liability insurance.

Problems with our products can result in product liability claims or a field action, safety alert or advisory notice relating to the product. Our product liability insurance coverage is designed to help protect us against a catastrophic claim. Our current product liability policies provide $400 million of insurance coverage, with a $100 million deductible per occurrence. We cannot assure you that such insurance will be available or adequate to satisfy future claims or that our insurers will be able to pay claims on insurance policies which they have issued to us. If we are unable to secure appropriate levels of product liability insurance coverage, our financial condition and results of operations could be materially adversely affected.

Our product liability insurers may not be able to meet their current or future payment obligations to us.

Our present layer of product liability insurance for Silzone® claims (which consists of a number of layers, each of which is covered by one or more insurance companies) is covered by a unit of the Kemper Insurance Companies (Kemper), which is currently in “run off” and not issuing new policies or generating any new revenue that could be used to cover claims made under previously-issued policies such as ours. In the event that Kemper is unable to pay part or all of the claims directed to it, we believe that the other insurance carriers in above Kemper’s layer will take the position that we will be directly liable for any claims and costs that Kemper is unable to pay and that insurance carriers at policy layers following Kemper’s will not provide coverage for Kemper’s layer. If Kemper or any other insurance companies are unable to meet their respective obligations to us, we could incur substantial losses which could have an adverse effect on our financial condition and results of operations.

Our operations are subject to environmental, health and safety laws and regulations that could require us to incur material costs.

Our operations are subject to environmental, health and safety laws and regulations concerning, among other things, the generation, handling, transportation and disposal of hazardous substances or wastes, particularly ethylene oxide, the cleanup of hazardous substance releases, and emissions or discharges into the air or water. We have incurred and expect to incur expenditures in the future in connection with compliance with environmental, health and safety laws and regulations. New laws and regulations, violations of these laws or regulations, stricter enforcement of existing requirements, or the discovery of previously unknown contamination, could require us to incur costs or become the basis for new or increased liabilities that could be material.

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The loss of any of our sole-source suppliers or an increase in the price of inventory supplied to us could have an adverse effect on our business, financial condition and results of operations.

We purchase certain supplies used in our manufacturing processes from single sources due to quality considerations, costs or constraints resulting from regulatory requirements. Agreements with certain suppliers are terminable by either party upon short notice and we have been advised periodically by some suppliers that in an effort to reduce their potential product liability exposure, they may terminate sales of products to customers that manufacture implantable medical devices. While some of these suppliers have modified their positions and have indicated a willingness to continue to provide a product temporarily until an alternative vendor or product can be qualified (or even to reconsider the supply relationship), where a particular single-source supply relationship is terminated, we may not be able to establish additional or replacement suppliers for certain components or materials quickly. This is largely due to the FDA approval system, which mandates validation of materials prior to use in our products, and the complex nature of manufacturing processes employed by many suppliers. In addition, we may lose a sole-source supplier due to, among other things, the acquisition of such a supplier by a competitor (which may cause the supplier to stop selling its products to us) or the bankruptcy of such a supplier, which may cause the supplier to cease operations. A reduction or interruption by a sole-source supplier of the supply of materials or key components used in the manufacturing of our products or an increase in the price of those materials or components could adversely affect our business, financial condition and results of operations.

Cost containment pressures and domestic and foreign legislative or administrative reforms resulting in restrictivere imbursement practices of third-party payors or preferences for alternate therapies could decrease the demand for products purchased by our customers, the prices which they are willing to pay for those products and the number of procedures using our devices.

Our products are purchased principally by hospitals or physicians which typically bill various third-party payors, such as governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed care plans, for the healthcare services provided to their patients. The ability of customers to obtain appropriate reimbursement for their products and services from government and third-party payors is critical to the success of medical technology companies. The availability of reimbursement affects which products customers purchase and the prices they are willing to pay. Reimbursement varies from country to country and can significantly impact the acceptance of new technology. After we develop a promising new product, we may find limited demand for the product unless reimbursement approval is obtained from private and governmental third-party payors.

Major third-party payors for hospital services in the United States and abroad continue to work to contain healthcare costs. The introduction of cost containment incentives, combined with closer scrutiny of healthcare expenditures by both private health insurers and employers, has resulted in increased discounts and contractual adjustments to hospital charges for services performed and in the shifting of services between inpatient and outpatient settings. Initiatives to limit the growth of healthcare costs, including price regulation, are also underway in several countries in which we do business. Implementation of healthcare reforms in the United States and in significant overseas markets such as Germany, Japan and other countries may limit the price of, or the level at, which reimbursement is provided for our products and adversely affect both our pricing flexibility and the demand for our products. Hospitals or physicians may respond to such cost-containment pressures by substituting lower cost products or other therapies for our products.

Further legislative or administrative reforms to the U.S. or international reimbursement systems that significantly reduce reimbursement for procedures using our medical devices or deny coverage for such procedures, or adverse decisions relating to our products by administrators of such systems in coverage or reimbursement issues, would have an adverse impact on the products, including clinical products, purchased by our customers and the prices our customers are willing to pay for them. This in turn would have an adverse effect on our financial condition and results of operations.

Consolidation in the healthcare industry could lead to demands for price concessions or to the exclusion of some suppliers from certain of our significant market segments.

The cost of healthcare has risen significantly over the past decade and numerous initiatives and reforms initiated by legislators, regulators and third-party payors to curb these costs have resulted in a consolidation trend in the medical device industry as well as among our customers, including hospitals. This in turn has resulted in greater pricing pressures and the exclusion of certain suppliers from important market segments,

as group purchasing organizations, independent delivery networks and large single accounts, such as the Veterans Administration in the United States, continue to consolidate purchasing decisions for some of our hospital customers. We expect that market demand, government regulation, third-party reimbursement policies and societal pressures will continue to change the worldwide healthcare industry, resulting in further business consolidations and alliances which may exert further downward pressure on the prices of our products and adversely impact our business, financial condition and results of operations.

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Failure to integrate acquired businesses into our operations successfully could adversely affect our business.

As part of our strategy to develop and identify new products and technologies, we have made several acquisitions in recent years, including our acquisition of ANS in November 2005, and we may make additional acquisitions in the future. Our integration of the operations of acquired businesses requires significant efforts, including the coordination of information technologies, research and development, sales and marketing, operations, manufacturing and finance. These efforts result in additional expenses and involve significant amounts of management's time that cannot then be dedicated to other projects. Our failure to manage successfully and coordinate the growth of the combined company could also have an adverse impact on our business. In addition, we cannot assure you that some of the businesses we acquire will become profitable or remain so. If our acquisitions are not successful, we may record unexpected impairment charges. Factors that will affect the success of our acquisitions include:

- the presence or absence of adequate internal controls and/or significant fraud in the financial systems of acquired companies;
- adverse developments arising out of investigations by governmental entities of the business practices of acquired companies, such as the current investigation into certain sales and marketing, reimbursement, Medicare and Medicaid billing and certain other business practices of ANS by the Office of the Inspector General of the Department of Health and Human Services;
- any decrease in customer loyalty and product orders caused by dissatisfaction with the combined companies' product lines and sales and marketing practices, including price increases;
- our ability to retain key employees; and
- the ability of the combined company to achieve synergies among its constituent companies, such as increasing sales of the combined company's products, achieving cost savings and effectively combining technologies to develop new products.

Instability in international markets or foreign currency fluctuations could adversely affect our results of operations.

Our products are currently marketed in more than 100 countries around the world, with our largest geographic markets outside of the United States being Europe and Japan. As a result, we face currency and other risks associated with our international sales. We are exposed to foreign currency exchange rate fluctuations due to transactions denominated primarily in euros, Japanese yen, Canadian dollars, Brazilian reals, British pounds and Swedish kronor, which may potentially reduce the U.S. dollars we receive for sales denominated in any of these foreign currencies and/or increase the U.S. dollars we report as expenses in these currencies, thereby affecting our reported consolidated revenues and net earnings. We do not currently hedge our foreign currency exposure. Consequently, fluctuations between the currencies in which we do business have caused and will continue to cause foreign currency transaction gains and losses. We cannot predict the effects of currency exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposures and the volatility of currency exchange rates.

In addition to foreign currency exchange rate fluctuations, there are a number of additional risks associated with our international operations, including those related to:

- the imposition of or increase in import or export duties, surtaxes, tariffs or customs duties;
- the imposition of import or export quotas or other trade restrictions;
- foreign tax laws and potential increased costs associated with overlapping tax structures;
- longer accounts receivable cycles in certain foreign countries, whether due to cultural, exchange rate or other factors;
- changes in regulatory requirements in international markets in which we operate;
- inquiries into possible improprieties in our international operations, such as our inclusion in the report of the Independent Inquiry Committee into the United Nations Oil-For-Food Programme as allegedly having made payments to the Iraqi government in connection with certain product sales which we made to Iraq under this program from 2000 to 2003; and
- economic and political instability in foreign countries.

The medical device industry is the subject of a governmental investigation into marketing and other business practices which could divert the attention of our management, be costly to us and have an adverse effect on our financial condition and results of operations.

In January 2005, ANS received a subpoena from the Office of the Inspector General, Department of Health and Human Services, requesting documents related to certain of its sales and marketing, reimbursement, Medicare and Medicaid billing, and other business practices.

In October 2005, the U.S. Department of Justice, acting through the U.S. Attorney's office in Boston, commenced an industry-wide investigation under the HIPAA privacy rule into whether makers of implantable cardiac rhythm devices had offered improper payments or other inducements to doctors or other persons as a means of promoting the use of these makers' products. As part of this investigation, we received a civil subpoena from the U.S. Attorney's office in Boston requesting documents on our practices related to pacemakers, ICDs, lead systems and related products marketed by our CRM business during the period from January 2000 to date. We understand that our principal competitors in the CRM therapy areas received similar civil subpoenas.

In February 2006, we received a subpoena from the SEC requesting that we produce documents concerning transactions under the U.N. Oil-for-Food Programme. We are cooperating with the SEC's request.

While we intend to cooperate fully with these investigations and are responding to these requests, we cannot predict when these investigations will be resolved, the outcome of these investigations or their impact on the Company. If these investigations continue over a long period of time, they could divert the attention of management from the day-to-day operations of our business, impose significant administrative burdens on us and result in additional compliance or other costs. These potential consequences, as well as any adverse outcome from these investigations, could have an adverse effect on our financial condition and results of operations.

Regulatory actions arising from the concern over Bovine Spongiform Encephalopathy may limit our ability to market products containing bovine material.

Our Angio-Seal™ vascular closure device, as well as our vascular graft products, contain bovine collagen. In addition, some of the tissue heart valves which we market incorporate bovine pericardial material. Certain medical device regulatory agencies have begun to consider whether to continue to permit the sale of medical devices that incorporate any bovine material because of concerns over BSE, sometimes referred to as "mad cow disease," a disease which has sometimes been transmitted to humans through the consumption of beef. While we are not aware of any reported cases of transmission of BSE through medical products and while we are cooperating with regulatory agencies considering these issues, the suspension or revocation of authority to manufacture, market or distribute products containing bovine material, or the imposition of a regulatory requirement that we procure material for these products from alternate sources, could result in lost market opportunities, harm the continued commercialization and distribution of such products and impose additional costs on us. Any of these consequences could in turn have a material adverse effect on our financial condition and results of operations.

We are not insured against all potential losses and could be seriously harmed by natural disasters or other catastrophes.

Our facilities could be materially damaged by earthquakes, hurricanes and other natural disasters or catastrophic circumstances. For example, we have significant CRM manufacturing facilities located in Sylmar and Sunnyvale, California. California earthquake insurance is currently difficult to obtain, extremely costly and restrictive with respect to scope of coverage. Our earthquake insurance for these California facilities provides $30 million of insurance coverage in the aggregate, with a deductible equal to 5% of the total value of the facility and contents involved in the claim. Consequently, despite this insurance coverage, we could incur uninsured losses and liabilities arising from an earthquake near one or both of our California manufacturing facilities as a result of various factors, including the severity and location of the earthquake, the extent of any damage to our manufacturing facilities, the impact of an earthquake on our California workforce and on the infrastructure of the surrounding communities and the extent of damage to our inventory and work in process. While we believe that our exposure to significant losses from a California earthquake could be partially mitigated by our ability to manufacture some of our CRM products at our Swedish manufacturing facility, the losses could have a material adverse effect on our business for an indeterminate period of time before this manufacturing transition is complete and operates without significant problem. Furthermore, our manufacturing facility in Puerto Rico may suffer damage as a result of hurricanes which are frequent in the Caribbean and which could result in lost production and additional expenses to us to the extent any such damage is not fully covered by our hurricane and business interruption insurance.

Even with insurance coverage, natural disasters or other catastrophic events could cause us to suffer substantial losses in our operational capacity and could also lead to a loss of opportunity and to a potential adverse impact on our relationships with our existing customers resulting from our inability to produce products for them, for which we would not be compensated by existing insurance. This in turn could have a material adverse effect on our financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We own our principal executive offices, which are located in St. Paul, Minnesota. Our manufacturing facilities are located in California, Minnesota, Arizona, South Carolina, Texas, New Jersey, Oregon, Canada, Brazil, Puerto Rico and Sweden. We own approximately 54%, or 370,000 square feet, of our total manufacturing space. All of our owned manufacturing space is in the CRM/CS/Neuro reportable segment. Our remaining manufacturing space is leased.

We also maintain sales and administrative offices in the United States at 24 locations in 13 states and outside the United States at 76 locations in 33 countries. With the exception of two locations, all of these locations are leased.

We believe that all buildings, machinery and equipment are in good condition, suitable for their purposes and are maintained on a basis consistent with sound operations. We believe that we have sufficient space for our current operations and for foreseeable expansion in the next few years.

Item 3. LEGAL PROCEEDINGS

We are the subject of various pending or threatened legal actions and proceedings, including those that arise in the ordinary course of our business. Such matters are subject to many uncertainties and to outcomes that are not predictable with assurance and that may not be known for extended periods of time. We record a liability in our consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments, where we have assessed that a loss is probable and an amount can be reasonably estimated. Our significant legal proceedings are discussed in Note 5 of the Consolidated Financial Statements in the Financial Report included in St. Jude Medical's 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K and incorporated herein by reference. While it is not possible to predict the outcome for most the legal proceedings discussed in Note 5, the costs associated with such proceedings could have a material adverse effect on our consolidated earnings, financial position or cash flows of a future period.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2005.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There were no sales of unregistered securities during the 2005 fiscal year. There were no shares repurchased under our share repurchase program in the fourth quarter of 2005. The information set forth under the "Stock Exchange Listings" caption in the Financial Report included in St. Jude Medical's 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K is incorporated herein by reference. We have not declared or paid any cash dividends during the past three years. We currently intend to retain our earnings for use in the operation and expansion of our business and therefore do not anticipate paying any cash dividends in the foreseeable future.

Item 6. SELECTED FINANCIAL DATA

The information set forth under the caption “Five-Year Summary Financial Data” in the Financial Report included in St. Jude Medical’s 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K is incorporated herein by reference.

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Financial Report included in St. Jude Medical’s 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the “Market Risk” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Financial Report included in St. Jude Medical’s 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and Notes thereto and the Report of Independent Registered Public Accounting Firm set forth in the Financial Report included in St. Jude Medical’s 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2005.

Management’s annual report on our internal control over financial reporting is provided in the Financial Report included in St. Jude Medical’s 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K and incorporated herein by reference. Management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is provided in the Financial Report included in St. Jude Medical’s 2005 Annual Report to Shareholders and filed as Exhibit 13 to this Form 10-K and incorporated herein by reference.

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During the fiscal quarter ended December 31, 2005, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

Effective with the acquisition of ANS on November 29, 2005, we assumed the Employment Agreement dated April 1, 2002 between Christopher G. Chavez and ANS (the “Employment Agreement”). Mr. Chavez joined ANS as President, Chief Executive Officer and director in April 1998 and became President of our Neuromodulation Division following the acquisition of ANS. The Employment Agreement expires April 1, 2007, and automatically renews for one-year terms thereafter unless ANS gives at least 90 days notice of nonrenewal. Under the Employment Agreement, Mr. Chavez is entitled to an annual base salary of at least $253,500, subject to increases from time to time, and a performance-based incentive bonus equal to 60% of his annual base salary if certain target strategic milestones and objective measurements of profitability and shareholder value determined annually by mutual agreement of Mr. Chavez and the ANS board of directors are met. The performance-based incentive bonus ultimately received by Mr. Chavez could be above or below 60% of his base salary, depending on how his performance compares to the target objectives established. Pursuant to the Employment Agreement, Mr. Chavez is also entitled to receive stock options,

employee benefits generally available to other officers of ANS and certain other perquisites. The Employment Agreement provides that if ANS terminates Mr. Chavez's employment without "cause" (as defined in the Employment Agreement), Mr. Chavez will be entitled to receive severance compensation equal to 200% of his highest annual salary and targeted annual bonus, a job search payment and health benefits for a period of two years following the date of termination. This termination payment would not be payable, however, if the cause of termination were a "change-in-control," in which case Mr. Chavez would be entitled only to severance compensation under the Termination Agreement described below. The Employment Agreement also contains confidentiality, trade secret and noncompetition provisions.

Effective with the acquisition of ANS, we also assumed the Special Termination Agreement dated April 1, 2002 between Mr. Chavez and ANS (the "Termination Agreement"). The Termination Agreement expires April 1, 2007, and automatically renews for one-year terms thereafter unless ANS gives at least 90 days notice of nonrenewal. The Termination Agreement provides that, upon a "change-in-control" (as defined in the Termination Agreement) of ANS, Mr. Chavez will be entitled to severance pay in an amount equal to 299% of his highest annual salary and targeted annual bonus, payment of any excise taxes Mr. Chavez incurs as a result of the severance payment and payment of any income and excise taxes on the excise tax payments, and a job search payment. Our acquisition of ANS constituted a "change-in-control" under the Termination Agreement, and on November 18, 2005, ANS made a $1,931,125 change-in-control payment to Mr. Chavez.

The foregoing descriptions of the Employment Agreement and the Termination Agreement are not complete and are qualified in their entirety by reference to the Employment Agreement and Termination Agreement, copies of which are filed as Exhibit 10.23 and Exhibit 10.24, respectively, to this Annual Report on Form 10-K and are incorporated herein by reference.

We intend to enter into a new employment agreement, and into our standard severance agreement, with Mr. Chavez that will supersede the Employment Agreement and Termination Agreement, respectively.

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the captions "Board of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Director Independence and Audit Committee Financial Experts" in St. Jude Medical's Proxy Statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference. The information set forth under the caption "Executive Officers of the Registrant" in Part I, Item I of this Form 10-K is incorporated herein by reference.

We have adopted a Code of Business Conduct for our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and all other employees. We have made our Code of Business Conduct available on our website (http://www.sjm.com) under the Company Information section "About Us" and is available in print to any shareholder who submits a request to St. Jude Medical, Inc., One Lillehei Plaza, St. Paul, Minnesota 55117, Attention: Corporate Secretary. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Business Conduct by posting such information on our website at the web address and location specified above.

Information included on our website is not deemed to be incorporated into this Form 10-K.

Item 11. EXECUTIVE COMPENSATION

The information set forth under the captions "Compensation of Directors" and "Executive Compensation" (except for information under the "Report of the Compensation Committee on Executive Compensation") in St. Jude Medical's Proxy Statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information set forth under the captions "Share Ownership of Management and Directors and Certain Beneficial Owners" and "Executive Compensation Plan Information" in St. Jude Medical's Proxy Statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption “Related Party Transactions” in St. Jude Medical’s Proxy Statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the caption “Proposal to Ratify the Appointment of Independent Registered Public Accounting Firm” in St. Jude Medical’s Proxy Statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of documents filed as part of this Report

(1) *Financial Statements*

The following Consolidated Financial Statements of St. Jude Medical and Report of Independent Registered Public Accounting Firm as set forth in the Financial Report included in St. Jude Medical’s 2005 Annual Report to Shareholders are incorporated herein by reference from Exhibit 13 attached hereto:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings – Fiscal Years ended December 31, 2005, 2004 and 2003

Consolidated Balance Sheets — December 31, 2005 and 2004

Consolidated Statements of Shareholders’ Equity – Fiscal Years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows – Fiscal Years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

(2) *Financial Statement Schedules*

Schedule II – Valuation and Qualifying Accounts, is filed as part of this Form 10-K (see Item 15(c)).

All other financial statement schedules not listed above have been omitted because the required information is included in the Consolidated Financial Statements or Notes thereto, or is not applicable.

(3) *Exhibits*

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of certain long-term debt of St. Jude Medical’s are not filed, and in lieu thereof, we agree to furnish copies thereof to the Securities and Exchange Commission upon request.

Exhibit	Exhibit Index
2.1	Stock Purchase Agreement among St. Jude Medical, Inc., St. Jude Medical Japan K.K., Getz Bros. & Co. Zug Inc., Getz International, Inc. and Muller & Phipps (Japan) Ltd. dated as of September 17, 2002 (USA) is incorporated by reference from Exhibit 2.1 of St. Jude Medical’s Annual Report on Form 10-K from the year ended December 31, 2003.
2.2	Amendment, dated as of February 20, 2003, to Stock Purchase Agreement among St. Jude Medical, Inc., St. Jude Medical Japan K.K., Getz Bros. & Co. Zug Inc., Getz International, Inc. and Muller & Phipps (Japan) Ltd. dated as of September 17, 2002 (USA) is incorporated by reference from Exhibit 2.1 of St. Jude Medical’s Annual Report on Form 10-K from the year ended December 31, 2003.

2.3	Amended and Restated Agreement and Plan of Merger, dated as of September 29, 2004, among St. Jude Medical, Inc., Dragonfly Merger Corp., and Endocardial Solutions, Inc. is incorporated by reference from Exhibit 99.1 of St. Jude Medical's Current Report on Form 8-K filed on September 29, 2004.

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Exhibit	Exhibit Index
2.4	Stock Purchase Agreement between St. Jude Medical, Inc. and Velocimed, LLC, dated as of February 14, 2005, is incorporated by reference from Exhibit 2.4 of St. Jude Medical's Annual Report on Form 10-K from the year ended December 31, 2004.
2.5	Agreement and Plan of Merger between St. Jude Medical, Inc. and Advanced Neuromodulation Systems, Inc., dated as of October 15, 2005, is incorporated by reference from Exhibit 2.1 of St. Jude Medical's Current Report on Form 8-K filed on October 17, 2005.
3.1	Articles of Incorporation, as restated as of February 25, 2005, are incorporated by reference from Exhibit 3.1 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 2004.
3.2	Bylaws, as amended and restated as of February 25, 2005, are incorporated by reference from Exhibit 3.1 of St. Jude Medical's Current Report on Form 8-K filed on March 2, 2005.
4.1	Rights Agreement dated as of June 16, 1997, between St. Jude Medical and American Stock Transfer and Trust Company, as Rights Agent, including the Certificate of Designation, Preferences and Rights of Series B Junior Preferred Stock is incorporated by reference from Exhibit 4 of St. Jude Medical's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
4.2	Amendment, dated as of December 20, 2002, to Rights Agreement, dated as of June 16, 1997, is incorporated by reference from Exhibit 1 of St. Jude Medical's Current Report on Form 8-K filed on March 21, 2003.
4.3	Indenture, dated as of December 12, 2005, between St. Jude Medical, Inc. and U.S. Bank National Association, as trustee, is incorporated by reference from Exhibit 4.1 of St. Jude Medical's Current Report on Form 8-K filed on December 12, 2005.
10.1	Form of Indemnification Agreement that St. Jude Medical, Inc. has entered into with officers and directors is incorporated by reference from Exhibit 10(d) of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 1986. *
10.2	St. Jude Medical, Inc. Management Incentive Compensation Plan is incorporated by reference from Exhibit 10.2 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 2001. *
10.3	Management Savings Plan dated February 1, 1995, is incorporated by reference from Exhibit 10.7 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 1994. *
10.4	Retirement Plan for members of the Board of Directors, as amended on March 15, 1995, is incorporated by reference from Exhibit 10.6 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 1994. *
10.5	St. Jude Medical, Inc. 1991 Stock Plan is incorporated by reference from St. Jude Medical's Registration Statement on Form S-8 filed June 28, 1991 (Commission File No. 33-41459). *

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Exhibit	Exhibit Index
10.6	St. Jude Medical, Inc. 1994 Stock Option Plan is incorporated by reference from Exhibit 4(a) of St. Jude Medical's Registration Statement on Form S-8 filed July 1, 1994 (Commission File No. 33-54435). *
10.7	St. Jude Medical, Inc. 1997 Stock Option Plan is incorporated by reference from Exhibit 4.1 of St. Jude Medical's Registration Statement on Form S-8 filed December 22, 1997 (Commission File No. 333-42945). *
10.8	St. Jude Medical, Inc. 2000 Stock Plan is incorporated by reference from Exhibit 10.9 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 2001. *
10.9	St. Jude Medical, Inc. 2000 Employee Stock Purchase Savings Plan is incorporated by reference from Exhibit 10.10 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 2001. *
10.10	St. Jude Medical, Inc. 2002 Stock Plan, as Amended, is incorporated by reference from Exhibit 10.14 of St. Jude Medical's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002. *
10.11	St. Jude Medical, Inc. Non-Qualified Stock Option Agreement is incorporated by reference from Exhibit 10.14 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 2004. *
10.12	St. Jude Medical, Inc. Amended and Restated 1995 Stock Option Plan (formerly the Quest Medical, Inc. 1995 Stock Option Plan). * #
10.13	St. Jude Medical, Inc. Amended and Restated 1998 Stock Option Plan (formerly the Quest Medical, Inc. 1998 Stock Option Plan). * #
10.14	St. Jude Medical, Inc. Amended and Restated 2000 Stock Option Plan (formerly the Advanced Neuromodulation Systems, Inc. 2000 Stock Option Plan). * #
10.15	St. Jude Medical, Inc. Amended and Restated 2001 Employee Stock Option Plan (formerly the Advanced Neuromodulation Systems, Inc. 2001 Employee Stock Option Plan). * #
10.16	St. Jude Medical, Inc. Amended and Restated 2002 Stock Option Plan (formerly the Advanced Neuromodulation Systems, Inc. 2002 Stock Option Plan). * #
10.17	St. Jude Medical, Inc. Amended and Restated 2004 Stock Incentive Plan (formerly the Advanced Neuromodulation Systems, Inc. 2004 Stock Incentive Plan). * #
10.18	Amended and Restated Employment Agreement dated as of March 25, 2001, between St. Jude Medical, Inc. and Daniel J. Starks is incorporated by reference from Exhibit 10.17 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 2000. *

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Exhibit	Exhibit Index

10.19	Amendments to Compensation paid to Daniel J. Starks are incorporated by reference from Item 1.01 of St. Jude Medical's Current Report on Form 8-K filed on December 16, 2005. *
10.20	Amended and Restated Employment Agreement dated as of March 25, 2001, between St. Jude Medical, Inc. and Terry L. Shepherd is incorporated by reference from Exhibit 10.19 of St. Jude Medical's Annual Report on Form 10-K for the year ended December 31, 2000. *
10.21	Form of Severance Agreement that St. Jude Medical, Inc. has entered into with officers relating to severance matters in connection with a change in control is incorporated by reference from Exhibit 10.18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001. *
10.22	Compensation of Non-management Directors is incorporated by reference from Item 1.01 of St. Jude Medical's Current Report on Form 8-K filed on March 4, 2005. *
10.23	Employment Agreement dated as of April 1, 2002, between Advanced Neuromodulation Systems, Inc. and Christopher G. Chavez is incorporated by reference from Exhibit 10.16 of Advanced Neuromodulation Systems' Quarterly Report on Form 10-Q for the quarter ended March 31, 2002. *
10.24	Special Termination Agreement dated as of April 1, 2002, between Advanced Neuromodulation Systems, Inc. and Christopher G. Chavez is incorporated by reference from Exhibit 10.18 of Advanced Neuromodulation Systems' Quarterly Report on Form 10-Q for the quarter ended March 31, 2002. *
10.25	Multi-Year $350,000,000 Credit Agreement, dated as of September 11, 2003, among St. Jude Medical, Inc., as the Borrower, Bank of America, N.A., as Administrative Agent, L/C Issuer and Lender, the Bank of Tokyo-Mitsubishi, Ltd. and ABN Amro Bank N.V., as Co-Syndication Agents, Bank One, N.A. and Wells Fargo Bank, National Association, as Co-Documentation Agents, and the other lenders party thereto is incorporated by reference from Exhibit 4.1 of St. Jude Medical's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
10.26	Amendment No. 1, effective as of September 28, 2004, to the Multi-Year $350,000,000 Credit Agreement, dated as of September 11, 2003, by and between St. Jude Medical, Inc., as the Borrower, Bank of America, N.A., as Administrative Agent, L/C Issuer and Lender, the Bank of Tokyo-Mitsubishi, Ltd. and ABN Amro Bank N.V., as Co-Syndication Agents, Bank One, NA and Wells Fargo Bank, N.A. (formerly known as Wells Fargo Bank, National Association), as Co-Documentation Agents, and the other lenders party thereto. #
10.27	Amendment No. 2, effective as of November 7, 2005, to the Multi-Year $350,000,000 Credit Agreement, dated as of September 11, 2003, by and between St. Jude Medical, Inc., as the Borrower, Bank of America, N.A., as Administrative Agent, L/C Issuer and Lender, the Bank of Tokyo-Mitsubishi, Ltd. and ABN Amro Bank N.V., as Co-Syndication Agents, Bank One, NA and Wells Fargo Bank, N.A. (formerly known as Wells Fargo Bank, National Association), as Co-Documentation Agents, and the other lenders party thereto. #
10.28	Multi-Year $400,000,000 Credit Agreement, dated as of September 28, 2004, among St. Jude Medical, Inc., as the Borrower, Bank of America, N.A., as Administrative Agent, L/C Issuer and Lender, the Bank of Tokyo-Mitsubishi, Ltd., as Syndication Agent, Bank One, NA, Wells Fargo Bank, N.A. and Suntrust Bank, as Co-Documentation Agents, and the other lenders party thereto is incorporated by reference from Exhibit 4.1 of St. Jude Medical's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.29	Amendment No. 1, effective as of November 7, 2005, to the Multi-Year $400,000,000 Credit Agreement, dated as of September 28, 2004, by and between St. Jude Medical, Inc., as the Borrower, Bank of America, N.A., as Administrative Agent, L/C Issuer and Lender, the Bank of Tokyo-Mitsubishi, Ltd., as Syndication Agent, Bank One, NA, Wells Fargo Bank, N.A. and Suntrust Bank, as Co-Documentation Agents, and the other lenders party thereto. #

Exhibit	Exhibit Index
13	Portions of St. Jude Medical's 2005 Annual Report to Shareholders. #
21	Subsidiaries of the Registrant. #
23	Consent of Independent Registered Public Accounting Firm. #
24	Power of Attorney. #
31.1	Certification of Chief Executive Officer Pursuant to Section 302 ofthe Sarbanes-Oxley Act of 2002. #
31.2	Certification of Chief Financial Officer Pursuant to Section 302 ofthe Sarbanes-Oxley Act of 2002. #
32.1	Certification of Chief Executive Officer Pursuant to Section 906 ofthe Sarbanes-Oxley Act of 2002. #
32.2	Certification of Chief Financial Officer Pursuant to Section 906 ofthe Sarbanes-Oxley Act of 2002. #

* Management contract or compensatory plan or arrangement.
\# Filed as an exhibit to this Annual Report on Form 10-K.

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(b) *Exhibits* : Reference is made to Item 15(a)(3).

(c) *Schedules* :

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Description	Balance at Beginning of Year	Additions		Deductions		Balance at End of Year
		Charged to Expense	Other (1)	Write-offs (2)	Other (1)	
Allowance for doubtful accounts:						
Fiscal year ended						
December 31, 2005	$ 31,283	$ 4,759	$ 586	$ (1,896)	$ (1,413)	$ 33,319
December 31, 2004	$ 31,905	$ 4,380	$ —	$ (2,477)	$ (2,525)	$ 31,283
December 31, 2003	$ 24,078	$ 5,497	$ 4,564	$ (2,234)	$ —	$ 31,905

(1) In 2005, $586 of other additions represents the balance recorded as part of our 2005 acquisition of ANS, and the $1,413 of other

deductions represents the effects of changes in foreign currency translation. In 2004, $640 of the other deductions represents the effects of changes in foreign currency translation, and the remaining $1,885 represents a reduction in the allowance for doubtful accounts. In 2003, $3,622 of the other additions represents the balance recorded as part of our 2003 acquisition of Getz Japan, and the remaining $942 represents the effects of changes in foreign currency translation.

(2) Uncollectible accounts written off, net of recoveries.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ST. JUDE MEDICAL, INC.

Date: March 16, 2006

By /s/ DANIEL J. STARKS

Daniel J. Starks
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

By /s/ JOHN C. HEINMILLER

John C. Heinmiller
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 16th day of March, 2006.

/s/ DANIEL J. STARKS Daniel J. Starks	Chairman of the Board
/s/ JOHN W. BROWN John W. Brown	Director
/s/ RICHARD R. DEVENUTI Richard R. Devenuti	Director

/s/ STUART M. ESSIG — Director

Stuart M. Essig

/s/ THOMAS H. GARRETT III — Director

Thomas H. Garrett III

/s/ MICHAEL A. ROCCA — Director

Michael A. Rocca

/s/ DAVID A. THOMPSON — Director

David A. Thompson

/s/ STEFAN K. WIDENSOHLER — Director

Stefan K. Widensohler

/s/ WENDY L. YARNO — Director

Wendy L. Yarno

/s/ FRANK C-P YIN — Director

Frank C-P Yin

Exhibit 10.12

ST. JUDE MEDICAL, INC.
AMENDED AND RESTATED 1995 STOCK OPTION PLAN
(formerly known as the Quest Medical, Inc. 1995 Stock Option Plan)

1. Purpose of the Plan . The purpose of the Plan is to attract and retain the best available personnel for positions of substantial responsibility and to provide incentives to such personnel to promote the success of the business of St. Jude Medical, Inc. and its subsidiaries.

Certain options granted under this Plan are intended to qualify as "incentive stock options" pursuant to Section 422 of the Internal Revenue Code of 1986, as amended from time to time, while certain other options granted under the Plan will constitute nonqualified options.

2. Definitions . As used herein, the following definitions shall apply:

(a) "Board" shall mean the Board of Directors of the Corporation.

(b) "Common Stock" shall mean the Common Stock, $.10 par value per share, of the Corporation. Except as otherwise provided herein, all Common Stock issued pursuant to the Plan shall have the same rights as all other issued and outstanding shares of Common Stock, including but not limited to voting rights, the right to dividends, if declared and paid, and the right to pro rata distributions of the Corporation's assets in the event of liquidation.

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(d) "Committee" shall mean the committee described in Section 18 that administers the Plan

(e) "Corporation" shall mean St. Jude Medical, Inc., a Minnesota corporation.

(f) "Date of Grant" shall mean the date on which an Option is granted pursuant to this Plan or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective.

(g) "Disinterested Director" shall mean a director who is not, during the one year prior to service as an administrator of the Plan, or during such service, granted or awarded an Option pursuant to the Plan or any other plan of the Corporation or any of its affiliates (except as may be permitted by Rule 16b-3 promulgated under the Exchange Act).

(h) "Employee" shall mean any officer or other key employee of the Corporation or one of its Subsidiaries (including any director who is also an officer or key employee of the Corporation or one of its Subsidiaries).

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

(j) "Fair Market Value" shall mean the closing sale price (or average of the quoted closing bid and asked prices if there is no closing sale price reported) of the Common Stock on the date specified as reported by the New York Stock Exchange or by the principal national stock exchange on which the Common Stock is then listed. If there is no reported price information for the Common Stock, the Fair Market Value will be determined by the Committee, in its sole discretion. In making such determination, the Committee may, but shall not be obligated to, commission and rely upon an independent appraisal of the Common Stock.

(k) "Nonqualified Option" shall mean any Option that is not a Qualified Option.

(l) "Option" shall mean a stock option granted pursuant to Section 6 of this Plan.

(m) "Optionee" and "Participant" shall each mean an individual who receives an Option pursuant to this Plan.

(n) "Plan" shall mean the St. Jude Medical, Inc. Amended and Restated 1995 Stock Option Plan (which was formerly known as the Quest Medical, Inc. 1995 Stock Option Plan), as amended from time to time.

(o) "Qualified Option" shall mean any Option that is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

(p) "Rule 16b-3" shall mean Rule 16b-3 of the rules and regulations under the Exchange Act as Rule 16b-3 may be amended from time to time and any successor provisions to Rule 16b-3 under the Exchange Act.

(q) "Subsidiary" shall mean any now existing or hereinafter organized or acquired company of which more than fifty percent (50%) of the issued and outstanding voting stock is owned or controlled directly or indirectly by the Corporation or through one or more Subsidiaries of the Corporation.

3. Term of Plan . The Plan was adopted by the Board of Directors of Quest Medical, Inc. effective as of March 30, 1995 and approved by the shareholders of Quest Medical, Inc. on June 22, 1995. The Plan was assumed by the Corporation pursuant to the terms of the Agreement and Plan of Merger among the Corporation, Apollo Merger Corp., and Advanced Neuromodulation Systems, Inc., dated as of October 15, 2005 (the "Merger Agreement"). The Plan was amended pursuant to resolutions adopted by the Board on October 14, 2005 in order to make changes necessary to reflect the assumption of the Plan by the Corporation. Pursuant to the Merger Agreement, at the Effective Time (as defined in the Merger Agreement), the then outstanding Options under the Plan were converted into Options to purchase Common Stock. After the Effective Time, no additional Options will be granted under the Plan. The Plan shall continue in effect so long as Options granted under the Plan remain outstanding, subject to earlier termination as provided under Section 18(a).

4. Shares Subject to the Plan . When the Plan was adopted by the Board of Directors and shareholders of Quest Medical, Inc. it contained the following provision: "Subject to adjustment as provided in Section 17 hereof, the aggregate number of shares of Common Stock issuable upon the exercise of Options pursuant to this Plan shall be 250,000 shares; provided, however, that on January 1 of each year (commencing on January 1, 1996), the aggregate number of shares of Common Stock then issuable upon the exercise of Options shall be increased by the same percentage that the total number of issued and outstanding shares of Common Stock increased from the preceding January 1 to the following December 31 (if such percentage is positive). For example, if the total number of issued and outstanding shares of Common Stock on January 1, 1996 were 5,000,000, the total number of issued and outstanding shares of the Corporation on December 31, 1996 were 5,500,000, and the aggregate number of shares of Common Stock then issuable upon the exercise of Options pursuant to this Plan were 250,000, the aggregate number of shares of Common Stock issuable under the Plan effective January 1, 1997 would be 275,000 (a 10% increase). Shares issuable upon the exercise of Options may either be authorized but unissued shares or treasury shares. The Corporation shall, during the term of this Plan, reserve and keep available a number of shares of Common Stock sufficient to satisfy the requirements of the Plan. If an Option should expire or become unexercisable for any reason without having been exercised in full, then the shares that were subject thereto shall, unless the Plan shall have terminated, become immediately available for the grant of additional Options under this Plan, subject to the limitations set forth above. In addition, for purposes of calculating the aggregate number of shares that may be issued under this Plan, only the net shares issued (including the shares, if any, withheld for tax withholding requirements) shall be counted when shares of Common Stock are used as full or partial payment for shares issued upon exercise of a Qualified Option or a Nonqualified Stock Option. Shares tendered by a Participant as payment for shares issued upon such exercise shall be available for reissuance under the Plan."

5. Eligibility . Qualified Options may be granted under Section 6 of the Plan to such Employees of the Corporation or its Subsidiaries as shall be determined by the Committee. Nonqualified Options may be granted under Section 6 of the Plan to such Employees of the Corporation or its Subsidiaries as shall be determined by the Committee. In connection with the granting of Qualified Options, the aggregate Fair Market Value (determined at the Date of Grant of a Qualified Option) of the shares with respect to which Qualified Options are exercisable for the first time by an Optionee during any calendar year (under all such plans of the Optionee's employer corporation and its parent and subsidiary corporations as defined in Section 424(e) and (f) of the Code, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming an Option in a transaction to which Section 424(a) of the Code applies (collectively, such corporations described in this sentence are hereinafter referred to as "Related Corporations")) shall not exceed $100,000 or such other amount as from time to time provided in Section 422 (d) of the Code or any successor provision. In connection with the granting of any Options under the Plan, the aggregate number of shares of Common Stock issuable to any single Employee shall not exceed the number of shares subject to the Plan referred to in Section 4.

6. Grant of Options . The Committee shall determine the number of shares of Common Stock to be offered from time to time pursuant to Options granted hereunder and shall grant Options under the Plan. The grant of Options shall be evidenced by Option agreements containing such terms and provisions as are approved by the Committee and executed on behalf of the Corporation by an appropriate officer.

7. Time of Grant of Options . The date of grant of an Option under the Plan shall be the date on which the Committee awards the Option or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective. Notice of the grant shall be given to each Participant to whom an Option is granted promptly after the date of such grant.

8. Price . The Option price for each share of Common Stock subject to an Option (the "Exercise Price") granted pursuant to Section 6 of the Plan shall be determined by the Committee at the Date of Grant; provided, however, that (a) the Exercise Price for any Option shall not be less than 100% of the Fair Market Value of the Common Stock at the Date of Grant, and (b) if the Optionee owns on the Date of Grant more than 10 percent of the total combined voting power of all classes of stock of the Corporation or its parent or any of its subsidiaries, as more fully described in Section 422(b)(6) of the Code or any successor provision (such shareholder is referred to herein as a "10-Percent Stockholder"), the

Exercise Price for any Qualified Option granted to such Optionee shall not be less than 110% of the Fair Market Value of the Common Stock at the Date of Grant.

9. Vesting . Subject to Section 11 of this Plan, each Option award under the Plan shall vest in accordance with the vesting provisions set forth in the applicable Option agreement. The Committee may, but shall not be required to, permit acceleration of vesting upon any sale of the Corporation or similar transaction. A Participant's Option agreement may contain such additional provisions with respect to vesting as the Committee shall specify.

10. Exercise . A Participant may pay the Exercise Price of the shares of Common Stock as to which an Option is being exercised by the delivery of (a) cash, (b) check, (c) at the Committee's option, previously owned shares of Common Stock having a Fair Market Value on the date immediately preceding the exercise date equal to the Exercise Price or (d) at the Committee's option, any other consideration that the Committee determines is consistent with the Plan's purpose and applicable law. If the shares to be purchased are covered by an effective registration statement under the Securities Act of 1933, as amended, any Option granted under the Plan may be exercised by a broker-dealer acting on behalf of an Optionee if (a) the broker-dealer has received from the Optionee or the Corporation a fully- and duly-endorsed agreement evidencing such Option, together with instructions signed by the Optionee requesting the Corporation to deliver the shares of Common Stock subject to such Option to the broker-dealer on behalf of the Optionee and specifying the account into which such shares should be deposited, (b) adequate provision has been made with respect to the payment of any withholding taxes due upon such exercise, and (c) the broker-dealer and the Optionee have otherwise complied with Section 220.3(e)(4) of Regulation T, 12 CFR Part 220, or any successor provision.

11. When Qualified Options May be Exercised . No Qualified Option shall be exercisable at any time after the expiration of ten (10) years from the Date of Grant; *provided, however* , that if the Optionee with respect to a Qualified Option is a 10-Percent Stockholder on the Date of Grant of such Qualified Option, then such Option shall not be exercisable after the expiration of five (5) years from its Date of Grant. In addition, if an Optionee of a Qualified Option ceases to be an employee of the Corporation or any Related Corporation for any reason, such Optionee's vested Qualified Options shall not be exercisable after (a) 90 days following the date such Optionee ceases to be an employee of the Corporation or any Related Corporation, if such cessation of service is not due to the death or permanent and total disability (within the meaning of Section 22(e)(3) of the Code) of the Optionee, or (b) twelve months following the date such Optionee ceases to be an employee of the Corporation or any Related Corporation, if such cessation of service is due to the death or permanent and total disability (as defined above) of the Optionee. Upon the death of an Optionee, any vested Qualified Option exercisable on the date of death may be exercised by the Optionee's estate or by a person who acquires the right to exercise such Qualified Option by bequest or inheritance or by reason of the death of the Optionee, provided that such exercise occurs within both the remaining option term of the Qualified Option and twelve months after the date of the Optionee's death. This Section 11 only provides the outer limits of allowable exercise dates with respect to Qualified Options; the Committee may determine that the exercise period for a Qualified Option shall have a shorter duration than as specified above.

12. Option Financing . Upon the exercise of any Option granted under the Plan, the Corporation may, but shall not be required to, make financing available to the Participant for the purchase of shares of Common Stock pursuant to such Option on such terms as the Committee shall specify.

13. Withholding of Taxes . The Committee shall make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Corporation is required by any law or regulation of any governmental authority to withhold in connection with any Option including, but not limited to, withholding the issuance of all or any portion of the shares of Common Stock subject to such Option until the Participant reimburses the Corporation for the amount it is required to withhold with respect to such taxes, cancelling any portion of such issuance in an amount sufficient to reimburse the Corporation for the amount it is required to withhold or taking any other action reasonably required to satisfy the Corporation's withholding obligation.

14. Conditions Upon Issuance of Shares . The Corporation shall not be obligated to sell or issue any shares upon the exercise of any Option granted under the Plan unless the issuance and delivery of shares shall comply with all provisions of applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed.

As a condition to the exercise of an Option, the Corporation may require the person exercising the Option to make such representations and warranties as may be necessary to assure the availability of an exemption from the registration requirements of applicable federal and state securities laws.

The Corporation shall not be liable for refusing to sell or issue any shares covered by any Option if the Corporation cannot obtain authority from the appropriate regulatory bodies deemed by the Corporation to be necessary to lawfully sell or issue such shares. In addition, the Corporation shall have no obligation to any Participant, express or implied, to list, register or otherwise qualify the shares of Common Stock covered by any Option.

No Participant will be, or will be deemed to be, a holder of any Common Stock subject to an Option unless and until such Participant has exercised his or her Option and paid the purchase price for the subject shares of Common Stock. Each Option under this Plan shall be transferable only by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by such Participant.

Any Common Stock issued pursuant to the exercise of an Option to a person who would be deemed an officer or director of the Corporation under Rule 16b-3 shall not be transferred until at least six months have elapsed from the Date of Grant to the date of disposition of the Common Stock.

15. Restrictions on Transfer . Shares of Common Stock issued pursuant to the Plan shall be subject to restrictions on transfer under applicable federal and state securities laws. The Board may impose such additional restrictions on the ownership and transfer of shares of Common Stock issued pursuant to the Plan as it deems desirable; any such restrictions shall be set forth in any Option agreement entered into hereunder.

16. Modification of Options . At any time and from time to time, the Committee may execute an instrument providing for modification, extension or renewal of any outstanding Option, provided that no such modification, extension or renewal shall impair the Option without the consent of the holder of the Option or conflict with the provisions of Rule 16b-3 or the New York Stock Exchange or any stock exchange on which shares of Common Stock may then be listed. Notwithstanding the foregoing, (a) in the event of such a modification, substitution, extension or renewal of a Qualified Option, the Committee may increase the exercise price of such Option if necessary to retain the qualified status of such Option, and (b) the Committee may, in its discretion and without the holder's consent, convert any Qualified Option into a Nonqualified Option.

17. Effect of Change in Stock Subject to the Plan . In the event that each of the outstanding shares of Common Stock (other than shares held by dissenting stockholders) shall be changed into or exchanged for a different number or kind of shares of stock of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares or otherwise), or in the event a stock split or stock dividend shall have occurred, then the Corporation may either (a) substitute for each share of Common Stock then subject to Options or available for Options the number and kind of shares of stock into which each outstanding share of Common Stock (other than shares held by dissenting stockholders) shall be so changed or exchanged, or the number of shares of Common Stock as is equitably required in the event of a stock split or stock dividend, together with an appropriate adjustment of the Exercise Price, or (b) cancel all such Options as of the effective date of any merger, consolidation, recapitalization, reclassification, split-up or combination of shares by giving written notice to each holder thereof or his personal representatives of its intention to do so and by permitting the exercise of all such Options, without regard to determinations of periods or installments of exercisability during the thirty (30) day period immediately preceding such effective date. The Committee may, but shall not be required to, provide additional anti-dilution protection to a Participant under the terms of the Participant's Option agreement or otherwise.

18. Administration .

(a) Notwithstanding anything to the contrary herein, to the extent necessary to comply with the requirements of Rule 16b-3, the Plan shall be administered by the Board, if each member is a Disinterested Director, or by a committee of two or more Disinterested Directors appointed by the Board (the group responsible for administering the Plan is referred to herein as the "Committee"). Options may be granted under Sections 6 and 7, respectively, only by majority agreement of the members of the Committee. Subject to the limitations and qualifications set forth in this Plan, the Committee shall also determine the number of Options to be granted, the number of shares subject to each Option grant, the exercise price or prices of each Option, the vesting and exercise period of each Option, whether an Option may be exercised as to less than all of the Common Stock subject thereto, and such other terms and conditions of each option, if any, as are consistent with the provisions of this Plan. Except with respect to Section 18(b) of this Plan, the Committee shall have complete authority to construe, interpret and administer the provisions of this Plan and the provisions of the Option agreements entered into hereunder; to prescribe, amend and rescind rules and regulations pertaining to this Plan; to suspend or discontinue this Plan (subject to Section 18(d)); and to make all other determinations necessary or deemed advisable in the administration of the Plan. The determinations, interpretations and constructions made by the Committee shall be final and conclusive. No member of the Committee shall be liable for any action taken, or failed to be taken, made in good faith relating to the Plan or any award thereunder, and the members of the Committee shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the fullest extent permitted by law.

(b) Members of the Committee shall be specified by the Board, and shall consist solely of Disinterested Directors. Disinterested Directors shall not be eligible to receive Options to purchase Common Stock pursuant to Section 6 of this Plan.

(c) Notwithstanding Section 18(a), to comply with Rule 16b-3, no amendment may be made without the approval of the shareholders of the Corporation by the affirmative votes of the holders of a majority of the shares of Common Stock then issued and outstanding, which amendment would materially (i) increase the benefits accruing to Participants, (ii) increase the number of securities which may be issued under

the Plan, other than in accordance with Section 17 hereof, or (iii) modify the requirements as to eligibility for participation in the Plan.

(d) Although the Committee may suspend or discontinue the Plan at any time, all Qualified Options must be granted on or before March 29, 2005.

19. Continued Employment Not Presumed . Nothing in this Plan or any document describing it nor the grant of any Option shall give any Participant the right to continue in the employment of the Corporation or affect the right of the Corporation to terminate the employment of any such person with or without cause.

20. Liability of the Corporation . Neither the Corporation, its directors, officers or employees or the Committee, nor any Subsidiary which is in existence or hereafter comes into existence, shall be liable to any Participant or other person if it is determined for any reason by the Internal Revenue Service or any court having jurisdiction that any Qualified Option granted hereunder does not qualify for tax treatment as an incentive stock option under Section 422 of the Code.

21. Governing Law . THE PLAN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF STATE OF MINNESOTA AND THE UNITED STATES, AS APPLICABLE, WITHOUT REFERENCE TO THE CONFLICT OF LAWS PROVISIONS THEREOF.

22. Severability of Provisions . If any provision of this Plan is determined to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect the remaining provisions of the Plan, but such invalid, illegal or unenforceable provision shall be fully severable, and the Plan shall be construed and enforced as if such provision had never been inserted herein.

Exhibit 10.13

ST. JUDE MEDICAL, INC.
AMENDED AND RESTATED 1998 STOCK OPTION PLAN
(formerly known as the Quest Medical, Inc. 1998 Stock Option Plan)

1. Purpose of the Plan . The purposes of the Plan are (i) to attract and retain the best available personnel for positions of substantial responsibility, (ii) to attract and retain directors and advisory directors with a high degree of training, experience and ability and (iii) to provide incentives to such personnel, directors and advisory directors to promote the success of the business of St. Jude Medical, Inc. and its subsidiaries.

Certain options granted under this Plan are intended to qualify as "incentive stock options" pursuant to Section 422 of the Internal Revenue Code of 1986, as amended from time to time, while certain other options granted under the Plan will constitute nonqualified options.

2. Definitions . As used herein, the following definitions shall apply:

(a) "Board" means the Board of Directors of the Corporation.

(b) "Common Stock" means the Common Stock, $.10 par value per share, of the Corporation. Except as otherwise provided herein, all Common Stock issued pursuant to the Plan shall have the same rights as all other issued and outstanding shares of Common Stock, including but not limited to voting rights, the right to dividends, if declared and paid, and the right to pro rata distributions of the Corporation's assets in the event of liquidation.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(d) "Committee" means the committee described in Section 18(a) that administers the Plan.

(e) "Corporation" means St. Jude Medical, Inc., a Minnesota corporation.

(f) "Date of Grant" means the date on which an Option is granted pursuant to this Plan or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective.

(g) "Director" means any director, advisory director or consultant of the Corporation or one of its Subsidiaries, but excluding any director, advisory director or consultant who is also an officer or employee of the Corporation or one of its Subsidiaries.

(h) "Employee" means any officer or other key employee of the Corporation or one of its Subsidiaries, including any director who is also an officer or key employee of the Corporation or one of its Subsidiaries.

(i) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(j) "Executive" means an Employee who is, or in the judgment of the Committee may become, the Chief Executive Officer of the Corporation or one of the other four most highly compensated executive officers of the Corporation.

(k) "Fair Market Value" means the closing sale price (or average of the quoted closing bid and asked prices if there is no closing sale price reported) of the Common Stock on the trading day immediately prior to the date specified as reported by the New York Stock Exchange or by the principal national stock exchange on which the Common Stock is then listed. If there is no reported price information for the Common Stock, the Fair Market Value will be determined by the Committee, in its sole discretion. In making such determination, the Committee may, but shall not be obligated to, commission and rely upon an independent appraisal of the Common Stock.

(l) "Non-Employee Director" means an individual who is a "non-employee director" as defined in Rule 16b-3 under the Exchange Act and also an "outside director" within the meaning of Treasury Regulation ss. 1.162-27(e)(3).

(m) "Nonqualified Option" means any Option that is not a Qualified Option.

(n) "Option" means a stock option granted pursuant to Section 6 of this Plan.

(o) "Optionee" means any Employee or Director who receives an Option.

(p) "Participant" means any Employee or Director who receives an Option pursuant to this Plan.

(q) "Plan" means the St. Jude Medical, Inc. Amended and Restated 1998 Stock Option Plan (which was formerly known as the Quest Medical, Inc. 1998 Stock Option Plan), as amended from time to time.

(r) "Qualified Option" means any Option that is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

(s) "Rule 16b-3" means Rule 16b-3 of the rules and regulations under the Exchange Act, as Rule 16b-3 may be amended from time to time, and any successor provisions to Rule 16b-3 under the Exchange Act.

(t) "Subsidiary" means any now existing or hereinafter organized or acquired company of which more than fifty percent (50%) of the issued and outstanding voting stock is owned or controlled directly or indirectly by the Corporation or through one or more Subsidiaries of the Corporation.

3. Term of Plan . The Plan was adopted by the Board of Directors of Quest Medical, Inc. effective as of April 9, 1998 and approved by the shareholders of Quest Medical, Inc. on May 28, 1998. The Plan was assumed by the Corporation pursuant to the terms of the Agreement and Plan of Merger among the Corporation, Apollo Merger Corp., and Advanced Neuromodulation Systems, Inc., dated as of October 15, 2005 (the "Merger Agreement"). The Plan was amended pursuant to resolutions adopted by the Board on October 14, 2005 in order to make changes necessary to reflect the assumption of the Plan by the Corporation. Pursuant to the Merger Agreement, at the Effective Time (as defined in the Merger Agreement), the then outstanding Options under the Plan were converted into Options to purchase Common Stock. After the Effective Time, no additional Options will be granted under the Plan. The Plan shall continue in effect so long as Options granted under the Plan remain outstanding, subject to earlier termination as provided under Section 18(a).

4. Shares Subject to the Plan . When the Plan was adopted by the Board of Directors and shareholders of Quest Medical, Inc. it contained the following provision: "Except as otherwise provided in Section 17 hereof, the aggregate number of shares of Common Stock issuable upon the exercise of Options pursuant to this Plan shall be 800,000 shares; provided, however, that on January 1 of each year (commencing on January 1, 1999), the aggregate number of shares of Common Stock then issuable upon the exercise of Options shall be increased by the same percentage that the total number of issued and outstanding shares of Common Stock increased from the preceding January 1 to the following December 31 (if such percentage is positive). For example, if the total number of issued and outstanding shares of Common Stock on January 1, 1999 were 5,000,000, the total number of issued and outstanding shares of the Corporation on December 31, 1999 were 5,500,000, and the aggregate number of shares of Common Stock then issuable upon the exercise of Options pursuant to this Plan were 250,000, the aggregate number of shares of Common Stock issuable under the Plan effective January 1, 2000 would be 275,000 (a 10% increase). Notwithstanding the above, the aggregate number of shares of Common Stock issuable upon the exercise of Qualified Options pursuant to this Plan shall not exceed 800,000 shares. Shares issuable upon the exercise of Options may either be authorized but unissued shares or treasury shares. The Corporation shall, during the term of this Plan, reserve and keep available a number of shares of Common Stock sufficient to satisfy the requirements of the Plan. If an Option should expire or become unexercisable for any reason without having been exercised in full, then the shares that were subject thereto shall, unless the Plan shall have terminated, become immediately available for the grant of additional Options under this Plan, subject to the limitations and adjustments set forth above. In addition, for purposes of calculating the aggregate number of shares that may be issued under this Plan, only the net shares issued (including the shares, if any, withheld for tax withholding requirements) shall be counted when shares of Common Stock are used as full or partial payment for shares issued upon exercise of a Qualified Option or a Nonqualified Stock Option. Shares tendered by a Participant as payment for shares issued upon such exercise shall be available for reissuance under the Plan."

5. Eligibility . Qualified Options may be granted under Section 6 of the Plan to such Employees of the Corporation or its Subsidiaries as may be determined by the Committee. Nonqualified Options may be granted under Section 6 of the Plan to such Employees or Directors of the Corporation or its Subsidiaries as may be determined by the Committee. Subject to the limitations and qualifications set forth in this Plan, the Committee shall also determine the number of Options to be granted, the number of shares subject to each Option grant, the exercise price or prices of each Option, the vesting and exercise period of each Option, whether an Option may be exercised as to less than all of the Common Stock subject thereto, and such other terms and conditions of each Option as are consistent with the provisions of this Plan. In connection with the granting of Qualified Options, the aggregate Fair Market Value (determined at the Date of Grant of a Qualified Option) of the shares with respect to which Qualified Options are exercisable for the first time by an Optionee during any calendar year (under all such plans of the Optionee's employer corporation and its parent and subsidiary corporations as defined in Section 424(e) and (f) of the Code, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming an Option in a transaction to which Section 424(a) of the Code applies (collectively, such corporations described in this sentence are hereinafter referred to as "Related Corporations")) shall not exceed $100,000 or

such other amount as from time to time provided in Section 422(d) of the Code or any successor provision. In the event that the Participant's total Qualified Options exceed the $100,000 limit in any calendar year (whether due to acceleration of exercisability, miscalculation, error or otherwise) the amount of Qualified Options that exceed such limit shall be treated as Nonqualified Options. The Qualified Options granted earliest (whether under this Plan or any other agreement or plan) shall be applied first to the $100,000 limit. In the event that only a portion of the Qualified Options granted at the same time can be applied to the $100,000 limit, the Corporation shall issue separate share certificates for such number of shares as does not exceed the $100,000 limit, and shall designate such shares as Qualified Option stock in its share transfer records.

6. Grant of Options . Except as provided in Section 18(c), the Committee shall determine the number of shares of Common Stock to be offered from time to time pursuant to Options granted hereunder and shall grant Options under the Plan. Notwithstanding the foregoing, each member of the Committee shall be eligible to receive Options only if the Board unanimously (except for such Committee member) grants such Option to such member. The grant of Options shall be evidenced by Option agreements containing such terms and provisions as are approved by the Committee and executed on behalf of the Corporation by an appropriate officer. In connection with the granting of any Options under the Plan, the aggregate number of shares of Common Stock with respect to which Options may be granted to any single Executive in any one calendar year shall not exceed 200,000. Solely for this purpose, Options that lapse or are canceled continue to count against such limit.

7. Time of Grant of Options . The date of grant of an Option under the Plan shall be the date on which the Committee awards the Option or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective. Notice of the grant shall be given to each Participant to whom an Option is granted promptly after the date of such grant.

8. Price . The exercise price for each share of Common Stock subject to an Option (the "Exercise Price") granted pursuant to Section 6 of the Plan shall be determined by the Committee at the Date of Grant; provided, however, that (a) the Exercise Price for any Option shall not be less than 100% of the Fair Market Value of the Common Stock at the Date of Grant, and (b) if the Optionee owns on the Date of Grant more than 10 percent of the total combined voting power of all classes of stock of the Corporation or its parent or any of its subsidiaries, as more fully described in Section 422(b)(6) of the Code or any successor provision (such shareholder is referred to herein as a "10-Percent Shareholder"), the Exercise Price for any Qualified Option granted to such Optionee shall not be less than 110% of the Fair Market Value of the Common Stock at the Date of Grant.

9. Vesting . Subject to Section 11 of this Plan, each Option award under the Plan shall vest or be subject to forfeiture in accordance with the provisions set forth in the applicable Option agreement. The Committee may, but shall not be required to, permit acceleration of vesting or termination of forfeiture provisions upon any sale of the Corporation or similar transaction. Notwithstanding the foregoing, in no event shall the acceleration of any Option hereunder upon a change of control of the Corporation occur to the extent an "excess parachute payment" (as defined in Section 280G of the Code) would result. In the event that the Committee determines that such an excess parachute payment would result if acceleration occurred (when added to any other payments or benefits contingent on a change of control under any other agreements, arrangements or plans) then the number of shares as to which exercisability is accelerated shall be reduced so that total parachute payments do not exceed 299% of the Optionee's "base amount," as defined in Section 280G(b)(3) of the Code. A Participant's Option agreement may contain such additional provisions with respect to vesting as the Committee may specify.

10. Exercise . A Participant may pay the Exercise Price of the shares of Common Stock as to which an Option is being exercised by the delivery of (a) cash, (b) check, (c) at the Corporation's option, by the delivery of shares of Common Stock having a Fair Market Value on the date immediately preceding the exercise date equal to the Exercise Price and have been held by the Optionee at least six (6) months prior to the date of exercise, or (d) at the Corporation's option, any other consideration that the Corporation determines is consistent with the Plan's purpose and applicable law. If the shares to be purchased are covered by an effective registration statement under the Securities Act of 1933, as amended, any Option granted under the Plan may be exercised by a broker-dealer acting on behalf of an Optionee if (i) the broker-dealer has received from the Optionee or the Corporation a fully- and duly-endorsed agreement evidencing such Option, together with instructions signed by the Optionee requesting the Corporation to deliver the shares of Common Stock subject to such Option to the broker-dealer on behalf of the Optionee and specifying the account into which such shares should be deposited, (ii) adequate provision has been made with respect to the payment of any withholding taxes due upon such exercise, and (iii) the broker-dealer and the Optionee have otherwise complied with Section 220.3(e)(4) of Regulation T, 12 CFR Part 220, or any successor provision.

11. When Qualified Options May be Exercised . No Qualified Option shall be exercisable at any time after the expiration of ten (10) years from the Date of Grant; provided, however, that if the Optionee with respect to a Qualified Option is a 10-Percent Shareholder on the Date of Grant of such Qualified Option, then such Option shall not be exercisable after the expiration of five (5) years from its Date of Grant. In addition, if an Optionee of a Qualified Option ceases to be an employee of the Corporation or any Related Corporation for any reason, such Optionee's vested Qualified Options shall not be exercisable after (a) three (3) months following the date such Optionee ceases to be an employee of the Corporation or any Related Corporation, if such cessation of service is not due to the death or permanent and total disability (within the meaning of Section 22(e)(3) of the Code) of the Optionee, or (b) twelve (12) months following the date such Optionee ceases to be an employee of the Corporation or any Related Corporation, if such cessation of service is due to the death or permanent and total disability (as defined above) of the Optionee. Upon the death of an Optionee, any vested Qualified Option exercisable on the date of death may be exercised

by the Optionee's estate or by a person who acquires the right to exercise such Qualified Option by bequest or inheritance or by reason of the death of the Optionee, provided that such exercise occurs within both the remaining option term of the Qualified Option and twelve (12) months after the date of the Optionee's death. This Section 11 only provides the outer limits of allowable exercise dates with respect to Qualified Options; the Committee may determine that the exercise period for a Qualified Option shall have a shorter duration than as specified above.

12. Option Financing . Upon the exercise of any Option granted under the Plan, the Corporation may, but shall not be required to, make financing available to the Participant for the purchase of shares of Common Stock pursuant to such Option on such terms as the Board or the Committee may specify.

13. Withholding of Taxes . The Committee shall make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Corporation is required by any law or regulation of any governmental authority to withhold in connection with any Option including, but not limited to, (a) withholding the issuance of all or any portion of the shares of Common Stock subject to such Option until the Participant reimburses the Corporation for the amount it is required to withhold with respect to such taxes, (b) withholding any portion of such issuance in an amount sufficient to reimburse the Corporation for the amount of taxes it is required to withhold, (c) allowing the Participant to deliver Common Stock as payment for the amount the Corporation is required to withhold for taxes or (d) taking any other action reasonably required to satisfy the Corporation's withholding obligation.

14. Conditions Upon Issuance of Shares .

(a) The Corporation shall not be obligated to sell or issue any shares upon the exercise of any Option granted under the Plan unless the issuance and delivery of shares comply with all provisions of applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed.

(b) As a condition to the exercise of an Option, the Corporation may require the person exercising the Option to make such representations and warranties as may be necessary to assure the availability of an exemption from the registration requirements of applicable federal and state securities laws.

(c) The Corporation shall not be liable for refusing to sell or issue any shares covered by any Option if the Corporation cannot obtain authority from the appropriate regulatory bodies deemed by the Corporation to be necessary to sell or issue such shares in compliance with all applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed. In addition, the Corporation shall have no obligation to any Participant, express or implied, to list, register or otherwise qualify the shares of Common Stock covered by any Option.

(d) No Participant will be, or will be deemed to be, a holder of any Common Stock subject to an Option unless and until such Participant has exercised his or her Option and paid the purchase price for the subject shares of Common Stock.

15. Restrictions on Transfer .

(a) Options issued pursuant to the Plan shall be nontransferable except by will or the laws of descent and distribution, and may only be exercisable during the Participant's lifetime only by the Participant.

(b) Shares of Common Stock issued pursuant to the Plan may be subject to restrictions on transfer under applicable federal and state securities laws. The Committee may impose such additional restrictions on the ownership and transfer of shares of Common Stock issued pursuant to the Plan as it deems desirable; any such restrictions shall be set forth in any Option agreement entered into hereunder.

16. Modification of Plan and Options .

(a) The Committee may from time to time and at any time alter, amend, suspend, discontinue or terminate this Plan; provided, however, that no such action of the Committee may, without the approval of the shareholders of the Corporation, alter the provisions of the Plan so as to (i) increase the maximum number of shares of Common Stock that may be subject to Qualified Options under this Plan (except as provided in Section 17 of this Plan), (ii) change the class of employees eligible to receive Qualified Options pursuant to this Plan, or (iii) change the annual limit on the number of Options granted to an Executive in Section 6 above.

(b) At any time and from time to time, the Committee may execute an instrument providing for modification, extension or renewal of any outstanding Option, provided that no such modification, extension or renewal shall impair the Option without the consent of the holder of the Option or conflict with the provisions of Rule 16b-3 or the New York Stock Exchange or any stock exchange on which shares of Common Stock may then be traded. Notwithstanding the foregoing, (i) in the event of such a modification, substitution, extension or renewal of a Qualified

Option, the Committee may increase the exercise price of such Option if necessary to retain the qualified status of such Option, and (ii) the Committee may, in its discretion and without the holder's consent, convert, any Qualified Option into a Nonqualified Option.

17. Effect of Change in Stock Subject to the Plan . In the event that each of the outstanding shares of Common Stock (other than shares held by dissenting shareholders) shall be changed into or exchanged for a different number or kind of shares of stock of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares or otherwise), or in the event a stock split or stock dividend occurs, then the Corporation may either (a) substitute for each share of Common Stock then subject to Options or available for Options the number and kind of shares of stock into which each outstanding share of Common Stock (other than shares held by dissenting shareholders) shall be so changed or exchanged, or the number of shares of Common Stock as is equitably required in the event of a stock split or stock dividend, together with an appropriate adjustment of the Exercise Price, or (b) cancel all such Options as of the effective date of any merger, consolidation, recapitalization, reclassification, split-up or combination of shares by giving written notice to each holder thereof or his personal representatives of its intention to do so and by permitting the exercise of all such Options, without regard to determinations of periods or installments of exercisability during the thirty (30) day period immediately preceding such effective date. The Committee may, but shall not be required to, provide additional anti-dilution protection to a Participant under the terms of the Participant's Option agreement.

18. Administration .

(a) Notwithstanding anything to the contrary herein, to the extent necessary to comply with the requirements of Rule 16b-3, the Plan shall be administered by the Board, if each member is a Non-Employee Director, or by a committee comprised solely of two or more Non-Employee Directors appointed by the Board (the group responsible for administering the Plan is referred to as the "Committee"). Options may be granted under Section 6 only by majority agreement of the members of the Committee. Option agreements, in the form as approved by the Committee, and containing such terms and conditions consistent with the provisions of this Plan as are determined by the Committee, may be executed on behalf of the Corporation by the Chairman of the Board, the President or any Vice President of the Corporation. The Committee shall have complete authority to construe, interpret and administer the provisions of this Plan and the provisions of the Option agreements granted hereunder; to prescribe, amend and rescind rules and regulations pertaining to this Plan; to suspend, discontinue or terminate this Plan; and to make all other determinations necessary or deemed advisable in the administration of the Plan. The determinations, interpretations and constructions made by the Committee shall be final and conclusive. No member of the Committee shall be liable for any action taken, or failed to be taken, made in good faith relating to the Plan or any award thereunder, and the members of the Committee shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the fullest extent permitted by law.

(b) Members of the Committee shall be specified by the Board, and shall consist solely of Non-Employee Directors. Non-Employee Directors may not possess an interest in any transaction for which disclosure is required under Section 404(a) of Regulation S-K under the Exchange Act or be engaged in a business relationship that must be disclosed under Section 404(a) and must qualify as 'outside directors' as defined in Section 162(m) of the Code and regulations thereunder.

(c) Although the Committee may suspend, discontinue or terminate the Plan at any time, all Qualified Options must be granted on or before April 8, 2008.

19. Continued Employment Not Presumed . Nothing in this Plan or any document describing it nor the grant of any Option shall give any Participant the right to continue in the employment of the Corporation or affect the right of the Corporation to terminate the employment of any such person with or without cause.

20. Liability of the Corporation . Neither the Corporation, its directors, officers or employees or the Committee, nor any Subsidiary which is in existence or hereafter comes into existence, shall be liable to any Participant or other person if it is determined for any reason by the Internal Revenue Service or any court having jurisdiction that any Qualified Option granted hereunder does not qualify for tax treatment as an incentive stock option under Section 422 of the Code.

21. Governing Law . The Plan shall be governed by and construed in accordance with the laws of State of Minnesota and the United States, as applicable, without reference to the conflict of laws provisions thereof.

22. Severability of Provisions . If any provision of this Plan is determined to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect the remaining provisions of the Plan, but such invalid, illegal or unenforceable provision shall be fully severable, and the Plan shall be construed and enforced as if such provision had never been inserted herein.

Exhibit 10.14

ST. JUDE MEDICAL, INC.
AMENDED AND RESTATED 2000 STOCK OPTION PLAN
(formerly known as the Advanced Neuromodulation Systems, Inc. 2000 Stock Option Plan)

1. Purpose of the Plan . The purposes of the Plan are (i) to attract and retain the best available personnel for positions of substantial responsibility, (ii) to attract and retain directors and clinical advisors with a high degree of training, experience and ability and (iii) to provide incentives to such personnel, directors and clinical advisors to promote the success of the business of St. Jude Medical, Inc. and its subsidiaries.

Certain options granted under this Plan are intended to qualify as "incentive stock options" pursuant to Section 422 of the Internal Revenue Code of 1986, as amended from time to time, while certain other options granted under the Plan will constitute nonqualified options.

2. Definitions . As used herein, the following definitions shall apply:

(a) "Board" means the Board of Directors of the Corporation.

(b) "Common Stock" means the Common Stock, $.10 par value per share, of the Corporation. Except as otherwise provided herein, all Common Stock issued pursuant to the Plan will have the same rights as all other issued and outstanding shares of Common Stock, including but not limited to voting rights, the right to dividends, if declared and paid, and the right to pro rata distributions of the Corporation's assets in the event of liquidation.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(d) "Committee" means the committee described in Section 18(a) that administers the Plan.

(e) "Corporation" means St. Jude Medical, Inc., a Minnesota corporation.

(f) "Date of Grant" means the date on which an Option is granted pursuant to this Plan or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective.

(g) "Director" means any director, clinical advisor or consultant of the Corporation or one of its Subsidiaries, but excluding any director, clinical advisor or consultant who is also an officer or employee of the Corporation or one of its Subsidiaries.

(h) "Employee" means any officer or other key employee of the Corporation or one of its Subsidiaries, including any director who is also an officer or key employee of the Corporation or one of its Subsidiaries.

(i) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(j) "Executive" means an Employee who is, or in the judgment of the Committee may become, the Chief Executive Officer of the Corporation or one of the other four most highly compensated executive officers of the Corporation.

(k) "Fair Market Value" means the closing sale price (or average of the quoted closing bid and asked prices if there is no closing sale price reported) of the Common Stock on the trading day immediately prior to the date specified as reported by the New York Stock Exchange or by the principal national stock exchange on which the Common Stock is then listed. If there is no reported price information for the Common Stock, the Fair Market Value will be determined by the Committee, in its sole discretion. In making such determination, the Committee may, but will not be obligated to, commission and rely upon an independent appraisal of the Common Stock.

(l) "Non-Employee Director" means an individual who is a "non-employee director" as defined in Rule 16b-3 under the Exchange Act and also an "outside director" within the meaning of Treasury Regulation ss. 1.162-27(e)(3).

(m) "Nonqualified Option" means any Option that is not a Qualified Option.

(n) "Option" means a stock option granted pursuant to Section 6 of this Plan.

(o) "Optionee" means any Employee or Director who receives an Option.

(p) "Participant" means any Employee or Director who receives an Option pursuant to this Plan.

(q) "Plan" means the St. Jude Medical, Inc. Amended and Restated 2000 Stock Option Plan (which was formerly known as the Advanced Neuromodulation Systems, Inc. 2000 Stock Option Plan), as amended from time to time.

(r) "Qualified Option" means any Option that is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

(s) "Rule 16b-3" means Rule 16b-3 of the rules and regulations under the Exchange Act, as Rule 16b-3 may be amended from time to time, and any successor provisions to Rule 16b-3 under the Exchange Act.

(t) "Subsidiary" means any now existing or hereinafter organized or acquired company of which more than fifty percent (50%) of the issued and outstanding voting stock is owned or controlled directly or indirectly by the Corporation or through one or more Subsidiaries of the Corporation.

3. Term of Plan . The Plan was adopted by the Board of Directors of Advanced Neuromodulation Systems, Inc. effective as of February 22, 2000 and approved by the shareholders of Advanced Neuromodulation Systems, Inc. on May 24, 2000. The Plan was assumed by the Corporation pursuant to the terms of the Agreement and Plan of Merger among the Corporation, Apollo Merger Corp., and Advanced Neuromodulation Systems, Inc., dated as of October 15, 2005 (the "Merger Agreement"). The Plan was amended pursuant to resolutions adopted by the Board on October 14, 2005 in order to make changes necessary to reflect the assumption of the Plan by the Corporation. Pursuant to the Merger Agreement, at the Effective Time (as defined in the Merger Agreement), the then outstanding Options under the Plan were converted into Options to purchase Common Stock. After the Effective Time, no additional Options will be granted under the Plan. The Plan shall continue in effect so long as Options granted under the Plan remain outstanding, subject to earlier termination as provided under Section 18(a).

4. Shares Subject to the Plan . When the Plan was adopted by the Board of Directors and shareholders of Advanced Neuromodulation Systems, Inc. it contained the following provision: "Except as otherwise provided in Section 17 hereof, the aggregate number of shares of Common Stock issuable upon the exercise of Options pursuant to this Plan will be 500,000 shares; provided that on January 1 of each year (commencing on January 1, 2001), the aggregate number of shares of Common Stock then issuable upon the exercise of Options will be increased by the same percentage that the total number of issued and outstanding shares of Common Stock increased from the preceding January 1 to the following December 31 (if the percentage is positive). For example, if the total number of issued and outstanding shares of Common Stock on January 1, 2000 were 5,000,000, the total number of issued and outstanding shares of the Corporation on December 31, 2000 were 5,500,000, and the aggregate number of shares of Common Stock then issuable upon the exercise of Options pursuant to this Plan were 250,000, the aggregate number of shares of Common Stock issuable under the Plan effective January 1, 2001 would be 275,000 (a 10% increase). Notwithstanding the above, the aggregate number of shares of Common Stock issuable upon the exercise of Qualified Options pursuant to this Plan will not exceed 500,000 shares. Shares issuable upon the exercise of Options may either be authorized but unissued shares or treasury shares. The Corporation will, during the term of this Plan, reserve and keep available a number of shares of Common Stock sufficient to satisfy the requirements of the Plan. If an Option should expire or become unexercisable for any reason without having been exercised in full, then the shares that were subject thereto shall, unless the Plan shall have terminated, become immediately available for the grant of additional Options under this Plan, subject to the limitations and adjustments set forth above. In addition, for purposes of calculating the aggregate number of shares that may be issued under this Plan, only the net shares issued (including the shares, if any, withheld for tax withholding requirements) will be counted when shares of Common Stock are used as full or partial payment for shares issued upon exercise of a Qualified Option or a Nonqualified Stock Option. Shares tendered by a Participant as payment for shares issued upon such exercise will be available for reissuance under the Plan."

5. Eligibility . Qualified Options may be granted under Section 6 of the Plan to such Employees of the Corporation or its Subsidiaries as may be determined by the Committee. Nonqualified Options may be granted under Section 6 of the Plan to such Employees or Directors of the Corporation or its Subsidiaries as may be determined by the Committee. Subject to the limitations and qualifications set forth in this Plan, the Committee will also determine the number of Options to be granted, the number of shares subject to each Option grant, the exercise price or prices of each Option, the vesting and exercise period of each Option, whether an Option may be exercised as to less than all of the Common Stock subject thereto, and such other terms and conditions of each Option as are consistent with the provisions of this Plan. In connection with the granting of Qualified Options, the aggregate Fair Market Value (determined at the Date of Grant of a Qualified Option) of the shares with respect to which Qualified Options are exercisable for the first time by an Optionee during any calendar year (under all such plans of the Optionee's employer corporation and its parent and subsidiary corporations as defined in Section 424(e) and (f) of the Code, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming an Option in a transaction to which Section 424(a) of the Code applies

(collectively, such corporations described in this sentence are hereinafter referred to as "Related Corporations")) will not exceed $100,000 or such other amount as from time to time provided in Section 422(d) of the Code or any successor provision. In the event that the Participant's total Qualified Options exceed the $100,000 limit in any calendar year (whether due to acceleration of exercisability, miscalculation, error or otherwise) the amount of Qualified Options that exceed such limit will be treated as Nonqualified Options. The Qualified Options granted earliest (whether under this Plan or any other agreement or plan) will be applied first to the $100,000 limit. In the event that only a portion of the Qualified Options granted at the same time can be applied to the $100,000 limit, the Corporation will issue separate share certificates for such number of shares as does not exceed the $100,000 limit, and will designate such shares as Qualified Option stock in its share transfer records.

6. Grant of Options . Except as provided in Section 18(c), the Committee will determine the number of shares of Common Stock to be offered from time to time pursuant to Options granted hereunder and will grant Options under the Plan. Notwithstanding the foregoing, each member of the Committee shall be eligible to receive Options only if the Board unanimously (except for such Committee member) grants such Option to such member. The grant of Options will be evidenced by Option agreements containing such terms and provisions as are approved by the Committee and executed on behalf of the Corporation by an appropriate officer. In connection with the granting of any Options under the Plan, the aggregate number of shares of Common Stock with respect to which Options may be granted to any single Executive in any one calendar year will not exceed 100,000. Solely for this purpose, Options that lapse or are canceled continue to count against such limit.

7. Time of Grant of Options . The date of grant of an Option under the Plan will be the date on which the Committee awards the Option or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective. Notice of the grant will be given to each Participant to whom an Option is granted promptly after the date of such grant.

8. Price . The exercise price for each share of Common Stock subject to an Option (the "Exercise Price") granted pursuant to Section 6 of the Plan will be determined by the Committee at the Date of Grant; provided, however, that (a) the Exercise Price for any Option will not be less than 100% of the Fair Market Value of the Common Stock at the Date of Grant, and (b) if the Optionee owns on the Date of Grant more than 10 percent of the total combined voting power of all classes of stock of the Corporation or its parent or any of its subsidiaries, as more fully described in Section 422(b)(6) of the Code or any successor provision (such shareholder is referred to herein as a "10-Percent Shareholder"), the Exercise Price for any Qualified Option granted to such Optionee will not be less than 110% of the Fair Market Value of the Common Stock at the Date of Grant.

9. Vesting . Subject to Section 11 of this Plan, each Option award under the Plan will vest or be subject to forfeiture in accordance with the provisions set forth in the applicable Option agreement. The Committee may, but will not be required to, permit acceleration of vesting or termination of forfeiture provisions upon any sale of the Corporation or similar transaction. Notwithstanding the foregoing, in no event will the acceleration of any Option hereunder upon a change of control of the Corporation occur to the extent an "excess parachute payment" (as defined in Section 280G of the Code) would result. In the event that the Committee determines that such an excess parachute payment would result if acceleration occurred (when added to any other payments or benefits contingent on a change of control under any other agreements, arrangements or plans) then the number of shares as to which excercisability is accelerated will be reduced so that total parachute payments do not exceed 299% of the Optionee's "base amount," as defined in Section 280G(b)(3) of the Code. A Participant's Option agreement may contain such additional provisions with respect to vesting as the Committee may specify.

10. Exercise . A Participant may pay the Exercise Price of the shares of Common Stock as to which an Option is being exercised by the delivery of (a) cash, (b) check, (c) at the Corporation's option, by the delivery of shares of Common Stock having a Fair Market Value on the date immediately preceding the exercise date equal to the Exercise Price and have been held by the Optionee at least six (6) months prior to the date of exercise, or (d) at the Corporation's option, any other consideration that the Corporation determines is consistent with the Plan's purpose and applicable law. If the shares to be purchased are covered by an effective registration statement under the Securities Act of 1933, as amended, any Option granted under the Plan may be exercised by a broker-dealer acting on behalf of an Optionee if (i) the broker-dealer has received from the Optionee or the Corporation a fully- and duly-endorsed agreement evidencing such Option, together with instructions signed by the Optionee requesting the Corporation to deliver the shares of Common Stock subject to such Option to the broker-dealer on behalf of the Optionee and specifying the account into which such shares should be deposited, (ii) adequate provision has been made with respect to the payment of any withholding taxes due upon such exercise, and (iii) the broker-dealer and the Optionee have otherwise complied with Section 220.3(e)(4) of Regulation T, 12 CFR Part 220, or any successor provision.

11. When Qualified Options May be Exercised . No Qualified Option will be exercisable at any time after the expiration of ten (10) years from the Date of Grant; provided, however, that if the Optionee with respect to a Qualified Option is a 10-Percent Shareholder on the Date of Grant of such Qualified Option, then such Option will not be exercisable after the expiration of five (5) years from its Date of Grant. In addition, if an Optionee of a Qualified Option ceases to be an employee of the Corporation or any Related Corporation for any reason, such Optionee's vested Qualified Options will not be exercisable after (a) three (3) months following the date such Optionee ceases to be an employee of the Corporation or any Related Corporation, if such cessation of service is not due to the death or permanent and total disability (within the meaning of Section 22(e)(3) of the Code) of the Optionee, or (b) twelve (12) months following the date such Optionee ceases to be an employee of the Corporation or any Related Corporation, if such cessation of service is due to the death or permanent and total disability (as defined above) of the Optionee. Upon the death of an Optionee, any vested Qualified Option exercisable on the date of death may be exercised by the

Optionee's estate or by a person who acquires the right to exercise such Qualified Option by bequest or inheritance or by reason of the death of the Optionee, provided that such exercise occurs within both the remaining option term of the Qualified Option and twelve (12) months after the date of the Optionee's death. This Section 11 only provides the outer limits of allowable exercise dates with respect to Qualified Options; the Committee may determine that the exercise period for a Qualified Option shall have a shorter duration than as specified above.

12. Option Financing . Upon the exercise of any Option granted under the Plan, the Corporation may, but will not be required to, make financing available to the Participant for the purchase of shares of Common Stock pursuant to such Option on such terms as the Board or the Committee may specify.

13. Withholding of Taxes . The Committee will make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Corporation is required by any law or regulation of any governmental authority to withhold in connection with any Option including, but not limited to, (a) withholding the issuance of all or any portion of the shares of Common Stock subject to such Option until the Participant reimburses the Corporation for the amount it is required to withhold with respect to such taxes, (b) withholding any portion of such issuance in an amount sufficient to reimburse the Corporation for the amount of taxes it is required to withhold, (c) allowing the Participant to deliver Common Stock as payment for the amount the Corporation is required to withhold for taxes or (d) taking any other action reasonably required to satisfy the Corporation's withholding obligation.

14. Conditions Upon Issuance of Shares .

(a) The Corporation will not be obligated to sell or issue any shares upon the exercise of any Option granted under the Plan unless the issuance and delivery of shares comply with all provisions of applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed.

(b) As a condition to the exercise of an Option, the Corporation may require the person exercising the Option to make such representations and warranties as may be necessary to assure the availability of an exemption from the registration requirements of applicable federal and state securities laws.

(c) The Corporation will not be liable for refusing to sell or issue any shares covered by any Option if the Corporation cannot obtain authority from the appropriate regulatory bodies deemed by the Corporation to be necessary to sell or issue such shares in compliance with all applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed. In addition, the Corporation will have no obligation to any Participant, express or implied, to list, register or otherwise qualify the shares of Common Stock covered by any Option.

(d) No Participant will be, or will be deemed to be, a holder of any Common Stock subject to an Option unless and until such Participant has exercised his or her Option and paid the purchase price for the subject shares of Common Stock.

15. Restrictions on Transfer .

(a) Options issued pursuant to the Plan will be nontransferable except by will or the laws of descent and distribution, and may only be exercisable during the Participant's lifetime only by the Participant.

(b) Shares of Common Stock issued pursuant to the Plan may be subject to restrictions on transfer under applicable federal and state securities laws. The Committee may impose such additional restrictions on the ownership and transfer of shares of Common Stock issued pursuant to the Plan as it deems desirable; any such restrictions will be set forth in any Option agreement entered into hereunder.

16. Modification of Plan and Options .

(a) The Committee may from time to time and at any time alter, amend, suspend, discontinue or terminate this Plan; provided, however, that no such action of the Committee may, without the approval of the shareholders of the Corporation, alter the provisions of the Plan so as to (i) increase the maximum number of shares of Common Stock that may be subject to Qualified Options under this Plan (except as provided in Section 17 of this Plan), (ii) change the class of employees eligible to receive Qualified Options pursuant to this Plan, or (iii) change the annual limit on the number of Options granted to an Executive in Section 6 above.

(b) At any time and from time to time, the Committee may execute an instrument providing for modification, extension or renewal of any outstanding Option, provided that no such modification, extension or renewal will impair the Option without the consent of the holder of the Option or conflict with the provisions of Rule 16b-3 or the New York Stock Exchange or any stock exchange on which shares of Common Stock may then be listed. Notwithstanding the foregoing, (i) in the event of such a modification, substitution, extension or renewal of a Qualified

Option, the Committee may increase the exercise price of such Option if necessary to retain the qualified status of such Option, and (ii) the Committee may, in its discretion and without the holder's consent, convert, any Qualified Option into a Nonqualified Option.

17. Effect of Change in Stock Subject to the Plan . In the event that each of the outstanding shares of Common Stock (other than shares held by dissenting shareholders) will be changed into or exchanged for a different number or kind of shares of stock of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares or otherwise), or in the event a stock split or stock dividend occurs, then the Corporation may either (a) substitute for each share of Common Stock then subject to Options or available for Options the number and kind of shares of stock into which each outstanding share of Common Stock (other than shares held by dissenting shareholders) will be so changed or exchanged, or the number of shares of Common Stock as is equitably required in the event of a stock split or stock dividend, together with an appropriate adjustment of the Exercise Price, or (b) cancel all such Options as of the effective date of any merger, consolidation, recapitalization, reclassification, split-up or combination of shares by giving written notice to each holder thereof or his personal representatives of its intention to do so and by permitting the exercise of all such Options, without regard to determinations of periods or installments of exercisability during the thirty (30) day period immediately preceding such effective date. The Committee may, but will not be required to, provide additional anti-dilution protection to a Participant under the terms of the Participant's Option agreement.

18. Administration .

(a) Notwithstanding anything to the contrary herein, to the extent necessary to comply with the requirements of Rule 16b-3, the Plan will be administered by the Board, if each member is a Non-Employee Director, or by a committee comprised solely of two or more Non-Employee Directors appointed by the Board (the group responsible for administering the Plan is referred to as the "Committee"). Options may be granted under Section 6 only by majority agreement of the members of the Committee. Option agreements, in the form as approved by the Committee, and containing such terms and conditions consistent with the provisions of this Plan as are determined by the Committee, may be executed on behalf of the Corporation by the Chairman of the Board, the President or any Vice President of the Corporation. The Committee will have complete authority to construe, interpret and administer the provisions of this Plan and the provisions of the Option agreements granted hereunder; to prescribe, amend and rescind rules and regulations pertaining to this Plan; to suspend, discontinue or terminate this Plan; and to make all other determinations necessary or deemed advisable in the administration of the Plan. The determinations, interpretations and constructions made by the Committee will be final and conclusive. No member of the Committee will be liable for any action taken, or failed to be taken, made in good faith relating to the Plan or any award thereunder, and the members of the Committee will be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the fullest extent permitted by law.

(b) Members of the Committee will be specified by the Board, and will consist solely of Non-Employee Directors. Non-Employee Directors may not possess an interest in any transaction for which disclosure is required under Section 404(a) of Regulation S-K under the Exchange Act or be engaged in a business relationship that must be disclosed under Section 404(a) and must qualify as outside directors' as defined in Section 162(m) of the Code and regulations thereunder.

(c) Although the Committee may suspend, discontinue or terminate the Plan at any time, all Qualified Options must be granted on or before February 21, 2010.

19. Continued Employment Not Presumed . Nothing in this Plan or any document describing it nor the grant of any Option will give any Participant the right to continue in the employment of the Corporation or affect the right of the Corporation to terminate the employment of any such person with or without cause.

20. Liability of the Corporation . Neither the Corporation, its directors, officers or employees or the Committee, nor any Subsidiary which is in existence or hereafter comes into existence, will be liable to any Participant or other person if it is determined for any reason by the Internal Revenue Service or any court having jurisdiction that any Qualified Option granted hereunder does not qualify for tax treatment as an incentive stock option under Section 422 of the Code.

21. Governing Law . The Plan will be governed by and construed in accordance with the laws of State of Minnesota and the United States, as applicable, without reference to the conflict of laws provisions thereof.

22. Severability of Provisions . If any provision of this Plan is determined to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability will not affect the remaining provisions of the Plan, but such invalid, illegal or unenforceable provision will be fully severable, and the Plan will be construed and enforced as if such provision had never been inserted herein.

Exhibit 10.15

ST. JUDE MEDICAL, INC.
AMENDED AND RESTATED 2001 EMPLOYEE STOCK OPTION PLAN
(formerly known as the Advanced Neuromodulation Systems, Inc. 2001 Employee Stock Option Plan)

1. Purpose of the Plan . The purposes of the Plan are (i) to attract and retain the best available personnel for positions of substantial responsibility, and (ii) to provide incentives to such personnel to promote the success of the business of St. Jude Medical, Inc. and its subsidiaries.

2. Definitions . As used herein, the following definitions shall apply:

(a) "Board" means the Board of Directors of the Corporation.

(b) "Common Stock" means the Common Stock, $.10 par value per share, of the Corporation. Except as otherwise provided herein, all Common Stock issued pursuant to the Plan will have the same rights as all other issued and outstanding shares of Common Stock, including but not limited to voting rights, the right to dividends, if declared and paid, and the right to pro rata distributions of the Corporation's assets in the event of liquidation.

(c) "Committee" means the committee described in Section 18(a) that administers the Plan.

(d) "Corporation" means St. Jude Medical, Inc., a Minnesota corporation.

(e) "Date of Grant" means the date on which an Option is granted pursuant to this Plan or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective.

(f) "Employee" means any officer or other key employee of the Corporation or one of its Subsidiaries, including any director who is also an officer or key employee of the Corporation or one of its Subsidiaries.

(g) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(h) "Fair Market Value" means the closing sale price (or average of the quoted closing bid and asked prices if there is no closing sale price reported) of the Common Stock on the trading day immediately prior to the date specified as reported by the New York Stock Exchange or by the principal national stock exchange on which the Common Stock is then listed. If there is no reported price information for the Common Stock, the Fair Market Value will be determined by the Committee, in its sole discretion. In making such determination, the Committee may, but shall not be obligated to, commission and rely upon an independent appraisal of the Common Stock.

(i) "Option" means a stock option granted pursuant to Section 6 of this Plan.

(j) "Optionee" means any Employee or Director who receives an Option.

(k) "Participant" means any Employee who receives an Option.

(l) "Plan" means the St. Jude Medical, Inc. Amended and Restated 2001 Employee Stock Option Plan (which was formerly known as the Advanced Neuromodulation Systems, Inc. 2001 Employee Stock Option Plan), as amended from time to time.

(m) "Rule 16b-3" means Rule 16b-3 of the rules and regulations under the Exchange Act, as Rule 16b-3 may be amended from time to time, and any successor provisions to Rule 16b-3 under the Exchange Act.

(n) "Subsidiary" means any now existing or hereinafter organized or acquired company of which more than fifty percent (50%) of the issued and outstanding voting stock is owned or controlled directly or indirectly by the Corporation or through one or more Subsidiaries of

the Corporation.

3. Term of Plan . The Plan was adopted by the Board of Directors of Advanced Neuromodulation Systems, Inc. effective as of April 2, 2001. The Plan was assumed by the Corporation pursuant to the terms of the Agreement and Plan of Merger among the Corporation, Apollo Merger Corp., and Advanced Neuromodulation Systems, Inc., dated as of October 15, 2005 (the "Merger Agreement"). The Plan was amended pursuant to resolutions adopted by the Board on October 14, 2005 in order to make changes necessary to reflect the assumption of the Plan by the Corporation. Pursuant to the Merger Agreement, at the Effective Time (as defined in the Merger Agreement), the then outstanding Options under the Plan were converted into Options to purchase Common Stock. After the Effective Time, no additional Options will be granted under the Plan. The Plan shall continue in effect so long as Options granted under the Plan remain outstanding, subject to earlier termination as provided under Section 18(a).

4. Shares Subject to the Plan . When the Plan was adopted by the Board of Directors of Advanced Neuromodulation Systems, Inc. it contained the following provision: "Except as otherwise provided in Section 17 hereof, the aggregate number of shares of Common Stock issuable upon the exercise of Options pursuant to this Plan shall be 180,000 shares; provided, however, that on January 1 of each year (commencing on January 1, 2001), the aggregate number of shares of Common Stock then issuable upon the exercise of Options shall be increased by the same percentage that the total number of issued and outstanding shares of Common Stock increased from the preceding January 1 to the following December 31 (if such percentage is positive). For example, if the total number of issued and outstanding shares of Common Stock on January 1, 2001 were 5,000,000, the total number of issued and outstanding shares of the Corporation on December 31, 2001 were 5,500,000, and the aggregate number of shares of Common Stock then issuable upon the exercise of Options pursuant to this Plan were 180,000, the aggregate number of shares of Common Stock issuable under the Plan effective January 1, 2002 would be 198,000 (a 10% increase). Shares issuable upon the exercise of Options may either be authorized but unissued shares or treasury shares. The Corporation shall, during the term of this Plan, reserve and keep available a number of shares of Common Stock sufficient to satisfy the requirements of the Plan. If an Option should expire or become unexercisable for any reason without having been exercised in full, then the shares that were subject thereto shall, unless the Plan shall have terminated, become immediately available for the grant of additional Options under this Plan, subject to the limitations and adjustments set forth above. In addition, for purposes of calculating the aggregate number of shares that may be issued under this Plan, only the net shares issued (including the shares, if any, withheld for tax withholding requirements) shall be counted when shares of Common Stock are used as full or partial payment for shares issued upon exercise of a Option. Shares tendered by a Participant as payment for shares issued upon such exercise shall be available for reissuance under the Plan."

5. Eligibility . Options may be granted under Section 6 of the Plan to such Employees of the Corporation or its Subsidiaries as may be determined by the Committee. Subject to the limitations and qualifications set forth in this Plan, the Committee shall also determine the number of Options to be granted, the number of shares subject to each Option grant, the exercise price or prices of each Option, the vesting and exercise period of each Option, whether an Option may be exercised as to less than all of the Common Stock subject thereto, and such other terms and conditions of each Option as are consistent with the provisions of this Plan.

6. Grant of Options . Except as provided in Section 18(c), the Committee shall determine the number of shares of Common Stock to be offered from time to time pursuant to Options granted hereunder and shall grant Options under the Plan. No member of the Committee shall be eligible to receive Options. The grant of Options shall be evidenced by Option agreements containing such terms and provisions as are approved by the Committee and executed on behalf of the Corporation by an appropriate officer.

7. Time of Grant of Options . The date of grant of an Option under the Plan shall be the date on which the Committee awards the Option or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective. Notice of the grant shall be given to each Participant to whom an Option is granted promptly after the date of such grant.

8. Price . The exercise price for each share of Common Stock subject to an Option (the "Exercise Price") granted pursuant to Section 6 of the Plan shall be determined by the Committee at the Date of Grant.

9. Vesting . Subject to Section 11 of this Plan, each Option award under the Plan shall vest or be subject to forfeiture in accordance with the provisions set forth in the applicable Option agreement. The Committee may, but shall not be required to, permit acceleration of vesting or termination of forfeiture provisions upon any sale of the Corporation or similar transaction. A Participant's Option agreement may contain such additional provisions with respect to vesting as the Committee may specify.

10. Exercise . A Participant may pay the Exercise Price of the shares of Common Stock as to which an Option is being exercised by the delivery of (a) cash, (b) check, (c) at the Corporation's option, by the delivery of shares of Common Stock having a Fair Market Value on the date immediately preceding the exercise date equal to the Exercise Price and have been held by the Optionee at least six (6) months prior to the date of exercise, or (d) at the Corporation's option, any other consideration that the Corporation determines is consistent with the Plan's purpose and applicable law. If the shares to be purchased are covered by an effective registration statement under the Securities Act of 1933, as amended, any Option granted under the Plan may be exercised by a broker-dealer acting on behalf of an Optionee if (i) the broker-dealer has received from

the Optionee or the Corporation a fully- and duly-endorsed agreement evidencing such Option, together with instructions signed by the Optionee requesting the Corporation to deliver the shares of Common Stock subject to such Option to the broker-dealer on behalf of the Optionee and specifying the account into which such shares should be deposited, (ii) adequate provision has been made with respect to the payment of any withholding taxes due upon such exercise, and (iii) the broker-dealer and the Optionee have otherwise complied with Section 220.3(e)(4) of Regulation T, 12 CFR Part 220, or any successor provision.

11. [Reserved.]

12. Option Financing . Upon the exercise of any Option granted under the Plan, the Corporation may, but shall not be required to, make financing available to the Participant for the purchase of shares of Common Stock pursuant to such Option on such terms as the Board or the Committee may specify.

13. Withholding of Taxes . The Committee shall make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Corporation is required by any law or regulation of any governmental authority to withhold in connection with any Option including, but not limited to, (a) withholding the issuance of all or any portion of the shares of Common Stock subject to such Option until the Participant reimburses the Corporation for the amount it is required to withhold with respect to such taxes, (b) withholding any portion of such issuance in an amount sufficient to reimburse the Corporation for the amount of taxes it is required to withhold, (c) allowing the Participant to deliver Common Stock as payment for the amount the Corporation is required to withhold for taxes or (d) taking any other action reasonably required to satisfy the Corporation's withholding obligation.

14. Conditions Upon Issuance of Shares .

(a) The Corporation shall not be obligated to sell or issue any shares upon the exercise of any Option granted under the Plan unless the issuance and delivery of shares comply with all provisions of applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed.

(b) As a condition to the exercise of an Option, the Corporation may require the person exercising the Option to make such representations and warranties as may be necessary to assure the availability of an exemption from the registration requirements of applicable federal and state securities laws.

(c) The Corporation shall not be liable for refusing to sell or issue any shares covered by any Option if the Corporation cannot obtain authority from the appropriate regulatory bodies deemed by the Corporation to be necessary to sell or issue such shares in compliance with all applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed. In addition, the Corporation shall have no obligation to any Participant, express or implied, to list, register or otherwise qualify the shares of Common Stock covered by any Option.

(d) No Participant will be, or will be deemed to be, a holder of any Common Stock subject to an Option unless and until such Participant has exercised his or her Option and paid the purchase price for the subject shares of Common Stock.

15. Restrictions on Transfer .

(a) Options issued pursuant to the Plan shall be nontransferable except by will or the laws of descent and distribution, and may only be exercisable during the Participant's lifetime only by the Participant.

(b) Shares of Common Stock issued pursuant to the Plan may be subject to restrictions on transfer under applicable federal and state securities laws. The Committee may impose such additional restrictions on the ownership and transfer of shares of Common Stock issued pursuant to the Plan as it deems desirable; any such restrictions shall be set forth in any Option agreement entered into hereunder.

16. Modification of Plan and Options .

(a) The Committee may from time to time and at any time alter, amend, suspend, discontinue or terminate this Plan.

(b) At any time and from time to time, the Committee may execute an instrument providing for modification, extension or renewal of any outstanding Option, provided that no such modification, extension or renewal shall impair the Option without the consent of the holder of the Option or conflict with the provisions of Rule 16b-3 or the New York Stock Exchange or any stock exchange on which shares of the Common Stock may then be listed.

17. Effect of Change in Stock Subject to the Plan . In the event that each of the outstanding shares of Common Stock (other than shares held by dissenting shareholders) shall be changed into or exchanged for a different number or kind of shares of stock of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares or otherwise), or in the event a stock split or stock dividend occurs, then the Corporation may either (a) substitute for each share of Common Stock then subject to Options or available for Options the number and kind of shares of stock into which each outstanding share of Common Stock (other than shares held by dissenting shareholders) shall be so changed or exchanged, or the number of shares of Common Stock as is equitably required in the event of a stock split or stock dividend, together with an appropriate adjustment of the Exercise Price, or (b) cancel all such Options as of the effective date of any merger, consolidation, recapitalization, reclassification, split-up or combination of shares by giving written notice to each holder thereof or his personal representatives of its intention to do so and by permitting the exercise of all such Options, without regard to determinations of periods or installments of exercisability during the thirty (30) day period immediately preceding such effective date. The Committee may, but shall not be required to, provide additional anti-dilution protection to a Participant under the terms of the Participant's Option agreement.

18. Administration .

(a) Notwithstanding anything to the contrary herein, to the extent necessary to comply with the requirements of Rule 16b-3, the Plan shall be administered by the Board, or by a committee comprised solely of two or more Non-Employee Directors appointed by the Board (the group responsible for administering the Plan is referred to as the "Committee"). Options may be granted under Section 6 only by majority agreement of the members of the Committee. Option agreements, in the form as approved by the Committee, and containing such terms and conditions consistent with the provisions of this Plan as are determined by the Committee, may be executed on behalf of the Corporation by the Chairman of the Board, the President or any Vice President of the Corporation. The Committee shall have complete authority to construe, interpret and administer the provisions of this Plan and the provisions of the Option agreements granted hereunder; to prescribe, amend and rescind rules and regulations pertaining to this Plan; to suspend, discontinue or terminate this Plan; and to make all other determinations necessary or deemed advisable in the administration of the Plan. The determinations, interpretations and constructions made by the Committee shall be final and conclusive. No member of the Committee shall be liable for any action taken, or failed to be taken, made in good faith relating to the Plan or any award thereunder, and the members of the Committee shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the fullest extent permitted by law.

(b) Members of the Committee shall be specified by the Board, and if the Committee does not consist of the entire Board, the Committee shall consist solely of Non-Employee Directors. Non-Employee Directors may not possess an interest in any transaction for which disclosure is required under Section 404(a) of Regulation S-K under the Exchange Act or be engaged in a business relationship that must be disclosed under Section 404(a).

19. Continued Employment Not Presumed . Nothing in this Plan or any document describing it nor the grant of any Option shall give any Participant the right to continue in the employment of the Corporation or affect the right of the Corporation to terminate the employment of any such person with or without cause.

20. [Reserved].

21. Governing Law . The Plan shall be governed by and construed in accordance with the laws of State of Minnesota and the United States, as applicable, without reference to the conflict of laws provisions thereof.

22. Severability of Provisions . If any provision of this Plan is determined to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect the remaining provisions of the Plan, but such invalid, illegal or unenforceable provision shall be fully severable, and the Plan shall be construed and enforced as if such provision had never been inserted herein.

Exhibit 10.16

ST. JUDE MEDICAL, INC.
AMENDED AND RESTATED 2002 STOCK OPTION PLAN
(formerly known as the Advanced Neuromodulation Systems, Inc. 2002 Stock Option Plan)

1. Purpose of the Plan . This Plan shall be known as the St. Jude Medical, Inc. Amended and Restated 2002 Stock Option Plan. The purposes of the Plan are (i) to attract and retain the best available advisory directors, consultants and non-executive employees, and (ii) to provide incentives to such advisory directors, consultants and non-executive employees to promote the success of the business of St. Jude Medical, Inc. and its subsidiaries.

2. Definitions . As used herein, the following definitions shall apply:

(a) "Advisory Director" means a person that the Corporation designates as a member of the Corporation's Advisory Board of Directors.

(b) "Board" means the Board of Directors of the Corporation.

(c) "Common Stock" means the Common Stock, $.10 par value per share, of the Corporation. Except as otherwise provided herein, all Common Stock issued pursuant to the Plan shall have the same rights as all other issued and outstanding shares of Common Stock, including but not limited to voting rights, the right to dividends, if declared and paid, and the right to pro rata distributions of the Corporation's assets in the event of liquidation.

(d) "Committee" means the committee described in Section 18(a) that administers the Plan.

(e) "Consultant" means a consultant engaged by the Corporation to render consulting services to the Corporation.

(f) "Corporation" means St. Jude Medical, Inc., a Minnesota corporation.

(g) "Date of Grant" means the date on which an Option is granted pursuant to this Plan or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective.

(h) "Employee" means any employee of the Corporation or one of its Subsidiaries, but excluding any "executive officer" (as defined in Rule 3b-7 promulgated pursuant to the Exchange Act) or director of the Corporation or one of its Subsidiaries.

(i) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(j) "Fair Market Value" means the closing sale price (or average of the quoted closing bid and asked prices if there is no closing sale price reported) of the Common Stock on the trading day immediately prior to the date specified as reported by the New York Stock Exchange or by the principal national stock exchange on which the Common Stock is then listed. If there is no reported price information for the Common Stock, the Fair Market Value will be determined by the Committee, in its sole discretion. In making such determination, the Committee may, but shall not be obligated to, commission and rely upon an independent appraisal of the Common Stock.

(k) "Option" means a stock option granted pursuant to Section 6 of this Plan..

(l) "Optionee" means any Employee, Advisory Director, or Consultant who receives an Option.

(m) "Participant" means any Employee, Advisory Director, or Consultant who receives an Option.

(n) "Plan" means the St. Jude Medical, Inc. Amended and Restated 2002 Stock Option Plan (which was formerly known as the Advanced Neuromodulation Systems, Inc. 2002 Stock Option Plan), as amended from time to time.

(o) "Rule 16b-3" means Rule 16b-3 of the rules and regulations under the Exchange Act, as Rule 16b-3 may be amended from time to time, and any successor provisions to Rule 16b-3 under the Exchange Act.

(p) "Subsidiary" means any now existing or hereinafter organized or acquired company of which more than fifty percent (50%) of the issued and outstanding voting stock is owned or controlled directly or indirectly by the Corporation or through one or more Subsidiaries of the Corporation.

3. Term of Plan . The Plan was adopted by the Board of Directors of Advanced Neuromodulation Systems, Inc. effective as of June 5, 2002. The Plan was assumed by the Corporation pursuant to the terms of the Agreement and Plan of Merger among the Corporation, Apollo Merger Corp., and Advanced Neuromodulation Systems, Inc., dated as of October 15, 2005 (the "Merger Agreement"). The Plan was amended pursuant to resolutions adopted by the Board on October 14, 2005 in order to make changes necessary to reflect the assumption of the Plan by the Corporation. Pursuant to the Merger Agreement, at the Effective Time (as defined in the Merger Agreement), the then outstanding Options under the Plan were converted into Options to purchase Common Stock. After the Effective Time, no additional Options will be granted under the Plan. The Plan shall continue in effect so long as Options granted under the Plan remain outstanding, subject to earlier termination as provided under Section 18(a).

4. Shares Subject to the Plan . When the Plan was adopted by the Board of Directors of Advanced Neuromodulation Systems, Inc. it contained the following provision: "Except as otherwise provided in Section 17 hereof, the aggregate number of shares of Common Stock issuable upon the exercise of Options pursuant to this Plan shall be 225,000 shares; provided, however, that on January 1 of each year (commencing on January 1, 2003), the aggregate number of shares of Common Stock then issuable upon the exercise of Options shall be increased by the same percentage that the total number of issued and outstanding shares of Common Stock increased from the preceding January 1 to the following December 31 (if such percentage is positive). For example, if the total number of issued and outstanding shares of Common Stock on January 1, 2002 were 5,000,000, the total number of issued and outstanding shares of the Corporation on December 31, 2002 were 5,500,000, and the aggregate number of shares of Common Stock then issuable upon the exercise of Options pursuant to this Plan were 180,000, the aggregate number of shares of Common Stock issuable under the Plan effective January 1, 2003 would be 198,000 (a 10% increase). Shares issuable upon the exercise of Options may either be authorized but unissued shares or treasury shares. The Corporation shall, during the term of this Plan, reserve and keep available a number of shares of Common Stock sufficient to satisfy the requirements of the Plan. If an Option should expire or become unexercisable for any reason without having been exercised in full, then the shares that were subject thereto shall, unless the Plan shall have terminated, become immediately available for the grant of additional Options under this Plan, subject to the limitations and adjustments set forth above. In addition, for purposes of calculating the aggregate number of shares that may be issued under this Plan, only the net shares issued (including the shares, if any, withheld for tax withholding requirements) shall be counted when shares of Common Stock are used as full or partial payment for shares issued upon exercise of a Option. Shares tendered by a Participant as payment for shares issued upon such exercise shall be available for reissuance under the Plan."

5. Eligibility . Options may be granted under Section 6 of the Plan to such Employees, Consultants and Advisory Directors of the Corporation or its Subsidiaries as may be determined by the Committee. Subject to the limitations and qualifications set forth in this Plan, the Committee shall also determine the number of Options to be granted, the number of shares subject to each Option grant, the exercise price or prices of each Option, the vesting and exercise period of each Option, whether an Option may be exercised as to less than all of the Common Stock subject thereto, and such other terms and conditions of each Option as are consistent with the provisions of this Plan.

6. Grant of Options . Except as provided in Section 18(c), the Committee shall determine the number of shares of Common Stock to be offered from time to time pursuant to Options granted hereunder and shall grant Options under the Plan. No member of the Committee shall be eligible to receive Options. The grant of Options shall be evidenced by Option agreements containing such terms and provisions as are approved by the Committee and executed on behalf of the Corporation by an appropriate officer.

7. Time of Grant of Options . The date of grant of an Option under the Plan shall be the date on which the Committee awards the Option or, if the Committee so determines, the date specified by the Committee as the date the award is to be effective. Notice of the grant shall be given to each Participant to whom an Option is granted promptly after the date of such grant.

8. Price . The exercise price for each share of Common Stock subject to an Option (the "Exercise Price") granted pursuant to Section 6 of the Plan shall be determined by the Committee at the Date of Grant.

9. Vesting . Subject to Section 11 of this Plan, each Option award under the Plan shall vest or be subject to forfeiture in accordance with the provisions set forth in the applicable Option agreement. The Committee may, but shall not be required to, permit acceleration of vesting or termination of forfeiture provisions upon any sale of the Corporation or similar transaction. A Participant's Option agreement may contain such additional provisions with respect to vesting as the Committee may specify.

10. Exercise . A Participant may pay the Exercise Price of the shares of Common Stock as to which an Option is being exercised by the

delivery of (a) cash, (b) check, (c) at the Corporation's option, by the delivery of shares of Common Stock having a Fair Market Value on the date immediately preceding the exercise date equal to the Exercise Price and have been held by the Optionee at least six (6) months prior to the date of exercise, or (d) at the Corporation's option, any other consideration that the Corporation determines is consistent with the Plan's purpose and applicable law. If the shares to be purchased are covered by an effective registration statement under the Securities Act of 1933, as amended, any Option granted under the Plan may be exercised by a broker-dealer acting on behalf of an Optionee if (i) the broker-dealer has received from the Optionee or the Corporation a fully- and duly-endorsed agreement evidencing such Option, together with instructions signed by the Optionee requesting the Corporation to deliver the shares of Common Stock subject to such Option to the broker-dealer on behalf of the Optionee and specifying the account into which such shares should be deposited, (ii) adequate provision has been made with respect to the payment of any withholding taxes due upon such exercise, and (iii) the broker-dealer and the Optionee have otherwise complied with Section 220.3(e)(4) of Regulation T, 12 CFR Part 220, or any successor provision.

11. [Reserved.]

12. Option Financing . Upon the exercise of any Option granted under the Plan, the Corporation may, but shall not be required to, make financing available to the Participant for the purchase of shares of Common Stock pursuant to such Option on such terms as the Board or the Committee may specify.

13. Withholding of Taxes . The Committee shall make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Corporation is required by any law or regulation of any governmental authority to withhold in connection with any Option including, but not limited to, (a) withholding the issuance of all or any portion of the shares of Common Stock subject to such Option until the Participant reimburses the Corporation for the amount it is required to withhold with respect to such taxes, (b) withholding any portion of such issuance in an amount sufficient to reimburse the Corporation for the amount of taxes it is required to withhold, (c) allowing the Participant to deliver Common Stock as payment for the amount the Corporation is required to withhold for taxes or (d) taking any other action reasonably required to satisfy the Corporation's withholding obligation.

14. Conditions Upon Issuance of Shares .

(a) The Corporation shall not be obligated to sell or issue any shares upon the exercise of any Option granted under the Plan unless the issuance and delivery of shares comply with all provisions of applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed.

(b) As a condition to the exercise of an Option, the Corporation may require the person exercising the Option to make such representations and warranties as may be necessary to assure the availability of an exemption from the registration requirements of applicable federal and state securities laws.

(c) The Corporation shall not be liable for refusing to sell or issue any shares covered by any Option if the Corporation cannot obtain authority from the appropriate regulatory bodies deemed by the Corporation to be necessary to sell or issue such shares in compliance with all applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed. In addition, the Corporation shall have no obligation to any Participant, express or implied, to list, register or otherwise qualify the shares of Common Stock covered by any Option.

(d) No Participant will be, or will be deemed to be, a holder of any Common Stock subject to an Option unless and until such Participant has exercised his or her Option and paid the purchase price for the subject shares of Common Stock.

15. Restrictions on Transfer .

(a) Options issued pursuant to the Plan shall be nontransferable except by will or the laws of descent and distribution, and may only be exercisable during the Participant's lifetime only by the Participant.

(b) Shares of Common Stock issued pursuant to the Plan may be subject to restrictions on transfer under applicable federal and state securities laws. The Committee may impose such additional restrictions on the ownership and transfer of shares of Common Stock issued pursuant to the Plan as it deems desirable; any such restrictions shall be set forth in any Option agreement entered into hereunder.

16. Modification of Plan and Options .

(a) The Committee may from time to time and at any time alter, amend, suspend, discontinue or terminate this Plan.

(b) At any time and from time to time, the Committee may execute an instrument providing for modification, extension or renewal of any outstanding Option, provided that no such modification, extension or renewal shall impair the Option without the consent of the holder of the Option or conflict with the provisions of Rule 16b-3 or the New York Stock Exchange or any stock exchange on which shares of Common Stock may then be listed.

17. Effect of Change in Stock Subject to the Plan . In the event that each of the outstanding shares of Common Stock (other than shares held by dissenting shareholders) shall be changed into or exchanged for a different number or kind of shares of stock of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares or otherwise), or in the event a stock split or stock dividend occurs, then the Corporation may either (a) substitute for each share of Common Stock then subject to Options or available for Options the number and kind of shares of stock into which each outstanding share of Common Stock (other than shares held by dissenting shareholders) shall be so changed or exchanged, or the number of shares of Common Stock as is equitably required in the event of a stock split or stock dividend, together with an appropriate adjustment of the Exercise Price, or (b) cancel all such Options as of the effective date of any merger, consolidation, recapitalization, reclassification, split-up or combination of shares by giving written notice to each holder thereof or his personal representatives of its intention to do so and by permitting the exercise of all such Options, without regard to determinations of periods or installments of exercisability during the thirty (30) day period immediately preceding such effective date. The Committee may, but shall not be required to, provide additional anti-dilution protection to a Participant under the terms of the Participant's Option agreement.

18. Administration .

(a) Notwithstanding anything to the contrary herein, to the extent necessary to comply with the requirements of Rule 16b-3, the Plan shall be administered by the Board, or by a committee comprised solely of two or more Non-Employee Directors appointed by the Board (the group responsible for administering the Plan is referred to as the "Committee"). Options may be granted under Section 6 only by majority agreement of the members of the Committee. Option agreements, in the form as approved by the Committee, and containing such terms and conditions consistent with the provisions of this Plan as are determined by the Committee, may be executed on behalf of the Corporation by the Chairman of the Board, the President or any Vice President of the Corporation. The Committee shall have complete authority to construe, interpret and administer the provisions of this Plan and the provisions of the Option agreements granted hereunder; to prescribe, amend and rescind rules and regulations pertaining to this Plan; to suspend, discontinue or terminate this Plan; and to make all other determinations necessary or deemed advisable in the administration of the Plan. The determinations, interpretations and constructions made by the Committee shall be final and conclusive. No member of the Committee shall be liable for any action taken, or failed to be taken, made in good faith relating to the Plan or any award thereunder, and the members of the Committee shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the fullest extent permitted by law.

(b) Members of the Committee shall be specified by the Board, and if the Committee does not consist of the entire Board, the Committee shall consist solely of Non-Employee Directors. Non-Employee Directors may not possess an interest in any transaction for which disclosure is required under Section 404(a) of Regulation S-K under the Exchange Act or be engaged in a business relationship that must be disclosed under Section 404(a).

19. Continued Employment Not Presumed . Nothing in this Plan or any document describing it nor the grant of any Option shall give any Participant the right to continue in the employment or in the role of Advisory Director or Consultant of the Corporation or affect the right of the Corporation to terminate the employment, engagement or designation of any such person with or without cause.

20. [Reserved].

21. Governing Law . The Plan shall be governed by and construed in accordance with the laws of State of Minnesota and the United States, as applicable, without reference to the conflict of laws provisions thereof.

22. Severability of Provisions . If any provision of this Plan is determined to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect the remaining provisions of the Plan, but such invalid, illegal or unenforceable provision shall be fully severable, and the Plan shall be construed and enforced as if such provision had never been inserted herein.

Exhibit 10.17

ST. JUDE MEDICAL, INC.
AMENDED AND RESTATED 2004 STOCK INCENTIVE PLAN
(formerly known as the Advanced Neuromodulation Systems, Inc. 2004 Stock Incentive Plan)

1. Purpose of the Plan . The purposes of the Plan are (i) to attract and retain the best available directors, consultants and employees, and (ii) to provide incentives to such directors, consultants and employees to promote the success of the business of St. Jude Medical, Inc. and its subsidiaries.

2. Definitions . As used herein, the following definitions shall apply:

(a) "Agreement" means a written agreement between the Corporation and a Participant evidencing the terms and conditions of an individual Award grant. Each Award Agreement shall be subject to the terms and condition of the Plan.

(b) "Award" means any Option or any Restricted Stock granted pursuant to the terms of this Plan.

(c) "Board" means the Board of Directors of the Corporation.

(d) "Common Stock" means the Common Stock, $.10 par value per share, of the Corporation. Except as otherwise provided herein, all Common Stock issued pursuant to the Plan shall have the same rights as all other issued and outstanding shares of Common Stock, including but not limited to voting rights, the right to dividends, if declared and paid, and the right to pro rata distributions of the Corporation's assets in the event of liquidation.

(e) "Committee" means the committee described in Section 18(a) that administers the Plan.

(f) "Consultant" means any consultant or advisor who renders bona fide services to the Corporation or one of its Subsidiaries, which services are not in connection with the offer or sale of securities in a capital-raising transaction.

(g) "Corporation" means St. Jude Medical, Inc., a Minnesota corporation.

(h) "Date of Grant" means the date on which an Award is granted pursuant to this Plan or, if the Committee so determines, the date specified by the Committee as the date the Award is to be effective.

(i) "Director" means any director or clinical advisor of the corporation or one of its Subsidiaries, but excluding any director or clinical advisor who is also an officer or employee of the Corporation or one of its subsidiaries.

(j) "Disability" means any medically determinable physical or mental impairment that, in the opinion of the Committee, based upon medical reports and other evidence satisfactory to the Committee, can reasonably be expected to prevent a Participant from performing substantially all of the Participant's customary duties or employment for a continuous period of not less than 12 months so as to be disabled within the meaning of Section 22(a)(3) of the Code.

(k) "Employee" means any employee of the Corporation or one of its Subsidiaries, including any director who is also an officer or key employee of the Corporation or one of its Subsidiaries.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means the closing sale price (or average of the quoted closing bid and asked prices if there is no closing sale price reported) of the Common Stock on the trading day immediately prior to the date specified as reported by the New York Stock Exchange or by the principal national stock exchange on which the Common Stock is then listed. If there is no reported price information for the Common Stock, the Fair Market Value will be determined by the Committee, in its sole discretion. In making such determination, the Committee may, but shall not be obligated to, commission and rely upon an independent appraisal of the Common Stock.

(n) "Non-Employee Director" means an individual who is a "non-employee director" as defined in Rule 16b-3 under the Exchange Act and also an "outside director" within the meaning of Treasury Regulation § 1.162-27(e)(3).

(o) "Option" means a stock option granted pursuant to Section 6 of this Plan.

(p) "Optionee" means any Employee who receives an Option.

(q) "Participant" means any Employee, Consultant, or Director who receives an Award.

(r) "Plan" means this St. Jude Medical, Inc. Amended and Restated 2004 Stock Incentive Plan (which was formerly known as the Advanced Neuromodulation Systems, Inc. 2004 Stock Incentive Plan), as amended from time to time.

(s) "Qualified Option" means any Option that is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code. The Committee shall cause each Option granted hereunder to be clearly designated in the Option Agreement, at the time of grant, as to whether or not it is intended to be a Qualified Option.

(t) "Restricted Stock" means Common Stock awarded to an Employee, Consultant or Director pursuant to Section 6 of this Plan.

(u) "Restricted Stock Distribution" means any amounts, whether stock, cash, or other property (other than regular cash dividends) paid or distributed by the Corporation with respect to Restricted Stock during the period that Restricted Stock is nontransferable and subject to a substantial risk of forfeiture within the meaning of Section 83(a)(1) of the Code because it is unvested pursuant to Section 9 of the Plan.

(v) "Rule 16b-3" means Rule 16b-3 of the rules and regulations under the Exchange Act, as Rule 16b-3 may be amended from time to time, and any successor provisions to Rule 16b-3 under the Exchange Act.

(w) "Subsidiary" means any now existing or hereinafter organized or acquired company of which more than fifty percent (50%) of the issued and outstanding voting stock is owned or controlled directly or indirectly by the Corporation or through one or more Subsidiaries of the Corporation.

3. Term of Plan . The Plan was adopted by the Board of Directors of Advanced Neuromodulation Systems, Inc. on February 18, 2004 and became effective upon its approval by the shareholders of Advanced Neuromodulation Systems, Inc. on May 26, 2004. The Plan was assumed by the Corporation pursuant to the terms of the Agreement and Plan of Merger among the Corporation, Apollo Merger Corp., and Advanced Neuromodulation Systems, Inc., dated as of October 15, 2005 (the "Merger Agreement"). The Plan was amended pursuant to resolutions adopted by the Board on October 14, 2005 in order to make changes necessary to reflect the assumption of the Plan by the Corporation. Pursuant to the Merger Agreement, at the Effective Time (as defined in the Merger Agreement), the then outstanding Awards under the Plan were converted into Awards to purchase Common Stock. After the Effective Time, no additional Awards will be granted under the Plan. The Plan shall continue in effect so long as Awards granted under the Plan remain outstanding, subject to earlier termination as provided under Section 18(a).

4. Shares Subject to the Plan . When the Plan was adopted by the Board of Directors and shareholders of Advanced Neuromodulation Systems, Inc. it contained the following provision: "Except as otherwise provided in Section 18 hereof, the aggregate number of shares of Common Stock issuable upon the exercise of Options or upon the grant of Restricted Stock pursuant to this Plan shall be 750,000 shares. Shares issuable upon the exercise of Options or upon the grant of Restricted Stock may either be authorized but unissued shares or treasury shares. The Corporation shall, during the term of this Plan, reserve and keep available a number of shares of Common Stock sufficient to satisfy the requirements of the Plan. If an Option should expire or become unexercisable for any reason without having been exercised in full or if Restricted Stock is forfeited, then the shares that were subject thereto shall, unless the Plan shall have terminated, become immediately available for the grant of additional Options or Restricted Stock under this Plan, subject to the limitations and adjustments set forth above. In addition, for purposes of calculating the aggregate number of shares that may be issued under this Plan, only the net shares issued (including the shares, if any, withheld for tax withholding requirements) shall be counted when shares of Common Stock are used as full or partial payment for shares issued upon exercise of a Award. If permitted by the Corporation pursuant to Section 10, shares tendered by a Participant as payment for shares issued upon such exercise shall be available for reissuance under the Plan."

5. Eligibility . Qualified Options may be granted under Section 6 of the Plan to Employees of the Corporation or its Subsidiaries who are officers or other key employees as may be determined by the Board or the Committee. Nonqualified Options may be granted under Section 6 of the Plan to such Employees, Consultants, and Directors of the Corporation or its Subsidiaries as may be determined by the Board or the Committee. Restricted Stock may be granted under Section 6 of the Plan to such Employees, Consultants, and Directors of the Corporation or its Subsidiaries as may be determined by the Board or the Committee. Subject to the limitations and qualifications set forth in this Plan, the Board

or the Committee shall also determine the number of Options or shares of Restricted Stock to be granted, the number of shares subject to each Option or Restricted Stock grant, the exercise price or prices of each Award, the vesting and exercise period of each Option and the vesting and/or forfeiture provisions relating to Restricted Stock, whether an Option may be exercised as to less than all of the Common Stock subject thereto, and such other terms and conditions of each Option or grant of Restricted Stock, if any, as are consistent with the provisions of this Plan. In connection with the granting of Qualified Options, the aggregate Fair Market Value (determined at the Date of Grant of a Qualified Option) of the shares with respect to which Qualified Options are exercisable for the first time by an Optionee during any calendar year (under all such plans of the Optionee's employer corporation and its parent and subsidiary corporations as defined in Section 424(e) and (f) of the Code, or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming an Option in a transaction to which Section 424(a) of the Code applies (collectively, such corporations described in this sentence are hereinafter referred to as "Related Corporations")) shall not exceed $100,000 or such other amount as from time to time provided in Section 422(d) of the Code or any successor provision.

6. Grant of Options and Restricted Stock . Unless the Plan is suspended or terminated as provided in Section 18(c), the Committee shall determine the number of shares of Common Stock to be offered from time to time pursuant to Options and Restricted Stock granted hereunder and shall grant said Options and awards of Restricted Stock under the Plan. The grant of said Awards shall be evidenced by Option Agreements and Restricted Stock Agreements containing such terms and provisions as are approved by the Committee and executed on behalf of the Corporation by an appropriate officer. In connection with the granting of any Awards under the Plan, the aggregate number of shares of Common Stock with respect to which Awards may be granted to any single Employee in any one calendar year will not exceed 750,000. Solely for this purpose, Awards that lapse or are cancelled continue to count against this calendar year limit.

7. Time of Grant of Awards . The date of grant of an Award under the Plan shall be the date on which the Committee awards the Option or Restricted Stock or, if the Committee so determines, the date specified by the Board or Committee as the date the award is to be effective. Notice of the grant shall be given to each Participant to whom an Award is granted promptly after the date of such grant.

8. Price . The exercise price for any Award (the "Exercise Price") granted pursuant to Section 6 of the Plan shall be determined by the Committee at the Date of Grant; provided, however that (a) the Exercise Price for any Option will not be less than 100% of the Fair Market Value of the Common Stock at the Date of Grant, and (b) if an Optionee owns on the Date of Grant more than 10 percent of the total combined voting power of all classes of stock of the Corporation or its parent or any of its subsidiaries, as more fully described in Section 422(b)(6) of the Code or any successor provision (such shareholder is referred to herein as a "10-Percent Shareholder"), the Exercise Price for any Qualified Option Granted to such Optionee will not be less than 110% of the Fair Market Value of the Common Stock at the Date of Grant.

9. Vesting . Subject to Section 11 of this Plan, each Award under the Plan shall vest and become exercisable (in the case of Options) or nonforfeitable (in the case of Restricted Stock shares) in accordance with the provisions set forth in the applicable Option Agreement or Restricted Stock Agreement. The Committee may, but shall not be required to, permit acceleration of vesting or the accelerated lapse of any forfeiture provisions of an Award upon any sale of the Corporation or similar transaction. In exercising this discretion, the Committee may specifically consider whether the acceleration of vesting or the accelerated lapse of any forfeiture provisions of an Award hereunder upon a change of control of the Corporation causes an "excess parachute payment" (as defined in Section 280G of the Code) to occur. In the event that the Committee determines that such an excess parachute payment would result if acceleration occurred (when added to any other payments or benefits contingent on a change of control under any other agreements, arrangements, or plans) then the number of shares as to which exercisability is accelerated may be reduced so that total parachute payments do not exceed 299% of the Optionee's "base amount" as defined in Section 280G(b)(3) of the Code. A Participant's Option Agreement or Restricted Stock Agreement may contain such additional provisions with respect to vesting or the lapse of any forfeiture provision as the Committee may specify.

10. Option Exercise . A Participant may pay the Exercise Price of the shares of Common Stock as to which an Option is being exercised by the delivery of (a) cash, (b) check, (c) in the Corporation's sole discretion, by the delivery of shares of Common Stock having a Fair Market Value on the date immediately preceding the exercise date equal to the Exercise Price and have been held by the Participant at least six (6) months prior to the date of exercise, or (d) at the Corporation's option, any other consideration that the Corporation determines is consistent with the Plan's purpose and applicable law. If the shares to be purchased are covered by an effective registration statement under the Securities Act of 1933, as amended, any Option granted under the Plan may be exercised by a broker-dealer acting on behalf of a Participant if (i) the broker-dealer has received from the Participant or the Corporation a fully- and duly-endorsed agreement evidencing such Option, together with instructions signed by the Participant requesting the Corporation to deliver the shares of Common Stock subject to such Option to the broker-dealer on behalf of the Participant and specifying the account into which such shares should be deposited, (ii) adequate provision has been made with respect to the payment of any withholding taxes due upon such exercise, and (iii) the broker-dealer and the Participant have otherwise complied with Section 220.3(e)(4) of Regulation T, 12 CFR Part 220, or any successor provision.

11. When Qualified Options may be Exercised . No Qualified Option shall be exercisable at any time after the expiration of ten (10) years from the Date of Grant; provided, however, that if the Optionee with respect to a Qualified Option is a 10-Percent Stockholder on the Date of Grant of such Qualified Option, then such Option shall not be exercisable after the expiration of five (5) years from its Date of Grant. Upon the death of an Optionee, any vested Qualified Option exercisable on the date of death may be exercised by the Optionee's estate or by a person who acquires the right to exercise such Qualified Option by bequest or inheritance or by reason of the death of the Optionee, provided that such

exercise occurs within both the remaining option term of the Qualified Option and twelve months after the date of the Optionee's death. This Section 11 only provides the outer limits of allowable exercise dates with respect to Qualified Options; the Board or the Committee may determine that the exercise period for a Qualified Option shall have a shorter duration than as specified above.

12. Issuance of Restricted Stock Shares . Until the Restricted Stock is vested, the certificates representing the Restricted Stock and any Restricted Stock Distributions, shall be registered in the Participant's name and bear a restrictive legend disclosing the restrictions, the existence of the Plan, and the existence of the applicable agreement granting such Restricted Stock. Such certificates shall be deposited by the Participant with the Corporation, together with stock powers or other instruments of assignments, each endorsed in blank, which will permit the transfer to the Corporation of all or any portion of the Restricted Stock and any assets constituting Restricted Stock Distributions, which shall be forfeited in accordance with the applicable agreements granting such Restricted Stock. Restricted Stock shall constitute issued and outstanding Common Stock for all corporate purposes and the Participant shall have all rights, powers and privileges of a holder of unrestricted shares except that the Participant will not be entitled to delivery of the stock certificates until all restrictions have terminated, and the Corporation will retain custody of all related Restricted Share Distributions (which will be subject to the same restrictions, terms, and conditions as the related Restricted Stock) until the restrictions lapse with respect to the corresponding Restricted Shares; and provided, further, that any Restricted Share Distribution shall not bear interest or be segregated into a separate account but shall remain a general asset of the Corporation, subject to the claims of the Corporation's creditors, until the lapse of the transferability and forfeiture restrictions; and provided, finally, that any material breach of any terms of the agreement granting the Restricted Stock, as reasonably determined by the Committee will cause a forfeiture of both Restricted Stock and Restricted Stock Distributions.

13. Withholding of Taxes . The Committee shall make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Corporation is required by any law or regulation of any governmental authority to withhold in connection with any Award including, but not limited to, (a) withholding the issuance of all or any portion of the shares of Common Stock subject to such Award until the Participant reimburses the Corporation for the amount it is required to withhold with respect to such taxes, (b) withholding any portion of such issuance in an amount sufficient to reimburse the Corporation for the amount of taxes it is required to withhold, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law, (c) allowing the Participant to deliver Common Stock as payment for the amount the Corporation is required to withhold for taxes or (d) taking any other action reasonably required to satisfy the Corporation's withholding obligation.

14. Conditions Upon Issuance of Shares .

(a) The Corporation shall not be obligated to sell or issue any shares upon the exercise of any Award granted under the Plan unless the issuance and delivery of shares comply with all provisions of applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed.

(b) As a condition to the exercise of an Option or the grant of Restricted Stock, the Corporation may require the person exercising the Option or receiving the grant of Restricted Stock to make such representations and warranties as may be necessary to assure the availability of an exemption from the registration requirements of applicable federal and state securities laws.

(c) The Corporation shall not be liable for refusing to sell or issue any shares covered by any Option or for refusing to issue any Restricted Stock if the Corporation cannot obtain authority from the appropriate regulatory bodies deemed by the Corporation to be necessary to sell or issue such shares in compliance with all applicable federal and state securities laws and the requirements of the New York Stock Exchange or any stock exchange upon which shares of the Common Stock may then be listed. In addition, the Corporation shall have no obligation to any Participant, express or implied, to list, register or otherwise qualify the shares of Common Stock covered by any Option or Restricted Stock.

(d) No Participant will be, or will be deemed to be, a holder of any Common Stock subject to an Option unless and until such Participant has exercised his or her Option and paid the purchase price for the subject shares of Common Stock.

15. Restrictions on Transfer .

(a) Each Qualified Option under this Plan shall be transferable only by will or the laws of descent and distribution and shall be exercisable

during Participant's lifetime only by such Participant. Each nonqualified Option under this Plan shall be transferable only by will, the laws of descent and distribution, pursuant to a domestic relations order issued by a court of competent jurisdiction, or to a trust established by the Participant for estate planning purposes.

(b) Non-vested shares of Restricted Stock issued pursuant to the Plan shall be nontransferable except by will or the laws of descent and distribution until, and only to the extent that, such shares become vested in accordance with Section 9 of the Plan.

(c) Shares of Common Stock issued pursuant to any Award under the Plan may be subject to restrictions on transfer under applicable federal and state securities laws. The Committee may impose such additional restrictions on the ownership and transfer of shares of Common Stock issued pursuant to the Plan as it deems desirable; any such restrictions shall be set forth in any Option Agreement or Restricted Stock Agreement entered into hereunder.

16. Modification of Plan and Agreements .

(a) The Committee may from time to time and at any time alter, amend, suspend, discontinue or terminate this Plan; provided, however, that no such action of the Committee may, without approval of the shareholders of the Corporation, (i) increase the maximum number of shares of Common Stock that may be subject to Qualified Options under the Plan (except as provided in Section 18 of this Plan), (ii) change the class of individuals eligible to receive Qualified Options pursuant to this Plan, (iii) change the calendar year annual limit on the number of shares of Common Stock granted to a Participant in Section 6 above, or (iv) make any changes that requires shareholder approval under applicable law or the New York Stock Exchange rules or other exchange on which the Corporation's securities are traded.

(b) Except as set forth below, at any time and from time to time, the Committee may modify an outstanding Award. However, the Committee may not, without obtaining prior shareholder approval, "reprice" an outstanding Award by lowering the exercise price of the Award, canceling the outstanding Award and issuing or exchanging a replacement or substitute Award, or taking other actions that would be treated as a "repricing" under generally accepted accounting principles, unless such repricing is done in connection with an event described in Section 17 of this Plan to prevent dilution or diminishment of rights. Additionally, the Committee may not modify an outstanding Award without the prior approval of the holder of the Award, if such modification would impair the Award. Notwithstanding the foregoing, the Committee may, without the option holder's consent, increase the exercise price of a Qualified Option if necessary to maintain such Option's qualified status, or to convert any Qualified Option into a Nonqualified Option.

17. Effect of Change in Stock Subject to the Plan . In the event that each of the outstanding shares of Common Stock (other than shares held by dissenting shareholders) shall be changed into or exchanged for a different number or kind of shares of stock of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, split-up, combination of shares or otherwise), or in the event a stock split or stock dividend occurs, then the Corporation may either substitute for each share of Common Stock then subject to Options or Restricted Stock awards or available for Options or Restricted Stock awards under Section 4 of the Plan the number and kind of shares of stock into which each outstanding share of Common Stock (other than shares held by dissenting shareholders) shall be so changed or exchanged, or the number of shares of Common Stock as is equitably required in the event of a stock split or stock dividend, together with an appropriate adjustment of the Exercise Price. The Committee may, but shall not be required to, provide additional anti-dilution protection to a Participant under the terms of the Participant's Option Agreement or Restricted Stock Agreement.

18. Administration .

(a) Notwithstanding anything to the contrary herein, to the extent necessary to comply with the requirements of Rule 16b-3, the Plan shall be administered by the Stock Option Committee approved by the Board, which shall be a committee comprised solely of two or more Non-Employee Directors appointed by the Board (the group responsible for administering the Plan is referred to as the "Committee"). Awards may be granted under Section 6 only by majority agreement of the members of the Committee. Option Agreements and Restricted Stock Agreements, in the form as approved by the Committee, and containing such terms and conditions consistent with the provisions of this Plan as are determined by the Committee, may be executed on behalf of the Corporation by the Chairman of the Board, the President or any Vice President of the Corporation. The Committee shall have complete authority to construe, interpret and administer the provisions of this Plan and the provisions of the Option Agreements and Restricted Stock Agreements granted hereunder; to prescribe, amend and rescind rules and regulations pertaining to this Plan; to suspend, discontinue or terminate this Plan; and to make all other determinations necessary or deemed advisable in the administration of the Plan. The determinations, interpretations and constructions made by the Committee shall be final and conclusive. No member of the Committee shall be liable for any action taken, or failed to be taken, made in good faith relating to the Plan or any award thereunder, and the members of the Committee shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including attorneys' fees) arising there from such action or inaction to the fullest extent permitted by law.

(b) The Board shall specify the Members of the Committee, and the Committee shall consist solely of Non-Employee Directors. Non-Employee Directors may not possess an interest in any transaction for which disclosure is required under Section 404(a) of Regulation S-K under

the Exchange Act or be engaged in a business relationship that must be disclosed under Section 404(a) and must qualify as 'outside directors' as defined in Section 162(m) of the Code and regulations thereunder.

(c) Although the Board or the Committee may suspend or discontinue the Plan at any time, all Qualified Options must be granted on or before May 25, 2014.

19. Termination of Employment .

(a) Unless otherwise provided in the terms of an Option Agreement or a Restricted Stock Agreement, as the case may be, of this Plan, the provisions of this Section 19 shall govern all Awards made pursuant to Section 6 of this Plan.

(b) Upon termination of a Participant's employment with the Corporation or its Subsidiaries or termination of a Participant's service as a Director or a Consultant for the Corporation or one of its Subsidiaries for any reason other than death or Disability, the non-vested portion of any and all outstanding Options of such Participant shall expire and the vested portion of any and all outstanding Options shall remain exercisable for three (3) months following the date such Participant terminates employment or service. Upon termination of a Participant's employment by reason of death or Disability, the non-vested portion of any and all outstanding Options of such Participant shall expire and the vested portion of any and all outstanding Options shall remain exercisable for one year following the date such Participant terminates employment or service.

(c) Upon termination of a Participant's employment with the Corporation or its Subsidiaries or termination of a Participant's service as a Director or a Consultant for the Corporation or one of its Subsidiaries for any reason, including death or Disability, all non-vested shares of Restricted Stock of such Participant shall be forfeited.

(d) The right of the Participant to receive any benefits from the Company or any of its Subsidiaries after termination of employment with the Company or any of its Subsidiaries by reason of employment contract, severance arrangement or otherwise shall not affect the determination that a Participant's employment has been terminated with the Company or any of its Subsidiaries for purposes of this Plan. Neither the adoption of this Plan nor the grant of an Award to an eligible person shall alter in any way the Company's or the relevant Subsidiary's rights to terminate such person's employment or directorship at any time with or without cause nor does it confer upon such person any rights or privileges to continued employment, or any other rights and privileges, except as specifically provided in the Plan.

20. Continued Employment Not Presumed . Nothing in this Plan or any document describing it nor the grant of any Award shall give any Participant the right to continue in the employment of the Corporation or affect the right of the Corporation to terminate the employment of any such person with or without cause.

21. Liability of the Corporation . Neither the Corporation, its directors, officers or employees or the Committee, nor any Subsidiary which is in existence or hereafter comes into existence, shall be liable to any Participant or other person if it is determined for any reason by the Internal Revenue Service or any court having jurisdiction that any Qualified Option granted hereunder does not qualify for tax treatment as an incentive stock option under Section 422 of the Code.

22. Governing Law . The Plan shall be governed by and construed in accordance with the laws of State of Minnesota and the United States, as applicable, without reference to the conflict of laws provisions thereof.

23. Severability of Provisions . If any provision of this Plan is determined to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect the remaining provisions of the Plan, but such invalid, illegal or unenforceable provision shall be fully severable, and the Plan shall be construed and enforced as if such provision had never been inserted herein.

24. Notices . Whenever any notice is required or permitted hereunder, such notice must be in writing and personally delivered or sent by mail. Any notice required or permitted to be delivered hereunder shall be deemed to be delivered on the date which it is personally delivered, or, whether actually received or not, on the third business day after it is deposited in the United States mail, certified or registered, postage prepaid, addressed to the person who is to receive it at the address which such person has theretofore specified by written notice delivered in accordance herewith. The Company or a Participant may change, at any time and from time to time, by written notice to the other, the address that it or he had theretofore specified for receiving notices. Until changed in accordance herewith, the Company and each Participant shall specify as its and his address for receiving notices the address set forth in the Award Agreement pertaining to the shares to which such notice relate.

Exhibit 10.26

AMENDMENT NO. 1 TO MULTI-YEAR CREDIT AGREEMENT

This Amendment No. 1 to Credit Agreement (this " Amendment ") dated as of September 28, 2004 is made by and between ST. JUDE MEDICAL, INC., a Minnesota corporation (the " Borrower "), each lender party hereto (collectively, the " Lenders " and individually, a " Lender "), and BANK OF AMERICA, N.A., as Administrative Agent, a Lender and L/C Issuer (in such capacity, the " Administrative Agent "). Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement (as defined below).

W I T N E S S E T H:

WHEREAS , the Borrower, the Lenders and the Administrative Agent entered into that certain Multi-Year Credit Agreement dated as of September 11, 2003 (as so amended, as hereby amended, and as from time to time hereafter further amended, modified, supplemented, restated, or amended and restated, the " Credit Agreement ") by and among the Borrower, the Lenders, the Administrative Agent, Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager, The Bank of Tokyo-Mitsubishi, Ltd. and ABN AMRO Bank N.V., as Co-Syndication Agents, and Bank One, NA and Wells Fargo, N.A. (formerly known as Wells Fargo Bank, National Association), as Co-Documentation Agents; and

WHEREAS , the Borrower has advised the Administrative Agent and the Lenders that it desires to amend certain provisions of the Credit Agreement, including without limitation the conditions precedent to all Credit Extensions, and the Administrative Agent and the Lenders have agreed so to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE , in consideration of the premises and further valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1 . Amendment to Credit Agreement .

(a) Subject to the terms and conditions set forth herein, Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of "Eurodollar Rate" in its entirety and replacing it as follows:

" Eurodollar Rate " means for any Interest Period with respect to any Eurodollar Rate Loan, a rate per annum determined by the Administrative Agent pursuant to the following formula:

$$\text{Eurodollar Rate} = \frac{\text{Eurodollar Base Rate}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

Where,

" Eurodollar Base Rate " means, for any Interest Period with respect to a Eurodollar Rate Loan, the rate per annum equal to the British Bankers Association LIBOR Rate (" BBA LIBOR "), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "Eurodollar Rate" for such Interest Period shall be the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

(b) Subject to the terms and conditions set forth herein, Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of "364-Day Agreement" in its entirety.

(c) Subject to the terms and conditions set forth herein, Section 1.01 of the Credit Agreement is hereby amended by adding the following definition in alphabetical order:

" 2004 Multi-Year Credit Agreement " means that certain Multi-Year Credit Agreement dated as of September 28, 2004 (as amended, restated, modified, supplemented or amended and restated from time to time) by and among the Borrower, Bank of America, N.A., as administrative agent, and the lenders from time to time party thereto.

(d) Subject to the terms and conditions set forth herein, Section 4.02(a) of the Credit Agreement is hereby amended by deleting such Section in its entirety and replacing it as follows:

The representations and warranties of the Borrower contained in Article V of this Agreement, but excluding the representation and warranty as to no Material Adverse Effect contained in Section 5.11(b) of this Agreement, or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, and except that for purposes of this Section 4.02 , the representations and warranties contained in subsection (a) of Section 5.11 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b) , respectively, of Section 6.01 .

(e) Subject to the terms and conditions set forth herein, Section 6.02 of the Credit Agreement is hereby amended by adding the following paragraph to the end of such Section, in its entirety:

The Borrower hereby acknowledges that (a) the Administrative Agent and/or the Arranger will make available to the Lenders and the L/C Issuer materials and/or information provided by or on behalf of the Borrower hereunder (collectively, " Borrower Materials ") by posting the Borrower Materials on IntraLinks or another similar electronic system (the " Platform ") and (b) certain of the Lenders may be "public-side" Lenders (i.e. , Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a " Public Lender "). The Borrower hereby agrees that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC", the Borrower shall be deemed to have authorized the Administrative Agent, the Arranger, the L/C Issuer and the Lenders to treat such Borrower Materials as either publicly available information or not material information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws; (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor"; and (z) the Administrative Agent and the Arranger shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor".

(f) Subject to the terms and conditions set forth herein, Section 7.05 of the Credit Agreement is hereby amended by deleting the last sentence of such Section in its entirety and replacing it as follows:

The restrictions contained in this Section shall not include any Indebtedness of any Subsidiary incurred under this Agreement or under the 2004 Multi-Year Credit Agreement.

(g) Subject to the terms and conditions set forth herein, Section 8.01(e) of the Credit Agreement is hereby amended by deleting such subsection in its entirety and replacing it as follows:

Cross-Default . (i) The Borrower or any Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) under (I) the 2004 Multi-Year Credit Agreement or (II) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the $25,000,000, or (B) fails to observe or perform any other agreement or condition (I) contained in the 2004 Multi-Year Credit Agreement or (II) relating to any such other Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the lenders under the 2004 Multi-Year Credit Agreement or any holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness (including without limitation Indebtedness incurred pursuant to the 2004 Multi-Year Credit Agreement) to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness (including without limitation Indebtedness incurred pursuant to the 2004 Multi-Year Credit Agreement) to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Borrower or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which the Borrower or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the

Borrower or such Subsidiary as a result thereof is greater than $75,000,000; or

(h) Subject to the terms and conditions set forth herein, Article X of the Credit Agreement is hereby amended by adding the following Section 10.19 , in numerical order, in its entirety:

10.19 USA PATRIOT Act Notice. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the " Act "), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act.

(i) Subject to the terms and conditions set forth herein, Schedule 10.02 to the Credit Agreement is hereby amended by deleting the notice information for "Administrative Agent" in its entirety and replacing it as follows:

Administrative Agent's Office
(for payments and Requests for Credit Extensions):
Bank of America, N.A.
NC1-001-15-01
101 N. Tryon Street
Charlotte, NC 28255
Attn: Dee Daniel
Telephone: 704-387-5441
Facsimile: 704-409-0299
Email: dee.daniel@bankofamerica.com

Payment Instructions :
Bank of America, NA
New York NY
ABA# 026009593
A/C# 136621-2250600
Attn: Corporate Credit Services
Ref: St. Jude Medical

Other Notices as Administrative Agent :
Bank of America, N.A.
Agency Management
CA5-701-12-09
1455 Market Street
San Francisco, CA 94103
Attn: Cassandra McCain
Telephone: 415-436-3400
Facsimile: 415-503-5133
Email: cassandra.g.mccain@bankofamerica.com

Section 2 . Effectiveness; Conditions Precedent . The effectiveness of this Amendment and the amendments to the Credit Agreement herein provided are subject to the satisfaction of the conditions precedent:

(a) The Administrative Agent shall have received each of the following documents, instruments or deliverables in form and substance reasonably acceptable to the Administrative Agent:

(i) original counterparts of this Amendment, duly executed by the Borrower, the Lenders and the Administrative Agent; and

(ii) such other documents, instruments, opinions, certifications, undertakings, further assurances and other matters as the Administrative Agent shall reasonably request; and

(b) All fees and expenses payable to the Administrative Agent and the Lenders (including the fees and expenses of counsel to the Administrative Agent) accrued to date shall have been paid in full.

Section 3 . Representations and Warranties . In order to induce the Administrative Agent and the Lenders to enter into this Amendment, the Borrower represents and warrants to the Administrative Agent and the Lenders as follows:

(a) The representations and warranties made by the Borrower in Article V of the Credit Agreement are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date; and

(b) This Amendment has been duly authorized, executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, except as may be limited by general principles of equity or by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally.

Section 4 . Entire Agreement . This Amendment, together with the Credit Agreement (collectively, the " Relevant Documents "), sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relating to such subject matter. No promise, condition, representation or warranty, express or implied, not set forth in the Relevant Documents shall bind any party hereto, and no such party has relied on any such promise, condition, representation or warranty. Each of the parties hereto acknowledges that, except as otherwise expressly stated in the Relevant Documents, no representations, warranties or commitments, express or implied, have been made by any party to the other.

Section 5 . Full Force and Effect of Credit Agreement . Except as hereby specifically amended, modified or supplemented, the Credit Agreement is hereby confirmed and ratified in all respects and shall be and remain in full force and effect according to their respective terms.

Section 6 . Counterparts . This Amendment may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of an original counterpart of this Amendment.

Section 7 . Governing Law . THIS AMENDMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE.

Section 8 . Enforceability . Should any one or more of the provisions of this Amendment be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

Section 9 . References . All references in any of the Loan Documents to the "Credit Agreement" or in the Credit Agreement to "this Agreement" shall mean the Credit Agreement as amended hereby.

Section 10 . Successors and Assigns . This Amendment shall be binding upon and inure to the benefit of the Borrower, the Lenders and the Administrative Agent, and their respective successors, legal representatives, and assignees to the extent such assignees are permitted assignees as provided in the Credit Agreement.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF , the parties hereto have caused this Amendment to be duly executed as of the date first above written.

ST. JUDE MEDICAL, INC. , as Borrower

By: /s/ JOHN C. HEINMILLER

Name: John C. Heinmiller
Title: Executive Vice President, CFO

BANK OF AMERICA, N.A. , as Administrative Agent

By: /s/ CAYCE MCCAIN

Name: Cayce McCain
Title: Assistant Vice President

BANK OF AMERICA, N.A. , as a Lender

By: /s/ RICHARD C. HARDISON

Name: Richard C. Hardison
Title: Vice President

WELLS FARGO, N.A. , as a Lender

By: /s/ SCOTT D. BJELDE

Name: Scott D. Bjelde
Title: Senior Vice President

By: /s/ JENNIFER BARRETT

Name: Jennifer Barrett
Title: Vice President & Loan Team Manager

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SIGNATURE PAGE

KEYBANK NATIONAL ASSOCIATION , as a Lender

By: /s/ CHRISTOPHER A. SWINDELL

Name: Christopher A. Swindell
Title: Portfolio Manager

BANCA DI ROMA – CHICAGO BRANCH , as a Lender

By: /s/ JOYCE MONTGOMERY

Name: Joyce Montgomery
Title: Vice President

By: /s/ AURORA PENSA

Name: Aurora Pensa
Title: Vice President

$350M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

THE BANK OF TOKYO-MITSUBISHI, LTD. ,
CHICAGO BRANCH , as a Lender

By: /s/ PATRICK MCCUE

Name: Patrick McCue
Title: Vice President & Manager

KBC BANK , N.V., as a Lender

By: /s/ ROBERT SNAUFFER

Name: Robert Snauffer
Title: First Vice President

By: /s/ STEFANO SNOZZI

Name: Stefano Snozzi
Title: First Vice President

$350M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

BANK ONE, NA , as a Lender

By: /s/ ANTHONY F. MAGGIORE

Name: Anthony F. Maggiore
Title: Managing Director, Capital Markets

BNP PARIBAS , as a Lender

By: /s/ JO ELLEN BENDER

Name: Jo Ellen Bender
Title: Managing Director

By: /s/ CHRISTINE L. HOWATT

Name: Christine L. Howatt
Title: Director

$350M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

SUNTRUST BANK , as a Lender

By: /s/ W. BROOKS HUBBARD

Name: W. Brooks Hubbard
Title: Director

$350M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

U.S. BANK NATIONAL ASSOCIATION , as a Lender

By: /s/ JEFFREY S. JOHNSON

Name: Jeffrey S. Johnson
Title: Assistant Vice President

FIFTH THIRD BANK , as a Lender

By: /s/ ANDREW L. BUSCHLE

Name: Andrew L. Buschle
Title: Vice President

$350M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

SVENSKA HANDELSBANKEN AB (PUBL) , as a Lender

By: /s/ MIKAEL WESTERBACK

Name: Mikael Westerback
Title: Senior Vice President

By: /s/ JESPER LINDQUIST

Name: Jesper Lindquist
Title: Vice President

Exhibit 10.27

AMENDMENT NO. 2 TO MULTI-YEAR CREDIT AGREEMENT

This Amendment No. 2 to Credit Agreement (this " Amendment ") dated as of November 7, 2005 is made by and between ST. JUDE MEDICAL, INC., a Minnesota corporation (the " Borrower "), each lender party hereto (collectively, the " Lenders " and individually, a " Lender "), and BANK OF AMERICA, N.A., as Administrative Agent, a Lender and L/C Issuer (in such capacity, the " Administrative Agent "). Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement (as defined below).

W I T N E S S E T H:

WHEREAS , the Borrower, the Lenders and the Administrative Agent entered into that certain Multi-Year Credit Agreement dated as of September 11, 2003 (as amended by Amendment No. 1 dated September 28, 2004, as hereby amended, and as from time to time hereafter further amended, restated, supplemented or otherwise modified, the " Credit Agreement ") by and among the Borrower, the Lenders, the Administrative Agent, Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager, The Bank of Tokyo-Mitsubishi, Ltd. and ABN AMRO Bank N.V., as Co-Syndication Agents, and Bank One, NA and Wells Fargo Bank, N.A. (formerly known as Wells Fargo Bank, National Association), as Co-Documentation Agents; and

WHEREAS , the Borrower has advised the Administrative Agent and the Lenders that it desires to amend certain provisions of the Credit Agreement and the Lenders have agreed so to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE , in consideration of the premises and further valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1 . Amendment to Credit Agreement .

(a) Subject to the terms and conditions set forth herein, Section 1.01 of the Credit Agreement is hereby amended by adding the following definition in alphabetical order:

" Excess Margin Stock " means, as of the date any Loan is made hereunder, that amount by which the current market value (as determined pursuant to Regulation U of the FRB) of all Margin Stock owned by the Borrower and its Subsidiaries exceeds 25% of the value (as determined pursuant to Regulation U of the FRB) of all of the assets owned by the Borrower and its Subsidiaries subject to Sections 7.01 and 7.02 of this Agreement."

(b) Subject to the terms and conditions set forth herein, Section 7.01 of the Credit Agreement is hereby amended by adding the following subpart to the end of such Section:

"(o) Liens on Excess Margin Stock."

(c) Subject to the terms and conditions set forth herein, Section 7.02 of the Credit Agreement is hereby amended by adding the following subpart to the end of such Section:

"(e) dispositions of Excess Margin Stock."

Section 2 . Effectiveness; Conditions Precedent . The effectiveness of this Amendment and the amendments to the Credit Agreement herein provided are subject to the satisfaction of the conditions precedent:

(a) The Administrative Agent shall have received original counterparts of this Amendment, duly executed by the Borrower, the Required Lenders and the Administrative Agent; and

(b) All fees and expenses payable to the Administrative Agent and the Lenders (including the fees and expenses of counsel to the Administrative Agent) accrued to date shall have been paid in full.

Section 3. Representations and Warranties. In order to induce the Administrative Agent and the Lenders to enter into this Amendment, the Borrower represents and warrants to the Administrative Agent and the Lenders as follows:

(a) The representations and warranties made by the Borrower in Article V of the Credit Agreement are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date; and

(b) This Amendment has been duly authorized, executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, except as may be limited by general principles of equity or by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally.

Section 4. Entire Agreement. This Amendment, together with the Credit Agreement (collectively, the "Relevant Documents"), sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relating to such subject matter. No promise, condition, representation or warranty, express or implied, not set forth in the Relevant Documents shall bind any party hereto, and no such party has relied on any such promise, condition, representation or warranty. Each of the parties hereto acknowledges that, except as otherwise expressly stated in the Relevant Documents, no representations, warranties or commitments, express or implied, have been made by any party to the other.

Section 5. Full Force and Effect of Credit Agreement. Except as hereby specifically amended, modified or supplemented, the Credit Agreement is hereby confirmed and ratified in all respects and shall be and remain in full force and effect according to their respective terms.

Section 6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of an original counterpart of this Amendment.

Section 7. Governing Law. THIS AMENDMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE.

Section 8. Enforceability. Should any one or more of the provisions of this Amendment be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

Section 9. References. All references in any of the Loan Documents to the "Credit Agreement" or in the Credit Agreement to "this Agreement" shall mean the Credit Agreement as amended hereby.

Section 10. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the Borrower, the Lenders and the Administrative Agent, and their respective successors, legal representatives, and assignees to the extent such assignees are permitted assignees as provided in the Credit Agreement.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

ST. JUDE MEDICAL, INC., as Borrower

By: /s/ ROBERT G. FRENZ

Name: Robert G. Frenz
Title: Assistant Treasurer

BANK OF AMERICA, N.A. , as
Administrative Agent

By: /s/ ANGELA LAU

Name: Angela Lau
Title: Assistant Vice President

$350M REVOLVER – AMENDMENT NO. 2
SIGNATURE PAGE

BANK OF AMERICA, N.A. , as a Lender

By: /s/ RICHARD C. HARDISON

Name: Richard C. Hardison
Title: Vice President

WELLS FARGO BANK, N.A. , as a Lender

By: /s/ PATRICK MCCUE

Name: Patrick McCue
Title: Vice President

By: /s/ JENNIFER BARRETT

Name: Jennifer Barrett
Title: Vice President & Loan Team Manager

$350M REVOLVER – AMENDMENT NO. 2
SIGNATURE PAGE

KEYBANK NATIONAL ASSOCIATION ,
as a Lender

By: /s/ CHRISTOPHER A. SWINDELL

Name: Christopher A. Swindell
Title: Portfolio Manager

BANCA DI ROMA – CHICAGO BRANCH , as a Lender

By: /s/ JOYCE MONTGOMERY

Name: Joyce Montgomery
Title: Vice President

By: /s/ ENRICO VERDOSCIA

Name: Enrico Verdoscia
Title: Senior Vice President

$350M REVOLVER – AMENDMENT NO. 2
SIGNATURE PAGE

THE BANK OF TOKYO-MITSUBISHI, LTD., CHICAGO BRANCH , as a Lender

By: /s/ TSUGUYUKI UMENE

Name: Tsuguyuki Umene
Title: Deputy General Manager

BNP PARIBAS , as a Lender

By: /s/ CURT PRICE

Name: Curt Price
Title: Managing Director

By: /s/ JO ELLEN BENDER

Name: Jo Ellen Bender
Title: Managing Director

$350M REVOLVER – AMENDMENT NO. 2
SIGNATURE PAGE

SUNTRUST BANK , as a Lender

By: /s/ W. BROOKS HUBBARD

Name: W. Brooks Hubbard
Title: Director

$350M REVOLVER – AMENDMENT NO. 2
SIGNATURE PAGE

U.S. BANK NATIONAL ASSOCIATION ,
as a Lender

By: /s/ JEFFREY S. JOHNSON

Name: Jeffrey S. Johnson
Title: Assistant Vice President

FIFTH THIRD BANK , as a Lender

By: /s/ ANN-DREA BURNS

Name: Ann-Drea Burns
Title: Assistant Vice President

Exhibit 10.29

AMENDMENT NO. 1 TO MULTI-YEAR CREDIT AGREEMENT

This Amendment No. 1 to Credit Agreement (this " Amendment ") dated as of November 7, 2005 is made by and between ST. JUDE MEDICAL, INC., a Minnesota corporation (the " Borrower "), each lender party hereto (collectively, the " Lenders " and individually, a " Lender "), and BANK OF AMERICA, N.A., as Administrative Agent, a Lender and L/C Issuer (in such capacity, the " Administrative Agent "). Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement (as defined below).

W I T N E S S E T H:

WHEREAS , the Borrower, the Lenders and the Administrative Agent entered into that certain Multi-Year Credit Agreement dated as of September 28, 2004 (as hereby amended, and as from time to time hereafter further amended, restated, supplemented or otherwise modified, the " Credit Agreement ") by and among the Borrower, the Lenders, the Administrative Agent, Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager, The Bank of Tokyo-Mitsubishi, Ltd., as Syndication Agent, and Bank One, NA, Wells Fargo Bank, N.A. (formerly known as Wells Fargo Bank, National Association) and SunTrust Bank, as Co-Documentation Agents; and

WHEREAS , the Borrower has advised the Administrative Agent and the Lenders that it desires to amend certain provisions of the Credit Agreement and the Lenders have agreed so to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE , in consideration of the premises and further valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1 . Amendment to Credit Agreement .

(a) Subject to the terms and conditions set forth herein, Section 1.01 of the Credit Agreement is hereby amended by adding the following definition in alphabetical order:

> " Excess Margin Stock " means, as of the date any Loan is made hereunder, that amount by which the current market value (as determined pursuant to Regulation U of the FRB) of all Margin Stock owned by the Borrower and its Subsidiaries exceeds 25% of the value (as determined pursuant to Regulation U of the FRB) of all of the assets owned by the Borrower and its Subsidiaries subject to Sections 7.01 and 7.02 of this Agreement."

(b) Subject to the terms and conditions set forth herein, Section 7.01 of the Credit Agreement is hereby amended by adding the following subpart to the end of such Section:

> "(o) Liens on Excess Margin Stock."

(c) Subject to the terms and conditions set forth herein, Section 7.02 of the Credit Agreement is hereby amended by adding the following subpart to the end of such Section:

> "(e) dispositions of Excess Margin Stock."

Section 2 . Effectiveness; Conditions Precedent . The effectiveness of this Amendment and the amendments to the Credit Agreement herein provided are subject to the satisfaction of the conditions precedent:

> (a) The Administrative Agent shall have received original counterparts of this Amendment, duly executed by the Borrower, the Required Lenders and the Administrative Agent; and
>
> (b) All fees and expenses payable to the Administrative Agent and the Lenders (including the fees and expenses of counsel to the Administrative Agent) accrued to date shall have been paid in full.

Section 3 . Representations and Warranties . In order to induce the Administrative Agent and the Lenders to enter into this Amendment, the Borrower represents and warrants to the Administrative Agent and the Lenders as follows:

(a) The representations and warranties made by the Borrower in Article V of the Credit Agreement are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date; and

(b) This Amendment has been duly authorized, executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, except as may be limited by general principles of equity or by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally.

Section 4. Entire Agreement. This Amendment, together with the Credit Agreement (collectively, the "Relevant Documents"), sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relating to such subject matter. No promise, condition, representation or warranty, express or implied, not set forth in the Relevant Documents shall bind any party hereto, and no such party has relied on any such promise, condition, representation or warranty. Each of the parties hereto acknowledges that, except as otherwise expressly stated in the Relevant Documents, no representations, warranties or commitments, express or implied, have been made by any party to the other.

Section 5. Full Force and Effect of Credit Agreement. Except as hereby specifically amended, modified or supplemented, the Credit Agreement is hereby confirmed and ratified in all respects and shall be and remain in full force and effect according to their respective terms.

Section 6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of an original counterpart of this Amendment.

Section 7. Governing Law. THIS AMENDMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE.

Section 8. Enforceability. Should any one or more of the provisions of this Amendment be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

Section 9. References. All references in any of the Loan Documents to the "Credit Agreement" or in the Credit Agreement to "this Agreement" shall mean the Credit Agreement as amended hereby.

Section 10. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the Borrower, the Lenders and the Administrative Agent, and their respective successors, legal representatives, and assignees to the extent such assignees are permitted assignees as provided in the Credit Agreement.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

ST. JUDE MEDICAL, INC., as Borrower

By: /s/ ROBERT G. FRENZ

Name: Robert G. Frenz
Title: Assistant Treasurer

BANK OF AMERICA, N.A. , as Administrative Agent

By: /s/ ANGELA LAU

Name: Angela Lau
Title: Assistant Vice President

$400M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

BANK OF AMERICA, N.A. , as Lender

By: /s/ RICHARD C. HARDISON

Name: Richard C. Hardison
Title: Vice President

WELLS FARGO BANK, N.A. , as a Lender

By: /s/ PATRICK MCCUE

Name: Patrick McCue
Title: Vice President

By: /s/ JENNIFER BARRETT

Name: Jennifer Barrett
Title: Vice President and Loan Team Manager

$400M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

KEYBANK NATIONAL ASSOCIATION , as a Lender

By: /s/ CHRISTOPHER A. SWINDELL

Name: Christopher A. Swindell
Title: Portfolio Manager

THE BANK OF NEW YORK , as a Lender

By: /s/ JONATHAN ROLLINS

Name: Jonathan Rollins
Title: Vice President

$400M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

THE BANK OF TOKYO-MITSUBISHI, LTD., CHICAGO BRANCH , as a Lender

By: /s/ TSUGUYUKI UMENE

Name: Tsuguyuki Umene
Title: Deputy General Manager

JPMORGAN CHASE BANK, N.A. (as successor by merger with BANK ONE, N.A.) , as a Lender

By: /s/ CHRISTOPHER C. CAVAIANI

Name: Christopher C. Cavaiani
Title: Vice President

$400M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

BNP PARIBAS , as a Lender

By: /s/ CURT PRICE

Name: Curt Price
Title: Managing Director

By: /s/ JO ELLEN BENDER

Name: Jo Ellen Bender
Title: Managing Director

SUNTRUST BANK , as a Lender

By: /s/ W. BROOKS HUBBARD

Name: W. Brooks Hubbard
Title: Director

$400M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

U.S. BANK NATIONAL ASSOCIATION , as a Lender

By: /s/ JEFFREY S. JOHNSON

Name: Jeffrey S. Johnson
Title: Assistant Vice President

THE NORTHERN TRUST COMPANY , as a Lender

By: /s/ JOHN C. CANTY

Name: John C. Canty
Title: Vice President

$400M REVOLVER – AMENDMENT NO. 1
SIGNATURE PAGE

Exhibit 13

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Our business is focused on the development, manufacturing and distribution of cardiovascular medical devices for the global cardiac rhythm management, cardiac surgery, cardiology and atrial fibrillation therapy areas and implantable neuromodulation devices. We sell our products in more than 100 countries around the world. Our five operating segments are Cardiac Rhythm Management (CRM), Cardiac Surgery (CS), Neuromodulation (Neuro), Cardiology (CD) and Atrial Fibrillation (AF). Each operating segment focuses on developing and manufacturing products for its respective therapy area. Our principal products in each operating segment are as follows: CRM – bradycardia pacemaker systems (pacemakers) and tachycardia implantable cardioverter defibrillator systems (ICDs); CS – mechanical and tissue heart valves and valve repair products; Neuro – neurostimulation devices; CD – vascular closure devices, guidewires, hemostatis introducers and other interventional cardiology products; and AF – electrophysiology (EP) catheters, advanced cardiac mapping systems and ablation systems.

Effective with the acquisition of Advanced Neuromodulation Systems, Inc. (ANS) on November 29, 2005, we formed the Neuromodulation Division to focus efforts on the related therapy areas. Neuromodulation is the delivery of very small, precise doses of electric current or drugs directly to nerve sites and is aimed at treating patients suffering from chronic pain or other disabling nervous system disorders. The estimated $1 billion neuromodulation medical device market has experienced historical growth of over 20% during the last several years. Several potential therapeutic areas such as Parkinson's disease, essential tremor, migraine headaches, depression, obsessive compulsive disorder, obesity, angina, interstitial cystitis and tinnitus may also provide opportunities for revenue growth. Management expects to facilitate the flow of new products in CRM and in Neuro by using the research and engineering expertise of both operating segments, as well as our manufacturing resources.

Effective January 1, 2005, we formed the Cardiology Division to facilitate management's focus on not just the Angio-Seal™ product line, but on other products in the cardiology markets as well. We intend to build on the market leadership of our Angio-Seal™ vascular closure product line through selective investments in emerging therapies in the interventional cardiology market. Our acquisition of the businesses of Velocimed, LLC (Velocimed) in 2005 provides us with immediate access to embolic protection, patent foramen ovale closure and guidewire support system product platforms that serve growing segments of the interventional cardiology market.

We also formed the Atrial Fibrillation Division effective January 1, 2005 to focus efforts on the related therapy areas. We expanded our product portfolio in atrial fibrillation through the acquisition of Endocardial Solutions, Inc. (ESI) in 2005, building upon our acquisitions of Epicor, Inc. (Epicor) and Irvine Biomedical, Inc. (IBI) in 2004. Management believes that atrial fibrillation is a prevalent, debilitating disease state that is not effectively treated at this time. Device technologies are emerging that may provide therapeutic improvements compared to current treatments. In addition, the electrophysiologist, the medical specialist who treats atrial fibrillation with devices, is also the primary customer of ICDs. Management believes that providing advanced atrial fibrillation products to electrophysiologists will generate goodwill that may lead to increased ICD sales.

We participate in several different medical device markets, each of which has its own expected rate of growth. Management is particularly focused on the ICD market, which includes congestive heart failure devices. The Centers for Medicare and Medicaid Services (CMS) have expanded the indications for these devices that would be reimbursed by Medicare and Medicaid. As a result of this decision and clinical data from various studies of these devices, management estimates this market will grow at a compounded rate of 20% per year for the next 3 years. Management's goal is to continue to increase our estimated 20% worldwide market share of the growing ICD market.

We compete on the basis of providing reliable products with advanced features. Our industry has undergone significant consolidation in the last decade and is very competitive. Our strategy requires significant investments in research and development in order to introduce new products. We have also sought to improve our operating margins through a variety of techniques, including maintaining our average selling prices while improving the efficiency of our manufacturing operations. Our products are generally not affected by economic cycles. However, we expect cost containment pressure on healthcare systems to continue to place downward pressure on prices for our products.

Financial Summary

Net sales in 2005 increased approximately 27% over 2004 driven primarily by growth in our ICD devices and products to treat atrial fibrillation. Our ICD net sales grew approximately 73% to $1,006.9 million during 2005, resulting from increasing our estimated worldwide ICD market share from approximately 15% at the beginning of 2005 to 20% at year-end 2005. Due to sales increases of both existing products and products from recent acquisitions, our Atrial Fibrillation net sales increased approximately 62% to $253.8 million, strengthening our presence in the atrial fibrillation market.

Net earnings were $393.5 million in 2005, a 4% decrease over 2004 net earnings of $409.9 million. Diluted net earnings per share were $1.04 in 2005, a 5% decrease over 2004 diluted net earnings per share of $1.10. Our results for 2005 include $179.2 million of purchased in-process research and development (IPR&D) charges and an after-tax $7.2 million special credit relating to a reversal of a portion of the Symmetry™ Bypass Aortic Connector (Symmetry™ device) product liability litigation special charge recorded in 2004, net of settlement costs. In the third quarter of 2005, we recorded after-tax expense of $6.2 million as a result of our contribution to the St. Jude Medical Foundation. We also recorded the reversal of $13.7 million of previously recorded income tax expense due to the finalization of certain tax examinations. Additionally, in connection with the repatriation of $500 million of foreign earnings under the provisions of the American Jobs Creation Act of 2004, we recorded $26.0 million of income tax expense. In total, these after-tax charges and credits amounted to $190.5 million, or $0.50 per diluted share.

Our results for 2004 include after-tax $21.9 million of special charges relating to the discontinuance of our Symmetry™ device product line and related product liability litigation. Additionally, we recorded $9.1 million of IPR&D and an after-tax $3.4 million special charge resulting from the settlement of certain patent infringement litigation. We also recorded the reversal of $14.0 million of previously recorded income tax expense due to the finalization of certain tax audits. In total, these after-tax charges and credits amounted to $20.4 million, or $0.06 per diluted share.

We ended our 2005 fiscal year with $534.6 million of cash and cash equivalents and $1,053.0 million of debt. We have strong short-term credit ratings, with an A2 rating from Standard & Poor's and a P2 rating from Moody's. Our cash flows from operations remained strong during 2005, increasing 18.5% over 2004 to $716.3 million, helping to fund the acquisitions of ESI, Velocimed, Savacor, Inc. (Savacor), and a significant portion of the ANS acquisition. We expect to use our future cash flows to fund internal development opportunities, reduce our debt and fund future acquisitions. In January 2006, we repaid all of the $216.0 million of commercial paper borrowings outstanding at December 31, 2005 and made an additional $12.5 million investment in ProRhythm, Inc. (ProRhythm), a privately-held company that is focused on the development of a high intensity focused ultrasound (HIFU) catheter-based ablation system for the treatment of atrial fibrillation.

During 2005, we completed our acquisitions of ANS, ESI, Velocimed and Savacor. The ANS acquisition expands our implantable microelectronics technology programs and provides us with an immediate presence in the neuromodulation segment of the medical device industry. The ESI acquisition further expands our portfolio of products to treat heart rhythm disorders, which we had also strengthened in 2004 with the acquisitions of Epicor and IBI. The Velocimed acquisition expands our presence in the interventional cardiology market, while the Savacor acquisition complements our development efforts in heart failure diagnostic and therapy guidance products. During 2003, we completed our acquisition of Getz Bros. Co., Ltd. (Getz Japan) and its related distribution operations in Australia. The addition of these operations further strengthened our presence in Japan and Australia.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States requires us to adopt various accounting policies and to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Our significant accounting policies are disclosed in Note 1 to the Consolidated Financial Statements.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to accounts receivable allowance for doubtful accounts; estimated useful lives of diagnostic equipment; valuation of IPR&D, other intangible assets and goodwill; income taxes; and legal reserves and insurance receivables. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, and the results form the basis for making judgments about the reported values of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. We believe that the following represent our most critical accounting estimates:

Accounts Receivable Allowance for Doubtful Accounts : We grant credit to customers in the normal course of business, and generally do not require collateral or any other security to support our accounts receivable. We maintain an allowance for doubtful accounts for potential credit losses, which primarily consists of reserves for specific customer balances that we believe may not be collectible. We determine the adequacy of this allowance by regularly reviewing the accounts receivable agings, customer financial conditions and credit histories, and current economic conditions. In some developed markets and in many emerging markets, payments of certain accounts receivable balances are made by the individual countries' healthcare systems for which payment is dependent, to some extent, upon the political and economic environment within those countries. Although we consider our allowance for doubtful accounts to be adequate, if the financial condition of our customers or the individual countries' healthcare systems were to deteriorate and impair their ability to make payments to us, additional allowances may be required in future periods. The allowance for doubtful accounts was $33.3 million at December 31, 2005 and $31.3 million at December 31, 2004.

Estimated Useful Lives of Diagnostic Equipment : Diagnostic equipment is recorded at cost and is depreciated using the straight-line method over its estimated useful life of four to eight years. Diagnostic equipment primarily consists of programmers that are used by physicians and healthcare professionals to program and analyze data from pacemaker and ICD devices. The estimated useful life of this equipment is determined based on our estimates of its usage by the physicians and healthcare professionals, factoring in new technology platforms and rollouts. To the extent that we experience changes in the usage of this equipment or there are introductions of new technologies to the market, the estimated useful lives of this equipment may change in a future period. Diagnostic equipment had a net carrying value of $88.6 million and

$85.8 million at December 31, 2005 and 2004, respectively. If we had used an estimated useful life on diagnostic equipment that was one year less than our current estimate, our 2005 depreciation expense would have been approximately $3.0 million higher.

Valuation of IPR&D, Other Intangible Assets and Goodwill : When we acquire another company, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, tangible assets, and goodwill. Determining the portion of the purchase price allocated to IPR&D and other intangible assets requires us to make significant estimates.

IPR&D is defined as the value assigned to those projects for which the related products have not yet reached technological feasibility and have no future alternative use. The primary basis for determining the technological feasibility of these projects at the time of acquisition is obtaining regulatory approval to market the underlying products in an applicable geographic region. In accordance with accounting principles generally accepted in the United States, we expense the value attributed to those projects in conjunction with the acquisition. We recorded IPR&D of $179.2 million and $9.1 million in 2005 and 2004, respectively.

We use the income approach to establish fair values of IPR&D as of the acquisition date. This approach establishes fair value by estimating the after-tax cash flows attributable to a project over its useful life and then discounting these after-tax cash flows back to a present value. We base our revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected trends in technology, and expected product introductions by competitors. In arriving at the value of the projects, we consider, among other factors, the stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs of completion, the contribution of core technologies and other acquired assets, the expected introduction date and the estimated useful life of the technology. The discount rate used is determined at the time of acquisition and includes consideration of the assessed risk of the project not being developed to commercial feasibility. For the IPR&D we acquired in connection with our recent acquisitions, we used risk-adjusted discount rates ranging from 16% to 22% in 2005 and 16% in 2004 to discount projected cash flows. We believe that the IPR&D amounts recorded represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the projects.

The fair value of identifiable intangible assets is based on detailed valuations using the income approach. Other intangible assets consist primarily of customer lists and relationships, purchased technology, patents and trademarks and tradenames, which are amortized using the straight-line method over their estimated useful lives, ranging from 3 to 20 years. Other intangible assets also consist of certain trademarks acquired in our 2003 acquisition of Getz Japan which are indefinite-lived intangibles and are therefore not amortized. Indefinite-lived intangibles are tested for impairment at least annually. We review other intangible assets for impairment as changes in circumstance or the occurrence of events suggest the carrying value may not be recoverable. Other intangible assets, net of accumulated amortization, were $572.2 and $207.1 million as of December 31, 2005 and 2004, respectively.

Goodwill represents the excess of the aggregate purchase price over the fair value of net assets, including IPR&D, of the acquired businesses. Goodwill is tested for impairment annually for each reporting unit or more frequently if changes in circumstance or the occurrence of events suggest impairment exists. 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 tests are considered critical due to the amount of goodwill recorded on our consolidated balance sheets and the judgment required in determining fair value amounts, including projected future cash flows and the use of an appropriate risk-adjusted discount rate. Goodwill was $1,635.0 and $593.8 million as of December 31, 2005 and 2004, respectively.

Income Taxes : As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense as well as assessing temporary differences in the treatment of items for tax and accounting purposes. These timing differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe that recovery is not likely, a valuation allowance must be established. At December 31, 2005, we had approximately $188.2 million of gross deferred tax assets, including net operating loss and tax credit carryforwards that will expire from 2008 to 2024 if not utilized. We believe that our deferred tax assets, including the net operating loss and tax credit carryforwards, will be fully realized based upon our estimates of future taxable income. As such, we have not recorded any valuation allowance for our deferred tax assets. If our estimates of future taxable income are not met, a valuation allowance for some of these deferred tax assets would be required.

We have not recorded U.S. deferred income taxes on certain of our non-U.S. subsidiaries' undistributed earnings, because such amounts are intended to be reinvested outside the United States indefinitely. However, should we change our business and tax strategies in the future and decide to repatriate a portion of these earnings to one of our U.S. subsidiaries, including cash maintained by these non-U.S. subsidiaries (see *Financial Condition – Liquidity*), additional U.S. tax liabilities would be incurred. Our repatriation of $500 million of foreign earnings under the provisions of the American Jobs Creation Act of 2004 was deemed to be distributed entirely from foreign earnings that had previously been treated as indefinitely invested. However, this distribution from previously indefinitely reinvested earnings does not change our position going forward that future earnings of certain of our foreign subsidiaries will be indefinitely reinvested.

We operate within multiple taxing jurisdictions and are subject to audits in these jurisdictions. These audits can involve complex issues, including challenges regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. The IRS is currently in the process of examining our U.S. federal tax returns for the calendar years 2002 and 2003.

We record our income tax provisions based on our knowledge of all relevant facts and circumstances, including the existing tax laws, our experience with previous settlement agreements, the status of current IRS examinations and our understanding of how the tax authorities view certain relevant industry and commercial matters. Although we have recorded all probable income tax accruals in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies* (SFAS No. 5) and SFAS No. 109, *Accounting for Income Taxes*, (SFAS No. 109), our accruals represent accounting estimates that are subject to the inherent uncertainties associated with the tax audit process, and therefore include certain contingencies. We believe that any potential tax assessments from the various tax authorities that are not covered by our income tax provision will not have a material adverse impact on our consolidated financial position or cash flows. However, they may be material to our consolidated earnings of a future period. Our overall tax strategies have resulted in an effective tax rate of 36.7% for 2005. A one percentage point increase in our effective tax rate would result in additional income tax expense for 2005 of approximately $6 million.

Legal Reserves and Insurance Receivables : We operate in an industry that is susceptible to significant product liability and intellectual property claims. As a result, we are involved in a number of legal proceedings, the outcomes of which are not in our complete control and may not be known for extended periods of time. In accordance with SFAS No. 5, we record a liability in our consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments where we have assessed that a loss is probable and an amount can be reasonably estimated. We record a receivable from our product liability insurance carriers for amounts expected to be recovered. Product liability claims may be brought by individuals seeking relief for themselves or, increasingly, by groups seeking to represent a class. In addition, claims may be asserted against us in the future related to events that are not known to us at the present time. Our significant legal proceedings are discussed in detail in Note 5 to the Consolidated Financial Statements. While it is not possible to predict the outcome for most of the legal proceedings discussed in Note 5, the costs associated with such proceedings could have a material adverse effect on our consolidated earnings, financial position or cash flows of a future period.

ACQUISITIONS & MINORITY INVESTMENTS

Acquisitions and minority investments can have an impact on the comparison of our operating results and financial condition from year to year.

Acquisitions : On December 30, 2005, we completed the acquisition of Savacor for $49.7 million, net of cash acquired, plus additional contingent payments related to product development milestones for regulatory approvals and to revenues in excess of minimum future targets. Savacor was a development-stage company focused on the development of a device that measures left atrial pressure and body temperature to help physicians detect and manage symptoms associated with progressive heart failure. Increased pressure in the left atrium is a predictor of pulmonary congestion, which is the leading cause of hospitalization for congestive heart failure patients. We recorded an IPR&D charge of $45.7 million associated with this transaction.

On November 29, 2005, we completed the acquisition of ANS for $61.25 per share in cash. ANS designs, develops, manufactures and markets implantable neuromodulation devices used primarily to manage chronic severe pain. ANS had been publicly traded on the NASDAQ market under the ticker symbol ANSI. Net consideration paid was $1,353.9 million, which includes closing costs net of cash acquired. We recorded an IPR&D charge of $107.4 million associated with this transaction. ANS has become the Neuromodulation Division of St. Jude Medical.

On April 6, 2005, we completed the acquisition of Velocimed for $70.9 million, net of cash acquired, plus additional contingent payments tied to revenues in excess of minimum future targets, and a milestone payment upon U.S. Food and Drug Administration (FDA) approval of the Premere™ patent foramen ovale closure system prior to December 31, 2010. Velocimed develops and manufactures specialty interventional cardiology devices. We recorded an IPR&D charge of $13.7 million associated with this transaction.

On January 13, 2005, we completed the acquisition of ESI for $279.4 million, net of cash acquired. ESI had been publicly traded on the NASDAQ market under the ticker symbol ECSI. ESI develops, manufactures and markets the EnSite® System used for the navigation and localization of diagnostic and therapeutic catheters used by physician specialists to diagnose and treat cardiac rhythm disorders. We recorded an IPR&D charge of $12.4 million associated with this transaction.

On October 7, 2004, we completed the acquisition of the remaining capital stock of IBI. IBI develops and sells EP catheter products used by physician specialists to diagnose and treat cardiac rhythm disorders. We had previously made a minority investment in IBI in April 2003 through our acquisition of Getz Japan. We paid $50.6 million in 2004 to acquire the remaining IBI capital stock. In connection with the acquisition of IBI, we recorded an IPR&D charge of $9.1 million. In December 2005, we made a contingent purchase consideration payment of $4.8 million to the applicable non-St. Jude Medical shareholders of IBI as a result of FDA approval of the Cardiac Ablation Generator and Therapy™ EP catheters.

On June 8, 2004, we completed the acquisition of the remaining capital stock of Epicor. Epicor is focused on developing products which use HIFU to ablate cardiac tissue. We had previously made a minority investment in Epicor in May 2003. We paid $185.0 million in 2004 to acquire the remaining Epicor capital stock.

On April 1, 2003, we completed the acquisition of Getz Japan, a distributor of medical technology products in Japan and our largest volume distributor in Japan. We paid 26.9 billion Japanese Yen in cash to acquire 100% of the outstanding common stock of Getz Japan. Net

consideration paid was $219.2 million, which includes closing costs less cash acquired. We also acquired the net assets of Getz Bros. & Co. (Aust.) Pty. Limited and Medtel Pty. Limited (collectively referred to as Getz Australia) related to the distribution of our products in Australia for $6.2 million in cash, including closing costs. Prior to the acquisition of Getz Japan and Getz Australia (collectively referred to as Getz), we recognized revenue from the sale of our products to Getz as our distributor. Subsequent to the acquisition date, we recognized additional revenue from Getz related to the sale of non-St. Jude Medical manufactured products sold by Getz and the incremental revenue on the sale of St. Jude Medical manufactured products.

Minority Investment : On January 12, 2005, we made an initial equity investment of $12.5 million in ProRhythm, a privately-held company that is focused on the development of a HIFU catheter-based ablation system for the treatment of atrial fibrillation. The initial investment resulted in approximately a 9% ownership interest. In connection with making the initial equity investment, we also entered into a purchase and option agreement with ProRhythm that provided us the ability to make an additional equity investment. In January 2006, we made an additional $12.5 million investment in ProRhythm, increasing our total ownership interest to 18%. We also have the exclusive right, but not the obligation, through the later of three months after the date ProRhythm delivers certain clinical trial data or March 31, 2007, to acquire the remaining capital stock of ProRhythm for $125.0 million in cash, with additional cash consideration payable to the non-St. Jude Medical shareholders after the consummation of the acquisition if ProRhythm achieves certain performance-related milestones.

SEGMENT PERFORMANCE

As discussed in Note 11 to our Consolidated Financial Statements, we formed the Cardiology Division and the Atrial Fibrillation Division effective January 1, 2005. As a result, the Daig Division has been realigned to these respective divisions. The reportable segment information for all periods presented has been reclassified to reflect the new segment structure.

Our five operating segments are Cardiac Rhythm Management (CRM), Cardiac Surgery (CS), Neuromodulation (Neuro), Cardiology (CD) and Atrial Fibrillation (AF). We formed our Neuro operating segment in November 2005 in connection with the acquisition of ANS. Each operating segment focuses on developing and manufacturing products for its respective therapy area. The primary products produced by each operating segment are: CRM — pacemaker and ICD systems; CS — mechanical and tissue heart valves and valve repair products; Neuro — neurostimulation devices; CD — vascular closure devices, guidewires, hemostasis introducers and other interventional cardiology products; and AF — EP catheters, advanced cardiac mapping systems and ablation systems.

We aggregate our five operating segments into two reportable segments based primarily upon their similar operational and economic characteristics: CRM/CS/Neuro and CD/AF. Net sales of our reportable segments include end-customer revenues from the sale of products they each develop and manufacture. The costs included in each of the reportable segments' operating results include the direct costs of the products sold to end-customers and operating expenses managed by each of the reportable segments. Certain operating expenses managed by our selling and corporate functions are not included in our reportable segments' operating profit. Because of this, reportable segment operating profit is not representative of the operating profit of the products in these reportable segments. The following table presents net sales and operating profit by reportable segment (in thousands):

	CRM/CS/Neuro	CD/AF	Other	Total
Fiscal Year 2005				
Net sales	$ 2,223,701	$ 691,579	$ —	$ 2,915,280
Operating profit	1,231,144[(a)]	263,211[(b)]	(881,625)	612,730
Fiscal Year 2004				
Net sales	$ 1,748,749	$ 545,424	$ —	$ 2,294,173
Operating profit	1,015,621[(c)]	254,270[(d)]	(733,933)	535,958
Fiscal Year 2003				
Net sales	$ 1,511,309	$ 421,205	$ —	$ 1,932,514
Operating profit	873,904	202,007	(619,966)	455,945

(a) Included in CRM/CS/Neuro 2005 operating profit are IPR&D charges of $107.4 million and $45.7 million relating to the acquisitions of ANS and Savacor, respectively. Also included is an $11.5 million special credit relating to a reversal of a portion of the Symmetry™ device product liability litigation special charge recorded in 2004, net of settlement costs.

(b) Included in CD/AF 2005 operating profit are IPR&D charges of $13.7 million and $12.4 million relating to the acquisitions of Velocimed and ESI, respectively.

(c) Included in CRM/CS/Neuro 2004 operating profit are special charges of $35.4 million related to Symmetry™ device product line discontinuance and product liability litigation.

(d) Included in CD/AF 2004 operating profit is an IPR&D charge of $9.1 million relating to the IBI acquisition.

The following discussion of the changes in our net sales is provided by class of similar products within our five operating segments, which is the primary focus of our sales activities. This analysis sufficiently describes the changes in our sales results for our two reportable segments.

Cardiac Rhythm Management

(dollars in thousands)	2005	2004	2003	2005 vs. 2004 % Change	2004 vs. 2003 % Change
Pacemaker systems	$ 917,950	$ 890,076	$ 826,121	3.1%	7.7%
ICD systems	1,006,896	583,694	414,255	72.5%	40.9%
	$ 1,924,846	$ 1,473,770	$ 1,240,376	30.6%	18.8%

Cardiac Rhythm Management net sales increased 31% in 2005 over 2004. 2005 CRM net sales were favorably impacted by a 31% growth in unit volume driven by sales of traditional ICD products and the continued market penetration of products into the cardiac resynchronization therapy (CRT) segments of the U.S. pacemaker and ICD market. Foreign currency translation had a favorable impact on CRM net sales in 2005 as compared with 2004 of approximately $12.2 million. Increases in CRM net sales were offset by a low single-digit percentage decline in global average selling price. Net sales of pacemaker systems increased 3% during 2005 due to a 6% increase in pacemaker unit sales and approximately $7.7 million of favorable impact from foreign currency translation. These increases for the year were offset in part by low single-digit declines in global average selling price. Net sales of ICD systems increased 73% in 2005, due to a 68% increase in ICD unit sales, a low single-digit increase in global average selling price and approximately $4.5 million of favorable impact from foreign currency translation.

Cardiac Rhythm Management net sales increased 19% in 2004 over 2003. CRM 2004 net sales were favorably impacted by growth in unit volume driven by sales of traditional pacemaker and ICD products and the introduction of products into the CRT segments of the U.S. pacemaker and ICD market. The Getz acquisitions added approximately $19.8 million to CRM 2004 net sales. Foreign currency translation also had a favorable impact on CRM net sales in 2004 as compared with 2003 of approximately $49.3 million. The increases in CRM 2004 net sales were partially offset by a 5% decline in global average selling price, which is primarily due to a larger portion of our sales mix coming from lower-priced markets outside of the United States. Net sales of pacemaker systems increased 8% during 2004 due to a 10% increase in pacemaker unit volume, approximately $30.9 million of favorable impact from foreign currency translation and $12.5 million of favorable impact from the Getz acquisitions. These increases for the year were offset in part by a 7% decline in global average selling price resulting from a larger portion of our sales mix coming from lower-priced markets outside of the United States and lower global average selling price in the United States. Net sales of ICD systems increased 41% in 2004, due to a 39% increase in ICD unit volume offset in part by a 1% decline in global average selling price primarily due to a larger portion of our sales mix coming from lower-priced markets outside of the United States. Net sales of ICD systems in 2004 also included favorable impact from foreign currency translation of approximately $13.0 million.

Cardiac Surgery

(dollars in thousands)	2005	2004	2003	2005 vs. 2004 % Change	2004 vs. 2003 % Change
Heart valves	$ 254,445	$ 253,236	$ 250,840	0.5%	1.0%
Other cardiac surgery products	19,428	21,743	20,093	-10.6%	8.2%
	$ 273,873	$ 274,979	$ 270,933	-0.4%	1.5%

Cardiac Surgery net sales remained essentially unchanged in 2005 compared to 2004. While unit volume in 2005 increased 2% and foreign currency translation provided a $3.4 million favorable impact, global average selling price declined approximately 3%. Heart valve net sales increased 1% during 2005, due primarily to an increase in unit volume of approximately 2% and approximately $3.6 million of favorable impact from foreign currency translation. These increases were offset by a 3% decline in global average selling price primarily driven by a shift in geography and product mix. Sales growth in tissue heart valves and repair valves continue to be offset by declines in mechanical heart valves net sales. Net sales of other cardiac surgery products decreased $2.3 million during 2005 compared to 2004.

Cardiac Surgery net sales increased 2% in 2004 over 2003. The increase in 2004 net sales was due to $11.9 million of favorable impact from foreign currency translation and $9.6 million of favorable impact from the Getz acquisitions. These increases were offset by a global average selling price declines of approximately 6% and a low single-digit percentage decrease in unit volume. Heart valve net sales increased 1% in the

year 2004, due primarily to an increase in unit volume of approximately 1% and approximately $10.8 million of favorable impact from foreign currency translation and $4.6 million of favorable impact from the Getz acquisitions. These increases were offset by a 6% decline in global average selling price primarily due to a larger portion of our sales mix coming from lower-priced markets outside of the United States. Net sales of other cardiac surgery products increased 8% during 2004 primarily due to $1.1 million of favorable impact from foreign currency translation and $5.0 million of favorable impact from the Getz acquisitions. These increases for other cardiac surgery products were offset by an 18% decrease in unit sales and a 4% decrease in global average selling price.

Neuromodulation

(dollars in thousands)	2005	2004	2003
Neuromodulation products	$ 24,982	$ —	$ —

The acquisition of ANS in November 2005, added approximately $25 million of neuromodulation net sales. Including net sales prior to our acquisition, ANS had total 2005 net sales of $153.1 million. ANS's historical net sales as a stand-alone company were $120.7 million and $91.1 million for 2004 and 2003, respectively.

Cardiology

(dollars in thousands)	2005	2004	2003	2005 vs. 2004 % Change	2004 vs. 2003 % Change
Vascular closure devices	$ 329,901	$ 287,930	$ 218,215	14.6%	31.9%
Other cardiology products	107,868	100,654	78,154	7.2%	28.8%
	$ 437,769	$ 388,584	$ 296,369	12.7%	31.1%

Cardiology net sales increased 13% during 2005 compared to 2004. Net sales for 2005 were favorably impacted by growth in unit volume of approximately 15% and a $1.7 million of favorable impact from foreign currency translation. These increases were offset by a 2% decrease in global average selling price. Net sales of vascular closure devices increased 15% during 2005 due to a 16% increase in Angio-Seal™ unit sales and approximately $1.8 million of favorable impact from foreign currency translation. These increases were partially offset by a 2% decline in global average selling price. Net sales of other cardiology products increased 7% in 2005 due to a 12% increase in unit sales that was offset by a 4% decline in global average selling price.

Cardiology net sales increased 31% during 2004 compared to 2003. 2004 Cardiology net sales were favorably impacted by growth in unit volume of approximately 26%, $11.8 million of favorable impact from foreign currency translation and incremental revenue of $12.9 million resulting from the Getz acquisitions. These increases were offset by a 3% decrease in global average selling price, in part due to a larger portion of our sales mix coming from lower-priced markets outside of the United States. Net sales of vascular closure devices increased 32% during 2004 due to a 31% increase in Angio-Seal™ unit sales and approximately $7.8 million of favorable impact from foreign currency translation. These increases were partially offset by low single-digit percentage declines in global average selling price due to a larger portion of our sales mix coming from lower-priced markets outside of the United States. Net sales of other cardiology products increased 29% in 2004 due to a 12% increase in unit volume, $4.0 million of favorable impact from foreign currency translation and $12.9 million of sales of non-St. Jude Medical manufactured products distributed by Getz Japan. These increases were offset by low single-digit declines in global average selling price.

Atrial Fibrillation

(dollars in thousands)	2005	2004	2003	2005 vs. 2004 % Change	2004 vs. 2003 % Change
Atrial fibrillation products	$ 253,810	$ 156,840	$ 124,836	61.8%	25.6%

Atrial Fibrillation net sales increased 62% during 2005 compared to 2004. Unit volume of existing products increased as well as sales of products related to recent acquisitions. AF net sales increased 26% in 2004 compared to 2003 due to a 15% increase in unit volume and approximately $5.4 million of favorable impact from foreign currency translation in addition to a $7.3 million favorable impact from the Getz acquisitions.

RESULTS OF OPERATIONS

Net Sales

(dollars in thousands)	2005	2004	2003	2005 vs. 2004 % Change	2004 vs. 2003 % Change
Net sales	$ 2,915,280	$ 2,294,173	$ 1,932,514	27.1%	18.7%

Overall, net sales increased 27% in 2005 versus 2004. 2005 net sales were favorably impacted by growth in unit volume of approximately 28% and incremental revenue of approximately $25 million resulting from the ANS acquisition. Foreign currency translation had a favorable impact on net sales in 2005 as compared with 2004 of approximately $18.4 million due primarily to the strengthening of the Euro and the Japanese Yen against the U.S. dollar. Overall, global average selling price declines negatively impacted net sales in 2005 by approximately 2% compared with 2004.

Overall, net sales increased 19% in 2004 versus 2003. 2004 net sales were favorably impacted by growth in unit volume of approximately 17% and incremental revenue of $42.3 million resulting from the Getz acquisitions. The additional revenue from Getz was generated from the sale of non-St. Jude Medical manufactured products sold by Getz and the incremental revenue on the sale of St. Jude Medical manufactured products. Prior to April 1, 2003, we recognized revenue from the sale of our products to Getz as our distributor. Foreign currency translation had a favorable impact on net sales in 2004 as compared with 2003 of approximately $73.0 million due primarily to the strengthening of the Euro and the Yen against the U.S. dollar. Overall, global average selling price declines negatively impacted net sales in 2004 by approximately 5% compared with 2003, due to a larger portion of our sales mix coming from lower-priced markets outside of the United States.

Net sales by geographic markets based on location of the customer were as follows (in thousands):

	2005	2004	2003
United States	$ 1,709,911	$ 1,264,756	$ 1,129,055
International			
Europe	683,014	577,058	465,369
Japan	286,660	267,723	207,431
Other	235,695	184,636	130,659
	1,205,369	1,029,417	803,459
	$ 2,915,280	$ 2,294,173	$ 1,932,514

Foreign currency translation relating to our international operations can have a significant impact on our operating results from year to year. As discussed above, foreign currency translation had a net favorable impact on 2005 net sales of approximately $18.4 million as compared to 2004 net sales. Additionally, foreign currency translation had a net favorable impact on 2004 net sales of approximately $73.0 million as compared to 2003 net sales. These favorable impacts were due primarily to the strengthening of the Euro and the Japanese Yen against the U.S. dollar. However, these impacts to net sales are not indicative of the net earnings impact of foreign currency translation for 2005, 2004 and 2003 due to partially offsetting unfavorable foreign currency translation impacts on cost of sales and operating expenses.

Gross Profit

(dollars in thousands)	2005	2004	2003
Gross profit	$ 2,118,519	$ 1,615,123	$ 1,329,423
Percentage of net sales	72.7%	70.4%	68.8%

Gross profit for 2005 totaled $2,118.5 million, or 72.7% of net sales, as compared with $1,615.1 million, or 70.4% of net sales, for 2004. Gross profit percentage comparisons to last year were positively impacted by a $12.1 million special charge recorded in the third quarter of 2004 for the write-off of inventory and return of products held by customers related to the discontinuance of the Symmetry™ device product line (see further details under *Special Charges*). This special charge negatively impacted gross profit percentage by 0.5 percentage points for 2004. The remaining 1.8 percentage point increase in our 2005 gross profit percentage relates to increased sales of higher margin ICDs, lower cost of sales

in Japan from selling through, in 2004, the inventory acquired in the Getz acquisition, increased manufacturing efficiencies and favorable impact from foreign currencies. These favorable items were partially offset by an increase in inventory reserves related to expiring inventory and an increase in warranty reserves. We estimate that we will record approximately $6 million to $7 million of stock-based compensation expense as cost of sales in 2006. Including stock-based compensation, we anticipate that our gross profit percentage will increase to a range of 73.0% to 74.0% for 2006 due to the increased sales of higher margin ICD systems and continual efficiency improvements in our manufacturing processes.

Gross profit for 2004 totaled $1,615.1 million, or 70.4% of net sales, as compared with $1,329.4 million, or 68.8% of net sales, for 2003. The increase in our gross profit percentage during 2004 primarily related to lower CRM cost of sales in Japan of approximately 0.7 percentage points as a result of selling through the CRM inventory on hand at the time of the Getz acquisition, reduced material costs and increased labor efficiencies due to continued improvements in our CRM manufacturing processes, and increased sales of higher margin ICD systems related primarily to the launch of CRT products in the United States. These increases were partially offset by a $12.1 million special charge recorded in the third quarter of 2004 for the write-off of inventory and return of products held by customers related to the discontinuance of the Symmetry™ device product line.

On April 1, 2003, we valued the Getz Japan-owned inventory of pacemaker systems and heart valves at fair value in accordance with acquisition accounting rules. This fair value was established as the price at which we had sold the inventory to Getz. As these inventory items were sold subsequent to April 1, 2003, our gross profit percentage was reduced since the gross profit recognized by Getz Japan was less than our historical gross profit related to the sale of these items to Getz Japan as our distributor.

Selling, General and Administrative (SG&A) Expense

(dollars in thousands)	2005	2004	2003
Selling, general and administrative	$ 968,888	$ 759,320	$ 632,395
Percentage of net sales	33.2%	33.1%	32.7%

SG&A expense for 2005 totaled $968.9 million, or 33.2% of net sales, as compared with $759.3 million, or 33.1% of net sales, for 2004. Approximately 0.3% of the percentage point impact in SG&A expense as a percent of net sales relates to a $10.0 million contribution to the St. Jude Medical Foundation (the Foundation) in the third quarter of 2005. Excluding the Foundation contribution, the decrease in SG&A as a percentage of net sales is due to spreading certain relatively fixed elements of our selling and administrative costs over a revenue base that grew 27% in 2005. We estimate that we will record approximately $49 million to $51 million of stock-based compensation costs as SG&A expense in 2006. Including stock-based compensation, we anticipate that SG&A expense as a percentage of net sales will range from 34% to 35% in 2006.

SG&A expense for 2004 totaled $759.3 million, or 33.1% of net sales, as compared with $632.4 million, or 32.7% of net sales, for 2003. This increase in SG&A as a percentage of net sales is primarily due to the full-year impact of the addition of the Getz direct sales organization beginning April 1, 2003, which included approximately 400 sales, sales support and marketing personnel. In addition, we incurred increased selling and marketing expenses in 2004 in conjunction with our entry into the CRT segments of the U.S. pacemaker and ICD markets in 2004 primarily related to headcount additions to support the increased sales activity. These headcount increases in our worldwide selling organizations were offset, in part, by the effects of spreading certain relatively fixed elements of our selling and administrative costs over a revenue base that grew 19% in 2004.

Research and Development (R&D) Expense

(dollars in thousands)	2005	2004	2003
Research and development	$ 369,227	$ 281,935	$ 241,083
Percentage of net sales	12.7%	12.3%	12.5%

R&D expenses in 2005 totaled $369.2 million, or 12.7% of net sales, compared with $281.9 million, or 12.3% of net sales, for 2004. The increase in R&D expense was due primarily to our increased spending on the development of new products and related clinical trials, including our CRT devices, tissue valves and other products to treat emerging indications including atrial fibrillation. We will continue to invest in product development activities in 2006. We estimate that we will record approximately $18 million to $19 million of stock-based compensation costs as R&D expense in 2006. Including stock-based compensation, we anticipate that R&D expense as a percentage of net sales will range from 13% to 14% in 2006.

R&D expenses in 2004 totaled $281.9 million, or 12.3% of net sales, compared with $241.1 million, or 12.5% of net sales, for 2003. The

increase in the total 2004 R&D expense over 2003 resulted from our continuing focus on spending towards the development of new products and related clinical trials, including our CRT devices and other products to treat emerging indications including atrial fibrillation.

Purchased In-Process Research and Development (IPR&D) Charges

(dollars in thousands)	2005	2004	2003
Purchased in-process research and development	$ 179,174	$ 9,100	$ —

We are responsible for the valuation of purchased in-process research and development. The fair value assigned to IPR&D was estimated by discounting each project to its present value using the after-tax cash flows expected to result from the project once it has reached technological feasibility. We discount the after-tax cash flows using an appropriate risk-adjusted rate of return (ANS – 17%, Velocimed – 22%, ESI – 16%, IBI – 16%) that takes into account the uncertainty surrounding the successful development of the projects through obtaining regulatory approval to market the underlying products in an applicable geographic region. In estimating future cash flows, we also considered other tangible and intangible assets required for successful development of the resulting technology from the IPR&D projects and adjusted future cash flows for a charge reflecting the contribution of these other tangible and intangible assets to the value of the IPR&D projects.

At the time of acquisition, we expect all acquired IPR&D will reach technological feasibility, but there can be no assurance that the commercial viability of these projects will actually be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing and conducting clinical trials necessary to obtain regulatory approvals. The risks associated with achieving commercialization include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, failure of clinical trials, delay or failure to obtain required market clearances, and patent litigation. If commercial viability were not achieved, we would not realize the original estimated financial benefits expected for these projects. We fund all costs to complete IPR&D projects with internally generated cash flows.

Fiscal Year 2005

Savacor, Inc. : In December 2005, we acquired privately-held Savacor to complement our development efforts in heart failure diagnostic and therapy guidance products. At the date of acquisition, $45.7 million of the purchase price was expensed as IPR&D related to projects that had not yet reached technological feasibility and had no future alternative use. The IPR&D acquired relates to in-process projects for a device in clinical trials both in the United States and internationally that measures left atrial pressure and body temperature. We expect to incur approximately $21 million to bring the device to commercial viability on a worldwide basis within five years. Because Savacor was a development-stage company, the excess of the purchase price over the fair value of the net assets acquired is allocated on a pro-rata basis to the net assets acquired. Accordingly, the majority of the excess purchase price was allocated to IPR&D, the principal asset acquired.

Advanced Neuromodulation Systems, Inc. : In November 2005, we acquired ANS to expand our implantable microelectronics technology programs and provide us immediate access to the neuromodulation segment of the medical device industry. At the date of acquisition, $107.4 million of the purchase price was expensed as IPR&D related to projects that had not yet reached technological feasibility and had no future alternative use. The majority of the IPR&D acquired relates to in-process projects for next-generation Eon™ and Genesis® rechargeable IPG devices as well as next-generation leads that deliver electrical impulses to targeted nerves that are causing pain.

A summary of the fair values assigned to each in-process project at the acquisition date and the estimated total cost to complete each project as of December 31, 2005, is presented below (in millions):

Development Projects	Assigned Fair Value	Estimated Total Cost to Complete
Eon™	$ 67.2	$ 5.9
Genesis™	15.3	2.7
Leads	23.7	0.4
Other	1.2	1.0
	$ 107.4	$ 10.0

In 2005, we incurred $0.5 million in costs related to these projects. We expect to incur an additional $3.5 million in 2006, $4.6 million in 2007 and $1.9 million in 2008 to bring these technologies to commercial viability.

Velocimed, LLC : In April 2005, we acquired Velocimed to further enhance our portfolio of products in the interventional cardiology market. At the date of acquisition, $13.7 million of the purchase price was expensed as IPR&D related to projects for the Proxis™ embolic protection device that had not yet reached technological feasibility in the U.S. and other geographies and had no future alternative use. The device is used to help minimize the risk of heart attack or stroke if plaque or other debris is dislodged into the blood stream during interventional cardiology procedures. In 2005 we incurred $3.4 million in costs related to these projects. We expect to incur an additional $3.6 million in 2006 and $1.5 million in 2007 to bring this technology to commercial viability.

Endocardial Solutions, Inc. : In January 2005, we acquired ESI to further enhance our portfolio of products used to treat heart rhythm disorders. At the date of acquisition, $12.4 million of the purchase price was expensed as IPR&D related to system upgrades that had not yet reached technological feasibility and had no future alternative use. These major system upgrades are part of the Ensite® system which is used for the navigation and localization of diagnostic and therapeutic catheters used in atrial fibrillation ablation and other EP catheterization procedures. In 2005 we incurred $0.7 million in costs related to these projects and in the third quarter of 2005, we achieved commercial viability and launched Ensite® system version 5.1 and the Ensite® Verismo™ segmentation tool.

Fiscal Year 2004

Irvine Biomedical, Inc.: In October 2004, we acquired IBI to further enhance our portfolio of products used to treat heart rhythm disorders. At the date of acquisition, $9.1 million of the purchase price was expensed for IPR&D related to projects for an ablation system and therapeutic catheters that had not yet reached technological feasibility and had no future alternative use. The majority of the IPR&D relates to devices that are part of an ablation system in which catheters are connected to a generator which delivers radio frequency or ultrasound energy through the catheter to create lesions through ablation of cardiac tissue. In 2005 and 2004, we incurred $0.5 million and $0.2 million, respectively, in costs related to these projects and in the fourth quarter of 2005, we achieved commercial viability and received FDA approval to market the Cardiac Ablation Generator and Therapy™ EP catheters, expanding our therapeutic EP portfolio. The remaining IPR&D relates to a cool path ablation catheter that allows for the infusion of saline to cool the catheter tip electrode. In 2005 and 2004, we incurred $1.4 million and $0.1 million, respectively, in costs related to this device. We expect to incur an additional $1.5 million in 2006 to bring this technology to commercial viability.

Special Charges (Credits)

(dollars in thousands)	2005	2004	2003
Cost of sales special charges	$ —	$ 12,073	$ —
Special charges (credits)	(11,500)	28,810	—
	$ (11,500)	$ 40,883	$ —

Fiscal Year 2005

Symmetry™ Bypass System Aortic Connector Litigation : During the third quarter of 2005, over 90% of the cases and claims asserted involving the Symmetry™ device were resolved. As a result, we reversed $14.8 million of the pre-tax $21.0 million special charge that was recorded in the third quarter of 2004 to accrue for legal fees in connection with claims involving the Symmetry™ device. Additionally, we recorded a pre-tax charge of $3.3 million in the third quarter of 2005 to accrue for settlement costs negotiated in these resolved cases. These adjustments resulted in a net pre-tax benefit of $11.5 million that we recorded in the third quarter of 2005 related to Symmetry™ device product liability litigation. See Note 5 of the Consolidated Financial Statements for further details on the outstanding litigation against us relating to the Symmetry™ device.

Fiscal Year 2004

Symmetry™ Bypass System Aortic Connector Product Line Discontinuance : On September 23, 2004, we committed to a plan to discontinue developing, manufacturing, marketing and selling the Symmetry™ device. The decision to discontinue developing, manufacturing, marketing and selling the Symmetry™ device was primarily based on operating losses incurred related to the product over the previous three years and the prospect of ongoing operating losses, resulting from a decrease in the number of coronary artery bypass graft surgery cases and an apparent slowdown in the adoption of off-pump procedures for which the Symmetry™ device was developed.

In conjunction with the plan, we recorded a pre-tax charge in the third quarter of 2004 of $14.4 million. The charge was comprised of $4.4 million of inventory write-offs, $4.1 million of fixed asset write-offs, $3.6 million of sales returns, $1.3 million of contract termination and other costs, primarily related to a leased facility and $1.0 million in workforce reduction costs. These activities and all payments required in connection with the charge have been completed.

Symmetry™ Bypass System Aortic Connector Litigation: We have been sued in various jurisdictions by claimants who allege that our Symmetry™ device caused bodily injury or might cause bodily injury. During the third quarter of 2004, the number of lawsuits involving the Symmetry™ device increased and the number of persons asserting claims outside of litigation increased as well. We determined that it was probable future legal fees to defend the cases would be incurred and that the amount of such fees was reasonably estimable. As a result, we recorded a pre-tax charge of $21.0 million in the third quarter of 2004 to accrue for legal fees in connection with claims involving the Symmetry™ device.

Edwards LifeSciences Corporation: In December 2004, we settled a patent infringement lawsuit with Edwards LifeSciences Corporation and recorded a pre-tax charge of $5.5 million.

Other Income (Expense)

(dollars in thousands)	2005	2004	2003
Interest income	$ 19,523	$ 10,093	$ 7,031
Interest expense	(10,028)	(4,810)	(3,746)
Equity method losses	—	(2,091)	(3,530)
Other	(821)	(1,958)	(593)
Other income (expense)	$ 8,674	$ 1,234	$ (838)

The increase in other income (expense) during 2005 as compared with 2004 was due primarily to higher levels of interest income as a result of higher average invested cash balances and the elimination of equity method losses related to Epicor as it was acquired during 2004. These increases were offset in part by an increase in interest expense as a result of higher amounts of borrowings and higher interest rates. Specifically, we issued convertible debt and commercial paper to fund a portion of our acquisition of ANS in November 2005.

The increase in other income (expense) during 2004 as compared with 2003 was due primarily to higher levels of interest income as a result of higher average invested cash balances and a decrease in equity method losses related to Epicor as it was acquired during 2004. These increases were offset in part by interest expense as a result of higher levels of borrowings and higher interest rates and the recording of equity method losses related to the IBI investment.

Income Taxes

(as a percent of pretax income)	2005	2004	2003
Effective tax rate	36.7%	23.7%	26.0%

The effective tax rate for 2005 was negatively impacted by 11.0 percentage points from $179.2 million of non-deductible IPR&D charges recorded during 2005. Additionally, $26.0 million of income tax expense associated with the repatriation of $500 million of cash from outside the United States negatively impacted the 2005 effective tax rate by 4.2 percentage points. See Note 1 of the Consolidated Financial Statements for discussion of the American Jobs Creation Act of 2004. We also recorded a reversal of $13.7 million of previously recorded tax expense due to the finalization of certain tax examinations, resulting in a 2.2 percentage point benefit to the 2005 effective tax rate. We anticipate our 2006 effective tax rate will be approximately 27.0% to 27.5%, however, significant non-deductible expenses such as IPR&D charges can have a significant impact on the actual 2006 effective tax rate.

The 2004 effective tax rate benefited 2.6 percentage points as we recorded a reversal of $14.0 million of previously recorded tax expense due to the finalization of certain tax examinations.

Net Earnings

(dollars in thousands)	2005	2004	2003	2005 vs. 2004 % Change	2004 vs. 2003 % Change
Net earnings	$ 393,490	$ 409,934	$ 336,779	-4.0%	21.7%

Net earnings were $393.5 million in 2005, a 4% decrease over 2004, and diluted net earnings per share were $1.04 in 2005, a 5% decrease over 2004. Our 2005 net earnings includes $179.2 million of IPR&D charges, an after-tax $7.2 million special credit relating to a reversal of a portion of the Symmetry™ device product liability litigation special charge recorded in 2004, net of settlement costs, an after-tax $6.2 million contribution to the Foundation, $13.7 million of income tax expense reversals and $26.0 million of income tax expense relating to repatriation of foreign earnings. In total, these after-tax charges and credits amounted to $190.5 million, or $0.50 per diluted share.

Net earnings were $409.9 million in 2004, a 22% increase over 2003, and diluted net earnings per share were $1.10 in 2004, a 21% increase over 2003. Our 2004 net earnings included $25.3 million of after-tax special charges, $9.1 million of IPR&D charges and $14.0 million of income tax expense reversals. In total, these after-tax charges and credits amounted to $20.4 million, or $0.06 per diluted share.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (ABB Opinion No. 25). Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires compensation cost to be recognized for share-based payments to employees based on their grant date fair values. Pro forma disclosure will no longer be an alternative.

SFAS No. 123(R) is effective for fiscal years beginning after December 15, 2005 and we are required to adopt SFAS No. 123(R) effective January 1, 2006. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. We plan to adopt SFAS No. 123(R) using the “modified-prospective method” in which compensation cost is recognized for new grants issued after the date of adoption and for all unvested awards outstanding at the date of adoption. Expense for the new grants will be determined based upon their grant date fair values. Expense for outstanding unvested awards is based on the valuation determined in the pro forma disclosure under SFAS No. 123.

As permitted by SFAS No. 123, we have accounted for share-based payments to employees using the intrinsic value method under APB Opinion No. 25 and, as such, had not recognized any compensation cost for employee stock options and stock purchases under our employee stock purchase savings plan. Accordingly, adoption of SFAS No. 123(R) will have a significant impact on our consolidated financial statements as SFAS No. 123(R) requires compensation cost to be recognized for share-based payments to employees. We have used the Black-Scholes standard option pricing model for pro forma disclosures under SFAS No. 123 and will continue to use the Black-Scholes model to measure the fair value of share-based payments upon adoption of SFAS No. 123(R).

SFAS No. 123(R) also amends SFAS No. 95, *Statement of Cash Flows* , by requiring that the benefits associated with the tax deductions in excess of recognized stock-based compensation expense be reported as a financing cash flow, rather than as an operating cash flow as currently reported. This requirement will reduce operating cash flows and increase financing cash flows in periods after the SFAS No. 123 (R) adoption date of January 1, 2006. These future amounts cannot be estimated because they depend on, among other things, when employees exercise stock options.

See *Stock-Based Compensation* in Note 1 to our Consolidated Financial Statements for information on the pro forma effect on net earnings and net earnings per share in 2005, 2004 and 2003 as if we had applied the fair value recognition provisions of SFAS No. 123. We estimate that we will record approximately $73 million to $77 million of pre-tax stock-based compensation expense in 2006. Approximately $9 million to $10 million of the estimated 2006 pre-tax stock compensation expense relates to unvested stock options and restricted stock that we assumed in connection with the acquisition of ANS in November 2005.

In December 2004, the FASB issued two FASB staff positions (FSP): FSP No. 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction Provided to U.S.-Based Manufacturers by the American Jobs Creation Act of 2004* (FSP No. 109-1); and FSP No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FSP No. 109-2). FSP No. 109-1 clarified that the tax deduction for domestic manufacturers under the American Jobs Creation Act of 2004 (the Act) should be accounted for as a special deduction in accordance with SFAS No. 109. FSP No. 109-2 provided enterprises more time (beyond the financial-reporting period during which the Act took effect) to evaluate the Act’s impact on an enterprise’s plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS No. 109. In 2005 we repatriated $500 million of cumulative foreign earnings invested outside the United States under the provisions of the Act. The additional income tax expense associated with this repatriation was $26.0 million.

FINANCIAL CONDITION

Liquidity

Our liquidity and cash flows remained strong during 2005. Cash provided by operating activities was $716.3 million for 2005, up $112.0 million from 2004. Accounts receivable increased in 2005 as the result of higher sales volumes and the timing of sales, however, our day sales outstanding improved to 91 days at December 31, 2005 from 94 days at December 31, 2004. Inventory increased as a result of maintaining

higher finished goods inventory levels to support our higher sales volumes, however, our inventory, expressed as the number of days of cost of sales on hand, improved to 159 days at the end of 2005 from 176 days at the end of 2004. Our cash balances at the beginning of the year along with cash flow generated from operations in 2005 was used to fund the acquisitions of ESI, Velocimed and Savacor as well as a significant portion of the ANS acquisition.

Cash provided by operating activities was $604.3 million for 2004, up $130.0 million from 2003. Accounts receivable increased in 2004 as the result of higher sales volumes, timing of sales and a higher portion of sales mix coming from international customers who traditionally have longer payment cycles. Inventory increased in 2004 as a result of maintaining higher finished goods inventory levels to support our higher sales volumes.

We expect to use our future cash flows to fund internal development opportunities, reduce our debt and fund acquisition opportunities. In January 2006, we repaid all of the $216.0 million of commercial paper borrowings outstanding at December 31, 2005 and made an additional $12.5 million investment in ProRhythm.

At December 31, 2005, a portion of our cash and cash equivalents were held by our non-U.S. subsidiaries. These funds are only available for use by our U.S. operations if they are repatriated into the United States. On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law by the President of the United States. The Act allows U.S. corporations a one-time deduction of 85% of certain “cash dividends” received from controlled foreign corporations. According to the provisions of the Act, the Company’s amount of eligible dividends was limited to $500 million. Based on these requirements, in 2005, we repatriated $500 million of the earnings of foreign subsidiaries in accordance with the Act.

Capital Resources

In December 2005, we issued $660.0 million aggregate principal amount of 2.80% Convertible Senior Debentures (Convertible Debentures) that mature on December 15, 2035. Interest payments are required on a semi-annual basis. Contingent interest is payable in certain circumstances after December 15, 2006. We have the right to redeem some or all of the Convertible Debentures for cash at any time on or after December 15, 2006. We also may be required to repurchase some or all of the Convertible Debentures for cash on various dates starting December 15, 2006 and upon the occurrence of certain events. The Convertible Debentures are convertible under certain circumstances for cash and shares of our common stock, if any, at a conversion rate of 15.5009 shares (or an initial conversion price of approximately $64.51 per share of common stock). Upon conversion, we would be required to satisfy up to 100% of the principal amount of the Convertible Debentures solely in cash, with any amounts above the principal amount to be satisfied in shares of our common stock. See Note 4 to the Consolidated Financial Statements for further details on the features of these Convertible Debentures.

In May 2003, we issued 7-year, 1.02% unsecured notes totaling 20.9 billion Yen, or $176.9 and $200.9 million at December 31, 2005 and 2004, respectively. Interest payments are required on a semi-annual basis and the entire principal balance of the 1.02% unsecured notes is due in May 2010.

Our commercial paper program provides for the issuance of short-term, unsecured commercial paper with maturities up to 270 days. There was $216.0 million and $33.9 million of outstanding commercial paper borrowings at December 31, 2005 and 2004, respectively. The weighted average effective interest rate at December 31, 2005 and 2004 was 4.2% and 2.3%, respectively. Any future commercial paper borrowings we make would bear interest at varying market rates.

On December 31, 2005, we had up to $750.0 million of available borrowings under our committed credit facilities in the United States. Borrowings under these credit facilities bear interest at variable rates tied to the London InterBank Offered Rate (LIBOR) and can be used for general corporate purposes or to support our commercial paper program. Internationally, we had up to approximately $8.3 million of available borrowings under our committed credit facilities. See further discussion of our credit facilities in Note 4 of the Consolidated Financial Statements. There were no outstanding borrowings under our credit facilities at December 31, 2005 or 2004.

Our 7-year, 1.02% notes, short-term bank credit agreement and revolving credit facilities contain various operating and financial covenants. Specifically, we must have a ratio of total debt to total capitalization not exceeding 55%, have a leverage ratio (defined as the ratio of total debt to EBIT (net earnings before interest and income taxes) or total debt to EBITDA (net earnings before interest, income taxes, depreciation and amortization)) not exceeding 3.0 to 1.0, and an interest coverage ratio (defined as the ratio of EBIT to interest expense or the ratio of EBITDA to interest expense) not less than 3.0 to 1.0 or 3.5 to 1.0, as applicable. We also have limitations on additional liens or indebtedness and limitations on certain acquisitions, investments and dispositions of assets. However, these agreements do not include provisions for the termination of the agreements or acceleration of repayment due to changes in our debt ratings. We were in compliance with all of our debt covenants at December 31, 2005 and December 31, 2004.

We believe that our existing cash balances, available borrowings under our worldwide committed credit facilities and future cash generated from operations will be sufficient to meet our working capital and capital investment needs over the next twelve months and in the foreseeable future thereafter. Should suitable investment opportunities arise, we believe that our earnings, cash flows and balance sheet position will permit us to obtain additional debt financing or equity capital, if necessary.

Share Repurchases

On October 11, 2004, the Board of Directors authorized a share repurchase program of up to $300 million of our outstanding common stock. The share repurchases can be made through transactions in the open market and/or privately negotiated transactions, including the use of options, futures, swaps and accelerated share repurchase contracts. This authorization expires on December 31, 2006. We did not repurchase any of our common stock during 2005 or 2004.

On July 22, 2003, the Board of Directors authorized a share repurchase program of up to $500 million of our outstanding common stock. In August 2003, we repurchased approximately 18.5 million shares, or about five percent of our outstanding common stock for $520 million, including related costs (see Note 6 to Consolidated Financial Statements).

Dividends

We did not declare or pay any cash dividends during 2005, 2004 or 2003. We currently intend to retain our earnings for use in the operation and expansion of our business and therefore do not anticipate paying any cash dividends in the foreseeable future.

Off-Balance Sheet Arrangements and Contractual Obligations

We believe that our off-balance sheet arrangements do not have a material impact on our consolidated earnings, financial position or cash flows. Our off-balance sheet arrangements principally consist of operating leases for various facilities and equipment, purchase commitments and contingent acquisition commitments.

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 consolidated financial statements or included any indemnification provisions in our commitments table. Historically, we have not experienced significant losses on these types of indemnifications.

In December 2005, we issued Convertible Debentures that are convertible into cash and shares of our common stock, if any, upon the occurrence of certain events or if the trading price of our common stock reaches a certain amount (see Note 4 to the Consolidated Financial Statements for further details on the conversion provisions of the Convertible Debentures). The convertible features of the Convertible Debentures are considered to be an equity-linked derivative which is not required to be reflected in our balance sheet. Because of certain features of the Convertible Debentures, such as being able to call the Convertible Debentures for redemption in December 2006, we do not believe that the equity-linked derivative currently exposes us to a material amount of off-balance sheet risk.

In connection with certain acquisitions, we may agree to provide additional consideration payments upon the achievement of certain product development milestones, which may include but are not limited to: successful clinical trials and certain product regulatory approvals. We may also provide for additional consideration payments to be made upon the achievement of certain levels of future product sales. Although the timing and/or amount of these additional consideration payments is not certain, we have included future contingent consideration payments in the below table based upon our best estimates as of December 31, 2005.

Presented below is a summary of our contractual obligations and other commitments as of December 31, 2005 (in thousands):

	Payments Due by Period				
	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**
Contractual obligations related to off-balance sheet arrangements:					
Operating leases	$ 89,288	$ 24,522	$ 31,740	$ 20,153	$ 12,873

Purchase commitments (a)	244,548	222,637	21,844	67	—
Contingent consideration payments (b)	269,332	51,869	50,348	147,115	20,000
Total	$ 603,168	$ 299,028	$ 103,932	$ 167,335	$ 32,873
Contractual obligations reflected in the balance sheet:					
Long-term debt, including current portion (c)	1,079,419	896,284	3,642	179,493	—
Total	$1,682,587	$1,195,312	$ 107,574	$ 346,828	$ 32,873

(a) These amounts include commitments for inventory purchases and capital expenditures that do not exceed our projected requirements and are in the normal course of business. The purchase commitment amounts do not represent the entire anticipated purchases and capital expenditures in the future, but only those for which we are contractually obligated.

(b) These amounts include contingent commitments to acquire various businesses involved in the distribution of our products, commitments to fund minority investments and other contingent acquisition consideration payments. While it is not certain if and/or when these payments will be made, we have included the payments in the table based on our best estimates of the dates when the milestones and/or contingencies may be met.

(c) These amounts also include interest payments on the 2.80% Convertible Debentures the 1.02% Yen-denominated notes. See Note 4 to the Consolidated Financial Statements for additional information on our long-term debt obligations.

MARKET RISK

We are exposed to foreign currency exchange rate fluctuations due to transactions denominated primarily in Euros, Japanese Yen, Canadian Dollars, Brazilian Reals, British Pounds, and Swedish Kronor. Although we elected not to enter into any hedging contracts during 2005, 2004 or 2003, historically we have periodically hedged a portion of our foreign currency exchange rate risk through the use of forward exchange or option contracts. The gains or losses on these contracts are intended to offset changes in the fair value of the anticipated foreign currency transactions. We do not enter into contracts for trading or speculative purposes. We continue to evaluate our foreign currency exchange rate risk and the different mechanisms for use in managing such risk. We had no forward exchange or option contracts outstanding at December 31, 2005 or 2004. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have had an impact of approximately $108.8 million on our 2005 net sales. This amount is not indicative of the hypothetical net earnings impact due to partially offsetting impacts on cost of sales and operating expenses.

With our acquisition of Getz Japan during 2003, we significantly increased our exposure to foreign currency exchange rate fluctuations due to transactions denominated in Japanese Yen. We elected to naturally hedge a portion of our Yen-denominated net asset exposure by issuing 1.02% Yen-denominated 7-year notes, the proceeds of which were used to repay the short-term bank debt that we used to fund a portion of the Getz Japan purchase price. Excess cash flows from our Getz Japan operations will be used to fund principal and interest payments on the Yen-denominated borrowings. We have not entered into any Yen-denominated hedging contracts to mitigate any remaining foreign currency exchange rate risk. We are also exposed to fair value risk on our 1.02% Yen-denominated fixed-rate notes. A hypothetical 10% change in interest rates would have an impact of approximately $0.8 million on the fair value of these notes, which is not material to our consolidated earnings or financial position.

In the United States, we issue short-term, unsecured commercial paper that bears interest at varying market rates. We also have two committed credit facilities that have variable interest rates tied to the London InterBank Offered Rate (LIBOR). Our variable interest rate borrowings had a notional value of $216.0 million at December 31, 2005. A hypothetical 10% change in interest rates assuming the current level of borrowings would have had an impact of approximately $0.9 million on our 2005 interest expense, which is not material to our consolidated earnings.

We are also exposed to equity market risk on our marketable equity security investments. We hold certain marketable equity securities of emerging technology companies. Our investments in these companies had a fair value of $51.1 million and $34.4 million at December 31, 2005 and 2004, respectively, which are subject to the underlying price risk of the public equity markets.

COMPETITION AND OTHER CONSIDERATIONS

We expect that market demand, government regulation and reimbursement policies, and societal pressures will continue to change the worldwide healthcare industry resulting in further business consolidations and alliances. We participate with industry groups to promote the use of advanced medical device technology in a cost-conscious environment.

The global medical technology industry is highly competitive and is characterized by rapid product development and technological change. Our products must continually improve technologically and provide improved clinical outcomes due to the competitive nature of the industry. In addition, competitors have historically employed litigation to gain a competitive advantage.

The pacemaker and ICD markets are highly competitive. Rapid technological change in these markets is expected to continue, requiring us to invest heavily in R&D and to effectively market our products.

The cardiac surgery markets, which include mechanical heart valves, tissue heart valves and valve repair products, are also highly competitive. Cardiac surgery therapies have shifted to tissue valves and repair products from mechanical heart valves, resulting in an overall market share loss for us. Competition is anticipated to continue to place pressure on pricing and terms, including a trend toward vendor-owned (consignment) inventory at the hospitals. Also, healthcare reform is expected to result in further hospital consolidations over time with related pressure on pricing and terms.

The neuromodulation market is one of medical technology's fastest growing segments. Competitive pressures will increase in the future as our two principal competitors attempt to secure and grow their positions in the neuromodulation market. Other companies are attempting and will attempt in the future to bring new products or therapies into this market. Barriers to entry for new competitors are high, due to a long and expensive product development and regulatory approval process and the intellectual property and patent positions existing in the market. However, other larger medical device companies may be able to enter the neuromodulation market by leveraging their capabilities into the neuromodulation field, thereby decreasing the time and resources required to enter the market

The cardiology therapy area is also growing and has numerous competitors. Over 75% of our sales in this area are comprised of vascular closure devices. The market for vascular closure devices is highly competitive, and there are several companies, in addition to St. Jude Medical, that manufacture and market these products worldwide. Additionally, we anticipate other large companies will enter this market in the coming years, which will likely increase competition.

The atrial fibrillation therapy area is broadening to include multiple therapy methods. The marketplace currently embraces multiple methods of treating atrial fibrillation. Treatments include drugs, external electrical cardioversion and defibrillation, implantable defibrillators and open-heart surgery. As a result we have numerous competitors in the emerging atrial fibrillation market. Larger competitors may expend their presence in the atrial fibrillation market by leveraging their CRM capabilities.

We operate in an industry that is susceptible to significant product liability claims. These claims may be brought by individuals seeking relief for themselves or, increasingly, by groups seeking to represent a class. In addition, product liability claims may be asserted against us in the future relative to events that are not known to us at the present time. Our product liability insurance coverage is designed to help protect us against a catastrophic claim. Our product liability insurance coverage for the period April 1, 2005 through June 15, 2006 is $400 million, with a $100 million deductible per occurrence.

Group purchasing organizations, independent delivery networks and large single accounts, such as the Veterans Administration in the United States, continue to consolidate purchasing decisions for some of our hospital customers. We have contracts in place with many of these organizations. In some circumstances, our inability to obtain a contract with such an organization could adversely affect our efforts to sell our products to that organization's hospitals.

CAUTIONARY STATEMENTS

In this discussion and in other written or oral statements made from time to time, we have included and may include statements that may constitute "forward-looking statements" with respect to the financial condition, results of operations, plans, objectives, future performance and business of St. Jude Medical, Inc. and its subsidiaries. Statements preceded by, followed by or that include words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "believes" or similar expressions are intended to identify some of the forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are included, along with this statement, for purposes of complying with the safe harbor provisions of that Act. These forward-looking statements involve risks and uncertainties. By identifying these statements for you in this manner, we are alerting you to the possibility that actual results may differ, possibly materially, from the results indicated by these forward-looking statements. We undertake no obligation to update any forward-looking statements. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the risks and uncertainties discussed in the previous section entitled "Competition and Other Considerations" and in Part 1, Item 1A, Risk Factors of our Annual Report on Form 10-K as well as the various factors described below. Since it is not possible to foresee all such factors, you should not consider these factors to be a complete list of all risks or uncertainties. We believe the most significant factors that could affect our future operations and results are set forth in the list below.

1. Legislative or administrative reforms to the U.S. Medicare or Medicaid systems or similar reforms of international reimbursement systems in a manner that significantly reduces reimbursement for procedures using our medical devices or denies coverage for such procedures, as well as adverse decisions relating to our products by administrators of such systems in coverage or reimbursement issues.

2. Acquisition of key patents by others that have the effect of excluding us from market segments or require us to pay royalties.
3. Economic factors, including inflation, changes in interest rates and changes in foreign currency exchange rates.
4. Product introductions by competitors which have advanced technology, better features or lower pricing.
5. Price increases by suppliers of key components, some of which are sole-sourced.
6. A reduction in the number of procedures using our devices caused by cost-containment pressures or preferences for alternate therapies.
7. Safety, performance or efficacy concerns about our marketed products, many of which are expected to be implanted for many years, leading to recalls and/or advisories with the attendant expenses and declining sales.
8. Changes in laws, regulations or administrative practices affecting government regulation of our products, such as FDA laws and regulations, that increase pre-approval testing requirements for products or impose additional burdens on the manufacture and sale of medical devices.
9. Regulatory actions arising from the concern over Bovine Spongiform Encephalopathy, sometimes referred to as "mad cow disease," that have the effect of limiting the Company's ability to market products using collagen, such as Angio-SealTM, or that impose added costs on the procurement of collagen.
10. Difficulties obtaining, or the inability to obtain, appropriate levels of product liability insurance.
11. The ability of our Silzone® product liability insurers, especially Kemper, to meet their obligations to us.
12. A serious earthquake affecting our facilities in Sunnyvale or Sylmar, California, or a hurricane affecting our operations in Puerto Rico.
13. Healthcare industry consolidation leading to demands for price concessions or the exclusion of some suppliers from significant market segments.
14. Adverse developments in the investigation of business practices in the cardiac rhythm management industry by the U.S. Attorney's Office in Boston.
15. Adverse developments in litigation including product liability litigation, patent litigation or other intellectual property litigation.
16. Inability to successfully integrate the businesses that we have acquired in recent years, including ANS, and that we plan to acquire.
17. Adverse developments arising out of the investigation by the Office of the Inspector General, Department of Health and Human Services into certain business practices of ANS.
18. Failure to successfully complete clinical trials for new indications for our products and failure to successfully develop markets for such new indications.

Report of Management

Management's Report on the Financial Statements

We are responsible for the preparation, integrity and objectivity of the accompanying financial statements. The financial statements were prepared in accordance with accounting principles generally accepted in the United States and include amounts which reflect management's best estimates based on its informed judgment and consideration given to materiality. We are also responsible for the accuracy of the related data in the annual report and its consistency with the financial statements.

Audit Committee Oversight

The adequacy of our internal accounting controls, the accounting principles employed in our financial reporting and the scope of independent and internal audits are reviewed by the Audit Committee of the Board of Directors, consisting solely of outside directors. The independent registered public accounting firm meets with, and has confidential access to, the Audit Committee to discuss the results of its audit work.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the Company's management, including the CEO and the CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and CFO concluded that our internal control over financial reporting was effective as of December 31, 2005. Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, our independent registered public accounting firm, as stated in their report which is included herein.

/s/ DANIEL J. STARKS

Daniel J. Starks
Chairman, President and Chief Executive Officer

/s/ JOHN C. HEINMILLER

John C. Heinmiller
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
of St. Jude Medical, Inc.

We have audited management's assessment, included in the section of the accompanying Report of Management entitled Management's Report on Internal Control Over Financial Reporting, that St. Jude Medical, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). St. Jude Medical, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that St. Jude Medical, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, St. Jude Medical, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria **.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of St. Jude Medical, Inc and subsidiaries as of December 31, 2005 and 2004, and the related consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 2005 and our report dated February 16, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota
February 16, 2006

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
of St. Jude Medical, Inc.

We have audited the accompanying consolidated balance sheets of St. Jude Medical, Inc. and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three fiscal years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Jude Medical, Inc. and subsidiaries at December 31, 2005 and 2004 and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of St. Jude Medical, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota
February 16, 2006

CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share amounts)

Fiscal Year Ended December 31,	2005	2004	2003
Net sales	$ 2,915,280	$ 2,294,173	$ 1,932,514
Cost of sales:			
Cost of sales before special charges	796,761	666,977	603,091
Special charges	—	12,073	—
Total cost of sales	796,761	679,050	603,091
Gross profit	2,118,519	1,615,123	1,329,423
Selling, general and administrative expense	968,888	759,320	632,395
Research and development expense	369,227	281,935	241,083
Purchased in-process research and development charges	179,174	9,100	—
Special charges (credits)	(11,500)	28,810	—
Operating profit	612,730	535,958	455,945
Other income (expense)	8,674	1,234	(838)
Earnings before income taxes	621,404	537,192	455,107
Income tax expense	227,914	127,258	118,328
Net earnings	$ 393,490	$ 409,934	$ 336,779
Net earnings per share:			
Basic	$ 1.08	$ 1.16	$ 0.95
Diluted	$ 1.04	$ 1.10	$ 0.91
Weighted average shares outstanding:			
Basic	363,612	353,454	353,913
Diluted	379,106	370,992	370,753

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

December 31,	2005	2004
ASSETS		
Current Assets		

Cash and cash equivalents	$ 534,568	$ 688,040
Accounts receivable, less allowances for doubtful accounts	793,929	630,983
Inventories	378,456	330,873
Deferred income taxes, net	100,272	92,757
Other	133,916	120,564
Total current assets	1,941,141	1,863,217
Property, Plant and Equipment		
Land, buildings and improvements	176,413	155,975
Machinery and equipment	566,258	473,486
Diagnostic equipment	187,923	182,748
Property, plant and equipment at cost	930,594	812,209
Less accumulated depreciation	(492,178)	(485,228)
Net property, plant and equipment	438,416	326,981
Other Assets		
Goodwill	1,634,973	593,799
Other intangible assets, net	572,246	207,096
Other	258,064	239,654
Total other assets	2,465,283	1,040,549
TOTAL ASSETS	$ 4,844,840	$ 3,230,747
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 876,000	$ —
Accounts payable	169,296	135,499
Income taxes payable	108,910	101,257
Accrued expenses		
Employee compensation and related benefits	204,089	166,157
Other	176,087	132,885
Total current liabilities	1,534,382	535,798
Long-term debt	176,970	234,865
Deferred income taxes, net	157,443	56,561
Other liabilities	93,000	69,595
Total liabilities	1,961,795	896,819
Commitments and Contingencies (Notes 2 and 5)	—	—
Shareholders' Equity		
Preferred stock	—	—
Common stock (367,904,418 and 358,760,693 shares issued and outstanding at December 31, 2005 and 2004, respectively)	36,790	35,876
Additional paid-in capital	514,360	277,147
Unearned compensation	(5,641)	—
Retained earnings	2,345,311	1,951,821
Accumulated other comprehensive income (loss):		
Cumulative translation adjustment	(29,231)	53,851
Unrealized gain on available-for-sale securities	21,456	15,233
Total shareholders' equity	2,883,045	2,333,928
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,844,840	$ 3,230,747

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share amounts)

	Common Stock		Additional			Accumulated Other Comprehensive	Total Shareholders'
	Number of Shares	Amount	Paid-In Capital	Unearned Compensation	Retained Earnings	Income (Loss)	Equity
Balance at January 1, 2003	356,056,258	$ 35,606	$ 199,075	$ —	$1,411,194	$ (69,148)	$ 1,576,727
Comprehensive income:							
Net earnings					336,779		336,779
Other comprehensive income:							
Unrealized gain on investments, net of taxes of $4,183						6,826	6,826
Foreign currency translation adjustment, net of taxes of $16,719						69,142	69,142
Other comprehensive income							75,968
Comprehensive income							412,747
Common stock issued under stock plans and other, net	8,469,166	846	88,856				89,702
Tax benefit from stock plans			42,484				42,484
Common stock repurchased, including related costs	(18,497,090)	(1,850)	(312,089)		(206,086)		(520,025)
Balance at December 31, 2003	346,028,334	34,602	18,326	—	1,541,887	6,820	1,601,635
Comprehensive income:							
Net earnings					409,934		409,934
Other comprehensive income:							
Unrealized gain on investments, net of taxes of $3,034						4,167	4,167
Foreign currency translation adjustment, net of taxes of $(8,270)						58,097	58,097
Other comprehensive income							62,264
Comprehensive income							472,198
Common stock issued under stock plans and other, net	12,732,359	1,274	144,869				146,143
Tax benefit from stock plans			113,952				113,952
Balance at December 31, 2004	358,760,693	35,876	277,147	—	1,951,821	69,084	2,333,928
Comprehensive income:							
Net earnings					393,490		393,490
Other comprehensive income (loss):							
Unrealized gain on investments, net of taxes of $3,988						6,223	6,223
Foreign currency translation adjustment, net of taxes of $1,809						(83,082)	(83,082)
Other comprehensive loss							(76,859)
Comprehensive income							316,631
Options assumed in business combinations			21,997	(6,152)			15,845
Stock-based compensation			944	511			1,455
Common stock issued under stock plans and other, net	9,143,725	914	125,199				126,113

Tax benefit from stock plans			89,073				89,073
Balance at December 31, 2005	367,904,418	$ 36,790	$ 514,360	$ (5,641)	$2,345,311	$ (7,775)	$ 2,883,045

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Fiscal Year Ended December 31,	**2005**	**2004**	**2003**
OPERATING ACTIVITIES			
Net earnings	$ 393,490	$ 409,934	$ 336,779
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation	76,364	68,294	64,695
Amortization	53,845	17,461	11,988
Stock-based compensation	1,455	—	—
Equity method losses of minority investments, net of income taxes	—	1,742	2,612
Purchased in-process research and development charges	179,174	9,100	—
Special charges (credits)	(11,500)	40,883	—
Deferred income taxes	4,833	(9,340)	33,146
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	(138,846)	(102,405)	(31,315)
Inventories	(23,695)	(14,209)	(17,388)
Other current assets	11,767	164	(40,273)
Accounts payable and accrued expenses	69,458	25,793	52,714
Income taxes payable	99,968	156,865	61,327
Net cash provided by operating activities	716,313	604,282	474,285
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(158,768)	(89,468)	(49,565)
Proceeds from sale of marketable securities	153,389	—	—
Business acquisition payments, net of cash acquired	(1,775,527)	(249,941)	(230,839)
Minority investment in Epicor Medical, Inc.	—	—	(15,505)
Other	(29,864)	(68,399)	(50,691)
Net cash used in investing activities	(1,810,770)	(407,808)	(346,600)
FINANCING ACTIVITIES			
Proceeds from exercise of stock options and stock issued	126,113	146,143	89,702
Common stock repurchased, including related costs	—	—	(520,025)
Net (payments) / borrowings under short-term debt facilities	—	(11,964)	9,454
Issuance of convertible debentures	660,000	—	—
Issuance of long-term notes	—	—	173,350
Borrowings under debt facilities	3,377,775	2,285,775	1,111,450
Payments under debt facilities	(3,195,718)	(2,409,200)	(954,050)
Net cash provided by (used in) financing activities	968,170	10,754	(90,119)
Effect of currency exchange rate changes on cash and cash equivalents	(27,185)	19,559	21,827
Net increase (decrease) in cash and equivalents	(153,472)	226,787	59,393
Cash and cash equivalents at beginning of year	688,040	461,253	401,860
Cash and cash equivalents at end of year	$ 534,568	$ 688,040	$ 461,253

Supplemental Cash Flow Information

Cash paid during the year for:			
Interest	$ 9,392	$ 5,158	$ 3,557
Income taxes	124,515	24,564	57,217

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company Overview: St. Jude Medical, Inc. (St. Jude Medical or the Company) develops, manufactures and distributes cardiovascular medical devices for the global cardiac rhythm management, cardiac surgery, cardiology and atrial fibrillation therapy areas and implantable neuromodulation devices. The Company's five operating segments are Cardiac Rhythm Management (CRM), Cardiac Surgery (CS), Neuromodulation (Neuro), Cardiology (CD) and Atrial Fibrillation (AF). Each operating segment focuses on developing and manufacturing products for its respective therapy area. The Company's principal products in each of these operating segments are as follows: CRM – bradycardia pacemaker systems (pacemakers) and tachycardia implantable cardioverter defibrillator systems (ICDs); CS – mechanical and tissue heart valves and valve repair products; Neuro – neurostimulation devices; CD – vascular closure devices, guidewires, hemostatis introducers and other interventional cardiology products; and AF – electrophysiology (EP) catheters, advanced cardiac mapping systems and ablation systems.

The Company markets and sells its products primarily through a direct sales force. The principal geographic markets for the Company's products are the United States, Europe and Japan.

Principles of Consolidation : The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications : Certain prior period reportable segment information (see Note 11) and certain prior period balance sheet amounts (see Note 10) have been reclassified to conform to the current year presentation.

Fiscal Year : The Company utilizes a 52/53-week fiscal year ending on the Saturday nearest December 31. For simplicity of presentation, the Company describes all periods as if the year end is December 31. Fiscal years 2005 and 2004 consisted of 52 weeks and fiscal year 2003 consisted of 53 weeks.

Use of Estimates : Preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents : The Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market. The Company's cash equivalents include bank certificates of deposit, money market funds and instruments, commercial paper investments and repurchase agreements collateralized by U.S. government agency securities. The Company performs periodic evaluations of the relative credit standing of the financial institutions and issuers of its cash equivalents and limits the amount of credit exposure with any one issuer.

Marketable Securities : Marketable securities consist of publicly-traded equity securities that are classified as available-for-sale securities and investments in mutual funds that are classified as trading securities. The investments in mutual funds are held in a rabbi trust for the purpose of paying benefits under the Company's deferred compensation plan (see Note 10). On the balance sheet, available-for-sale securities and trading securities are classified as other current assets and other long-term assets, respectively.

Available-for-sale securities are recorded at fair market value based upon quoted market prices. Unrealized gains and losses, net of related incomes taxes, are recorded in accumulated other comprehensive income (loss) in shareholders' equity. The following table summarizes the Company's available-for-sale securities as of December 31 (in thousands):

	2005	2004
Adjusted cost	$ 15,820	$ 9,408
Gross unrealized gains	35,673	25,048
Gross unrealized losses	(413)	—

Fair value	$ 51,080	$ 34,456

Realized gains and losses from the sale of available-for-sale securities are recorded in other income (expense) and are computed using the specific identification method. During 2005, the Company sold an available-for-sale security for a realized gain of $1.4 million, which is included in other income (expense). The other comprehensive income (loss) reclassification adjustment for the realized gain on the sale of this marketable security, net of income taxes, was $0.9 million.

The Company's policy for assessing recoverability of its available-for-sale securities is to record a charge against net earnings when the Company determines that a decline in the fair value of a security drops below the cost basis and judges that decline to be other-than-temporary. During 2005, 2004 and 2003, the Company recorded write-downs of $0.6 million, $1.3 million and $1.0 million, respectively, on certain available-for-sale securities, which is included in other income (expense). Other comprehensive income (loss) reclassification adjustments for realized losses on the write-down of certain available-for-sale securities, net of income taxes, were $0.3 million, $0.9 million and $0.6 million in 2005, 2004 and 2003, respectively.

The Company's investments in mutual funds that are held in a rabbi trust are not available for general corporate purposes and are subject to creditor claims in the event of insolvency. These investments are specifically designated as available to the Company solely for the purpose of paying benefits under the Company's deferred compensation plan. The fair value of these investments totaled approximately $93 million and $70 million at December 31, 2005 and 2004, respectively.

Accounts Receivable : The Company grants credit to customers in the normal course of business, but generally does not require collateral or any other security to support its receivables. The Company maintains an allowance for doubtful accounts for potential credit losses. The allowance for doubtful accounts was $33.3 million at December 31, 2005 and $31.3 million at December 31, 2004.

Inventories : Inventories are stated at the lower of cost or market with cost determined using the first-in, first-out method. Inventories consist of the following at December 31 (in thousands):

	2005	2004
Finished goods	$ 262,640	$ 237,574
Work in process	34,531	33,984
Raw materials	81,285	59,315
	$ 378,456	$ 330,873

Property, Plant and Equipment : Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives, ranging from 15 to 39 years for buildings and improvements, three to seven years for machinery and equipment and four to eight years for diagnostic equipment. Diagnostic equipment primarily consists of programmers that are used by physicians and healthcare professionals to program and analyze data from pacemaker and ICD devices. The estimated useful lives of this equipment are based on management's estimates of its usage by the physicians and healthcare professionals, factoring in new technology platforms and rollouts by the Company. To the extent that the Company experiences changes in the usage of this equipment or introductions of new technologies to the market, the estimated useful lives of this equipment may change in a future period. Diagnostic equipment had a net carrying value of $88.6 million and $85.8 million at December 31, 2005 and 2004, respectively. Property, plant and equipment are depreciated using accelerated methods for income tax purposes.

Goodwill and Other Intangible Assets : Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. Other intangible assets consist of customer lists and relationships, purchased technology and patents, distribution agreements and licenses and are amortized on a straight-line basis using lives ranging from 3 to 20 years. Other intangible assets also consist of trademarks which are an indefinite-lived intangible asset.

Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), requires that goodwill for each reporting unit be reviewed for impairment at least annually. The Company has five reporting units at December 31, 2005, consisting of its five operating segments (see Note 11). The Company tests goodwill for impairment using the two-step process prescribed in SFAS No. 142. In the first step, the Company compares the fair value of each reporting unit, as computed primarily by present value cash flow calculations, to its book carrying value, including goodwill. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and the Company would then complete step 2 in order to measure the impairment loss. In step 2, the Company would calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in step 1). If the implied fair value of goodwill is less than the carrying value of goodwill, the Company would

recognize an impairment loss equal to the difference.

Management also reviews other intangible assets for impairment at least annually to determine if any adverse conditions exist that would indicate impairment. If the carrying value of other intangible assets exceeds the undiscounted cash flows, the carrying value is written down to fair value in the period identified. Indefinite-lived intangible assets are reviewed at least annually for impairment by calculating the fair value of the assets and comparing with their carrying value. In assessing fair value, management generally utilizes present value cash flow calculations using an appropriate risk-adjusted discount rate.

During the fourth quarters of 2005 and 2004, management completed its annual goodwill and other intangible asset impairment reviews with no impairments to the carrying values identified.

Technology License Agreement : The Company has a technology license agreement that provides access to a significant number of patents covering a broad range of technology used in the Company's pacemaker and ICD systems. The agreement provided for payments through September 2004, at which time the Company was granted a fully paid-up license to the underlying patents which expire at various dates through the year 2014. The costs deferred under this license are recorded on the balance sheet in other long-term assets and are being recognized as an expense over the term of the underlying patents' lives. The license had a net carrying value of $109.2 million and $132.9 million at December 31, 2005 and 2004, respectively.

Product Warranties : The Company offers a warranty on various products, the most significant of which relate to pacemaker and ICD systems. 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. Changes in the Company's product warranty liability during 2005 and 2004 were as follows (in thousands):

	2005	2004
Balance at beginning of year	$ 13,235	$ 15,221
Warranty expense recognized	9,566	567
Warranty credits issued	(2,904)	(2,553)
Balance at end of year	$ 19,897	$ 13,235

Revenue Recognition : The Company sells its products to hospitals primarily through a direct sales force. In certain international markets, the Company sells its products through independent distributors. The Company recognizes revenue when persuasive evidence of a sales arrangement exists, delivery of goods occurs through the transfer of title and risks and rewards of ownership, the selling price is fixed or determinable and collectibility is reasonably assured. A portion of the Company's inventory is consigned at hospitals for which revenue is recognized at the time the Company is notified that the consigned inventory has been used by the customer. For products that are not consigned, revenue recognition occurs upon shipment to the hospital or, in the case of distributors, when title transfers under the contract. The Company records estimated sales returns, discounts and rebates as a reduction of net sales in the same period revenue is recognized.

Research and Development : Research and development costs are charged to expense as incurred.

Purchased In-Process Research and Development (IPR&D) : When the Company acquires another entity, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, tangible assets and goodwill. Determining the portion of the purchase price allocated to IPR&D requires the Company to make significant estimates.

The Company's policy defines IPR&D as the value assigned to those projects for which the related products have not yet reached technological feasibility and have no future alternative use. The primary basis for determining the technological feasibility of these projects is obtaining regulatory approval to market the underlying products in an applicable geographic region. In accordance with accounting principles generally accepted in the United States, the value attributed to those projects is expensed in conjunction with the acquisition. The Company recorded IPR&D of $179.2 million and $9.1 million in 2005 and 2004, respectively.

The Company uses the income approach to establish fair values of IPR&D as of the acquisition date. This approach establishes fair value by estimating the after-tax cash flows attributable to a project over its useful life and then discounting these after-tax cash flows back to a present value. The Company bases revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected product introductions by competitors. In arriving at the value of the projects, the Company considers, among other factors, the stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs of completion, the contribution of core technologies and other acquired assets, the expected introduction date and the estimated useful life of the technology. The discount rate used is determined at the time of acquisition, and includes consideration of the assessed risk of the project not being developed to commercial feasibility. For the IPR&D acquired in connection with recent acquisitions, risk-adjusted discount rates ranging

from 16% to 22% were used in 2005 and a risk-adjusted discount rate of 16% was used in 2004 to discount projected cash flows. The Company believes that the IPR&D amounts recorded represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the projects.

Litigation : The Company accrues a liability for costs related to claims, including future legal costs, settlements and judgments where it has assessed that a loss is probable and an amount can be reasonably estimated.

Stock-Based Compensation : Prior to December 31, 2005, the Company accounted for its stock-based employee compensation plans (see Note 6) under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB Opinion No. 25) and related interpretations. In accordance with the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), the Company will adopt the fair value method of accounting for its stock-based compensation arrangements with employees at January 1, 2006. The following table illustrates the effect on net earnings and net earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) to its stock-based compensation plans (in thousands, except per share amounts):

	2005	2004	2003
Net earnings, as reported	$393,490	$409,934	$336,779
Add: Total stock-based compensation expense included in net earnings, net of related tax effects	902	—	—
Less: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(45,946)	(50,888)	(38,030)
Pro forma net earnings	$348,446	$359,046	$298,749
Net earnings per share:			
Basic-as reported	$ 1.08	$ 1.16	$ 0.95
Basic-pro forma	$ 0.96	$ 1.02	$ 0.84
Diluted-as reported	$ 1.04	$ 1.10	$ 0.91
Diluted-pro forma	$ 0.92	$ 0.98	$ 0.81

The following table provides the weighted average fair value of options granted with exercise prices equal to the market price of the Company's common stock on the grant dates and the related assumptions used in the Black-Scholes standard option pricing model:

	2005	2004	2003
Fair value of options granted	$ 14.71	$ 12.79	$ 10.88
Assumptions used:			
Expected life (years)	4.4	4.8	4.8
Risk-free rate of return	4.4%	3.5%	3.2%
Volatility	26.1%	29.0%	35.0%
Dividend yield	0%	0%	0%

As discussed in Note 6, in connection with the acquisition of ANS, the Company assumed ANS employee stock options that had exercise prices less than the market price of the Company's common stock on the acquisition date. The weighted average fair value of the ANS options assumed and the related assumptions used in the Black-Scholes standard option pricing model are as follows:

	2005
Fair value of options granted	$ 27.79

Assumptions used:	
Expected life (years)	3.2
Risk-free rate of return	4.4%
Volatility	26.0%
Dividend yield	0%

Net Earnings Per Share : Basic net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares during the period, exclusive of restricted shares. Diluted net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares and dilutive securities.

The table below sets forth the computation of basic and diluted net earnings per share (in thousands, except per share amounts):

	2005	2004	2003
Numerator:			
Net earnings	$ 393,490	$ 409,934	$ 336,779
Denominator:			
Basic-weighted average shares outstanding	363,612	353,454	353,913
Effect of dilutive securities:			
Employee stock options	15,460	17,525	16,819
Restricted shares	34	13	21
Diluted-weighted average shares outstanding	379,106	370,992	370,753
Basic net earnings per share	$ 1.08	$ 1.16	$ 0.95
Diluted net earnings per share	$ 1.04	$ 1.10	$ 0.91

Diluted-weighted average shares outstanding have not been adjusted for certain employee stock options where the effect of those securities would not have been dilutive. For 2005, 2004 and 2003, stock options to purchase approximately 4.9 million, 4.8 million and 7.9 million shares of common stock, respectively, were excluded from the diluted net earnings per share computation because they were anti-dilutive.

As discussed in Note 4, diluted-weighted average shares outstanding have not been adjusted for the Company's $660.0 million of 2.80% Convertible Senior Debentures (Convertible Debentures). Because the principal value of the Convertible Debentures is required to be settled only in cash, the dilutive impact would be equal to the number of shares needed to satisfy the intrinsic value of the Convertible Debentures, assuming conversion. The potentially dilutive common shares related to the Convertible Debentures would only be included in diluted-weighted average shares outstanding when the Company's stock price rises above the conversion price of $64.51.

Foreign Currency Translation : Sales and expenses denominated in foreign currencies are translated at average exchange rates in effect throughout the year. Assets and liabilities of foreign operations are translated at period-end exchange rates. Gains and losses from translation of net assets of foreign operations, net of related income taxes, are recorded in accumulated other comprehensive income. Foreign currency transaction gains and losses are included in other income (expense).

New Accounting Pronouncements : In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB Opinion No. 25). Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires compensation cost to be recognized for share-based payments to employees based on their grant date fair values. Pro forma disclosure will no longer be an alternative.

SFAS No. 123(R) is effective for fiscal years beginning after December 15, 2005 and is required to be adopted by the Company effective January 1, 2006. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods. The Company plans to adopt SFAS No. 123(R) using the "modified-prospective method" in which compensation cost is recognized for new grants issued after the date of adoption and for all unvested awards outstanding at the date of adoption. Expense for the new grants will be determined based upon their grant date fair values. Expense for outstanding unvested awards is based on the valuation determined in the pro forma disclosure under SFAS No. 123.

As permitted by SFAS No. 123, the Company has accounted for share-based payments to employees using the intrinsic value method under APB Opinion No. 25 and, as such, had not recognized any compensation cost for employee stock options and stock purchases under the Company's employee stock purchase savings plan. Accordingly, adoption of SFAS No. 123(R) will have a significant impact on the Company's consolidated financial statements as SFAS No. 123(R) requires compensation cost to be recognized for share-based payments to employees. The Company has used the Black-Scholes standard option pricing model for its pro forma disclosures under SFAS No. 123 and will continue to use the Black-Scholes model to measure the fair value of share-based payments upon adoption of SFAS No. 123(R).

SFAS No. 123(R) also amends SFAS No. 95, *Statement of Cash Flows* , by requiring that the benefits associated with the tax deductions in excess of recognized stock-based compensation expense be reported as a financing cash flow, rather than as an operating cash flow as currently reported. This requirement will reduce operating cash flows and increase financing cash flows in periods after the SFAS No. 123 (R) adoption date of January 1, 2006. These future amounts cannot be estimated because they depend on, among other things, when employees exercise stock options.

Refer to the summary of the Company's stock-based compensation significant accounting policy above for information on the pro forma effect on net earnings and net earnings per share in 2005, 2004 and 2003 as if the Company had applied the fair value recognition provisions of SFAS No. 123. The Company estimates that it will record approximately $73 million to $77 million of pre-tax stock-based compensation expense in 2006. Approximately $9 million to $10 million of the estimated 2006 pre-tax stock compensation expense relates to unvested stock options and restricted stock that the Company assumed and converted in connection with the acquisition of ANS in November 2005.

In December 2004, the FASB issued two FASB staff positions (FSP): FSP No. 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction Provided to U.S.-Based Manufacturers by the American Jobs Creation Act of 2004* (FSP No. 109-1); and FSP No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FSP No. 109-2). FSP No. 109-1 clarifies that the tax deduction for domestic manufacturers under the American Jobs Creation Act of 2004 (the Act) should be accounted for as a special deduction in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). FSP No. 109-2 provided enterprises more time (beyond the financial-reporting period during which the Act took effect) to evaluate the Act's impact on an enterprise's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS No. 109. In 2005, the Company repatriated $500 million of cumulative foreign earnings invested outside the United States under the provisions of the Act. The additional income tax associated with this repatriation was $26.0 million.

NOTE 2 – ACQUISITIONS AND MINORITY INVESTMENTS

Acquisitions

The results of operations of businesses acquired have been included in the Company's consolidated results of operations since the dates of acquisition. Other than the acquisition of Advanced Neuromodulation Systems, Inc., pro forma results of operations have not been presented for these acquisitions since the effects of these business acquisitions were not material to the Company either individually or in aggregate.

Fiscal Year 2005

Advanced Neuromodulation Systems, Inc. (ANS) : On November 29, 2005, the Company completed its acquisition of ANS for $61.25 per share in cash. Net consideration paid was $1,353.9 million, which includes closing costs less $5.1 million of cash acquired. The ANS acquisition did not provide for the payment of any contingent consideration. ANS had been publicly traded on the NASDAQ market under the ticker symbol ANSI. ANS designs, develops, manufactures and markets implantable neuromodulation devices used primarily to manage chronic severe pain. The ANS acquisition expands the Company's implantable microelectronics technology programs and provides the Company an immediate presence in the neuromodulation segment of the medical device industry. The Company recorded an IPR&D charge of $107.4 million associated with this transaction.

The aggregate ANS purchase price was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price allocation is preliminary as a result of the uncertainty surrounding the finalization of certain legal matters. Upon finalization, there could be a change in the current liabilities and goodwill.

The goodwill recorded as a result of the ANS acquisition is not deductible for income tax purposes and was allocated entirely to the Company's Neuro operating segment. The goodwill recognized represents future product opportunities that did not have regulatory approval at the date of acquisition. In connection with the acquisition of ANS, the Company recorded $249.3 million of developed and core technology intangible assets and $23.3 million of trademarks and tradenames. Collectively, these acquired intangible assets have estimated useful lives of 15 years.

In connection with the acquisition of ANS, the Company granted replacement unvested stock options and restricted stock to ANS employees who had unvested stock options and restricted stock outstanding at the date of acquisition. As a result, the Company recorded $15.8 million of purchase consideration relating to the value of these replacement awards. These awards were valued using the Black-Scholes standard option pricing model. ANS employees are required to render future service in order to vest in the replacement stock options and restricted stock.

The following unaudited pro forma information presents the consolidated results of operations of the Company and ANS as if the acquisition of ANS had occurred as of the beginning of each of the periods presented (in thousands, except per share amounts):

	Unaudited	
	2005	**2004**
Revenue	$ 3,043,422	$ 2,414,917
Net earnings	432,218	398,228
Net earnings per share:		
Basic	$ 1.19	$ 1.13
Diluted	$ 1.14	$ 1.07

Pro forma adjustments relate to amortization of identified intangible assets, interest expense resulting from acquisition financing and certain other adjustments together with related income tax effects. Pro forma net earnings for 2005 include the $107.4 million IPR&D charge that was a direct result of the acquisition. Pro forma net earnings for 2005 also include an $85.2 million pre-tax gain on the sale of ANS's investment in common stock of Cyberonics, Inc., which was recorded by ANS in their historical 2005 results of operations. The unaudited pro forma consolidated results of operations are for comparative purposes only and are not necessarily indicative of results that would have occurred had the acquisition occurred as of the beginning of the periods presented, nor are they necessarily indicative of future results.

Endocardial Solutions, Inc. (ESI) : On January 13, 2005, the Company completed its acquisition of ESI for $279.4 million, which includes closing costs less $9.4 million of cash acquired. ESI had been publicly traded on the NASDAQ market under the ticker symbol ECSI. ESI develops, manufactures and markets the EnSite® system used for the navigation and localization of diagnostic and therapeutic catheters used by physician specialists to diagnose and treat cardiac rhythm disorders. The Company acquired ESI to strengthen its portfolio of products used to treat heart rhythm disorders. The Company recorded an IPR&D charge of $12.4 million associated with this transaction in the first quarter of 2005.

The goodwill recorded as a result of the ESI acquisition is not deductible for income tax purposes and was allocated entirely to the Company's AF operating segment. The goodwill recognized represents future product opportunities that did not have regulatory approval at the date of acquisition. In connection with the acquisition of ESI, the Company recorded $39.2 million of developed and core technology intangible assets that have estimated useful lives of 15 years and $7.5 million of customer relationships and distribution agreements intangible assets that have estimated useful lives of 5 years.

Velocimed, LLC (Velocimed) : On April 6, 2005, the Company completed its acquisition of the businesses of Velocimed for $70.9 million, which includes closing costs less $6.7 million of cash acquired. Velocimed develops and manufactures specialty interventional cardiology devices. The Company acquired Velocimed to strengthen its portfolio of products in the interventional cardiology market. The Company recorded an IPR&D charge of $13.7 million associated with this transaction in the second quarter of 2005.

The goodwill recorded as a result of the Velocimed acquisition is not deductible for income tax purposes and was allocated entirely to the Company's CD operating segment. The goodwill recognized represents future product opportunities that did not have regulatory approval at the date of acquisition. In connection with the acquisition of Velocimed, the Company recorded $61.9 million of developed and core technology intangible assets that have estimated useful lives of 15 years.

Certain funds held in escrow by the Company amount to $5 million and are to be released in the fourth quarter of 2006 provided certain conditions are met, as defined in the purchase agreement. Additionally, contingent payments of up to $100 million are due if future revenue targets are met through 2008, and a milestone payment of up to $80 million is tied to U.S. Food and Drug Administration (FDA) approval of the Premere™ patent foramen ovale closure system, with no milestone payment being made if approval occurs after December 31, 2010. All future payments made by the Company will be recorded as additional goodwill.

Savacor, Inc. (Savacor) : On December 30, 2005, the Company acquired Savacor for $49.7 million which includes closing costs less $0.4 million in cash acquired, plus additional contingent payments related to product development milestones for regulatory approvals and related to revenues in excess of minimum future targets. Savacor was a development-stage company focused on the development of a device that measures left atrial pressure and body temperature to help physicians detect and manage symptoms associated with progressive heart failure. The Company recorded an IPR&D charge of $45.7 million associated with this transaction.

Because Savacor is a development-stage company, the excess of the purchase price over the fair value of the net assets acquired is allocated on a pro-rata basis to the net assets acquired. Accordingly, the majority of the excess purchase price was allocated to IPR&D, the principal asset acquired.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of significant acquisitions made by the Company in 2005:

(in thousands)	ANS	ESI	Velocimed	Savacor	Total Activity
Current assets	$ 247,316	$ 13,617	$ 1,232	$ —	$ 262,165
Goodwill	826,698	201,511	8,223	—	1,036,432
Other intangible assets	272,600	46,700	61,900	—	381,200
Purchased in-process research and development	107,400	12,400	13,700	45,674	179,174
Deferred income taxes	—	23,139	—	4,120	27,259
Other long-term assets	35,660	2,981	1,842	105	40,588
Total assets acquired	$ 1,489,674	$ 300,348	$ 86,897	$ 49,899	$ 1,926,818
Current liabilities	$ 28,746	$ 20,948	$ 3,832	$ 245	$ 53,771
Deferred income taxes	106,392	—	12,202	—	118,594
Other liabilities	603	—	—	—	603
Total liabilities assumed	135,741	20,948	16,034	245	172,968
Net assets acquired	$ 1,353,933	$ 279,400	$ 70,863	$ 49,654	$ 1,753,850

During 2005, the Company entered into two additional business combinations for a total purchase price of $14.9 million, net of cash acquired. The Company also acquired various businesses involved in the distribution of the Company's products in 2005 for aggregate cash consideration of $17.8 million which was recorded as other intangible assets.

Fiscal Year 2004

Irvine Biomedical, Inc. (IBI) : On October 7, 2004, the Company completed its acquisition of the remaining capital stock of IBI. IBI develops and sells EP catheter products used by physician specialists to diagnose and treat cardiac rhythm disorders. The Company acquired IBI to strengthen its product portfolio of products used to treat heart rhythm disorders. In April 2003, the Company had acquired a minority investment of 14% in IBI through the Company's acquisition of Getz Bros. Co., Ltd. Net consideration paid to acquire the remaining 86% of IBI capital stock was $50.6 million, which includes closing costs less cash acquired. The original investment of $4.5 million was accounted for under the cost method of accounting until the date the remaining shares were purchased. As a result, the Company did not recognize any portion of IBI's losses during this period. In the fourth quarter of 2004, in accordance with step-acquisition accounting treatment, the Company recorded a $0.8 million charge, net of tax, which represented the portion of IBI's losses attributable to the Company's ownership from the date of the purchase of Getz Bros. Co., Ltd. in April 2003 until the final acquisition of IBI in October 2004. This amount was not reflected retroactively to prior periods as it was not material. Net consideration paid for the total acquisition was $54.8 million, which includes closing costs less $5.9 million of cash acquired. The Company recorded an IPR&D charge of $9.1 million in the fourth quarter of 2004 associated with this transaction.

The goodwill recorded as a result of the IBI acquisition is not deductible for income tax purposes and was allocated entirely to the Company's AF operating segment. The goodwill recognized as part of the acquisition represents future product opportunities that did not have regulatory approval at the date of acquisition. In connection with the acquisition of IBI, the Company recorded $26.4 million of developed and core technology intangible assets that have useful lives of 12 and 14 years, respectively.

Epicor, Inc. (Epicor) : On June 8, 2004, the Company completed its acquisition of the remaining capital stock of Epicor. Epicor develops products which use high intensity focused ultrasound (HIFU) to ablate cardiac tissue. The Company acquired Epicor to strengthen its product portfolio related to the treatment of atrial fibrillation. In May 2003, the Company had made an initial $15.0 million minority investment in Epicor and acquired an option to purchase the remaining ownership of Epicor prior to June 30, 2004 for $185.0 million. Pursuant to the option, the Company paid $185.0 million in cash to acquire the remaining outstanding capital stock of Epicor on June 8, 2004. The original investment was accounted for under the cost method of accounting until the date the remaining shares were purchased. As a result, the Company did not recognize any portion of Epicor's losses during this period. At the date of the subsequent acquisition, in accordance with step-acquisition treatment, the Company's historical financial statements were adjusted retroactively to reflect the portion of Epicor's operating losses

attributable to the Company's ownership from the date of the original investment until the final purchase and the Company's portion of IPR&D that would have been recognized as of the date of the original investment. These amounts totaled $3.6 million, net of tax, for the period described, and were recognized in other income (expense). Net consideration paid for the total acquisition was $198.0 million, which includes closing costs less $2.4 million of cash acquired.

The goodwill recorded as a result of the Epicor acquisition is not deductible for income tax purposes and was allocated entirely to the Company's AF operating segment. The goodwill recognized represents future product opportunities that did not have regulatory approval at the date of acquisition. In connection with the acquisition of Epicor, the Company recorded a $21.7 million purchased technology intangible asset that has a useful life of 12 years.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of significant acquisitions made by the Company in 2004:

(in thousands)	**Epicor**	**IBI**	**Total Activity**
Current assets	$ 2,867	$ 6,695	$ 9,562
Goodwill	159,121	21,745	180,866
Other intangible assets	21,700	26,400	48,100
Purchased in-process research and development	—	9,100	9,100
Deferred income taxes	15,086	—	15,086
Other long-term assets	743	1,452	2,195
Total assets acquired	$ 199,517	$ 65,392	$ 264,909
Current liabilities	$ 2,707	$ 3,850	$ 6,557
Deferred income taxes	—	7,588	7,588
Total liabilities assumed	2,707	11,438	14,145
Net assets acquired	$ 196,810	$ 53,954	$ 250,764

During 2004, the Company also acquired various businesses involved in the distribution of the Company's products for aggregate cash consideration of $21.8 million which was recorded as other intangible assets.

Fiscal Year 2003

Getz Bros. Co., Ltd. (Getz Japan) : On April 1, 2003, the Company completed its acquisition of Getz Japan, a distributor of medical technology products in Japan and the Company's largest volume distributor in Japan. The Company paid 26.9 billion Japanese Yen in cash to acquire 100% of the outstanding common stock of Getz Japan. Net consideration paid was $219.2 million, which includes closing costs less $12.0 million of cash acquired. The Company also acquired the net assets of Getz Bros. & Co. (Aust.) Pty. Limited and Medtel Pty. Limited (collectively referred to as Getz Australia) related to the distribution of the Company's products in Australia for $6.2 million in cash, including closing costs.

The Company acquired Getz Japan and Getz Australia (collectively referred to as Getz) in order to further strengthen its presence in the Japanese and Australian medical technology markets. The goodwill recognized as part of the Getz acquisitions relates primarily to the operating efficiencies that these businesses were able to achieve and the increased levels of efficiencies anticipated in the future as the Company expands its presence in the Japanese and Australian medical technology markets. The goodwill recorded in connection with the Getz acquisition was allocated entirely to the Company's CRM operating segment and is not deductible for income tax purposes. In connection with the acquisitions of Getz, the Company recorded intangible assets that have estimated useful lives of 10 years. Amortizable intangible assets include distribution agreements of $44.9 million, customer lists and relationships of $9.5 million, and licenses and other of $5.6 million. Additionally, the Company recorded indefinite-lived trademarks of $4.1 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as a result of the Getz acquisitions:

(in thousands)	
Current assets	$ 124,961
Goodwill	67,465

Other intangible assets	64,106
Other long-term assets	33,945
Total assets acquired	$ 290,477
Current liabilities	$ 27,724
Deferred income taxes	25,390
Total liabilities assumed	53,114
Net assets acquired	$ 237,363

During 2003, the Company also acquired various businesses involved in the distribution of the Company's products for aggregate cash consideration of $5.4 million which was recorded as other intangible assets.

Minority Investment

ProRhythm, Inc. (ProRhythm) : On January 12, 2005, the Company made an initial equity investment of $12.5 million in ProRhythm, a privately-held company that is focused on the development of a HIFU catheter-based ablation system for the treatment of atrial fibrillation. The initial investment resulted in approximately a 9% ownership interest. In connection with making the initial equity investment, the Company also entered into a purchase and option agreement that provided the Company the ability to make an additional equity investment. In January 2006, the Company made an additional $12.5 million investment in ProRhythm, increasing our total ownership interest to 18%, that is being accounted for under the cost method of accounting.

The Company also has the exclusive right, but not the obligation, through the later of three months after the date ProRhythm delivers certain clinical trial data or March 31, 2007, to acquire the remaining capital stock of ProRhythm for $125.0 million in cash, with additional cash consideration payable to the non-St. Jude Medical shareholders after the consummation of the acquisition if ProRhythm achieves certain performance-related milestones.

Contingent Consideration Payment

Irvine Biomedical, Inc. : In December 2005, the Company paid $4.8 million of contingent purchase consideration to the applicable non-St. Jude Medical shareholders of IBI. This contingent payment, which was recorded as goodwill, was earned as a result of IBI receiving FDA approval of the IBI-1500T6 Cardiac Ablation Generator and Therapy™ Dual-8™ ablation catheters prior to a milestone date. These devices are part of an ablation system in which the catheters are connected to a generator which delivers radiofrequency or ultrasound energy through the catheter to create lesions through ablation of cardiac tissue. In addition, the purchase agreement provides for additional contingent purchase consideration of up to $6.5 million to the non-St. Jude Medical shareholders if IBI receives FDA approval by certain specified dates in 2006 of other certain EP catheter ablation systems currently in development. All future payments will be recorded as additional goodwill.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for each of the Company's reportable segments for the fiscal years ended December 31, 2005 and 2004 are as follows (in thousands):

	CRM/CS/Neuro	CD/AF	Total
Balance at December 31, 2003	$ 352,144	$ 54,869	$ 407,013
Foreign currency translation	5,440	44	5,484

Acquisition of Epicor	—	159,121	159,121
Acquisition of IBI	—	21,745	21,745
Other	436	—	436
Balance at December 31, 2004	$ 358,020	$ 235,779	$ 593,799
Foreign currency translation	(14,347)	(124)	(14,471)
Acquisition of ESI	—	201,511	201,511
Acquisition of Velocimed	—	8,223	8,223
Acquisition of ANS	826,698	—	826,698
Contingent acqusition payment to IBI	—	4,833	4,833
Other	14,041	339	14,380
Balance at December 31, 2005	$ 1,184,412	$ 450,561	$ 1,634,973

The following table provides the gross carrying amount of other intangible assets and related accumulated amortization at December 31 (in thousands):

	2005		2004	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Amortized intangible assets:				
Purchased technology and patents	$ 474,994	$ 41,402	$ 124,479	$ 26,610
Distribution agreements	42,164	11,486	46,852	8,199
Customer lists and relationships	98,282	23,009	73,873	13,590
Trademarks and tradenames	23,300	129	—	—
Licenses and other	7,184	1,765	6,921	1,300
	$ 645,924	$ 77,791	$ 252,125	$ 49,699
Indefinite intangible assets:				
Trademarks	$ 4,113		$ 4,670	

Amortization expense of other intangible assets was $30.1 million, $17.5 million and $12.0 million for the fiscal years ended December 31, 2005, 2004 and 2003, respectively.

Expected amortization expense for other intangible assets recorded as of December 31, 2005 follows (in thousands):

	2006	2007	2008	2009	2010	After 2010
Amortization expense	$ 49,121	$ 48,996	$ 48,797	$ 48,533	$ 46,909	$ 325,777

NOTE 4 – DEBT

The Company’s long-term debt consisted of the following at December 31 (in thousands):

	2005	2004
2.80% Convertible Senior Debentures	$ 660,000	$ —
1.02% Yen-denominated notes	176,937	200,889

Commercial paper borrowings	216,000	33,900
Other	33	76
Total long-term debt	$ 1,052,970	$ 234,865
Less: current portion of long-term debt	876,000	—
Long-term debt	$ 176,970	$ 234,865

The 2.80% Convertible Senior Debentures, that mature on December 15, 2035, are classified as current portion of long-term debt because the Company may be required to redeem these obligations on December 15, 2006. The Company normally classifies all of its commercial paper borrowings as long-term debt as the Company has the ability to repay any short-term maturity with available cash from its existing long-term, committed credit facilities. Because the Company repaid its entire commercial paper borrowings in January 2006, the Company has classified the December 31, 2005 balance as current portion of long-term debt.

2.80% Convertible Senior Debentures : In December 2005, the Company issued $660.0 million aggregate principal amount of 2.80% Convertible Senior Debentures (Convertible Debentures) that mature on December 15, 2035. Interest on the Convertible Debentures is payable on June 15 and December 15 of each year, beginning on June 15, 2006. In addition, starting with the six-month period beginning on December 15, 2006, and for each of the six-month periods thereafter, the Company will pay contingent interest if the average trading price of a Convertible Debenture for the five consecutive trading days immediately before the last trading day before the relevant six-month period equals or exceeds 120% of the principal amount of the Convertible Debentures. The contingent interest payable per Convertible Debenture with respect to any applicable six-month period will equal 0.25% per year of the average trading price of a Convertible Debenture for the five consecutive trading day period referred to above. The Company may redeem some or all of the Convertible Debentures for cash at any time on or after December 15, 2006. Holders of the Convertible Debentures can require the Company to repurchase for cash some or all of the Convertible Debentures on December 15 in the years 2006, 2008, 2010, 2015, 2020, 2025 and 2030. Holders may also convert their Convertible Debentures at an initial conversion rate of 15.5009 shares of the Company's common stock per $1,000 principal amount of the Convertible Debentures (an initial conversion price of approximately $64.51) under the following circumstances: (1) when, during any fiscal quarter, the last reported sale price of the Company's common stock is greater than 130% of the conversion price for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter; (2) during the five trading days immediately after any five consecutive trading-day period in which the trading price of a Convertible Debenture for each day of that period was less than 98% of the product of the closing price of the Company's common stock and the applicable conversions rate; (3) if the Company calls the Convertible Debentures for redemption; (4) on or after December 15, 2034; or (5) upon the occurrence of certain corporate transactions. Upon conversion, the Company is required to satisfy 100% of the principal amount of the Convertible Debentures solely in cash, with any amounts above the principal amount to be satisfied in shares of the Company's common stock. If certain fundamental changes occur on or prior to December 15, 2006, the Company will in certain circumstances increase the conversion rate by a number of additional shares of common stock or, in lieu thereof, the Company may in certain circumstances elect to adjust the conversion rate and related conversion obligation so that the Convertible Debentures are convertible into shares of the acquiring or surviving company. There are no contingently issuable shares included in diluted earnings per share because the Company's common stock price is below the conversion price. Debt issuance costs of approximately $2.6 million are being amortized to interest expense over one year, the period until the first date on which the holders can require the Company to repurchase the Convertible Debentures.

The Convertible Debentures are unsecured and unsubordinated obligations and rank equal in priority with all of the Company's existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of the Company's existing and future subordinated indebtedness. The Convertible Debentures will be effectively subordinated to the claims of creditors, including trade creditors, of our subsidiaries.

1.02% Yen-denominated notes : In May 2003, the Company issued 7-year, 1.02% unsecured notes totaling 20.9 billion Yen, or $176.9 and $200.9 million at December 31, 2005 and 2004, respectively. Interest payments are required on a semi-annual basis and the entire principal balance is due in May 2010.

Commercial paper borrowings : The Company's commercial paper program provides for the issuance of short-term, unsecured commercial paper with maturities up to 270 days. There was $216.0 million and $33.9 million of outstanding commercial paper borrowings at December 31, 2005 and 2004, respectively. The weighted average effective interest rate at December 31, 2005 and 2004 was 4.2% and 2.3%, respectively. The Company repaid its entire commercial paper borrowings in January 2006. Any future commercial paper borrowings made by the Company would bear interest at varying market rates.

Credit facilities : In June 2005, the Company obtained a 1.0 billion Yen unsecured revolving credit facility (equivalent to approximately $8.3 million) that expires in June 2006. Borrowings under this credit facility bear interest at the floating Tokyo InterBank Offered Rate (TIBOR) plus 0.50% per annum. This credit facility replaced a 1.0 billion Yen credit facility which expired in June 2005. There were no outstanding borrowings under either credit facility at December 31, 2005 or 2004.

In September 2004, the Company entered into a $400.0 million unsecured revolving credit agreement with a consortium of lenders that expires

in September 2009. The Company can draw on this credit facility for general corporate purposes or to support its commercial paper program. Borrowings under the credit agreement bear interest at United States Dollar LIBOR plus 0.39%, or in the event over half of the facility is drawn on, United States Dollar LIBOR plus 0.515%, in each case subject to adjustment in the event of a change in the Company's debt ratings. There were no outstanding borrowings under this credit facility at December 31, 2005 or 2004.

In September 2003, the Company obtained a $350.0 million unsecured revolving credit agreement with a consortium of lenders that expires in September 2008. The Company can draw on this credit facility for general corporate purposes or to support its commercial paper program. This credit facility bears interest at United States Dollar LIBOR plus 0.60% per annum, subject to adjustment in the event of a change in the Company's debt ratings. There were no outstanding borrowings under this credit facility at December 31, 2005 or 2004.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Leases

The Company leases various facilities and equipment under noncancelable operating lease arrangements. Future minimum lease payments under these leases are as follows: $24.5 million in 2006; $18.5 million in 2007; $13.2 million in 2008; $10.3 million in 2009; $9.9 million in 2010; and $12.9 million in years thereafter. Rent expense under all operating leases was $23.0 million, $17.3 million and $16.5 million in 2005, 2004 and 2003, respectively.

Litigation

Silzone® Litigation and Insurance Receivables : In July 1997, the Company began marketing mechanical heart valves which incorporated Silzone® coating. The Company later began marketing heart valve repair products incorporating Silzone® coating. Silzone® coating was intended to reduce the risk of endocarditis, a bacterial infection affecting heart tissue, which is associated with replacement heart valve surgery. In January 2000, the Company initiated a voluntary field action for products incorporating Silzone® coating after receiving information from a clinical study that patients with a Silzone®-coated heart valve had a small, but statistically significant, increased incidence of explant due to paravalvular leak compared to patients in that clinical study with heart valves that did not incorporate Silzone® coating.

Subsequent to the Company's voluntary field action, the Company has been sued in various jurisdictions by some patients who received a product with Silzone® coating and, as of February 16, 2006, such cases are pending in the United States, Canada, United Kingdom, Ireland and France. Some of these claimants allege bodily injuries as a result of an explant or other complications, which they attribute to Silzone®-coated products. Others, who have not had their Silzone®-coated heart valve explanted, seek compensation for past and future costs of special monitoring they allege they need over and above the medical monitoring all replacement heart valve patients receive. Some of the lawsuits seeking the cost of monitoring have been initiated by patients who are asymptomatic and who have no apparent clinical injury to date. The Company has vigorously defended against the claims that have been asserted and expects to continue to do so with respect to any remaining claims.

In 2001, the U.S. Judicial Panel on Multi-District Litigation ruled that certain lawsuits filed in U.S. federal district court involving products with Silzone® coating should be part of Multi-District Litigation proceedings under the supervision of U.S. District Court Judge John Tunheim in Minnesota (the District Court). As a result, actions in federal court involving products with Silzone® coating have been and will likely continue to be transferred to Judge Tunheim for coordinated or consolidated pretrial proceedings.

The District Court ruled against the Company on the issue of preemption and found that the plaintiffs' causes of action were not preempted by the U.S. Food and Drug Act. The Company sought to appeal this ruling, but the appellate court determined that it would not review the ruling at that point in the proceedings.

Certain plaintiffs requested the District Court to allow some cases to proceed as class actions. The first complaint seeking class-action status was served upon the Company on April 27, 2000 and all eight original class-action complaints were consolidated into one case by the District Court on October 22, 2001. One proposed class in the consolidated complaint seeks injunctive relief in the form of medical monitoring. A second class in the consolidated complaint seeks an unspecified amount of monetary damages. In response to the requests of the claimants in these cases, the District Court issued several rulings concerning class action certification. The Company requested the Eighth Circuit Court of Appeals (the Eighth Circuit) to review the District Court's class certification orders.

On October 12, 2005, the Eighth Circuit issued a decision reversing the District Court's class certification rulings. More specifically, the Eighth Circuit ruled that the District Court erred in certifying a consumer protection class seeking damages based on Minnesota's consumer protection statutes, and required the District Court in further proceedings to conduct a thorough conflicts-of-law analysis as to each plaintiff class member before applying Minnesota law. In addition, in its October 12, 2005 opinion, the Eighth Circuit also ruled that the District Court's certification of a medical monitoring class was an abuse of discretion and thus reversed the District Court's certification of a medical monitoring class involving the products with Silzone® coating.

The District Court has issued a briefing schedule for the parties to provide the court with their analysis concerning next steps in the proceedings, including the conflicts-of-law issue mentioned above. It is expected that the District Court will hold the oral argument concerning the issues being briefed in April 2006.

In addition, as of February 16, 2006, there are 12 individual Silzone® cases pending in various federal courts where plaintiffs are requesting damages ranging from $10 thousand to $120.5 million and, in some cases, seeking an unspecified amount. The first individual complaint that was transferred to the MDL court was served upon the Company on November 28, 2000, and the most recent individual complaint that was transferred to the MDL court was served upon the Company on September 15, 2004. These cases, which are consolidated before the District Court, are proceeding in accordance with the scheduling orders rendered. Actions involving products with Silzone® coating in various state courts in the United States may or may not be coordinated with the matters presently before the District Court.

There are 24 individual state court suits concerning Silzone® products pending as of February 16, 2006, involving 32 patients. These cases are venued in Florida, Minnesota, Missouri, Nevada, Pennsylvania and Texas. There is also a case in Texas which has been dismissed but remains on appeal. The first individual state court complaint was served upon the Company on March 1, 2000 and the most recent individual state court complaint was served upon the Company on January 19, 2006. The complaints in these state court cases request damages ranging from $10 thousand to $100 thousand and, in some cases, seek an unspecified amount. These state court cases are proceeding in accordance with the orders issued by the judges in those matters.

In addition, a lawsuit seeking a class action for all persons residing in the European Economic Union member jurisdictions who have had a heart valve replacement and/or repair procedure using a product with Silzone® coating was filed in Minnesota state court and served upon the Company on February 11, 2004, by two European citizens who now live in Canada. The complaint seeks damages in an unspecified amount for the class, and in excess of $50 thousand for each plaintiff. The complaint also seeks injunctive relief in the form of medical monitoring. The Company is opposing the plaintiffs' pursuit of this case on jurisdictional, procedural and substantive grounds.

There are also four class-action cases and one individual case pending against the Company in Canada. In one such case in Ontario, the court certified that a class action may proceed involving Silzone® patients. The Company's request for leave to appeal the rulings on certification was rejected, and the trial of the initial phase of this matter is now scheduled for September 2007. A second case seeking class action in Ontario has been stayed pending resolution of the other Ontario action, and a case seeking class action in British Columbia is also proceeding but is in its early stages. A court in the Province of Quebec has certified a class action, and that matter is proceeding in accordance with the orders in that court. Additionally, on December 22, 2005, the Company was served with a lawsuit by the Quebec Provincial health insurer. The lawsuit asserts a subrogation right to recover the cost of insured services furnished or to be furnished to class members in the class action pending in Quebec. The complaints in these cases each request damages ranging from the equivalent of $1.3 million to $1.7 billion.

In the United Kingdom, one case involving one plaintiff is pending as of February 16, 2006. The Particulars of Claim in that case was served on December 21, 2004. The plaintiff in this case requests damages equivalent to approximately $0.3 million.

In Ireland, one case involving one plaintiff is pending as of February 16, 2006. The complaint in this case was served on December 30, 2004, and seeks an unspecified amount in damages.

In France, one case involving one plaintiff is pending as of February 16, 2006. It was initiated by way of an Injunctive Summons to Appear that was served on November 3, 2004, and requests damages in excess of the equivalent of $3.5 million.

The Company is not aware of any unasserted claims related to Silzone®-coated products. Company management believes that the final resolution of the Silzone® cases will take several years.

The Company has recorded an accrual for probable legal costs that it will incur to defend the various cases involving Silzone®-coated products, and the Company has recorded a receivable from its product liability insurance carriers for amounts expected to be recovered. The Company has not accrued for any amounts associated with probable settlements or judgments because management cannot reasonably estimate such amounts. Any Silzone® litigation settlement or judgment reserve established by the Company is not based on the amount of the claims because, based on the Company's experience in these types of cases, the amount ultimately paid, if any, often does not bear any relationship to the amount claimed by the plaintiffs and is often significantly less than the amount claimed. Furthermore, management expects that no significant claims will ultimately be allowed to proceed as class actions in the United States and, therefore, that all settlements and judgments will be covered under the Company's remaining product liability insurance coverage (approximately $134 million at February 16, 2006), subject to the insurance companies' performance under the policies, which is discussed below. As such, management expects that any costs (the material components of which are settlements, judgments, legal fees and other related defense costs) not covered by the Company's product liability insurance policies or existing reserves will not have a material adverse effect on the Company's consolidated financial position, although such costs may be material to the Company's consolidated earnings and cash flows of a future period.

A summary of the activity relating to the Silzone® reserve is as follows (in thousands):

	Legal and monitoring costs	Customer returns and related costs	Total
Balance at December 31, 2002	$ 13,391	$ 508	$ 13,899
Cash payments	(1,206)	(22)	(1,228)
Reclassification of legal accruals	15,721	—	15,721
Balance at December 31, 2003	27,906	486	28,392
Cash payments	(1,471)	(305)	(1,776)
Balance at December 31, 2004	26,435	181	26,616
Accrued costs	9,800	—	9,800
Cash payments	(1,328)	—	(1,328)
Balance at December 31, 2005	$ 34,907	$ 181	$ 35,088

During the fourth quarter of 2003, the Company reclassified $15.7 million of receivables from the Company's insurance carriers recorded in the Silzone® special charge accrual to other current assets. This amount related to probable future legal costs associated with the Silzone® litigation that is expected to be reimbursable by the Company's insurance carriers. In the fourth quarter of 2005, the Company determined that the Silzone® reserves should be increased by $9.8 million as a result of an increase in management's estimate of the probable future legal costs that would be incurred. The Company also increased the receivable from the Company's insurance carriers as the Company expects such costs to be reimbursable by the Company's insurance carriers. At December 31, 2005 and 2004, the Company's receivables from insurance carriers were $24.1 million and $15.7 million, respectively.

The Company's product liability insurance for Silzone® claims consists of a number of layers, each of which is covered by one or more insurance companies. The Company's present layer of insurance, which is a $30 million layer of which approximately $29 million has been reimbursed or otherwise paid as of February 16, 2006, is covered by Lumberman's Mutual Casualty Insurance, a unit of the Kemper Insurance Companies (collectively referred to as Kemper). Kemper's credit rating by A.M. Best has been downgraded to a "D" (poor). Kemper is currently in "run off," which means that it is not issuing new policies and is, therefore, not generating any new revenue that could be used to cover claims made under previously-issued policies. In the event Kemper is unable to pay claims directed to it, the Company believes the other insurance carriers in its insurance program will take the position that the Company will be directly liable for any claims and costs that Kemper is unable to pay, and that insurance carriers at policy layers following Kemper's layer will not provide coverage for Kemper's layer. Kemper also provides part of the coverage for Silzone® claims in the Company's final layer of insurance ($20 million of the final $50 million layer). It is possible that Silzone® costs and expenses will reach the limit of one or both of the Kemper layers of insurance coverage, and it is possible that Kemper will be unable to meet its full obligations to the Company. If this were to happen, the Company could incur expense of up to approximately $21 million as of February 16, 2006. The Company has not accrued for any such losses as potential losses are possible, but not estimable, at this time.

Symmetry™ Bypass System Aortic Connector Litigation : In September 2004, management committed the Company to a plan to discontinue developing, manufacturing, marketing and selling its Symmetry™ Bypass System Aortic Connector (Symmetry™ device). The Company has been sued in various jurisdictions by claimants who allege that the Company's Symmetry™ device caused bodily injury or might cause bodily injury. The Company determined that it was probable future legal fees to defend the cases would be incurred and that the amount of such fees was reasonably estimable. As a result, the Company recorded a pre-tax charge of $21.0 million in the third quarter of 2004 (see Note 7) to accrue for legal fees in connection with claims involving the Symmetry™ device.

The Company's Symmetry™ device was cleared through a 510(K) submission to the FDA, and therefore, the Company is unable to rely on a defense under the doctrine of federal preemption that such suits are prohibited. Given the Company's self-insured retention levels under its product liability insurance policies, the Company expects that it will be solely responsible for these lawsuits, including any costs of defense, settlements and judgments.

Although four cases asserted against the Company involving the Symmetry™ device sought class-action status, no class actions were certified in those cases. In one of those matters seeking class action status, the case was dismissed by the court, and the plaintiff appealed the dismissal. In another, a Magistrate Judge recommended that the case not proceed as a class action. In the third case, the trial judge denied class certification in

a July 26, 2005 decision which was not appealed. No motion requesting the court to certify a class action was ever pursued in the fourth case. Therefore, as of February 16, 2006, no class actions have been certified in cases involving the Symmetry™ device, and all four cases where class actions were initially sought have now been resolved, including the case where the plaintiff appealed the court's dismissal of the case.

As of February 16, 2006, all but three of the cases which allege that the Symmetry™ device caused bodily injury or might cause bodily injury have been resolved. One of the three unresolved cases was initiated in the first quarter of 2006. The three unresolved cases involving the Symmetry™ device are pending in state court in Minnesota and state court in California. The first of the unresolved cases involving the Symmetry™ device was commenced against the Company on June 17, 2004, and the most recently initiated unresolved case was commenced against the Company on January 26, 2006. Each of the complaints in these unresolved cases request damages in excess of $50 thousand. In addition to this litigation, some persons have made claims against the Company involving the Symmetry™ device without filing a lawsuit, although, as with the lawsuits, the vast majority of the claims that the Company has been made aware of as of February 16, 2006 have been resolved.

With the resolution of over 90% of the cases and claims asserted involving the Symmetry™ device, the Company recorded a pre-tax special credit of $11.5 million in the third quarter of 2005 (see Note 7). Potential losses arising from future settlements or judgments of unresolved cases and claims are possible, but not estimable, at this time. Moreover, the Company currently expects that any costs (the material components of which are settlements, judgments, legal fees and other related defense costs) not covered by any remaining reserve will not have a material adverse effect on the Company's consolidated financial position, although such costs may be material to the Company's consolidated earnings and cash flows of a future period.

Guidant 1996 Patent Litigation : In November 1996, Guidant Corporation (Guidant) sued the Company in federal district court for the Southern District of Indiana alleging that the Company did not have a license to certain patents controlled by Guidant covering ICD products and alleging that the Company was infringing those patents. The Company's contention was that it had obtained a license from Guidant to the patents at issue when it acquired certain assets of Telectronics in November 1996. In July 2000, an arbitrator rejected the Company's position, and in May 2001, a federal district court judge also ruled that the Guidant patent license with Telectronics had not transferred to the Company.

Guidant's suit originally alleged infringement of four patents by the Company. Guidant later dismissed its claim on one patent and a court ruled that a second patent was invalid. This determination of invalidity was appealed by Guidant, and the Court of Appeals upheld the lower court's invalidity determination. In a jury trial involving the two remaining patents (the '288 and '472 patents), the jury found that these patents were valid and that the Company did not infringe the '288 patent. The jury also found that the Company did infringe the '472 patent, though such infringement was not willful. The jury awarded damages of $140.0 million to Guidant. In post-trial rulings, however, the judge overseeing the jury trial ruled that the '472 patent was invalid and also was not infringed by the Company, thereby eliminating the $140.0 million verdict against the Company. The trial court also made other rulings as part of the post-trial order, including a ruling that the '288 patent was invalid on several grounds.

In August 2002, Guidant commenced an appeal of certain of the trial judge's post-trial decisions pertaining to the '288 patent. Guidant did not appeal the trial court's finding of invalidity and non-infringement of the '472 patent. As part of its appeal, Guidant requested that the monetary damages awarded by the jury pertaining to the '472 patent ($140.0 million) be transferred to the '288 patent infringement claim.

On August 31, 2004, a three judge panel of the Court of Appeals for the Federal Circuit (CAFC) issued a ruling on Guidant's appeal of the trial court decision concerning the '288 patent. The CAFC reversed the decision of the trial court judge that the '288 patent was invalid. The court also ruled that the trial judge's claim construction of the '288 patent was incorrect and, therefore, the jury's verdict of non-infringement was set aside. Guidant's request to transfer the $140.0 million to the '288 patent was rejected. The court also ruled on other issues that were raised by the parties. The Company's request for re-hearing of the matter by the panel and the entire CAFC court was rejected.

The case was returned to the district court in Indiana in November 2004, but since that time, further appellate activity has occurred. In this regard, the U.S. Supreme Court rejected the Company's request that it review certain aspects of the CAFC decision. In addition, further appellate review has occurred after Guidant brought motion in the district court seeking to have a new judge assigned to handle the case in lieu of the judge that oversaw the prior trial. On a motion reconsideration, the judge reversed his initial decision in response to Guidant's motion and agreed to have the case reassigned to a new judge, but also certified the issue to the CAFC. On July 20, 2005, the CAFC ruled that the original judge should continue with the case. The court has now scheduled the matter for trial beginning July 31, 2006. A hearing on claims construction issues and various motions for summary judgment brought by both parties was held on December 20, 2005, and the parties are presently awaiting rulings from the Court following this hearing. The matter is proceeding in accordance with other deadlines established by the Court.

The '288 patent expired in December 2003. Accordingly, the final outcome of the lawsuit involving the '288 patent cannot result in an injunction precluding the Company from selling ICD products in the future. Sales of the Company's ICD products which Guidant asserts infringed the '288 patent were approximately 18% and 16% of the Company's consolidated net sales during the fiscal years ended December 31, 2003 and 2002, respectively.

The Company has not accrued any amounts for legal settlements or judgments related to the Guidant 1996 patent litigation. Although the

Company believes that the assertions and claims in these matters are without merit, potential losses arising from any legal settlements or judgments are possible, but not estimable, at this time. Any potential losses could be material to the Company's consolidated earnings, financial position and cash flows.

Guidant 2004 Patent Litigation : In February 2004, Guidant sued the Company in federal district court in Delaware alleging that the Company's Epic® HF ICD, Atlas®+ HF ICD and Frontier™ devices infringe U.S Patent No. RE 38,119E (the '119 patent). A competitor of the Company, Medtronic, Inc., which has a license to the '119 patent, is contending in a separate lawsuit with Guidant in the same court that the '119 patent is invalid. In July 2005, the court ruled against Medtronic's claim of invalidity, but Medtronic is appealing that decision. By agreement with Guidant, Medtronic had presented limited arguments of invalidity in its case and did not address infringement. On January 6, 2006, the Court ruled against the Company in response to a motion for summary judgment it had filed in June 2005. The Company expects to assert invalidity arguments that were not made by Medtronic and also defend against Guidant's claims of infringement. Pursuant to a recent order of the Court, this matter is presently set for trial in March 2007, and it is otherwise proceeding in accordance with deadlines established by the Court.

Guidant also sued the Company in February 2004 alleging that the Company's QuickSite® 1056K pacing lead infringes U.S. Patent No. 5,755,766 (the '766 patent). This second suit was initiated in federal district court in Minnesota. Guidant is seeking an injunction against the manufacture and sale of these devices by the Company in the United States and compensation for what it claims are infringing sales of these products up through the effective date of the injunction. It is expected that this matter will be set for trial in 2007, and it is otherwise proceeding in accordance with deadlines established by the Court.

The Company has not accrued any amounts for legal settlements or judgments related to the Guidant 2004 patent litigation. Potential losses arising from any legal settlements or judgments are possible, but not estimable, at this time. Any potential losses could be material to the Company's consolidated earnings, financial position and cash flows.

Advanced Bionics Patent Litigation : The Company's recently acquired subsidiary, ANS, has outstanding legal proceedings with Advanced Bionics, a subsidiary of Boston Scientific Corporation. After ANS initially filed a lawsuit for patent infringement against Advanced Bionics, Advanced Bionics filed a First Amended Answer and Counterclaims against ANS in March 2005, asserting, among other things, that ANS is infringing Advanced Bionics' U.S. Patent Nos. 6,381,496 and 6,516,277. These patents relate to changing operational parameters sets and to a specific type of rechargeable spinal cord stimulation system, respectively.

This matter is venued in the U.S. District Court for the Eastern District of Texas, Sherman Division. In the counterclaims it has asserted, Advanced Bionics claims that the Company is infringing the patents identified above at least by marketing and selling GenesisRC™ rechargeable IPG systems, and Advanced Bionics has indicated that it will assert that the Company's recently-approved Eon™ system infringes these patents as well. The counterclaims seek temporary restraining orders, permanent injunctions, compensatory damages, exemplary damages including treble damages, pre-judgment and post-judgment interest, attorneys' fees and such other relief as the court may grant. On May 18, 2005, the court granted ANS's motion to sever these counterclaims from ANS's claims against Advanced Bionics and ordered that the counterclaims proceed separately. A hearing on the construction and interpretation of the patent claims at issue is scheduled in the counterclaim case for May 2006, and trial is tentatively scheduled for November 2006. ANS has asserted that it does not infringe these patents and that the patents are invalid. ANS intends to continue to vigorously defend itself against these counterclaims.

The Company has not accrued any amounts for legal settlements or judgments related to Advanced Bionics' counterclaims against ANS. Potential losses arising from any legal settlements or judgments are possible, but not estimable, at this time. Management currently expects that any costs (the material components of which are settlements, judgments, legal fees and other related defense costs) will not have a material adverse effect on the Company's consolidated financial position, although such costs may be material to the Company's consolidated earnings and cash flows of a future period.

Securities Class Action Litigation : The Company's recently acquired subsidiary, ANS, has outstanding securities class action legal proceedings. In late May 2005, the U.S. District Court for the Eastern District of Texas, Sherman Division, granted an order consolidating three previously filed cases which sought class action status for claims asserted against ANS and certain of the individuals who were serving as ANS's officers and directors at that time (the Class Action Litigation), on behalf of purchasers of ANS securities between April 24, 2003 and February 16, 2005, inclusive (the Class Period).

The court also granted an order appointing lead and liaison counsel and appointing the lead plaintiff in the Class Action Litigation. The three previously filed suits each alleged that ANS violated federal securities laws by allegedly issuing false and misleading statements to the market regarding ANS's financial performance throughout the Class Period, which statements allegedly had the effect of artificially inflating the market price of the ANS's securities. In particular, the claims alleged that improper marketing and sales practices accounted for ANS's revenue growth, citing, among other things, ANS's public announcement made on February 17, 2005 that the Company had received a subpoena from the Office of the Inspector General, Department of Health and Human Services, requesting documents related to sales and marketing, reimbursement, Medicare and Medicaid billing and other business practices. The plaintiffs in the Class Action Litigation are seeking unspecified compensatory damages and costs and expenses of litigation. No class has been certified at this time. The plaintiffs filed an amended consolidated complaint in

September 2005. By agreement with the plaintiffs, ANS filed its Motion to Dismiss on January 13, 2006. The Company intends to vigorously defend against the claims made in the Class Action Litigation and believe the claims asserted in the Class Action Litigation are without merit.

Other Litigation and Governmental Investigation Matters: The Company has been named in the report of the Independent Inquiry Committee into the United Nations (U.N.) Oil-For-Food Programme as having made payments to the Iraqi government in connection with certain product sales made by the Company to Iraq under the U.N. Oil-For-Food Programme in 2001, 2002 and 2003. The Company is investigating the allegations. In February 2006, the Company received a subpoena from the U.S. Securities and Exchange Commission (SEC) requesting the Company to produce documents concerning transactions under the U.N. Oil-for-Food Programme. The Company is cooperating with the SEC's request.

In late January 2005, ANS received a subpoena from the Office of the Inspector General, Department of Health and Human Services (OIG), requesting documents related to certain of its sales and marketing, reimbursement, Medicare and Medicaid billing, and certain other business practices of ANS. The Company is cooperating with the OIG's request for documents.

In October 2005, the Company received a subpoena for documents relating to business practices in its cardiac rhythm management business from the U.S. Attorney's Office in Boston as part of an industry-wide investigation. The Company is cooperating with the investigation.

The Company is also involved in various other product liability lawsuits, claims and proceedings that arise in the ordinary course of business.

NOTE 6 – SHAREHOLDERS' EQUITY

Capital Stock: The Company has 500,000,000 authorized shares of $0.10 par value per share common stock. The Company also has 25,000,000 authorized shares of $1.00 par value per share preferred stock. The Company has designated 1,100,000 of the authorized preferred shares as a Series B Junior Preferred Stock for its shareholder rights plan (see *Shareholders' Rights Plan* below for further discussion). There were no shares of preferred stock issued or outstanding during 2005, 2004 or 2003.

Share Repurchase: On October 11, 2004, the Company's Board of Directors authorized a share repurchase program of up to $300 million of the Company's outstanding common stock. The share repurchases can be made through transactions in the open market and/or privately negotiated transactions, including the use of options, futures, swaps and accelerated share repurchase contracts. This authorization expires on December 31, 2006. The Company did not repurchase any of its common stock during 2004 or 2005.

On July 22, 2003, the Company's Board of Directors authorized a share repurchase program of up to $500 million of the Company's outstanding common stock. On August 7, 2003, the Company repurchased approximately 18.5 million shares, or about five percent of its outstanding common stock, for $500 million under a privately-negotiated transaction with an investment bank. The investment bank borrowed the 18.5 million shares to complete the transaction and purchased replacement shares in the open market over a three month period which ended on November 7, 2003. The Company entered into a related accelerated stock buyback contract with the same investment bank which, in return for a separate payment to the investment bank, included a price-protection feature. The price-protection feature provided that if the investment bank's per share purchase price of the replacement shares was lower than the initial share purchase price for the 18.5 million shares ($27.03), then the investment bank would, at the Company's election, make a payment or deliver additional shares to the Company in the amount of the difference between the initial share purchase price and their replacement price, subject to a maximum amount. In addition, the price-protection feature provided that if the investment bank's replacement price was greater than the initial share purchase price, the Company would not be required to make any further payments. The Company recorded the cost of the shares repurchased and the payment for the price-protection feature, totaling $520.0 million, as a reduction of shareholders' equity on the date of share repurchase (August 7, 2003). On November 7, 2003, the investment bank completed its purchase of replacement shares. The market price of the Company's shares during this replacement period exceeded the initial purchase price, resulting in no additional exchange of consideration.

Shareholders' Rights Plan: The Company has a shareholder rights plan that entitles shareholders to purchase one-tenth of a share of Series B Junior Preferred Stock at a stated price, or to purchase either the Company's shares or shares of an acquiring entity at half their market value, upon the occurrence of certain events which result in a change in control, as defined by the Plan. The rights related to this plan expire in 2007.

Employee Stock Purchase Savings Plan: The Company's employee stock purchase savings plan allows participating employees to purchase, through payroll deductions, newly issued shares of the Company's common stock at 85% of the fair market value at specified dates. Employees purchased 0.6 million shares each year in 2005, 2004 and 2003 under this plan. At December 31, 2005, 1.3 million shares of additional common stock were available for purchase under the plan.

Stock Compensation Plans: The Company's stock compensation plans provide for the issuance of stock-based awards, such as restricted stock or stock options, to directors, officers, employees and consultants. Stock option awards under these plans generally have an eight to ten year life, an exercise price equal to the fair market value on the date of grant and a four-year vesting term. Under the Company's current stock plans, a majority of the stock option awards have an eight-year life. At December 31, 2005, the Company had approximately 2.0 million shares of common stock available for grant under these plans.

In connection with the acquisition of ANS in November 2005, the Company assumed ANS employee stock options and restricted stock. The Company issued 790,737 replacement St. Jude Medical stock options having a weighted average exercise price of $24.00 and a weighted average remaining contractual term of 7.85 years. Additionally, the Company issued 209,364 shares of replacement St. Jude Medical restricted stock awards at a weighted average fair value of $48.17, which vest over a four year period.

In addition to the shares of restricted stock assumed in connection with the acquisition of ANS, the Company also granted 12,776 shares of restricted common stock during 2005 under the Company's stock compensation plans at a weighted average fair value of $42.53. The value of restricted stock awards as of the date of grant is charged to expense over their vesting period, ranging from one to four years.

The following table summarizes stock option activity under all stock compensation plans, including options assumed in connection with acquisitions, during each of the three years in the period ended December 31, 2005:

	Options Outstanding	Weighted Average Exercise Price
Balance at January 1, 2003	59,389,844	$ 12.61
Granted	9,104,672	30.02
Canceled	(1,442,492)	15.77
Exercised	(7,925,730)	10.15
Balance at December 31, 2003	59,126,294	15.55
Granted	5,136,877	40.88
Canceled	(2,086,285)	10.90
Exercised	(12,157,626)	19.51
Balance at December 31, 2004	50,019,260	19.11
Granted	5,622,955	46.85
Canceled	(1,382,752)	28.59
Exercised	(8,372,119)	13.20
Balance at December 31, 2005	45,887,344	$ 23.34

Stock options totaling 30.5 million, 30.7 million and 32.6 million were exercisable at December 31, 2005, 2004 and 2003, respectively. These options had weighted average exercise prices of $16.82, $13.80 and $11.08 at December 31, 2005, 2004 and 2003, respectively.

The following tables summarize information concerning stock options outstanding and exercisable at December 31, 2005:

	Options Outstanding			Options Exercisable	
Ranges of Exercise Prices	Number Oustanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Oustanding	Weighted Average Exercise Price
$ 5.02 - 9.98	8,485,214	$ 7.83	1.9	8,125,214	$ 7.75
10.05 - 17.36	12,447,407	15.23	4.1	10,497,257	14.96
17.38 - 30.02	8,693,811	19.43	4.6	7,304,436	18.79
30.07 - 41.45	8,016,032	32.12	6.1	3,470,620	31.45
41.47 - 51.91	8,244,880	47.13	7.5	1,075,995	42.83
	45,887,344	$ 23.34	4.8	30,473,522	$ 16.82

NOTE 7 – PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT (IPR&D) AND SPECIAL CHARGES (CREDITS)

IPR&D Charges

The Company is responsible for the valuation of purchased in-process research and development. The fair value assigned to IPR&D was estimated by discounting each project to its present value using the after-tax cash flows expected to result from the project once it has reached technological feasibility. The Company discounts the after-tax cash flows using an appropriate risk-adjusted rate of return (ANS – 17%, Velocimed – 22%, ESI – 16%, IBI – 16%) that takes into account the uncertainty surrounding the successful development of the projects through obtaining regulatory approval to market the underlying products in an applicable geographic region. In estimating future cash flows, the Company also considered other tangible and intangible assets required for successful development of the resulting technology from the IPR&D projects and adjusted future cash flows for a charge reflecting the contribution of these other tangible and intangible assets to the value of the IPR&D projects.

At the time of acquisition, the Company expects all acquired IPR&D will reach technological feasibility, but there can be no assurance that the commercial viability of these projects will actually be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing and conducting clinical trials necessary to obtain regulatory approvals. The risks associated with achieving commercialization include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, failure of clinical trials, delay or failure to obtain required market clearances, and patent litigation. If commercial viability were not achieved, the Company would not realize the original estimated financial benefits expected for these projects. The Company funds all costs to complete IPR&D projects with internally generated cash flows.

Fiscal Year 2005

Savacor, Inc. : In December 2005, the Company acquired privately-held Savacor to complement the Company's development efforts in heart failure diagnostic and therapy guidance products. At the date of acquisition, $45.7 million of the purchase price was expensed as IPR&D related to projects that had not yet reached technological feasibility and had no future alternative use. The IPR&D acquired relates to in-process projects for a device in clinical trials both in the United States and internationally that measures left atrial pressure and body temperature. The Company expects to incur approximately $21 million to bring the device to commercial viability on a worldwide basis within five years. Because Savacor is a development-stage company, the excess of the purchase price over the fair value of the net assets acquired is allocated on a pro-rata basis to the net assets acquired. Accordingly, the majority of the excess purchase price was allocated to IPR&D, the principal asset acquired.

Advanced Neuromodulation Systems, Inc.: In November 2005, the Company acquired ANS to expand the Company's implantable microelectronics technology programs and provide the Company immediate access to the neuromodulation segment of the medical device industry. At the date of acquisition, $107.4 million of the purchase price was expensed as IPR&D related to projects that had not yet reached technological feasibility and had no future alternative use. The majority of the IPR&D acquired relates to in-process projects for next-generation Eon™ and Genesis® rechargeable implantable pulse generator (IPG) devices as well as next-generation leads that deliver electrical impulses to targeted nerves that are causing pain.

A summary of the fair values assigned to each in-process project acquired and the estimated total cost to complete each project as of the acquisition date is presented below (in millions):

Development Projects	Assigned Fair Value	Estimated Total Cost to Complete
Eon™	$ 67.2	$ 5.9
Genesis™	15.3	2.7
Leads	23.7	0.4
Other	1.2	1.0
	$ 107.4	$ 10.0

In 2005, the Company incurred $0.5 million in costs related to these projects. The Company expects to incur an additional $3.5 million in 2006, $4.6 million in 2007 and $1.9 million in 2008 to bring these technologies to commercial viability.

Velocimed, LLC: In April 2005, the Company acquired the business of Velocimed to further enhance the Company's portfolio of products in the interventional cardiology market. At the date of acquisition, $13.7 million of the purchase price was expensed as IPR&D related to projects for the Proxis™ embolic protection device that had not yet reached technological feasibility in the U.S. and other geographies and had no future alternative use. The device is used to help minimize the risk of heart attack or stroke if plaque or other debris is dislodged into the blood stream during interventional cardiology procedures. In 2005, the Company incurred $3.4 million in costs related to these projects. The Company expects

to incur an additional $3.6 million in 2006 and $1.5 million in 2007 to bring this technology to commercial viability.

Endocardial Solutions, Inc.: In January 2005, the Company acquired ESI to further enhance the Company's portfolio of products used to treat heart rhythm disorders. At the date of acquisition, $12.4 million of the purchase price was expensed as IPR&D related to system upgrades that had not yet reached technological feasibility and had no future alternative use. These major system upgrades are part of the Ensite® system which is used for the navigation and localization of diagnostic and therapeutic catheters used in atrial fibrillation ablation and other EP catheterization procedures. During 2005, the Company incurred $0.7 million in costs related to these projects and in the third quarter of 2005, the Company achieved commercial viability and launched Ensite® system version 5.1 and the Ensite® Verismo™ segmentation tool.

Fiscal Year 2004

Irvine Biomedical, Inc.: In October 2004, the Company acquired IBI to further enhance the Company's portfolio of products used to treat heart rhythm disorders. At the date of acquisition, $9.1 million of the purchase price was expensed for IPR&D related to projects for an ablation system and therapeutic catheters that had not yet reached technological feasibility and had no future alternative use. The majority of the IPR&D relates to devices that are part of an ablation system in which catheters are connected to a generator which delivers radiofrequency or ultrasound energy through the catheter to create lesions through ablation of cardiac tissue. In 2005 and 2004, the Company incurred $0.5 million and $0.2 million, respectively, in costs related to these projects and in the fourth quarter of 2005, the Company achieved commercial viability and received FDA approval to market the Cardiac Ablation Generator and Therapy™ EP catheters, expanding the Company's therapeutic EP portfolio. The remaining IPR&D relates to a cool path ablation catheter that allows for the infusion of saline to cool the catheter tip electrode. In 2005 and 2004, the Company incurred $1.4 million and $0.1 million, respectively, in costs related to this device. The Company expects to incur an additional $1.5 million in 2006 to bring this technology to commercial viability.

Special Charges (Credits)

Fiscal Year 2005

Symmetry™ Bypass System Aortic Connector Litigation : During the third quarter of 2005, over 90% of the cases and claims asserted involving the Symmetry™ device were resolved. As a result, the Company reversed $14.8 million of the pre-tax $21.0 million special charge that was recorded in the third quarter of 2004 to accrue for legal fees in connection with claims involving the Symmetry™ device. Additionally, the Company recorded a pre-tax charge of $3.3 million in the third quarter of 2005 to accrue for settlement costs negotiated in these related cases. These adjustments resulted in a net pre-tax benefit of $11.5 million that the Company recorded in the third quarter of 2005 related to Symmetry™ device product liability litigation. See Note 5 for further details on the outstanding litigation against the Company relating to the Symmetry™ device.

Fiscal Year 2004

Symmetry™ Bypass System Aortic Connector Product Line Discontinuance : On September 23, 2004, management committed the Company to a plan to discontinue developing, manufacturing, marketing and selling its Symmetry™ device. The decision to discontinue developing, manufacturing, marketing and selling the Symmetry™ device was primarily based on operating losses incurred related to the product over the previous three years and the prospect of ongoing operating losses, resulting from a decrease in the number of coronary artery bypass graft surgery cases and an apparent slow down in the adoption of off-pump procedures for which the Symmetry™ device was developed.

In conjunction with the plan, the Company recorded a pre-tax charge in the third quarter of 2004 of $14.4 million. The charge was comprised of $4.4 million of inventory write-offs, $4.1 million of fixed asset write-offs, $3.6 million of sales returns, $1.3 million of contract termination and other costs, primarily related to a leased facility and $1.0 million in workforce reduction costs. These activities and all payments required in connection with the charge have been completed.

Symmetry™ Bypass System Aortic Connector Litigation: The Company has been sued in various jurisdictions by claimants who allege that the Company's Symmetry™ device caused bodily injury or might cause bodily injury. During the third quarter of 2004, the number of lawsuits involving the Symmetry™ device increased and the number of persons asserting claims outside of litigation increased as well. The Company determined that it was probable future legal fees to defend the cases would be incurred and that the amount of such fees was reasonably estimable. As a result, the Company recorded a pre-tax charge of $21.0 million in the third quarter of 2004 to accrue for legal fees in connection with claims involving the Symmetry™ device.

Edwards LifeSciences Corporation: In December 2004, the Company settled a patent infringement lawsuit with Edwards LifeSciences Corporation and recorded a pre-tax charge of $5.5 million.

NOTE 8 – OTHER INCOME (EXPENSE)

(in thousands)	2005	2004	2003
Interest income	$ 19,523	$ 10,093	$ 7,031
Interest expense	(10,028)	(4,810)	(3,746)
Equity method losses	—	(2,091)	(3,530)
Other	(821)	(1,958)	(593)
Other income (expense)	$ 8,674	$ 1,234	$ (838)

NOTE 9 – INCOME TAXES

The Company's earnings before income taxes were generated from its U.S. and international operations as follows (in thousands):

	2005	2004	2003
U.S.	$ 347,281	$ 327,617	$ 281,684
International	274,123	209,575	173,423
Earnings before income taxes	$ 621,404	$ 537,192	$ 455,107

Income tax expense consists of the following (in thousands):

	2005	2004	2003
Current:			
U.S. federal	$ 158,075	$ 96,156	$ 55,823
U.S. state and other	22,881	9,814	4,213
International	42,125	30,628	25,146
Total current	223,081	136,598	85,182
Deferred	4,833	(9,340)	33,146
Income tax expense	$ 227,914	$ 127,258	$ 118,328

The tax effects of the cumulative temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial statement purposes are as follows (in thousands):

	2005	2004
Deferred income tax assets:		
Net operating loss carryforwards	$ 58,399	$ 22,442
Tax credit carryforwards	33,800	51,104
Inventories	83,539	58,408
Accrued liabilities and other	12,421	—
Deferred income tax assets	188,159	131,954
Deferred income tax liabilities:		
Unrealized gain on available-for-sale securities	(13,804)	(9,816)
Property, plant and equipment	(21,214)	(22,835)
Intangible assets	(210,312)	(61,287)
Accrued liabilities and other	—	(1,820)
Deferred income tax liabilities	(245,330)	(95,758)

Net deferred income tax (liability) asset	$ (57,171)	$ 36,196

The Company has not recorded any valuation allowance for its deferred tax assets as of December 31, 2005 or 2004 as the Company believes that its deferred tax assets, including the net operating loss and tax credit carryforwards, will be fully realized based upon its estimates of future taxable income.

A reconciliation of the U.S. federal statutory income tax rate to the Company's effective income tax rate is as follows (in thousands):

	2005	2004	2003
Income tax expense at the U.S. federal statutory rate of 35%	$ 217,491	$ 188,017	$ 159,287
U.S. state income taxes, net of federal tax benefit	16,225	12,917	12,427
International taxes at lower rates	(47,606)	(40,409)	(39,032)
Tax benefits from extraterritorial income exclusion	(9,143)	(7,945)	(7,173)
Tax benefits from domestic manufacturer's deduction	(3,955)	—	—
Research and development credits	(23,509)	(14,031)	(11,013)
Non-deductible IPR&D charges	68,086	3,185	—
Section 965 repatriation	26,000	—	—
Finalization of tax examinations	(13,700)	(13,982)	—
Other	(1,975)	(494)	3,832
Income tax expense	$ 227,914	$ 127,258	$ 118,328
Effective income tax rate	36.7%	23.7%	26.0%

The 2005 effective income tax rate includes $26.0 million of income tax expense on the repatriation of $500 million under the American Jobs Creation Act of 2004 partially offset by the reversal of approximately $13.7 million previously recorded income tax expense due to the finalization of certain tax examinations. The 2004 effective income tax rate includes the reversal of approximately $14.0 million previously recorded income tax expense due to the finalization of certain tax examinations.

The Company's effective income tax rate is favorably affected by Puerto Rican tax exemption grants which result in Puerto Rico earnings being partially tax exempt through the year 2012.

At December 31, 2005, the Company has $159.7 million of U.S. federal net operating loss carryforwards and $3.3 million of U.S. tax credit carryforwards that will expire from 2008 through 2024 if not utilized. The Company also has state net operating loss carryforwards of $27.4 million that will expire from 2010 through 2013 and tax credit carryforwards of $44.9 million that have an unlimited carryforward period. These amounts are subject to annual usage limitations. The Company's net operating loss carryforwards arose primarily from acquisitions.

The Company has not recorded U.S. deferred income taxes on $405 million of its non-U.S. subsidiaries' undistributed earnings, because such amounts are intended to be reinvested outside the United States indefinitely.

NOTE 10 – RETIREMENT PLANS

Defined Contribution Plans : The Company has a 401(k) profit sharing plan that provides retirement benefits to substantially all full-time U.S. employees. Eligible employees may contribute a percentage of their annual compensation, subject to Internal Revenue Service limitations, with the Company matching a portion of the employees' contributions. The Company also contributes a portion of its earnings to the plan based upon Company performance. The Company's matching and profit sharing contributions are at the discretion of the Company's Board of Directors. In addition, the Company has defined contribution programs for employees in certain countries outside the United States. Company contributions under all defined contribution plans totaled $38.0 million, $27.7 million and $24.0 million in 2005, 2004 and 2003, respectively.

The Company has a non-qualified deferred compensation plan that provides certain officers and employees the ability to defer a portion of their compensation until a later date. The deferred amounts and earnings thereon are payable to participants, or designated beneficiaries, at specified future dates, upon retirement or death. The Company does not make contributions to this plan or guarantee earnings. Funds in the plan are held in a rabbi trust, which is a funding vehicle used to protect deferred compensation benefits from various events, excluding bankruptcy or insolvency of the Company. The assets held in the rabbi trust are not available for general corporate purposes and are subject to creditor claims

in the event of insolvency. In accordance with EITF No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust* , the assets of a rabbi trust are to be consolidated with those of the Company. The deferred compensation liability, which is recorded as a component of other long-term liabilities, and the related assets held in the rabbi trust, which are recorded as a component of other long-term assets, were approximately $93 million and $70 million at December 31, 2005 and 2004, respectively. During fiscal year 2005, the Company reclassified the deferred compensation liability from current liabilities to long-term liabilities.

Defined Benefit Plans : The Company has funded and unfunded defined benefit plans for employees in certain countries outside the United States. The Company had an accrued liability totaling $17.6 million and $17.1 million at December 31, 2005 and 2004, respectively, which approximated the actuarially calculated unfunded liability. The related pension expense was not material.

NOTE 11 – SEGMENT AND GEOGRAPHIC INFORMATION

Segment Information : Effective January 1, 2005, the Company realigned its operating segments and formed the Cardiology Division and Atrial Fibrillation Division. As a result, the Daig Division has been realigned to these respective divisions. The reportable segment information for all periods presented has been reclassified to reflect the new segment structure.

The Company's five operating segments are Cardiac Rhythm Management (CRM), Cardiac Surgery (CS), Neuromodulation (Neuro), Cardiology (CD) and Atrial Fibrillation (AF). The Company formed the Neuro operating segment in November 2005 in connection with the acquisition of ANS. Each operating segment focuses on developing and manufacturing products for its respective therapy area. The primary products produced by each operating segment are: CRM – pacemaker and ICD systems; CS – mechanical and tissue heart valves and valve repair products; Neuro – neurostimulation devices; CD – vascular closure devices, guidewires, hemostatis introducers and other interventional cardiology products; and AF – EP catheters, advanced cardiac mapping systems and ablation systems.

The Company has aggregated the five operating segments into two reportable segments based upon their similar operational and economic characteristics: CRM/CS/Neuro and CD/AF. Net sales of the Company's reportable segments include end-customer revenues from the sale of products they each develop and manufacture. The costs included in each of the reportable segments' operating results include the direct costs of the products sold to end-customers and operating expenses managed by each of the reportable segments. Certain operating expenses managed by the Company's selling and corporate functions are not included in the reportable segments' operating profit. Because of this, reportable segment operating profit is not representative of the operating profit of the products in these reportable segments. Additionally, certain assets are managed by the Company's selling and corporate functions, principally including end-customer receivables, inventory, corporate cash and cash equivalents and deferred income taxes. For management reporting purposes, the Company does not compile capital expenditures by reportable segment and, therefore, this information has not been presented as it is impracticable to do so. The following table presents certain financial information by reportable segment (in thousands):

	CRM/CS/Neuro	CD/AF	Other	Total
Fiscal Year 2005				
Net sales	$ 2,223,701	$ 691,579	$ —	$ 2,915,280
Operating profit	1,231,144[(a)]	263,211[(b)]	(881,625)	612,730
Depreciation and amortization expense	67,761	21,795	40,653	130,209
Total assets	1,936,915	679,973	2,227,952	4,844,840
Fiscal Year 2004				
Net sales	$ 1,748,749	$ 545,424	$ —	$ 2,294,173
Operating profit	1,015,621[(c)]	254,270[(d)]	(733,933)	535,958
Depreciation and amortization expense	38,533	11,105	36,117	85,755
Total assets	695,330	339,090	2,196,327	3,230,747
Fiscal Year 2003				
Net sales	$ 1,511,309	$ 421,205	$ —	$ 1,932,514
Operating profit	873,904	202,007	(619,966)	455,945
Depreciation and amortization expense	29,836	8,307	38,540	76,683
Total assets	639,724	147,270	1,766,488	2,553,482

(a) Included in CRM/CS/Neuro 2005 operating profit are IPR&D charges of $107.4 million and $45.7 million relating to the acquisitions of ANS and Savacor, respectively. Also included is an $11.5 million special credit relating to a reversal of a portion of the Symmetry™ device product liability litigation special charge recorded in 2004, net of settlement costs.

(b) Included in CD/AF 2005 operating profit are IPR&D charges of $13.7 million and $12.4 million relating to the acquisitions of Velocimed and ESI, respectively.

(c) Included in CRM/CS/Neuro 2004 operating profit are special charges of $35.4 million related to Symmetry™ device product line discontinuance and product liability litigation.
(d) Included in CD/AF 2004 operating profit is an IPR&D charge of $9.1 million relating to the IBI acquisition.

Net sales by class of similar products were as follows (in thousands):

Net Sales	2005	2004	2003
Cardiac rhythm management	$1,924,846	$1,473,770	$1,240,376
Cardiac surgery	273,873	274,979	270,933
Neuromodulation	24,982	—	—
Cardiology	437,769	388,584	296,369
Atrial fibrillation	253,810	156,840	124,836
	$2,915,280	$2,294,173	$1,932,514

Geographic Information : The following tables present certain geographical financial information (in thousands):

Net Sales (a)	2005	2004	2003
United States	$ 1,709,911	$ 1,264,756	$ 1,129,055
International			
Europe	683,014	577,058	465,369
Japan	286,660	267,723	207,431
Other (b)	235,695	184,636	130,659
	1,205,369	1,029,417	803,459
	$ 2,915,280	$ 2,294,173	$ 1,932,514

(a) Net sales are attributed to geographies based on location of the customer.
(b) No one geographic market is greater than 5% of consolidated net sales.

Long-Lived Assets	2005	2004	2003
United States	$ 2,596,513	$ 1,042,690	$ 744,445
International			
Europe	100,068	102,172	96,520
Japan	125,962	148,312	152,772
Other	81,156	74,356	67,408
	307,186	324,840	316,700
	$ 2,903,699	$ 1,367,530	$ 1,061,145

NOTE 12 – QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data for 2005 and 2004 is as follows (in thousands, except per share amounts):

	Quarter			
	First	Second	Third	Fourth
Fiscal Year 2005:				
Net sales	$ 663,909	$ 723,655	$ 737,780	$ 789,936
Gross profit	476,026	522,637	537,045	582,811
Net earnings	119,351(a)	101,481(b)	167,787(c)	4,871(d)
Basic net earnings per share	$ 0.33	$ 0.28	$ 0.46	$ 0.01

Diluted net earnings per share	$ 0.32	$ 0.27	$ 0.44	$ 0.01
Fiscal Year 2004:				
Net sales	$ 548,576	$ 556,602	$ 578,319	$ 610,676
Gross profit	384,331	395,151	400,328	435,313
Net earnings	95,154	98,843	91,178(e)	124,759(f)
Basic net earnings per share	$ 0.27	$ 0.28	$ 0.26	$ 0.35
Diluted net earnings per share	$ 0.26	$ 0.27	$ 0.25	$ 0.33

(a) Includes an IPR&D charge of $12.4 million relating to the acquisition of ESI.

(b) Includes an IPR&D charge of $13.7 million relating to the acquisition of Velocimed, as well as income tax expense of $27.0 million on the repatriation of $500 million under the provisions of the American Jobs Creation Act of 2004.

(c) Includes a special credit of $7.2 million, net of taxes, for the reversal of a portion of the Symmetry™ device product liability litigation special charge recorded in 2004, net of settlement costs. Also includes a $13.7 million reversal of previously recorded income tax expense due to the finalization of certain tax examinations as well as a contribution of $6.2 million, net of taxes, to the Foundation.

(d) Includes IPR&D charges of $153.1 million relating to the acquisitions of ANS and Savacor, as well as a reduction in income tax expense of $1.0 million on the repatriation of $500 million under the provisions of the American Jobs Creation Act of 2004.

(e) Includes special charges of $21.9 million, net of taxes, relating to the discontinuance of the Symmetry™ device product line and product liability litigation.

(f) Includes an IPR&D charge of $9.1 million relating to the acquisition of IBI, as well as a special charge of $3.4 million, net of taxes, resulting from the settlement of certain patent infringement litigation. Also includes a $14.0 million reversal of previously recorded income tax expense due to the finalization of certain tax examinations.

Five-Year Summary Financial Data
(In thousands, except per share amounts)

	2005 (a)	2004 (b)	2003	2002	2001 (c)
SUMMARY OF OPERATIONS FOR THE FISCAL YEAR:					
Net sales	$2,915,280	$2,294,173	$1,932,514	$1,589,929	$1,347,356
Gross profit	$2,118,519	$1,615,123	$1,329,423	$1,083,983	$ 888,197
Percent of net sales	72.7%	70.4%	68.8%	68.2%	65.9%
Operating profit	$ 612,730	$ 535,958	$ 455,945	$ 369,955	$ 235,816
Percent of net sales	21.0%	23.4%	23.6%	23.3%	17.5%
Net earnings	$ 393,490	$ 409,934	$ 336,779	$ 276,285	$ 172,592
Percent of net sales	13.5%	17.9%	17.4%	17.4%	12.8%
Diluted net earnings per share	$ 1.04	$ 1.10	$ 0.91	$ 0.75	$ 0.49
FINANCIAL POSITION AT YEAR END:					
Cash and cash equivalents	$ 534,568	$ 688,040	$ 461,253	$ 401,860	$ 148,335
Working capital (d)	406,759	1,327,419	1,031,190	770,304	500,878
Total assets	4,844,840	3,230,747	2,553,482	1,951,379	1,628,727
Long-term debt, including current portion	1,052,970	234,865	351,813	—	123,128
Shareholders' equity	$2,883,045	$2,333,928	$1,601,635	$1,576,727	$1,183,745
OTHER DATA:					
Diluted weighted average shares outstanding	379,106	370,992	370,753	366,004	357,534

Fiscal year 2003 consisted of 53 weeks. All other fiscal years noted above consisted of 52 weeks. The Company did not declare or pay any cash dividends during 2001 through 2005.

(a) Results for 2005 include $179.2 million of IPR&D charges relating to the acquisitions of ANS, Savacor, Velocimed and ESI. Additionally, the Company recorded an after-tax special credit of $7.2 million for the reversal of a portion of the Symmetry™

device product liability litigation special charge recorded in 2004, net of settlement costs. The Company also recorded after-tax expense of $6.2 million as a result of a contribution to the St. Jude Medical Foundation. The Company also recorded the reversal of $13.7 million of previously recorded income tax expense due to the finalization of certain tax examinations, as well as $26.0 million of income tax expense on the repatriation of $500 million under the provisions of the American Jobs Creation Act of 2004. The impact of all of these items on 2005 net earnings was $190.5 million, or $0.50 per diluted share.

(b) Results for 2004 include after-tax special charges of $21.9 million relating to the discontinuance of the Symmetry™ device product line and product liability litigation, as well as an after-tax special charge of $3.4 million resulting from the settlement of certain patent infringement litigation. Additionally, the Company recorded $9.1 million of IPR&D in conjunction with the acquisition of IBI. Also, the Company recorded the reversal of $14.0 million of previously recorded income tax expense due to the finalization of certain tax examinations. The impact of all of these items on 2004 net earnings was $20.4 million, or $0.06 per diluted share.

(c) Results for 2001 include after-tax special charges of $20.5 million and IPR&D charges of $10.0 million. The impact of all of these items on 2001 net earnings was $30.5 million, or $0.17 per diluted share.

(d) Total current assets less total current liabilities.

Certifications

The Company has filed as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2005, the Chief Executive Officer and Chief Financial Officer certifications required by section 302 of the Sarbanes-Oxley Act. The Company has also submitted the required annual Chief Executive Officer certifications to the New York Stock Exchange.

Transfer Agent

Requests concerning the transfer or exchange of shares, lost stock certificates, duplicate mailings, or change of address should be directed to the Company's Transfer Agent at:

Computershare Trust Company, N.A.
P.O. Box 43023
Providence, Rhode Island 02940-3023
1.877.498.8861
www.equiserve.com (Account Access Availability)
Hearing impaired #TDD: 1.800.952.9245

Annual Meeting of Shareholders

The annual meeting of shareholders will be held at 9:30 a.m. on Wednesday, May 10, 2006, at the Minnesota Historical Center, 345 Kellogg Boulevard West, St. Paul, Minnesota, 55102.

Investor Contact

To obtain information about the Company call 1.800.552.7664, visit our website at *www.sjm.com* or write to:

Investor Relations
St. Jude Medical, Inc.
One Lillehei Plaza
St. Paul, Minnesota 55117-9983

The Investor Relations (IR) section on St. Jude Medical's website includes all SEC filings, a list of analyst coverage, webcasts and presentations, financial information and a calendar of upcoming

Corporate Governance

(See Company Information on website — www.sjm.com)

- Principles of Corporate Governance
- Code of Business Conduct
- SEC Filings

Company Stock Splits

2:1 on 4/27/79, 1/25/80, 9/30/86, 3/15/89, 4/30/90, 6/10/02 and 11/1/04
3:2 on 11/16/95

Stock Exchange Listings

New York Stock Exchange
Symbol: STJ

The range of high and low prices per share for the Company's common stock for fiscal 2005 and 2004 is set forth below. As of February 14, 2006, the Company had 3,025 shareholders of record.

Fiscal Year Ended December 31	2005		2004	
Quarter	**High**	**Low**	**High**	**Low**
First	$41.85	$35.80	$39.52	$29.90
Second	$44.50	$34.48	$39.45	$35.00
Third	$48.36	$42.89	$38.07	$31.13
Fourth	$52.80	$44.00	$42.90	$35.65

Trademarks

All product names appearing in this document are trademarks owned by, or licensed to, St. Jude Medical. Inc.

earnings announcements and IR events. St. Jude Medical's Newsroom features press releases, company background information, fact sheets, executive bios, a product photo portfolio, and other media resources. Patient profiles can be found on our website, including the patients featured in this year's annual report.

Exhibit 21

ST. JUDE MEDICAL, INC.

SUBSIDIARIES OF THE REGISTRANT
as of 12/31/05

St. Jude Medical, Inc. Wholly Owned Subsidiaries:

- Pacesetter, Inc. – Sylmar, California, Scottsdale, Arizona and Maven, South Carolina (Delaware corporation) (doing business as St. Jude Medical Cardiac Rhythm Management Division)

- St. Jude Medical S.C., Inc. – Austin, Texas (Minnesota corporation)
  - Bio-Med Sales, Inc. (Pennsylvania corporation)
  - Pacesetter Associates II, Inc. (Ohio corporation)
  - Pacesetter Associates, Inc. (Ohio corporation)

- St. Jude Medical Europe, Inc. – St. Paul, Minnesota (Delaware corporation)
  - Brussels, Belgium branch

- St. Jude Medical Canada, Inc. – Mississauga, Ontario and St. Hyacinthe, Quebec (Ontario, Canada corporation)

- St. Jude Medical (Shanghai) Co., Ltd. – Shanghai, China (Chinese corporation)
  - Beijing, Shanghai and Guangzhou representative offices

- St. Jude Medical (Hong Kong) Limited – Central, Hong Kong (Hong Kong corporation)
  - Beijing, China representative office
  - Korean and Taiwan branch offices
  - Mumbai, New Delhi, Calcutta, Chennai and Bangalore, India branch offices
  - Singapore representative office

- St. Jude Medical, Inc., Cardiac Assist Division – St. Paul, Minnesota (Delaware corporation) (Assets of St. Jude Medical, Inc., Cardiac Assist Division sold to Bard 1/19/96)

- St. Jude Medical Australia Pty., Ltd. – Sydney, Australia (Australian corporation)

- St. Jude Medical Brasil, Ltda. – Sao Paulo and Belo Horizonte, Brazil (Brazilian corporation)

- St. Jude Medical, Daig Division, Inc. – Minnetonka, Minnesota (Minnesota corporation)

- St. Jude Medical Colombia, Ltda. – Bogota, Colombia (Colombian corporation)

- St. Jude Medical ATG, Inc. – Maple Grove, Minnesota (Minnesota corporation)

- St. Jude Medical (Thailand) Co., Ltd. – Bangkok, Thailand (Thailand corporation)

- Epicor Medical, Inc. – Sunnyvale, California (Delaware corporation)

- Irvine Biomedical, Inc. – Irvine, California (California corporation)

- Frank Merger Corporation – (Delaware corporation)

- Velocimed, Inc. – Maple Grove, Minnesota (Delaware corporation)

- Velocimed DMC, Inc. – Maple Grove, Minnesota (Delaware corporation)

- Velocimed PFO, Inc. – Maple Grove, Minnesota (Delaware corporation)

- Endocardial Solutions, Inc. – St. Paul, Minnesota (Delaware corporation)
  - Endocardial Solutions NV/SA (Belgian Corporation)

- Savacor, Inc. – Los Angeles, California (Delaware Corporation)

- Light Merger Corporation – (Delaware Corporation)

- St. Jude Medical Argentina S.r.l. – Buenos Aires, Argentina (Argentinean corporation)

- Advanced Neuromodulation Systems, Inc. – Plano, Texas (Texas Corporation)
  - Quest Acquisition Corp. – Plano, Texas (Texas Corporation)
  - Hi-Tronics Designs, Inc. – Budd Lake, New Jersey (New Jersey Corporation)
  - Neuro-Regeneration, Inc. – Plano, Texas (Texas Corporation)
  - Micronet Medical, Inc. – Plano, Texas (Minnesota Corporation)
  - Hug Centers of America I, Inc. – Plano, Texas (Delaware Corporation)
  - SPAC Acquisition Corp. – Wilmington, Delaware (Delaware Corporation)

  - ANS Germany GmbH (German corporation)
  - Advanced Neuromodulation Systems, UK Limited (United Kingdom corporation)
  - Advanced Neuromodulation Systems Australia Pty Limited (Australian corporation)
  - Advanced Neuromodulation Systems France S.A.S. (French corporation)

- SJM International, Inc. – St. Paul, Minnesota (Delaware corporation)
  - Tokyo, Japan branch
  - St. Jude Medical Delaware Holding LLC (Delaware limited liability company)

SJM International, Inc. Wholly Owned Legal Entities (Directly and Indirectly):

- St. Jude Medical Holland Finance C.V. (Netherlands limited partnership) (ownership of St. Jude Medical Holland Finance C.V. is shared by SJM International, Inc. and St. Jude Medical Delaware Holding LLC)
  - St. Jude Medical Luxembourg S.a r.l. (Luxembourg corporation) (wholly owned subsidiary of St. Jude Medical Holland Finance C.V.)
    - St. Jude Medical Investments B.V. (Netherlands corporation headquartered in Luxembourg) (wholly owned subsidiary of St. Jude Medical Luxembourg S.a r.l.)
      - St. Jude Medical Nederland B.V. (Netherlands corporation) (wholly owned subsidiary of St. Jude Medical Investments B.V.)
      - St. Jude Medical Enterprise AB (Swedish corporation headquartered in Luxembourg) (wholly owned subsidiary of St. Jude Medical Investments B.V.)
        - St. Jude Medical Puerto Rico B.V. (Netherlands corporation) (wholly owned subsidiary of St. Jude Medical Enterprise AB)
          - Puerto Rico branch of St. Jude Medical Puerto Rico B.V.
        - St. Jude Medical Coordination Center (Belgium branch of St. Jude Medical Enterprise AB)
        - St. Jude Medical AB (Swedish corporation) (wholly owned subsidiary of St. Jude Medical Enterprise AB)
      - St. Jude Medical Holdings B.V. (Netherlands corporation) (wholly owned subsidiary of St. Jude Medical Investments B.V.)
        - Getz Bros. Co. Ltd. (Japanese corporation) (wholly owned subsidiary of St. Jude Medical Holdings B.V.)
        - St. Jude Medical India Private Limited (Indian corporation) (wholly owned subsidiary of St. Jude Medical Holdings B.V.)
        - St. Jude Medical (Singapore) Pte. Ltd. (Singaporean corporation) (wholly owned subsidiary of St. Jude Medical Holdings B.V.)
        - St. Jude Medical (Malaysia) Sdn Bhd (Malaysian corporation) (wholly owned subsidiary of St. Jude Medical Holdings B.V.)
        - St. Jude Medical Taiwan Co. (Taiwan corporation) (wholly owned subsidiary of St. Jude Medical Holdings B.V.)
        - St. Jude Medical Korea YH (Korean corporation) (wholly owned subsidiary of St. Jude Medical Holdings B.V.)

- St. Jude Medical Sweden AB (Swedish corporation)

- St. Jude Medical Danmark A/S (Danish corporation)

- St. Jude Medical (Portugal) – Distribuição de Produtos Médicos, Lda. (Portuguese corporation)

- St. Jude Medical Export Ges.m.b.H. (Austrian corporation)

- St. Jude Medical Medizintechnik Ges.m.b.H. (Austrian corporation)

- St. Jude Medical Italia S.p.A. (Italian corporation)

- St. Jude Medical Belgium (Belgian corporation)
- St. Jude Medical España S.A. (Spanish corporation)

- St. Jude Medical France S.A.S. (French corporation)
- St. Jude Medical Finland O/y (Finnish corporation)
- St. Jude Medical Sp.zo.o. (Polish corporation)
- St. Jude Medical GmbH (German corporation)
- St. Jude Medical Kft (Hungarian corporation)
- St. Jude Medical UK Limited (United Kingdom corporation)
- St. Jude Medical AG (Swiss corporation)
- UAB “St. Jude Medical Baltic” (Lithuanian corporation)
- St. Jude Medical Medizintechnik AG (Swiss corporation)
- H-Solutions SA (French corporation)
- Nexus Medical Sarl (French corporation)

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report (Form 10-K) of St. Jude Medical, Inc. of our reports dated February 16, 2006, with respect to the consolidated financial statements of St. Jude Medical, Inc., St. Jude Medical, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of St. Jude Medical, Inc., included in the 2005 Annual Report to Shareholders of St. Jude Medical, Inc.

Our audits also included the financial statement schedule of St. Jude Medical, Inc. listed in Item 15(a)(2). This schedule is the responsibility of St. Jude Medical, Inc.'s management. Our responsibility is to express an opinion based on our audits. In our opinion, as to which the date is February 16, 2006, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement No. 33-9262, Registration Statement No. 33-41459, Registration Statement No. 33-48502, Registration Statement No. 33-54435, Registration Statement No. 333-42945, Registration Statement No. 333-42658, Registration Statement No. 333-42668, Registration Statement No. 333-96697, Registration Statement No. 333-127381 and Registration Statement No. 333-130180 on Form S-8 of St. Jude Medical, Inc. of our reports dated February 16, 2006, with respect to the consolidated financial statements of St. Jude Medical, Inc., St. Jude Medical, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of St. Jude Medical, Inc., incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule of St. Jude Medical, Inc. included in this Annual Report (Form 10-K) of St. Jude Medical, Inc.

/s/ Ernst & Young LLP
Minneapolis, MN
March 10, 2006

Exhibit 24

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel J. Starks, John C. Heinmiller and Kevin T. O'Malley, each with full power to act without the other, his or her true and lawful attorney-in-fact and agent with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of St. Jude Medical, Inc. for the fiscal year ended December 31, 2005, and any or all amendments to said Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and to file the same with such other authorities as necessary, granting unto each such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each such attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this Power of Attorney has been signed on this 16 th day of March, 2006, by the following persons.

/s/ DANIEL J. STARKS

Daniel J. Starks
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ JOHN C. HEINMILLER

John C. Heinmiller
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ JOHN W. BROWN

John W. Brown
Director

/s/ RICHARD R. DEVENUTI

Richard R. Devenuti
Director

/s/ STUART M. ESSIG

Stuart M. Essig
Director

/s/ THOMAS H. GARRETT III

Thomas H. Garrett III
Director

/s/ MICHAEL A. ROCCA

Michael A. Rocca
Director

/s/ DAVID A. THOMPSON

David A. Thompson
Director

/s/ STEFAN K. WIDENSOHLER

Stefan K. Widensohler
Director

/s/ WENDY L. YARNO

Wendy L. Yarno
Director

/s/ FRANK C-P YIN

Frank C-P Yin
Director

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel J. Starks, certify that:

1. I have reviewed this annual report on Form 10-K of St. Jude Medical, 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 16, 2006

/s/ DANIEL J. STARKS

Daniel J. Starks
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, John C. Heinmiller, certify that:

1. I have reviewed this annual report on Form 10-K of St. Jude Medical, 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 16, 2006

/s/ JOHN C. HEINMILLER

John C. Heinmiller
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of St. Jude Medical, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Daniel J. Starks, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §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; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DANIEL J. STARKS

Daniel J. Starks
Chairman, President and Chief Executive Officer
March 16, 2006

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of St. Jude Medical, Inc. (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, John C. Heinmiller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §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; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN C. HEINMILLER

John C. Heinmiller
Executive Vice President and
Chief Financial Officer
March 16, 2006