FORM 10-K

MEDTRONIC INC - mdt

Filed: June 23, 2009 (period: April 24, 2009)

Annual report which provides a comprehensive overview of the company for the past year

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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 April 24, 2009.

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the transition period from _____ to _____

Commission File No. 1-7707

Medtronic, Inc.

(Exact name of registrant as specified in charter)

Minnesota	**41-0793183**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

710 Medtronic Parkway
Minneapolis, Minnesota 55432
(Address of principal executive offices) (Zip Code)

Telephone Number, including area code: (763) 514-4000

Securities registered pursuant to section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $0.10 per share	**New York Stock Exchange, Inc.**
Preferred stock purchase rights	**New York Stock Exchange, Inc.**

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 15(d) of the Exchange 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark 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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

Aggregate market value of voting stock of Medtronic, Inc. held by nonaffiliates of the registrant as of October 24, 2008, based on the closing price of $37.81, as reported on the New York Stock Exchange: approximately $42.4 billion. Shares of Common Stock outstanding on June 18, 2009: 1,112,348,250

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 2009 Annual Report filed as Exhibit 13 hereto are incorporated by reference into Parts I and II hereto and portions of Registrant's Proxy Statement for its 2009 Annual Meeting are incorporated by reference into Part III hereto.

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Annual Meeting and Record Dates

Medtronic, Inc.'s (Medtronic or the Company) Annual Meeting of Shareholders will be held on Thursday, August 27, 2009 at 10:30 a.m., Central Daylight Time at the Company's World Headquarters, 710 Medtronic Parkway, Minneapolis (Fridley), Minnesota. The record date for the Annual Meeting is June 29, 2009 and all shareholders of record at the close of business on that day will be entitled to vote at the Annual Meeting.

Medtronic Website

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through our website (www.medtronic.com under the "Investors" caption) free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

Information relating to corporate governance at Medtronic, including our Principles of Corporate Governance, Code of Conduct (including our Code of Ethics for Senior Financial Officers), Code of Business Conduct and Ethics for Board Members and information concerning our executive officers, directors and Board committees (including committee charters), and transactions in Medtronic securities by directors and officers, is available on or through our website at www.medtronic.com under the "Investors" caption.

We are not including the information on our website as a part of, or incorporating it by reference into, our Form 10-K.

Available Information

The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that the Company files with the SEC at http://www.sec.gov. The Company files annual reports, quarterly reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934 (Exchange Act). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580 Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

PART I

Item 1. Business

Overview

Medtronic is the global leader in medical technology — alleviating pain, restoring health, and extending life for millions of people around the world. We are committed to offering market-leading therapies to restore patients to fuller, healthier lives. With beginnings in the treatment of heart disease, we have expanded well beyond our historical core business and today provide a wide range of products and therapies that help solve many challenging, life-limiting medical conditions. We hold market-leading positions in almost all of the major markets in which we operate.

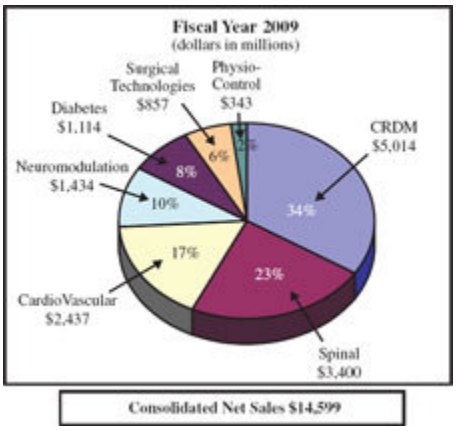
Medtronic was founded in 1949, incorporated as a Minnesota corporation in 1957, and today serves physicians, clinicians and patients in more than 120 countries worldwide. Beginning with the development of the heart pacemaker in the 1950s, we have assembled a broad and diverse portfolio of progressive technology expertise both through internal development of core technologies as well as acquisitions. We remain committed to a mission written by our founder more than 40 years ago that directs us "to contribute to human welfare by application of biomedical engineering in the research, design, manufacture and sale of products that alleviate pain, restore health and extend life."

With approximately 41,000 dedicated employees worldwide (including full-time equivalent employees) personally invested in supporting our mission, our success in leading global advances in medical technology is the result of several key strengths:

- Broad and deep technological knowledge of microelectronics, implantable devices and techniques, power sources, coatings, materials, programmable devices and related areas, as well as a tradition of technological pioneering and breakthrough products that not only yield better medical outcomes, but more cost-effective therapies.
- Strong intellectual property portfolio that underlies our key products.
- High product quality standards, backed with stringent systems to help ensure consistent performance that meet or surpass customers' expectations.
- Strong and appropriate professional collaboration with customers, extensive medical educational programs, and thorough clinical research.
- Full commitment to superior patient and customer service.
- Extensive experience with the regulatory process and sound working relationships with regulators and reimbursement agencies, including leadership roles in helping shape regulatory policy in the major markets in which we operate.
- A proven financial record of sustained revenue and earnings growth and continual introduction of new products.

We currently function in seven operating segments that manufacture and sell device-based medical therapies. Our operating segments are:

- Cardiac Rhythm Disease Management
- Spinal
- CardioVascular
- Neuromodulation
- Diabetes
- Surgical Technologies
- Physio-Control



The chart above shows the net sales and percentage of total net sales contributed by each of our operating segments for the fiscal year ended April 24, 2009 (fiscal year 2009).

With innovation and market leadership, we have pioneered advances in medical technology in all of our businesses and enjoyed steady growth. Over the last five years, our net sales on a compound annual growth basis have increased more than 9 percent, from $9.087 billion in fiscal year 2004 to $14.599 billion in fiscal year 2009. We attribute this growth to our commitment to develop or acquire new products to treat an expanding array of medical conditions.

We will accomplish this commitment by operating as ONE Medtronic, reaching within and across our operating segments to make the whole of Medtronic greater than the sum of its parts. The main tenets of this approach are:

- Driving sustainable long-term growth through innovation
- Strong focus on improving operating margins
- Delivering EPS growth and disciplined capital allocation
- Aligning the organization for market-leading and consistent execution

Our primary customers include hospitals, clinics, third party healthcare providers, distributors, and other institutions, including governmental healthcare programs and group purchasing organizations.

Cardiac Rhythm Disease Management (CRDM)

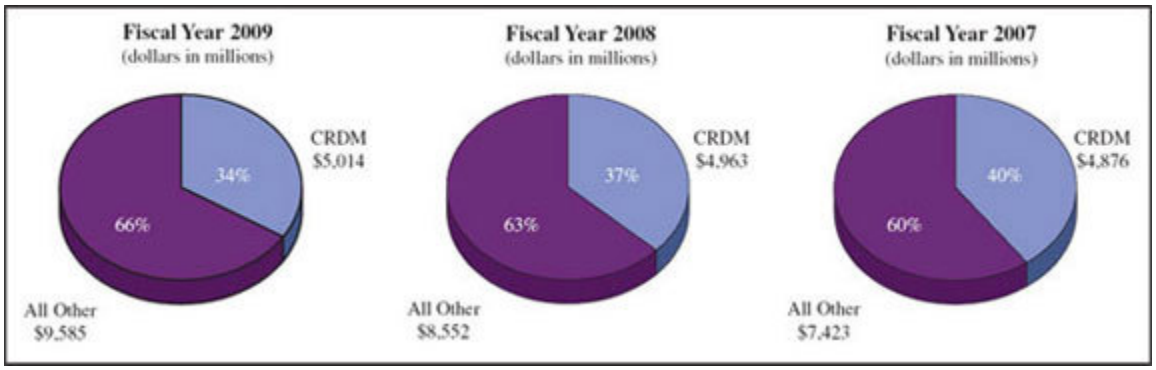
CRDM is the world's leading supplier of medical devices for cardiac rhythm disease management. We pioneered the modern medical device industry by developing the first wearable external cardiac pacemaker in 1957, and manufactured the first reliable long-term implantable pacing system in 1960. Since then, we have been the world's leading producer of cardiac rhythm technology, and from these beginnings, a $10 billion industry has emerged. Today, our products and technologies treat and monitor a wide variety of heart rhythm diseases and conditions.

Conditions Treated

Natural electrical impulses stimulate the atria and ventricles, the heart's chambers, to rhythmically contract and relax with each heartbeat. Irregularities in the heart's normal electrical signals can result in debilitating and life-threatening conditions, including sudden cardiac arrest, one of the leading causes of death. Physicians rely on our CRDM products to monitor and correct these irregularities and restore the heart to its normal rhythm. Our CRDM products are designed to treat and monitor a broad range of heart conditions, including those described below.

- Bradycardia — abnormally slow or unsteady heart rhythms, usually less than 60 beats per minute, or unsteady heart rhythms that cause symptoms such as dizziness, fainting, fatigue, and shortness of breath.
- Tachyarrhythmia — heart rates that are dangerously fast or irregular. In the lower chambers of the heart, called ventricles, this is called ventricular tachycardia or fibrillation and can lead to sudden cardiac arrest. In the upper chambers, called the atria, this is called atrial arrhythmia which can affect blood flow to the body and increase the risk of stroke.
- Heart Failure — impaired heart function resulting in the inability to pump enough blood to meet the body's needs, characterized by difficulty breathing, chronic fatigue and fluid retention.
- Sudden Cardiac Arrest — condition when the heart's ventricles suddenly develop a rapid, irregular rhythm (ventricular fibrillation) and the quivering ventricles cannot pump blood to the body, which, without immediate treatment, will almost always lead to death.
- Atrial Fibrillation — condition when the atria quiver instead of pumping blood effectively. Blood in the atria may pool and clot. If a clot breaks loose and advances to the brain, a stroke can result.
- Syncope — a sudden loss of consciousness, which occurs when the blood pressure drops and not enough oxygen reaches the brain. Causes vary and include heart-related conditions, exhaustion, stress, overheating, illness and certain medications.

The charts below set forth net sales of our CRDM products as a percentage of our total net sales for each of the last three fiscal years:



We offer the broadest array of products in the industry for the diagnosis and treatment of heart rhythm disorders and heart failure. Because many patients exhibit multiple heart rhythm problems, we have developed implantable devices that specifically address complex combinations of arrhythmias. In addition to implantable devices, we also provide leads, ablation products, electrophysiology catheters, and information systems for the management of patients with our devices. Our CRDM devices are currently implanted in more than 2.5 million patients worldwide.

Implantable Cardiac Pacemakers (Pacemakers). Bradycardia is a common condition, with hundreds of thousands of patients diagnosed each year, and millions of people worldwide suffering from its effects. The only known treatment for this condition is a cardiac pacemaker, a battery-powered device implanted in the chest that delivers electrical impulses to stimulate the heart to beat at an appropriate rate. Pacemaker technology has extended the lives of millions of patients with heart rhythm conditions, and each year nearly one million pacemakers are implanted in patients worldwide. Medtronic's Adapta family of fully automatic pacemakers, which includes the Adapta, Versa, and Sensia models, incorporates an array of automatic features to help physicians improve pacing therapy and streamline the patient follow-up process, potentially minimizing the amount of time spent in a physician's office. An example is Atrial Capture Management, which is intended to automatically adjust impulses for optimal stimulation of the heart's upper right chamber. Adapta offers a pacing mode called Managed Ventricular Pacing (MVP), which enables the device to be programmed to minimize unnecessary pacing pulses to the right ventricle. The Adapta family leads our portfolio of pacemakers, which also includes the EnRhythm and EnPulse families.

In November 2008, we received CE Mark approval for the EnRhythm MRI SureScan pacing system, the first-ever MRI-Conditional pacemaker system. The EnRhythm MRI SureScan pacing system consists of the dual-chamber EnRhythm MRI SureScan pacemaker and CapSureFix MRI SureScan pacing leads.

Implantable Cardioverter-Defibrillators (ICDs). Approximately seven million people worldwide have tachyarrhythmia. Tachyarrhythmia is a potentially fatal condition that can lead to sudden cardiac arrest, the sudden and complete cessation of heart activity. Sudden cardiac arrest is one of the leading causes of death in the U.S. responsible for more than 300,000 deaths annually, with most due to ventricular fibrillation. ICDs are stopwatch-sized devices that continually monitor the heart and deliver appropriate therapy when an abnormal heart rhythm is detected.

Our family of dual and single chamber ICDs offer exclusive features including Anti-tachyarrhythmia Pacing (ATP) During Charging, OptiVol Fluid Status Monitoring (OptiVol), our pacing mode "MVP," and Conexus Wireless Telemetry with SmartRadio. ATP During Charging is a feature that automatically uses pacing pulses to stop fast, dangerous heartbeats, while concurrently preparing to deliver a shock, if needed, with no delay.

OptiVol automatically monitors fluid status in the thoracic cavity, the chest area encompassing the lungs and heart. The accumulation of thoracic fluid is a primary indicator of worsening heart failure and will often result in patient hospitalization. The OptiVol diagnostic feature allows physicians earlier access to warning signs of deteriorating heart failure, which can then be used for early treatment of the patient's heart failure.

In May 2008, we announced U.S. Food and Drug Administration (FDA) approval of the first wave of cardiac rhythm disease management therapies under the new Vision 3D portfolio, which is comprised of a full line of ICDs, pacemakers and implantable cardiac resynchronization therapy devices to address the needs of patients with arrhythmias, heart failure and those at risk of sudden cardiac arrest. In addition to other Medtronic proprietary features, Vision 3D introduces automaticity with Complete Capture Management which continuously and automatically adjusts to changing patient needs. Complete automaticity provides physicians flexibility during in-office device checks and may also reduce battery drain.

Implantable Cardiac Resynchronization Therapy (CRTs). Heart failure is a large and growing health problem. It is typically a late manifestation of one or more other cardiovascular diseases, including coronary artery disease, hypertension, cardiomyopathy, and valvular disease. Chronic heart failure occurs when the heart is unable to pump enough blood to sustain adequate circulation in the body's tissues. Approximately 22 million patients suffer from heart failure globally. Approximately 5.7 million Americans suffer from heart failure and more than 670,000 new cases are estimated to develop each year.

Since 1997, we have supported more than 20 randomized, controlled clinical studies evaluating device therapy in more than 8,000 heart failure and post-myocardial infarction patients. This research has resulted in several medical "firsts," among them the first FDA approved resynchronization device for the treatment of heart failure, which was based on results from the groundbreaking MIRACLE trial; the first study of the risk of sudden cardiac death in a heart failure patient population with SCD-HeFT; and the landmark CARE-HF trial, which demonstrated that patients with moderate and severe heart failure who received a Medtronic CRT device experienced a significant reduction in risk in mortality and morbidity, and that long-term treatment with a CRT-pacing (CRT-P) device or CRT-D device is a cost-effective way to improve survival in patients with heart failure.

Medtronic continues to offer the industry's broadest selection of devices and features for the growing number of patients with heart failure who are also considered at high risk of sudden cardiac arrest. With the launch of our Vision 3D portfolio of products in May 2008, we introduced the Consulta CRT-D device which includes existing Medtronic proprietary features like MVP, ATP During Charging, and OptiVol along with Complete Capture Management. Complete Capture Management provides confidence in patients' safety by continuously and automatically adjusting to changing patient needs. Complete automaticity provides physicians flexibility during in-office device checks and may also reduce battery drain.

Along with our existing Concerto CRT-D device, which is commercially available throughout the world, Consulta CRT-D also utilizes our proprietary Conexus wireless telemetry, enabling communication remotely between the implanted device and programmers at the time of implant, during follow-up in a clinician's office, or remotely using a patient home monitor. These CRT-D devices also offer Left Ventricular Capture Management (LVCM), a feature intended to automatically sense and adjust impulses for stimulation of the heart's left ventricle, and sequential biventricular pacing, or "V-to-V" (ventricle to ventricle) timing, a feature that allows physicians to separately adjust the timing of electrical therapy delivered to the heart failure patient's two ventricles, which can optimize the beating of the heart and enhance the flow of blood throughout the body.

In June 2008, we announced the FDA approval of the Attain StarFix OTW (over-the-wire) lead. As the first-ever active fixation left-heart lead for CRT, the Attain StarFix lead has demonstrated a zero percent chronic dislodgement rate. The Attain StarFix lead provides physicians with a new solution for achieving successful placement and stability of the left-heart lead in heart failure patients receiving a CRT device. A patient's vein size or configuration can make it difficult to secure a left-heart lead in the optimal location. Therefore, stable fixation of the left-heart lead is critical to a successful CRT implantation. Dislodgement of the left heart lead may require additional surgeries, which could increase the risk of infection.

In May 2009, we launched the Attain family of products in the U.S., including Attain Ability and Attain Command. Attain Ability is the first commercially available 4 French bipolar left-heart lead. It is also the first Medtronic left-heart lead with 3 pacing vectors for chronic electronic repositioning around extracardiac stimulation. Attain Ability is designed for reliability with new inner insulation to help protect from breaches. Attain Command is the first catheter family to feature a hydrophilic coating for deep seating.

Atrial Fibrillation (AF). AF is an irregular quivering or rapid heart rhythm in the upper chambers (atria) of the heart. AF is the most common cardiac rhythm condition, found in approximately two million Americans and seven million people worldwide. Treatment of AF can be difficult as episodes may show no symptoms and therefore go unnoticed by patients. AF is associated with a five-fold increase in a patient's risk of stroke and an increased risk of heart failure with its attendant risk of sudden cardiac arrest.

In October 2008, we formed an AF solutions business whose goal is to be the physician partner of choice for AF ablation by bringing breakthrough AF therapies to the patients and physicians that are simpler, safer, effective, and offer more predictable procedure times than current treatment methods. Medtronic will offer physicians a choice of ablation therapies and tools to best meet the needs of their AF patients, as well as the needs of their practices. To that end, in November 2008, we announced our successful acquisition of CryoCath Technologies Inc. (CryoCath), a publicly traded Canadian medical technology company that has developed cryotherapy products to treat cardiac arrhythmias. CryoCath's flagship product, Arctic Front, is a minimally invasive cryo-balloon catheter designed specifically to treat paroxysmal Atrial Fibrillation or Pulmonary Vein Isolation. Marketed in Europe and the subject of a pivotal study in the U.S. and Canada, Arctic Front has been used to treat nearly 5,000 patients. Additionally, in February 2009, we acquired Ablation Frontiers, Inc. (Ablation Frontiers), a privately held company. In 2006, Ablation Frontiers received CE Mark to begin marketing its portfolio of ablation catheters and its unique radio frequency (RF) energy system in Europe. Ablation Frontiers is conducting a clinical trial under a FDA approved investigational device exemption (IDE) in order to gain U.S. approval to market its products for the treatment of permanent and persistent AF.

In February 2009, we announced the commercial availability of our Reveal XT Insertable Cardiac Monitor in the U.S. Launched in Europe in July 2007, the Reveal XT monitors AF patients 24-hours a day, every day for up to three years. There are a variety of ways to treat AF, but prior to the launch of Reveal XT, physicians had no means of gathering detailed data over an extended period on the progression of AF and the effect of treatment. Reveal XT gives new insight into patients' heart rhythms, which may help physicians to evaluate stroke risk and determine appropriate treatment options for their patients. The Reveal XT will be marketed as part of our AF Solutions business.

Diagnostics and Monitoring. Approximately 1.5 million people worldwide suffer from unexplained syncope. In almost 10 percent of patients, syncope has a cardiac cause; in 50 percent of patients, a non-cardiac cause; and in 40 percent of patients, the cause of syncope is unknown. It is a leading cause of emergency room visits. Syncope is difficult to diagnose as syncopal episodes are often too infrequent and unpredictable for detection with conventional monitoring techniques. Our Reveal DX, which launched in Europe in July 2007 and the U.S. in December 2007, is a device that is placed under the skin and continuously monitors the heart's electrical activity before, during, and after a syncopal event. With the information obtained from the Reveal DX, the physician can understand if the cause of syncope is cardiac related, which may help to appropriately manage the patient's arrhythmia. In July 2008, we announced that Reveal DX received Japanese regulatory approval and was designated by the Japanese government as a high-priority medical device. Reveal DX is the first insertable cardiac monitor to be introduced in Japan.

Patient Management Tools. We have three different patient management tools, CareLink, Paceart, and CardioSight Service. The Medtronic CareLink Network, monitor, and software (CareLink) help physicians and patients better manage chronic cardiovascular disease which is being treated by implantable device therapy. CareLink enables patients to transmit data from their pacemaker, ICD, or CRT using a portable monitor that is connected to a standard telephone line. Within minutes, the patient's physician and nurses can view the data on a secure Internet website. The information, which is comparable to that provided during an in-clinic device follow-up visit, provides the physician with a view of how the device and patient's heart are operating. The system provides an efficient, safe and convenient way for specialty physicians to remotely monitor the condition of their patients and, if needed, make adjustments to medication or prescribe additional therapy. It also saves patients time by potentially eliminating some in-office visits. For patients implanted with devices featuring Conexus Wireless Telemetry, clinicians can schedule routine follow-ups to occur automatically while the patient sleeps, and program the device to send a CareAlert notification to physicians wirelessly and automatically, providing the potential for treatment decisions before the condition worsens. Today, the Medtronic CareLink Network is being utilized in more than 3,000 clinics and hospitals, and more than 360,000 patients are being monitored. In June 2007, CareLink was launched in Europe, and is now currently available in the U.S., Canada, and Western Europe, and is being piloted in other parts of the world including Japan and Australia.

In September 2008, we announced both FDA and CE Mark approval for our Lead Integrity Alert (LIA) software. LIA was designed to provide patients with certain Medtronic defibrillators and defibrillator leads with more advance notice – via an audible sound – of a potential lead fracture that could result in an unnecessary shock. In November 2008, the journal *Circulation* published results from a study of about 16,000 patients that showed our LIA significantly improves early identification of potential implantable ICD lead fractures. LIA offers added protection for ICD patients through more frequent audible alarms and is the first continuous ICD monitoring technology that triggers real-time device changes to reduce unnecessary shocks that could result from potential lead fractures.

For more than 20 years, the Paceart System has led in the development of information solutions for device clinic management, including activities such as automating patient scheduling, correspondence and reporting. Paceart supports a common workflow by organizing and archiving data for cardiac devices from all major device manufacturers, serving as the central hub for patients' device data. In addition to automatically downloading data from the Medtronic CareLink Network, Paceart can automatically receive data from the Medtronic 2090 Programmer, using SessionSync technology. Paceart acts as the gateway for managing clinics' device data, receiving registration and scheduling data from, and sending patient and device data to more than 15 of the leading electronic health record and practice management systems. Paceart can interface with any HL7-compatible system and is actively sharing data with such industry leaders as athenahealth, EPIC, GEMMS, and NextGen Healthcare, among others. Today, more than 1,100 clinics are using the Paceart System to streamline clinicians' daily activities and better serve 1.5 million patients.

The third patient management tool we offer is the Medtronic CardioSight Service, which is an in-clinic data access tool available to physicians treating heart failure patients who have one of several Medtronic CRT-D or ICD devices. CardioSight provides clinically valuable, device-derived information to help specialty physicians discern the status of the heart failure patient's symptoms. The CardioSight Reader gives insight into a patient's condition without using a device programmer. Within minutes of downloading device information using the reader, a Heart Failure Management Report or Cardiac Compass Trends Report is available to the clinic and can be added to the patient chart before the physician consults with the patient.

Customers and Competitors

The primary medical specialists who use our implanted cardiac rhythm devices include electrophysiologists, implanting cardiologists, heart failure specialists, and cardiovascular surgeons. We hold the leading market position among implantable cardiac rhythm device manufacturers. Our primary competitors in the CRDM business are Boston Scientific Corporation, St. Jude Medical, Inc., Biotronik, Inc., and Sorin Group.

Spinal

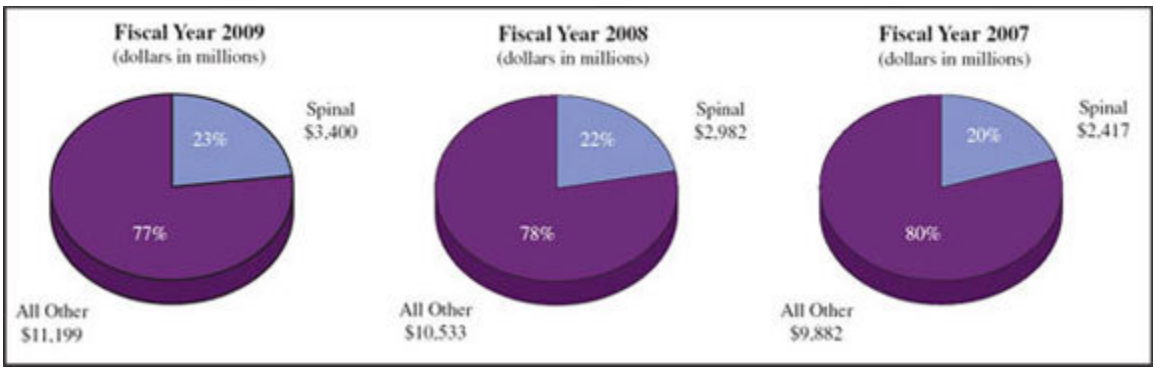
Our Spinal business is a leading supplier for innovative medical devices and implants used in the treatment of the spine. Today we offer a wide range of products and therapies to treat a variety of conditions of the spine.

Conditions Treated

Our Spinal business offers products for treatment of many spinal conditions, including those listed below.

- Herniated Disc – A disc herniation occurs when the inner core of the intervertebral disc bulges out through the outer layer of ligaments that surround the disc. This tear in the outer layer of ligaments causes pain in the back at the point of herniation. If the protruding disc presses on a spinal nerve, the pain may spread to the area of the body that is served by that nerve. The terms “ruptured,” “slipped,” and “bulging” are also commonly used to describe this condition.
- Degenerative Disc Disease – As part of the natural aging process, intervertebral discs lose their flexibility and shock absorbing characteristics. The ligaments that surround the discs become brittle and easier to tear. At the same time, the inner core of the disc starts to dry out and shrink. Over time, these changes can cause the discs to lose their normal structure and/or function.
- Spinal Deformity – When viewed from behind, the human spine appears straight and symmetrical. When viewed from the side, however, the spine is curved. Some curvature in the neck, upper trunk, and lower trunk is normal. These curves help the upper body maintain proper balance and alignment over the pelvis. The term deformity is used to describe any variation in this natural shape. One form of spinal deformity, scoliosis, involves a lateral, or side-to-side, curvature of the spine. The vertebrae rotate along with the spine as a consequence of a scoliotic curve. Depending on the severity of the curve, a scoliotic spine may create asymmetries in the shoulders, thoracic spine, and pelvis, leading to an imbalance of the trunk and significant disfigurement.
- Spinal Tumors – Tumors or cancers of the spine and spinal cord are relatively rare. Three types of tumors affect the spine and spinal cord: primary benign tumors, primary malignant tumors, and metastatic tumors. The term primary is used to designate a tumor originating from actual spine cells. Secondary spinal tumors, or cancers, which are more commonly called metastases, spread from other organs in the body.
- Trauma/Fracture – Trauma to the spine refers to injury that has occurred to bony elements, soft tissues, and/or neurological structures. Stability to the spinal column can be compromised when bony elements are injured or there is disruption to soft tissues such as ligaments. Instability causes the back to become unable to successfully carry normal loads, which can lead to permanent deformity, severe pain, and, in some cases, catastrophic neurological injuries. Most often the instability comes from a fracture in one of the bony parts of the vertebra. Osteoporosis, a condition characterized by loss of bone mass and structural deterioration of bone tissue, can lead to bone fragility and an increased susceptibility to fracture.
- Stenosis – A condition caused by a gradual narrowing of the spinal canal, stenosis results from degeneration of both the facet joints and the intervertebral discs. Bone spurs, called osteophytes, which develop because of the excessive load on the intervertebral disc, grow into the spinal canal. The facet joints also enlarge as they become arthritic, which contributes to a decrease in the space available for the nerve roots.

The charts below set forth net sales of our Spinal products as a percentage of our total net sales for each of the last three fiscal years:



Our Spinal products include thoracolumbar, cervical and interbody devices that are employed utilizing the most modern surgical techniques, including the latest Minimal Access Spinal Technologies (MAST) along with bone growth substitutes, and devices for vertebral compression fractures and spinal stenosis.

Spinal Instrumentation. Each year approximately 25 million Americans experience back pain that is severe enough to visit a healthcare professional. Of the approximately 25 million Americans, 14 million endure a significant impairment of activity. We are committed to providing spinal surgeons with the most advanced options for treating low back pain and other spinal conditions.

Today we offer one of the industry's broadest lines of devices, including a wide range of sophisticated internal spinal stabilization devices, instruments, and biomaterials used in the treatment of spinal conditions. Spinal fusions, which are currently one of the most common types of spine surgery, join two or more vertebrae to eliminate pain caused by movement of the unstable vertebrae. Our Spinal products are used in spinal fusion of both the thoracolumbar region, referring to the mid to lower vertebrae, as well as of the cervical region, or upper spine and neck vertebrae. Products used to treat spinal conditions include rods, pedicle screws, hooks, plates, and interbody devices, such as cages, as well as biologic products, which include bone growth substitutes, dowels and wedges.

Minimal Access Spinal Technologies (MAST). We have developed a series of MAST products that facilitate safe, reproducible access to the spine with minimal disruption of vital muscles and complementary structures. These techniques involve the use of advanced navigation and instrumentation to allow surgeons to operate with smaller incisions and less tissue damage than traditional surgeries, thus reducing pain and blood loss and improving recovery periods.

Our expanding portfolio of minimally invasive spinal technologies includes the CD HORIZON SEXTANT II System, a next-generation METRx System, to treat herniated discs and allow minimally invasive access for fusion procedures and the MAST QUADRANT Retractor System a retractor that allows access to complex degenerative pathology. These products are also part of our complete minimally invasive solution for Direct Lateral Interbody Fusions (DLIF). Our NIM-ECLIPSE Spinal System adds advanced neuromonitoring capabilities, an intuitive display, and an easy-to-use interface to this suite of products.

Biologics. Our INFUSE Bone Graft, used in lumbar spinal fusion, contains a recombinant human bone morphogenetic protein, or rhBMP-2, that induces the body to grow its own bone, eliminating the need for a painful second surgery to harvest bone from elsewhere in the body. In Europe, INFUSE Bone Graft is marketed as InductOs Bone Graft for spinal fusion. We also offer INFUSE Bone Graft for the treatment of certain types of acute, open fractures of the tibial shaft, a long bone in the lower leg, as well as certain oral maxillofacial indications.

In April 2007, we began to market INFUSE Bone Graft for certain oral maxillofacial and dental regenerative bone grafting procedures. It is estimated that more than 350,000 bone grafting procedures of this type are performed in the U.S. each year. Medtronic has also submitted a PMA with the FDA for a posterolateral spinal indication for Amplify rhBMP-2 Matrix.

Aging Spine. During the third quarter of fiscal year 2008, we acquired Kyphon Inc. (Kyphon), a public company, and it became our wholly owned subsidiary. Kyphon develops and markets medical devices designed to restore and preserve spinal function in aging patients using minimally invasive technology. Kyphon's primary products are balloon kyphoplasty devices for the treatment of vertebral compression fractures caused by osteoporosis, trauma or cancer, and interspinous process devices (IPD) for treating the symptoms of lumbar spinal stenosis (LSS).

In the U.S., Kyphon's X-STOP IPD device provides us with the first FDA-approved minimally invasive device for the treatment of mild to moderate LSS patients. In Europe, both the X-STOP and the next generation Aperius PercLID device are available for the treatment of LSS. This degenerative condition can cause compression of the spinal cord and nerves in the lower back, leading to back and leg pain or numbness that can affect mobility. An estimated 875,000 Americans are diagnosed with LSS each year, and more than two million Americans currently suffer from this disease. In October 2008, we announced the U.S. launch of the X-STOP PEEK IPD System, the first IPD device approved by the FDA that offers a PEEK-Bone interface for treating the symptoms of LSS. PEEK, or polyetheretherketone polymer, is a biomaterial widely accepted for spinal applications.

Customers and Competitors

The primary medical specialists who use our Spinal products are spinal surgeons, orthopedic surgeons, neurosurgeons, and interventional radiologists. Our competitors in the Spinal business include Johnson & Johnson, Synthes-Stratec, Inc., Stryker Corporation, Zimmer, Inc., NuVasive Inc., and over 200 small and physician owned companies.

CardioVascular

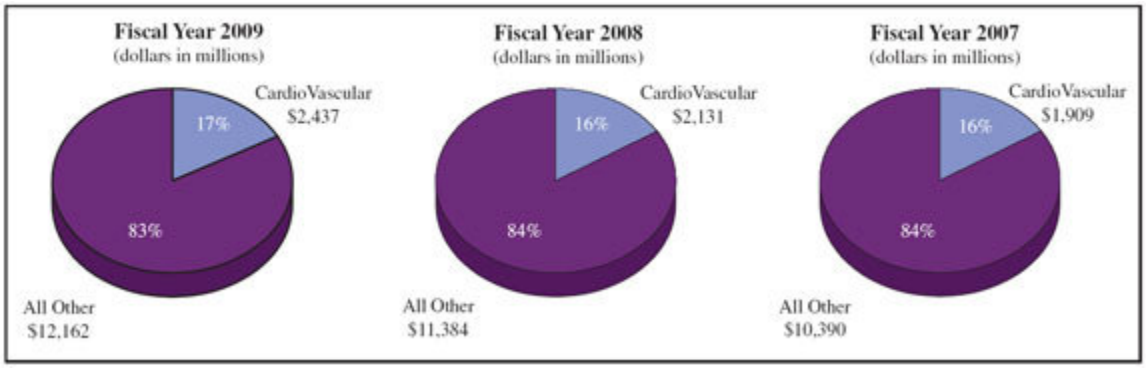
Our CardioVascular business offers a comprehensive line of minimally invasive products and therapies to treat coronary artery disease, abdominal and thoracic aortic aneurysms, peripheral vascular disease, and heart valve disorders.

Conditions Treated

Our CardioVascular business offers minimally invasive products for the treatment of the following conditions.

- Coronary artery disease — deposits of cholesterol and other fatty materials (plaque) on the walls of the heart's arteries, causing narrowing or blockage of the vessel and reducing the blood supply to the heart. Blockage in a coronary artery can prevent the heart from receiving sufficient oxygen, which can impair heart function, potentially resulting in a heart attack.
- Peripheral vascular disease — narrowing or blockage of arteries outside the heart, impeding blood supply to the brain, legs, and other vital organs.
- Abdominal and Thoracic aortic aneurysm (AAA/TAA) — an aneurysm is a dangerous bulge or weakening of the body's main artery that can rupture with fatal consequences if left untreated.
- Heart valve disorders — diseased or damaged heart valves can restrict blood flow or leak, which limits the heart's ability to pump blood, causing the heart to work harder to meet the needs of the circulatory system.

The charts below set forth net sales of our CardioVascular business as a percentage of our total net sales for each of the last three fiscal years:



Our CardioVascular products include coronary and peripheral stents and related delivery systems, endovascular stent graft systems, distal embolic protection systems, perfusion systems which oxygenate and circulate a patient's blood during arrested heart revascularization surgery, positioning and stabilization systems for beating heart revascularization surgery, products for the repair and replacement of heart valves, surgical ablation products, and a broad line of balloon angioplasty catheters, guide catheters, guidewires, diagnostic catheters and accessories.

Percutaneous Coronary Intervention (PCI). If a blockage in a coronary artery prevents the heart from receiving sufficient oxygen, the heart cannot function properly and a heart attack may result. Coronary artery disease is commonly treated with balloon angioplasty, a procedure in which a special balloon is threaded through the coronary arteries to the site of the blockage, where it is inflated, pressing the obstructive plaque against the wall of the vessel to improve blood flow.

Following balloon angioplasty, physicians often place coronary stents at the blockage site to prop open diseased arteries to maintain blood flow to the heart. Stents are cylindrical, wire-mesh devices small enough to be inserted into coronary arteries. Our Driver and Micro-Driver bare metal stent systems are composed of an advanced cobalt-based alloy, which surpasses the limitations of stainless steel by creating very strong, ultra-thin struts that offer excellent flexibility and vessel support. In February 2009, Driver Sprint received CE Mark approval and is currently being introduced in international markets. Driver Sprint features advanced balloon technology that builds on our exiting Driver platform.

Drug-eluting stents (DES) are designed to inhibit the re-narrowing or re-clogging of arteries, known as restenosis, that can occur after PCI. In February 2008 we announced FDA approval and the initiation of the U.S. launch of the Endeavor DES (Endeavor) drug-eluting coronary stent system. Endeavor combines our advanced Driver cobalt alloy stent, zotarolimus (a sirolimus analogue), and a biomimetic polymer coating that controls the release of the drug into the vessel wall. Endeavor received Shonin approval in March 2009 and was launched in Japan in May 2009.

In May 2002, we entered into an agreement with Abbott Laboratories (Abbott) granting us co-exclusive use of Abbott's proprietary immunosuppressant drug zotarolimus, as well as the phosphorylcholine coating Abbott has licensed from Biocompatibles International PLC for use in conjunction with zotarolimus. The term of the agreement covers the life of the patents necessary to use the drug alone or in conjunction with the coating. Clinical and preclinical studies have shown that this proprietary biocompatible polymer, which mimics the outer membrane of a red blood cell, is safe and thrombo-resistant.

In November 2007, we received CE Mark approval for the Sprinter Legend Semicompliant Rapid Exchange Balloon Dilatation Catheter for use in coronary angioplasty procedures. The Sprinter Legend provides the latest innovations in balloon technology, including the unique 1.25 mm Zerofold balloon, and is designed to address the most technically difficult lesions in coronary angioplasty procedures.

In November 2008, we launched our portfolio of angioplasty products in the U.S. on the rapid exchange (RX) delivery system, including the Endeavor, the Driver and MicroDriver bare-metal stents, and the Sprinter Legend and NC (non-compliant) Sprinter balloon catheter systems. Used in angioplasty procedures to treat coronary artery disease, RX is a short-, single-wire delivery system that can be used by one operator.

Worldwide, Medtronic has approximately 16,000 Endeavor patients enrolled in its multiple clinical trials, and the growing volume of positive data and number of patients with long-term follow-up continues to reinforce the stent's favorable safety and efficacy profile. Ultimately, the ENDEAVOR clinical program will enroll more than 22,500 patients followed to five years; approximately 16,630 of these patients will receive an Endeavor stent.

Endeavor Resolute DES (Endeavor Resolute) is a next-generation DES featuring BioLinx, the first polymer designed specifically for use on a DES. The BioLinx polymer is designed to extend the duration of drug exposure in the vessel - an elution profile of potential relevance to patients that physicians consider to be at high risk of needing a repeat procedure - without trading off polymer biocompatibility. In October 2007 we announced the CE Mark approval and the international launch of Endeavor Resolute. Endeavor Resolute is now commercially available in more than 100 countries across Europe, Asia, the Middle East and Africa – making Medtronic the first company to offer two internally developed DES options for the treatment of coronary artery disease.

The Endeavor Resolute clinical program will enroll more than 6,000 patients worldwide across a series of single-arm and randomized controlled trials.

Peripheral Stents. According to the Peripheral Arterial Disease Coalition, Peripheral Arterial Disease (PAD) of the lower extremities affects approximately eight million people in the United States, although many patients are unaware of their condition or the seriousness of it. PAD patients have a two- to six-fold increase in cardiovascular mortality and a significantly increased risk of amputation, disability and diminished quality of life, the PAD Coalition reports.

In 2008 we commenced enrollment in two PAD studies to evaluate the treatment of iliac artery lesions with our stents. The Complete SE stent is currently being evaluated in an IDE-approved clinical trial for use in the treatment of iliac artery lesions in subjects with symptomatic and asymptomatic PAD. The Complete SE Iliac Registry is a non-randomized, prospective study designed to enroll 60 subjects. The primary study endpoints are major adverse events (MAEs) at 30 days and nine months. With 12 U.S. sites participating, enrollment is complete. Additionally, the balloon-expandable Assurant Cobalt stent is currently being evaluated in an IDE-approved clinical trial as a treatment for iliac artery lesions in subjects with symptomatic PAD. Initiated in October 2008, this study is a non-randomized, prospective, single-arm trial with an enrollment target of 123 subjects at 20 U.S. sites. The primary endpoint of the study is MAEs at nine months.

In January 2009, we announced the first enrollment in the FDA-approved clinical trial of our self-expanding (SE) Complete SE stent for the treatment of PAD in the superficial femoral artery (SFA). The SFA study is a prospective, multicenter, single-arm trial planned to enroll 178 subjects at up to 30 sites globally. Enrolling patients with symptomatic PAD in the SFA, the study has primary endpoints of MAEs and patency of the stent at 12 months.

Endovascular Stent Grafts. Our CardioVascular product line also includes a range of endovascular stent grafts including the market-leading Talent and Endurant Stent Grafts for minimally invasive AAA repair and the Talent Thoracic and Valiant Thoracic Stent Grafts for TAA repair. Present in an estimated 20 million people worldwide and 1.3 million people in the U.S., an AAA is a dangerous bulge or weakening of the body's main artery that can rupture with fatal consequences if left untreated. This is compared to over 1.25 million people worldwide and 150,000 people in the U.S. with a TAA. Medtronic now has more than 10 years of clinical experience with its endograft implants, by far the most clinical experience in the endovascular industry. More than 160,000 patients have been treated worldwide with Medtronic stent grafts for AAA or TAA.

In June 2008, we initiated the U.S. launch of the Talent Abdominal Stent Graft System (Talent AAA). Talent AAA is a leading stent graft with more than 45,000 worldwide implants to date. The stent graft is specifically indicated for endovascular repair (EVAR) of abdominal aortic and aorto-iliac aneurysms. It expands the indication for EVAR with a proximal aortic neck length requirement of 10 mm or greater and a proximal aortic neck angulation of 60 degrees or less. Talent AAA is available in diameters of up to 36 mm, as well as flared and tapered iliac limbs of 8 mm to 24 mm. This indication enables physicians to treat a broader range of patients than with other abdominal stent graft systems available in the U.S. In November 2008, we announced the U.S. market launch of the Talent AAA on the Xcelerant Hydro Delivery System. Now available globally, the Xcelerant Hydro Delivery System features a hydrophilic coating which attracts and holds water at the device surface to reduce friction and ease implantation.

In June 2008, we announced the FDA approval and commercial launch of our Talent Thoracic Stent Graft with the CoilTrac Delivery System in the U.S. The Talent Thoracic Stent Graft (Talent TAA) received Shonin approval in April and will launch in Japan in May, 2009. Talent TAA expands the indication for thoracic stent grafting by as much as 25 percent due to the introduction of smaller and larger diameter stent grafts. In October 2008, we announced the U.S. market launch of the Talent TAA on the Xcelerant Delivery System, which makes minimally-invasive treatment of thoracic aortic aneurysms easier to perform.

In July 2008, we announced the international market launch of the Endurant Abdominal Stent Graft System (Endurant) and the first implants of this next-generation medical device in the U.S. clinical trial. Endurant's precise deployment, flexibility, and low delivery profile are designed for patients whose aortas are highly angulated or whose aneurysms have short necks. Patients with these complex anatomies would previously have had no choice but watchful waiting or open surgical repair, in which the abdomen is opened and major organs temporarily moved in order to access the aorta. The U.S. clinical trial of Endurant is designed to evaluate the device's safety and effectiveness in the endovascular treatment of abdominal aortic aneurysms. As the pivotal trial for Endurant, it will be used to seek FDA approval of the device. The study will enroll 150 patients at up to 30 U.S. sites. Enrollment in the study is now complete.

Coronary Artery Bypass Surgery. When physicians determine that they cannot effectively treat a blockage in a coronary artery using balloon angioplasty or a stent, they often turn to cardiac surgery to address the problem. The most common surgical procedure used to treat blockage in a coronary artery is a Coronary Artery Bypass Graft (CABG). In a CABG procedure, surgeons re-route the blood flow around the blockage by attaching a graft, usually from an artery or vein from another part of the patient's body, as an alternative pathway to the heart. There are two primary techniques, arrested heart surgery and beating heart surgery.

Arrested Heart Surgery. In a conventional coronary artery bypass procedures and heart valve surgery the patient's heart is temporarily stopped, or arrested. The patient is placed on a circulatory support system that temporarily functions as the patient's heart and lungs and provides blood flow to the body. We offer a complete line of blood-handling products that form this circulatory support system and maintain and monitor blood circulation and coagulation status, oxygen supply, and body temperature during arrested heart surgery.

Beating Heart Surgery. As an alternative to conventional arrested heart coronary artery bypass surgery, physicians are performing CABG on the beating heart to avoid the complexity and potential risks of arresting the heart. To assist physicians performing beating heart surgery, we offer positioning and stabilization technologies. These technologies include our Starfish 2 and Urchin heart positioners, which use suction technology to gently lift and position the beating heart to expose arteries on any of its surfaces. These heart positioners are designed to work in concert with our Octopus tissue stabilizer, which holds a small area of the cardiac surface tissue nearly stationary while the surgeon is suturing the bypass grafts to the arteries. In June 2006, we introduced the Octopus Evolution tissue stabilizer, the latest in a 10-year series of innovative cardiac surgery instruments. It is currently estimated that beating heart surgeries make up approximately 20 percent of the estimated 270,000 coronary artery bypass surgeries that are performed in the U.S. each year.

Surgical Ablation. Our Cardioblate surgical ablation systems (CSAS), which includes the Cardioblate LP Surgical Ablation System and Cardioblate Navigator Tissue Dissector, allow cardiac surgeons to create ablation lines during cardiac surgery. In November 2006, we announced FDA approval to initiate the Feasibility of the Lone Atrial Fibrillation Clinical Trial to evaluate the use of the CSAS thorascopically in paroxysmal atrial fibrillation (AF) patients.

Surgical Heart Valves. We offer a complete line of surgical valve replacement and repair products for damaged or diseased heart valves. Our replacement products include both tissue and mechanical valves. The valve market continues to shift from mechanical to tissue valves, which is beneficial to us due to our broad selection of tissue valve products. Our Mosaic bioprosthetic heart valve is a reduced-profile valve engineered from porcine tissue incorporating a proven flexible stent. The low profile and flexibility of the stent offer benefits to the surgeon when implanting the valve. Other tissue product offerings include the Freestyle stentless and Hancock II stented valves. Our mechanical heart valve offerings include the Medtronic Hall, the ADVANTAGE and the ADVANTAGE Supra bileaflet valves. Our valve repair products include the Duran Flexible and CG Future Band and CG Composite Annuloplasty Systems. In May 2008, we announced the U.S. launch of the Profile 3D Annuloplasty Ring used by heart surgeons to repair – rather than replace – a failing mitral valve. To promote natural function, the Profile 3D ring design is based on the geometry of the saddle-shaped human mitral annulus. Data suggest that nature conserves the saddle-shaped annulus for a mechanical benefit. Specifically, leaflet stress can be related to saddle height, which could affect long-term durability of the repair.

Transcatheter Heart Valves. Transcatheter valve technology represents a less invasive means to treat heart valve disease and is designed to allow physicians to deliver replacement valves via a catheter through the body's cardiovascular system, thus eliminating the need to open the chest. Traditionally, open heart surgery has been required to correct the problem and it is not unusual for a patient to undergo multiple, open-heart surgeries during their lifetime.

In October 2006, our Melody Transcatheter Pulmonary Valve and Ensemble Transcatheter Delivery System (Melody TCV) received European CE Mark making it the first transcatheter valve in the world to receive such an approval. The system is the first of its kind to treat patients with congenital structural heart disease requiring pulmonary heart valve replacement. According to the American Heart Association, congenital heart defects are the No. 1 birth defect worldwide. In the U.S. alone, more than 36,000 babies are born each year with a congenital heart defect. Approximately 22 percent of these babies have defects disrupting the blood flow from the right ventricle to the pulmonary artery. In November 2008, the first U.S. clinical trial data on the Melody TCV were presented at the American Heart Association Meeting. The results involved 66 patients and showed a high acute procedural success rate of 98 percent. At six-months follow up, maintenance of excellent valve competence was demonstrated as was a corresponding, clinically-significant, reduction of more than 18 percent in right ventricular volume.

In February 2009, we acquired Ventor Technologies, Ltd. (Ventor) and in April 2009, we acquired CoreValve, Inc. (CoreValve), both privately held companies. CoreValve and Ventor have developed transcatheter, aortic valve replacement technologies. CoreValve's ReValving System, which received CE Mark approval in 2007, utilizes a transfemoral approach and is comprised of a porcine pericardial tissue valve, mounted on a self-expanding frame and implanted via a low profile (18F) delivery catheter. Ventor has developed a transapical product, the Ventor Embracer, which is under clinical investigation in Europe. Ventor is also developing a next generation percutaneous transfemoral technology. These complementary technologies offer compelling clinical benefit to distinctly different subsets of patients with aortic stenosis who are at high or prohibitive risk for surgery.

Customers and Competitors

The primary medical specialists who use our catheter-based products for treating coronary artery disease are interventional cardiologists, while products treating peripheral vascular disease and aortic aneurysms may be used by interventional radiologists, vascular surgeons, cardiac surgeons and interventional cardiologists. Our primary competitors in the coronary and peripheral vascular business are Boston Scientific Corporation, Johnson & Johnson, and Abbott Laboratories. Our primary competitors in the endovascular business are Cook, Inc. and W. L. Gore & Associates, Inc. The principal medical specialists who use our cardiac surgery products are cardiac surgeons. Our primary competitors in the structural heart disease business are Edwards LifeSciences Corporation, Boston Scientific Corporation, Johnson & Johnson, St. Jude Medical, Inc., Terumo Medical Corporation, and Sorin S.p.A.

Neuromodulation

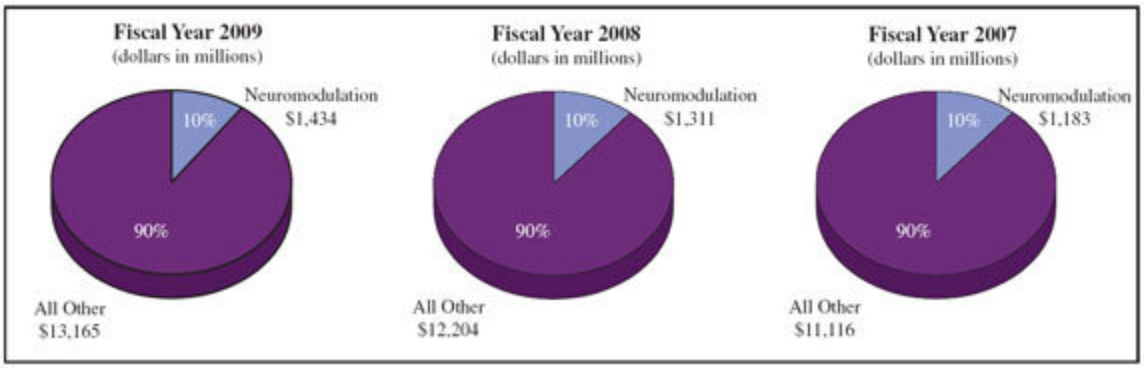
Our Neuromodulation business develops, manufactures, and markets devices for the treatment of neurological, urological, and gastroenterological disorders. We pioneered the use of site-specific neurostimulation and targeted drug delivery to modulate nervous system function. Through collaborative efforts with our customers we have developed a unique portfolio of therapeutic technologies for the treatment of debilitating chronic diseases that represent large, unmet medical needs.

Conditions Treated

Our Neuromodulation business offers products for the treatment or diagnosis of the conditions described below.

- Pain Management — including neurostimulation and implantable drug delivery systems for chronic pain.
- Movement Disorders — including deep brain stimulation for Parkinson's disease, essential tremor, dystonia and intrathecal baclofen (ITB) therapy for spasticity.
- Urological and gastroenterological disorders — including neurostimulation for overactive bladder and urinary and fecal incontinence, radio frequency ablation for benign prostatic hyperplasia (BPH or enlarged prostate), and neurostimulation for gastroparesis.
- Psychological Disorders – including deep brain stimulation for obsessive compulsive disorder (OCD).

The charts below set forth net sales of our Neuromodulation products as a percentage of our total net sales for each of the last three fiscal years:



Neuromodulation products consist of therapeutic devices, including implantable spinal cord stimulation systems used to treat intractable chronic pain; deep brain stimulation systems to treat movement disorders like Parkinson's disease, as well as OCD; implantable intrathecal drug delivery systems for intractable spasticity and intractable chronic pain; sacral nerve stimulation systems to treat overactive bladder and urinary incontinence; a product for the treatment of BPH, or enlarged prostate; and a gastric stimulator for gastroparesis.

Neurostimulators for Chronic Pain. We offer the largest portfolio of neurostimulation systems, including rechargeable and non-rechargeable devices, along with the largest selection of leads. In February 2008, we announced the worldwide launch of the RestoreULTRA neurostimulation systems for the treatment of chronic pain. Chronic pain affects an estimated 75 million people in the U.S. alone. This rechargeable neurostimulator, the most advanced device in our market-leading family of RESTORE devices, is the smallest and thinnest 16-electrode rechargeable neurostimulator available from Medtronic. Furthermore, for the first time with any neurostimulator, the patient programmer includes an innovative new feature called TARGETmyStim. This feature allows patients to make appropriate and immediate adjustments in their stimulation in order to best address normal fluctuations in pain, including changing pain patterns. By using the remote control programmer, patients can fine-tune their stimulation to specific sites up and down the spinal cord and increase/decrease the intensity of the electrical impulses. These adjustments allow the patient to customize their pain therapy in a way that was previously only possible with a physician programmer during an office visit.

Our portfolio of neurostimulators also includes RestoreADVANCED (rechargeable) and PrimeADVANCED (non-rechargeable) neurostimulation systems. All of the neurostimulation systems are implanted under the skin and have up to two leads with eight electrodes each that deliver electrical pulses to the spinal cord. Based on individual patient need, the positioning of the electrodes can be customized to deliver stimulation directly to the target area on the spinal cord, and in doing so, block pain signals from reaching the brain.

A continuing major initiative in fiscal year 2009 was the establishment of higher levels of evidence for our therapies' efficacy and cost-effectiveness. In November 2008, the scientific journal *Neurosurgery* published 24-month data from a study known as PROCESS showing that spinal cord stimulation provides sustained, significant improvement in otherwise intractable, chronic leg pain, quality of life and functional capacity out to 24 months of therapy.

Implantable Drug Delivery Systems. Our portfolio of intrathecal drug delivery systems consist of the only programmable, implantable drug pump available in the U.S. and a catheter that deliver small quantities of drug directly into the intrathecal space in the spine. These devices are used to treat chronic, intractable pain and severe spasticity of cerebral or spinal origin.

Medtronic ITB Therapy is indicated for the management of severe spasticity of cerebral and spinal origin, including stroke, cerebral palsy, brain injury, spinal cord injury, and multiple sclerosis. It uses our SynchroMed II Implantable Infusion System, which consists of a programmable, implanted drug pump connected to a thin tube, or catheter, to deliver precise amounts of a muscle relaxant manufactured by Novartis Corporation under the trade name Lioresal® Intrathecal (baclofen injection) directly to the intrathecal space – the fluid-filled area surrounding the spinal cord, the drug's site of action. By targeting the spinal cord, ITB therapy reduces spasticity with smaller amounts of medication than would be required if taken orally. Intrathecal infusion, which bypasses the body's blood-brain barrier, also minimizes systemic side-effects.

Deep Brain Stimulation (DBS) Systems. Deep brain stimulation is approved for treating the symptoms of movement disorders like Parkinson's disease or psychological disorders like treatment resistant OCD. DBS therapy uses an implantable medical device akin to a cardiac pacemaker to deliver carefully controlled electrical pulses to precisely targeted areas of the brain. Continuous stimulation of these areas blocks the signals that cause the disabling motor symptoms. In the case of OCD, DBS is believed to influence the circuit of the brain involved in moods.

In December 2008, data from a prospective, randomized, double-blind pivotal study designed to evaluate the use of Medtronic DBS for epilepsy was presented at the American Epilepsy Society Annual Meeting. The study, known as SANTE (Stimulation of the Anterior Nucleus of the Thalamus in Epilepsy), included 110 patients at 17 U.S. centers and showed DBS significantly reduced seizure frequency among patients with medically refractory epilepsy with partial-onset seizures, a form of the neurological condition that does not respond well to antiepileptic drugs. According to the Epilepsy Foundation, epilepsy and seizures affect more than three million Americans of all ages, at an estimated annual cost of $12.5 billion in direct and indirect costs. Despite trying a range of treatment options, about one-third of people with epilepsy cannot adequately control their seizures or tolerate other available therapies. The unpredictability of seizures affects daily activities and disrupts school days, work responsibilities and social functioning. Based on the results of this study, we plan to submit a PMA application to the FDA seeking approval for Medtronic DBS Therapy for epilepsy in early fiscal year 2010.

In February 2009, we announced the FDA approval for a humanitarian device exemption (HDE) for our Reclaim DBS therapy for chronic, severe OCD. Reclaim DBS is the first medical device to receive U.S. FDA approval for the treatment of OCD and is also the first psychiatric indication to be approved for DBS. While OCD is estimated to affect one in 50 adults in the U.S., it is anticipated that DBS therapy will be appropriate for a small subset of the patient population, below the threshold of 4,000 patients per year allowed under an HDE. Medtronic plans to make Reclaim DBS therapy for OCD available in the U.S. by mid-2009 under the HDE.

Urology and Gastroenterology Devices. Our therapeutic products for urology and gastroenterology include the InterStim Therapy for the treatment of overactive bladder and urinary incontinence; Prostiva RF Therapy, which uses low-level radio frequency energy to treat BPH, or enlarged prostate; and Enterra Therapy for the treatment of gastroparesis.

In October 2008, we submitted our PMA application with the FDA for InterStim Therapy for the treatment of fecal incontinence. InterStim Therapy is a reversible treatment for patients with fecal incontinence after conservative treatments have failed. This therapy has been available in markets outside of the U.S. since 2000 where it has been used by more than 6,000 patients. Fecal incontinence is the inability to control your bowels and is a debilitating condition that is often underreported and stigmatized. According to the National Institutes of Health, more than 5.5 million Americans have fecal incontinence.

Customers and Competitors

The primary medical specialists who use our Pain Management and Movement Disorders products are neurosurgeons, neurologists, pain management specialists, psychiatrists, and orthopedic spine surgeons. The primary medical specialists who use our urology and gastroenterology products are urologists, urogynecologists, and gastroenterologists. Our primary competitors for pain management and movement disorders are Boston Scientific Corporation and St. Jude Medical, Inc. Our primary competitors for urology and gastroenterology products are Boston Scientific Corporation, Urologix, Inc., and American Medical Systems, Inc.

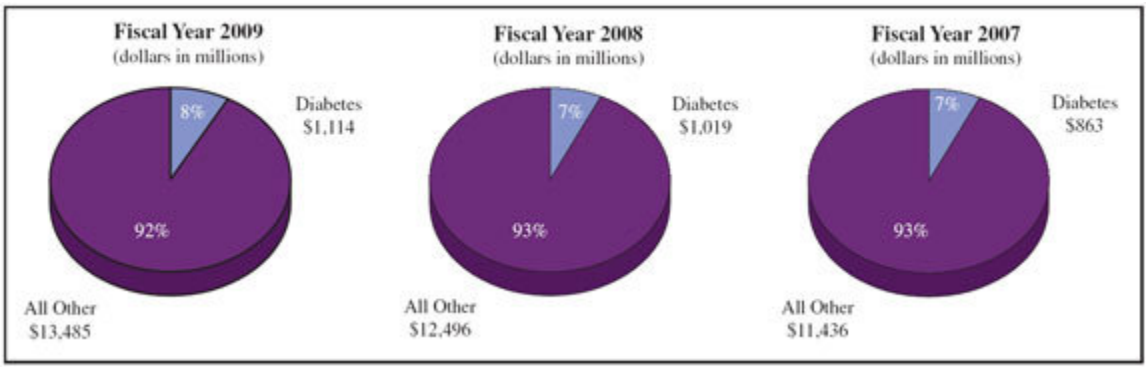
Diabetes

Our Diabetes business develops advanced diabetes management solutions. We are the world leader in integrated diabetes management systems, insulin pump therapy, continuous glucose monitoring systems and therapy management software, and are committed to providing improved tools and technologies to help people with diabetes live longer, healthier lives.

Conditions Treated

Our Diabetes business offers solutions for the treatment of diabetes — the inability to control glucose (blood sugar) levels resulting from the body's failure to produce or properly use insulin.

The charts below set forth net sales of our Diabetes business as a percentage of our total net sales for each of the last three fiscal years:



Our Diabetes products help patients control their glucose levels. Diabetes afflicts roughly 250 million people worldwide, and almost 24 million people in the U.S. Currently, our products serve the insulin-dependent population, approximately six million people in the U.S. The key to managing diabetes is to maintain tight control of glucose levels. If not well-managed, diabetes can lead to blindness, kidney failure, amputation, impotence and heart failure. More than $174 billion is spent annually on diabetes and its complications, including $116 billion in direct medical costs.

Integrated Diabetes Management Systems. The MiniMed Paradigm REAL-Time System (Paradigm REAL-Time System) is the first and only integrated insulin pump and continuous glucose monitoring system. The Paradigm REAL-Time System is made up of two components, a REAL-Time Continuous Glucose Monitor (CGM), and a Paradigm insulin pump. The system receives glucose readings every five minutes from a glucose sensor worn on the body. This REAL-Time glucose information is displayed on the insulin pump, allowing patients to take immediate action to improve their glucose control after taking a confirmatory fingerstick. The Paradigm REAL-Time System is indicated for any patient seven years of age or older.

Integrating an insulin pump with REAL-Time CGM is a major step toward the development of a "closed-loop" insulin delivery system that may one day mimic some functions of the human pancreas. We are testing future systems that employ advanced scientific algorithms to proactively recommend insulin dosages to patients. Through this process, we anticipate developing an external, closed-loop system designed to simplify and improve patient diabetes management.

External Insulin Pumps. Our insulin pumps are primarily used by patients with type 1 diabetes, which occurs when the pancreas stops producing insulin. In order to survive, people with type 1 diabetes must administer insulin on a daily basis. Our therapies are also helpful in managing insulin-dependent type 2 diabetes, which results from the body's inability to produce enough insulin or properly use the insulin.

Our MiniMed Paradigm insulin pumps are currently the leading choice in insulin pump therapy in the U.S. About the size of a cell phone, and worn in a pocket or on your belt like a phone or MP3 player, insulin pumps calculate complex "diabetes math" and recommend precise insulin dosages to help patients manage their disease without daily insulin injections. Because insulin pump therapy delivers precise micro-doses of insulin to the body, it helps diabetes patients control their glucose, offering both short- and long-term health benefits. MiniMed Paradigm insulin pumps are indicated for all patients requiring insulin.

Continuous Glucose Monitors (CGM). Medtronic's Personal CGM is patient owned and automatically displays the patient's latest glucose level every five minutes, indicates when glucose is changing rapidly, graphically shows glucose variability and sounds alerts based on predicted glucose levels, rate-of-change and/or glucose thresholds. Personal CGM is intended to help diabetes patients avoid dangerous high and low glucose levels and learn to maintain tighter glucose control 24 hours a day. Medtronic offers two Personal CGM product categories. Our Guardian REAL-Time System is a stand-alone Personal CGM device that monitors glucose levels for patients to better manage their diabetes. The MiniMed Paradigm REAL-Time System combines Personal CGM with insulin pump therapy to make the world's only integrated diabetes management system. Both systems are supported by the Medtronic CareLink Therapy Management Software.

Medtronic also offers physicians a Professional CGM product, the iPro CGM. Physicians send patients home wearing a tiny iPro recorder, which silently collects glucose data blinded to the patient. The data is uploaded in a physician's office to reveal glucose patterns and potential problems that often go undetected with today's standard glucose measurements like finger stick meters and A1c tests. The new iPro is smaller, simpler to use, lighter weight and less time consuming than previous Medtronic Professional CGM devices. There is no display or user interface for the patient and improved ergonomics give patients added freedom when wearing the device. Physician services associated with the iPro are reimbursed by Medicare in all 50 states, and have broad private insurance reimbursement.

CareLink Therapy Management Software. We also offer therapy management software solutions to help patients and their healthcare providers optimize their diabetes control and quality of life. These Web-based platforms consist of CareLink Personal software for patients and CareLink Pro software for healthcare providers. It allows patients to quickly and easily upload data from their diabetes management devices to a secure online database. Because the platform is totally integrated, healthcare providers can quickly and easily download patient data remotely in advance of the office visit. Both the patient and healthcare provider can save time to focus on optimizing therapy.

Blood Glucose Meters. Medtronic has an alliance with LifeScan, Inc., a Johnson & Johnson company, to distribute and co-market blood glucose meters developed by LifeScan for Medtronic patients in the U.S. Concurrently, we announced an alliance with a division of Bayer HealthCare LLC, a member of the Bayer Group, to distribute and co-market blood glucose meters for Medtronic patients outside the U.S. These meters wirelessly transmit blood glucose test results directly to our MiniMed Paradigm insulin pumps and GuardianREAL-Time Systems. Wireless communications make data entry easier and more convenient for patients.

Customers and Competitors

The primary medical specialists who use and/or prescribe our diabetes products are endocrinologists, diabetologists, and internists. Our most significant competitors for diabetes products are Abbott Laboratories, DexCom, Inc., Insulet Corporation, Johnson & Johnson, and Roche Ltd.

Surgical Technologies

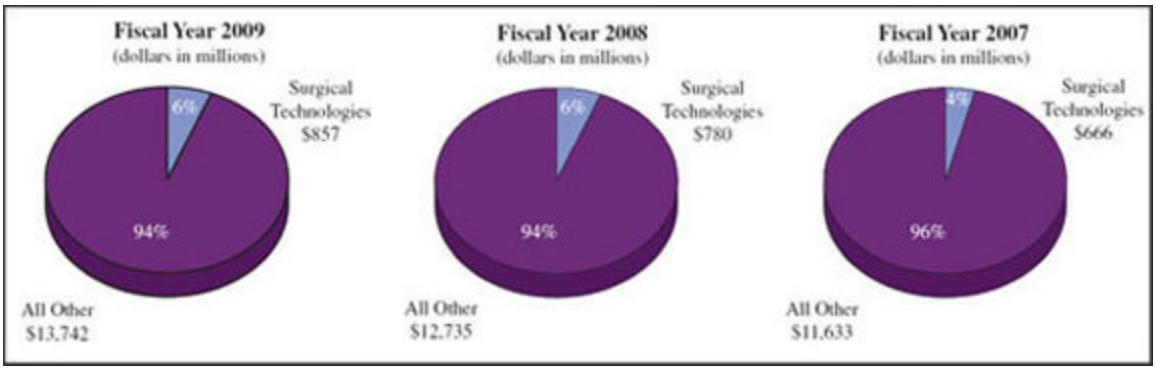
Our Surgical Technologies business develops, manufactures, and markets products and therapies to treat diseases and conditions of the ear, nose and throat (ENT), and certain neurological disorders. In addition, the segment manufactures and markets image guided surgery and intra-operative imaging systems that facilitate surgical planning during precision cranial, spinal, sinus and orthopedic surgeries. As a market leader in ENT and neurosurgery, we are changing the way surgery is performed with innovative, minimally invasive products and techniques that benefit both patients and surgeons.

Conditions Treated

Our Surgical Technologies products are used in the treatment of the conditions described below.

- ENT diseases and disorders, such as chronic sinusitis, chronic otitis media, hearing loss, Ménière's disease, thyroid diseases, and tumors of the head and neck.
- Neurological diseases and disorders, including both pediatric and normal pressure hydrocephalus, traumatic brain injury, and spinal conditions.
- A broad range of cranial, spinal, sinus, and orthopedic maladies through the use of computer-assisted navigation and imaging during surgery.

The charts below set forth net sales of our Surgical Technologies business as a percentage of our total net sales for each of the last three fiscal years:



Our primary Surgical Technologies products include powered tissue-removal systems, high-speed powered surgical drill systems to facilitate surgical access in the spine and cranium, fluid-control products including shunts for pediatric and normal pressure hydrocephalus and systems for the treatment of traumatic brain injury, a full line of cranial fixation devices that include both titanium and resorbable plates and screws, nerve monitoring systems, image-guided surgery systems, intra-operative imaging systems, a Ménière's disease therapy device, and a portfolio of products to treat benign snoring and obstructive sleep apnea.

Chronic Rhinosinusitis (sinus infections). For the surgical treatment of chronic sinus infections, we offer powered and manual instruments with a variety of blade configurations for removing soft tissue and bone. Our bioresorbable nasal packing and dressings, such as MeroGel Dressing and the recently introduced MeroPak CMC gel, aid in wound-healing and help reduce postoperative complications following these procedures. We also offer image-guided surgery and intra-operative imaging systems to improve safety and efficacy when surgeons operate near critical structures such as the brain and eyes. The FUSION EM system provides a robust, expandable system that may be used for virtually any ENT image guidance procedure.

Chronic Otitis Media (ear infections). For the treatment of chronic otitis media, we provide a wide range of middle ear ventilation tubes to facilitate middle ear ventilation and prevent fluid accumulation. We also offer powered instruments and drills, such as the M4 and Integrated Power Console System, to remove enlarged adenoid tissue, enable surgical access and remove diseased bone. Untreated chronic otitis media is the most common cause of hearing loss in children, which can impair learning and speech development. It can also spread to other areas of the head and neck and lead to serious complications.

Hearing Loss. To correct conductive hearing loss, we offer various types of implantable middle ear prostheses that replace missing bone(s) in the ear necessary to conduct sound. These products are malleable/trimmable and may be shaped by the surgeon to fit each particular patient's anatomy.

Thyroid Disease. For surgery related to thyroid disease, we offer the NIM-Response 3.0 Nerve Integrity Monitor, NIM-Neuro 3.0 Nerve Integrity Monitor, and NIM EMG Tubes. These products assist surgeons in identifying and continuously monitoring the recurrent laryngeal or vagus nerves during complicated, high-risk thyroid surgery. Since the actual nerve damage during surgery is much higher than perceived, using our nerve monitoring products in these procedures is a benefit to both the patient and the surgeon, reducing the risk of patient injury and enabling more precise, complete dissection.

Ménière's Disease. To alleviate debilitating vertigo associated with the inner ear condition known as Ménière's disease, we offer the portable, minimally invasive Meniett Low-Pressure Pulse Generator. Severe vertigo, which can cause nausea and vomiting, is considered by patients to be the most problematic and debilitating symptom of Ménière's disease, often affecting their ability to work or participate in daily activities. Using Meniett therapy, patients can self-administer their treatment at home or work for a few minutes each day by delivering low-pressure air pulses through a tube connected to an earpiece placed in the outer ear.

Surgical Access and Cranial Fixation. To facilitate surgical access in cranial, spinal and orthopedic procedures, we offer the Legend electric and pneumatic high-speed powered surgical drill systems. The Stylus system, our high-speed electric drill line, provides significant power in a small, ergonomic design. We recently introduced a procedure specific microdebrider for use in certain spine procedures. We also offer titanium and resorbable polymer plates and screw systems designed to provide for rigid fixation of the skull. In addition to plates and screws, our Durepair dura substitute is indicated for use as both an on-lay and suturable graft for repair of the dura skin layer.

Hydrocephalus. The Strata valve is an adjustable shunt system for the treatment of hydrocephalus, a condition characterized by an abnormal accumulation of cerebral spinal fluid in the brain. There are two primary forms of hydrocephalus; congenital or pediatric hydrocephalus, and normal pressure hydrocephalus, which afflicts the elderly. The Strata valve allows surgeons to non-invasively adjust the valve's performance level settings with an external magnetic adjustment device. This enables the surgeon to change the valve's performance characteristics over time without subjecting the patient to additional surgery. The shunt line also includes a wide assortment of nonadjustable valves.

Brain Injury. We also provide a large selection of external drainage and monitoring systems such as the Becker and Exacta and the newly introduced DUET systems as well as catheters that are used for the treatment of traumatic brain injury. These systems are designed to remove fluid from the brain in a controlled fashion to alleviate the build-up of intracranial pressure, which can be life threatening.

Sleep Apnea. Obstructive sleep apnea (OSA) is a disorder characterized by interruptions and cessations in breathing during sleep, which can occur up to hundreds of times a night. During fiscal year 2009, we greatly expanded our portfolio of treatments for sleep-disordered breathing. In July 2008, we acquired Restore Medical, Inc. (Restore Medical), a publicly traded company. Restore Medical's Pillar Palatal Implant System (Pillar System) is an innovative, minimally invasive, implantable medical device used to treat the soft palate component of sleep breathing disorders, including mild to moderate OSA and snoring. Additionally, in December 2008, we announced the acquisition of InfluENT Medical's Repose product line for the treatment of OSA. The Repose surgical devices advance the base of the tongue and the hyoid bone to prevent obstructions of the airway during sleep.

Navigation. We are one of the leaders in the field of computer-assisted surgery (CAS) and have installed approximately 2,500 StealthStation Treatment Guidance Systems in hospitals worldwide. In recent years, the pace of innovation in CAS has quickened considerably. We have developed and delivered new and updated hardware and software solutions to assist with varied surgeries including total joint replacements, minimally invasive spinal surgery, cranial tumor resection, biopsies, functional neurosurgery, and functional endoscopic sinus surgery. In June 2007, we acquired the O-Arm Imaging System (O-Arm), an intraoperative crossover technology enabling two-dimensional, multi-plane two-dimensional, and three-dimensional volumetric imaging. We continue to expand into new procedures leveraging navigation and imaging in existing cranial, spinal and ENT markets. Seamless integration of O-Arm with navigation is driving market adoption of navigation in minimally invasive spine procedures. New technologies such as electromagnetic (EM) navigation, advanced visualization tools and enhanced user interface design will enable new applications and drive adoption in existing and new markets.

Customers and Competitors

Our primary customers for products relating to our ENT diseases and disorders are ENT surgeons and the hospitals and clinics where they perform surgery. The most significant competitors in this part of our Surgical Technologies business are Olympus Corporation and Stryker Corporation.

Our primary customers for our neurosurgical products are neurosurgeons, spinal surgeons, and the hospitals and clinics where they perform surgery. Significant competitors are Johnson & Johnson, Stryker Corporation and Integra LifeSciences Holdings Corporation.

Our primary customers for our computer assisted surgery products are hospitals and clinics. The primary competitors of our computer assisted surgery products are BrainLAB, Inc. and Stryker Corporation.

Physio-Control

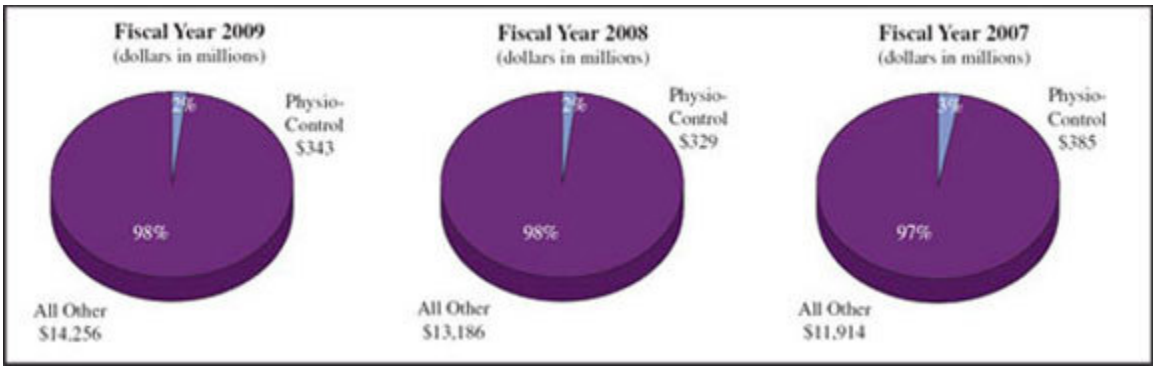
We develop, manufacture, market and service external defibrillators, including manual defibrillator/monitors used by hospitals and emergency response personnel and automated external defibrillators (AEDs) used in commercial and public settings. In addition to the portfolio of external defibrillation and emergency response systems, we offer related data management solutions and support services.

Conditions Treated

Our Physio-Control products are used in the treatment of the condition described below.

- Sudden Cardiac Arrest (SCA) — is a condition in which the heartbeat stops suddenly and unexpectedly. SCA is caused by life-threatening arrhythmias or abnormalities in the heart's electrical system.

The charts below set forth net sales of our Physio-Control business as a percentage of our total net sales for each of the last three fiscal years:



External Defibrillators. Many victims of SCA could be saved if they had quicker access to AEDs. In the U.S., the survival rate for victims of sudden cardiac arrest is only about 5 percent because the average response time to an emergency call for help is six to twelve minutes. Chances of survival are reduced significantly if the victim is not treated within five minutes. In August 2004, results from the largest-ever clinical trial studying the outcomes of public access to defibrillation were published in the New England Journal of Medicine. The data indicated that the use of portable AEDs by trained volunteers can significantly improve the probability of saving lives that otherwise might have been lost to sudden cardiac arrest. Hospitals, emergency medical services (EMS) and targeted responders rely on LIEFPAK products in the most urgent cardiac emergencies. Our LIFEPAK series of external defibrillators are designed to adapt to the physical needs of the patient and surrounding emergency conditions enabling fast, smooth transitions from the care from EMS to the treatment at the hospital. Physio-Control offers a broad range of life-saving tools for multiple user needs and our products have been incorporated in environments ranging from hospitals to emergency medical units to public places such as airports, sports arenas, schools, and workplaces. Today there are more than 700,000 LIFEPAK devices distributed worldwide.

On January 15, 2007, we announced our voluntary suspension of U.S. shipments of Physio-Control products manufactured at our facility in Redmond, Washington in order to address quality system issues. In the months following the suspension of U.S. shipments, we worked diligently with the FDA to address the quality system issues and resumed limited shipments to critical need customers. As a result of the work performed to date, in April 2008, we announced that we had reached an agreement on a consent decree with the FDA regarding quality system improvements for our external defibrillator products. The agreement was filed on April 25, 2008 in the U.S. District Court for the Western District of Washington and was approved by the court on May 9, 2008. The agreement addresses issues raised by the FDA during inspections regarding Physio-Control's quality system processes and outlines the actions Physio-Control must take in order to resume unrestricted distribution of our external defibrillators. We are continuing to work diligently on implementing the required actions necessary to resolve the quality issues addressed by the FDA.

In October 2008, we announced clearance by the FDA to market the LIFEPAK 20e defibrillator/monitor within the U.S. The 20e is an enhancement of the LIFEPAK 20 defibrillator/monitor, which has become the standard of care in many hospitals worldwide since its introduction in 2002. It offers all the capabilities of the LIFEPAK 20 device, along with a more powerful Lithium-ion battery that doubles ECG monitoring time and the run time of other parameters such as noninvasive pacing and pulse oximetry, a noninvasive way to monitor the oxygenation of a patient's hemoglobin. Additionally, a new on-screen "fuel gauge" displays the real-time status of available battery capacity so clinicians can monitor remaining use time. The 20e also was developed to be easily transported, helping hospitals meet the Joint Commission for Accreditation of Healthcare Organizations standard for having resuscitation services readily available in all facility areas.

In March 2009, we received 510(k) FDA market clearance for the LIFEPAK 15 Monitor/Defibrillator. The LIFEPAK 15 device builds on a 54-year Physio-Control legacy of providing innovative, reliable and durable equipment to emergency personnel so they can focus on the most important task at hand—saving lives. During the development of the LIFEPAK 15 monitor, Physio-Control partnered with emergency services personnel to create an all-new monitoring platform housing the fullest range of energy dosing, up to 360 joules, and the broadest range of monitoring options available. The LIFEPAK 15 device also builds on Physio-Control's legacy of industry firsts as it is the first monitor/defibrillator available to integrate noninvasive monitoring for carbon monoxide, the leading cause of poisoning death in industrialized countries. The 15 design focuses on several clinical and operational innovations, which include the largest, dual mode screen on the market providing maximum viewing capability from all angles, a one-touch button that flips the screen full-color to high-contrast SunVue mode for easy viewing in sunlight; and CPR Metronome, an audible prompt that actively guides users to a consistent compression rate without the need for extra external hardware. Additionally, the 15 provides ten times the speed and processing power of its predecessor, the LIFEPAK 12 defibrillator/monitor, and is powered by the latest lithium-ion and smart battery technology allowing nearly six hour run time. The 15, and its predecessor the LIFEPAK 12 monitor, are the only devices in the marketplace with ST-Segment Trending feature, which can continuously monitor 12-lead ECGs and alert emergency professionals to changes in a patient's heart rhythm during critical heart attack or other cardio-respiratory events. Minutes matter during cardiac events, so when the 15 is used in conjunction with the Web-based LIFENET System (available separately), customers can simultaneously transmit critical patient data from the field to multiple locations in the hospital, such as the cardiac cath lab and the emergency department. Physio-Control developed the LIFEPAK 15 device to be tougher and more durable than any other monitor/defibrillator on the market.

Customers and Competitors

The primary customers for our manual external defibrillators are EMS personnel, emergency care doctors and highly-trained nurses. Our primary competitors in the manual external defibrillator business are Zoll Medical Corporation and Philips Medical Systems.

The primary customers for our AED products are hospitals, schools, governments, businesses, and any other public facility. Our primary competitors in the AED business are Cardiac Science, Inc., Zoll Medical Corporation, Philips Medical Systems, Defibtech, LLC, and Welch Allyn Inc.

Research and Development

The markets in which we participate are subject to rapid technological advances. Constant improvement of products and introduction of new products is necessary to maintain market leadership. Our research and development efforts are directed toward maintaining or achieving technological leadership in each of the markets we serve in order to help ensure that patients using our devices and therapies receive the most advanced and effective treatment possible. We are committed to developing technological enhancements and new indications for existing products, as well as less invasive and new technologies to address unmet patient needs and to help reduce patient care costs and length of hospital stays. We have not engaged in significant customer or government-sponsored research.

During fiscal years 2009, 2008, and 2007, we spent $1.355 billion (9.3 percent of net sales), $1.275 billion (9.4 percent of net sales) and $1.239 billion (10.1 percent of net sales) on research and development, respectively. Our research and development activities include improving existing products and therapies, expanding their indications and applications for use, and developing new products. While we continue to make substantial investments for the expansion of our existing product lines and for the search of new innovative products, we have also focused heavily on carefully planned clinical trials, which lead to market expansion and enable further penetration of our life changing devices.

Acquisitions and Investments

Our strategy to provide a broad range of therapies to restore patients to fuller, healthier lives requires a wide variety of technologies, products, and capabilities. The rapid pace of technological development in the medical industry and the specialized expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. In addition to internally generated growth through our research and development efforts, historically we have relied, and expect to continue to rely, upon acquisitions, investments, and alliances to provide access to new technologies both in areas served by our existing businesses as well as in new areas.

We expect to make future investments or acquisitions where we believe that we can stimulate the development of, or acquire new technologies and products to further our strategic objectives and strengthen our existing businesses. Mergers and acquisitions of medical technology companies are inherently risky and no assurance can be given that any of our previous or future acquisitions will be successful or will not materially adversely affect our consolidated results of operations, financial condition, or cash flows.

During April 2009, we acquired privately held CoreValve. Total consideration for the transaction was approximately $700 million including payment of direct acquisition costs. CoreValve develops percutaneous, catheter-based transfemoral aortic valve replacement products.

During February 2009, we acquired privately held Ventor, a development stage company focused on transcatheter heart valve technologies for the treatment of aortic valve disease. This acquisition adds two technologies to our transcatheter valve portfolio: a minimally invasive, surgical transapical technology and a next generation percutaneous, transfemoral technology. Total consideration for the transaction, net of cash acquired, was approximately $308 million.

During February 2009, we acquired privately held Ablation Frontiers. Under the terms of the agreement, the transaction included an initial up-front payment of $225 million plus potential additional payments contingent upon achievement of certain clinical milestones. Total consideration for the transaction was approximately $235 million including the assumption and settlement of existing Ablation Frontiers debt and payment of direct acquisition costs. Ablation Frontiers develops radiofrequency (RF) ablation solutions for treatment of atrial fibrillation. Ablation Frontiers' system of ablation catheters and RF generator is currently approved in certain markets outside the U.S.

During November 2008, we acquired substantially all of the outstanding stock of CryoCath. Under the terms of the agreement, CryoCath shareholders received $8.75 Canadian dollars per share in cash for each share of CryoCath common stock that they owned. Total consideration for the transaction, net of cash acquired, was approximately $352 million U.S. dollars including the purchase of outstanding CryoCath common stock, the assumption and settlement of existing CryoCath debt and payment of direct acquisition costs. CryoCath develops cryotherapy products to treat cardiac arrhythmias. CryoCath's Arctic Front product is a minimally invasive cryo-balloon catheter designed specifically to treat atrial fibrillation and is currently approved in certain markets outside the U.S.

During July 2008, we acquired all of the outstanding stock of Restore Medical. Restore Medical shareholders received $1.60 per share in cash for each share of Restore Medical's common stock they owned. Total consideration for the transaction, net of cash acquired, was approximately $29 million. Restore Medical's Pillar System will provide us with a minimally invasive, implantable medical device used to treat the soft palate component of sleep breathing disorders, including mild to moderate obstructive sleep apnea and snoring.

Patents and Licenses

We rely on a combination of patents, trademarks, copyrights, trade secrets, and nondisclosure and non-competition agreements to establish and protect our proprietary technology. We have filed and obtained numerous patents in the U.S. and abroad, and regularly file patent applications worldwide in our continuing effort to establish and protect our proprietary technology. In addition, we have entered into exclusive and non-exclusive licenses relating to a wide array of third-party technologies. We have also obtained certain trademarks and trade names for our products to distinguish our genuine products from our competitors' products, and we maintain certain details about our processes, products and strategies as trade secrets. Our efforts to protect our intellectual property and avoid disputes over proprietary rights have included ongoing review of third-party patents and patent applications. See "Item 1A. Risk Factors" and Note 16 to the consolidated financial statements set forth in Exhibit 13 hereto for additional information.

Markets and Distribution Methods

We sell most of our medical devices through direct sales representatives in the U.S. and a combination of direct sales representatives and independent distributors in international markets. The three largest markets for our medical devices are the U.S., Western Europe, and Japan. Markets outside the U.S. are an area of increasing focus and opportunity as we believe they remain under penetrated.

In December 2008, we announced the completion of our equity investment in Shandong Weigao Group Medical Polymer Company Limited (Weigao). In connection with this transaction, we initiated with Weigao a joint venture to market in China our spinal products and Weigao's orthopedic products which include therapies for the hip, shoulder, spine and trauma. The joint venture entity commenced operations in September 2008, with an affiliate of Medtronic holding a 51 percent interest in the joint venture and Weigao holding the remaining 49 percent interest. These efforts enable us to further build on our product, distribution and marketing platforms, improving our strategic position to take advantage of existing and future opportunities in manufacturing and distribution in the spinal, orthopedic and trauma sectors in China.

Our marketing and sales strategy is focused on rapid, cost-effective delivery of high-quality products to a diverse group of customers worldwide – including physicians, hospitals, other medical institutions, and group purchasing organizations. To achieve this objective, we organize our marketing and sales teams around physician specialties. This focus enables us to develop highly knowledgeable and dedicated sales representatives who are able to foster strong relationships with physicians and other customers, and enhance our ability to cross-sell complementary products. We believe that we maintain excellent working relationships with physicians and others in the medical industry that enable us to gain a detailed understanding of therapeutic and diagnostic developments, trends and emerging opportunities, and respond quickly to the changing needs of physicians and patients. We attempt to enhance our presence in the medical community through active participation in medical meetings and by conducting comprehensive training and educational activities. We believe that these activities contribute to physician expertise.

In keeping with the increased emphasis on cost-effectiveness in healthcare delivery, the current trend among hospitals and other customers of medical device manufacturers is to consolidate into larger purchasing groups to enhance purchasing power. As a result, transactions with customers have become increasingly significant, more complex, and tend to involve more long-term contracts than in the past. This enhanced purchasing power may also lead to pressure on pricing and increased use of preferred vendors. We are not dependent on any single customer for more than 10 percent of our total net sales.

Competition and Industry

We compete in both the therapeutic and diagnostic medical markets in more than 120 countries throughout the world. These markets are characterized by rapid change resulting from technological advances and scientific discoveries. In the product lines in which we compete, we face a mixture of competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of products. In addition, we face competition from providers of alternative medical therapies such as pharmaceutical companies.

Major shifts in industry market share have occurred in connection with product problems, physician advisories and safety alerts, reflecting the importance of product quality in the medical device industry. In the current environment of managed care, economically motivated buyers, consolidation among healthcare providers, increased competition, and declining reimbursement rates, we have been increasingly required to compete on the basis of price. In order to continue to compete effectively, we must continue to create or acquire advanced technology, incorporate this technology into proprietary products, obtain regulatory approvals in a timely manner, and manufacture and successfully market these products.

Worldwide Operations

For financial reporting purposes, net sales and long-lived assets attributable to significant geographic areas are presented in Note 18 to the consolidated financial statements set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report.

Impact of Business Outside of the U.S.

Our operations in countries outside the U.S. are accompanied by certain financial and other risks. Relationships with customers and effective terms of sale vary by country, often with longer-term receivables than are typical in the U.S. Inventory management is an important business concern due to the potential for obsolescence, long lead times from sole source providers and currency exposure. Currency exchange rate fluctuations can affect net sales from, and profitability of, operations outside the U.S. We attempt to hedge these exposures to reduce the effects of foreign currency fluctuations on net earnings. See the "Market Risk" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 9 to the consolidated financial statements set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report. In addition, the repatriation of certain earnings of our foreign subsidiaries' may result in substantial U.S. tax cost.

Production and Availability of Raw Materials

We manufacture most of our products at 22 manufacturing facilities located in various countries throughout the world. The largest of these manufacturing facilities are located in Arizona, California, Florida, Indiana, Ireland, Massachusetts, Mexico, Minnesota, Puerto Rico, Switzerland, Texas, and Washington. We purchase many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. For reasons of quality assurance, sole source availability, or cost effectiveness, certain components and raw materials are available only from a sole supplier. We work closely with our suppliers to help ensure continuity of supply while maintaining high quality and reliability. Due to the FDA's requirements regarding manufacture of our products, we may not be able to quickly establish additional or replacement sources for certain components or materials. Generally, we have been able to obtain adequate supplies of such raw materials and components. However, the reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect our operations.

Employees

On April 24, 2009, we employed approximately 41,000 employees (including full-time equivalent employees). Our employees are vital to our success. We believe we have been successful in attracting and retaining qualified personnel in a highly competitive labor market due to our competitive compensation and benefits, and our rewarding work environment. We believe our employee relations are excellent.

Seasonality

Worldwide sales do not reflect any significant degree of seasonality.

Government Regulation and Other Considerations

Our medical devices are subject to regulation by numerous government agencies, including the FDA and comparable foreign agencies. To varying degrees, each of these agencies requires us to comply with laws and regulations governing the development, testing, manufacturing, labeling, marketing, and distribution of our medical devices.

Authorization to commercially distribute a new medical device in the U.S. is generally received in one of two ways. The first, known as pre-market notification or the 510(k) process, requires us to demonstrate that our new medical device is substantially equivalent to a legally marketed medical device. In this process, we must submit data that supports our equivalence claim. If human clinical data is required, it must be gathered in compliance with FDA investigational device exemption regulations. We must receive an order from the FDA finding substantial equivalence to another legally marketed medical device before we can commercially distribute the new medical device. Modifications to cleared medical devices can be made without using the 510(k) process if the changes do not significantly affect safety or effectiveness. A very small number of our devices are exempt from pre-market review.

The second, more rigorous process, known as pre-market approval (PMA), requires us to independently demonstrate that the new medical device is safe and effective. We do this by collecting data regarding design, materials, bench and animal testing, and human clinical data for the medical device. The FDA will authorize commercial release if it determines there is reasonable assurance that the medical device is safe and effective. This determination is based on benefit outweighing risk for the population intended to be treated with the device. This process is much more detailed, time-consuming and expensive than the 510(k) process. A third process for approval exists for products intended for orphan populations, which is less than 4,000 patients per year in the U.S. This exemption is similar to the PMA process, however, a full showing of product effectiveness from large clinical trials is not required. The threshold for these products is probable benefit and safety.

Both before and after a product is commercially released, we have ongoing responsibilities under FDA regulations. The FDA reviews design and manufacturing practices, labeling and record keeping, and manufacturers' required reports of adverse experiences and other information to identify potential problems with marketed medical devices. We are also subject to periodic inspection by the FDA for compliance with the FDA's quality system regulations among other FDA requirements, such as restrictions on advertising and promotion. The quality system regulations govern the methods used in, and the facilities and controls used for, the design, manufacture, packaging and servicing of all finished medical devices intended for human use. If the FDA were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the FDA could require us to notify health professionals and others that the devices present unreasonable risks of substantial harm to the public health, order a recall, repair, replacement, or refund of such devices, detain or seize adulterated or misbranded medical devices, or ban such medical devices. The FDA may also impose operating restrictions, enjoin and restrain certain violations of applicable law pertaining to medical devices, and assess civil or criminal penalties against our officers, employees, or us. The FDA may also recommend prosecution to the Department of Justice.

The FDA, in cooperation with U.S. Customs and Border Protection (CBP), administers controls over the import of medical devices into the U.S. The CBP imposes its own regulatory requirements on the import of our products, including inspection and possible sanctions for noncompliance. The FDA also administers certain controls over the export of medical devices from the U.S. International sales of our medical devices that have not received FDA approval are subject to FDA export requirements. Many foreign countries to which we export medical devices also subject such medical devices to their own regulatory requirements. Frequently, we obtain regulatory approval for medical devices in foreign countries first because their regulatory approval is faster or simpler than that of the FDA. However, as a general matter, foreign regulatory requirements are becoming increasingly common and more stringent.

In the European Union, a single regulatory approval process has been created, and approval is represented by the CE Mark. To obtain a CE Mark in the European Union, defined products must meet minimum standards of performance, safety and quality (i.e., the essential requirements) and then comply with one or more of a selection of conformity routes. A notified body assesses the quality management systems of the manufacturer and the product conformity to the essential and other requirements within the medical device directive. Medtronic is subject to inspection by notified bodies for compliance. The competent authorities of the European Union countries, generally in the form of their departments of health, oversee the clinical research for medical devices and are responsible for the products once they are in commercial distribution. We are required to report device failures and injuries potentially related to product use to these authorities in a timely manner. Various penalties exist for non-compliance with the medical device directives.

To be sold in Japan, most medical devices must undergo thorough safety examinations and demonstrate medical efficacy before they are granted approval, or “shonin.” The Japanese government, through the Ministry of Health, Labour, and Welfare (MHLW), regulates medical devices under the Pharmaceutical Affairs Law (PAL). Oversight for medical devices is conducted with participation by the Pharmaceutical and Medical Devices Agency (PMDA), a quasi government organization performing many of the review functions for MHLW. Penalties for a company’s noncompliance with PAL could be severe, including revocation or suspension of a company’s business license and criminal sanctions. MHLW and PMDA also assess the quality management systems of the manufacturer and the product conformity to the requirements of the Pharmaceutical Affairs Law. Medtronic is subject to inspection for compliance by these agencies.

The process of obtaining approval to distribute medical products is costly and time-consuming in virtually all of the major markets where we sell medical devices. We cannot assure that any new medical devices we develop will be approved in a timely or cost-effective manner or approved at all.

Federal and state laws protect the confidentiality of certain patient health information, including patient medical records, and restrict the use and disclosure of patient health information by healthcare providers. In particular, in April 2003, the U.S. Department of Health and Human Services (HHS) published patient privacy rules under the Health Insurance Portability and Accountability Act of 1996 (HIPAA privacy rule) and, in April 2005, published security rules for protected health information. The HIPAA privacy and security rules govern the use, disclosure and security of protected health information by “Covered Entities,” which are healthcare providers that submit electronic claims, health plans and healthcare clearinghouses. In 2009, Congress passed the HITECH Act, which modified certain provisions of the HIPAA privacy and security rules for Covered Entities and their Business Associates (which is anyone that performs a service on behalf of a Covered Entity involving the use or disclosure of protected health information and is not a member of the covered entity’s workforce). These included directing HHS to publish more specific security standards, and increasing breach notification requirements, as well as tightening certain aspects of the privacy rules. In addition, the HITECH Act provided that Business Associates will now be subject to the same security requirements as Covered Entities, and that with regard to both the security and privacy rule, Business Associates will be subject to direct enforcement by HHS, including civil and criminal liability, just as Covered Entities are. In the past, HIPAA has generally affected us indirectly. Medtronic is generally not a Covered Entity, except for a few units such as our Diabetes operating segment and our health insurance plans. Medtronic only operates as a Business Associate to Covered Entities in a limited number of instances. In those cases, the patient data that we receive and analyze may include protected health information. We are committed to maintaining the security and privacy of patients’ health information and believe that we meet the expectations of the HIPAA rules. Some modifications to our systems and policies may be necessary, but the framework is already in place. However, the potential for enforcement action against us is now greater, as HHS can take action directly against Business Associates. Thus, while we believe we are and will be in compliance with all HIPAA standards, there is no guarantee that the government will not disagree. Enforcement actions can be costly and interrupt regular operations of our business. Nonetheless, these new requirements affect only a small portion of our business. We believe the ongoing costs and impacts of assuring compliance with the HIPAA privacy and security rules are not material to our business.

Government and private sector initiatives to limit the growth of healthcare costs, including price regulation, competitive pricing, coverage and payment policies, comparative effectiveness of therapies, technology assessments, and managed-care arrangements, are continuing in many countries where we do business, including the U.S. These changes are causing the marketplace to put increased emphasis on the delivery of more cost-effective medical devices. Government programs, including Medicare and Medicaid, private healthcare insurance, and managed-care plans have attempted to control costs by limiting the amount of reimbursement they will pay for particular procedures or treatments, and other mechanisms designed to constrain utilization and contain costs, including, for example, gainsharing, where a hospital agrees with physicians to share any realized cost savings resulting from the physicians' collective change in practice patterns such as standardization of devices where medically appropriate. This has created an increasing level of price sensitivity among customers for our products. Some third-party payors must also approve coverage for new or innovative devices or therapies before they will reimburse healthcare providers who use the medical devices or therapies. Even though a new medical device may have been cleared for commercial distribution, we may find limited demand for the device until reimbursement approval has been obtained from governmental and private third-party payors. In addition, some private third-party payors require that certain procedures or that the use of certain products be authorized in advance as a condition of reimbursement. As a result of our manufacturing efficiencies and cost controls, we believe we are well-positioned to respond to changes resulting from the worldwide trend toward cost-containment; however, uncertainty remains as to the nature of any future legislation, making it difficult for us to predict the potential impact of cost-containment trends on future operating results.

The delivery of our devices is subject to regulation by HHS and comparable state and foreign agencies responsible for reimbursement and regulation of healthcare items and services. U.S. laws and regulations are imposed primarily in connection with the Medicare and Medicaid programs, as well as the government's interest in regulating the quality and cost of healthcare. Foreign governments also impose regulations in connection with their healthcare reimbursement programs and the delivery of healthcare items and services.

Federal healthcare laws apply when we or customers submit claims for items or services that are reimbursed under Medicare, Medicaid or other federally-funded healthcare programs. The principal federal laws include: (1) the False Claims Act which prohibits the submission of false or otherwise improper claims for payment to a federally-funded health care program; (2) the Anti-Kickback Statute which prohibits offers to pay or receive remuneration of any kind for the purpose of inducing or rewarding referrals of items or services reimbursable by a Federal healthcare program; and (3) the Stark law which prohibits physicians from referring Medicare or Medicaid patients to a provider that bills these programs for the provision of certain designated health services if the physician (or a member of the physician's immediate family) has a financial relationship with that provider; and (4) healthcare fraud statutes that prohibit false statements and improper claims with any third-party payor. There are often similar state false claims, anti-kickback, and anti-self referral and insurance laws that apply to state-funded Medicaid and other healthcare programs and private third-party payors. In addition, the U.S. Federal Corrupt Practices Act can be used to prosecute companies in the U.S. for arrangements with physicians, or other parties outside the U.S. if the physician or party is a government official of another country and the arrangement violates the law of that country.

The laws applicable to us are subject to change, and to evolving interpretations. If a governmental authority were to conclude that we are not in compliance with applicable laws and regulations, Medtronic and its officers and employees could be subject to severe criminal and civil penalties including substantial penalties, fines and damages, and exclusion from participation as a supplier of product to beneficiaries covered by Medicare or Medicaid.

We operate in an industry characterized by extensive patent litigation. Patent litigation can result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or result in significant royalty payments in order to continue selling the products. At any given time, we are involved as both a plaintiff and a defendant in a number of patent infringement actions. While it is not possible to predict the outcome of patent litigation incident to our business, we believe the costs associated with this type of litigation could have a material adverse impact on our consolidated results of operations, financial position or cash flows. See Note 16 to the consolidated financial statements set forth in Exhibit 13 hereto as well as our 2009 Annual Report for additional information.

We operate in an industry susceptible to significant product liability claims. These claims may be brought by individuals seeking relief on their own behalf or purporting to represent a class. In addition, product liability claims may be asserted against us in the future based on events we are not aware of at the present time.

We are also subject to various environmental laws and regulations both within and outside the U.S. Like other medical device companies, our operations involve the use of substances regulated under environmental laws, primarily manufacturing and sterilization processes. To the best of our knowledge at this time, we do not expect that compliance with environmental protection laws will have a material impact on our consolidated results of operations, financial position, or cash flows.

We have elected to self-insure most of our insurable risks, including medical and dental costs, disability coverage, physical loss to property, business interruptions, workers' compensation, comprehensive general, director and officer, and product liability. Decisions to self-insure are based on comparisons between the price of insurance and the economic value of insurance coverage. Currently, external insurance is not considered to be an economically sound means of financing losses for the Company. We continue to monitor the insurance marketplace to evaluate the value to us of obtaining insurance coverage in the future. Based on historical loss trends, we believe that our self-insurance program accruals will be adequate to cover future losses. Historical trends, however, may not be indicative of future losses. These losses could have a material adverse impact on our consolidated results of operations, financial position, or cash flows.

Executive Officers of Medtronic

Set forth below are the names and ages of current executive officers of Medtronic, Inc., as well as information regarding their positions with Medtronic, their periods of service in these capacities, and their business experiences. There are no family relationships among any of the officers named, nor is there any arrangement or understanding pursuant to which any person was selected as an officer.

William A. Hawkins, age 55, has been a Director of Medtronic since March 2007 and Chairman and Chief Executive Officer since August 2008. He served as President and Chief Executive Officer of Medtronic since from August 2007 to August 2008 and as President and Chief Operating Officer from May 2004 to August 2007. He served as Senior Vice President and President, Medtronic Vascular, from January 2002 to May 2004. He served as President and Chief Executive Officer of Novoste Corporation from 1998 to 2002. He is also a member of the board of visitors of the Engineering School of Duke University and the Guthrie Theatre board.

Susan Alpert, Ph.D., M.D., age 63, has been Senior Vice President, Chief Regulatory Officer since May 2008. Prior to that, she was Senior Vice President, Chief Quality and Regulatory Officer from November 2005 to May 2008, and prior to that, Vice President, Chief Quality and Regulatory Officer from May 2004 to November 2005, and Vice President, Regulatory Affairs and Compliance from July 2003 to May 2004. Prior to that, she was Vice President of Regulatory Sciences at C.R. Bard, Inc. from October 2000 to July 2003. She held a variety of positions at the FDA from June 1987 to August 2000.

Martha Goldberg Aronson, age 41, has been Senior Vice President and Chief Talent Officer since March 2008. Prior to that, she was Vice President, Investor Relations from May 2006 to March 2008, Vice President of the Neurological, Gastroenterology/Urology, Obesity Management, ENT/Neurologic Technology and Diabetes businesses in Western Europe from May 2003 to May 2006 and Vice President and General Manager of Medtronic Gastroenterology/Urology from 2001 to May 2003. She joined Medtronic in April 1991, from Bain & Company, a global management consulting firm.

Robert H. Blankemeyer, age 62, has been Senior Vice President and President of Surgical Technologies since June 2008. Prior to that, he was President of the Ear, Nose & Throat and Neurologic Technologies business unit from April 2000 until its merger into Surgical Technologies in 2008. Prior to joining Medtronic, he was President of Storz Ophthalmics Inc., where he held several business leadership positions.

Jean-Luc Butel, age 52, has been Senior Vice President and President, International since May 2008. Prior to that, he was Senior Vice President and President, Asia Pacific from August 2003 to May 2008 and President of Independence Technology, a Johnson & Johnson company, from 1999 to 2003. From 1991 to 1999, he worked for Becton Dickinson and Company, initially as General Manager of its Microbiology business in Japan and then as President of Nippon Becton Dickinson. His last assignment at Becton, Dickinson and Company was President, Worldwide Consumer Healthcare.

H. James Dallas, age 50, has been Senior Vice President, Quality and Operations since April 2008. Prior to that he was Senior Vice President and Chief Information Officer of Medtronic from April 2006 to April 2008. He was Vice President and Chief Information Officer of Georgia Pacific Corporation from December 2002 to December 2005; General Manager of the Transportation Division and President of the Lumber Division of Georgia Pacific Corporation from October 2001 to December 2002; and Vice President, Building Products Distribution Sales and Logistics, Georgia Pacific Corporation from October 2000 to October 2001.

Gary L. Ellis, age 52, has been Senior Vice President and Chief Financial Officer since May 2005. Prior to that, he was Vice President, Corporate Controller and Treasurer since October 1999 and Vice President Corporate Controller from August 1994. Mr. Ellis joined Medtronic in 1989 as Assistant Corporate Controller and was promoted to Vice President of Finance for Medtronic Europe in 1992, until being named as Corporate Controller in 1994. Mr. Ellis is a member of the board of directors of The Toro Company and past chairman of the American Heart Association.

Richard Kuntz, M.D., age 52, has been Senior Vice President and President, Neuromodulation since October 2005. Prior to that, he was an interventional cardiologist and Chief of the Division of Clinical Biometrics at Brigham and Women's Hospital, Associate Professor of Medicine and Chief Scientific Officer of the Harvard Clinical Research Institute.

Steve La Neve, age 50, has been Senior Vice President and President Spinal and Biologics since April 2008. Prior to that, he was President of Medtronic Japan from April 2004 to April 2008. He was Senior Vice President of Business Development and Supplier Integration and Executive Vice President of Relationship Management at Premier, Inc. from September 2000 to March 2004. He was Vice President and General Manager and Director of Sales and Marketing at Becton, Dickinson and Company from March 1990 to August 2000, and prior to that, he held other healthcare management roles with Hoffmann-La Roche and EM Diagnostic Systems.

James P. Mackin, age 42, has been Senior Vice President and President Cardiac Rhythm Disease Management (CRDM) since August 2007. Prior to that, he was Vice President, CRDM Commercial Operations from November 2006 to August 2007 and Vice President, Vascular, Western Europe, from July 2004 to November 2006. He was Vice President and General Manager of Medtronic Vascular's Endovascular business from October 2002 to July 2004. Prior to joining Medtronic, he served in a number of sales and executive positions at Genzyme Corporation from 1996 to 2004.

Stephen H. Mahle, age 63, has been Executive Vice President Healthcare Policy and Regulatory since April 2008. Prior to that he was Executive Vice President and Senior Healthcare Policy Advisor from August 2007 to April 2008, and prior to that was Executive Vice President and President, Cardiac Rhythm Disease Management since May 2004. He was Senior Vice President and President, Cardiac Rhythm Management, since January 1998. Prior to that, he was President, Brady Pacing, from 1995 to 1997 and Vice President and General Manager, Brady Pacing, from 1990 to 1995. Mr. Mahle has been with the Company for 36 years and served in various general management positions prior to 1990. Mr. Mahle serves on the board of directors of ATMI, Inc.

Christopher J. O'Connell, age 42, has been Senior Vice President and President, Diabetes, since October 2006. Prior to that, he was President of Medtronic's Emergency Response Systems division from May 2005 to October 2006, and prior to that, he was Vice President of Sales and Marketing of Medtronic's Cardiac Rhythm Disease Management division from November 2001 to May 2005 and Vice President/General Manager of the Patient Management Business from January 2000 to November 2001. Mr. O'Connell has served in various management positions since joining the Company in 1994.

Stephen N. Oesterle, M.D., age 58, has been Senior Vice President, Medicine and Technology, since January 2002. Prior to that, he was Associate Professor of Medicine at Harvard Medical School and Director of Invasive Cardiology Services at Massachusetts General Hospital from 1998 to 2002, and was Associate Professor of Medicine at Stanford University and Director of Cardiac Catheterization and Coronary Intervention Laboratories at the Stanford University Medical Center from 1992 to 1998. Prior to that he held other academic positions and directed interventional cardiology programs at Georgetown University and in Los Angeles, CA.

Catherine Szyman, age 42, has been Senior Vice President, Strategy and Innovation since April 2008. Prior to that, she was Vice President and General Manager of Endovascular Innovations, part of the CardioVascular business unit, from October 2004 to April 2008. From 1991 to 2004, she held numerous management and leadership roles at Medtronic, including Vice President of Corporate Strategy and Vice President of Finance for the Vascular business.

Scott R. Ward, age 49, has been Senior Vice President and President, CardioVascular since May 2007. Prior to that he was Senior Vice President and President, Vascular from May 2004 to May 2007, Senior Vice President and President, Neurological and Diabetes Business, from February 2002 to May 2004, and was President, Neurological, from January 2000 to January 2002. He was Vice President and General Manager of Medtronic's Drug Delivery Business from 1995 to 2000. Prior to that, Mr. Ward led the Company's Neurological Ventures in the successful development of new therapies. Mr. Ward also held various research, regulatory and business development positions since joining Medtronic in 1981. He is also a board member of MAP Pharmaceuticals, Inc.

Item 1A. Risk Factors

Investing in Medtronic involves a variety of risks and uncertainties, known and unknown, including, among others, those discussed below.

The medical device industry is highly competitive and we may be unable to compete effectively.

We compete in both the therapeutic and diagnostic medical markets in more than 120 countries throughout the world. These markets are characterized by rapid change resulting from technological advances and scientific discoveries. In the product lines in which we compete, we face a mixture of competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of products. Development by other companies of new or improved products, processes or technologies may make our products or proposed products less competitive. In addition, we face competition from providers of alternative medical therapies such as pharmaceutical companies. Competitive factors include:

- product reliability,
- product performance,
- product technology,
- product quality,
- breadth of product lines,
- product services,
- customer support,
- price, and
- reimbursement approval from healthcare insurance providers.

Major shifts in industry market share have occurred in connection with product problems, physician advisories and safety alerts, reflecting the importance of product quality in the medical device industry. In the current environment of managed care, consolidation among healthcare providers, increased competition, and declining reimbursement rates, we have been increasingly required to compete on the basis of price. In order to continue to compete effectively, we must continue to create, invest in, or acquire advanced technology, incorporate this technology into our proprietary products, obtain regulatory approvals in a timely manner, and manufacture and successfully market our products. Given these factors, we cannot guarantee that we will be able to continue our level of success in the industry.

Reduction or interruption in supply and an inability to develop alternative sources for supply may adversely affect our manufacturing operations and related product sales.

We manufacture most of our products at 22 manufacturing facilities located throughout the world. We purchase many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. Generally we have been able to obtain adequate supplies of such raw materials and components. However, for reasons of quality assurance, cost effectiveness, or availability, we procure certain components and raw materials only from a sole supplier. While we work closely with our suppliers to try to ensure continuity of supply while maintaining high quality and reliability, we cannot guarantee that these efforts will be successful. In addition, due to the stringent regulations and requirements of the FDA regarding the manufacture of our products, we may not be able to quickly establish additional or replacement sources for certain components or materials. A reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect our ability to manufacture our products in a timely or cost effective manner and to make our related product sales.

Our industry is experiencing greater scrutiny and regulation by governmental authorities, which may lead to greater governmental regulation in the future.

Our medical devices and our business activities are subject to rigorous regulation, including by the FDA and numerous other federal, state and foreign governmental authorities. These authorities and members of Congress have been increasing their scrutiny of our industry. For example, we have received inquiries from members of Congress and other government agencies regarding a variety of matters. In addition, certain states have recently passed or are considering legislation restricting our interactions with health care providers and requiring disclosure of many payments to them. Also, while recent case law has clarified that the FDA's authority over medical devices preempts state tort laws, legislation has been introduced at the Federal level to allow state intervention. We anticipate that the government will continue to scrutinize our industry closely, and that additional regulation by governmental authorities may increase compliance costs, exposure to litigation and other adverse effects to our operations.

We are subject to many laws and governmental regulations and any adverse regulatory action may materially adversely affect our financial condition and business operations.

Our medical devices are subject to regulation by numerous government agencies, including the FDA and comparable foreign agencies. To varying degrees, each of these agencies requires us to comply with laws and regulations governing the development, testing, manufacturing, labeling, marketing, and distribution of our medical devices. We cannot guarantee that we will be able to obtain marketing clearance for our new products, or enhancements or modifications to existing products, and if we do, such approval may:

- take a significant amount of time,
- require the expenditure of substantial resources,
- involve stringent clinical and pre-clinical testing,
- involve modifications, repairs or replacements of our products, and
- result in limitations on the proposed uses of our products.

Both before and after a product is commercially released, we have ongoing responsibilities under FDA regulations. If the FDA were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the FDA could ban such medical devices, detain or seize adulterated or misbranded medical devices, order a recall, repair, replacement, or refund of such devices, and require us to notify health professionals and others that the devices present unreasonable risks of substantial harm to the public health. The FDA may also impose operating restrictions, enjoin and restrain certain violations of applicable law pertaining to medical devices, and assess civil or criminal penalties against our officers, employees, or us. The FDA may also recommend prosecution to the Department of Justice. Any adverse regulatory action, depending on its magnitude, may restrict us from effectively marketing and selling our products.

Foreign governmental regulations have become increasingly stringent and more common, and we may become subject to more rigorous regulation by foreign governmental authorities in the future. Penalties for a company's noncompliance with foreign governmental regulation could be severe, including revocation or suspension of a company's business license and criminal sanctions. Any domestic or foreign governmental law or regulation imposed in the future may have a material adverse effect on us.

We are also subject to various environmental laws and regulations both within and outside the U.S. Our operations involve the use of substances regulated under environmental laws, primarily those used in manufacturing and sterilization processes. We cannot guarantee that compliance with environmental protection laws and regulations will not have a material impact on our consolidated earnings, financial condition, or cash flows.

Our failure to comply with strictures relating to reimbursement and regulation of healthcare goods and services may subject us to penalties and adversely impact our reputation and business operations.

Our devices are subject to regulation regarding quality and cost by the HHS, including the Centers for Medicare & Medicaid Services (CMS) as well as comparable state and foreign agencies responsible for reimbursement and regulation of healthcare goods and services. Foreign governments also impose regulations in connection with their healthcare reimbursement programs and the delivery of healthcare goods and services. U.S. federal government healthcare laws apply when we submit a claim on behalf of a U.S. federal healthcare program beneficiary, or when a customer submits a claim for an item or service that is reimbursed under a U.S. federal government funded healthcare program, such as Medicare or Medicaid. The principal U.S. federal laws implicated include those that prohibit the filing of false or improper claims for federal payment, those that prohibit unlawful inducements for the referral of business reimbursable under federally-funded healthcare programs, known as the anti-kickback laws, and those that prohibit healthcare service providers seeking reimbursement for providing certain services to a patient who was referred by a physician that has certain types of direct or indirect financial relationships with the service provider, known as the Stark law.

The laws applicable to us are subject to evolving interpretations. If a governmental authority were to conclude that we are not in compliance with applicable laws and regulations, we and our officers and employees could be subject to severe criminal and civil penalties, including, for example, exclusion from participation as a supplier of product to beneficiaries covered by CMS. If we are excluded from participation based on such an interpretation it could adversely affect our reputation and business operations.

Quality problems with our processes, goods, and services could harm our reputation for producing high quality products and erode our competitive advantage.

Quality is extremely important to us and our customers due to the serious and costly consequences of product failure. Our quality certifications are critical to the marketing success of our goods and services. If we fail to meet these standards our reputation could be damaged, we could lose customers and our revenue could decline. Aside from specific customer standards, our success depends generally on our ability to manufacture to exact tolerances precision engineered components, subassemblies, and finished devices from multiple materials. If our components fail to meet these standards or fail to adapt to evolving standards, our reputation as a manufacturer of high quality components will be harmed, our competitive advantage could be damaged, and we could lose customers and market share.

We are substantially dependent on patent and other proprietary rights and failing to be successful in patent or other litigation may result in our payment of significant money damages and/or royalty payments, negatively impact our ability to sell current or future products, or prohibit us from enforcing our patent and proprietary rights against others.

We operate in an industry characterized by extensive patent litigation. Patent litigation can result in significant damage awards and injunctions that could prevent our manufacture and sale of affected products or require us to pay significant royalties in order to continue to manufacture or sell affected products. At any given time, we are generally involved as both a plaintiff and a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. While it is not possible to predict the outcome of patent litigation incident to our business, we believe the results associated with any litigation could result in our payment of significant money damages and/or royalty payments, negatively impact our ability to sell current or future products or prohibit us from enforcing our patent and proprietary rights against others, which would generally have a material adverse impact on our consolidated earnings, financial condition, or cash flows.

We rely on a combination of patents, trade secrets and nondisclosure and non-competition agreements to protect our proprietary intellectual property, and will continue to do so. While we intend to defend against any threats to our intellectual property, there can be no assurance that these patents, trade secrets, or other agreements will adequately protect our intellectual property. There can also be no assurance that pending patent applications owned by us will result in patents issuing to us, that patents issued to or licensed by us in the past or in the future will not be challenged or circumvented by competitors or that such patents will be found to be valid or sufficiently broad to protect our technology or to provide us with any competitive advantage. Third parties could also obtain patents that may require us to negotiate licenses to conduct our business, and there can be no assurance that the required licenses would be available on reasonable terms or at all. We also rely on nondisclosure and non-competition agreements with certain employees, consultants and other parties to protect, in part, trade secrets and other proprietary rights. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information, or that third parties will not otherwise gain access to our trade secrets or proprietary knowledge.

Product liability claims could adversely impact our financial condition and our earnings and impair our reputation.

Our business exposes us to potential product liability risks which are inherent in the design, manufacture and marketing of medical devices. In addition, many of the medical devices we manufacture and sell are designed to be implanted in the human body for long periods of time. Component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information with respect to these or other products we manufacture or sell could result in an unsafe condition or injury to, or death of, a patient. The occurrence of such a problem could result in product liability claims or a recall of, or safety alert relating to, one or more of our products which could ultimately result, in certain cases, in the removal from the body of such products and claims regarding costs associated therewith. We have elected to self-insure with respect to product liability risks. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on our business and reputation and on our ability to attract and retain customers for our products.

Our self-insurance program may not be adequate to cover future losses.

We have elected to self-insure most of our insurable risks. We made this decision based on conditions in the insurance marketplace that have led to increasingly higher levels of self-insurance retentions, increasing numbers of coverage limitations and dramatically higher insurance premium rates. We continue to monitor the insurance marketplace to evaluate the value to us of obtaining insurance coverage in the future. While based on historical loss trends we believe that our self-insurance program accruals will be adequate to cover future losses, we cannot guarantee that this will remain true. Historical trends may not be indicative of future losses. These losses could have a material adverse impact on our consolidated earnings, financial condition, or cash flows.

If we experience decreasing prices for our goods and services and we are unable to reduce our expenses, our results of operations will suffer.

We may experience decreasing prices for the goods and services we offer due to pricing pressure experienced by our customers from managed care organizations and other third-party payors; increased market power of our customers as the medical device industry consolidates; and increased competition among medical engineering and manufacturing services providers. If the prices for our goods and services decrease and we are unable to reduce our expenses, our results of operations will be adversely affected.

We are subject to a variety of risks due to our international operations that could adversely affect those operations or our profitability and operating results.

Our operations in countries outside the U.S., which accounted for 38 percent of our net sales for the year ended April 24, 2009, are accompanied by certain financial and other risks. We intend to continue to pursue growth opportunities in sales internationally, which could expose us to greater risks associated with international sales and operations. Our profitability and international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- changes in foreign medical reimbursement programs and policies,
- changes in foreign regulatory requirements,
- local product preferences and product requirements,
- longer-term receivables than are typical in the U.S.,
- fluctuations in foreign currency exchange rates,
- less protection of intellectual property in some countries outside of the U.S.,
- trade protection measures and import and export licensing requirements,
- work force instability,
- political and economic instability, and
- the potential payment of U.S. income taxes on certain earnings of our foreign subsidiaries' upon repatriation.

In particular, the Obama administration has announced potential legislative proposals to tax profits of U.S. companies earned abroad. While it is impossible for us to predict whether these and other proposals will be implemented, or how they will ultimately impact us, they may materially impact our results of operations if, for example, our profits earned abroad are subject to U.S. income tax or we are otherwise disallowed deductions as a result of these profits.

Consolidation in the healthcare industry could have an adverse effect on our revenues and results of operations.

Many healthcare industry companies, including medical device companies, are consolidating to create new companies with greater market power. As the healthcare industry consolidates, competition to provide goods and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components produced by us. If we are forced to reduce our prices because of consolidation in the healthcare industry, our revenues would decrease and our consolidated earnings, financial condition, or cash flows would suffer.

Healthcare policy changes, including pending proposals to reform the U.S. healthcare system, may have a material adverse effect on us.

Healthcare costs have risen significantly over the past decade. There have been and continue to be proposals by legislators, regulators, and third-party payors to keep these costs down. Certain proposals, if passed, would impose limitations on the prices we will be able to charge for our products, or the amounts of reimbursement available for our products from governmental agencies or third-party payors. These limitations could have a material adverse effect on our financial position and results of operations.

Recently, President Obama and members of Congress have proposed significant reforms to the U.S. healthcare system. Both the U.S. Senate and House of Representatives have conducted hearings about U.S. healthcare reform. In the Obama administration's fiscal year 2010 federal budget proposal, the administration emphasized maintaining patient choice, reducing inefficiencies and costs, increasing prevention programs, increasing coverage portability and universality, improving quality of care and maintaining fiscal sustainability. The Obama administration's fiscal year 2010 budget included proposals to limit Medicare payments, reduce drug spending and increase taxes. In addition, members of Congress have proposed a single-payer healthcare system, a government health insurance option to compete with private plans and other expanded public healthcare measures. Various healthcare reform proposals have also emerged at the state level. We cannot predict what healthcare initiatives, if any, will be implemented at the federal or state level, or the effect any future legislation or regulation will have on us. However, an expansion in government's role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business, possibly materially.

Our business is indirectly subject to healthcare industry cost containment measures that could result in reduced sales of medical devices containing our components.

Most of our customers, and the healthcare providers to whom our customers supply medical devices, rely on third-party payors, including government programs and private health insurance plans, to reimburse some or all of the cost of the procedures in which medical devices that incorporate components we manufacture or assemble are used. The continuing efforts of government, insurance companies, and other payors of healthcare costs to contain or reduce these costs could lead to patients being unable to obtain approval for payment from these third-party payors. If that were to occur, sales of finished medical devices that include our components may decline significantly and our customers may reduce or eliminate purchases of our components. The cost containment measures that healthcare providers are instituting, both in the U.S. and internationally, could harm our ability to operate profitably. For example, managed care organizations have successfully negotiated volume discounts for pharmaceuticals. While this type of discount pricing does not currently exist for medical devices, if managed care or other organizations were able to affect discount pricing for devices, it may result in lower prices to our customers from their customers and, in turn, reduce the amounts we can charge our customers for our medical devices.

Our research and development efforts rely upon investments and alliances, and we cannot guarantee that any previous or future investments or alliances will be successful.

Our strategy to provide a broad range of therapies to restore patients to fuller, healthier lives requires a wide variety of technologies, products, and capabilities. The rapid pace of technological development in the medical industry and the specialized expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. In addition to internally generated growth through our research and development efforts, historically we have relied, and expect to continue to rely, upon investments and alliances to provide us access to new technologies both in areas served by our existing businesses as well as in new areas.

We expect to make future investments where we believe that we can stimulate the development of, or acquire, new technologies and products to further our strategic objectives and strengthen our existing businesses. Investments and alliances in and with medical technology companies are inherently risky, and we cannot guarantee that any of our previous or future investments or alliances will be successful or will not materially adversely affect our consolidated earnings, financial condition, or cash flows.

The success of many of our products depends upon strong relationships with physicians.

If we fail to maintain our working relationships with physicians, many of our products may not be developed and marketed in line with the needs and expectations of the professionals who use and support our products, which could cause a decline in earnings and profitability. The research, development, marketing, and sales of many of our new and improved products is dependent upon our maintaining working relationships with physicians. We rely on these professionals to provide us with considerable knowledge and experience regarding our products and the marketing of our products. Physicians assist us as researchers, marketing and product consultants, inventors, and as public speakers. If we are unable to maintain our strong relationships with these professionals and continue to receive their advice and input, the development and marketing of our products could suffer, which could have a material effect on our consolidated earnings, financial condition, or cash flows.

Negative conditions in the global credit market may impair our commercial paper program, our auction rate securities and our other fixed income securities, which may cause losses and cause us to face liquidity issues.

We have investments in marketable debt securities which are classified and accounted for as available-for-sale. Our debt securities include government securities, commercial paper, corporate bonds, bank certificates of deposit, and mortgage backed and other asset backed securities, including auction rate securities. Recent market conditions indicate significant uncertainty on the part of investors on the economic outlook for the U.S. and for financial institutions that have potential exposure to the sub-prime housing market. This uncertainty has created reduced liquidity across the fixed income investment market, including the securities that we invest in. As a result, some of our investments have experienced reduced liquidity. In the event we need to sell these securities, we may not be able to do so in a timely manner or for a value that is equal to the underlying principal. In addition, we may be required to adjust the carrying value of the securities and record an impairment charge. If we determine that the fair value of the securities is temporarily impaired, we would record a temporary impairment within other comprehensive income, a component of shareholders' equity. If it is determined that the fair value of these securities is other-than-temporarily impaired, we would record a loss in our consolidated statements of earnings, which could materially adversely impact our results of operations and financial condition.

Additionally, if uncertainties in the credit and capital markets continue, these markets deteriorate further or we experience any rating downgrades on any investments in our portfolio, funds associated with these securities may not be liquid or available to fund current operations, and/or we may incur further temporary or other-than-temporary impairments in the carrying value of our investments, which could negatively affect our financial condition, cash flow and reported earnings. Negative market conditions may also impair our ability to access the capital markets through the issuance of commercial paper or debt securities, or may impact our ability to sell such securities at a reasonable price, and may negatively impact our ability to borrow from financial institutions.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices are owned by us and located in the Minneapolis, Minnesota metropolitan area. Manufacturing or research facilities are located in Arizona, California, Colorado, Connecticut, Florida, Indiana, Massachusetts, Michigan, Minnesota, Tennessee, Texas, Washington, Puerto Rico, China, France, Ireland, Mexico, The Netherlands, and Switzerland. Our total manufacturing and research space is approximately 3.0 million square feet, of which approximately 75 percent is owned by us and the balance is leased.

We also maintain sales and administrative offices in the U.S. at approximately 90 locations in 40 states or jurisdictions and outside the U.S. at approximately 130 locations in 38 countries. Most of these locations are leased. We are using substantially all of our currently available productive space to develop, manufacture, and market our products. Our facilities are in good operating condition, suitable for their respective uses and adequate for current needs.

Item 3. Legal Proceedings

A discussion of the Company's policies with respect to legal proceedings is discussed in the management's discussion and analysis and our legal proceedings and other loss contingencies are described in Note 16 and a portion of Note 13 of the consolidated financial statements. The description of our legal proceedings in Note 16 and a portion of Note 13 of the consolidated financial statements to this filing is incorporated herein by reference.

On October 24, 2005, the Company received a subpoena from the Office of the United States Attorney for the District of Massachusetts issued under the Health Insurance Portability & Accountability Act of 1996 requesting documents the Company may have, if any, relating to pacemakers and defibrillators and related components; monitoring equipment and services; a provision of benefits, if any, to persons in a position to recommend purchases of such devices; and the Company's training and compliance materials relating to the fraud and abuse and federal Anti-Kickback statutes. In September 2008, the United States Attorney's office for the District of Massachusetts informed Medtronic that it is no longer pursuing its investigation of Medtronic, related to the October 24, 2005 subpoena. On September 5, 2008, Medtronic received a subpoena from the Office of Inspector General for the Department of Health and Human Services in the District of Minnesota, requesting production of substantially the same materials covered in the 2005 Massachusetts subpoena. Medtronic is in the process of responding to the subpoena and will comply as required with the terms of the subpoena.

Beginning on September 20, 2007, the Company has received letter requests from Senator Grassley of the U.S. Senate Finance Committee requesting information on a variety of subjects, including financial ties between the medical device industry and practicing physicians; the Company's decision to suspend distribution of its Sprint Fidelis family of defibrillation leads; financial ties between the Company and physicians who use INFUSE Bone Graft; the Cardiac Research Foundation and Columbia University; and certain communications regarding INFUSE Bone Graft and the Company's clinical research projects with the U.S. military and compensation paid to physicians working for the U.S. military . The Company has cooperated, and will continue to cooperate with, the Senator's requests.

On September 25, 2007, the Company received a letter from the SEC requesting information relating to any potential violations of the U.S. Foreign Corrupt Practices Act in connection with the sale of medical devices in an unspecified number of foreign countries, including Greece, Poland and Germany. Turkey, Italy and Malaysia have since been added to the inquiry. The letter notes that the Company is a significant participant in the medical device industry, and seeks any information concerning certain types of payments made directly or indirectly to government-employed doctors. A number of competitors have publicly disclosed receiving similar letters. On November 16, 2007, the Company received a letter from the Department of Justice requesting any information provided to the SEC. Since that time the SEC and Department of Justice have made additional requests for information from the Company. The Company is cooperating with the requests.

On or about October 31, 2007, the Company received a letter from the United States Attorney's Office for the Eastern District of Pennsylvania requesting documents relating to the Company's relationship with one of its customers and any payments or things of value provided by the Company to physicians, physician groups, hospitals, medical practices or other entities relating to the purchase of the Company's cardiac resynchronization therapy devices and cardiac stents. The Company will comply as required with the terms of the letter.

In late June 2008, the Company received a subpoena issued by the United States Attorney's Office for the District of Massachusetts pursuant to the Health Insurance Portability & Accountability Act of 1996, relating to the Company's marketing of biliary stents. The Company will comply as required with the terms of the subpoena.

On October 6, 2008, the Company received a subpoena from the United States Attorney's Office for the District of Massachusetts pursuant to the Health Insurance Portability & Accountability Act of 1996 requesting production of documents relating to Medtronic's INFUSE Bone Graft product. The Company will comply as required with the terms of the subpoena.

On December 18, 2008, the Company received a civil investigative demand from the Massachusetts Attorney General's Office, requesting production of documents related to Medtronic's INFUSE Bone Graft product. The Company is in the process of responding to the demand and will comply as required with the terms of the demand.

On February 9, 2009, the Company received letter notice that the United States Department of Justice in the Southern District of Texas is investigating marketing practices, reimbursement advice of the Company and appropriateness of therapy delivery relating to the Company's cardiac surgical ablation devices. The Company is in the process of responding to the requests of the government, and will comply as required with the investigation.

On April 13, 2009, the Company received an administrative health care subpoena from the United States Attorney's office for the Northern District of Indiana requesting documents relating to the Company's relationship with customers, as well as documents relating to certain employees. The Company will comply as required by the terms of the subpoena.

On May 21, 2009, the Company received a subpoena from the United States Attorney's Office for the District of Massachusetts pursuant to the Health Insurance Portability & Accountability Act of 1996 seeking documents related to a study published in the British volume of the Journal of Bone & Joint Surgery, and contracts, research grants, speaking and education programs, and payments for certain named physicians. The Company will comply, as required, with the terms of the subpoena.

On June 16, 2009, the Company received an administrative subpoena from the New Jersey Attorney General, Division of Consumer Affairs, requesting production of documents relating to the Company's clinical studies, its financial arrangements with certain physicians and health care providers, and clinical research done by certain physicians and health care providers. The Company will comply as required with the terms of the subpoena.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Medtronic's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The information in the section entitled "Price Range of Medtronic Stock" is incorporated by reference herein set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report. The Company's common stock is listed on the New York Stock Exchange under the symbol "MDT."

In October 2005 and June 2007, the Company's Board of Directors authorized the repurchase of 40 million and 50 million shares of the Company's stock, respectively. In addition, in April 2006, the Board of Directors made a special authorization for the repurchase of up to 50 million shares in connection with the $4.400 billion Senior Convertible Note offering. As authorized by the Board of Directors each program expires when its total number of authorized shares has been repurchased. On June 18, 2009, the Board of Directors authorized the repurchase of an additional 60 million shares of the Company's common stock.

The following table provides information about the shares repurchased by Medtronic during fourth quarter of fiscal year 2009:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
01/24/09 – 02/20/09	—	$ —	—	18,838,084
02/21/09 – 03/27/09	358,500	27.91	358,500	18,479,584
03/28/09 – 04/24/09	644,000	31.07	644,000	17,835,584
Total	1,002,500	$ 29.94	1,002,500	17,835,584

On June 22, 2009, there were approximately 53,600 shareholders of record of the Company's common stock. Cash dividends declared and paid totaled 18.75 cents per share for each quarter of fiscal year 2009 and 12.50 cents per share for each quarter of fiscal year 2008. Stock price comparison follows:

Fiscal Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2009 High	$ 54.41	$ 56.55	$ 40.69	$ 34.56
2009 Low	46.98	37.81	28.67	24.38
2008 High	54.05	57.86	51.21	50.44
2008 Low	50.57	47.00	45.25	46.19

Item 6. Selected Financial Data

The information for fiscal years 2005 through 2009 in the section entitled "Selected Financial Data" is incorporated herein by reference to Exhibit 13 hereto and will be included in our 2009 Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference to Exhibit 13 hereto and will be included in our 2009 Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Market Risk" as well as Note 5 to the consolidated financial statements is incorporated herein by reference to Exhibit 13 hereto and will be included in our 2009 Annual Report.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements and Notes thereto, together with the report of independent registered public accounting firm, are incorporated herein by reference to Exhibit 13 hereto and will be included in our 2009 Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) and changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective and are adequately designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the SEC's applicable rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management conducted an evaluation of the effectiveness of 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 (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of April 24, 2009. Our internal control over financial reporting as of April 24, 2009, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm who has also audited our consolidated financial statements, as stated in their report in the section entitled "Report of Independent Registered Public Accounting Firm," which is incorporated by reference to Exhibit 13 hereto and will be included in our 2009 Annual Report.

Changes in Internal Control over Financial Reporting

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The sections entitled "Proposal 1 — Election of Directors — Directors and Nominees," "Governance of Medtronic — Committees of the Board and Meetings," "Governance of Medtronic — Audit Committee," "Governance of Medtronic — Audit Committee Independence and Financial Experts," "Governance of Medtronic — Corporate Governance Committee," and "Share Ownership Information — Section 16(a) Beneficial Ownership Reporting Compliance" of our Proxy Statement for our 2009 Annual Shareholders' Meeting are incorporated herein by reference. See also "Executive Officers of Medtronic" on page 28 herein.

We have adopted a written Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Treasurer, Corporate Controller and other senior financial officers performing similar functions who are identified from time to time by the Chief Executive Officer. We have also adopted a written Code of Business Conduct and Ethics for Board members. The Code of Ethics for senior financial officers, which is part of our broader Code of Conduct applicable to all employees, and the Code of Business Conduct and Ethics for Board members are posted on our website, www.medtronic.com under the "Corporate Governance" caption. Any amendments to, or waivers for executive officers or directors of, these ethics codes will be disclosed on our website promptly following the date of such amendment or waiver.

Item 11. Executive Compensation

The sections entitled "Governance of Medtronic — Director Compensation," "Governance of Medtronic — Compensation Committee — Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Compensation Discussion and Analysis — Compensation Committee Report," and "Executive Compensation" in our Proxy Statement for our 2009 Annual Shareholders' Meeting are incorporated herein by reference. The section entitled "Compensation Committee Report" in our Proxy Statement for our 2009 Annual Shareholders' Meeting is furnished herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The sections entitled "Share Ownership Information" and "Executive Compensation — Equity Compensation Plan Information" in our Proxy Statement for our 2009 Annual Shareholders' Meeting are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The sections entitled "Proposal 1 — Election of Directors — Related Transactions and Other Matters" and "Proposal 1 — Election of Directors — Director Independence" in our Proxy Statement for our 2009 Annual Shareholders' Meeting are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The sections entitled "Governance of Medtronic — Audit Committee — Audit Committee Pre-Approval Policies" and "Report of the Audit Committee — Audit and Non-Audit Fees" in our Proxy Statement for our 2009 Annual Shareholders' Meeting are incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Financial Statements

The following report and consolidated financial statements are incorporated herein by reference in Item 8.

The sections entitled "Report of Independent Registered Public Accounting Firm" and "Consolidated Statements of Earnings" — years ended April 24, 2009, April 25, 2008, and April 27, 2007 are set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report.

The section entitled "Consolidated Balance Sheets" — April 24, 2009 and April 25, 2008 is set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report.

The section entitled "Consolidated Statements of Shareholders' Equity" — years ended April 24, 2009, April 25, 2008, and April 27, 2007 is set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report.

The section entitled "Consolidated Statements of Cash Flows" — years ended April 24, 2009, April 25, 2008, and April 27, 2007 is set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report.

The section entitled "Notes to Consolidated Financial Statements" is set forth in Exhibit 13 hereto and will be included in our 2009 Annual Report.

2. Financial Statement Schedules

Schedule II. Valuation and Qualifying Accounts — years ended April 24, 2009, April 25, 2008, and April 27, 2007 (set forth on page 47 of this report).

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or Notes thereto.

3. Exhibits

2.1	Agreement and Plan of Merger Among Medtronic, Inc., Jets Acquisition Corporation and Kyphon Inc. (Dated as of July 26, 2007) (Exhibit 2.1). (u)
3.1	Medtronic, Inc. Restated Articles of Incorporation, as amended (Exhibit 3.1).(v)
3.2	Medtronic, Inc. Bylaws, as amended to date (Exhibit 3.2).(b)
4.1	Rights Agreement, dated as of October 26, 2000, between Medtronic, Inc. and Wells Fargo Bank Minnesota, N.A., including as: Exhibit A thereto the form of Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Shares of Medtronic, Inc.; Exhibit B the form of Preferred Stock Purchase Right Certificate; and Exhibit C the Summary of Rights to Purchase Preferred Shares (Exhibit 4).(c)
4.2	Indenture, dated as of September 11, 2001, between Medtronic, Inc. and Wells Fargo Bank Minnesota, National Association. (Exhibit 4.2).(d)
4.3	Credit Agreement ($1,000,000,000 Five Year Revolving Credit Facility) dated as of January 20, 2005, among Medtronic, Inc. as Borrower, certain of its subsidiaries as Guarantors, Citicorp USA, Inc., as Administrative Agent and Bank of America, N.A. as Syndication Agent, and Citigroup Global Markets Inc. and Banc of America Securities LLC as Joint Lead Arrangers and Joint Book Managers (Exhibit 4.1).(e)

4.4	Form of Indenture between Medtronic, Inc. and Wells Fargo Bank, National Association (Exhibit 4.1).(f)
4.5	Indenture dated as of September 15, 2005 between Medtronic, Inc. and Wells Fargo Bank, N. A., as Trustee, with respect to the 4.375% Senior Notes due 2010 and 4.750% Senior Notes due 2015 (including the Forms of Notes thereof) (Exhibit 4.1).(g)
4.6	Form of 4.375% Senior Notes, Series B due September 15, 2010 (Exhibit 4.2).(g)
4.7	Form of 4.750% Senior Notes, Series B due September 15, 2015 (Exhibit 4.3).(g)
4.8	Indenture by and between Medtronic, Inc. and Wells Fargo Bank, N.A., as trustee dated as of April 18, 2006 (including the Form of Convertible Senior Notes thereof) (Exhibit 4.1).(h)
4.9	Credit Agreement dated as of December 20, 2006, among Medtronic, Inc., as Borrower, the Lenders party thereto, Bank of America N.A., as Issuing Bank, and Citicorp USA, Inc., as Administrative Agent, Issuing Bank and Swingline Lender (Exhibit 4.1).(i)
4.10	Form of Indenture between Medtronic, Inc. and Wells Fargo Bank, National Association (Exhibit 4.1).(aa)
4.11	First Supplemental Indenture Dated March 12, 2009 between Medtronic, Inc. and Wells Fargo Bank, National Association (Exhibit 4.1).(bb)
*10.1	1994 Stock Award Plan (amended and restated as of January 1, 2008) (Exhibit 10.1).(t)
*10.2	Medtronic Incentive Plan (amended and restated effective January 1, 2008) (Exhibit 10.2).(t)
*10.3	Medtronic, Inc. Executive Incentive Plan (Appendix C).(l)
*10.4	Form of Employment Agreement for Medtronic executive officers (Exhibit 10.5).(a)
*10.5	Medtronic, Inc. Capital Accumulation Plan Deferral Program (as restated generally effective January 1, 2008)(Exhibit 10.5)(w)
*10.6	Stock Option Replacement Program (Exhibit 10.8).(a)
*10.7	Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (as amended and restated effective as of January 1, 2008) (Exhibit 10.3).(t)
*10.8	Amendment effective October 2001, regarding change in control provisions in the Management Incentive Plan (Exhibit 10.10).(j)
10.9	Indemnification Trust Agreement (Exhibit 10.11).(b)
10.10	Asset Purchase and Settlement Agreement dated as of April 21, 2005 among Medtronic, Inc., Medtronic Sofamor Danek, Inc., SDGI Holdings, Inc., Gary K. Michelson, M.D. and Karlin Technology, Inc. (Exhibit 10.13).(o)
*10.11	Form of Restricted Stock Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.3).(e)
*10.12	Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan (four year vesting) (Exhibit 10.1).(e)
*10.13	Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan (immediate vesting) (Exhibit 10.2).(e)
*10.14	Form of Initial Option Agreement under the Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (Exhibit 10.17).(o)
*10.15	Form of Annual Option Agreement under the Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (Exhibit 10.18).(o)
*10.16	Form of Replacement Option Agreement under the Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (Exhibit 10.19).(o)

*10.17	Form of Restricted Stock Units Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.20).(o)
*10.18	Form of Performance Share Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.21).(o)
*10.19	Medtronic, Inc. Supplemental Executive Retirement Plan (as restated generally effective January 1, 2008) (Exhibit 10.1).(s)
10.20	Purchase Agreement by and among Medtronic, Inc. and the Initial Purchasers named therein dated as of April 12, 2006 (Exhibit 10.1).(h)
10.21	Registration Rights Agreement between Medtronic, Inc. and Banc of America Securities LLC and Morgan Stanley & Co. Incorporated dated as of April 18, 2006 (Exhibit 4.2).(h)
*10.22	2003 Long-Term Incentive Plan (as amended and restated effective January 1, 2008) (Exhibit 10.4).(t)
*10.23	Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.23).(q)
*10.24	Form of Restricted Stock Award Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.24).(q)
*10.25	Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.25).(q)
*10.26	Form of Performance Award Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.26).(q)
10.27†	Form of Confirmations of Convertible Note Hedge related to Convertible Senior Debentures issued on April 12, 2006, including Schedule thereto (Exhibit 10.27).(q)
10.28†	Form of Warrants issued on April 12, 2006, including Schedule thereto (Exhibit 10.28).(q)
10.29†	Form of Amendment to Confirmation issued on April 13, 2006 to Form of Warrants issued on April 12, 2006, including Schedule thereto (Exhibit 10.29).(q)
10.30	Amendment No. 1 dated September 5, 2006, to Indemnification Trust Agreement (Exhibit 10.1).(r)
*10.31	Amendment to Change of Control Agreement for Medtronic Executive Officers (Exhibit 10.1).(z)
*10.32	Form of Restricted Stock Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.3).(s)
*10.33	Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.4).(s)
*10.34	Medtronic, Inc. Israeli Amendment to the 2003 Long-Term Incentive Plan (Exhibit 10.5).(t)
*10.35	Medtronic, Inc. – Kyphon Inc. 2002 Stock Plan (Amended and Restated July 26, 2007, as further amended on October 18, 2007) (Exhibit 10.6).(t)
*10.36	Addendum: Medtronic, Inc. – Kyphon Inc. 2002 Stock Plan (dated December 13, 2007) (Exhibit 10.7).(t)
*10.37	Letter Agreement dated April 29, 2008 between Michael DeMane and Medtronic, Inc. (Exhibit 10.37).(w)
*10.38	Medtronic, Inc. 2008 Stock Award and Incentive Plan
*10.39	Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.39).(w)
*10.40	Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.40).(w)

*10.41	Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.41).(w)
*10.42	Form of Restricted Stock Unit Award Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.2).(x)
*10.43	Form of Restricted Stock Award Agreement Under 2008 Stock Award and Incentive Plan (Exhibit 10.3).(x)
*10.44	Form of Restricted Stock Award Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.4).(x)
*10.45	Form of Restricted Stock Unit Award Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.5).(x)
*10.46	Form of Non-Qualified Stock Option Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.6).(x)
*10.47	Terms of Non-Employee Director Compensation under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.7).(x)
*10.48	Form of Non-Employee Director Initial Option Agreement under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.1).(y)
*10.49	Form of Non-Employee Director Annual Option Agreement under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.2).(y)
*10.50	Form of Non-Employee director Deferred Unit Award Agreement under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.3).(y)
*10.51	Form of Change of Control Employment Agreement for Medtronic Executive Officers (Exhibit 10.38).(w)
*10.52	Summary of Compensation Arrangements for Named Executive Officers and Directors
*10.53	Amendment No. 2 dated April 27, 2009, to Indemnification Trust Agreement
12.1	Computation of ratio of earnings to fixed charges
13	This exhibit contains the information referenced under Part II, Items 5, 6, 7, 7A and 8
21	List of Subsidiaries
23	Consent of Independent Registered Public Accounting Firm
24	Powers of Attorney
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(a) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 27, 2001, filed with the Commission on July 26, 2001.

(b) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 30, 2004, filed with the Commission on June 30, 2004.

(c) Incorporated herein by reference to the cited exhibit in our registration statement on Form 8-A, including the exhibits thereto, filed with the Commission on November 3, 2000.

(d) Incorporated herein by reference to the cited exhibit in our amended Current Report on Form 8-K/A, filed with the Commission on November 13, 2001.

(e) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended January 28, 2005, filed with the Commission on March 7, 2005.

(f) Incorporated herein by reference to the cited exhibit in our registration statement on Amendment No. 2 to Form S-4, filed with the Commission on January 10, 2005.

(g) Incorporated herein by reference to the cited exhibit in our registration statement on Form S-4, filed with the Commission on December 6, 2005.

(h) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on April 18, 2006.

(i) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended January 26, 2007, filed with the Commission on March 6, 2007.

(j) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 26, 2002, filed with the Commission on July 19, 2002.

(k) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 25, 2003, filed with the Commission on July 14, 2003.

(l) Incorporated herein by reference to the cited appendix to our 2003 Proxy Statement, filed with the Commission on July 28, 2003.

(m) Incorporated herein by reference to the cited exhibit in our registration statement on Form S-8, filed with the Commission on November 21, 2005.

(n) Incorporated herein by reference to the cited appendix to our 2005 Proxy Statement, filed with the Commission on July 21, 2005.

(o) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 29, 2005, filed with the Commission on June 29, 2005.

(p) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended October 28, 2005, filed with the Commission on December 6, 2005.

(q) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 28, 2006, filed with the Commission on June 28, 2006.

(r) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended October 27, 2006, filed with the Commission on December 5, 2006.

(s) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended October 26, 2007, filed with the Commission on December 4, 2007.

(t) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended January 25, 2008, filed with the Commission on March 4, 2008.

(u) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on July 30, 2007.

(v) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended July 27, 2007, filed with the Commission on September 5, 2007.

(w) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 25, 2008, filed with the Commission on June 24, 2008.

(x) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended July 25, 2008, filed with the Commission on September 3, 2008.

(y) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended October 24, 2008, filed with the Commission on December 3, 2008.

(z) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended January 23, 2009, filed with the Commission on March 4, 2009.

(aa) Incorporated herein by reference to the cited exhibit in our registration statement on Form S-3, filed with the Commission on March 9, 2009.

(bb) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on March 12, 2009.

*Items that are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.

†Confidential treatment requested as to portions of the exhibit. Confidential portions omitted and filed separately with the Securities and Exchange Commission.

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.

MEDTRONIC, INC.

Dated: June 23, 2009

By: /s/ **William A. Hawkins**
William A. Hawkins
Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

MEDTRONIC, INC.

Dated: June 23, 2009

By: /s/ **William A. Hawkins**
William A. Hawkins
Chairman and
Chief Executive Officer
(Principal Executive Officer)

Dated: June 23, 2009

By: /s/ **Gary L. Ellis**
Gary L. Ellis
Senior Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Directors

Richard H. Anderson
David L. Calhoun
Victor J. Dzau, M.D.
William A. Hawkins
Shirley Ann Jackson, Ph.D
James T. Lenehan
Denise M. O'Leary
Kendall J. Powell
Robert C. Pozen
Jean-Pierre Rosso
Jack W. Schuler

Keyna P. Skeffington, by signing her name hereto, does hereby sign this document on behalf of each of the above named directors of the registrant pursuant to powers of attorney duly executed by such persons.

Dated: June 23, 2009

By: /s/ **Keyna P. Skeffington**
Keyna P. Skeffington

MEDTRONIC, INC. AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(dollars in millions)

	Balance at Beginning of Fiscal Year	Charges to Earnings	Other Changes (Debit) Credit	Balance at End of Fiscal Year
Allowance for doubtful accounts:				
Year ended 4/24/09	$ 99	$ 39	$ (61)(a)	$ 61
			$ (16)(b)	
Year ended 4/25/08	$ 160	$ 31	$ (101)(a)	$ 99
			$ 9(b)	
Year ended 4/27/07	$ 184	$ 31	$ (59)(a)	$ 160
			$ 4(b)	

(a) Uncollectible accounts written off, less recoveries.

(b) Reflects primarily the effects of foreign currency fluctuations.

MEDTRONIC, INC.
2008 STOCK AWARD AND INCENTIVE PLAN

SECTION 1. Purpose; Definitions.

1.1. Purpose. The purpose of this Medtronic, Inc. 2008 Stock Award and Incentive Plan (this "*Plan*") is to give the Company and its Affiliates and Subsidiaries (each as defined below) a competitive advantage in attracting, retaining, and motivating officers, employees, directors, and consultants, to provide financial rewards that are intended to be deductible to the maximum extent possible as "performance-based compensation" within the meaning of Section 162(m) of the Code (as defined below), and to provide the Company and its Subsidiaries and Affiliates with an incentive plan that gives officers, employees, directors, and consultants financial incentives directly linked to shareholder value. This Plan is intended to be a successor to the Company's Amended and Restated 1994 Stock Award Plan, the Medtronic, Inc. 1998 Outside Director Stock Compensation Plan, the Medtronic, Inc. Executive Incentive Plan, the Medtronic, Inc. – Kyphon Inc. 2002 Stock Plan, and the Medtronic, Inc. 2003 Long-Term Incentive Plan, and to serve as the Company's primary vehicle for equity compensation awards and long-term cash incentive awards for employees, directors, and other service providers, as well as annual bonus awards for the Company's executive officers. Following the date that this Plan is approved by the Company's shareholders, no further equity compensation awards shall be granted pursuant to any other Company plan (it being understood that outstanding awards under such plans will continue to be settled pursuant to the terms of such plans).

1.2. Definitions. Certain terms used herein have definitions given to them in the first place in which they are used. In addition, for purposes of this Plan, the following terms are defined as set forth below:

(a) *"Act"* means the Securities Exchange Act of 1934, as amended from time to time, any regulations promulgated thereunder, and any successor thereto.

(b) *"Administrator"* shall have the meaning set forth in Section 2.2.

(c) *"Affiliate"* means a corporation or other entity controlled by, controlling, or under common control with, the Company.

(d) *"Applicable Exchange"* means the New York Stock Exchange or such other securities exchange as may at the applicable time be the principal market for the Common Stock.

(e) *"Award"* means an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Other Stock-Based Award, or Performance Award granted pursuant to the terms of this Plan.

(f) *"Award Agreement"* means a written document or agreement setting forth the terms and conditions of a specific Award.

(g) *"Beneficial Owner"* shall have the meaning given in Rule 13d-3, promulgated pursuant to the Act.

(h) *"Board"* means the Board of Directors of the Company.

(i) *"Cause"* means, unless otherwise provided in an Award Agreement, (i) "Cause" as defined in any Individual Agreement to which the applicable Participant is a party and which is operative at the time in question, or (ii) if there is no such Individual Agreement, or if it does not define "Cause": (A) commission by the Participant of a felony under federal law or the law of the state in which such action occurred, (B) failure on the part of the Participant to perform such Participant's employment duties in any material respect, (C) the Participant's prolonged absence from duty without the consent of the Company, (D) intentional engagement by the Participant in any activity that is in conflict with or adverse to the business or other interests of the Company, or (E) willful misconduct or malfeasance of duty which is reasonably determined to be detrimental to the Company. Notwithstanding the general rule of Section 2.3, following a Change of Control, any determination by the Committee as to whether "Cause" exists shall be subject to de novo review.

(j) *"Change of Control"* shall have the meaning set forth in Section 10.2.

(k) *"Code"* means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto, regulations promulgated thereunder, and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor provision of the Code.

(l) *"Committee"* means a committee or subcommittee of the Board, appointed from time to time by the Board, which committee or subcommittee shall consist of two or more non-employee directors, each of whom is intended to be, to the extent required by Rule 16b-3, a "non-employee director" as defined in Rule 16b-3 and, to the extent required by Section 162(m) of the Code and any regulations promulgated thereunder, an "outside director" as defined under Section 162(m) of the Code. Initially, and unless and until otherwise determined by the Board, "Committee" means the Compensation Committee of the Board.

(m) *"Common Stock"* means common stock, par value $0.10 per share, of the Company.

(n) *"Company"* means Medtronic, Inc., a Minnesota corporation.

(o) *"Disaffiliation"* means a Subsidiary's or Affiliate's ceasing to be a Subsidiary or Affiliate for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the stock of the Subsidiary or Affiliate) or a sale of a division of the Company or its Affiliates.

(p) *"Eligible Individuals"* means directors, officers, employees, and consultants of the Company or any Subsidiary or Affiliate, and prospective employees, officers and consultants, who have accepted offers of employment or consultancy from the Company or any Subsidiary or Affiliate.

(q) *"Fair Market Value"* means, unless otherwise determined by the Committee, the closing price of a share of Common Stock on the Applicable Exchange on the date of measurement or, if Shares were not traded on the Applicable Exchange on such measurement date, on the next preceding date on which Shares were traded, all as reported by such source as the Committee may select. If the Common Stock is not listed on a national securities exchange, Fair Market Value shall be determined by the Committee in its good faith discretion, taking into account, to the extent appropriate, the requirements of Section 409A of the Code.

(r) *"Free-Standing SAR"* shall have the meaning set forth in Section 5.3.

(s) *"Full-Value Award"* means any Award other than an Option, Stock Appreciation Right, or Performance Cash Award.

(t) *"Good Reason"* means a Termination of Employment during the two-year period following a Change of Control by a Participant if (i) such Termination of Employment constitutes a termination for "good reason" or qualifies under any similar constructive termination provision in any Individual Agreement applicable to such Participant, or (ii) if the Participant is not party to any such Individual Agreement, or if such Individual Agreement does not contain such a provision, any Termination of Employment following the occurrence of: (A) an involuntary relocation that increases the Participant's commute by more than 50 miles from the commute in effect immediately prior to the applicable Change of Control, (B) a material reduction in either the Participant's base pay or in the Participant's overall compensation opportunity from the levels in effect immediately prior to the applicable Change of Control or (C) a material reduction in the Participant's authority, duties or responsibilities below the levels in effect immediately prior to the applicable Change of Control. Notwithstanding the foregoing, a Termination of Employment shall be deemed to be for Good Reason under clause (ii) of this Section 1.2(t) only if the Participant provides written notice to the Company of the existence of one or more of the conditions giving rise to Good Reason within 90 days of the initial existence of such condition, the Company fails to cure such condition during the 30-day period (the "Cure Period") following its receipt of such notice, and the Participant terminates employment within 180 days following the conclusion of the Cure Period.

(u) *"Grant Date"* means (i) the date on which the Committee (or its delegate, if applicable) takes action to select an Eligible Individual to receive a grant of an Award and determines the number

of Shares to be subject to such Award, or (ii) such later date as is provided by the Committee (or its delegate, if applicable).

(v) *"Incentive Stock Option"* means any Option that is designated in the applicable Award Agreement as an "incentive stock option" within the meaning of Section 422 of the Code or any successor provision thereto, and that in fact qualifies.

(w) *"Individual Agreement"* means an employment, consulting, severance, change of control severance, or similar agreement between a Participant and the Company or between the Participant and any of the Company's Subsidiaries or Affiliates. For purposes of this Plan, an Individual Agreement shall be considered "operative" during its term; *provided,* that an Individual Agreement under which severance or other substantive protections, compensation and/or benefits are provided only following a change of control or termination of employment in anticipation of a change of control shall not be considered "operative" until the occurrence of a Change of Control or Termination of Employment in anticipation of a Change of Control, as the case may be.

(x) *"ISO Eligible Employee"* means an employee of the Company, any subsidiary corporation (within the meaning of Section 424(f) of the Code), or parent corporation (within the meaning of Section 424(e) of the Code).

(y) *"Nonqualified Option"* means any Option that either (i) is not designated as an Incentive Stock Option or (ii) is so designated but fails to qualify as such.

(z) *"Other Stock-Based Awards"* means Awards of Common Stock and other Awards that are valued in whole or in part by reference to, or are otherwise based upon, Common Stock, including (without limitation) unrestricted stock, dividend equivalents, and convertible debentures.

(aa) *"Option"* means an Award granted under Section 5.1.

(bb) *"Participant"* means an Eligible Individual to whom an Award is or has been granted.

(cc) *"Performance Award"* means a Performance Cash Award, an Award of Performance-Based Restricted Stock, or Performance Units, as each is defined herein.

(dd) *"Performance-Based Restricted Stock"* shall have the meaning given in Section 6.1.

(ee) *"Performance Cash Award"* shall have the meaning set forth in Section 9.

(ff) *"Performance Goals"* means the performance goals established by the Committee in connection with the grant of a Performance Award. In the case of Qualified Performance-Based Awards, (i) such goals shall be based on the attainment of or changes in specified levels of one or more of the following measures: sales, net sales, revenue, revenue growth or product revenue growth, operating income (before or after taxes), return on invested capital, return on capital employed, pre-or after-tax income (before or after allocation or corporate overhead and bonus), net earnings, earnings per share, diluted earnings per share, consolidated earnings before or after taxes (including earnings before some or all of the following: interest, taxes, depreciation and amortization), net income, gross profit, gross margin, year-end cash, debt reductions, book value per share, return on equity, expense management, return on investment, improvements in capital structure, profitability of an identifiable business unit or product, maintenance or improvements of profit margins, stock price, market share, costs, cash flow, working capital, return on assets or net assets, asset turnover, inventory turnover, economic value added (economic profit) or equivalent metrics, comparison with various stock market indices, appreciation in and/or maintenance of share price, reductions in costs, regulatory achievements, implementation, completion or attainment of measurable objectives with respect to research, development, products or projects and recruiting or maintaining personnel, and total shareholder return; each as measured with respect to the Company or one or more Affiliates, Subsidiaries, divisions, business units, or business segments of the Company, either in absolute terms or relative to the performance of one or more other companies or an index covering multiple companies; (ii) such Performance Goals shall be set by the Committee in the time period prescribed by Section 162(m) of the Code and the regulations promulgated thereunder; and (iii) such Performance Goals shall be objective, preestablished performance goals within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder.

(gg) *"Performance Period"* means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any Performance Goal specified by the Committee with respect to such Award is to be measured.

(hh) *"Performance Units"* shall have the meaning given in Section 7.1.

(ii) *"Plan"* means this Medtronic, Inc. 2008 Stock Award and Incentive Plan, as set forth herein and as hereafter amended from time to time.

(jj) *"Qualified Performance-Based Award"* means an Award intended to qualify for the Section 162(m) Exemption, as provided in Section 11.

(kk) *"Replaced Award"* shall have the meaning given in Section 10.1.

(ll) *"Replacement Award"* shall have the meaning given in Section 10.1.

(mm) *"Restricted Stock"* shall have the meaning given in Section 6.

(nn) *"Restricted Stock Units"* shall have the meaning given in Section 7.

(oo) *"Restriction Period"* means, with respect to Restricted Stock and Restricted Stock Units, the period commencing with the Grant Date and ending upon the expiration of the applicable vesting conditions or the achievement of the applicable Performance Goals (it being understood that the Committee may provide that restrictions shall lapse with respect to portions of the applicable Award during the Restriction Period).

(pp) *"Section 162(m) Exemption"* means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

(qq) *"Share"* means a share of Common Stock.

(rr) *"Stock Appreciation Right"* or *"SAR"* shall have the meaning set forth in Section 5.3.

(ss) *"Subsidiary"* means any corporation, partnership, joint venture, limited liability company, or other entity during any period in which at least a 50% voting or profits interest is owned, directly or indirectly, by the Company or any successor to the Company.

(tt) *"Substitute Award"* means any Award granted in assumption of, or in substitution for, an award of a company or business (that is not, prior to the applicable transaction, a Subsidiary or Affiliate of the Company) acquired by the Company or a Subsidiary or Affiliate or with which the Company or a Subsidiary or Affiliate combines.

(uu) *"Tandem SAR"* shall have the meaning set forth in Section 5.3.

(vv) *"Ten Percent Shareholder"* means a person owning stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, any subsidiary corporation (within the meaning of Section 424(f) of the Code), or parent corporation (within the meaning of Section 424(e) of the Code).

(ww) *"Term"* means the maximum period during which an Option or Stock Appreciation Right may remain outstanding, subject to earlier termination upon Termination of Employment or otherwise, as specified in the applicable Award Agreement.

(xx) *"Termination of Employment"* means, unless otherwise provided in the Award Agreement, the termination of the applicable Participant's employment with, or performance of services for, the Company and any of its Subsidiaries or Affiliates. Unless otherwise determined by the Committee, a Participant employed by, or performing services for, a Subsidiary or an Affiliate or a division of the Company or its Affiliates shall be deemed to incur a Termination of Employment if, as a result of a Disaffiliation, such Subsidiary, Affiliate, or division ceases to be a Subsidiary, Affiliate or division, as the case may be, and the Participant does not immediately become an employee of, or service provider for, the Company or another Subsidiary or Affiliate. Temporary absences from employment because of illness, vacation, or leave of absence, and transfers among the Company and its Subsidiaries and Affiliates, shall not be considered Terminations of Employment. Notwithstanding the foregoing, with respect to any Award that constitutes "nonqualified deferred compensation" within the meaning of Section 409A of the Code, "Termination of Employment" shall mean a "separation from service" as defined under Section 409A of the Code.

SECTION 2. Administration.

2.1. Committee. The Plan shall be administered by the Committee or a duly designated Administrator, as defined herein. The Committee shall, subject to Section 11, have plenary authority to grant Awards to Eligible Individuals pursuant to the terms of the Plan. Among other things, the Committee shall have the authority, subject to the terms and conditions of the Plan:

(a) To select the Eligible Individuals to whom Awards may be granted;

(b) To determine whether and to what extent Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards, or Performance Awards, or any combination thereof, are to be granted hereunder;

(c) To determine the number of Shares to be covered by each Award granted under the Plan;

(d) To determine the terms and conditions of each Award granted hereunder, based on such factors as the Committee shall determine;

(e) Subject to Section 12, to modify, amend, or adjust the terms and conditions of any Award;

(f) To adopt, alter, or repeal such administrative rules, guidelines, and practices governing the Plan as the Committee shall from time to time deem advisable;

(g) To interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreement relating thereto);

(h) Subject to Sections 11 and 12, to accelerate the vesting or lapse of restrictions of any outstanding Award, based in each case on such considerations as the Committee in its sole discretion may determine;

(i) To decide all other matters that must be determined in connection with an Award;

(j) To determine whether, to what extent, and under what circumstances cash, Shares, and other property and other amounts payable with respect to an Award under this Plan shall be deferred either automatically or at the election of the Participant; and

(k) To otherwise administer the Plan.

2.2. Committee Procedures; Board Authority. The Committee shall exercise its authority under the Plan as follows:

(a) The Committee may act only with the assent of a majority of its members then in office, except that the Committee may, except to the extent prohibited by applicable law or the listing standards of the Applicable Exchange and subject to Section 11.3, allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it (the "*Administrator*"). Notwithstanding the foregoing, the Committee may not so delegate any responsibility or power to the extent that such delegation would cause a Qualified Performance-Based Award hereunder not to qualify for the Section 162(m) Exemption, or make any Award hereunder subject to (and not exempt from) the short-swing recovery rules of Section 16(b) of the Act. Without limiting the generality of the foregoing, the Committee may not delegate its responsibilities and powers to grant, establish the terms and conditions of, and otherwise administer Qualified Performance-Based Awards, nor its responsibilities and powers to grant and establish the terms and conditions of Awards to Participants who are subject to Section 16(b) (as defined in Section 11.4 below).

(b) Subject to Section 11.3, any authority granted to the Committee may also be exercised by the full Board. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

2.3. Discretion of Committee. Subject to Section 1.2(i), any determination made by the Committee or by the Administrator under the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or the Administrator at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee

or the Administrator shall be final and binding on all persons, including the Company, Participants, and Eligible Individuals.

2.4. Award Agreements. Unless otherwise determined by the Committee, the terms and conditions of each Award, as determined by the Committee, shall be set forth in a written Award Agreement. Award Agreements may be amended only in accordance with Section 12 hereof.

SECTION 3. Common Stock Subject to Plan.

3.1. Plan Maximums. Subject to adjustment as provided in Section 3.4, (a) the maximum number of Shares that may be issued pursuant to Awards under the Plan shall be 50,000,000, and (b) the maximum number of Shares that may be issued pursuant to Options intended to be Incentive Stock Options shall be 50,000,000. Shares subject to an Award under the Plan may be authorized and unissued Shares or may be treasury shares.

3.2. Rules for Calculating Shares Issued. For purposes of the limits set forth in Section 3.1 (but not for purposes of the limits set forth in Section 3.3), each Share that is subject to a Full-Value Award shall be counted as 3.0 Shares. To the extent that any Award under this Plan is forfeited, or any Option and related Tandem SAR or any Free-Standing SAR granted under this Plan terminates, expires, or lapses without being exercised, or any Award is settled for cash, the Shares subject to such Awards not delivered as a result thereof shall thereupon become available (in the case of Full-Value Awards, based upon the share-counting ratio set forth in the first sentence of this Section 3.2) for Awards under the Plan. If the exercise price of any Option or the tax withholding obligations relating to any Award are satisfied by delivering Shares (either actually or through attestation) to the Company, or if a SAR is settled for Shares, the gross number of Shares (in the case of Full-Value Awards, based upon the share-counting ratio set forth in the first sentence of this Section 3.2) subject to the Award shall nonetheless be deemed to have been issued for purposes of Section 3.1. In addition, in the case of any Substitute Award, Shares delivered or deliverable in connection with such Substitute Award shall not be deemed granted or issued under the Plan for purposes of Sections 3.1 or 3.3.

3.3. Individual Limits. Subject to adjustment as provided in Section 3.4, no Participant may be granted Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards, Performance Awards, or any combination thereof relating to more than 2,000,000 Shares under the Plan during any fiscal year. In addition to the foregoing, the maximum dollar value that may be paid to any Participant in Qualified Performance-Based Awards denominated in cash in any fiscal year shall be $10,000,000, including any amounts earned during such fiscal year and deferred. If an Award is cancelled, the cancelled Award shall continue to be counted towards the limitations set forth in this Section 3.3.

3.4. Adjustment Provision. The Committee shall have authority to make adjustments under the Plan as provided below:

(a) In the event of a merger, consolidation, acquisition of property or shares, stock rights offering, liquidation, separation, spinoff, Disaffiliation, extraordinary dividend of cash or other property, or similar event affecting the Company or any of its Subsidiaries (a *"Corporate Transaction"*), the Committee, or the Board may in its discretion make such substitutions or adjustments as it deems appropriate and equitable to (i) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan, (ii) the various maximum share limitations set forth in Sections 3.1 and 3.3, (iii) the number and kind of Shares or other securities subject to outstanding Awards, and (iv) the exercise price of outstanding Awards.

(b) In the event of a stock dividend, stock split, reverse stock split, reorganization, share combination, recapitalization, or similar event affecting the capital structure of the Company, the Committee or the Board shall make such substitutions or adjustments as it deems appropriate and equitable to (i) the aggregate number and kind of Shares or other securities reserved for issuance and delivery under the Plan, (ii) the various share maximum limitations set forth in Sections 3.1 and 3.3, (iii) the number and kind of Shares or other securities subject to outstanding Awards, and (iv) the exercise price of outstanding Awards.

(c) In the case of Corporate Transactions, such adjustments may include, without limitation, (i) the cancellation of outstanding Awards in exchange for payments of cash, property, or a combination thereof having an aggregate value equal to the value of such Awards, as determined by the Committee or the Board in its sole discretion (it being understood that, in the case of a Corporate Transaction with respect to which shareholders of Common Stock receive consideration other than publicly traded equity securities of the Surviving Corporation (as defined below in Section 10.2), any such determination by the Committee that the value of an Option or Stock Appreciation Right shall for this purpose be deemed to equal the excess, if any, of the value of the consideration being paid for each Share pursuant to such Corporate Transaction over the exercise price of such Option or Stock Appreciation Right shall conclusively be deemed valid), (ii) the substitution of other property (including, without limitation, cash or other securities of the Company and securities of entities other than the Company) for the Shares subject to outstanding Awards, and (iii) in connection with a Disaffiliation, arranging for the assumption of Awards, or replacement of Awards with new awards based on other property or other securities (including, without limitation, other securities of the Company and securities of entities other than the Company), by the affected Subsidiary, Affiliate, or division of the Company or by the entity that controls such Subsidiary, Affiliate, or division of the Company following such Corporate Transaction (as well as any corresponding adjustments to Awards that remain based upon Company securities).

(d) The Committee may adjust the Performance Goals applicable to any Awards to reflect any unusual or non-recurring events and other extraordinary items as approved by the Committee, including without limitation certain litigation and in-process research and development, impact of charges for restructurings, discontinued operations, and the cumulative effects of accounting or tax changes, each as defined by generally accepted accounting principles, under rules promulgated by the Securities and Exchange Commission, or as identified in the Company's financial statements, notes to the financial statements, management's discussion and analysis, or other public filings, *provided* that (i) in the case of Performance Goals applicable to any Qualified Performance-Based Award, such adjustment does not cause an Award to fail to qualify for the Section 162(m) Exemption, and (ii) the determination whether any such adjustments will apply to a Qualified Performance-Based Award is made at such time and in such a manner as is necessary to ensure that such Qualified Performance Based Award does not fail to qualify for the Section 162(m) Exemption.

3.5. Section 409A of the Code. Notwithstanding the foregoing: (a) any adjustments made pursuant to Section 3.4 to Awards that are considered "deferred compensation" within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Section 409A of the Code and (b) any adjustments made pursuant to Section 3.4 to Awards that are not considered "deferred compensation" subject to Section 409A of the Code shall be made in such a manner as to ensure that, after such adjustment, the Awards either (i) continue not to be subject to Section 409A of the Code, or (ii) comply with the requirements of Section 409A of the Code, and (c) in any event, the Board, the Committee, and the Administrator shall not have any authority to make any adjustments pursuant to Section 3.4 to the extent that the existence of such authority would cause an Award that is not intended to be subject to Section 409A of the Code at the Grant Date to be subject thereto.

SECTION 4. Eligibility.

4.1. Eligible Individuals; Incentive Stock Options. Awards may be granted under the Plan to Eligible Individuals; *provided,* that Incentive Stock Options may be granted only to employees of the Company and its Subsidiaries or parent corporation (within the meaning of Section 424(f) of the Code).

SECTION 5. Options and Stock Appreciation Rights.

5.1 Types of Options. Options may be of two types: Incentive Stock Options and Nonqualified Options. The Award Agreement for an Option shall indicate whether the Option is intended to be an Incentive Stock Option or a Nonqualified Option; provided, that any Option that is designated as an Incentive Stock Option but fails to meet the requirements therefor (as described in Section 5.2 or otherwise), and any Option that is not expressly designated as intended to be an Incentive Stock Option shall be treated as a Nonqualified Option.

5.2. Incentive Stock Option Limitations. To the extent that the aggregate Fair Market Value, determined at the time of grant, of the Shares with respect to which Incentive Stock Options are exercisable for the first time during any calendar year under the Plan or any other stock option plan of the Company, any subsidiary corporation (within the meaning of Section 424(f) of the Code), or parent corporation (within the meaning of Section 424(e) of the Code) exceeds $100,000, such Options shall be deemed Nonqualified Options. If an ISO Eligible Employee does not remain employed by the Company, any subsidiary corporation (within the meaning of Section 424(f) of the Code), or parent corporation (within the meaning of Section 424(e) of the Code) at all times from the time an Incentive Stock Option is granted until 3 months prior to the date of exercise thereof (or such other period as required by applicable law), such Option shall be treated as a Nonqualified Stock Option. Should any provision of the Plan not be necessary in order for any Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the shareholders of the Company.

5.3. Types and Nature of Stock Appreciation Rights. Stock Appreciation Rights may be "*Tandem SARs*", which are granted in conjunction with an Option, or *"Free-Standing SARs"*, which are not granted in conjunction with an Option. Upon the exercise of a Stock Appreciation Right, the Participant shall be entitled to receive an amount in cash, Shares, or both, in value equal to the product of (a) the excess of the Fair Market Value of one Share over the exercise price of the applicable Stock Appreciation Right, multiplied by (b) the number of Shares in respect of which the Stock Appreciation Right has been exercised. The applicable Award Agreement shall specify whether such payment is to be made in cash or Common Stock or both, or shall reserve to the Committee or the Participant the right to make that determination prior to or upon the exercise of the Stock Appreciation Right.

5.4. Tandem SARs. A Tandem SAR may be granted at the Grant Date of the related Option. A Tandem SAR shall be exercisable only at such time or times and to the extent that the related Option is exercisable in accordance with the provisions of this Section 5, and shall have the same exercise price as the related Option. A Tandem SAR shall terminate or be forfeited upon the exercise or forfeiture of the related Option, and the related Option shall terminate or be forfeited upon the exercise or forfeiture of the Tandem SAR.

5.5. Exercise Price. Except in respect of Replacement Awards or Substitute Awards, the exercise price per Share subject to an Option or Free-Standing SAR shall be determined by the Committee and set forth in the applicable Award Agreement, and shall not be less than the Fair Market Value of a share of the Common Stock on the applicable Grant Date; provided, that if an Incentive Stock Option is granted to a Ten Percent Shareholder, the exercise price shall be no less than 110% of the Fair Market Value of the Stock on the applicable Grant Date.

5.6. Term. The Term of each Option and each Free-Standing SAR shall be fixed by the Committee, but shall not exceed 10 years from the Grant Date.

5.7 Vesting and Exercisability. Except as otherwise provided herein, Options and Free-Standing SARs shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. Subject to the terms of the Plan and the applicable Award Agreement, in no event shall the vesting schedule of an Option or Free-Standing SAR provide that such Option or Free-Standing SAR vest prior to the first anniversary of the date of grant, *provided, however,* that up to five percent of the Shares available for grant as Options or Free-Standing SARs may be issued without regard to the foregoing provision.

5.8 Method of Exercise. Subject to the provisions of this Section 5, Options and Free-Standing SARs may be exercised, in whole or in part, at any time during the applicable Term by giving written notice of exercise to the Company specifying the number of Shares as to which the Option or Free-Standing SAR is being exercised. In the case of the exercise of an Option, such notice shall be accompanied by payment in full of the purchase price (which shall equal the product of such number of shares multiplied by the applicable exercise price) by certified or bank check or such other instrument as the Company may accept. If approved by the Committee (which approval may be set forth in the applicable Award Agreement or otherwise), payment, in full or in part, may also be made as follows:

(a) Payment may be made in the form of Shares (by delivery of such shares or by attestation) of the same class as the Common Stock subject to the Option already owned by the Participant (based

on the Fair Market Value of the Common Stock on the date the Option is exercised); *provided* that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned Shares of the same class as the Common Stock subject to the Option may be authorized only at the time the Option is granted.

(b) To the extent permitted by applicable law, payment may be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if requested, the amount of any federal, state, local, or foreign withholding taxes. To facilitate the foregoing, the Company may, to the extent permitted by applicable law, enter into agreements for coordinated procedures with one or more brokerage firms.

(c) Payment may be made by instructing the Company to withhold a number of Shares having a Fair Market Value (based on the Fair Market Value of the Common Stock on the date the applicable Option is exercised) equal to the product of (i) the exercise price multiplied by (ii) the number of Shares in respect of which the Option shall have been exercised.

5.9. Delivery; Rights of Shareholders. No Shares shall be delivered pursuant to the exercise of an Option until the exercise price therefor has been fully paid and applicable taxes have been withheld. The applicable Participant shall have all of the rights of a shareholder of the Company holding the class or series of Common Stock that is subject to the Option or Stock Appreciation Right (including, if applicable, the right to vote the applicable Shares and the right to receive dividends), when (a) the Company has received a written notice from the Participant of exercise that complies with all procedures established under this Plan for effective exercise, including, without limitation, completion and delivery of all required forms, (b) the Participant has, if requested, given the representation described in Section 15.1, and (c) in the case of an Option, the Participant has paid in full for such Shares.

5.10. Nontransferability of Options and Stock Appreciation Rights. No Option or Free-Standing SAR shall be transferable by a Participant other than, for no value or consideration, (a) by will or by the laws of descent and distribution, or (b) in the case of a Nonqualified Option or Free-Standing SAR, as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to the Participant's family members, whether directly or indirectly or by means of a trust or partnership or otherwise. For purposes of this Plan, unless otherwise determined by the Committee, "family member" shall have the meaning given to such term in General Instructions A.1(a)(5) to Form S-8 under the Securities Act of 1933, as amended, and any successor thereto. A Tandem SAR shall be transferable only with the related Option and only to the extent the Option is transferable pursuant to the preceding sentence. Any Option or Stock Appreciation Right shall be exercisable, subject to the terms of this Plan, only by the applicable Participant, the guardian or legal representative of such Participant, or any person to whom such Option or Stock Appreciation Right is permissibly transferred pursuant to this Section 5.10, it being understood that the term "Participant" includes such guardian, legal representative and other transferee; *provided,* that the term "Termination of Employment" shall continue to refer to the Termination of Employment of the original Participant.

5.11. No Dividend Equivalents. No award of dividend equivalents may be granted with respect to any Option or SAR granted under this Plan.

5.12. No Repricing. Notwithstanding any other provision of this Plan, in no event may any Option or SAR be amended, other than pursuant to Section 3.4, to decrease the exercise price thereof, be cancelled in conjunction with the grant of any new Option or SAR with a lower exercise price, or otherwise be subject to any action that would be treated, for accounting purposes, as a "repricing" of such Option or SAR, unless such amendment, cancellation, or action is approved by the Company's shareholders.

SECTION 6. Restricted Stock (Including Performance-Based Restricted Stock).

6.1. Nature of Award; Certificates. Shares of Restricted Stock are actual Shares issued to a Participant, and shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of one or more stock certificates. *"Performance-Based Restricted Stock"* is an Award of Shares of Restricted Stock, the vesting of which is subject to the attainment of Performance Goals. In the event that the Committee grants Shares of Performance-Based Restricted Stock, the

performance levels to be achieved for each Performance Period and the amount of the Award to be distributed shall be conclusively determined by the Committee. Any certificate issued in respect of Shares of Restricted Stock shall be registered in the name of the applicable Participant and, in the case of Restricted Stock, shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award. The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the applicable Participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such Award.

6.2. Terms and Conditions. Shares of Restricted Stock shall be subject to the following terms and conditions:

(a) The Committee shall, prior to or at the time of grant, condition the vesting or transferability of an Award of Restricted Stock upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of an Award of Restricted Stock upon the attainment of Performance Goals (or the attainment of Performance Goals and the continued service of the applicable Participant), the Committee may, prior to or at the time of grant, designate such an Award as a Qualified Performance-Based Award. The conditions for grant, vesting, or transferability and the other provisions of Restricted Stock Awards (including without limitation any Performance Goals applicable to Performance-Based Restricted Stock) need not be the same with respect to each Participant.

(b) Subject to the terms of the Plan and the applicable Award Agreement, any Award of Restricted Stock shall be subject to a vesting period of at least three years following the date of grant, *provided* that vesting during a period of at least one year following the date of grant is permissible if vesting is conditioned upon the achievement of Performance Goals, and *provided,* further, that an Award may vest in part on a pro rata basis (as specified in the applicable Award Agreement) prior to the expiration of any vesting period, and *provided,* further, that up to five percent of Shares available for grant as Restricted Stock (together with all other Shares available for grant as Full-Value Awards) may be issued without regard to the foregoing requirements, and the Committee may accelerate the vesting and lapse any restrictions with respect to Restricted Stock granted in respect of such five percent of Shares.

(c) Subject to the provisions of the Plan and the applicable Award Agreement, during the Restriction Period, the Participant shall not be permitted to sell, assign, transfer, pledge, or otherwise encumber Shares of Restricted Stock.

(d) If any applicable Performance Goals are satisfied and the Restriction Period expires without a prior forfeiture of the Shares of Restricted Stock for which legended certificates have been issued, either (i) unlegended certificates for such Shares shall be delivered to the Participant upon surrender of the legended certificates, or (ii) such Shares shall be evidenced in such manner as the Committee may deem appropriate, including book-entry registration.

6.3. Rights of Shareholder. Except as provided in the applicable Award Agreement, the applicable Participant shall have, with respect to Shares of Restricted Stock, all of the rights of a shareholder of the Company holding the class or series of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the Shares and the right to receive any dividends and other distributions.

SECTION 7. Restricted Stock Units (Including Performance Units).

7.1. Nature of Award. Restricted Stock Units are Awards denominated in Shares that will be settled, subject to the terms and conditions of the applicable Award Agreement, (a) in cash, based upon the Fair Market Value of a specified number of Shares, (b) in Shares, or (c) a combination thereof. *"Performance Units"* are Restricted Stock Units, the vesting of which are subject to the attainment of Performance Goals. In the event that the Committee grants Performance Units, the performance levels to be achieved for each Performance Period and the amount of the Award to be distributed shall be conclusively determined by the Committee.

7.2. Terms and Conditions. Restricted Stock Units shall be subject to the following terms and conditions:

(a) The Committee shall, prior to or at the time of grant, condition the grant, vesting, or transferability of Restricted Stock Units upon the continued service of the applicable Participant or the attainment of Performance Goals, or the attainment of Performance Goals and the continued service of the applicable Participant. In the event that the Committee conditions the grant or vesting of Restricted Stock Units upon the attainment of Performance Goals (or the attainment of Performance Goals and the continued service of the applicable Participant), the Committee may, prior to or at the time of grant, designate such an Award as a Qualified Performance-Based Award. The conditions for grant, vesting or transferability and the other provisions of Restricted Stock Units (including without limitation any Performance Goals applicable to Performance Units) need not be the same with respect to each Participant. An Award of Restricted Stock Units shall be settled as and when the Restricted Stock Units vest or at a later time specified by the Committee or in accordance with an election of the Participant, if the Committee so permits.

(b) Subject to the terms of the Plan and the applicable Award Agreement, any Restricted Stock Units shall be subject to a vesting period of at least three years following the date of grant, *provided* that vesting during a period of at least one year following the date of grant is permissible if vesting is conditioned upon the achievement of Performance Goals, and *provided,* further, that Restricted Stock Units may vest in part on a pro rata basis (as specified in the applicable Award Agreement) prior to the expiration of any vesting period, and *provided,* further, that up to five percent of Shares available for grant as Restricted Stock Units (together with all other Shares available for grant as Full-Value Awards) may be granted without regard to the foregoing requirements, and the Committee may accelerate the vesting and lapse any restrictions with respect to Restricted Stock Units granted in respect of such five percent of Shares.

(c) Subject to the provisions of the Plan and the applicable Award Agreement, during the period, if any, set by the Committee, during the Restriction Period the Participant shall not be permitted to sell, assign, transfer, pledge, or otherwise encumber Restricted Stock Units.

(d) The Award Agreement for Restricted Stock Units may specify whether, to what extent, and on what terms and conditions the applicable Participant shall be entitled to receive current or deferred payments of cash, Shares, or other property corresponding to the dividends payable on the Company's Stock (subject to Section 15.5 below).

SECTION 8. Other Stock-Based Awards. Other Stock-Based Awards may be granted under the Plan, *provided* that any Other Stock-Based Awards that are Awards of Common Stock that are unrestricted shall only be granted in lieu of other compensation due and payable to the Participant. Subject to the terms of the Plan and the applicable Award Agreement, any Other Stock-Based Award that is a Full-Value Award (and is not an Award of unrestricted stock) shall be subject to a vesting period of at least three years following the Grant Date; *provided* that a vesting period of at least one year is permissible if vesting is conditioned upon the achievement of Performance Goals, and *provided,* further, that any Other Stock-Based Award may vest in part on a pro rata basis prior to the expiration of any vesting period, and *provided,* further, that up to five percent of Shares available for grant as Other Stock Based-Awards that are Full-Value Awards (together with all other Shares available for grant as Full-Value Awards) may be granted with a Restriction Period of at least one year following the Grant Date without regard to the foregoing requirements.

SECTION 9. Performance Cash Awards. Performance Cash Awards may be issued under the Plan, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards. A "Performance Cash Award" is an Award entitling the recipient to payment of a cash amount subject to the attainment of Performance Goals. The Committee may, in connection with the grant of a Performance Cash Award, designate the Award as a Qualified Performance-Based Award. The conditions for grant or vesting and the other provisions of a Performance Cash Award (including without limitation any applicable Performance Goals) need not be the same with respect to each Participant. Performance Cash Awards may be paid in cash, Shares, other property or any combination thereof, in the

sole discretion of the Committee as set forth in the applicable Award Agreement. The performance levels to be achieved for each Performance Period and the amount of the Award to be distributed shall be conclusively determined by the Committee.

SECTION 10. Change of Control Provisions.

10.1. Impact of Event. Notwithstanding any other provision of this Plan to the contrary, the provisions of this Section 10 shall apply in the event of a Change of Control, unless otherwise provided in the applicable Award Agreement.

(a) Upon a Change of Control, (i) all then-outstanding Options and SARs shall become fully vested and exercisable, and any Full-Value Award (other than a Performance Award) shall vest in full, be free of restrictions, and be deemed to be earned and immediately payable in an amount equal to the full value of such Award, except in each case to the extent that another Award meeting the requirements of Section 10.1(b) (any award meeting the requirements of Section 10.1(b), a *"Replacement Award"*) is provided to the Participant pursuant to Section 3.4 to replace such Award (any award intended to be replaced by a Replacement Award, a *"Replaced Award"*), and (ii) any Performance Award that is not replaced by a Replacement Award shall be deemed to be earned and immediately payable in an amount equal to the full value of such Performance Award (with all applicable Performance Goals deemed achieved at the greater of (x) the applicable target level and (y) the level of achievement of the Performance Goals for the Award as determined by the Committee not later than the date of the Change of Control, taking into account performance through the latest date preceding the Change of Control as to which performance can, as a practical matter, be determined (but not later than the end of the Performance Period)) multiplied by a fraction, the numerator of which is the number of days during the applicable Performance Period before the date of the Change of Control, and the denominator of which is the number of days in the applicable Performance Period; *provided,* however, that such fraction shall be equal to one in the event that the applicable Performance Goals in respect of such Performance Award have been fully achieved as of the date of such Change of Control.

(b) An Award shall meet the conditions of this Section 10.1(b) (and hence qualify as a Replacement Award) if: (i) it is of the same type as the Replaced Award; (ii) it has a value at least equal to the value of the Replaced Award as of the date of the Change of Control; (iii) if the underlying Replaced Award was an equity-based award, it relates to publicly traded equity securities of the Company or the Surviving Corporation following the Change of Control; and (iv) its other terms and conditions are not less favorable to the Participant than the terms and conditions of the Replaced Award (including the provisions that would apply in the event of a subsequent Change of Control) as of the date of the Change of Control. Without limiting the generality of the foregoing, a Replacement Award may take the form of a continuation of the applicable Replaced Award if the requirements of the preceding sentence are satisfied. The determination whether the conditions of this Section 10.1(b) are satisfied shall be made by the Committee, as constituted immediately before the Change of Control, in its sole discretion.

(c) Upon a Termination of Employment of a Participant occurring in connection with or during the two years following the date of a Change of Control, by the Company other than for Cause or by the Participant for Good Reason, (i) all Replacement Awards held by such Participant shall vest in full, be free of restrictions, and be deemed to be earned and immediately payable in an amount equal to the full value of such Replacement Award, and (ii) all Options and SARs held by the Participant immediately before the Termination of Employment that the Participant held as of the date of the Change of Control or that constitute Replacement Awards shall remain exercisable until the earlier of (1) the third anniversary of the Change of Control and (2) the expiration of the stated Term of such Option or SAR; *provided,* that if the applicable Award Agreement provides for a longer period of exercisability, that provision shall control.

10.2. Definition of Change of Control. For purposes of the Plan, a *"Change of Control"* shall mean any of the following events:

(a) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act) (a *"Person"*) becomes the Beneficial Owner (within the meaning of Rule 13d-3 promulgated

under the Act) or 30% or more of either (i) the then-outstanding shares of Common Stock of the Company (the *"Outstanding Company Common Stock"*) or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the *"Outstanding Company Voting Securities"*); *provided* that, for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (1) an acquisition directly from the Company; (2) an acquisition by the Company or a Subsidiary; (3) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary; (4) any acquisition by an underwriter temporarily holding securities pursuant to an offering of such securities or (5) an acquisition pursuant to a transaction that complies with Sections 10.2(c)(i), 10.2(c)(ii), and 10.2(c)(iii) below;

(b) Individuals who, on the Effective Date, constitute the Board (the *"Incumbent Directors"*) cease for any reason to constitute at least a majority of the Board; *provided* that any person becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be considered an Incumbent Director; but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board; or

(c) The consummation of a reorganization, merger, statutory share exchange or consolidation (or similar corporate transaction) involving the Company or a Subsidiary, the sale or other disposition of all or substantially all of the Company's assets, or the acquisition of assets or stock of another entity (a *"Business Combination"*), unless immediately following such Business Combination: (i) substantially all of the individuals and entities who were Beneficial Owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the total voting power of (A) the corporation resulting from such Business Combination (the *"Surviving Corporation"*) or (B) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 80% or more of the voting securities eligible to elect directors of the Surviving Corporation (the *"Parent Corporation"*), in substantially the same proportion as their ownership, immediately prior to the Business Combination, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (ii) no Person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the Beneficial Owner, directly or indirectly, of 30% or more of the outstanding shares of common stock and the total voting power of the outstanding securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (iii) at least a majority of the members of the Board of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the initial agreement providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

10.3. Section 409A of the Code. Notwithstanding the foregoing, if any Award is subject to Section 409A of the Code, this Section 10 shall be applicable only to the extent specifically provided in the Award Agreement and as permitted pursuant to Section 11.6.

SECTION 11. Qualified Performance-Based Awards; Performance Cash Awards.

11.1. Qualified Performance-Based Awards. The provisions of this Plan are intended to ensure that all Options and Stock Appreciation Rights granted hereunder to any Participant who is or may be a "covered employee" (within the meaning of Section 162(m)(3) of the Code) in the tax year in which such Option or Stock Appreciation Right is expected to be deductible to the Company qualify for the Section 162(m) Exemption, and all such Awards shall therefore be considered Qualified Performance-Based Awards

and this Plan shall be interpreted and operated consistent with that intention. When granting any Award other than an Option or Stock Appreciation Right, the Committee may designate such Award as a Qualified Performance-Based Award, based upon a determination that (a) the recipient is or may be a "covered employee" (within the meaning of Section 162(m)(3) of the Code) with respect to such Award, and (b) the Committee wishes such Award to qualify for the Section 162(m) Exemption, and the terms of any such Award (and of the grant thereof) shall be consistent with such designation. Within 90 days after the commencement of a Performance Period or, if earlier, prior to the expiration of 25% of a Performance Period, the Committee will designate one or more Performance Periods, determine the Participants for the Performance Periods, and establish the Performance Goals for the Performance Periods on terms consistent with Section 1.2(ff)(iii).

11.2. Performance Goals and Other Conditions. Each Qualified Performance-Based Award (other than an Option or Stock Appreciation Right) shall be earned, vested, and/or payable (as applicable) upon the achievement of one or more Performance Goals, together with the satisfaction of any other conditions, such as continued employment, as the Committee may determine to be appropriate. Moreover, no Qualified Performance-Based Award may be amended, nor may the Committee exercise any discretionary authority it may otherwise have under this Plan with respect to a Qualified Performance-Based Award under this Plan, in any manner that would cause the Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption; *provided,* that (i) the Committee may provide, either in connection with the grant of the applicable Award or by amendment thereafter, that achievement of such Performance Goals will be waived upon the death or disability of the Participant (or under any other circumstance with respect to which the existence of such possible waiver will not cause the Award to fail to qualify for the Section 162(m) Exemption), and (ii) the provisions of Section 10 shall apply notwithstanding this Section 11.2.

11.3. Limits on Board and Administrator Authority. Neither the full Board nor the Administrator shall be permitted to exercise authority granted to the Committee to the extent that the grant or exercise of such authority to or by the Board or the Administrator would cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption.

11.4. Section 16(b). The provisions of this Plan are intended to ensure that no transaction under the Plan is subject to (and not exempt from) the short-swing recovery rules of Section 16(b) of the Act (*"Section 16(b)"*). Accordingly, the composition of the Committee shall be subject to such limitations as the Board deems appropriate to permit transactions pursuant to this Plan to be exempt (pursuant to Rule 16b-3 promulgated under the Act) from Section 16(b), and no delegation of authority by the Committee shall be permitted if such delegation would cause any such transaction to be subject to (and not exempt from) Section 16(b).

11.5. Awards Valid Notwithstanding Committee Composition. Notwithstanding any other provision of the Plan to the contrary, if for any reason the appointed Committee does not meet the requirements of Rule 16b-3 or Section 162(m) of the Code, such noncompliance with the requirements of Rule 16b-3 and Section 162(m) of the Code shall not affect the validity of Awards, grants, interpretations of the Plan, or other actions of the Committee.

11.6. Section 409A of the Code. It is the intention of the Company that no Award shall be "deferred compensation" subject to Section 409A of the Code, unless and to the extent that the Committee specifically determines otherwise as provided in the immediately following sentence, and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. The terms and conditions governing any Awards that the Committee determines will be subject to Section 409A of the Code, including any rules for elective or mandatory deferral of the delivery of cash or Shares pursuant thereto and any rules regarding treatment of such Awards in the event of a Change of Control, shall be set forth in the applicable Award Agreement, and shall comply in all respects with Section 409A of the Code.

SECTION 12. Term, Amendment, and Termination.

12.1. Effectiveness. The Plan was approved by the Board on June 26, 2008 (the *"Effective Date"*), subject to and contingent upon approval by the shareholders of the Company.

12.2. Termination. The Plan will terminate on the tenth anniversary of the Effective Date. Awards outstanding as of such termination date shall not be affected or impaired by the termination of the Plan.

12.3. Amendment of Plan. The Board or the Committee may amend, alter, or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made which would materially impair the rights of any Participant with respect to a previously granted Award without such Participant's consent, except such an amendment made to comply with applicable law, including, without limitation, Section 409A of the Code or stock exchange rules. In addition, no such amendment shall be made without the approval of the Company's shareholders (a) to the extent that such approval is required (i) by applicable law or by the listing standards of the Applicable Exchange as in effect as of the Effective Date or (ii) by applicable law or under the listing standards of the Applicable Exchange as may be required after the Effective Date, (b) to the extent that such amendment would materially increase the benefits accruing to Participants under the Plan, (c) to the extent that such amendment would materially increase the number of securities which may be issued under the Plan, (d) to the extent that such amendment would materially modify the requirements for participation in the Plan, or (e) to the extent that such amendment would accelerate the vesting of any Restricted Stock or Restricted Stock Units under the Plan except as otherwise provided in the Plan.

12.4. Amendment of Awards. Subject to Section 5.12, the Committee may unilaterally amend the terms of any Award theretofore granted; *provided,* that no such amendment shall cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption, nor shall any such amendment, without the Participant's consent, materially impair the rights of any Participant with respect to an Award, except such an amendment made to cause the Plan or Award to comply with applicable law, stock exchange rules, or accounting rules.

SECTION 13. Forfeiture.

13.1. Forfeiture. All Awards under this Plan shall be subject to forfeiture or other penalties pursuant (a) to the Medtronic, Inc. Incentive Compensation Forfeiture Policy, as amended from time to time, and (b) such other forfeiture and/or penalty conditions and provisions as determined by the Committee and set forth in the applicable Award Agreement.

13.2. Effect of Change of Control. Notwithstanding the foregoing provisions, unless otherwise provided by the Committee in the applicable Award Agreement, this Section 13 shall not be applicable to any Participant following a Change of Control.

SECTION 14. Unfunded Status of Plan. Unfunded Status; Committee Authority. It is presently intended that the Plan will constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Shares or make payments; provided, that unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

SECTION 15. General Provisions.

15.1. Conditions for Issuance. The Committee may require each Participant purchasing or receiving Shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the Shares without a view to the distribution thereof. The certificates for such Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for Shares under the Plan prior to fulfillment of all of the following conditions: (a) listing or approval for listing upon notice of issuance of such Shares on the Applicable Exchange, (b) any registration or other qualification of such Shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable, and (c) obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

15.2. Additional Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Subsidiary or Affiliate from adopting other or additional compensation arrangements for its employees.

15.3. No Contract of Employment. The Plan shall not constitute a contract of employment, and adoption of the Plan shall not confer upon any employee any right to continued employment, nor shall it interfere in any way with the right of the Company or any Subsidiary or Affiliate to terminate the employment of any employee at any time.

15.4. Required Taxes. No later than the date as of which an amount first becomes includible in the gross income of a Participant for federal, state, local, or foreign income or employment or other tax purposes with respect to any Award under the Plan, such Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local, or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Company, withholding obligations may be settled with Shares, including Shares that are part of the Award that gives rise to the withholding requirement, having a Fair Market Value on the date of withholding equal to the minimum amount (and not any greater amount) required to be withheld for tax purposes, all in accordance with such procedures as the Committee establishes. The obligations of the Company under the Plan shall be conditioned on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to such Participant. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

15.5. Limit on Dividend Reinvestment and Dividend Equivalents. Reinvestment of dividends in additional Restricted Stock Units to be settled in Shares, and the payment of Shares with respect to dividends to Participants holding Awards of Restricted Stock Units, shall only be permissible if sufficient Shares are available under Section 3 for such reinvestment or payment (taking into account then outstanding Awards). In the event that sufficient Shares are not available for such reinvestment or payment, such reinvestment or payment shall be made in the form of a grant of Restricted Stock Units equal in number to the Restricted Stock Units or Shares that would have been obtained by such payment or reinvestment, the terms of which Restricted Stock Units shall provide for settlement in cash and for dividend equivalent reinvestment in further Restricted Stock Units on the terms contemplated by this Section 15.5.

15.6. Written Materials; Electronic Documents. Electronic documents may be substituted for any written materials required by the terms of the Plan, including, without limitation, Award Agreements.

15.7. Designation of Death Beneficiary. The Committee shall establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable in the event of such Participant's death are to be paid or by whom any rights of such Participant after such Participant's death may be exercised. If no beneficiary designation is in effect for a Participant at the time or his or her death, any such amounts shall be paid to, and any such rights may be exercised by, the estate of the Participant.

15.8. Subsidiary Employees. In the case of a grant of an Award to any employee of a Subsidiary of the Company, the Company may, if the Committee so directs, issue or transfer the Shares, if any, covered by the Award to the Subsidiary, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Subsidiary will transfer the Shares to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan. All Shares underlying Awards that are forfeited or canceled shall revert to the Company.

15.9. Governing Law. The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Minnesota, without reference to principles of conflict of laws.

15.10. Non-Transferability. Except as otherwise provided in Section 5.10 or by the Committee, Awards under the Plan are not transferable except by will or by laws of descent and distribution.

15.11. Foreign Employees and Foreign Law Considerations. The Committee may grant Awards to Eligible Individuals who are foreign nationals, who are located outside the United States, who are United States citizens or resident aliens on global assignments in foreign nations, who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance

of such purposes, the Committee may make such modifications, amendments, procedures, or subplans as may be necessary or advisable to comply with such legal or regulatory provisions.

15.12. No Rights to Awards; Non-Uniform Determinations. No Participant or Eligible Individual shall have any claim to be granted any Award under the Plan. The Company, its Affiliates, or the Committee shall not be obligated to treat Participants or Eligible Individuals uniformly, and determinations made under the Plan may be made by the Committee selectively among Participants and/or Eligible Individuals, whether or not such Participants and Eligible Individuals are similarly situated.

15.13. Relationship to Other Benefits. No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare, or benefit plan of the Company or any Affiliate unless provided otherwise in such plan.

15.14. Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries or Affiliates.

15.15. Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

15.16. Fractional Shares. No fractional Shares shall be issued, and the Committee shall determine, in its sole discretion, whether cash shall be given in lieu of fractional Shares or, subject to Section 3, whether such fractional Shares shall be eliminated by rounding up or down.

15.17. Government and Other Regulations. Notwithstanding any other provision of the Plan:

(a) No Participant who acquires Shares pursuant to the Plan may, during any period of time that such Participant is an affiliate of the Company (within the meaning of regulations promulgated pursuant to the Securities Act of 1933 (the *"1933 Act"*)), offer or sell such Shares, unless such offer and sale are made (i) pursuant to an effective registration statement under the 1933 Act, which is current and includes the Shares to be sold, or (ii) pursuant to an appropriate exemption from the registration requirements of the 1933 Act, such as that set forth in Rule 144 promulgated under the 1933 Act.

(b) If at any time the Committee shall determine that the registration, listing, or qualification of the Shares covered by an Award upon the Applicable Exchange or under any foreign, federal, state, or local law or practice, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Award or the purchase or receipt of Shares thereunder, no Shares may be purchased, delivered, or received pursuant to such Award unless and until such registration, listing, qualification, consent, or approval shall have been effected or obtained free of any condition not acceptable to the Committee. Any Participant receiving or purchasing Shares pursuant to an Award shall make such representations and agreements and furnish such information as the Committee may request to assure compliance with the foregoing or any other applicable legal requirements. The Company shall not be required to issue or deliver any certificate or certificates for Shares under the Plan prior to the Committee's determination that all related requirements have been fulfilled. The Company shall in no event be obligated to register any Shares or any other securities pursuant to the 1933 Act or applicable state or foreign law or to take any other action in order to cause the issuance and delivery of such certificates to comply with any such law, regulation, or requirement.

15.18. Additional Provisions. Each Award Agreement may contain such other terms and conditions as the Committee may determine; *provided* that such other terms and conditions are not inconsistent with the provisions of the Plan.

15.19. No Limitations on Rights of the Company. The grant of any Award shall not in any way affect the right or power of the Company to make adjustments, reclassifications, or changes in its capital or business structure or to merge, consolidate, dissolve, liquidate, sell, or transfer all or any part of its business or assets. The Plan shall not restrict the authority of the Company, for proper corporate purposes, to draft, grant, or assume Awards, other than under the Plan, with respect to any person.

15.20. Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

15.21. Blackout Periods. Notwithstanding any other provision of this Plan or any Award to the contrary, the Company shall have the authority to establish any "blackout" period that the Company deems necessary or advisable with respect to any or all Awards.

Summary of Compensation Arrangements for Named Executive Officers and Directors

Compensation Arrangements for Named Executive Officers

Following is a description of the compensation arrangements that have been approved by the Compensation Committee of the Board of Directors of Medtronic, Inc. (the "Compensation Committee") for the Company's Chief Executive Officer, Chief Financial Officer and the other three most highly compensated executive officers in fiscal year 2009, and Mr. Michael F. DeMane, who served as an executive officer for a portion of fiscal year 2009 and whose employment as a non-executive officer employee ended on May 31, 2009 (the "Named Executive Officers").

Annual Base Salary:

As a reflection of the current economic and business environment, all of our executive officers (including our named executive officers) proposed to the Compensation Committee a 5% reduction in their base salaries for fiscal year 2010.

The Compensation Committee approved the following base salaries, effective April 25, 2009, for five of the Named Executive Officers:

William A. Hawkins President and Chief Executive Officer	$	1,118,150
Gary L. Ellis Senior Vice President and Chief Financial Officer	$	604,200
Stephen H. Mahle Executive Vice President of Healthcare Policy and Regulatory	$	589,000
J Jean-Luc Butel Senior Vice President and President, International	$	498,750
H. James Dallas Senior Vice President, Quality and Operations	$	494,000

Michael DeMane resigned as Chief Operating Officer of Medtronic on April 30, 2008, and entered into an agreement with Medtronic to address the terms of his continued employment with Medtronic. This agreement provided that Mr. DeMane would remain an employee until May 31, 2009 or, if earlier, the date of an event of default under the agreement. Mr. DeMane's employment with Medtronic ended on May 31, 2009.

Annual Performance-Based Incentives:

The Compensation Committee has approved the following payments under the Medtronic, Inc. Executive Incentive Plan for performance in fiscal year 2009:

William A. Hawkins	$	1,538,551
Gary L. Ellis	$	475,067
Stephen H. Mahle	$	463,115
Jean-Luc Butel	$	315,425
H. James Dallas	$	315,591
Michael F. DeMane	$	688,750

At a special meeting on May 28, 2009, the Compensation Committee of the Board of Directors approved performance measures for fiscal year 2010. The plan is a performance-based plan with awards based on company-wide, geographic and business unit performance. For fiscal 2010, the awards for all executive officers will be measured 100% on overall Company performance. For fiscal 2010, the financial measures for the portion of our plan based on company-wide performance are diluted earnings per share, revenue growth, and an indicator of cash flow with weights of 40%, 40%, and 20% respectively. For fiscal

year 2010, named executive officers are eligible for target awards ranging from 65% to 140% of base salary. The potential maximum payouts named executive officers are eligible for range from 146% to 268% of base salary.

Stock Option and Restricted Stock Units:

Via Special Minutes of Action on October 22, 2008, the Compensation Committee approved the following stock option and performance based restricted stock grants under the Company's 2008 Stock Award and Incentive Plan. The stock options were granted on October 27, 2008 at an exercise price of $36.24, which was the fair market value of the Company's common stock on the date of grant and vest annually in 25% increments. The restricted stock unit awards were granted on October 27, 2008 (with the grant value determined by the Fair Market Value per share of the Company's common stock on the date of grant) and will vest 100% on the third anniversary of the grant date (or, in the event of death, disability or retirement, they vest on a pro-rata basis) provided that a minimum performance threshold is achieved.

William A. Hawkins	78,643	Restricted Stock Units	303,533	Stock Options
Gary L. Ellis	15,177	Restricted Stock Units	55,188	Stock Options
Stephen H. Mahle	20,696	Restricted Stock Units	41,391	Stock Options
Jean-Luc Butel	8,279	Restricted Stock Units	35,872	Stock Options
H. James Dallas	6,899	Restricted Stock Units	35,872	Stock Options

Mr. DeMane did not receive any grants of stock options or restricted stock units in fiscal year 2009.

In addition to the above-mentioned grants, at a Special Committee meeting on July 1, 2008, the Compensation Committee approved an additional grant of performance-based restricted stock units with a grant date of July 28, 2008 (with the grant value determined by the Fair Market Value per share of the Company's common stock on the date of grant) as outlined below:

Gary L. Ellis	28,377	Restricted Stock Units
Jean-Luc Butel	18,918	Restricted Stock Units
H. James Dallas	28,377	Restricted Stock Units

These restricted stock units will vest 100% on the third anniversary of the grant date (or, in the event of death, disability or retirement, they vest on a pro-rata basis) provided that a minimum performance threshold is achieved.

Long Term Performance Plan Awards:

The Compensation Committee approved the following cash awards under the Company's Long-Term Performance Plan for the three-year cycle ending in fiscal 2009. The value of an award is determined at the end of the performance period based on Medtronic's financial performance relative to predetermined performance goals.

William A. Hawkins	$	623,610
Gary L. Ellis	$	381,095
Stephen H. Mahle	$	519,675
Jean-Luc Butel	$	207,870
H. James Dallas	$	173,225
Michael F. DeMane	$	415,740

At a special meeting on May 28, 2009, the Compensation Committee of the Board of Directors approved performance measures for fiscal year the 2010-2012 cycle of the Long-Term Performance Plan. Senior executive officers are eligible for grants under the Long-Term Performance Plan. Grants are made annually for overlapping three-year performance periods. For the 2010-2012 award cycle, the financial measures are three-year cumulative diluted earnings per share growth, three-year average revenue growth and three-year return on invested capital, weighted at 50%, 30% and 20% respectively. The amount of cash payable at the end of the three-year plan period can range from 20% to 180% of the original grant.

Steve Mahle Retirement

On April 30, 2009, Mr. Mahle announced his intent to retire from Medtronic. Mr. Mahle was eligible for an early retirement program that was offered to all eligible employees but was requested by the Company to delay his retirement until September 2009, rather than retire on the date specified in the early retirement program. The Company recommended, and the Compensation Committee approved on June 18, 2009, an enhancement to Mr. Mahle's retirement benefit that provided the same benefit under the Medtronic, Inc. Supplemental Executive Retirement Plan as if he had retired under the early retirement program. The lump sum value of this enhancement is approximately $571,000 which will be paid out to Mr. Mahle over a 15-year period.

Compensation Arrangements for Non-Employee Directors

Non-employee director compensation consists of an annual retainer, annual cash stipends for committee chairs and special committee members, an annual stock option grant and an annual grant of deferred stock units. In addition, all new non-employee directors receive an initial stock option grant and a pro-rated annual stock option grant based on the number of days remaining in the plan year.

For fiscal year 2010, the non-employee directors reduced the value of their annual retainer by 5% from $80,000 to $76,000. The chairs of the Corporate Governance, Compensation and Technology and Quality Committees receive an annual cash stipend of $10,000 and the chair of the Audit Committee receives an annual cash stipend of $15,000. In addition, non-chair members of the Audit Committee receive an annual cash stipend of $5,000. Members of a Special Committee receive an additional annual fee of $10,000 for each Special Committee upon which they serve, so long as the committee is convened. The annual retainer and annual cash stipend are reduced by 25% if a non-employee director does not attend at least 75% of the total meetings of the Board and Board committees on which such director served during the relevant plan year.

Non-employee directors are granted stock options on the first business day of the fiscal year in an amount equal to $80,000 divided by the fair market value of a share of Medtronic common stock on the date of grant (which will also be the exercise price of the option). Directors granted deferred stock units on the first business day of the fiscal year in an amount equal to $80,000 (on a pro-rata basis for participants who are directors for less than the entire preceding plan year and reduced by 25% for those directors who failed to attend at least 75% of the applicable meetings during the prior fiscal year) divided by the fair market value of a share of Medtronic common stock on the date of grant. On the first business day of the fiscal quarter immediately following the fiscal quarter during which a non-employee director first becomes a director, each new non-employee director receives (1) a one-time initial stock option grant for a number of shares of Medtronic common stock equal to $160,000 divided by the fair market value of a share of Medtronic common stock on the date of grant (which will also be the exercise price of such option); and (2) a pro-rated annual stock option grant for a number of shares of Medtronic common stock equal to $80,000 (pro-rated based on the number of days remaining in the fiscal year) divided by the fair market value of a share of Medtronic common stock on the date of grant (which will also be the exercise price of such option).

AMENDMENT NO. 2 TO
INDEMNIFICATION TRUST AGREEMENT

AMENDMENT NO. 2 TO INDEMNIFICATION TRUST AGREEMENT, dated April 27, 2009 (this "Amendment"), among Medtronic, Inc., a Minnesota corporation ("Grantor" or the "Company"), and, Wells Fargo Bank, National Association, as trustee (the "Trustee"), and Terrance L. Carlson, as the representative of the Beneficiaries (the "Beneficiaries' Representative").

PRELIMINARY STATEMENT

Grantor established a trust to be a non-exclusive source of indemnification for the Grantor's directors and officers who are eligible for such indemnification as stated in the Indemnification Trust Agreement dated April 29, 2004 and Amendment No.1 dated September 5, 2006 among Grantor, the Trustee and the Beneficiaries' Representative (as so amended, the "Agreement"). Grantor hereby desires to increase the Fund Amount of the Trust from $100 million to $150 million.

NOW, THEREFORE, the Agreement is hereby further amended for the purposes and upon the terms and conditions hereinafter stated, and Grantor, the Trustee and the Beneficiaries' Representative on behalf of the Beneficiaries agree as follows:

1. Amendment to Fund Amount. The Agreement is hereby amended by amending Section 4 of the Amendment No.1 entitled "Total Amount" as follows:

"Total Amount. The Fund Amount under the Agreement is hereby increased from $100 million to $150 million."

2. Capitalized Terms. All capitalized terms used in this Amendment and not defined herein shall have the same meaning as used in the Agreement.

3. The Agreement. Except as expressly amended by this Amendment, the Agreement shall continue in full force and effect in accordance with its terms.

4. Governing Law; Other Provisions. This Amendment shall be governed by and its provisions construed and enforced in accordance with the laws of the State of Minnesota. Unless otherwise provided in this Amendment, the provisions of Article VIII of the Agreement shall apply to this Amendment, mutatis mutandis.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

WELLS FARGO BANK, NATIONAL ASSOCIATION
("Trustee")

By: /s/ Jayne E. Sillman
Name: Jayne E. Sillman
Title: Vice President

MEDTRONIC, INC.
("Grantor")

By: /s/ Gary L. Ellis
Name: Gary L. Ellis
Title: Chief Financial Officer

/s/ Terrance L. Carlson
Terrance L. Carlson, as the Beneficiaries' Representative

Exhibit 12.1

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

The ratio of earnings to fixed charges for the fiscal years ended April 24, 2009, April 25, 2008, April 27, 2007, April 28, 2006, April 29, 2005, and April 30, 2004 was computed based on Medtronic's historical consolidated financial information included in Medtronic's most recent Annual Report incorporated by reference on Form 10-K.

	Year ended April 24, 2009	Year ended April 25, 2008	Year ended April 27, 2007	Year ended April 28, 2006	Year ended April 29, 2005	Year ended April 30, 2004
Earnings:						
Net earnings	$ 2,169	$ 2,231	$ 2,802	$ 2,547	$ 1,804	$ 1,959
Income taxes	425	654	713	614	740	838
Minority interest (loss)/income	1	—	—	—	(1)	3
Capitalized interest[1]	(5)	(10)	(3)	(3)	(1)	—
	$ 2,590	$ 2,875	$ 3,512	$ 3,158	$ 2,542	$ 2,800
Fixed Charges:						
Interest expense[2]	$ 217	$ 255	$ 228	$ 116	$ 55	$ 56
Capitalized interest[1]	5	10	3	3	1	—
Amortization of debt issuance costs[3]	12	12	14	4	1	—
Rent interest factor[4]	45	41	34	26	24	21
	$ 279	$ 318	$ 279	$ 149	$ 81	$ 77
Earnings before income taxes and fixed charges	$ 2,869	$ 3,193	$ 3,791	$ 3,307	$ 2,623	$ 2,877
Ratio of earnings to fixed charges	10	10	14	22	32	37

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

(2) Interest expense consists of interest on indebtedness.

(3) Represents the amortization of debt issuance costs incurred in connection with the Company's registered debt securities. See Note 8 to the consolidated financial statements for further information regarding the debt securities.

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

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

Understanding Our Financial Information

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Medtronic, Inc. (Medtronic or the Company). You should read this discussion and analysis along with our consolidated financial statements and related Notes thereto as of April 24, 2009 and April 25, 2008 and for each of the three fiscal years ended April 24, 2009, April 25, 2008 and April 27, 2007.

Organization of Financial Information Management's discussion and analysis, presented on pages 1 to 27 of this report, provides material historical and prospective disclosures designed to enable investors and other users to assess our financial condition and results of operations.

The consolidated financial statements are presented on pages 30 to 79 of this report, and include the consolidated statements of earnings, consolidated balance sheets, consolidated statements of shareholders' equity, consolidated statements of cash flows and the related Notes, which are an integral part of the consolidated financial statements.

Financial Trends Throughout this financial information, you will read about transactions or events that materially contribute to or reduce earnings and materially affect financial trends. We refer to these transactions and events as either special (such as asset impairment or contributions to The Medtronic Foundation), restructuring, certain litigation and purchased in-process research and development (IPR&D) charges, or certain tax adjustments. These charges, or benefits, result from facts and circumstances that vary in frequency and/or impact to operations. While understanding these charges or benefits is important to understanding and evaluating financial trends, other transactions or events may also have a material impact on financial trends. A complete understanding of the special, restructuring, certain litigation and IPR&D charges and certain tax adjustments is necessary in order to estimate the likelihood that financial trends will continue.

Our fiscal year-end is the last Friday in April, and, therefore, the total weeks in a fiscal year can fluctuate between fifty-two and fifty-three weeks. Fiscal years 2009, 2008 and 2007 consisted of fifty-two weeks. Fiscal year 2010 will be a fifty-three week year.

Executive Level Overview

We are the global leader in medical technology - alleviating pain, restoring health and extending life for millions of people around the world. We function in seven operating segments, consisting of Cardiac Rhythm Disease Management (CRDM), Spinal, CardioVascular, Neuromodulation, Diabetes, Surgical Technologies and Physio-Control.

Through these seven operating segments, we develop, manufacture, and market our medical devices in more than 120 countries. Our primary products include those for cardiac rhythm disorders, cardiovascular disease, neurological disorders, spinal conditions and musculoskeletal trauma, urological and digestive disorders, diabetes, and ear, nose, and throat conditions.

Net earnings for the fiscal year ended April 24, 2009 were $2.169 billion, a 3 percent decrease from net earnings of $2.231 billion for the fiscal year ended April 25, 2008. Diluted earnings per share were $1.93 and $1.95 for the fiscal years ended April 24, 2009 and April 25, 2008, respectively. Fiscal year 2009 net earnings included after-tax special, restructuring, certain litigation and IPR&D charges and certain tax adjustments that decreased net earnings by $1.114 billion and had a $0.99 impact on diluted earnings per share. Fiscal year 2008 net earnings included after-tax special, restructuring, certain litigation and IPR&D charges that decreased net earnings by $742 million and had a $0.65 impact on diluted earnings per share. See further discussion of these charges/benefits in the "Special, Restructuring, Certain Litigation and IPR&D Charges and Certain Tax Adjustments" section of this management's discussion and analysis.

	Net Sales Fiscal Year		
(dollars in millions)	**2009**	**2008**	**% Change**
Cardiac Rhythm Disease Management	$ 5,014	$ 4,963	1%
Spinal	3,400	2,982	14
CardioVascular	2,437	2,131	14
Neuromodulation	1,434	1,311	9
Diabetes	1,114	1,019	9
Surgical Technologies	857	780	10
Physio-Control	343	329	4
Total Net Sales	**$ 14,599**	**$ 13,515**	**8%**

Net sales in fiscal year 2009 were $14.599 billion, an increase of 8 percent from the prior fiscal year. Foreign currency translation had an unfavorable impact of $100 million on net sales when compared to the prior fiscal year. The net sales increase in the current fiscal year was driven by the addition of Kyphon to our Spinal business in the third quarter of fiscal year 2008 and double digit sales growth in the CardioVascular and Surgical Technologies businesses. Sales outside the United States (U.S.) were $5.602 billion compared to $5.179 billion for the prior fiscal year. Growth outside the U.S. continued to be positive, where three of our operating segments had strong double digit growth rates. See our discussion in the "Net Sales" section of this management's discussion and analysis for more information on the results of our significant operating segments.

We remain committed to our Mission of developing lifesaving and life enhancing therapies to alleviate pain, restore health and extend life. The diversity and depth of our current product offerings enable us to provide medical therapies to patients worldwide. We work to improve patient access through well planned studies, which show the safety, efficacy and cost-effectiveness of our therapies, and our alliance with patients, clinicians, regulators and reimbursement agencies. Our investments in research and development, strategic acquisitions, expanded clinical trials and infrastructure provide the foundation for our growth. We are confident in our ability to drive long-term shareholder value using principles of our Mission, our strong product pipelines and continued commitment to innovative research and development.

Certain Litigation Charges Recorded – Subsequent Event

On June 1, 2009, the U.S. Court of Appeals for the Federal Circuit affirmed a December 2007 ruling of infringement stemming from the Vertex line of multiaxial screws in our litigation with DePuy Spine (formerly DePuy/AcroMed), a subsidiary of Johnson & Johnson (J&J) , and Biedermann Motech GMbH (collectively, DePuy). As a result of the U.S. Court of Appeals' decision, we recorded a reserve of $178 million which is expected to cover the revised damages award and pre- and post-judgment interest. Since the ruling provided additional evidence about conditions that existed at the balance sheet date, the charge was included in the consolidated financial statements for the fiscal year ended April 24, 2009. See the "Special, Restructuring, Certain Litigation and IPR&D Charges and Certain Tax Adjustments" section of this management's discussion and analysis and Note 16 to the consolidated financial statements for additional information.

Other Matters

In January 2007, we announced a voluntary suspension of U.S. shipments of Physio-Control products manufactured at our facility in Redmond, Washington in order to address quality system issues. In the months following the suspension of U.S. shipments, we worked diligently with the U.S. Food and Drug Administration (FDA) to address the quality system issues and resumed limited shipments to critical need customers. On May 9, 2008, the U.S. District Court for the Western District of Washington approved the consent decree that was signed with the FDA regarding quality system improvements for our external defibrillator products. The agreement addresses issues raised by the FDA during inspections regarding Physio-Control's quality system processes and outlines the actions Physio-Control must take in order to resume unrestricted distribution of our external defibrillators. We continue to work diligently to implement the required actions necessary to resolve the quality issues addressed by the FDA.

Critical Accounting Estimates

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP). Our most significant accounting policies are disclosed in Note 1 to the consolidated financial statements.

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

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

Legal Proceedings We are involved in a number of legal actions involving both product liability and intellectual property disputes. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, that could require significant expenditures or result in lost revenues. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies," (SFAS No. 5) we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is possible, but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the consolidated financial statements. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. Our significant legal proceedings are discussed in Note 16 to the consolidated financial statements. While it is not possible to predict the outcome for most of the matters discussed in Note 16 to the consolidated financial statements, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position or cash flows.

Tax Strategies Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may or may not prevail. These reserves are established and adjusted in accordance with the principles of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48). Under FIN No. 48, if we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the amount that is greater than 50 percent likely of being realized upon settlement. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions and FIN No. 48 tax liabilities. We reevaluate the technical merits of our tax positions and recognize an uncertain tax benefit, or derecognize a previously recorded tax benefit, when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves. Although we believe that we have adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on our effective tax rate in future periods.

In the event there is a special, restructuring, certain litigation and/or IPR&D charge recognized in our operating results, the tax cost or benefit attributable to that item is separately calculated and recorded. Because the effective rate can be significantly impacted by these discrete items that take place in the period, we often refer to our tax rate using both the effective rate and the non-GAAP nominal tax rate. The non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special, restructuring, certain litigation and IPR&D charges and certain tax adjustments. We believe that this resulting non-GAAP financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods.

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

The Company's overall tax rate including the tax impact of special, restructuring, certain litigation and IPR&D charges and certain tax adjustments has resulted in an effective tax rate of 16.4 percent for fiscal year 2009. Excluding the impact of the special, restructuring, certain litigation and IPR&D charges and certain tax adjustments, our operational and tax strategies have resulted in a non-GAAP nominal tax rate of 20.9 percent versus the U.S. Federal statutory rate of 35.0 percent. An increase in our nominal tax rate of 1.0 percent would have resulted in an additional income tax provision for the fiscal year ended April 24, 2009 of approximately $42 million. See the discussion of our tax rate and tax adjustments in the "Income Taxes" section of this management's discussion and analysis.

Valuation of IPR&D, Goodwill and Other Intangible Assets When we acquire a company, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, net tangible assets and goodwill as required by U.S. GAAP. IPR&D is defined as the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the portion of the purchase price allocated to IPR&D and other intangible assets requires us to make significant estimates. The amount of the purchase price allocated to IPR&D and other intangible assets is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of the acquisition in accordance with accepted valuation methods. For IPR&D, these valuation methodologies include consideration of the risk of the project not achieving commercial feasibility.

Goodwill represents the excess of the aggregate purchase price over the fair value of net assets, including IPR&D, of acquired businesses. Goodwill is tested for impairment annually, or more frequently if changes in circumstance or the occurrence of events suggest that the carrying amount may be impaired.

The test for impairment requires us to make numerous estimates about fair value, most of which are based on projected future cash flows. Our estimates associated with the goodwill impairment test are considered critical due to the amount of goodwill recorded on our consolidated balance sheets and the judgment required in determining assumptions necessary to estimate fair value, including projected future cash flows. Goodwill was $8.195 billion and $7.519 billion as of April 24, 2009 and April 25, 2008, respectively.

Other intangible assets consist primarily of purchased technology, patents and trademarks which are amortized using the straight-line or accelerated basis, as appropriate, over their estimated useful lives, ranging from 3 to 20 years. As of April 24, 2009, all of our intangible assets have definite lives and are amortized on a straight-line basis. We review these intangible assets for impairment annually or as changes in circumstance or the occurrence of events suggest the remaining value may not be recoverable. Other intangible assets, net of accumulated amortization, were $2.477 billion and $2.193 billion as of April 24, 2009 and April 25, 2008, respectively.

Net Sales

The table below illustrates net sales by product line and operating segment for fiscal years 2009, 2008 and 2007:

	Net Sales Fiscal Year			Net Sales Fiscal Year		
(dollars in millions)	2009	2008	Change	2008	2007	Change
Defibrillation Systems	$ 2,962	$ 2,897	2%	$ 2,897	$ 2,917	(1)%
Pacing Systems	1,984	2,008	(1)	2,008	1,895	6
Other	68	58	17	58	64	(9)
CARDIAC RHYTHM DISEASE MANAGEMENT	**5,014**	**4,963**	**1**	**4,963**	**4,876**	**2**
Core Spinal	1,951	1,869	4	1,869	1,713	9
Biologics	840	815	3	815	704	16
Kyphon	609	298	104	298	—	N/A
SPINAL	**3,400**	**2,982**	**14**	**2,982**	**2,417**	**23**
Coronary Stents	844	710	19	710	560	27
Other Coronary/Peripheral	448	408	10	408	386	6
Endovascular	398	285	40	285	259	10
Revascularization and Surgical Therapies	447	431	4	431	417	3
Structural Heart Disease	300	297	1	297	287	3
CARDIOVASCULAR	**2,437**	**2,131**	**14**	**2,131**	**1,909**	**12**
Neuro Implantables	1,145	1,069	7	1,069	962	11
Gastroenterology and Urology	289	242	19	242	221	10
NEUROMODULATION	**1,434**	**1,311**	**9**	**1,311**	**1,183**	**11**
DIABETES	**1,114**	**1,019**	**9**	**1,019**	**863**	**18**
Core Ear, Nose and Throat (ENT)	352	323	9	323	278	16
Neurologic Technologies	320	298	7	298	261	14
Navigation	185	159	16	159	127	25
SURGICAL TECHNOLOGIES	**857**	**780**	**10**	**780**	**666**	**17**
PHYSIO-CONTROL	**343**	**329**	**4**	**329**	**385**	**(15)**
TOTAL	**$ 14,599**	**$ 13,515**	**8%**	**$ 13,515**	**$ 12,299**	**10%**

In fiscal years 2009 and 2008, net sales were (unfavorably)/favorably impacted by foreign currency translation of $(100) million and $400 million, respectively. The primary exchange rate movements that impact our consolidated net sales growth are the U.S. dollar as compared to the Euro and the Japanese Yen. The impact of foreign currency fluctuations on net sales is not indicative of the impact on net earnings due to the offsetting foreign currency impact on operating costs and expenses and our hedging activities. See the "Market Risk" section of this management's discussion and analysis and Note 9 to the consolidated financial statements for further details on foreign currency instruments and our related risk management strategies.

Forward-looking statements are subject to risk factors (see "Risk Factors" set forth in our Form 10-K).

Cardiac Rhythm Disease Management CRDM products consist primarily of pacemakers, implantable defibrillators, leads, ablation products, electrophysiology catheters, products for the treatment of atrial fibrillation and information systems for the management of patients with our devices. CRDM fiscal year 2009 net sales were $5.014 billion, an increase of 1 percent over the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of approximately $25 million when compared to the prior fiscal year.

Worldwide net sales of Defibrillation Systems, our largest product line, for fiscal year 2009 were $2.962 billion, an increase of 2 percent when compared to the prior fiscal year. Foreign currency had an unfavorable impact on net sales of $18 million when compared to the prior fiscal year. Net sales growth was primarily a result of worldwide net sales of Secura implantable cardioverter defibrillators (ICDs) and Consulta cardiac resynchronization therapy-defibrillators (CRT-Ds), both of which are included within our Vision 3D portfolio. Both the Secura ICDs and Consulta CRT-Ds feature Conexus wireless technology which allows for remote transfer of patient data and enables easier communication between the implanted device and programmer at the time of implant, during follow-up in a clinician's office, or remotely using a patient home monitor. In addition, net sales for the comparative period were negatively impacted by our voluntary suspension of worldwide distribution of Sprint Fidelis (Fidelis) leads in the second quarter of fiscal year 2008.

Pacing Systems net sales for fiscal year 2009 were $1.984 billion, a decrease of 1 percent when compared to the prior fiscal year. The decrease in net sales was primarily a result of a decrease in net sales in the U.S. due to significant competition, partially offset by sales growth outside the U.S. Net sales growth outside the U.S. for fiscal year 2009 was led by the acceptance of the Adapta family of pacemakers, including the Adapta and Sensia models. The Adapta family of pacemakers incorporates an array of automatic features to help physicians improve pacing therapy and streamline the patient follow-up process, potentially minimizing the amount of time spent in a physician's office. Adapta offers Managed Ventricular Pacing, or MVP, which is an atrial-based pacing mode that significantly reduces unnecessary pacing in the right ventricle while providing the safety of a dual chamber backup if necessary. Clinical studies have suggested that reducing this unnecessary pacing in the right ventricle may decrease the risk of developing heart failure and atrial fibrillation, a potentially life-threatening irregular heartbeat.

Fiscal year 2009 Defibrillation and Pacing Systems sales benefited from the continued acceptance of the Medtronic CareLink Service. The Medtronic CareLink Service enables clinicians to review data about implanted cardiac devices in real time and access stored patient and device diagnostics through a secure Internet website. The data, which is comparable to information provided during an in-clinic device follow-up, provides the patient's medical team with a comprehensive view of how the device and patient's heart are operating. Today, over 360,000 patients are being monitored through Medtronic's CareLink Service worldwide, up from approximately 250,000 patients being monitored a year ago.

CRDM fiscal year 2008 net sales grew by 2 percent from the prior fiscal year to $4.963 billion. Foreign currency translation had a favorable impact on net sales of approximately $160 million when compared to the prior fiscal year.

Defibrillation Systems net sales of $2.897 billion for fiscal year 2008 decreased 1 percent when compared to fiscal year 2007. The decrease in net sales was the result of sales declines in the U.S., offset by sales growth outside the U.S. Global sales were driven by the Virtuoso ICD and the Concerto CRT-D. Both of these devices feature Conexus wireless technology. Net sales from Defibrillation Systems in the U.S. were $1.955 billion, a decrease of 6 percent in comparison to the prior year. The decrease in U.S. Defibrillation Systems net sales in fiscal year 2008 was primarily the result of the suspension of worldwide distribution of the Fidelis lead in the second quarter of fiscal year 2008. The distribution of the Fidelis lead was suspended because of the potential for lead fractures at higher than anticipated rates. Leads are sophisticated "wires" that connect an electronic pulse generator to the heart and are the pathway for therapy delivery between the device and heart. The Fidelis leads are applicable to therapy delivery in defibrillators only, including ICDs and CRT-Ds. Although the U.S. Defibrillation Systems market appeared to have stabilized from the impact of the Fidelis lead issue in the fourth quarter of fiscal year 2008, the rebound was not enough to offset the negative impact that the Fidelis lead issue had in the second and third quarters of fiscal year 2008. Outside the U.S., net sales from Defibrillation Systems were $942 million, an increase of 13 percent over the prior fiscal year. This growth was partially driven by favorable foreign currency translation as compared to the prior year, but was principally the result of strong market acceptance of the Virtuoso ICD and Concerto CRT-D. Outside the U.S., net sales were also impacted by the Fidelis lead issue. In particular, for most of the third quarter of fiscal year 2008, we did not have an approved high power lead on the market in Japan, and, as of the close of the fourth quarter of fiscal year 2008, we still did not have an approved single coil lead, which is a more popular lead design in certain Western European markets. However, in November 2008, we launched our Sprint Quattro Secure S single coil lead in markets outside the U.S.

Pacing Systems net sales for fiscal year 2008 increased by 6 percent over the prior fiscal year to $2.008 billion. This increase was attributable primarily to continued worldwide acceptance of the Adapta family of pacemakers, including the Adapta, Versa and Sensia models, which were launched in the U.S. in the second quarter of fiscal year 2007 and have been available outside the U.S. since late fiscal year 2006. Net sales from Pacing Systems in the U.S. were $940 million, an increase of 1 percent. The revenue growth in the U.S. was slowed in the second and third quarters of fiscal year 2008 by the suspension of worldwide distribution of the Fidelis lead, as our field organization focused their efforts on serving Fidelis customers and patients. Outside the U.S., net sales from Pacing Systems were $1.068 billion, an increase of 11 percent over the prior fiscal year due primarily to foreign currency translation which had an $86 million favorable impact on net sales outside the U.S.

Looking ahead, we expect our CRDM operating segment should be impacted by the following:

- The further launch and acceptance of our Vision 3D portfolio, which represents a common technology platform comprised of a full line of ICDs, CRT-Ds, pacemakers and cardiac resynchronization therapy-pacemakers (CRT-Ps) to address the needs of patients with arrhythmias, heart failure and those at risk of sudden cardiac arrest. The Secura ICD and the Consulta CRT-D, the portfolio's first ICD and CRT-D devices, became commercially available in the U.S. in the second quarter of fiscal year 2009. The Secura ICD and Consulta CRT-D were commercially available in Western Europe beginning in the first quarter of fiscal year 2009 and we successfully launched the Secura ICD and the Consulta CRT-D in Japan in the fourth quarter of fiscal year 2009. The devices within the Vision 3D portfolio provide enhanced follow-up and automaticity features and create meaningful manufacturing synergies.

- Increased use in the U.S. of devices with OptiVol Fluid Status Monitoring as a result of recently published clinical evidence and reimbursement, which became effective January 1, 2009. OptiVol Fluid Status Monitoring is found on certain Medtronic CRT-Ds and ICDs and uses low electrical pulses that travel across the thoracic cavity to measure the level of resistance, indicating fluid in the chest which is a common symptom of heart failure. OptiVol's ability to measure fluid status trends over time can provide important insights that are used in conjunction with ongoing monitoring of other patient symptoms.

- The launch and acceptance of Magnetic Resonance Imaging (MRI) safe pacing systems. In November 2008, we launched the EnRhythm MRI SureScan pacing system (EnRhythm MRI) in certain European countries and in June 2009 we received CE Mark approval for the Advisa DR MRI, which is part of our Vision 3D portfolio. EnRhythm MRI was the first pacemaker system to be developed and tested specifically for safe use in MRI machines under specified scanning conditions. Both EnRhythm MRI and Advisa DR MRI are designed to address and mitigate interactions between the pacing system and the magnetic resonance environment. EnRhythm MRI is expected to launch in the U.S. in fiscal year 2010. Advisa DR MRI is expected to launch in Europe during the first half of fiscal year 2010.

- The recent U.S. launch of the Reveal XT Insertable Cardiac Monitor (ICM), which offers comprehensive remote monitoring capabilities via the Medtronic CareLink Service and allows physicians to confirm or rule out an abnormal heart rhythm. The Reveal XT ICM became commercially available in the U.S. in February 2009.

- The recent U.S. launch of the Attain Ability left-heart lead, which offers a thin lead body, providing physicians a tool to deliver therapy to hard-to-reach areas of the heart in heart failure patients. The Attain Ability left-heart lead became commercially available in the U.S. in May 2009. Following the launch in the U.S., the Attain Ability left-heart lead is commercially available in every major market in the world.

- Our recent investments in two breakthrough atrial fibrillation therapy systems. In November 2008, we acquired CryoCath Technologies Inc. (CryoCath), a medical technology company that develops cryotherapy products to treat cardiac arrhythmias. CryoCath's Arctic Front product is a minimally invasive cryo-balloon catheter designed specifically to treat atrial fibrillation and is currently approved in certain markets outside the U.S. In addition, in February 2009, we acquired Ablation Frontiers, Inc. (Ablation Frontiers), a company that develops RF ablation solutions for treatment of atrial fibrillation. Ablation Frontiers' system of ablation catheters and RF generator is currently approved in certain markets outside the U.S. See Note 4 to the consolidated financial statements for additional information.

- Our ability to grow consistently with the market. Our growth in CRDM has been and will continue to be contingent upon continued market growth and our ability to increase our market position. The CRDM market is characterized by significant competition, and in fiscal year 2009, we believe that Medtronic's growth has been slightly slower than that of the overall market.

Spinal Spinal products include thoracolumbar, cervical, interbody devices, bone graft substitutes and biologic products. Spinal net sales for fiscal year 2009 were $3.400 billion, an increase of 14 percent over the same period of the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of approximately $11 million when compared to the prior fiscal year. The growth in fiscal year 2009 was partially driven by the third quarter fiscal year 2008 acquisition of Kyphon Inc. (Kyphon), which generated revenue of $609 million and $298 million in fiscal years 2009 and 2008, respectively. See below and Note 4 to the consolidated financial statements for further discussion about the acquisition of Kyphon.

Core Spinal net sales for fiscal year 2009 were $1.951 billion, an increase of 4 percent when compared to the prior fiscal year. Growth in the period was primarily driven by continued acceptance of our products for the thoracolumbar region of the spine. Thoracolumbar net sales growth for fiscal year 2009 was driven by net sales of the CD HORIZON LEGACY family of products (CD HORIZON) outside the U.S., and net sales growth in the U.S. was augmented by demand for our CD HORIZON LEGACY PEEK Rod System, which allows for a less rigid implant as compared to traditional metal rod systems. CD HORIZON is designed to provide procedural solutions for degenerative, deformity or trauma applications using color coded implants, unique minimally invasive instruments and ergonomic designs. Net sales growth in the U.S. was also driven by our MAST family of products, which includes a comprehensive offering of minimal-access procedural solutions. Our market share in the Core Spinal business continues to experience pressure from the proliferation of smaller, public and privately held companies competing in this market. In addition, Core Spinal net sales growth for the fiscal year was positively impacted from our joint venture with Shandong Weigao Group Medical Polymer Company Limited (Weigao). The joint venture entity, which distributes Medtronic's spinal products and Weigao's orthopedic products in China, commenced operations in September 2008.

Biologics net sales for fiscal year 2009 were $840 million, an increase of 3 percent when compared to the prior fiscal year. This increase was primarily driven by worldwide net sales growth of INFUSE Bone Graft in the first quarter of fiscal year 2009. Net sales of INFUSE Bone Graft during the remainder of fiscal year 2009 were flat because of the negative impact of several external factors including: a public health notice from the FDA regarding off-label use of recombinant human bone morphogenic protein in the cervical spine that was issued in July 2008, a previously disclosed government investigation, negative newspaper stories and a whistleblower lawsuit filed against a number of spine surgeons and distributors of INFUSE Bone Graft. INFUSE Bone Graft contains a recombinant human bone morphogenetic protein, or rhBMP-2, that induces the body to grow its own bone, eliminating the need for a painful second surgery to harvest bone from elsewhere in the body.

Kyphon net sales for fiscal year 2009 were $609 million, an increase of 104 percent when compared to the prior fiscal year. Kyphon was acquired in the third quarter of fiscal year 2008 and therefore net sales for the prior period only included six months of net sales. Kyphon net sales were driven primarily by continued worldwide acceptance of balloon kyphoplasty procedures for treating vertebral compression fractures. Balloon kyphoplasty, using Kyphon instruments, is presently used primarily by spine specialists, including orthopedic surgeons and neurosurgeons, interventional radiologists and interventional neuroradiologists, who repair compression fractures of the spine caused by osteoporosis, cancer, benign lesions or trauma, through minimally invasive spine surgeries.

Spinal net sales for fiscal year 2008 increased by 23 percent from the prior fiscal year to $2.982 billion. Foreign currency translation had a favorable impact on net sales of $44 million when compared to the prior fiscal year. The growth in fiscal year 2008 was primarily driven by the November 2007 close of the acquisition of Kyphon, which generated revenue of $298 million during the fiscal year.

Core Spinal net sales for fiscal year 2008 were $1.869 billion, an increase of 9 percent from the prior fiscal year. Growth in the period was primarily based on continued acceptance of our products for the thoracolumbar and cervical regions of the spine. Net sales in fiscal year 2008 were hampered by the trend of small companies increasing their presence and placing pressure on the Core Spinal market. Thoracolumbar net sales growth for fiscal year 2008 was driven by net sales of the CD HORIZON and the CAPSTONE Vertebral Body Spacer (CAPSTONE) outside the U.S., net sales of the VERTE-STACK CRESCENT Vertebral Body Spacer (CRESCENT) for thoracolumbar stabilization in the U.S. and worldwide net sales growth of lumbar products. The CAPSTONE and CRESCENT are minimal access devices and techniques designed to replace and restore vertebral height in the thoracolumbar spine. The growth in net sales in our cervical products during the fiscal year was led by the continued acceptance of the VERTEX Max Reconstruction System for cervical stabilization outside the U.S.

Biologics net sales for fiscal year 2008 increased 16 percent from the prior fiscal year to $815 million. This increase was primarily driven by continued strong acceptance of INFUSE Bone Graft in the U.S. In addition to FDA approval for use of INFUSE Bone Graft for lumbar spinal fusion, we received FDA approval to use INFUSE Bone Graft for the treatment of certain types of acute, open fractures of the tibial shaft in fiscal year 2005, and for certain oral maxillofacial and dental regenerative bone grafting procedures late in fiscal year 2007. Additionally, although on a smaller base, we experienced strong fiscal year 2008 growth in the sales of InductOs Bone Graft, the outside the U.S. equivalent of INFUSE Bone Graft.

Kyphon, which was acquired in November 2007, had net sales of $298 million for fiscal year 2008 that were driven by continued acceptance of balloon kyphoplasty procedures for treating vertebral compression fractures and acceptance of Kyphon's interspinous products for treating lumbar spinal stenosis. Kyphon's interspinous products for treating lumbar spinal stenosis include the commercially available X-STOP IPD technology available in both the U.S. and outside the U.S. and Aperius PercLID available outside the U.S.

Looking ahead, we expect our Spinal operating segment should be impacted by the following:

- Continued acceptance of our products for stabilization of the thoracolumbar region of the spine, including the CD HORIZON LEGACY 5.5 and PEEK Rod Systems.

- Increased presence in China as a result of our joint venture with Weigao to distribute Medtronic's spinal products and Weigao's orthopedic products in China.

- The recent U.S. launch of the PEEK Prevail Cervical Interbody Device and the VERTEX SELECT Reconstruction System Occipitocervical Module. The PEEK Prevail Cervical Interbody Device offers stability during a spinal fusion for patients that are treated for a degenerative condition that affects the patient's neck. The VERTEX SELECT Reconstruction System Occipitocervical Module offers adjustability through multiple plate designs, rods, screws and hooks that gives surgeons more options during surgery, enabling them to tailor the procedure to each patient's needs. The PEEK Prevail Cervical Interbody Device and VERTEX SELECT Reconstruction System Occipitocervical Module became commercially available in the U.S. in May 2009.

- Continued regulatory scrutiny of off-label use in medical devices. During fiscal year 2009, the FDA issued a public health notice regarding use of bone morphogenic protein in cervical procedures, which was received negatively by both physicians and payors. As a result, this negatively impacted the sales of our INFUSE Bone Graft in fiscal year 2009. It is uncertain if this trend will continue in subsequent periods.

CardioVascular CardioVascular products consist of coronary and peripheral stents and related delivery systems, endovascular stent graft systems, heart valve replacement technologies and tissue ablation systems, and open heart and coronary bypass grafting surgical products. CardioVascular net sales for fiscal year 2009 were $2.437 billion, an increase of 14 percent over the prior fiscal year. Foreign currency translation had an unfavorable impact of approximately $23 million when compared to the prior fiscal year.

Coronary Stent and Other Coronary/Peripheral net sales for fiscal year 2009 were $1.292 billion, an increase of 16 percent when compared to the prior fiscal year. The increase in net sales was primarily the result of the launch of the Endeavor drug-eluting stent (Endeavor) in the U.S. which began during the fourth quarter of fiscal year 2008. We received regulatory approval in Japan during the fourth quarter of fiscal year 2009 and commercially launched Endeavor in Japan in May 2009. Endeavor and the Endeavor Resolute drug-eluting stent (Endeavor Resolute) generated worldwide revenue of $603 million for the fiscal year compared to $418 million for the prior year.

Endovascular net sales for fiscal year 2009 were $398 million, an increase of 40 percent when compared to the prior fiscal year. Growth in the Endovascular business was primarily driven by net sales in the U.S. of the Talent Abdominal Aortic Aneurysm Stent Graft System (Talent AAA Stent Graft System) and Thoracic Stent Graft System and by the launch of our Endurant Abdominal Stent Graft System outside the U.S. in the first quarter of fiscal year 2009. The Endurant Abdominal Stent System expands the applicability of endovascular aortic repair to more patients with abdominal aortic aneurysms (AAA) by addressing those AAA patients whose aortas are highly angulated or whose aneurysms have short necks.

Revascularization and Surgical Therapies net sales for fiscal year 2009 were $447 million, an increase of 4 percent when compared to the prior fiscal year. The increase was primarily the result of positive growth outside the U.S. associated with our cannulae and beating heart products.

Structural Heart Disease net sales for fiscal year 2009 were $300 million, an increase of 1 percent when compared to the prior fiscal year. The increase was primarily the result of net sales growth outside the U.S. which benefited from the return of the Advantage Mechanical Valve to markets from which it had been suspended for a portion of the prior fiscal year. Net sales of our atrial fibrillation technologies outside the U.S. also contributed to the increase in net sales for fiscal year 2009. Growth outside the U.S. was partially offset by a decrease in net sales in the U.S. due to the entrance of three new competitive tissue valve products into the market during the past twelve months.

CardioVascular net sales for fiscal year 2008 increased 12 percent from the prior fiscal year to $2.131 billion. Foreign currency translation had a favorable impact of $101 million on net sales when compared to the prior fiscal year.

Coronary Stent and Other Coronary/Peripheral net sales for fiscal year 2008 increased 18 percent in comparison to the prior fiscal year to $1.118 billion. The growth in Coronary Stent and Other Coronary/Peripheral net sales was primarily a result of the successful launch of Endeavor in the U.S., strong sales of Endeavor and Endeavor Resolute outside the U.S. and continued acceptance of the Driver family of bare metal stents. Although the market for stents and drug-eluting stents had declined, Endeavor and Endeavor Resolute continued to benefit from favorable safety and efficacy data, along with their ease of delivery. In the U.S., Endeavor generated net sales of $81 million in fiscal year 2008. Outside the U.S., Endeavor and Endeavor Resolute generated net sales of $337 million in fiscal year 2008, an increase of 12 percent over the prior year. Endeavor Resolute received CE Mark approval in October 2007 and is currently available in more than 100 countries. We also recognized net sales of $292 million in fiscal year 2008 from the Driver family of bare metal stents, which experienced strong growth in the U.S. as a result of reduced penetration of drug-eluting stents in the U.S. marketplace. The Driver bare metal stent, which is also the base stent used in Endeavor and Endeavor Resolute, is a cobalt-chromium coronary stent which has thinner struts and provides greater maneuverability in placing the stent.

Endovascular net sales for fiscal year 2008 grew 10 percent when compared to the prior fiscal year. Growth in the Endovascular business was driven in part by net sales of the Talent AAA Stent Graft System and the Valiant Thoracic Stent Graft System outside the U.S. The Valiant Thoracic Stent Graft System is a next-generation stent graft used for the minimally invasive repair of the thoracic aorta, the body's largest artery, for several disease states including aneurysms, penetrating ulcers, acute or chronic dissections and contained or traumatic ruptures. Net sales in the U.S. decreased in fiscal year 2008 as compared to the prior fiscal year as a result of a voluntary field action on the AneuRx AAAdvantage Stent Graft System that required physician and patient notification of a product packaging issue. As of the end of fiscal year 2008, the issue had been corrected.

Revascularization and Surgical Therapies net sales for fiscal year 2008 were $431 million, an increase of 3 percent in comparison to the prior fiscal year. The increase is the result of net sales growth outside the U.S., which increased 13 percent primarily from sales of our cannulae and beating heart products. The strong growth outside the U.S. was partially offset by a decrease in net sales in the U.S.

Structural Heart Disease net sales for fiscal year 2008 grew 3 percent in comparison to the prior fiscal year to $297 million. The increase in net sales for the fiscal year was driven by net sales outside the U.S., which offset slightly negative growth in the U.S. Net sales growth outside the U.S. was driven by sales of our Mosaic and Mosaic Ultra tissue values and our Melody Transcatheter Pulmonary Valve and Ensemble Transcatheter Delivery System. The growth outside the U.S. was tempered by the suspension of sales of the Advantage mechanical heart valve in the first quarter of fiscal year 2008. The Advantage valve was reintroduced to the market during the third quarter of fiscal year 2008. The Mosaic and Mosaic Ultra tissue valves incorporate several design features to facilitate implantation and improve durability. The Melody Transcatheter Pulmonary Valve and Ensemble Transcatheter Delivery System provide a catheter-based approach to pulmonic valve replacement for patients with congenital heart defects, with the goal of reducing the invasiveness and risk associated with pulmonic valve replacement.

Looking ahead, we expect our CardioVascular operating segment should be impacted by the following:

- Future acceptance of Endeavor in the Japan market. Endeavor received approval by the Japanese Ministry of Health, Labor and Welfare in the fourth quarter of fiscal year 2009 and was launched in May 2009. Following the launch in Japan, Endeavor is commercially available for the treatment of coronary artery disease in every major market in the world.
- Continued acceptance of Endeavor Resolute in markets outside the U.S. Endeavor Resolute combines the proven drug and stent components of Endeavor with Biolinx, a proprietary biocompatible polymer specifically engineered for drug-eluting stent use. Biolinx facilitates the slower absorption of Zotarolimus while providing excellent biocompatibility. The design goal of Endeavor Resolute is enhanced safety and efficacy in the most complex lesions and patients.
- Further acceptance in the U.S. of the Talent AAA Stent Graft System. The Talent AAA Stent Graft System received FDA approval in April 2008 and was launched in the first quarter of fiscal year 2009. Additionally, we anticipate further growth in the U.S. and in Japan from the Talent Thoracic Stent Graft System, which was initially released in the first quarter and fourth quarter of fiscal year 2009, respectively.
- Sales growth outside the U.S. with continued acceptance of our next generation Endurant AAA stent graft and Valiant Thoracic Stent Graft System. The Endurant AAA stent graft received CE Mark approval and was commercially launched late in the first quarter of fiscal year 2009.
- The integration of Ventor Technologies Ltd. (Ventor) and CoreValve, Inc. (CoreValve) into our CardioVascular business. In the fourth quarter of fiscal year 2009, we acquired Ventor and CoreValve. Both Ventor and CoreValve are medical technology companies that develop transcatheter heart valve technologies for replacement of the aortic valve. CoreValve's Percutaneous Revalving System has received CE Mark approval and is currently available outside the U.S., while Ventor is a development stage company and does not yet have a product commercially available. We expect these acquisitions will allow us to pursue opportunities that have natural synergies with our existing heart valve franchise and leverage our global footprint. See Note 4 to the consolidated financial statements for additional information.

Neuromodulation Neuromodulation products consist of therapeutic and diagnostic devices, including implantable neurostimulation systems, implantable drug delivery devices and urology and gastroenterology products. Neuromodulation net sales for fiscal year 2009 were $1.434 billion, an increase of 9 percent when compared to the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of approximately $10 million when compared to the prior fiscal year.

Neuro Implantables is comprised of two product lines: Pain Management and Movement Disorders. Net sales from Pain Management and Movement Disorders products for fiscal year 2009 were $1.145 billion, an increase of 7 percent when compared to the prior fiscal year. The growth was driven by sales of products in Pain Management including worldwide sales of the RestoreULTRA neurostimulation system for pain management and sales in the U.S. of our Specify 5-6-5 surgical lead for spinal cord stimulation. RestoreULTRA, which was launched in March 2008, is our next generation rechargeable neurostimulator with advanced programming capabilities and is the thinnest 16-electrode neurostimulator on the market. Additionally, revenue growth was negatively impacted by the launch of a competitive product and a short-term supply shortfall with our implantable pumps during the fiscal year. Movement Disorders revenue was driven by worldwide net sales of Activa Deep Brain Stimulation (DBS) Therapy. Activa DBS Therapy is used for the treatment of common movement disorders including Parkinson's disease, essential tremor and dystonia.

Net sales of Gastroenterology and Urology products for fiscal year 2009 were $289 million, an increase of 19 percent when compared to the prior fiscal year. The growth in Gastroenterology and Urology was led by worldwide sales of our InterStim II product.

Neuromodulation net sales for fiscal year 2008 increased 11 percent from the prior fiscal year to $1.311 billion. Foreign currency translation had a favorable impact of $32 million on net sales when compared to the prior fiscal year. In the third quarter of fiscal year 2007, we divested our Urology diagnostics product line and in the first quarter of fiscal year 2008 we completed the divestiture of our Gastroenterology and Neurological diagnostics product lines. The loss of these product lines had a negative net sales growth impact of 4 percent for fiscal year 2008.

Net sales for fiscal year 2008 from Pain Management and Movement Disorders products were $1.069 billion, an increase of 11 percent over the prior period. The growth was driven by key products in Pain Management including RestoreULTRA, RestoreADVANCED and PrimeADVANCED neurostimulation systems for pain management, our SynchroMed II drug delivery pump and our surgical lead for spinal cord stimulation, the Specify 5-6-5. Movement Disorder revenue was driven by growth in worldwide net sales of Activa DBS Therapy.

Net sales of Gastroenterology and Urology products increased 10 percent over fiscal year 2007 to $242 million. The growth in Gastroenterology and Urology was led by net sales of our InterStim II product, which experienced its first full fiscal year on the market, and was partially offset by the impact of the divestitures of the Gastroenterology and Urology diagnostic product lines.

Looking ahead, we expect our Neuromodulation operating segment should be impacted by the following:

- Continued acceptance of RestoreULTRA, our most advanced rechargeable neurostimulator. RestoreULTRA also offers an innovative patient programmer that gives patients the ability to customize their pain control.
- Continued acceptance of our Activa DBS Therapy for the treatment of common movement disorders. We continue to educate neurologists and the patient population on the benefits that our Activa DBS Therapy offers them. Additionally, Activa PC and RC, our next generation neurostimulators, received FDA approval in April 2009; we look forward to the anticipated launch in the U.S. in the first quarter of fiscal year 2010. Activa PC and RC were launched in Europe in January 2009. Activa PC is a primary cell device and Activa RC is the therapy's first rechargeable device.
- Continued acceptance of InterStim Therapy for the treatment of overactive bladder and urinary incontinence.
- Continued acceptance of InterStim Therapy for the treatment of fecal incontinence outside the U.S., and future launch and acceptance within the U.S. We have submitted a pre-market approval for InterStim Therapy for the treatment of fecal incontinence and expect approval in the first half of fiscal year 2010.

Diabetes Diabetes products consist of external insulin pumps and related consumables (together referred to as Durable Pump Systems), and subcutaneous continuous glucose monitoring systems. Diabetes net sales for fiscal year 2009 were $1.114 billion, an increase of 9 percent when compared to the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of approximately $13 million when compared to the prior fiscal year.

Durable Pump Systems net sales for fiscal year 2009 were $983 million, an increase of 5 percent when compared to the prior fiscal year. The increase in net sales resulted from demand for the MiniMed Paradigm REAL-Time System that integrates continuous glucose monitoring and insulin pump functionality and related consumables. Net sales of Continuous Glucose Monitoring systems (CGM) and other accessories were $131 million, an increase of 56 percent when compared to the prior fiscal year. Growth was driven by strong acceptance of CGM in the U.S. and an increase in U.S. sales of glucose test strips.

Diabetes net sales in fiscal year 2008 increased 18 percent over the prior fiscal year to $1.019 billion. Foreign currency translation had a favorable impact of $29 million on net sales when compared to the prior fiscal year.

Durable Pump Systems net sales for fiscal year 2008 were $935 million, representing growth of 15 percent over the prior fiscal year. The increase in net sales resulted from strong worldwide market acceptance of the MiniMed Paradigm REAL-Time System and related consumables. The sales increase of 35 percent outside the U.S. was especially strong, driven by growth in the markets in which the MiniMed Paradigm REAL-Time System was launched. The strong growth outside the U.S. was offset by slowed growth in the U.S., as we experienced a modest slowdown in replacement business given the timing of upgrades to our latest technology. Net sales of CGM and other accessories were $84 million, an increase of 75 percent when compared to the prior fiscal year. Growth was driven by strong acceptance of CGM in the U.S.

Looking ahead, we expect our Diabetes operating segment should be impacted by the following:

- Continued acceptance from both physicians and patients of the MiniMed Paradigm REAL-Time System.

- Continued acceptance and improved U.S. reimbursement of the *i*Pro CGM, a professional CGM recorder that provides physicians valuable insight into their patients' glucose levels. The *i*Pro CGM was launched in the U.S. in July 2008.

- Future acceptance and customer preference for Medtronic products due to the strategic marketing collaboration with Eli Lilly (Lilly), which was announced on May 19, 2009. The alliance reached with Lilly provides for marketing and sales operations in the U.S. to improve the delivery of diabetes education for insulin-taking patients and their caregivers. This will include the development of new educational resources and classes around the initiation and intensive management of insulin, insulin pump therapy and continuous glucose monitoring.

- Continued acceptance and customer preference for Medtronic products due to the alliances with LifeScan, Inc. (LifeScan), a J&J company, and Bayer Diabetes Care (Bayer), a member of the Bayer group, which we announced on August 21, 2007. The alliances reached with LifeScan (for the U.S. market) and Bayer (for markets outside the U.S.) provide for the distribution and marketing of blood glucose meters that communicate with Medtronic's insulin pumps. These alliances provide our customers an integrated solution for managing diabetes, thereby improving the quality of life and ease of use. We launched our co-developed blood glucose meters with Bayer and LifeScan in February 2008 and April 2008, respectively.

- The future launch and acceptance of a series of new insulin pumps, including the Paradigm Veo, which offers low glucose suspend that assists in protecting against the risk of hypoglycemia by automatically suspending insulin delivery when glucose falls below a specified threshold set by the user. The Paradigm Veo was launched in the United Kingdom in June 2009 and is expected to be launched in other markets outside the U.S. in fiscal year 2010.

- Potential slowdown in consumer spending. Given the elective nature of an insulin pump for the management of diabetes and the possible high out-of-pocket costs to the customer, there is potential exposure to macroeconomic pressures which could negatively impact the near-term sales growth within Diabetes.

Surgical Technologies Surgical Technologies products are used to treat conditions of the ear, nose and throat, and certain neurological disorders. Additionally, we manufacture and sell image-guided surgery and intra-operative imaging systems. Our portfolio consists of powered tissue-removal systems and other microendoscopy instruments, implantable devices, nerve monitoring systems, disposable fluid-control products, a Ménière's disease therapy device, hydrocephalus shunt devices, external drainage systems, cranial fixation devices, neuroendoscopes, dura repair products and image-guided surgery and intra-operative imaging systems. Surgical Technologies net sales for fiscal year 2009 were $857 million, an increase of 10 percent when compared to the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of approximately $11 million when compared to the prior fiscal year.

Core ENT net sales for fiscal year 2009 were $352 million, an increase of 9 percent when compared to the prior fiscal year. The increase reflected the continued success of Fusion EM IGS, an advanced electromagnetic-based image-guided surgery system to facilitate sinus surgeries. In addition, there was strong performance in nerve monitoring and drill disposables.

Neurologic Technologies net sales for fiscal year 2009 were $320 million, an increase of 7 percent when compared to the prior fiscal year. The primary driver of growth was worldwide increased sales of disposables associated with high-speed drill systems including the EHS Stylus high-speed powered surgical drill system. Additionally, the Strata valves, used in the treatment of hydrocephalus, contributed to the revenue growth.

Navigation net sales for fiscal year 2009 were $185 million, an increase of 16 percent when compared to the prior fiscal year. The increase in net sales was based on strong worldwide net sales of the O-Arm Imaging System, a multi-dimensional surgical imaging platform that is optimized for use in spine and orthopedic surgery, and increased service revenue in the U.S. Additionally, the StealthStation S7 System, launched in the first quarter of fiscal year 2009, contributed to the revenue growth. The StealthStation S7 System offers personalized navigation support for surgeons and surgical staff in the operating room.

Surgical Technologies net sales for fiscal year 2008 increased by 17 percent over the prior fiscal year to $780 million. Foreign currency translation had a favorable impact of $20 million on net sales when compared to the prior fiscal year.

Core ENT net sales grew 16 percent to $323 million in fiscal year 2008 led by strong growth of sales outside the U.S. of the Straightshot M4 Microdebrider and endoscopy sales. In the U.S., there was an increase in net sales of our Image Guided Surgery Systems which was partially due to the launch of the Fusion EM IGS System for use in sinus surgical procedures. Net sales of monitoring disposables also experienced strong worldwide growth.

Neurologic Technologies net sales grew 14 percent to $298 million in fiscal year 2008. The primary driver of growth in Neurologic Technologies was continued acceptance of high-speed powered surgical drill systems, including the EHS Stylus system.

Navigation net sales for fiscal year 2008 increased 25 percent from the prior fiscal year to $159 million based on strong U.S. net sales of the O-Arm Imaging System and increased worldwide service revenue.

Looking ahead, we expect our Surgical Technologies operating segment should be impacted by the following:

- Continued acceptance of our Fusion EM IGS System, which was launched in the U.S. in the third quarter of fiscal year 2008.
- Continued acceptance of the StealthStation S7 System and the Synergy Cranial 2.0 software which were launched in the first and fourth quarters of fiscal year 2009, respectively. The StealthStation S7 System offers personalized navigation support for surgeons and surgical staff in the operating room. The Synergy Cranial 2.0 software completed the software offering for cranial procedures on the StealthStation S7 system hardware platform.
- Continued adoption of power systems for sinus procedures outside the U.S., as well as continued global adoption of nerve monitoring for ENT and thyroid procedures.
- Launch of new products, including the Integrated Power Console, Spine Shaver and the NIM 3.0, a next generation nerve monitoring system.
- Continued acceptance of the O-Arm Imaging System.
- Further integration of Restore Medical, Inc.'s (Restore) Pillar Palatal Implant System (Pillar System) and Influent's Repose System (Repose System) for the treatment of sleep breathing disorders. We anticipate the Pillar System and Repose System will deliver new growth by providing us with proven office-based procedures in a very fast growing segment of the obstructive sleep apnea market.
- Potential slowdown in consumer and hospital spending as a result of the recent economic downturn. Given the elective nature of many of the underlying ENT procedures and the large capital equipment component of the Surgical Technologies businesses, there is potential exposure to macroeconomic pressures that could negatively impact the near-term sales growth within Surgical Technologies.

Continued net sales growth in all operating segments is contingent on our ability to gain further market share, penetrate existing markets, develop new products, improve existing products and develop new markets.

Costs and Expenses

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

	Fiscal Year		
	2009	2008	2007
Cost of products sold	24.1%	25.5%	25.8%
Research and development	9.3	9.4	10.1
Selling, general and administrative	35.3	34.8	33.8
Special charges	0.7	0.6	0.8
Restructuring charges	0.8	0.3	0.2
Certain litigation charges	4.9	2.7	0.3
IPR&D charges	4.3	2.9	—
Other expense, net	2.7	3.2	1.7
Interest expense/(income), net	0.2	(0.8)	(1.3)

Cost of Products Sold Cost of products sold was $3.518 billion in fiscal year 2009 representing 24.1 percent of net sales, a decrease of 1.4 percentage points from fiscal year 2008. Cost of products sold as a percentage of net sales was positively impacted by 0.4 of a percentage point of favorable foreign currency translation, 0.2 of a percentage point of favorable manufacturing variances, 0.1 of a percentage point of favorable product mix, and 0.4 of a percentage point of favorable scrap and other product costs. In addition, cost of products sold as a percentage of net sales for the fiscal year ended April 25, 2008 was negatively impacted by 0.3 of a percentage point as a result of the $34 million increase in cost of products sold associated with the fair value adjustment for the inventory acquired in the Kyphon acquisition.

Cost of products sold was $3.446 billion in fiscal year 2008 representing 25.5 percent of net sales, a decrease of 0.3 of a percentage point from fiscal year 2007. The cost of products sold was positively impacted by 0.7 of a percentage point of favorable foreign currency translation and 0.3 of a percentage point for reduced other product costs and favorable manufacturing variances. These decreases were offset by 0.3 of a percentage point associated with the impact of the $34 million fair value adjustment for the inventory acquired in the Kyphon acquisition and 0.4 of a percentage point of unfavorability for scrap and other product costs associated with the suspension of the worldwide distribution of the Fidelis lead and scrap costs at our Physio-Control business segment.

Research and Development Consistent with prior periods, we have continued to invest in the future by spending aggressively on research and development efforts. Research and development spending was $1.355 billion in fiscal year 2009, representing 9.3 percent of net sales, a decrease of 0.1 of a percentage point from fiscal year 2008. The decrease is primarily the result of a reclassification of certain expenses to selling, general and administrative of $46 million for the fiscal year that would have otherwise been included in research and development in the prior years.

Research and development spending was $1.275 billion in fiscal year 2008, representing 9.4 percent of net sales, a decrease of 0.7 of a percentage point from fiscal year 2007. While our fiscal year 2008 research and development spending increased over the prior fiscal year, our restructuring initiatives and our efforts to prioritize projects with the greatest potential for future growth impacted the fiscal year 2008 rate of spending.

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

Selling, General and Administrative Fiscal year 2009 selling, general and administrative expense as a percentage of net sales increased by 0.5 of a percentage point from fiscal 2008 to 35.3 percent. For fiscal year 2009, the reclassification of certain expenses from research and development had a negative impact of 0.3 of a percentage point on selling, general and administrative expense. In addition, foreign exchange had a negative impact of 0.2 of a percentage point on fiscal year 2009 selling, general and administrative expense. We continue to drive our initiatives to leverage our cost structure in order to help reduce selling, general and administrative expense.

Fiscal year 2008 selling, general and administrative expense as a percentage of net sales increased by 1.0 percentage point from fiscal year 2007 to 34.8 percent. The increase in selling, general and administrative expense for fiscal year 2008 was predominantly driven by the acquisition of Kyphon, which increased selling, general and administrative expense by 0.6 of a percentage point. The remainder of the increase was due to expenses associated with our previously communicated investment in selling and marketing activities related to the U.S. launches of the Prestige Cervical Disc System and Endeavor, and the continued implementation of our global information technology system, which included the full conversion of our U.S. distribution systems in the second quarter of fiscal year 2008. These increases were offset by our continual cost control measures across all of our businesses and attempts to leverage the general and administrative expense categories.

Special, Restructuring, Certain Litigation and IPR&D Charges and Certain Tax Adjustments We believe that in order to properly understand our short-term and long-term financial trends, investors may find it useful to consider the impact of special, restructuring, certain litigation and IPR&D charges and certain tax adjustments. Special (such as asset impairment or contributions to The Medtronic Foundation), restructuring, certain litigation and IPR&D charges and certain tax adjustments recorded during the previous three fiscal years were as follows:

	Fiscal Year		
(dollars in millions)	**2009**	**2008**	**2007**
Special charges:			
Asset impairment charges	$ —	$ 78	$ 98
Medtronic Foundation contribution	100	—	—
Total special charges	100	78	98
Restructuring charges	123	45	36
Certain litigation charges	714	366	40
IPR&D charges	621	390	—
Total special, restructuring, certain litigation and IPR&D charges	1,558	879	174
Net tax impact of special, restructuring, certain litigation and IPR&D charges and certain tax adjustments	(444)	(137)	(179)
Total special, restructuring, certain litigation and IPR&D charges and certain tax adjustments, net of tax	$ 1,114	$ 742	$ (5)

Special Charges In fiscal year 2009, consistent with our ongoing commitment to improving the health of people and communities throughout the world, we recorded a $100 million contribution to The Medtronic Foundation, which is a related party non-profit organization. The contribution to The Medtronic Foundation was paid in the fourth quarter of fiscal year 2009.

In fiscal year 2008, we recorded a special charge related to the impairment of intangible assets associated with our benign prostatic hyperplasia, or enlarged prostate, product line purchased in fiscal year 2002. The development of the market, relative to our original assumptions, has changed as a result of the broad acceptance of a new line of drugs to treat the symptoms of an enlarged prostate. After analyzing the estimated future cash flows utilizing this technology, based on the market development, we determined that the carrying value of these intangible assets was impaired and a write-down of $78 million was necessary.

In fiscal year 2007, we concluded two intangible assets were fully impaired due to inadequate clinical results and the resulting delays in product development. As a result, we recorded a $98 million special charge relating to the impairments of intangible assets stemming from the July 1, 2005 acquisition of Transneuronix, Inc. (TNI) and the November 1, 2004 acquisition of Angiolink Corporation (Angiolink). TNI focused on the development of an implantable gastric stimulator to treat obesity. Angiolink focused on the development of wound closure devices for vascular procedures.

See Note 2 to the consolidated financial statements for further discussion of special charges.

Restructuring

Fiscal Year 2009 Initiative

In the fourth quarter of fiscal year 2009, we recorded a $34 million restructuring charge, which consisted of employee termination costs of $29 million and asset write-downs of $5 million. As part of our "One Medtronic" strategy, we continue to pursue opportunities to streamline the organization and standardize or centralize certain functional activities which are not unique to individual businesses. In connection with these efforts to create "One Medtronic," this initiative is designed to streamline operations, by further consolidating manufacturing and eliminating certain non-core product lines, and to further align resources around our higher growth opportunities. This initiative impacts most businesses and certain corporate functions. Of the $5 million of asset write-downs, $3 million relates to inventory write-offs and production-related asset impairments and therefore was recorded within *cost of products sold* in the consolidated statement of earnings. The employee termination costs of $29 million consist of severance and the associated costs of continued medical benefits and outplacement services.

The fiscal year 2009 initiative will result in charges being recognized in both the fourth quarter of fiscal year 2009 and the first quarter of fiscal year 2010, and we expect that when complete, will eliminate approximately 1,500 – 1,800 positions. We anticipate that the additional expense that we will recognize in the first quarter of fiscal year 2010 related to this initiative will be in the range of $60 million to $80 million.

Of the 1,500 – 1,800 positions that will be eliminated as part of this initiative, approximately 975 were identified for elimination in the fourth quarter of fiscal year 2009 and will be achieved through early retirement packages offered to employees, voluntary separation and involuntary separation. Of these 975 positions, approximately 280 positions have been eliminated as of April 24, 2009. The restructuring initiatives are scheduled to be substantially complete by the end of fiscal year 2010, and are expected to produce annualized operating savings in the range of $80 million to $90 million related to the 975 positions currently identified. These savings will arise mostly from reduced compensation expense.

Global Realignment Initiative

In the fourth quarter of fiscal year 2008, as part of a global realignment initiative, we recorded a $31 million restructuring charge, which consisted of employee termination costs of $27 million and asset write-downs of $4 million. The asset write-downs were recorded within *cost of products sold* in the consolidated statement of earnings. The global realignment initiative focused on shifting resources to those areas where we have the greatest opportunities for growth and streamlining operations to drive operating leverage. The global realignment initiative impacted most businesses and certain corporate functions.

As a continuation of the global realignment initiative that began in fiscal year 2008, in the first quarter of fiscal year 2009 we incurred $96 million of incremental restructuring charges, which consisted of employee termination costs of $91 million and asset write-downs of $5 million. The majority of the expense recognized in the first quarter of fiscal year 2009 was related to the execution of our global realignment initiative outside the U.S. This included the realignment and elimination of personnel throughout Europe and the Emerging Markets and the closure of an existing facility in the Netherlands that has been integrated into the U.S. operations. The remainder of the expense was associated with enhanced severance benefits provided to employees identified in the fourth quarter of fiscal year 2008. These incremental costs were not accrued in fiscal year 2008 because the enhanced benefits had not yet been communicated to the impacted employees.

In the fourth quarter of fiscal year 2009, we recorded a $7 million reversal of excess reserves related to the global realignment initiative. This reversal is primarily a result of favorable severance negotiations with certain employee populations outside the U.S. as well as a higher than expected percentage of employees identified for elimination finding positions elsewhere within the Company.

As of the end of the first quarter of fiscal year 2009, the Company had identified approximately 900 positions for elimination which were to be achieved through both voluntary and involuntary separation. Of the 900 positions identified, approximately 740 have been eliminated as of April 24, 2009. The restructuring initiatives are scheduled to be substantially complete by the end of the first quarter of fiscal year 2010, and are expected to produce annualized operating savings of approximately $96 million. These savings will arise mostly from reduced compensation expense.

Fiscal Year 2007 Initiative

In the fourth quarter of fiscal year 2007, we recorded a $36 million restructuring charge, which consisted of employee termination costs of $28 million and asset write-downs of $8 million. The asset write-downs consisted of a $5 million charge for inventory write-downs and a $3 million charge for non-inventory asset write-downs. The inventory and asset write-downs were recorded within *cost of products sold* in the consolidated statement of earnings. These initiatives were designed to drive manufacturing efficiencies in our CardioVascular business, downsize our Physio-Control business due to our voluntary suspension of U.S. shipments and rebalance resources within our CRDM business in response to market dynamics.

As a continuation of our fiscal year 2007 initiative, in the first quarter of fiscal year 2008 we incurred $14 million of incremental restructuring charges associated with compensation provided to employees whose employment terminated with the Company in the first quarter of fiscal year 2008. These incremental costs were not accrued in fiscal year 2007 because these benefits had not yet been communicated to the impacted employees. Included in the total $14 million restructuring charge is $4 million of incremental defined benefit pension and post-retirement related expense for those employees who accepted early retirement packages. For further discussion on the incremental defined benefit pension and post-retirement related expense, see Note 14 to the consolidated financial statements.

When the restructuring initiative began in fiscal year 2007, we identified approximately 900 positions for elimination which were achieved through early retirement packages offered to employees, voluntary separation and involuntary separation. As of April 25, 2008, the initiatives begun in the fourth quarter of fiscal year 2007 were substantially complete. This restructuring initiative is expected to produce annualized operating savings of approximately $125 million mostly from reduced compensation expense.

For additional information, see Note 3 to the consolidated financial statements.

Certain Litigation Charges We classify material litigation reserves recognized as certain litigation charges.

During fiscal year 2009, we incurred four certain litigation charges totaling $714 million. The first charge in the amount of $178 million relates to litigation with DePuy regarding patent infringement claims stemming from the Vertex line of multiaxial screws. On June 1, 2009, the U.S. Court of Appeals for the Federal Circuit affirmed the December 2007 ruling of infringement and awarded damages based on lost profits, but reversed certain elements of the original 2007 award. Prior to the U.S. Court of Appeals' decision, we had not recorded expense related to the damages awarded in 2007 as we did not believe that an unfavorable outcome in this matter was probable under SFAS No. 5. As a result of the U.S. Court of Appeals' decision, we have now recorded a reserve of $178 million which is expected to cover the revised damages award and pre- and post-judgment interest. Since the DePuy litigation originated prior to April 24, 2009, we have appropriately recognized this charge in the consolidated financial statements for the fiscal year ended April 24, 2009. See Note 16 to the consolidated financial statements for additional information.

The second charge in the amount of $270 million relates to a settlement of royalty disputes with J&J which concern Medtronic's licensed use of certain patents. The agreement reached in the fourth quarter of fiscal year 2009 ended all current and potential disputes between the two parties under their 1997 settlement and license agreement relating to coronary angioplasty stent design and balloon material patents. The settlement amount was paid in May 2009. See Note 16 to the consolidated financial statements for additional information.

The third charge in the amount of $229 million relates to litigation with Cordis Corporation (Cordis), a subsidiary of J&J. The Cordis litigation originated in October 1997 and pertains to patent infringement claims on previous generations of bare metal stents that are no longer on the market. On September 30, 2008, the U.S. District Court entered final judgment including accrued interest, totaling approximately $521 million, to Cordis. We had previously recorded a charge of $243 million related to this litigation in the third quarter of fiscal year 2008. At the time the $243 million charge was recorded, the range of potential loss related to this matter was subject to a high degree of estimation. The amount recorded represented an estimate of the low end of the range of probable outcomes related to the matter. Given that the Company and J&J were involved in a number of litigation matters which span across businesses, we entered into negotiations with J&J in an attempt to settle some of the additional litigation simultaneous with the payment of this judgment. Ultimately, the agreement reached with Cordis required a total cash payment of $472 million, which included the settlement of several outstanding legal matters between the parties. The charge of $229 million in the second quarter of fiscal year 2009 is the net result of $472 million in cash payments, offset by the existing reserves on the balance sheet including interest accrued on the $243 million since the date established. As of April 24, 2009, the settlement amount of $472 million was paid.

The fourth charge recognized in fiscal year 2009 relates to litigation that originated in May 2006 with Fastenetix LLC (Fastenetix), a patent holding company. The agreement reached with Fastenetix required a total cash payment of $125 million for the settlement of ongoing litigation and the purchase of patents. Of the $125 million, $37 million was assigned to past damages in the case and the remaining $88 million was recorded as purchased intellectual property that has an estimated useful life of 7 years. As of April 24, 2009, the settlement amount of $125 million was paid.

During fiscal year 2008, we incurred certain litigation charges of $366 million. Of that amount, $123 million related to the settlement of certain lawsuits relating to the Marquis line of ICDs and CRT-Ds that were subject to a field action announced on February 10, 2005. As discussed in detail above, the remainder of the charge, $243 million, relates to an estimated reserve established for litigation with Cordis. In May 2008, we paid substantially all of the settlement for certain lawsuits relating to the Marquis line of ICDs and CRT-Ds. See Note 16 to the consolidated financial statements for additional information.

During fiscal year 2007, we recorded a certain litigation charge of $40 million related to a settlement agreement with the U.S. Department of Justice which requires the government to obtain dismissal of two qui tam civil suits pending against us, and is conditioned upon such dismissal being obtained. The two suits were based upon allegations about certain sales and marketing practices in the Spinal business. The settlement agreement reflects our assertion that the Company and its current employees have not engaged in any wrongdoing or illegal activity. The settlement amount was paid in May 2009.

See Note 2 to the consolidated financial statements for further discussion of these cases.

IPR&D Charges During fiscal year 2009, we recorded $621 million of IPR&D charges of which $307 million related to the acquisition of Ventor, $123 million related to the acquisition of CoreValve, $97 million related to the acquisition of Ablation Frontiers, $72 million related to the acquisition of CryoCath and $22 million was for the purchase of certain intellectual property for use in our Spinal and Diabetes businesses. These payments were expensed as IPR&D since technological feasibility of the underlying projects had not yet been reached and such technology has no future alternative use.

During fiscal year 2008, we recorded $390 million of IPR&D charges of which $42 million related to the acquisition of NDI Medical, Inc. (NDI), a development stage company, $290 million related to a technology acquired through the purchase of Kyphon, $20 million related to the purchase of intellectual property from Setagon, Inc., $25 million related to a milestone payment under the existing terms of a royalty bearing, non-exclusive patent cross-licensing agreement with NeuroPace, Inc. and $13 million was for unrelated purchases of certain intellectual property. These payments were expensed as IPR&D since technological feasibility of the underlying projects had not yet been reached and such technology has no future alternative use.

There were no IPR&D charges for fiscal year 2007.

See Note 4 to the consolidated financial statements for further discussion on IPR&D charges.

We are responsible for the valuation of IPR&D charges. The values assigned to IPR&D are based on valuations that have been prepared using methodologies and valuation techniques consistent with those used by independent appraisers. All values were determined by identifying research projects in areas for which technological feasibility had not been established. Additionally, the values were determined by estimating the revenue and expenses associated with a project's sales cycle and the amount of after-tax cash flows attributable to these projects. The future cash flows were discounted to present value utilizing an appropriate risk-adjusted rate of return. The rate of return included a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

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 products 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, delay or failure to obtain required market clearances and patent litigation. If commercial viability were not achieved, we would likely look to other alternatives to provide these therapies.

See the "Acquisitions" section of this management's discussion and analysis for detailed discussion of each material acquisition in fiscal years 2009 and 2008.

Certain Tax Adjustments We classify the material recognition or derecognition of uncertain tax positions as certain tax adjustments.

In fiscal year 2009, we recorded a $132 million certain tax benefit associated with the reversal of excess tax accruals in connection with the settlement of certain issues reached with the U.S. Internal Revenue Service (IRS) involving the review of our fiscal year 2005 and fiscal year 2006 domestic income tax returns, the resolution of various state audit proceedings covering fiscal years 1997 through 2007 and the completion of foreign audits covering various years. The $132 million certain tax benefit was recorded in the *provision for income taxes* in the consolidated statement of earnings for fiscal year 2009.

There were no certain tax adjustments in fiscal year 2008.

In fiscal year 2007, we recorded a $129 million certain tax benefit associated with the reversal of excess tax accruals in connection with the settlement reached with the IRS with respect to their review of our fiscal years 2003 and 2004 domestic income tax returns and the resolution of competent authority issues for fiscal years 1992 through 2000. The $129 million certain tax benefit was recorded in the *provision for income taxes* in the consolidated statement of earnings for fiscal year 2007.

See the "Income Taxes" section of this management's discussion and analysis for further discussion of the certain tax adjustments.

Other Expense, Net Other expense, net includes intellectual property amortization expense, royalty income and expense, realized equity security gains and losses, realized foreign currency transaction and derivative gains and losses and impairment charges on equity securities. In fiscal year 2009, other expense, net was $396 million, a decrease of $40 million from $436 million in the prior fiscal year. The decrease of $40 million for fiscal year 2009 was primarily due to the impact of foreign currency gains and losses. Total foreign currency losses recorded in other expense, net in fiscal year 2009 were $28 million as compared to losses of $148 million in the prior fiscal year. Additionally, other expense, net was partially offset by incremental expense from royalties on the sales of Endeavor products and $92 million of amortization on intangible assets related to the Kyphon acquisition in the current fiscal year compared to $46 million in the prior fiscal year.

In fiscal year 2008, other expense, net was $436 million, an increase of $224 million from $212 million in fiscal year 2007. This change is primarily due to the impact of foreign currency gains and losses, which resulted in losses in fiscal year 2008 of $148 million versus gains in fiscal year 2007 of $20 million, and $46 million of amortization on intangible assets resulting from the Kyphon acquisition. Additionally, prior year other expense, net was offset by $55 million due to the accelerated amortization of deferred income in connection with a product supply agreement in the CardioVascular business, where the other party elected not to exercise its option to extend the agreement.

Interest Expense/(Income), Net Interest expense/(income), net includes interest earned on our investments, interest paid on our borrowings, amortization of debt issuance costs and the net realized gain or loss on the sale or impairment of available-for-sale (AFS) debt securities. In fiscal year 2009, interest expense/(income), net was $29 million, as compared to $(109) million in fiscal year 2008. The change from interest income, net of $109 million in fiscal year 2008 to interest expense, net of $29 million in fiscal year 2009 is the result of lower average cash and investment balances during fiscal year 2009 as a result of the cash utilized to finance the Kyphon acquisition that took place in the third quarter of fiscal year 2008 and lower interest rates being earned on our short- and long-term investments during the twelve months ended April 24, 2009. Interest expense also decreased in fiscal year 2009 as a result of having lower interest rates on our outstanding debt in comparison to fiscal year 2008. See our discussion in the "Liquidity and Capital Resources" section of this management's discussion and analysis for more information regarding our investment portfolio.

In fiscal year 2008, interest income, net was $109 million, a decrease of $45 million from interest income, net of $154 million in fiscal year 2007. The decrease in interest income, net in fiscal year 2008 as compared to fiscal year 2007 was a result of the impact of the cash utilized to finance the Kyphon acquisition, increased borrowings outstanding and a decline in interest rates being received on our short- and long-term investments. The decrease was partially offset by recognition of $26 million in net gains on the sale of AFS debt securities.

Income Taxes

(dollars in millions)	Fiscal Year 2009	2008	2007	Percentage Point Increase/(Decrease) FY09/08	FY08/07
Provision for income taxes	$ 425	$ 654	$ 713	N/A	N/A
Effective tax rate	16.4%	22.7%	20.3%	(6.3)	2.4
Impact of special, restructuring, certain litigation and IPR&D charges and certain tax adjustments	(4.5)	1.7	(3.9)	(6.2)	5.6
Non-GAAP nominal tax rate (1)	20.9%	21.0%	24.2%	(0.1)	(3.2)

(1) Non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special, restructuring, certain litigation and IPR&D charges and certain tax adjustments. We believe that the resulting non-GAAP financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods.

The effective tax rate of 16.4 percent decreased by 6.3 percentage points from fiscal year 2008 to fiscal year 2009. The change in our effective tax rate was primarily due to the impact of special, restructuring, certain litigation and IPR&D charges and certain tax adjustments. The 6.2 percentage points decrease in the impact from special, restructuring, certain litigation and IPR&D charges and certain tax adjustments is largely due to the $132 million benefit from the certain tax adjustment associated with the reversal of excess tax accruals in connection with the settlement of certain issues reached with the U.S. Internal Revenue Service (IRS) involving the review of the Company's fiscal year 2005 and fiscal year 2006 domestic income tax returns, the resolution of various state audit proceedings covering fiscal years 1997 through 2007 and the completion of foreign audits covering various years recorded in fiscal year 2009. Our non-GAAP nominal tax rate for fiscal year 2009 was 20.9 percent compared to 21.0 percent from the prior fiscal year. The decrease in our non-GAAP nominal tax rate for fiscal year 2009 as compared to the prior fiscal year was due to the impact of tax benefits derived from our international operations and operational tax benefits described below.

During fiscal year 2009, we recorded $44 million in operational tax benefits. This included a $16 million operational tax benefit associated with the retroactive renewal and extension of the research and development credit enacted by the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 which related to the first seven months of calendar year 2008. The remaining $28 million of operational tax benefit related to the finalization of certain tax returns, changes to uncertain tax position reserves and the impact of a state law change in 2009. During fiscal year 2008, we recorded $37 million in operational tax benefits related to the finalization of certain tax returns and changes to uncertain tax position reserves. These tax adjustments are operational in nature and are recorded in the *provision for income taxes* on the consolidated statements of earnings. Excluding the impact of the operational tax adjustments, our non-GAAP nominal tax rate would have been 22.0 percent for fiscal years 2009 and 2008.

The fiscal year 2008 effective tax rate of 22.7 percent increased by 2.4 percentage points from fiscal year 2007. The change in our effective tax rate was due to the tax impact of special, restructuring, certain litigation and IPR&D charges and certain tax adjustments partially offset by the tax benefits derived from our international operations. The 5.6 percentage points increase in the tax impact from special, restructuring, certain litigation and IPR&D charges and certain tax adjustments is largely due to the non-deductible IPR&D charges incurred during fiscal year 2008 compared to the $129 million benefit from the certain tax adjustment recorded in fiscal year 2007 associated with the reversal of excess tax accruals in connection with the settlement reached with the IRS with respect to their review of our fiscal years 2003 and 2004 domestic income tax returns and the resolution of competent authority issues for fiscal years 1992 through 2000. Our non-GAAP nominal tax rate for fiscal year 2008 was 21.0 percent compared to 24.2 percent from the prior fiscal year. The decrease in the non-GAAP nominal tax rate of 3.2 percentage points is mainly due to increased benefits from our international operations subject to tax rates lower than the U.S. statutory rates.

Tax audits associated with the allocation of income, and other complex issues, may require an extended period of time to resolve and may result in income tax adjustments if changes to our allocation are required between jurisdictions with different tax rates. Tax authorities periodically review our tax returns and propose adjustments to our tax filings. The IRS has settled its audits with us for all years through fiscal year 1996. Tax years settled with the IRS may remain open for foreign tax audits and competent authority proceedings. Competent authority proceedings are a means to resolve intercompany pricing disagreements between countries.

In August 2003, the IRS proposed adjustments arising out of its audit of the fiscal years 1997, 1998 and 1999 tax returns. We initiated a defense of these adjustments at the IRS appellate level, and in the second quarter of fiscal year 2006 we reached settlement on most, but not all matters. The remaining issue relates to the allocation of income between Medtronic, Inc., and its wholly owned subsidiary in Switzerland. On April 16, 2008, the IRS issued a statutory notice of deficiency with respect to this remaining issue. We filed a Petition with the U.S. Tax Court on July 14, 2008 objecting to the deficiency and intend to defend our position vigorously.

In September 2005, the IRS issued its audit report for fiscal years 2000, 2001 and 2002. In addition, the IRS issued its audit report for fiscal years 2003 and 2004 in March 2007. We have reached agreement with the IRS on substantially all of the proposed adjustments for these fiscal years 2000 through 2004. The only item of significance that remains open for these years relates to the carryover impact of the allocation of income issue proposed for fiscal years 1997 through 1999.

In March 2009, the IRS issued its audit report for fiscal years 2005 and 2006. We have reached agreement with the IRS on many, but not all, of the proposed adjustments for fiscal years 2005 and 2006. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly owned subsidiaries and the timing of the deductibility of a settlement payment. For the proposed adjustments that we do not agree with, we have filed our protest with the IRS.

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

See Note 13 to the consolidated financial statements for additional information.

Liquidity and Capital Resources

(dollars in millions)	Fiscal Year 2009	2008
Working capital	$ 4,313	$ 3,787
Current ratio*	2.4:1.0	2.1:1.0
Cash, cash equivalents, and short-term investments	$ 1,676	$ 1,613
Long-term investments in debt securities**	2,242	2,078
Cash, cash equivalents, short-term investments and long-term debt securities	$ 3,918	$ 3,691
Short-term borrowings and long-term debt	$ 7,294	$ 6,956
Net cash position***	$ (3,376)	$ (3,265)

* Current ratio is the ratio of current assets to current liabilities.
** Long-term investments include debt securities with a maturity date greater than one year from the end of the period.
*** Net cash position is the sum of cash, cash equivalents, short-term investments and long-term investments in debt securities less short-term borrowings and long-term debt.

We believe our liquidity remains strong as of April 24, 2009 and our strong balance sheet and liquidity provide us with flexibility in the future. We believe our existing cash and investments, as well as our unused lines of credit and commercial paper capacity of $2.799 billion, if needed, will satisfy our foreseeable working capital requirements for at least the next twelve months. However, we periodically consider various financing alternatives and may, from time to time, seek to take advantage of favorable interest rate environments or other market conditions. At April 24, 2009, our Standard and Poor's Ratings Group and Moody's Investors Service ratings remain unchanged as compared to the fiscal year ended April 25, 2008 with long-term debt ratings of AA- and A1, respectively, and strong short-term debt ratings of A-1+ and P-1.

The decrease in our net cash position in fiscal year 2009 as compared to fiscal year 2008 was primarily due to the fiscal year 2009 issuance of new debt partially offset by positive cash flow from operations. For further information see the "Summary of Cash Flows" section of this management's discussion and analysis.

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

When applicable, Note 16 to the consolidated financial statements provides information regarding amounts we have accrued related to significant legal proceedings. In accordance with SFAS No. 5, we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. For the fiscal year ended April 24, 2009, we have made significant payments related to certain legal proceedings. For information regarding these payments, please see the "Special, Restructuring, Certain Litigation and IPR&D Charges and Certain Tax Adjustments" section of this management's discussion and analysis for further information.

At April 24, 2009 and April 25, 2008, approximately $3.628 billion and $3.317 billion, respectively, of cash, cash equivalents, short-term investments and long-term investments in debt securities were held by our non-U.S. subsidiaries. These funds are available for use by worldwide operations; however, if these funds were repatriated to the U.S. or used for U.S. operations, the amounts would generally be subject to U.S. tax. As a result, we have not chosen to repatriate this cash but instead use cash generated from U.S. operations and short- and long-term borrowings to meet our U.S. cash needs. Long-term investments at April 24, 2009 also include $100 million of cash invested in government securities held in an indemnification trust established for self-insurance coverage for our directors and officers. These investments are restricted and can only be used to indemnify or advance expenses related to claims against our directors and/or officers.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include corporate debt securities, government and agency securities, certificates of deposit and mortgage backed and other asset backed securities including auction rate securities. Market conditions during fiscal year 2009 and subsequent to our April 24, 2009 year-end continue to indicate significant uncertainty on the part of investors on the economic outlook for the U.S. and for financial institutions. This uncertainty has created reduced liquidity across the fixed income investment market, including certain securities in which we have invested. As a result, some of our investments have experienced reduced liquidity including unsuccessful monthly auctions for our auction rate security holdings. Although certain securities are illiquid, if we required capital we believe we could liquidate a substantial amount of our portfolio and incur no material impairment loss or borrow under our commercial paper program or lines of credit.

For the fiscal year ended April 24, 2009, we recognized an other-than-temporary impairment loss on AFS debt securities of $38 million. In determining this other-than-temporary impairment loss, we considered the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and related guidance. This guidance specifies that we consider a variety of factors, including the quality and estimated value of the underlying credit support for our holding and the financial condition and credit rating of the issuer. Based on our assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which we are invested, we believe we have recorded all necessary other-than-temporary impairments as we have the ability and the intent to hold these investments long enough to avoid realizing further losses. However, as of April 24, 2009, we have $175 million of gross unrealized losses on our aggregate short-term and long-term investments of $2.647 billion; if market conditions continue to deteriorate further, some of these holdings may experience other-than-temporary impairment in the future which could have a material impact on our financial results. Management is required to use estimates and assumptions in its valuation of our investments, which requires a high degree of judgment, and therefore actual results could differ materially from those estimates. See Note 6 to the consolidated financial statements for additional information regarding fair value measurements under SFAS No. 157, "Fair Value Measurements."

Summary of Cash Flows

	Fiscal Year		
(dollars in millions)	**2009**	**2008**	**2007**
Cash provided by (used in):			
Operating activities	$ 3,878	$ 3,489	$ 2,979
Investing activities	(2,740)	(2,790)	(1,701)
Financing activities	(845)	(835)	(3,011)
Effect of exchange rate changes on cash and cash equivalents	(82)	(60)	(5)
Net change in cash and cash equivalents	$ 211	$ (196)	$ (1,738)

Operating Activities Our net cash provided by operating activities was $3.878 billion for the fiscal year ended April 24, 2009 compared to $3.489 billion provided by operating activities for the same period of the prior year. The $389 million increase in net cash provided by operating activities is primarily attributable to the increase in earnings and due to the timing of receipts and payments for disbursements in the ordinary course of business.

Our net cash provided by operating activities was $3.489 billion for the fiscal year ended April 25, 2008 compared to net cash provided by operating activities of $2.979 billion in the same period of the prior year. The $510 million increase in net cash provided by operating activities was primarily attributable to a $442 million decrease in cash used for operating assets and liabilities. The decrease in cash used was led by our improved management of outstanding accounts receivable and inventory.

Investing Activities Our net cash used in investing activities was $2.740 billion for the fiscal year ended April 24, 2009 compared to $2.790 billion used in investing activities for the fiscal year ended April 25, 2008. Although we had a number of acquisitions which took place in fiscal year 2009, overall cash used for acquisitions decreased in comparison to the prior fiscal year which included the acquisition of Kyphon. The reduction in acquisition spending was largely offset by increased investing in marketable securities in fiscal year 2009 which resulted in net purchases of $115 million as compared to net proceeds of $2.124 billion in the prior year as we readied our cash position for the acquisition of Kyphon. Lastly, fiscal year 2009 included increased other investing activities which primarily relate to the purchase of minority investments. Although we generally invest in a number of early stage companies each year, fiscal year 2009 included the use of $221 million in cash for the purchase of a 15 percent interest in Weigao which is a component of our strategy to increase investment in China.

Our net cash used in investing activities was $2.790 billion for the fiscal year ended April 25, 2008 compared to $1.701 billion used in investing activities for the fiscal year ended April 27, 2007. The $1.089 billion increase in net cash used in investing activities was primarily attributable to the $4.185 billion increase in cash used for acquisitions and the purchase of intellectual property, principally the Kyphon acquisition, partially offset by $3.067 billion in incremental cash generated through the liquidation of marketable securities as compared to the prior year.

Financing Activities Our net cash used in financing activities was consistent with the prior year at $845 million for the fiscal year ended April 24, 2009 compared to $835 million for the fiscal year ended April 25, 2008. Proceeds from net short- and long-term borrowing were approximately $500 million lower in fiscal year 2009 as compared to fiscal year 2008, primarily due to the lower acquisition related cash needs in the current fiscal year. Our cash returned to shareholders in the form of dividends and the repurchase of common stock was approximately $500 million lower in fiscal year 2009 as compared to fiscal year 2008. Although dividends were up during fiscal year 2009 by approximately $300 million due to an increase in the amount of dividends per share, this increase was more than offset by approximately $800 million in lower share repurchases as compared to fiscal year 2008.

Our net cash used in financing activities was $835 million for the fiscal year ended April 25, 2008, compared to net cash used in financing activities of $3.011 billion for the fiscal year ended April 27, 2007. The $2.176 billion decrease in net cash used in financing activities was primarily attributable to the fact that in the prior year $1.877 billion in cash was used to repurchase long-term debt as the bond holders put the Contingent Convertible Debentures to us and in fiscal year 2008 we generated proceeds of $843 million from net short- and long-term borrowings. These cash inflows were offset by a $505 million increase in cash used for share repurchases.

Off-Balance Sheet Arrangements and Long-Term Contractual Obligations

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

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 indemnification obligations.

We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position or cash flows. Presented below is a summary of contractual obligations and other minimum commercial commitments as of April 24, 2009. See Notes 8, 9 and 15 to the consolidated financial statements for additional information regarding long-term debt, foreign currency contracts and lease obligations, respectively. Additionally, see Note 13 to the consolidated financial statements for additional information regarding accrued income tax obligations, which are not reflected in the table below.

(dollars in millions)	Total	Maturity by Fiscal Year 2010	2011	2012	2013	2014	Thereafter
Contractual obligations related to off-balance sheet arrangements:							
Foreign currency contracts (1)	$ 5,296	$ 3,546	$ 1,501	$ 249	$ —	$ —	$ —
Operating leases (2)	237	77	50	31	23	21	35
Inventory purchases (3)	509	296	132	36	17	12	16
Commitments to fund minority investments/contingent acquisition consideration (4)	491	89	214	90	25	8	65
Interest payments (5)	1,354	182	173	131	131	95	642
Other (6)	213	63	48	36	19	15	32
Total	$ 8,100	$ 4,253	$ 2,118	$ 573	$ 215	$ 151	$ 790
Contractual obligations reflected in the balance sheet:							
Long-term debt, excluding capital leases (7)	$ 6,665	$ —	$ 2,600	$ 15	$ 2,200	$ 550	$ 1,300
Capital leases (8)	67	14	16	17	20	—	—
Total	$ 6,732	$ 14	$ 2,616	$ 32	$ 2,220	$ 550	$ 1,300

(1) As these obligations were entered into as hedges, the majority of these obligations will be offset by losses/gains on the related assets, liabilities and transactions being hedged.

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

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

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

(5) Interest payments in the table above reflect the interest on our outstanding debt, including the $1.250 billion of New Senior Notes, $4.400 billion of Senior Convertible Notes, $1.000 billion of Senior Notes and $15 million of Contingent Convertible Debentures. The interest rate on each outstanding obligation varies and interest is payable semi-annually. The interest rate is 4.500 percent on $550 million of the New Senior Notes, 5.600 percent on $400 million of the New Senior Notes, 6.500 percent on $300 million of the New Senior Notes, 1.500 percent on the $2.200 billion Senior Convertible Notes due 2011 and 1.625 percent on the $2.200 billion Senior Convertible Notes due 2013, 4.375 percent on the $400 million of Senior Notes due 2010, 4.750 percent on the $600 million of Senior Notes due 2015 and 1.250 percent on the Contingent Convertible Debentures due 2021.

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

(7) Long-term debt in the table above includes $1.250 billion New Senior Notes, $4.400 billion Senior Convertible Notes issued in April 2006, and $1.000 billion Senior Notes issued in September 2005 and $15 million related to our Contingent Convertible Debentures. The table above excludes the remaining fair value from the five year interest rate swap entered into in November 2005 and the eight year interest rate swap agreement entered into in June 2007 that were terminated in December 2008. See Note 8 to the consolidated financial statements for additional information regarding the interest rate swap agreement terminations.

(8) Capital lease obligations include a sale-leaseback agreement entered into in fiscal year 2006 whereby certain manufacturing equipment was sold and is being leased by us over a seven year period.

Debt and Capital

In June 2007, our Board of Directors authorized the repurchase of up to 50 million shares of our common stock. In addition, in April 2006, the Board of Directors made a special authorization for the repurchase of up to 50 million shares in connection with the $4.400 billion Senior Convertible Note offering (see below for further discussion).

Shares are repurchased from time to time to support our stock-based compensation programs and to take advantage of favorable market conditions. During fiscal years 2009 and 2008, we repurchased approximately 16.5 million shares and 30.7 million shares at an average price of $45.94 and $50.28, respectively. As of April 24, 2009, we have approximately 17.8 million shares remaining under current buyback authorizations approved by the Board of Directors. On June 18, 2009, our Board of Directors authorized the repurchase of an additional 60 million shares of our common stock.

In March 2009, we issued three tranches of Senior Notes (New Senior Notes) with the aggregate face value of $1.250 billion. The first tranche consisted of $550 million of 4.500 percent Senior Notes due 2014, the second tranche consisted of $400 million of 5.600 percent Senior Notes due 2019 and the third tranche consisted of $300 million of 6.500 percent Senior Notes due 2039. The first tranche was issued at par, the second tranche was issued at a discount which resulted in an effective interest rate of 5.609 percent and the third tranche was issued at a discount which resulted in an effective interest rate of 6.519 percent. Interest on each series of New Senior Notes is payable semi-annually, on March 15 and September 15 of each year, commencing September 15, 2009. The New Senior Notes are unsecured senior obligations that rank equally with all other unsecured and unsubordinated indebtedness. The indentures under which the New Senior Notes were issued contain customary covenants, all of which we remain in compliance with as of April 24, 2009. We used the net proceeds from the sale of the New Senior Notes for repayment of a portion of our outstanding commercial paper and for general corporate uses.

In April 2006, we issued $2.200 billion of 1.500 percent Senior Convertible Notes due 2011 and $2.200 billion of 1.625 percent Senior Convertible Notes due 2013, collectively the Senior Convertible Notes. The Senior Convertible Notes were issued at par and pay interest in cash semi-annually in arrears on April 15 and October 15 of each year. The Senior Convertible Notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness. The Senior Convertible Notes have an initial conversion price of $56.14 per share. The Senior Convertible Notes may only be converted: (i) during any calendar quarter if the closing price of our common stock reaches 140 percent of the conversion price for 20 trading days during a specified period, or (ii) if specified distributions to holders of our common stock are made or specified corporate transactions occur, or (iii) during the last month prior to maturity of the applicable notes. Upon conversion, a holder would receive: (i) cash equal to the lesser of the principal amount of the note or the conversion value and (ii) to the extent the conversion value exceeds the principal amount of the note, shares of our common stock, cash or a combination of common stock and cash, at our option. In addition, upon a change in control, as defined, the holders may require us to purchase for cash all or a portion of their notes for 100 percent of the principal amount of the notes plus accrued and unpaid interest, if any, plus a number of additional make-whole shares of our common stock, as set forth in the applicable indenture. The indentures under which the Senior Convertible Notes were issued contain customary covenants, all of which we remain in compliance with as of April 24, 2009. A total of $2.500 billion of the net proceeds from these note issuances were used to repurchase common stock. As of April 24, 2009, pursuant to provisions in the indentures relating to our increase of its quarterly dividend to shareholders, the conversion rates for each of the Senior Convertible Notes is now 18.0474, which correspondingly changed the conversion price per share for each of the Senior Convertible Notes to $55.41. See Note 8 to the consolidated financial statements for further discussion of the accounting treatment of these Senior Convertible Notes.

Concurrent with the issuance of the Senior Convertible Notes, we purchased call options on our common stock in private transactions. The call options allow us to receive shares of our common stock and/or cash from counterparties equal to the amounts of common stock and/or cash related to the excess conversion value that we would pay to the holders of the Senior Convertible Notes upon conversion. These call options will terminate upon the earlier of the maturity dates of the related Senior Convertible Notes or the first day all of the related Senior Convertible Notes are no longer outstanding due to conversion or otherwise. The call options, which cost an aggregate $1.075 billion ($699 million net of tax benefit), were recorded as a reduction of shareholders' equity. See Note 8 to the consolidated financial statements for further discussion of the accounting treatment of these call options.

In separate transactions, we sold warrants to issue shares of our common stock at an exercise price of $76.56 per share in private transactions. Pursuant to these transactions, warrants for 41 million shares of our common stock may be settled over a specified period beginning in July 2011 and warrants for 41 million shares of our common stock may be settled over a specified period beginning in July 2013 (the "settlement dates"). If the average price of our common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of our common stock. Proceeds received from the issuance of the warrants totaled approximately $517 million and were recorded as an addition to shareholders' equity. See Note 8 to the consolidated financial statements for further discussion of the accounting treatment. In April 2009, certain of the holders requested adjustment to the exercise price of the warrants from $76.30 to $75.56 pursuant to the anti-dilution provisions of the warrants relating to our payment of dividends to common shareholders.

In September 2005, we issued two tranches of Senior Notes with the aggregate face value of $1.000 billion. The first tranche consisted of $400 million of 4.375 percent Senior Notes due 2010 and the second tranche consisted of $600 million of 4.750 percent Senior Notes due 2015. Each tranche was issued at a discount which resulted in an effective interest rate of 4.433 percent and 4.760 percent for the five and ten year Senior Notes, respectively. Interest on each series of Senior Notes is payable semi-annually, on March 15 and September 15 of each year. The Senior Notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness. The indentures under which the Senior Notes were issued contain customary covenants, all of which we remain in compliance with as of April 24, 2009. We used the net proceeds from the sale of the Senior Notes for repayment of a portion of our outstanding commercial paper.

In November 2005 and June 2007, we entered into a five year interest rate swap agreement with a notional amount of $200 million, and an eight year interest rate swap agreement with a notional amount of $300 million, respectively. These interest rate swap agreements were designated as fair value hedges of the changes in fair value of a portion of our fixed-rate $400 million Senior Notes due 2010 and fixed-rate $600 million Senior Notes due 2015, respectively. The outstanding market values of these swap agreements were $8 million and $27 million of unrealized gains, respectively, at April 25, 2008. The unrealized gains of $8 million and $27 million at April 25, 2008 were recorded in *long-term debt* with the offset recorded in *other assets* on the consolidated balance sheets.

In December 2008, we terminated the interest rate swap agreements. At that time, the contracts were in an asset position, resulting in cash receipts of $62 million, which included $3 million of accrued interest. The gain from terminating the interest rate swap agreements increased the outstanding balance of the Senior Notes and is being amortized as a reduction of interest expense over the remaining life of the Senior Notes. The cash flows from the termination of these interest rate swap agreements have been reported as operating activities in the consolidated statement of cash flows.

As of April 24, 2009, we have $15 million remaining in aggregate principal amount of 1.250 percent Contingent Convertible Debentures, Series B due 2021 (the Debentures) outstanding. Interest is payable semi-annually. Each Debenture is convertible into shares of common stock at an initial conversion price of $61.81 per share; however, the Debentures are not convertible before their final maturity unless the closing price of the Company's common stock reaches 110 percent of the conversion price for 20 trading days during a consecutive 30 trading day period. Upon conversion of the Debentures, we will pay holders cash equal to the lesser of the principal amount of the Debentures or their conversion value, and shares of the Company's common stock to the extent the conversion value exceeds the principal amount of the Debentures. We may be required to repurchase the remaining debentures at the option of the holders in September 2011 or 2016. For put options exercised by the holders of the Debentures, the purchase price is equal to the principal amount of the applicable debenture plus any accrued and unpaid interest thereon to the repurchase date. If the put option is exercised, we will pay holders the repurchase price solely in cash. In September 2008, as a result of certain holders of the Debentures exercising their put options, we repurchased $79 million of the Debentures for cash. We can redeem the remaining debentures for cash at any time.

We maintain a commercial paper program that allows us to have a maximum of $2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. At April 24, 2009 and April 25, 2008, outstanding commercial paper totaled $385 million and $874 million, respectively. During fiscal years 2009 and 2008, the weighted average original maturity of the commercial paper outstanding was approximately 50 and 35 days, respectively, and the weighted average interest rate was 1.60 percent and 4.46 percent, respectively.

In connection with the issuance of the contingent convertible debentures, New Senior Notes, Senior Notes, Senior Convertible Notes and commercial paper, Standard and Poor's Ratings Group and Moody's Investors Service issued us strong long-term debt ratings of AA- and A1, respectively, and strong short-term debt ratings of A-1+ and P-1, respectively. These ratings remain unchanged from the same periods of the prior year.

We have existing unsecured lines of credit of approximately $2.807 billion with various banks at April 24, 2009. The existing lines of credit include a five-year $1.750 billion syndicated credit facility dated December 20, 2006 that will expire on December 20, 2011 (Credit Facility). The Credit Facility provides backup funding for the commercial paper program and may also be used for general corporate purposes. The Credit Facility provides us with the ability to increase its capacity by an additional $500 million at any time during the life of the five-year term of the agreement.

On November 2, 2007, we entered into a new Credit Agreement (the "New Credit Agreement") with the Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "New Lender"). The New Credit Agreement provides for a $300 million unsecured revolving credit facility (the "New Facility") maturing November 2, 2010. In addition to certain initial fees, we are obligated to pay a commitment fee based on the total revolving commitment.

As of April 24, 2009 and April 25, 2008, $508 million and $1.350 billion, respectively, were outstanding on all lines of credit.

Interest rates on advances on our lines of credit are determined by a pricing matrix, based on our long-term debt ratings, assigned by Standard and Poor's Ratings Group and Moody's Investors Service. Facility fees are payable on the credit facilities and are determined in the same manner as the interest rates. The agreements also contain other customary covenants, all of which we remain in compliance with as of April 24, 2009.

As of April 24, 2009, we have unused credit lines and commercial paper capacity of approximately $2.799 billion.

Acquisitions

In April 2009, we acquired CoreValve. Under the terms of the agreement, the transaction included an initial up-front payment of $700 million plus potential additional payments contingent upon achievement of certain clinical and revenue milestones. CoreValve develops percutaneous, catheter-based transfemoral aortic valve replacement products.

In February 2009, we acquired Ventor, a development stage company focused on transcatheter heart valve technologies for the treatment of aortic valve disease. Total consideration for the transaction, net of cash acquired, was approximately $308 million, of which $307 million was expensed as IPR&D since technological feasibility of the underlying project had not yet been reached and such technology has no future alternative use. This acquisition adds two technologies to our transcatheter valve portfolio: a minimally invasive, surgical transapical technology and a next generation percutaneous, transfemoral technology.

It is expected that the acquisitions of CoreValve and Ventor will allow us to pursue opportunities that have natural synergies with our existing heart valve franchise in our CardioVascular business and leverage our global footprint.

In February 2009, we also acquired Ablation Frontiers. Under the terms of the agreement, the transaction included an initial up-front payment of $225 million plus potential additional payments contingent upon achievement of certain clinical and revenue milestones. Total consideration for the transaction was approximately $235 million including the assumption and settlement of existing Ablation Frontiers debt and payment of direct acquisition costs. Ablation Frontiers develops radiofrequency (RF) ablation solutions for treatment of atrial fibrillation.

In November 2008, we acquired CryoCath. Under the terms of the agreement, CryoCath shareholders received $8.75 Canadian dollars per share in cash for each share of CryoCath common stock that they owned. Total consideration for the transaction, net of cash acquired, was approximately $352 million U.S. dollars including the purchase of outstanding CryoCath common stock, the assumption and settlement of existing CryoCath debt and the payment of direct acquisition costs. CyroCath develops cryotherapy products to treat cardiac arrhythmias. CryoCath's Arctic Front product is a minimally invasive cryo-balloon catheter designed specifically to treat atrial fibrillation and is currently approved in markets outside the U.S.

It is expected that the acquisitions of Ablation Frontiers and CryoCath will allow our CRDM business to extend its reach into the under-penetrated market of catheter based treatment of atrial fibrillation.

In July 2008, we acquired Restore. Under the terms of the agreement, Restore shareholders received $1.60 per share in cash for each share of Restore common stock they owned. Total consideration for the transaction, net of cash acquired, was approximately $29 million. Restore's Pillar System will provide us with a minimally invasive, implantable medical device used to treat the soft palate component of sleep breathing disorders, including mild to moderate obstructive sleep apnea and snoring.

The pro forma impact of the above acquisitions were not significant, individually or in the aggregate, to our results for the fiscal years ended April 24, 2009 or April 25, 2008. The results of operations related to each company have been included in our consolidated statements of earnings since the date each company was acquired.

In April 2008, we recorded an IPR&D charge of $42 million related to the acquisition of NDI, a development stage company focused on commercially developing technology to stimulate the dorsal genital nerve as a means to treat urinary incontinence. Total consideration for NDI was approximately $42 million which included $39 million in cash and the forgiveness of $3 million of pre-existing loans provided to NDI. The acquisition will provide us with exclusive rights to develop and use NDI's technology in the treatment of urinary urge incontinence. This payment was expensed as IPR&D since technological feasibility of the underlying projects had not yet been reached and such technology has no future alternative use.

In November 2007, we acquired Kyphon and it became our wholly owned subsidiary. Kyphon develops and markets medical devices designed to restore and preserve spinal function using minimally invasive technology. Kyphon's primary products are used in balloon kyphoplasty for the treatment of spinal compression fractures caused by osteoporosis or cancer, and in the interspinous process decompression (IPD) procedure for treating the symptoms of lumbar spinal stenosis. It is expected that the acquisition of Kyphon will add to the growth of our existing Spinal business by extending its product offerings and enabling us to provide physicians with a broader range of therapies for use at all stages of the care continuum.

Under the terms of the agreement announced in July 2007, Kyphon shareholders received $71 per share in cash for each share of Kyphon common stock they owned. Total consideration for the transaction was $4.203 billion which includes payments to Kyphon shareholders for the cancellation of outstanding shares, the assumption and settlement of existing Kyphon debt and payment of direct acquisition costs. Total debt assumed relates to Kyphon's obligations under existing credit and term loan facilities and outstanding senior convertible notes. As of the date of the transaction, the existing credit and term loan facilities were fully paid and terminated. The senior convertible notes were converted by the holders in the weeks following the close of the transaction and have been included in the total purchase consideration above. In addition, the total consideration includes the proceeds of unwinding the related convertible note hedges and cancellation and payment of the warrants to the hedge participants that were originally issued by Kyphon in February 2007.

The transaction was financed through a combination of $3.303 billion cash on hand, the issuance of $600 million short-term commercial paper and borrowing $300 million through a new long-term unsecured revolving credit facility.

The results of operations related to Kyphon have been included in our consolidated statements of earnings since the date of the acquisition and include the full amortization of a $34 million inventory write-up recorded as part of the Kyphon acquisition accounting. The pro forma impact of Kyphon was significant to our results for fiscal year 2008. See Note 4 to the consolidated financial statements for the unaudited pro forma results of operations for fiscal years 2008 and 2007.

In November 2007, we also acquired Setagon, Inc. (Setagon), a development stage company focused on commercially developing metallic nanoporous surface modification technology. The acquisition will provide us with exclusive rights to use and develop Setagon's Controllable Elution Systems technology in the treatment of cardiovascular disease. Total consideration for Setagon was approximately $20 million in cash, subject to purchase price increases, which would be triggered by the achievement of certain milestones. The $20 million was expensed as IPR&D since technological feasibility of the underlying projects had not yet been reached and such technology has no future alternative use.

In June 2007, we acquired substantially all of the O-Arm Imaging System (O-Arm) assets of Breakaway Imaging, LLC (Breakaway), a privately held company. Prior to the acquisition, we had the exclusive rights to distribute and market the O-Arm. The O-Arm provides multi-dimensional surgical imaging for use in spinal and orthopedic surgical procedures. The acquisition is expected to bring the O-Arm into a broad portfolio of image guided surgical solutions. Total consideration for Breakaway was approximately $26 million in cash, subject to purchase price increases, which would be triggered by the achievement of certain milestones. The pro forma impact of Breakaway was not significant to our results for the fiscal year ended April 25, 2008.

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

New Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note 1 to the consolidated financial statements.

Operations Outside of the United States

The table below illustrates U.S. net sales versus net sales outside the U.S. for fiscal years April 24, 2009, April 25, 2008 and April 27, 2007:

	Fiscal Years		
(dollars in millions)	**2009**	**2008**	**2007**
U.S. net sales	$ 8,997	$ 8,336	$ 7,900
Non-U.S. net sales	5,602	5,179	4,399
Total net sales	$ 14,599	$ 13,515	$ 12,299

From fiscal year 2008 to fiscal 2009, consolidated net sales growth in the U.S. and outside the U.S. both grew 8 percent. Foreign currency had a negative impact of $100 million on net sales for fiscal year 2009. Outside the U.S., net sales growth was led by strong performance in Spinal, Diabetes and Surgical Technologies. Spinal net sales growth was led by growth in Core Spinal due to increased sales of the CD HORIZON family of products. Also, the acquisition of Kyphon in the third quarter of fiscal year 2008 increased the sales growth for Spinal as the comparative period only includes six months of Kyphon net sales. Diabetes growth outside the U.S. was led by the continued acceptance of the MiniMed Paradigm REAL-Time System. Increased sales of the O-Arm Imaging System led to the growth within the Surgical Technologies business outside the U.S.

From fiscal year 2007 to fiscal year 2008, consolidated net sales in the U.S. grew 6 percent compared to 18 percent growth in net sales outside the U.S. The slower U.S. growth was primarily a result of the voluntary suspension of the Fidelis lead and the voluntary suspension of U.S. shipments of Physio-Control products from our Redmond, Washington facility. Outside the U.S., net sales growth was strong across all businesses and led by strong performance in CardioVascular, Diabetes and CRDM, the benefit of the addition of Kyphon in Spinal and a favorable impact of foreign currency translation which added 9 percentage points to the outside the U.S. growth rate. CardioVascular net sales were led by market share gains with Endeavor and Endeavor Resolute. Diabetes sales increased as a result of further acceptance of the MiniMed Paradigm REAL-Time System. Increased sales of Defibrillation Systems and Pacing Systems led the increase within our CRDM business.

Net sales outside the U.S. are accompanied by certain financial risks, such as collection of receivables, which typically have longer payment terms. Outstanding receivables from customers outside the U.S. totaled $1.592 billion at April 24, 2009, or 50 percent, of total outstanding accounts receivable, and $1.800 billion at April 25, 2008, or 53 percent, of total outstanding accounts receivable.

Market Risk

Due to the global nature of our operations, we are subject to the exposures that arise from foreign currency exchange rate fluctuations. In a period where the U.S. dollar is strengthening as compared to other currencies, our revenues and expenses denominated in foreign currency are translated into a lower value than they would be in an otherwise constant environment. We manage these exposures using operational and economic hedges as well as derivative financial instruments. The primary currencies hedged are the Euro and the Japanese Yen.

Our objective in managing exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. We enter into various contracts, principally forward contracts that change in value as foreign exchange rates change, to protect the value of existing foreign currency assets, liabilities, net investments and probable commitments. The gains and losses on these contracts offset changes in the value of the related exposures. It is our policy to enter into foreign currency hedging transactions only to the extent true exposures exist; we do not enter into foreign currency transactions for speculative purposes.

We had foreign exchange derivative contracts outstanding in notional amounts of $5.296 billion and $6.613 billion at April 24, 2009 and April 25, 2008, respectively. The fair value of these contracts at April 24, 2009 was $405 million more than the original contract value. A sensitivity analysis of changes in the fair value of all foreign exchange derivative contracts at April 24, 2009 indicates that, if the U.S. dollar uniformly strengthened/weakened by 10 percent against all currencies, the fair value of these contracts would increase/decrease by $495 million, respectively. Any gains and losses on the fair value of derivative contracts would be largely offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis. We are also exposed to interest rate changes affecting principally our investments in interest rate sensitive instruments. A sensitivity analysis of the impact on our interest rate sensitive financial instruments of a hypothetical 10 percent change in short-term interest rates compared to interest rates at April 24, 2009 indicates that the fair value of these instruments would correspondingly change by $22 million.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include corporate debt securities, government and agency securities, certificates of deposit and mortgage backed and other asset backed securities including auction rate securities. For a discussion of current market conditions and the impact on Medtronic, please see the “Liquidity and Capital Resources” section of this management’s discussion and analysis.

We historically lent certain fixed income securities to enhance our investment income. These lending activities were indemnified against counterparty risk and collateralized at an average rate of 102 percent, with the collateral determined based on the underlying securities and creditworthiness of the borrowers. The value of the securities on loan at April 25, 2008 was $610 million. Due to our concerns about the liquidity condition in the fixed income markets, we suspended our lending program in the second quarter of fiscal year 2009 and had no lending activity during the third and fourth quarters of fiscal year 2009.

Cautionary Factors That May Affect Future Results

This Annual Report may include “forward-looking” statements. Forward-looking statements broadly involve our current expectations or forecasts of future results. Our forward-looking statements generally relate to our growth and growth strategies, financial results, product development, regulatory approvals, competitive strengths, intellectual property rights, litigation and tax matters, mergers and acquisitions, market acceptance of our products, accounting estimates, financing activities, ongoing contractual obligations and sales efforts. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “possible,” “project,” “should,” “will” and similar words or expressions. Forward-looking statements in this Annual Report include, but are not limited to, growth in our Spinal business related to the Kyphon acquisition and our intended reorganization and consolidation of certain activities; future launches of products and continued acceptance of products in our operating segments; the effectiveness of our development activities in reducing patient care costs; the elimination of certain positions or costs related to restructuring initiatives; outcomes in our litigation matters; the continued strength of our balance sheet and liquidity; and the potential impact of our compliance with governmental regulations. One must carefully consider forward-looking statements and understand that such statements may be affected by inaccurate assumptions and may involve a variety of risks and uncertainties, known and unknown, including, among others, those discussed in the section titled “Government Regulation and Other Considerations” in our Form 10-K, in the section entitled “Risk Factors” in our Form 10-K, as well as those related to competition in the medical device industry, reduction or interruption in our supply, quality problems, liquidity, decreasing prices, adverse regulatory action, litigation success, self-insurance, healthcare policy changes and international operations. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. We intend to take advantage of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statements, and are including this sentence for the express purpose of enabling us to use the protections of the safe harbor with respect to all forward-looking statements.

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

Reports of Management

Management's Report on the Financial Statements

The management of Medtronic, Inc. is responsible for the integrity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Where necessary, and as discussed under *Critical Accounting Estimates* on pages 2-4, the consolidated financial statements reflect estimates based on management's judgment.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, who conducted their audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). The independent registered public accounting firm's responsibility is to express an opinion that such financial statements present fairly, in all material respects, our financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management conducted an evaluation of the effectiveness of 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 (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of April 24, 2009. Our internal control over financial reporting as of April 24, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, who has also audited our consolidated financial statements.

/s/ William A. Hawkins
William A. Hawkins
Chairman and Chief Executive Officer

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

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Medtronic, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Medtronic, Inc. and its subsidiaries (the Company) at April 24, 2009 and April 25, 2008, and the results of their operations and their cash flows for each of the three fiscal years in the period ended April 24, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 24, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes 6 and 14 to the consolidated financial statements, in 2009 the Company changed the manner in which it determines fair value in certain situations as a result of adopting the required provisions of Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements" and changed the date it uses to measure the funded status of its defined benefit pension and other postretirement plans as a result of adopting the remaining provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." As discussed in Note 13 to the consolidated financial statements, in 2008 the Company changed the manner in which it accounts for income taxes as a result of adopting the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
June 18, 2009

Medtronic, Inc.
Consolidated *Statements of Earnings*

(in millions, except per share data)	Fiscal Year 2009	2008	2007
Net sales	$ 14,599	$ 13,515	$ 12,299
Costs and expenses:			
Cost of products sold	3,518	3,446	3,168
Research and development expense	1,355	1,275	1,239
Selling, general and administrative expense	5,152	4,707	4,153
Special charges	100	78	98
Restructuring charges	120	41	28
Certain litigation charges	714	366	40
Purchased in-process research and development (IPR&D) charges	621	390	—
Other expense, net	396	436	212
Interest expense/(income), net	29	(109)	(154)
Total costs and expenses	12,005	10,630	8,784
Earnings before income taxes	2,594	2,885	3,515
Provision for income taxes	425	654	713
Net earnings	$ 2,169	$ 2,231	$ 2,802
Earnings per share:			
Basic	$ 1.94	$ 1.97	$ 2.44
Diluted	$ 1.93	$ 1.95	$ 2.41
Weighted average shares outstanding:			
Basic	1,117.8	1,130.7	1,149.7
Diluted	1,124.0	1,142.1	1,161.8
Cash dividends declared per common share	$ 0.75	$ 0.50	$ 0.44

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

Medtronic, Inc.
Consolidated *Balance Sheets*

(in millions, except per share data)	April 24, 2009	April 25, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,271	$ 1,060
Short-term investments	405	553
Accounts receivable, less allowances of $61 and $99, respectively	3,123	3,287
Income tax receivable	—	73
Inventories	1,426	1,280
Deferred tax assets, net	605	600
Prepaid expenses and other current assets	630	469
Total current assets	7,460	7,322
Property, plant and equipment, net	2,279	2,221
Goodwill	8,195	7,519
Other intangible assets, net	2,477	2,193
Long-term investments	2,769	2,322
Long-term deferred tax assets, net	65	103
Other assets	416	518
Total assets	$ 23,661	$ 22,198
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 522	$ 1,154
Accounts payable	382	383
Accrued compensation	901	789
Accrued income taxes	130	—
Other accrued expenses	1,212	1,209
Total current liabilities	3,147	3,535
Long-term debt	6,772	5,802
Long-term accrued compensation and retirement benefits	329	304
Long-term accrued income taxes	475	519
Other long-term liabilities	87	502
Total liabilities	10,810	10,662
Commitments and contingencies (Note 16)	—	—
Shareholders' equity:		
Preferred stock— par value $1.00; 2.5 million shares authorized, none outstanding	—	—
Common stock— par value $0.10; 1.6 billion shares authorized, 1,119,140,192 and 1,124,926,775 shares issued and outstanding, respectively	112	112
Retained earnings	12,941	11,710
Accumulated other comprehensive loss	(202)	(286)
Total shareholders' equity	12,851	11,536
Total liabilities and shareholders' equity	$ 23,661	$ 22,198

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

Medtronic, Inc.
Consolidated *Statements of Shareholders' Equity*

(in millions)	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Shareholders' Equity
Balance April 28, 2006	1,155	$ 116	$ 9,112	$ 155	$ 9,383
Net earnings	—	—	2,802	—	2,802
Other comprehensive (loss)/income					
Unrealized gain on investments	—	—	—	20	20
Translation adjustment	—	—	—	18	18
Minimum pension liability	—	—	—	24	24
Unrealized loss on foreign exchange derivatives	—	—	—	(70)	(70)
Total comprehensive income					2,794
Dividends to shareholders	—	—	(504)	—	(504)
Issuance of common stock under stock purchase and award plans	10	1	330	—	331
Adjustment to adopt SFAS No. 158	—	—	—	(209)	(209)
Repurchase of common stock	(22)	(3)	(1,036)	—	(1,039)
Excess tax benefit from exercise of stock-based awards	—	—	36	—	36
Stock-based compensation	—	—	185	—	185
Balance April 27, 2007	1,143	$ 114	$ 10,925	$ (62)	$ 10,977
Net earnings	—	—	2,231	—	2,231
Other comprehensive (loss)/income					
Unrealized loss on investments	—	—	—	(47)	(47)
Translation adjustment	—	—	—	14	14
Net change in retirement obligations	—	—	—	37	37
Unrealized loss on foreign exchange derivatives	—	—	—	(211)	(211)
Total comprehensive income					2,024
Dividends to shareholders	—	—	(565)	—	(565)
Issuance of common stock under stock purchase and award plans	13	1	402	—	403
Adjustment to deferred tax benefit recorded on adoption of SFAS No. 158	—	—	—	(17)	(17)
Repurchase of common stock	(31)	(3)	(1,541)	—	(1,544)
Excess tax benefit from exercise of stock-based awards	—	—	40	—	40
Stock-based compensation	—	—	217	—	217
Cumulative effect adjustment to retained earnings related to the adoption of FIN No. 48 (Note 13)	—	—	1	—	1
Balance April 25, 2008	1,125	$ 112	$ 11,710	$ (286)	$ 11,536
Net earnings	—	—	2,169	—	2,169
Other comprehensive (loss)/income					
Unrealized loss on investments	—	—	—	(54)	(54)
Translation adjustment	—	—	—	(147)	(147)
Net change in retirement obligations	—	—	—	(210)	(210)
Unrealized gain on foreign exchange derivatives	—	—	—	494	494
Total comprehensive income					2,252
Dividends to shareholders	—	—	(843)	—	(843)
Issuance of common stock under stock purchase and award plans	11	2	414	—	416
Adjustment for change in plan measurement date pursuant to SFAS No. 158 (Note 14)	—	—	(13)	1	(12)
Repurchase of common stock	(17)	(2)	(757)	—	(759)
Excess tax benefit from exercise of stock-based awards	—	—	24	—	24
Stock-based compensation	—	—	237	—	237
Balance April 24, 2009	1,119	$ 112	$ 12,941	$ (202)	$ 12,851

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

Medtronic, Inc.
Consolidated *Statements of Cash Flows*

(in millions)	Fiscal Year 2009	2008	2007
Operating Activities:			
Net earnings	$ 2,169	$ 2,231	$ 2,802
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	699	637	583
Special charges	—	78	98
IPR&D charges	621	390	—
Provision for doubtful accounts	23	31	31
Deferred income taxes	(116)	(49)	(236)
Stock-based compensation	237	217	185
Excess tax benefit from exercise of stock-based awards	(24)	(40)	(36)
Change in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	108	(461)	(326)
Inventories	(212)	30	(24)
Prepaid expenses and other assets	(121)	92	(45)
Accounts payable and accrued liabilities	520	61	17
Other operating assets and liabilities	(26)	272	(70)
Net cash provided by operating activities	3,878	3,489	2,979
Investing Activities:			
Acquisitions, net of cash acquired	(1,624)	(4,221)	(8)
Purchase of intellectual property	(165)	(93)	(121)
Additions to property, plant and equipment	(498)	(513)	(573)
Purchases of marketable securities	(2,960)	(6,433)	(11,837)
Sales and maturities of marketable securities	2,845	8,557	10,894
Other investing activities, net	(338)	(87)	(56)
Net cash used in investing activities	(2,740)	(2,790)	(1,701)
Financing Activities:			
Change in short-term borrowings, net	(633)	543	45
Payments on long-term debt	(300)	(12)	(1,880)
Issuance of long-term debt	1,250	300	—
Dividends to shareholders	(843)	(565)	(504)
Issuance of common stock under stock purchase and award plans	416	403	331
Excess tax benefit from exercise of stock-based awards	24	40	36
Repurchase of common stock	(759)	(1,544)	(1,039)
Net cash used in financing activities	(845)	(835)	(3,011)
Effect of exchange rate changes on cash and cash equivalents	(82)	(60)	(5)
Net change in cash and cash equivalents	211	(196)	(1,738)
Cash and cash equivalents at beginning of period	1,060	1,256	2,994
Cash and cash equivalents at end of period	$ 1,271	$ 1,060	$ 1,256
Supplemental Cash Flow Information			
Cash paid for:			
Income taxes	$ 436	$ 717	$ 1,034
Interest	208	258	230
Supplemental noncash investing and financing activities:			
Reclassification of debentures from short-term to long-term debt	$ 15	$ —	$ 94
Reclassification of debentures from long-term to short-term debt	—	94	—

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

1. Summary of Significant Accounting Policies

Nature of Operations Medtronic, Inc. (Medtronic or the Company) is the global leader in medical technology - alleviating pain, restoring health, and extending life for millions of people around the world. The Company provides innovative products and therapies for use by medical professionals to meet the healthcare needs of their patients. Primary products include those for cardiac rhythm disorders, cardiovascular disease, neurological disorders, spinal conditions and musculoskeletal trauma, urological and digestive disorders, diabetes and ear, nose and throat conditions.

The Company is headquartered in Minneapolis, Minnesota, and markets its products primarily through a direct sales force in the United States (U.S.) and a combination of direct sales representatives and independent distributors in international markets. The primary markets for products are the U.S., Western Europe and Japan.

Principles of Consolidation The consolidated financial statements include the accounts of Medtronic, Inc., and all of its subsidiaries. All significant intercompany transactions and accounts have been eliminated. The principles of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" and Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements" are considered when determining whether an entity is subject to consolidation.

Fiscal Year-End The Company utilizes a 52/53-week fiscal year, ending the last Friday in April. The Company's fiscal years 2009, 2008 and 2007 ended on April 24, 2009, April 25, 2008 and April 27, 2007, respectively, all of which were fifty-two week years. Fiscal year 2010 will be a fifty-three week year.

Use of Estimates The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Cash Equivalents The Company considers highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. These investments are carried at cost, which approximates fair value.

Investments Investments in marketable equity securities and debt securities are classified and accounted for as available-for-sale (AFS) at April 24, 2009 and April 25, 2008. AFS debt securities are recorded at fair value in both *short-term* and *long-term investments* and marketable equity securities are recorded at fair value in *long-term investments* on the consolidated balance sheets. The change in fair value for AFS securities is recorded, net of taxes, as a component of *accumulated other comprehensive (loss)/income* on the consolidated balance sheets. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date.

Certain of the Company's investments in equity and other securities are long-term, strategic investments in companies that are in varied stages of development. The Company accounts for these investments under the cost or the equity method of accounting, as appropriate. The valuation of equity and other securities accounted for under the cost method considers all available financial information related to the investee, including valuations based on recent third-party equity investments in the investee. If an unrealized loss for any investment is considered to be other-than-temporary, the loss will be recognized in the consolidated statements of earnings in the period the determination is made. Equity securities accounted for under the equity method are initially recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss and dividends paid. Equity securities accounted for under both the cost and equity methods are reviewed quarterly for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable. See Note 5 for discussion of the gains and losses recognized on equity and other securities.

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. Uncollectible accounts are written-off against the allowance when it is deemed that a customer account is uncollectible. The allowance for doubtful accounts was $61 million at April 24, 2009 and $99 million at April 25, 2008.

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

(in millions)	April 24, 2009	April 25, 2008
Finished goods	$ 854	$ 784
Work in process	251	250
Raw materials	321	246
Total	$ 1,426	$ 1,280

Property, Plant and Equipment Property, plant and equipment is stated at cost. Additions and improvements that extend the lives of the assets are capitalized while expenditures for repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the various assets. Property, plant and equipment balances and corresponding lives are as follows:

(in millions)	April 24, 2009	April 25, 2008	Lives (in years)
Land and land improvements	$ 124	$ 123	Up to 20
Buildings and leasehold improvements	1,296	1,240	Up to 40
Equipment	3,144	3,066	3-7
Construction in progress	323	314	—
Subtotal	4,887	4,743	
Less: Accumulated depreciation	(2,608)	(2,522)	
Property, plant and equipment, net	$ 2,279	$ 2,221	

Depreciation expense of $418 million, $417 million and $401 million was recognized in fiscal years 2009, 2008 and 2007, respectively.

Goodwill Goodwill is the excess of purchase price of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets,” goodwill is not amortized. Goodwill is tested for impairment annually and when an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. An impairment loss is recognized when the carrying amount of the reporting unit’s net assets exceeds the estimated fair value of the reporting unit. The estimated fair value is determined using a discounted future cash flows analysis. The Company completed its annual goodwill impairment test in the third quarter of fiscal years 2009, 2008 and 2007 and determined that no goodwill was impaired.

Intangible Assets Intangible assets include patents, trademarks and purchased technology. Intangible assets with a definite life are amortized on a straight-line or accelerated basis, as appropriate, with estimated useful lives ranging from 3 to 20 years. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. Impairment is calculated as the excess of the asset’s carrying value over its fair value. Fair value is generally determined using a discounted future cash flows analysis. As of April 24, 2009, all of the Company’s intangible assets are definite lived and amortized on a straight-line basis.

Warranty Obligation The Company offers a warranty on various products. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the product is sold. Factors that affect the Company’s warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The amount of the reserve recorded is equal to the costs to repair or otherwise satisfy the claim. The Company includes the covered costs associated with field actions, if any, in warranty expense.

Changes in the Company's product warranty obligations during the years ended April 24, 2009 and April 25, 2008 consisted of the following:

(in millions)		
Balance April 27, 2007	$	34
Warranty claims provision		22
Settlements made		(13)
Balance April 25, 2008	$	43
Warranty claims provision		23
Settlements made		(31)
Balance April 24, 2009	$	35

Self-Insurance It is the Company's policy to self-insure the vast majority of its insurable risks including medical and dental costs, disability coverage, physical loss to property, business interruptions, workers' compensation, comprehensive general, director and officer and product liability. Insurance coverage is obtained for those risks required to be insured by law or contract. A provision for losses under the self-insured program is recorded and revised quarterly. The Company uses claims data and historical experience, as applicable, to estimate liabilities associated with the exposures that the Company has self-insured. Based on historical loss trends, the Company believes that its self-insurance program accruals are adequate to cover future losses. Historical trends, however, may not be indicative of future losses. These losses could have a material adverse impact on the Company's consolidated financial statements.

Retirement Benefit Plan Assumptions The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), post-retirement medical plans (post-retirement benefits), defined contribution savings plans and termination indemnity plans, covering substantially all U.S. employees and many employees outside the U.S. Pension benefit plan costs include assumptions for the discount rate, retirement age, compensation rate increases and the expected return on plan assets. Post-retirement medical plan costs include assumptions for the discount rate, retirement age, expected return on plan assets and healthcare cost trend rate assumptions.

The Company evaluates the discount rate, retirement age, compensation rate increases, expected return on plan assets and healthcare cost trend rates of its pension benefit and post-retirement medical plans annually. In evaluating these assumptions, many factors are considered, including an evaluation of assumptions made by other companies, historical assumptions compared to actual results, current market conditions, asset allocations and the views of leading financial advisors and economists. In evaluating the expected retirement age assumption, the Company considers the retirement ages of past employees eligible for pension and medical benefits together with expectations of future retirement ages.

It is reasonably possible that changes in these assumptions will occur in the near term and, due to the uncertainties inherent in setting assumptions, the effect of such changes could be material to the Company's consolidated financial statements. Refer to Note 14 for additional information regarding the Company's retirement benefit plans.

Revenue Recognition The Company sells its products primarily through a direct sales force in the U.S. and a combination of direct sales representatives and independent distributors in international markets. The Company recognizes revenue when title to the goods and risk of loss transfers to customers, provided there are no material remaining performance obligations required of the Company or any matters requiring customer acceptance. In cases where the Company utilizes distributors or ships product directly to the end user, it recognizes revenue upon shipment provided all revenue recognition criteria have been met. A portion of the Company's revenue is generated from inventory maintained at hospitals or with field representatives. For these products, revenue is recognized at the time that the product has been used or implanted. 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 expensed when incurred. Research and development costs include costs of all basic research activities as well as other research, engineering and technical effort required to develop a new product or service or make significant improvement to an existing product or manufacturing process. Research and development costs also include pre-approval regulatory and clinical trial expenses.

IPR&D When the Company acquires another entity, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, net tangible assets and goodwill. The Company's policy defines IPR&D as the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the portion of the purchase price allocated to IPR&D requires the Company to make significant estimates. The amount of the purchase price allocated to IPR&D is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of acquisition in accordance with accepted valuation methods. These methodologies include consideration of the risk of the project not achieving commercial feasibility.

Other Expense, Net Other expense, net includes intellectual property amortization expense, royalty income and expense, realized equity security gains and losses, realized foreign currency transaction and derivative gains and losses and impairment charges on equity securities.

Stock-Based Compensation The Company's compensation programs include share-based payments. All awards under share-based payment programs are accounted for at fair value and these fair values are generally amortized on a straight-line basis over the vesting terms into *cost of products sold*, *research and development expense* and *selling, general and administrative expense* in the consolidated statement of earnings, as appropriate. Refer to Note 12 for additional information.

Foreign Currency Translation Assets and liabilities are translated to U.S. dollars at period-end exchange rates, and the resulting gains and losses arising from the translation of net assets located outside the U.S. are recorded as a cumulative translation adjustment, a component of *accumulated other comprehensive (loss)/income* on the consolidated balance sheets. Elements of the consolidated statements of earnings are translated at average exchange rates in effect during the period and foreign currency transaction gains and losses are included in *other expense, net* in the consolidated statements of earnings.

Comprehensive Income and Accumulated Other Comprehensive (Loss)/Income In addition to net earnings, comprehensive income includes changes in foreign currency translation adjustments (including the change in current exchange rates, or spot rates, of net investment hedges), unrealized gains and losses on foreign exchange derivative contracts qualifying and designated as cash flow hedges, net changes in retirement obligation funded status and unrealized gains and losses on AFS marketable securities. Comprehensive income in fiscal years 2009, 2008 and 2007 was $2.252 billion, $2.024 billion and $2.794 billion, respectively.

Presented below is a summary of activity for each component of *accumulated other comprehensive (loss)/income* for fiscal years 2009, 2008 and 2007:

(in millions)	Unrealized Gain/(Loss) on Investments	Cumulative Translation Adjustments	Net Change in Retirement Obligations	Unrealized Gain/(Loss) on Foreign Exchange Derivatives	Accumulated Other Comprehensive Income/(Loss)
Balance April 28, 2006	$ (14)	$ 177	$ (24)	$ 15	$ 155
Other comprehensive (loss)/income	20	18	24	(70)	(8)
Adoption of SFAS No. 158	—	—	(209)	—	(209)
Balance April 27, 2007	$ 6	$ 195	$ (209)	$ (55)	$ (62)
Other comprehensive (loss)/income	(47)	14	37	(211)	(207)
Adjustment to deferred tax benefit recorded on adoption of SFAS No. 158	—	—	(17)	—	(17)
Balance April 25, 2008	$ (41)	$ 209	$ (189)	$ (266)	$ (286)
Other comprehensive (loss)/income	(54)	(147)	(210)	494	83
Adjustment for change in plan measurement date pursuant to SFAS No. 158	—	—	1	—	1
Balance April 24, 2009	$ (95)	$ 62	$ (398)	$ 228	$ (202)

Translation adjustments are not adjusted for income taxes as substantially all translation adjustments relate to permanent investments in non-U.S. subsidiaries. The tax expense/(benefit) on the unrealized gain/(loss) on foreign exchange derivatives in fiscal years 2009, 2008 and 2007 was $320 million, $(132) million and $(38) million, respectively. The minimum pension liability was eliminated at the end of fiscal year 2007 as a result of the Company's adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS No. 158). The tax benefit related to SFAS No. 158 was $109 million, $17 million and $92 million in fiscal years 2009, 2008 and 2007, respectively. The Company adopted the new measurement date provisions of SFAS No. 158 in the fourth quarter of fiscal year 2009 which resulted in a one-time adjustment to retained earnings and accumulated other comprehensive income in that period. The tax expense on the adjustment to other comprehensive income for the change in measurement date was less than $1 million. The tax expense/(benefit) on the unrealized gain/(loss) on investments in fiscal years 2009, 2008 and 2007 was $(33) million, $(26) million and $11 million, respectively.

Derivatives SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS No. 133) as amended, requires companies to recognize all derivatives as assets and liabilities on the balance sheet and to measure the instruments at fair value through earnings unless the derivative qualifies as a hedge. If the derivative is a hedge, depending on the nature of the hedge and hedge effectiveness, changes in the fair value of the derivative will either be recorded currently through earnings or recognized in *accumulated other comprehensive (loss)/income* on the consolidated balance sheets until the hedged item is recognized in earnings upon settlement/termination. The changes in the fair value of the derivative will offset the change in fair value of the hedged asset, liability, net investment or probable commitment. The Company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings.

The Company uses derivative instruments, primarily forward exchange contracts, to manage its exposure related to foreign exchange rate changes. The Company enters into contracts with major financial institutions that change in value as foreign exchange rates change. These contracts are designated either as cash flow hedges, net investment hedges or freestanding derivatives. It is the Company's policy to enter into forward exchange derivative contracts only to the extent true exposures exist; the Company does not enter into forward exchange derivative contracts for speculative purposes. Principal currencies hedged are the Euro and the Japanese Yen. All derivative instruments are recorded at fair value on the consolidated balance sheets, as a component of *prepaid expenses and other current assets, other long-term assets, other accrued expenses* or *other long-term liabilities* depending upon the gain or loss position of the contract and contract maturity date.

Forward contracts designated as cash flow hedges are designed to hedge the variability of cash flows associated with forecasted transactions denominated in a foreign currency that will take place in the future. Changes in value of derivatives designated as cash flow hedges are recorded in *accumulated other comprehensive (loss)/income* on the consolidated balance sheets until earnings are affected by the variability of the underlying cash flows. At that time, the applicable amount of gain or loss from the derivative instrument, that is deferred in shareholders' equity, is reclassified to earnings and is included in *other expense, net* or *cost of products sold* in the consolidated statements of earnings, depending on the underlying transaction that is being hedged.

The purpose of net investment hedges is to hedge the long-term investment (equity) in foreign operations. The gains and losses related to the change in the forward exchange rates of the net investment hedges are recorded currently in earnings as *other expense, net.* The gains and losses based on changes in the current exchange rates, or spot rates, are recorded as a cumulative translation adjustment, a component of *accumulated other comprehensive (loss)/income* on the consolidated balance sheets.

The Company uses forward exchange contracts to offset its exposure to the change in value of certain foreign currency denominated intercompany assets and liabilities. These forward exchange contracts are not designated as hedges, and therefore, changes in the value of these freestanding derivatives are recognized currently in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities.

In addition, the Company uses interest rate derivative instruments to manage its exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. The objective of the instruments is to more effectively balance the Company's borrowing costs and interest rate risk. These derivative instruments are designated as fair value hedges under SFAS No. 133. Changes in the fair value of the derivative instrument are recorded in *other expense, net,* and are offset by gains or losses on the underlying debt instrument. Interest expense includes interest payments made or received under interest rate derivative instruments.

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

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

(in millions, except per share data)	Fiscal Year 2009	2008	2007
Numerator:			
Net earnings	$ 2,169	$ 2,231	$ 2,802
Denominator:			
Basic – weighted average shares outstanding	1,117.8	1,130.7	1,149.7
Effect of dilutive securities:			
Employee stock options	2.4	9.7	9.9
Employee restricted stock and restricted stock units	3.0	0.9	1.0
Other	0.8	0.8	1.2
Diluted – weighted average shares outstanding	1,124.0	1,142.1	1,161.8
Basic earnings per share	$ 1.94	$ 1.97	$ 2.44
Diluted earnings per share	$ 1.93	$ 1.95	$ 2.41

The calculation of weighted average diluted shares outstanding excludes options for approximately 62 million, 22 million and 35 million common shares in fiscal years 2009, 2008 and 2007, respectively, as the exercise price of those options was greater than the average market price, resulting in an anti-dilutive effect on diluted earnings per share.

New Accounting Standards

Effective April 26, 2008, the Company adopted the required provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, except for the measurement of share-based payments. SFAS No. 157 does not expand the use of fair value in any new circumstances. For certain types of financial instruments, SFAS No. 157 required a limited form of retrospective transition, whereby the cumulative impact of the change in principle is recognized in the opening balance in retained earnings in the fiscal year of adoption. All other provisions of SFAS No. 157 will be applied prospectively. On February 12, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, "Effective Date of FASB Statement No. 157" (FSP FAS No. 157-2). FSP FAS No. 157-2 defers the implementation of SFAS No. 157 for certain nonfinancial assets and nonfinancial liabilities. Accordingly, the Company adopted the required provisions of SFAS No. 157 at the beginning of fiscal year 2009 and the remaining provisions will be adopted by the Company at the beginning of fiscal year 2010. The fiscal year 2009 adoption did not result in a material impact to the Company's financial statements (see Note 6). The adoption of the remaining parts of SFAS No. 157 in fiscal year 2010 in accordance with FSP FAS No. 157-2 is not expected to be material to the consolidated financial statements.

Additionally, in April 2009, the FASB issued FSP SFAS No. 157-4, "Determining Fair Value When the Volume and Level and Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP SFAS No. 157-4). FSP SFAS No. 157-4 provides guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability (or similar assets or liabilities) and for identifying circumstances that indicate a transaction is not orderly. Additionally, FSP SFAS No. 157-4 amends SFAS No. 157 to require disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value. FSP SFAS No. 157-4 is effective for the Company beginning in the first quarter of fiscal year 2010 and is required to be applied prospectively. The Company is currently evaluating the impact that FSP SFAS No. 157-4 will have on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, "Business Combinations." SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interests in the acquiree and the goodwill acquired. Some of the key changes under SFAS No. 141(R) will impact the accounting treatment for certain acquisition related items including: (1) accounting for IPR&D as an indefinite-lived intangible asset until approved or discontinued rather than as an immediate expense; (2) expensing acquisition costs rather than adding them to the cost of an acquisition; (3) expensing restructuring costs in connection with an acquisition rather than adding them to the cost of an acquisition; and (4) including the fair value of contingent consideration at the date of an acquisition in the cost of an acquisition. SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) will be effective for the Company beginning fiscal year 2010 and must be applied prospectively to all new acquisitions closing on or after April 25, 2009. SFAS No. 141(R) is expected to have a material impact on how the Company will identify, negotiate and value future acquisitions and a material impact on how an acquisition will affect the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS No. 160). SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity as compared to a liability today. This new consolidation method will significantly change the accounting for partial and/or step acquisitions. SFAS No. 160 will be effective for the Company in the first quarter of fiscal year 2010. The adoption of SFAS No. 160 will not have a material impact to the Company's consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (FSP APB 14-1). FSP APB 14-1 requires the proceeds from the issuance of such convertible debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The change in accounting treatment is effective for the Company beginning in fiscal year 2010, and will be applied retrospectively to prior periods. FSP APB 14-1 changes the accounting treatment for the Company's $2.200 billion of 1.500 percent and $2.200 billion of 1.625 percent Senior Convertible Notes due in 2011 and 2013, respectively, which were issued in April 2006, and the $15 million remaining balance of the Company's Contingent Convertible Debentures due 2021. Based on the Company's evaluation, upon adoption of FSP APB 14-1 in fiscal year 2010, the convertible debt liability will decrease by approximately $520 million and 2009 and 2010 interest expense for the convertible debt will increase by approximately $154 million and $167 million, respectively. Using diluted weighted average shares outstanding for the twelve months ended April 24, 2009, the impact to diluted earnings per share is a decrease of $0.09 for fiscal year 2009. Using an estimate of diluted weighted average shares outstanding, the Company estimates the impact to diluted earnings per share is a decrease of $0.10 for fiscal year 2010.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF No. 03-6-1). FSP EITF No. 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FSP EITF No. 03-6-1 is effective for the Company beginning in the first quarter of fiscal year 2010. Upon adoption, all prior-period EPS data is required to be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform with the provisions of FSP EITF No. 03-6-1. The Company calculated that FSP EITF No. 03-6-1 will not have a material impact to diluted earnings per share for the fiscal year ended April 24, 2009.

In November 2008, the FASB ratified EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" (EITF No. 08-6). EITF No. 08-6 applies to all investments accounted for under the equity method and clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF No. 08-6 is effective for the Company beginning in the first quarter of fiscal year 2010. The adoption of EITF No. 08-6 will not be material to the consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets" (EITF No. 08-7). EITF No. 08-7 applies to defensive intangible assets, which are acquired intangible assets that an entity does not intend to actively use but does intend to prevent others from obtaining access to the asset. EITF No. 08-7 requires an entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of an entity's existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with SFAS No. 141(R) and SFAS No. 157. EITF No. 08-7 is effective for intangible assets acquired by the Company beginning in the first quarter of fiscal year 2010. The adoption of EITF No. 08-7 is not expected to be material to the consolidated financial statements.

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets" (FSP SFAS No. 132(R)-1). FSP SFAS No. 132(R)-1 requires increased disclosures about an entity's postretirement benefit plan assets. Specifically, FSP SFAS No. 132(R)-1 requires an entity to disclose information regarding its investment policies and strategies, its categories of plan assets, its fair value measurements of plan assets and any significant concentrations of risk in plan assets. FSP SFAS No. 132(R)-1 is effective for the Company beginning in the first quarter of fiscal year 2010 but only requires the revised disclosures on a prospective basis. The Company will provide the additional disclosures necessary to the consolidated financial statements beginning in the Company's fourth quarter of fiscal year 2010.

In April 2009, the FASB issued FSP SFAS No. 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (FSP SFAS No. 141(R)-1). FSP SFAS No. 141(R)-1 amends and clarifies the initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS No. 141(R). FSP SFAS No. 141(R)-1 is effective for the Company beginning fiscal year 2010 and must be applied to assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after April 25, 2009. The adoption of FSP SFAS No. 141(R)-1 will not be material to the consolidated financial statements.

In April 2009, the FASB issued FSP SFAS No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (FSP SFAS No. 107-1 and APB 28-1). FSP SFAS No. 107-1 and APB 28-1 requires disclosures about fair value of financial instruments for interim period reporting as well as in annual financial statements. Additionally, this FSP requires disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. FSP SFAS No. 107-1 and APB 28-1 is effective for the Company beginning in the first quarter of fiscal year 2010 but only requires the revised disclosures on a prospective basis. The Company will provide the additional disclosures necessary to the consolidated financial statements beginning in the Company's first quarter of fiscal year 2010.

In April 2009, the FASB issued FSP SFAS No. 115-2 and SFAS No. 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP SFAS Nos. 115-2 and 124-2). FSP SFAS Nos. 115-2 and 124-2 amends the other-than-temporary guidance for debt securities and requires additional interim and annual disclosures of other-than-temporary impairments on debt and equity securities. Under FSP SFAS Nos. 115-2 and 124-2, an other-than-temporary impairment of a debt security shall be considered to have occurred if an entity (1) intends to sell the debt security, (2) more likely than not will be required to sell the security before recovery of its amortized cost basis or (3) does not expect to recover the entire amortized cost basis of the security even if it does not intend to sell the security. Once it is determined that an other-than-temporary impairment has occurred, FSP SFAS Nos. 115-2 and 124-2 provides guidance on when to recognize the other-than-temporary impairment in earnings or in other comprehensive income. Depending on which of the above factor(s) causes the impairment to be considered other-than-temporary, (1) the entire shortfall of the security's fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. FSP SFAS Nos. 115-2 and 124-2 is effective for the Company beginning in the first quarter of fiscal year 2010 and is required to be applied retrospectively to existing investments with a cumulative adjustment to retained earnings and prospectively to new investments purchased after the effective date. The Company is currently evaluating the impact that FSP SFAS Nos. 115-2 and 124-2 will have on the consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS No. 165). SFAS No. 165 requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, SFAS No. 165 requires an entity to disclose the date through which subsequent events have been evaluated. SFAS No. 165 is effective for the Company beginning in the first quarter of fiscal year 2010 and is required to be applied prospectively. The adoption of SFAS No. 165 will not be material to the consolidated financial statements.

2. Special and Certain Litigation Charges

Special Charges

In fiscal year 2009, consistent with the Company's commitment to improving the health of people and communities throughout the world, the Company recorded a $100 million contribution to The Medtronic Foundation, which is a related party non-profit organization. The contribution to The Medtronic Foundation was paid in the fourth quarter of fiscal year 2009.

In fiscal year 2008, the Company recorded a special charge of $78 million related to the impairment of intangible assets associated with its benign prostatic hyperplasia, or enlarged prostate, product line purchased in fiscal year 2002. The development of the market, relative to the Company's original assumptions, has changed as a result of the broad acceptance of a new line of drugs to treat the symptoms of an enlarged prostate. After analyzing the estimated future cash flows utilizing this technology, based on the market development, the Company determined that the carrying value of these intangible assets was impaired and a write-down was necessary.

In fiscal year 2007, the Company concluded two intangible assets were fully impaired due to inadequate clinical results and the resulting delays in product development. As a result, the Company recorded a $98 million special charge related to the impairments of intangible assets stemming from the July 1, 2005 acquisition of Transneuronix, Inc. (TNI) and the November 1, 2004 acquisition of Angiolink Corporation (Angiolink). TNI focused on the development of an implantable gastric stimulator to treat obesity. Angiolink focused on the development of wound closure devices for vascular procedures.

Certain Litigation Charges

The Company classifies material litigation reserves recognized as certain litigation charges. In fiscal year 2009, the Company incurred four certain litigation charges totaling $714 million. The first charge in the amount of $178 million relates to litigation with DePuy Spine (formerly DePuy/AcroMed), a subsidiary of J&J, and Biedermann Motech GmbH (collectively, DePuy) regarding patent infringement claims stemming from the Vertex line of multiaxial screws. On June 1, 2009, the U.S. Court of Appeals for the Federal Circuit affirmed the December 2007 ruling of infringement and awarded damages based on lost profits, but reversed certain elements of the original 2007 award. Prior to the U.S. Court of Appeals' decision, the Company had not recorded expense related to the damages awarded in 2007 as the Company did not believe that an unfavorable outcome in this matter was probable under SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5). As a result of the U.S. Court of Appeals' decision, the Company has now recorded a reserve of $178 million which is expected to cover the revised damages award and pre- and post-judgment interest. Since the DePuy litigation originated prior to April 24, 2009, the Company has appropriately recognized this charge in the consolidated financial statements for the fiscal year ended April 24, 2009. See Note 16 for additional information.

The second charge in the amount of $270 million relates to a settlement of royalty disputes with Johnson & Johnson (J&J) which concern Medtronic's licensed use of certain patents. The agreement reached in the fourth quarter of fiscal year 2009 ended all current and potential disputes between the two parties under their 1997 settlement and license agreement relating to coronary angioplasty stent design and balloon material patents. The Company paid the settlement in May 2009. See Note 16 for additional information.

The third charge in the amount of $229 million relates to litigation with Cordis Corporation (Cordis), a subsidiary of J&J. The Cordis litigation originated in October 1997 and pertains to patent infringement claims on previous generations of bare metal stents that are no longer on the market. On September 30, 2008, the U.S. District Court entered final judgment including accrued interest, totaling approximately $521 million, to Cordis. The Company had previously recorded a charge of $243 million related to this litigation in the third quarter of fiscal year 2008. At the time the $243 million charge was recorded, the range of potential loss related to this matter was subject to a high degree of estimation. The amount recorded represented an estimate of the low end of the range of probable outcomes related to the matter. Given that the Company and J&J were involved in a number of litigation matters which span across businesses, the Company entered into negotiations with J&J in an attempt to settle some of the additional litigation simultaneous with the payment of this judgment. Ultimately, the agreement reached with Cordis required a total cash payment of $472 million, which included the settlement of several outstanding legal matters between the parties. The charge of $229 million in fiscal year 2009 is the net result of $472 million in cash payments, offset by the existing reserves on the balance sheet including interest accrued on the $243 million since the date established. As of April 24, 2009, the settlement amount of $472 million was paid.

The fourth charge recognized in fiscal year 2009 relates to litigation that originated in May 2006 with Fastenetix LLC (Fastenetix), a patent holding company. The litigation related to an alleged breach of a royalty agreement in the Spinal business. The agreement reached with Fastenetix required total cash payment of $125 million for the settlement of ongoing litigation and the purchase of patents. Of the $125 million, $37 million was assigned to past damages in the case and the remaining $88 million was recorded as purchased intellectual property that has an estimated useful life of 7 years. As of April 24, 2009, the settlement amount of $125 million was paid.

In fiscal year 2008, the Company incurred certain litigation charges of $366 million. Of that amount, $123 million related to the settlement of certain lawsuits relating to the Marquis line of implantable cardioverter defibrillators (ICDs) and cardiac resynchronization therapy-defibrillators (CRT-Ds) that were subject to a field action announced on February 10, 2005. As discussed above, the remainder of the charge, $243 million, relates to an estimated reserve established for litigation with Cordis. In May 2008, the Company paid substantially all of the settlement for certain lawsuits relating to the Marquis line of ICDs and CRT-Ds. See Note 16 for additional information.

In fiscal year 2007, the Company recorded a certain litigation charge of $40 million related to a settlement agreement with the U.S. Department of Justice which requires the government to obtain dismissal of the two qui tam civil suits and is conditioned upon such dismissal being obtained. To resolve the matter, Medtronic has entered into a five-year corporate integrity agreement effective upon dismissal of the two suits that further strengthens its employee training and compliance systems surrounding sales and marketing practices. The settlement agreement also reflects Medtronic's assertion that the Company and its current employees have not engaged in any wrongdoing or illegal activity. The settlement amount was paid in May 2009.

3. Restructuring Charges

Fiscal Year 2009 Initiative

In the fourth quarter of fiscal year 2009, the Company recorded a $34 million restructuring charge, which consisted of employee termination costs of $29 million and asset write-downs of $5 million. As part of the Company's "One Medtronic" strategy, the Company continues to pursue opportunities to streamline the organization and standardize or centralize certain functional activities which are not unique to individual businesses. In connection with these efforts to create "One Medtronic," this initiative is designed to streamline operations, by further consolidating manufacturing and eliminating certain non-core product lines, and to further align resources around the Company's higher growth opportunities. This initiative impacts most businesses and certain corporate functions. Of the $5 million of asset write-downs, $3 million relates to inventory write-offs and production-related asset impairments and therefore was recorded within *cost of products sold* in the consolidated statement of earnings. The employee termination costs of $29 million consist of severance and the associated costs of continued medical benefits and outplacement services.

The fiscal year 2009 initiative will result in charges being recognized in both the fourth quarter of fiscal year 2009 and the first quarter of fiscal year 2010, and the Company expects that when complete, will eliminate approximately 1,500 – 1,800 positions.

Of the 1,500 – 1,800 positions that will be eliminated as part of this initiative, approximately 975 were identified for elimination in the fourth quarter of fiscal year 2009 and will be achieved through early retirement packages offered to employees, voluntary separation and involuntary separation. Of these 975 positions, approximately 280 positions have been eliminated as of April 24, 2009. The restructuring initiatives are scheduled to be substantially complete by the end of fiscal year 2010.

A summary of the activity related to the fiscal year 2009 initiative is presented below:

	Fiscal Year 2009 Initiative		
(in millions)	Employee Termination Costs	Asset Write-downs	Total
Balance April 25, 2008	$ —	$ —	$ —
Restructuring charges	29	5	34
Payments/write-downs	(1)	(5)	(6)
Balance April 24, 2009	$ 28	$ —	$ 28

Global Realignment Initiative

In fiscal year 2008, as part of a global realignment initiative, the Company recorded a $31 million restructuring charge, which consisted of employee termination costs of $27 million and asset write-downs of $4 million. This initiative began in the fourth quarter of fiscal year 2008 and focuses on shifting resources to those areas where the Company has the greatest opportunities for growth and streamlining operations to drive operating leverage. The global realignment initiative impacts most businesses and certain corporate functions. Within the Company's Cardiac Rhythm Disease Management (CRDM) business, the Company reduced research and development infrastructure by closing a facility outside the U.S., reprioritizing research and development projects to focus on the core business and consolidating manufacturing operations to drive operating leverage. Within Spinal, the Company reorganized and consolidated certain activities where Medtronic's existing infrastructure, resources and systems could be leveraged to obtain greater operational synergies. The global realignment initiative was also designed to further consolidate manufacturing of CardioVascular products, streamline distribution of products in select businesses and to reduce general and administrative costs in the Company's corporate functions. The asset write-downs were recorded within *cost of products sold* in the consolidated statement of earnings. The employee termination costs of $27 million consist of severance and the associated costs of continued medical benefits and outplacement services.

As a continuation of the global realignment initiative that began in fiscal year 2008, in the first quarter of fiscal year 2009 the Company incurred $96 million of incremental restructuring charges, which consisted of employee termination costs of $91 million and asset write-downs of $5 million. The majority of the expense recognized in the first quarter of fiscal year 2009 was related to the execution of the Company's global realignment initiative outside the U.S. This included the realignment and elimination of personnel throughout Europe and the Emerging Markets and the closure of an existing facility in the Netherlands that has been integrated into the U.S. operations. The remainder of the expense was associated with enhanced severance benefits provided to employees identified in the fourth quarter of fiscal year 2008. These incremental costs were not accrued in fiscal year 2008 because the enhanced benefits had not yet been communicated to the impacted employees.

In the fourth quarter of fiscal year 2009, the Company recorded a $7 million reversal of excess reserves related to the global realignment initiative. This reversal is primarily a result of favorable severance negotiations with certain employee populations outside the U.S. as well as a higher than expected percentage of employees identified for elimination finding positions elsewhere within the Company.

As of the end of the first quarter of fiscal year 2009, the Company had identified approximately 900 positions for elimination which were to be achieved through both voluntary and involuntary separation. Of the 900 positions identified, approximately 740 have been eliminated as of April 24, 2009. The restructuring initiatives are scheduled to be substantially complete by the end of the first quarter of fiscal year 2010.

A summary of the activity related to the global realignment initiative is presented below:

	Global Realignment Initiative		
(in millions)	Employee Termination Costs	Asset Write-downs	Total
Balance April 27, 2007	$ —	$ —	$ —
Restructuring charges	27	4	31
Payments/write-downs	(2)	(4)	(6)
Balance April 25, 2008	$ 25	$ —	$ 25
Restructuring charges	91	5	96
Reversal of excess accrual	(7)	—	(7)
Payments/write-downs	(89)	(5)	(94)
Currency adjustment, net	(5)	—	(5)
Balance April 24, 2009	$ 15	$ —	$ 15

Fiscal Year 2007 Initiative

In the fourth quarter of fiscal year 2007, the Company recorded a $36 million restructuring charge, which consisted of employee termination costs of $28 million and asset write-downs of $8 million. These initiatives were designed to drive manufacturing efficiencies in the Company's CardioVascular business, downsize the Physio-Control business due to the Company's voluntary suspension of U.S. shipments and rebalance resources within the CRDM business in response to market dynamics. The employee termination costs consist of severance and the associated costs of continued medical benefits, and outplacement services. The asset write-downs consisted of a $5 million charge for inventory write-downs and a $3 million charge for non-inventory asset write-downs. The inventory and non-inventory asset write-downs were recorded within *cost of products sold* in the consolidated statement of earnings.

As a continuation of the fiscal year 2007 initiative, in the first quarter of fiscal year 2008 the Company incurred $14 million of incremental restructuring charges associated with compensation provided to employees whose employment terminated with the Company in the first quarter of fiscal year 2008. These incremental costs were not accrued in fiscal year 2007 because these benefits had not yet been communicated to the impacted employees. Included in the total $14 million restructuring charge is $4 million of incremental defined benefit pension and post-retirement related expense for those employees who accepted early retirement packages. These costs are not included in the table summarizing restructuring costs below because they are associated with costs that are accounted for under the pension and postretirement rules. For further discussion on the incremental defined benefit pension and post-retirement related expense, see Note 14.

When the restructuring initiative began in fiscal year 2007, the Company identified approximately 900 positions for elimination which were achieved through early retirement packages offered to employees, voluntary separation and involuntary separation, as necessary. As of April 25, 2008, the initiatives begun in the fourth quarter of fiscal year 2007 were substantially complete.

A summary of the activity related to the fiscal year 2007 initiative is presented below:

	Fiscal Year 2007 Initiative		
(in millions)	**Employee Termination Costs**	**Asset Write-downs**	**Total**
Balance April 28, 2006	$ —	$ —	$ —
Restructuring charges	28	8	36
Payments/write-downs	(5)	(8)	(13)
Balance April 27, 2007	$ 23	$ —	$ 23
Restructuring charges	10	—	10
Payments	(33)	—	(33)
Balance April 25, 2008	$ —	$ —	$ —

4. Acquisitions and IPR&D Charges

When the Company acquires another company or a group of assets, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, net tangible assets and goodwill as required by U.S. GAAP. Goodwill represents the excess of the aggregate purchase price over the fair value of net assets, including IPR&D, of acquired businesses. The values assigned to IPR&D and other identifiable intangible assets are based on valuations that have been prepared using methodologies and valuation techniques consistent with those used by independent appraisers. These techniques include estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values utilizing an appropriate risk-adjusted rate of return (discount rate). The discount rate used is determined at the time of the acquisition in accordance with accepted valuation methods. For IPR&D, these methodologies include consideration of the risk of the project not achieving commercial feasibility and include a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

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 products 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, delay or failure to obtain required market clearances, and patent issuance, validity and litigation, if any. If commercial viability were not achieved, the Company would likely look to other alternatives to provide these therapies.

Fiscal Year 2009

CoreValve, Inc.

In April 2009, the Company acquired privately held CoreValve Inc. (CoreValve). Under the terms of the agreement announced in February 2009, the transaction included an initial up-front payment, including direct acquisition costs, of $700 million plus potential additional payments contingent upon achievement of certain clinical and revenue milestones. CoreValve develops percutaneous, catheter-based transfemoral aortic valve replacement products that are approved in certain markets outside the U.S.

The Company has accounted for the acquisition of CoreValve as a business combination. Under business combination accounting, the assets and liabilities of CoreValve were recorded as of the acquisition date, at their respective fair values, and consolidated with the Company. The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed. The preliminary purchase price has been allocated as follows:

(in millions)	
Current assets	$ 20
Property, plant and equipment	7
IPR&D	123
Other intangible assets	291
Goodwill	433
Total assets acquired	874
Current liabilities	66
Long-term deferred tax liabilities	108
Total liabilities assumed	174
Net assets acquired	$ 700

In connection with the acquisition of CoreValve, the Company acquired $291 million of technology-based intangible assets with an estimated useful life of 12 years. Also as part of the acquisition, the Company recognized, in total, $123 million and $433 million for IPR&D and goodwill, respectively. The IPR&D was expensed on the date of acquisition and primarily relates to the future launch of CoreValve's catheter-based transfemoral aortic valve into the U.S. market. For purposes of valuing the acquired IPR&D, the Company estimated total costs to complete of approximately $80 million. The establishment of goodwill was primarily due to the expected revenue growth that is attributable to increased market penetration from future products and customers. The goodwill is not deductible for tax purposes.

In conjunction with the acquisition, the Company began to assess and formulate a plan for the elimination of duplicative positions and the termination of certain contractual obligations. The purchase accounting liabilities recorded in connection with these activities were approximately $39 million and are included as current liabilities in the purchase price allocation. The Company continues to assess these liabilities and until the plan is finalized and the integration activities are complete, the allocation of the purchase price is subject to adjustment.

Ablation Frontiers, Inc.

In February 2009, the Company acquired privately held Ablation Frontiers, Inc. (Ablation Frontiers). Under the terms of the agreement announced in January 2009, the transaction included an initial up-front payment of $225 million plus potential additional payments contingent upon achievement of certain clinical and revenue milestones. Total consideration for the transaction was approximately $235 million including the assumption and settlement of existing Ablation Frontiers debt and payment of direct acquisition costs. Ablation Frontiers develops radiofrequency (RF) ablation solutions for treatment of atrial fibrillation. Ablation Frontiers' system of ablation catheters and RF generator is currently approved in certain markets outside the U.S.

The Company has accounted for the acquisition of Ablation Frontiers as a business combination. Under business combination accounting, the assets and liabilities of Ablation Frontiers were recorded as of the acquisition date, at their respective fair values, and consolidated with the Company. The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed. The purchase price has been allocated as follows:

(in millions)	
Current assets	$ 7
Property, plant and equipment	1
IPR&D	97
Other intangible assets	63
Goodwill	109
Total assets acquired	277
Current liabilities	19
Long-term deferred tax liabilities	23
Total liabilities assumed	42
Net assets acquired	$ 235

In connection with the acquisition of Ablation Frontiers, the Company acquired $63 million of technology-based intangible assets with an estimated useful life of 11 years. Also as part of the acquisition, the Company recognized, in total, $97 million and $109 million for IPR&D and goodwill, respectively. The IPR&D was expensed on the date of acquisition and primarily relates to the future launch of Ablation Frontiers' system of ablation catheters and RF generator into the U.S. market. For purposes of valuing the acquired IPR&D, the Company estimated total costs to complete of approximately $3 million. The establishment of goodwill was primarily due to the expected revenue growth that is attributable to increased market penetration from future products and customers. The goodwill is not deductible for tax purposes.

CryoCath Technologies Inc.

In November 2008, the Company acquired all of the outstanding stock of CryoCath Technologies Inc. (CryoCath). Under the terms of the agreement announced in September 2008, CryoCath shareholders received $8.75 Canadian dollars per share in cash for each share of CryoCath common stock that they owned. Total consideration for the transaction, net of cash acquired, was approximately $352 million U.S. dollars including the purchase of outstanding CryoCath common stock, the assumption and settlement of existing CryoCath debt and payment of direct acquisition costs. CryoCath develops cryotherapy products to treat cardiac arrhythmias. CryoCath's Arctic Front product is a minimally invasive cryo-balloon catheter designed specifically to treat atrial fibrillation and is currently approved in certain markets outside the U.S.

The Company has accounted for the acquisition of CryoCath as a business combination. Under business combination accounting, the assets and liabilities of CryoCath were recorded as of the acquisition date, at their respective fair values, and consolidated with the Company. The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed. The purchase price has been allocated as follows:

(in millions)	
Current assets	$ 24
Property, plant and equipment	2
IPR&D	72
Other intangible assets	57
Goodwill	179
Long-term deferred tax assets	61
Total assets acquired	395
Current liabilities	25
Long-term deferred tax liabilities	15
Total liabilities assumed	40
Net assets acquired	$ 355

In connection with the acquisition of CryoCath, the Company acquired $57 million of technology-based intangible assets with an estimated useful life of 11 years. Also as part of the acquisition, the Company recognized $72 million and $179 million for IPR&D and goodwill, respectively. The IPR&D was expensed on the date of acquisition and primarily relates to the future launch of Arctic Front into the U.S. market. For purposes of valuing the acquired IPR&D, the Company estimated total costs to complete of approximately $3 million. The establishment of goodwill was primarily due to the expected revenue growth that is attributable to increased market penetration from future products and customers. The goodwill is not deductible for tax purposes.

Restore Medical Acquisition

In July 2008, the Company acquired Restore Medical, Inc. (Restore). Restore's Pillar Palatal Implant System provides the Company with a minimally invasive, implantable medical device used to treat the soft palate component of sleep breathing disorders, including mild to moderate obstructive sleep apnea and snoring. The Company accounted for the acquisition as a business combination. Restore shareholders received $1.60 per share in cash for each share of Restore common stock they owned. Total consideration for the transaction, net of cash acquired, was approximately $29 million. In connection with the acquisition of Restore, the Company acquired $17 million of technology-based intangible assets with an estimated useful life of 10 years, $8 million of net tangible assets and $5 million of goodwill. The goodwill is not deductible for tax purposes.

The pro forma impact of the above acquisitions was not significant, individually or in the aggregate, to the results of the Company for the fiscal years ended April 24, 2009 and April 25, 2008. The results of operations related to each company have been included in the Company's consolidated statements of earnings since the date each company was acquired.

Other Acquisitions and IPR&D Charges

In February 2009, the Company recorded an IPR&D charge of $307 million related to the acquisition of privately held Ventor Technologies Ltd. (Ventor), a development stage company focused on transcatheter heart valve technologies for the treatment of aortic valve disease. This acquisition adds two technologies to the Company's transcatheter valve portfolio: a minimally invasive, surgical transapical technology and a next generation percutaneous, transfemoral technology. Total consideration for the transaction, net of cash acquired, was approximately $308 million. Of the $308 million, $307 million was expensed as IPR&D since technological feasibility of the underlying project had not yet been reached and such technology has no future alternative use and $1 million related to other net assets acquired.

During the second and fourth quarters of fiscal year 2009, the Company recorded IPR&D charges of $22 million related to the purchase of certain intellectual property for use in the Spinal and Diabetes businesses. These payments were expensed as IPR&D since technological feasibility of the underlying product had not yet been reached and such technology has no future alternative use.

Fiscal Year 2008

Kyphon Acquisition

In November 2007, the Company acquired Kyphon Inc. (Kyphon) and it became a wholly owned subsidiary of the Company. Kyphon develops and markets medical devices designed to restore and preserve spinal function using minimally invasive technology. Kyphon's primary products are used in balloon kyphoplasty for the treatment of spinal compression fractures caused by osteoporosis or cancer, and in the interspinous process decompression procedure for treating the symptoms of lumbar spinal stenosis. It is expected that the acquisition of Kyphon will add to the growth of the Company's existing Spinal business by extending its product offerings and enabling the Company to provide physicians with a broader range of therapies for use at all stages of the care continuum.

Under the terms of the agreement announced in July 2007, Kyphon shareholders received $71 per share in cash for each share of Kyphon common stock they owned. Total consideration for the transaction was approximately $4.203 billion, which includes payments to Kyphon shareholders for the cancellation of outstanding shares, the assumption and settlement of existing Kyphon debt and payment of direct acquisition costs. Total debt assumed relates to Kyphon's obligations under existing credit and term loan facilities and outstanding senior convertible notes. In addition, the total consideration includes the proceeds of unwinding the related convertible note hedges and cancellation and payment of the warrants to the hedge participants that were originally issued by Kyphon in February 2007. The transaction was financed through a combination of approximately $3.303 billion cash on hand, the issuance of $600 million short-term commercial paper and borrowing $300 million through a new long-term unsecured revolving credit facility.

The Company has accounted for the acquisition of Kyphon as a business combination. Under business combination accounting, the assets and liabilities of Kyphon were recorded as of the acquisition date, at their respective fair values, and consolidated with the Company. The breakdown of the purchase price of Kyphon is as follows:

(in millions)		
Cash acquisition of Kyphon outstanding common stock	$	3,300
Cash settlement of vested stock-based awards		218
Debt assumed and settled		570
Cash settlement of convertible debt warrants, net of proceeds from convertible note hedges		87
Direct acquisition costs		28
Total purchase price	$	4,203

The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed. The purchase price has been allocated as follows:

(in millions)		
Current assets	$	379
Property, plant and equipment		39
IPR&D		290
Other intangible assets		996
Goodwill		3,148
Other long-term assets		10
Total assets acquired		4,862
Current liabilities		344
Deferred tax liabilities		282
Other long-term liabilities		33
Total liabilities assumed		659
Net assets acquired	$	4,203

In connection with the acquisition, the Company acquired $996 million of intangible assets that had a weighted average useful life of approximately 10.5 years. The intangible assets include $887 million of technology-based assets and $109 million of tradenames with weighted average lives of 10.5 years and 11 years, respectively. Also as part of the acquisition, the Company recognized, in total, $290 million and $3.148 billion for IPR&D and goodwill, respectively. The IPR&D was expensed on the date of acquisition. Various factors contributed to the establishment of goodwill, including: the benefit of adding existing products of the Company to the portfolio of products already sold by Kyphon sales representatives; the value of Kyphon's highly trained assembled workforce; and the expected revenue growth that is attributable to expanded indications and increased market penetration from future products and customers. The goodwill is not deductible for tax purposes.

The $290 million IPR&D charge primarily relates to three projects: 1) future launch of the balloon kyphoplasty (kyphoplasty) procedure into the Japanese market, 2) future launch of the Aperius product into the U.S. market and 3) the development of the next generation kyphoplasty balloon technology. Kyphoplasty is Kyphon's minimally invasive approach to treat spinal fractures including vertebral compression fractures due to osteoporosis and cancer. Aperius is Kyphon's internally developed interspinous spacing device which provides a minimally invasive approach to treat lumbar spinal stenosis. For purposes of valuing the acquired IPR&D, the Company estimated total costs to complete of approximately $19 million.

As required, the Company recognized a $34 million fair value adjustment related to inventory acquired from Kyphon. Inventory fair value is defined as the estimated selling price less the sum of (a) cost to complete (b) direct costs to sell and (c) a reasonable profit allowance for the selling effort. The $34 million fair value adjustment was fully expensed through cost of products sold during the third quarter of fiscal year 2008, which reflects the estimated period over which the acquired inventory was sold to customers.

In connection with the acquisition, the Company began to assess and formulate a plan for the elimination of duplicative positions, employee relocations, the exit of certain facilities and the termination of certain contractual obligations. The purchase accounting liabilities recorded in connection with these activities were approximately $68 million and included approximately $48 million for termination benefits and employee relocation and approximately $20 million of estimated costs to cancel contractual obligations. During the fourth quarter of fiscal year 2009, the Company reversed $15 million of the purchase accounting liabilities due to a favorable outcome in negotiating the termination of contractual obligations. The reversal of these liabilities was recorded as a reduction of goodwill. As of April 24, 2009, the purchase accounting liabilities related to the activities noted above have been fully utilized.

The Company's consolidated financial statements include Kyphon's operating results from the date of acquisition, November 2, 2007. The following unaudited pro forma information sets forth the combined results of Medtronic's and Kyphon's operations for fiscal years 2008 and 2007, as if the acquisition had occurred at the beginning of each of the periods presented. The unaudited pro forma results of operations for the fiscal year ended April 25, 2008 is comprised of (i) Kyphon's historical financial information for the six months ended September 30, 2007, (ii) Medtronic's pre-Kyphon historical financial information for the six months ended October 27, 2007 and (iii) Medtronic's post-Kyphon historical financial information for the six month period that includes the three months ended January 25, 2008 and the three months ended April 25, 2008. The unaudited pro forma results of operations for the fiscal year ended April 27, 2007 includes the results of Medtronic's fiscal year 2007 historical financial information and the operations for Kyphon for the twelve month period ended March 31, 2007.

The pro forma information gives effect to actual operating results prior to the acquisition, adjusted to reflect, among other things, reduced interest income, additional intangible asset amortization and interest expense that would have resulted from the change in the accounting basis of certain assets and liabilities due to the acquisition. Pro forma adjustments are tax-effected at the Company's statutory tax rate. No effect has been given to cost reductions or operating synergies in this presentation. These pro forma amounts are not necessarily indicative of the results that would have been obtained if the acquisition had occurred as of the beginning of the periods presented or that may occur in the future, and does not reflect future synergies, integration costs or other such costs or savings. The unaudited pro forma condensed consolidated financial information is presented for informational purposes only.

	Fiscal Year	
(in millions, except per share data)	**2008**	**2007**
Net sales	$ 13,804	$ 12,744
Net earnings	$ 2,093	$ 2,321
Earnings per share:		
Basic	$ 1.85	$ 2.02
Diluted	$ 1.83	$ 2.00

The unaudited pro forma financial information for fiscal years 2008 and 2007 include a $290 million IPR&D charge and a $34 million increase in cost of products sold related to the step-up to fair value of inventory acquired, both of which are non-recurring.

Other Acquisitions and IPR&D Charges

In April 2008, the Company recorded an IPR&D charge of $42 million related to the acquisition of NDI Medical (NDI), a development stage company focused on commercially developing technology to stimulate the dorsal genital nerve as a means to treat urinary incontinence. Total consideration for NDI was approximately $42 million which included $39 million in cash and the forgiveness of $3 million of pre-existing loans provided to NDI. The acquisition will provide the Company with exclusive rights to develop and use NDI's technology in the treatment of urinary urge incontinence. This payment was expensed as IPR&D since technological feasibility of the underlying projects had not yet been reached and such technology has no future alternative use.

In November 2007, the Company recorded an IPR&D charge of $20 million related to the acquisition of Setagon, Inc. (Setagon), a development stage company focused on commercially developing metallic nanoporous surface modification technology. The acquisition will provide the Company with exclusive rights to use and develop Setagon's Controllable Elution Systems technology in the treatment of cardiovascular disease. Total consideration for Setagon was approximately $20 million in cash, subject to purchase price increases, which would be triggered by the achievement of certain milestones. This payment was expensed as IPR&D since technological feasibility of the underlying project had not yet been reached and such technology has no future alternative use.

In June 2007, the Company exercised a purchase option and acquired substantially all of the O-Arm Imaging System (O-Arm) assets of Breakaway Imaging, LLC (Breakaway), a privately held company. Prior to the acquisition, the Company had the exclusive rights to distribute and market the O-Arm. The O-Arm provides multi-dimensional surgical imaging for use in spinal and orthopedic surgical procedures. The acquisition is expected to bring the O-Arm into a broad portfolio of image guided surgical solutions. Total consideration for Breakaway was approximately $26 million in cash, subject to purchase price increases, which would be triggered by the achievement of certain milestones.

In connection with the acquisition of Breakaway, the Company acquired $22 million of technology-based intangible assets that had an estimated useful life of 15 years at the time of acquisition, $1 million of tangible assets and $3 million of goodwill. The goodwill is deductible for tax purposes. The pro forma impact of the acquisition of Breakaway was not significant to the results of the Company for the fiscal years 2008 and 2007.

Additionally, during fiscal year 2008, the Company recorded IPR&D charges of $25 million related to a milestone payment under the existing terms of a royalty bearing, non-exclusive patent cross-licensing agreement with NeuroPace, Inc. and $13 million for unrelated purchases of certain intellectual property. These payments were expensed as IPR&D since technological feasibility of the underlying projects had not yet been reached and such technology has no future alternative use.

Fiscal Year 2007

In March 2007, the Company acquired manufacturing assets, know-how, and an exclusive license to intellectual property related to the manufacture and distribution of EndoSheath products from Vision–Sciences, Inc. (VSI), which was accounted for as a purchase of assets. The license acquired from VSI expanded the Company's existing U.S. distribution rights of EndoSheath products to worldwide distribution rights. The EndoSheath is a sterile disposable sheath that fits over a fiberoptic endoscope preventing contamination of the scope during procedures and allowing reuse of the scope without further sterilization. The consideration paid was $27 million in cash which was primarily allocated to technology-based intangible assets with an estimated useful life of 10 years at the time of acquisition. The purchase price is subject to increases triggered by the achievement of certain milestones.

In September 2006, the Company acquired and/or licensed selected patents and patent applications owned by Dr. Eckhard Alt (Dr. Alt), or certain of his controlled companies in a series of transactions. In connection therewith, the Company also resolved all outstanding litigation and disputes with Dr. Alt and certain of his controlled companies. The agreements required the payment of total consideration of $75 million, $74 million of which was capitalized as technology based intangible assets that had an estimated useful life of 11 years at the time of acquisition. The acquired patents or licenses pertain to the cardiac rhythm disease management field and have both current application and potential for future patentable commercial products.

In July 2006, the Company acquired substantially all of the assets of Odin Medical Technologies, Ltd. (Odin), a privately held company. Prior to the acquisition, the Company had an equity investment in Odin, which was accounted for under the cost method of accounting. Odin focused on the manufacture of the PoleStar intra-operative Magnetic Resonance Image (iMRI)-Guidance System which was already exclusively distributed by the Company. This acquisition was expected to help the Company further drive the acceptance of iMRI guidance in neurosurgery. The consideration for Odin was approximately $21 million, which included $6 million in upfront cash and a $2 million milestone payment made in the three months ended October 27, 2006. The $8 million in net cash paid resulted from the $21 million in consideration less the value of the Company's prior investment in Odin and Odin's existing cash balance. In connection with the acquisition of Odin, the Company acquired $9 million of technology-based intangible assets that had an estimated useful life of 12 years at the time of acquisition. Total goodwill was $12 million and was deductible for tax purposes. The results of operations related to Odin have been included in the Company's consolidated statements of earnings since the date of the acquisition. The pro forma impact of Odin was not significant to the results of the Company for the fiscal year ended April 27, 2007.

Contingent Consideration

Certain of the Company's business combinations or purchases of intellectual property involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones and/or various other favorable operating conditions. While it is not certain if and/or when these payments will be made, the Company has developed an estimate of the potential contingent consideration for each of its acquisitions with an outstanding potential obligation. At April 24, 2009, the estimated potential amount of future contingent consideration that the Company is expected to make associated with all business combinations or purchases of intellectual property is approximately $397 million. The milestones associated with the contingent consideration must be reached in future periods ranging from fiscal years 2010 to 2016 in order for the consideration to be paid.

5. Investments

The carrying amounts of cash and cash equivalents approximate fair value due to their short maturities.

Information regarding the Company's *short-term* and *long-term investments* at April 24, 2009 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate debt securities	$ 817	$ 8	$ (20)	$ 805
Auction rate securities	199	—	(80)	119
Mortgage backed securities	789	9	(52)	746
Government and agency securities	693	5	(1)	697
Certificates of deposit	2	—	—	2
Other asset backed securities	297	3	(22)	278
Marketable equity securities	12	—	—	12
Cost method, equity method and other investments (1)	515	—	—	515
Total short-term and long-term investments	$ 3,324	$ 25	$ (175)	$ 3,174

(1) Includes $221 million for the 15 percent equity interest in Shandong Weigao Group Medical Polymer Company Limited (Weigao), which was acquired on December 18, 2008. The cash paid for the investment was included in *other investing activities, net* on the consolidated statement of cash flows.

Information regarding the Company's *short-term* and *long-term investments* at April 25, 2008 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate debt securities	$ 942	$ 2	$ (15)	$ 929
Auction rate securities	198	—	(22)	176
Mortgage backed securities	693	3	(17)	679
Government and agency securities	478	1	(3)	476
Other asset backed securities	382	1	(12)	371
Marketable equity securities	14	—	(1)	13
Cost method, equity method and other investments	231	—	—	231
Total short-term and long-term investments	$ 2,938	$ 7	$ (70)	$ 2,875

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

	Fiscal Year					
	2009		2008		2007	
(in millions)	Debt (1)	Equity (2)	Debt (1)	Equity (2)	Debt (1)	Equity (2)
Proceeds from sales	$ 2,845	$ —	$ 8,531	$ 26	$ 10,870	$ 24
Gross realized gains	$ 35	$ —	$ 31	$ 16	$ 3	$ 16
Gross realized losses	$ (8)	$ —	$ (5)	$ —	$ (1)	$ —
Impairment losses recognized	$ 38	$ 4	$ 3	$ 4	$ —	$ 26

(1) Includes available-for-sale (AFS) debt securities.
(2) Includes marketable equity securities, cost method, equity method and other investments.

The April 24, 2009 balance of AFS debt securities by contractual maturity is shown in the following table. Within the table, maturities of mortgage-backed securities have been allocated based upon timing of estimated cash flows, assuming no change in the current interest rate environment. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(in millions)	April 24, 2009
Due in one year or less	$ 732
Due after one year through five years	1,724
Due after five years through ten years	50
Due after ten years	141
Total debt securities	$ 2,647

As of April 24, 2009, the Company has $421 million in debt securities that have been in an unrealized loss position for more than twelve months. The aggregate amount of unrealized losses for these investments is $154 million. As of April 24, 2009, the Company has $682 million in debt securities that have been in an unrealized loss position for less than twelve months. The aggregate amount of unrealized losses for these investments is $21 million. The majority of these investments are in high quality, investment grade securities. The Company does not consider these unrealized losses to be other-than-temporary as it has the intent and ability to hold these investments long enough to avoid realizing any significant losses.

The investments in marketable debt securities detailed above are classified and accounted for as available-for-sale and include corporate debt securities, government and agency securities, certificates of deposit and mortgage backed and other asset backed securities including auction rate securities. Market conditions during fiscal year 2009 and subsequent to the Company's fiscal year end continue to indicate significant uncertainty on the part of investors on the economic outlook for the U.S. and for financial institutions. This uncertainty has created reduced liquidity across the fixed income investment market, including certain securities in which the Company has invested. As a result, some of the Company's investments have experienced reduced liquidity including unsuccessful monthly auctions for auction rate security holdings.

For the fiscal year ended April 24, 2009, the Company recognized other-than-temporary impairment losses on AFS debt securities of $38 million. Based on the Company's assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which invested, the Company believes it has recorded all necessary other-than-temporary impairments as the Company has the ability and the intent to hold these investments long enough to avoid realizing any further losses. For additional discussion, see the "Liquidity and Capital Resources" section of management's discussion and analysis.

As of April 24, 2009 and April 25, 2008, the aggregate carrying amount of equity and other securities without a quoted market price and accounted for using the cost or equity method was $515 million and $231 million, respectively. The total carrying value of these investments is reviewed quarterly for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable. The fair value of cost or equity method investments is not estimated if there are no identified events or changes in circumstances that may have a material adverse effect on the fair value of the investment.

Gains and losses recognized on debt instruments are recorded in *interest expense/(income), net* in the consolidated statements of earnings. Gains and losses recognized on equity instruments are recorded in *other expense, net* in the consolidated statements of earnings. Gains and losses from the sale of investments are calculated based on the specific identification method.

The Company historically lent certain fixed income securities to enhance its investment income. Those lending activities were indemnified against counterparty risk and collateralized at an average rate of 102 percent, with the collateral determined based on the underlying securities and creditworthiness of the borrowers. The value of the securities on loan at April 25, 2008 was $610 million. Due to the Company's concerns about the liquidity condition in the fixed income markets, the Company suspended its securities lending program in the second quarter of fiscal year 2009.

6. Fair Value Measurements

As discussed in Note 1, the Company adopted SFAS No. 157 effective April 26, 2008, with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements.

Under SFAS No. 157, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. SFAS No. 157 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets include money market funds, treasury bonds, marketable equity securities and foreign currency hedges that are valued using quoted market prices.
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. The Company's Level 2 assets and liabilities primarily include government agency bonds, corporate debt securities, asset backed securities and certain mortgage backed securities whose value is determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3 - Inputs are unobservable inputs for the asset or liability. The Company's Level 3 assets include certain corporate debt securities, auction rate securities, certain mortgage backed securities and certain asset backed securities. See the section below titled *Level 3 Valuation Techniques* for further discussion of how the Company determines fair value for investments classified as Level 3.

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

For the Company, effective April 26, 2008, fair value under SFAS No. 157 is principally applied to financial assets and liabilities such as marketable equity securities and debt securities that are classified and accounted for as available-for-sale, and derivative instruments. Derivatives include cash flow hedges, freestanding derivative forward contracts and net investment hedges. These items were previously and will continue to be marked-to-market at each reporting period; however, the definition of fair value is now applied using SFAS No. 157. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis subsequent to the effective date of SFAS No. 157.

The following table provides information by level for assets and liabilities that are measured at fair value, as defined by SFAS No. 157, on a recurring basis.

(in millions)	Fair Value at April 24, 2009	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	$ 805	$ 8	$ 771	$ 26
Auction rate securities	119	—	—	119
Mortgage backed securities	746	—	709	37
Government and agency securities	697	174	523	—
Certificates of deposit	2	—	2	—
Other asset backed securities	278	—	255	23
Marketable equity securities	12	12	—	—
Derivative assets	436	436	—	—
Total assets	$ 3,095	$ 630	$ 2,260	$ 205
Liabilities:				
Derivative liabilities	$ 31	$ 31	$ —	$ —
Total liabilities	$ 31	$ 31	$ —	$ —

Level 3 Valuation Techniques

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial assets also include certain investment securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. Level 3 investment securities primarily include certain corporate debt securities, auction rate securities, certain mortgage backed securities and certain asset backed securities for which there was a decrease in the observability of market pricing for these investments. At April 24, 2009, these securities were valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash flows, as well as assumptions about liquidity and credit valuation adjustments of marketplace participants at April 24, 2009.

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

(in millions)	
Balance at April 26, 2008	$ 448
Total realized losses and other-than-temporary impairment losses included in earnings	(38)
Total unrealized losses included in other comprehensive income	(84)
Net purchases, issuances, and settlements	(209)
Net transfers in (out) of Level 3	88
Balance at April 24, 2009	$ 205

Realized gains or losses included in earnings are included in *interest expense/(income), net* in the consolidated statement of earnings.

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

The Company had no financial assets or liabilities that are measured on a nonrecurring basis subsequent to their initial recognition during fiscal year 2009.

The aspects of SFAS No. 157 for which the effective date was deferred under FSP No. 157-2 until fiscal year 2010 relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment.

7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for fiscal years 2009 and 2008 are as follows:

	Fiscal Year	
(in millions)	2009	2008
Beginning balance	$ 7,519	$ 4,327
Goodwill as a result of acquisitions	731	3,178
Purchase accounting adjustments, net	(40)	(10)
Currency adjustment, net	(15)	24
Ending balance	$ 8,195	$ 7,519

The Company completed its impairment test of all goodwill for fiscal years ended April 24, 2009, April 25, 2008 and April 27, 2007 and concluded there were no impairments.

Balances of acquired intangible assets, excluding goodwill, are as follows:

(in millions)	Purchased Technology and Patents	Trademarks and Tradenames	Other	Total
Amortizable intangible assets as of April 24, 2009:				
Original cost	$ 3,057	$ 373	$ 238	$ 3,668
Accumulated amortization	(801)	(217)	(173)	(1,191)
Carrying value	$ 2,256	$ 156	$ 65	$ 2,477
Weighted average original life (in years)	12.5	10.3	9.4	
Amortizable intangible assets as of April 25, 2008:				
Original cost	$ 2,538	$ 373	$ 244	$ 3,155
Accumulated amortization	(616)	(181)	(165)	(962)
Carrying value	$ 1,922	$ 192	$ 79	$ 2,193
Weighted average original life (in years)	12.9	10.3	9.7	

Amortization expense for fiscal years 2009, 2008 and 2007 was $281 million, $220 million and $182 million, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets is as follows:

(in millions) Fiscal Year	Amortization Expense
2010	$ 302
2011	293
2012	265
2013	250
2014	242
Thereafter	1,125
	$ 2,477

8. Financing Arrangements

Debt consisted of the following:

(in millions)	Maturity by Fiscal Year	April 24, 2009 Payable	April 24, 2009 Average Interest Rate	April 25, 2008 Payable	April 25, 2008 Average Interest Rate
Short-Term Borrowings:					
Contingent convertible debentures	2010-2022	$ —	—	$ 94	1.25%
Bank borrowings	2010	123	0.92%	175	0.87%
Commercial paper	2010	385	0.44%	874	2.42%
Capital lease obligations	2010	14	5.29%	11	5.33%
Total Short-Term Borrowings		$ 522		$ 1,154	
Long-Term Debt:					
Contingent convertible debentures	2011-2022	$ 15	1.25%	$ —	—
Five-year senior convertible notes	2011	2,200	1.50%	2,200	1.50%
Five-year senior notes	2011	400	4.38%	400	4.38%
New credit agreement	2011	—	—	300	2.90%
Seven-year senior convertible notes	2013	2,200	1.63%	2,200	1.63%
Five-year new senior notes	2014	550	4.50%	—	—
Ten-year senior notes	2016	600	4.75%	600	4.75%
Ten-year new senior notes	2019	400	5.60%	—	—
Thirty-year new senior notes	2039	300	6.50%	—	—
Interest rate swaps	2011/2016	—	—	35	2.04%
Gain from interest rate swap termination	N/A	54	—	—	—
Capital lease obligations	2010-2014	53	5.38%	67	5.37%
Total Long-Term Debt		$ 6,772		$ 5,802	

Senior Convertible Notes In April 2006, the Company issued $2.200 billion of 1.500 percent Senior Convertible Notes due 2011 and $2.200 billion of 1.625 percent Senior Convertible Notes due 2013 (collectively, the Senior Convertible Notes). The Senior Convertible Notes were issued at par and pay interest in cash semi-annually in arrears on April 15 and October 15 of each year. The Senior Convertible Notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness. The Senior Convertible Notes had an initial conversion price of $56.14 per share. The Senior Convertible Notes may only be converted: (i) during any calendar quarter if the closing price of the Company's common stock reaches 140 percent of the conversion price for 20 trading days during a specified period, or (ii) if specified distributions to holders of the Company's common stock are made or specified corporate transactions occur, or (iii) during the last month prior to maturity of the applicable notes. Upon conversion, a holder would receive: (i) cash equal to the lesser of the principal amount of the note or the conversion value and (ii) to the extent the conversion value exceeds the principal amount of the note, shares of the Company's common stock, cash or a combination of common stock and cash, at the Company's option. In addition, upon a change in control, as defined in the applicable indentures, the holders may require the Company to purchase for cash all or a portion of their notes for 100 percent of the principal amount of the notes plus accrued and unpaid interest, if any, plus a number of additional make-whole shares of the Company's common stock, as set forth in the applicable indenture. The indentures under which the Senior Convertible Notes were issued contain customary covenants. A total of $2.500 billion of the net proceeds from these note issuances were used to repurchase common stock. As of April 24, 2009, pursuant to provisions in the indentures relating to the Company's increase of its quarterly dividend to shareholders, the conversion rates for each of the Senior Convertible Notes is now 18.0474, which correspondingly changed the conversion price per share for each of the Senior Convertible Notes to $55.41.

Under EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (EITF No. 00-19), the notes are accounted for similar to traditional convertible debt (that is, as a combined instrument) because the conversion spread meets the requirements of EITF No. 00-19, including the provisions contained in paragraphs 12–32 of EITF No. 00-19. Accordingly, the "conversion spread" is not separated as a derivative.

Concurrent with the issuance of the Senior Convertible Notes, the Company purchased call options on its common stock in private transactions. The call options allow the Company to receive shares of the Company's common stock and/or cash from counterparties equal to the amounts of common stock and/or cash related to the excess conversion value that it would pay to the holders of the Senior Convertible Notes upon conversion. These call options will terminate upon the earlier of the maturity dates of the related Senior Convertible Notes or the first day all of the related Senior Convertible Notes are no longer outstanding due to conversion or otherwise. The call options, which cost an aggregate $1.075 billion ($699 million net of tax benefit), were recorded as a reduction of shareholders' equity.

In separate transactions, the Company sold warrants to issue shares of the Company's common stock at an exercise price of $76.56 per share in private transactions. Pursuant to these transactions, warrants for 41 million shares of the Company's common stock may be settled over a specified period beginning in July 2011 and warrants for 41 million shares of the Company's common stock may be settled over a specified period beginning in July 2013 (the "settlement dates"). If the average price of the Company's common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of the Company's common stock. Proceeds received from the issuance of the warrants totaled approximately $517 million and were recorded as an addition to shareholders' equity. In April 2009, certain of the holders requested adjustment to the exercise price of the warrants from $76.30 to $75.56 pursuant to the anti-dilution provisions of the warrants relating to the Company's payment of dividends to common shareholders.

EITF No. 00-19 provides that contracts are initially classified as equity if (1) the contract requires physical settlement or net-share settlement, or (2) the contract gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The settlement terms of the Company's purchased call options and sold warrant contracts provide for net cash settlement for the particular contract or net share settlement, depending on the method of settlement, as discussed above, which is at the option of the Company. Based on the guidance from EITF No. 00-19 and SFAS No. 133, the purchased call option contracts were recorded as a reduction of equity and the warrants were recorded as an addition to equity as of the trade date. SFAS No. 133 states that a reporting entity shall not consider contracts to be derivative instruments if the contract issued or held by the reporting entity is both indexed to its own stock and classified in shareholders' equity in its statement of financial position. The Company concluded the purchased call option contracts and the warrant contracts should be accounted for in shareholders' equity.

Senior Notes In March 2009, the Company issued three tranches of Senior Notes (New Senior Notes) with the aggregate face value of $1.250 billion. The first tranche consisted of $550 million of 4.500 percent Senior Notes due 2014, the second tranche consisted of $400 million of 5.600 percent Senior Notes due 2019 and the third tranche consisted of $300 million of 6.500 percent Senior Notes due 2039. The first tranche was issued at par, the second tranche was issued at a discount which resulted in an effective interest rate of 5.609 percent and the third tranche was issued at a discount which resulted in an effective interest rate of 6.519 percent. Interest on each series of New Senior Notes is payable semi-annually, on March 15 and September 15 of each year, commencing September 15, 2009. The New Senior Notes are unsecured senior obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of the Company. The indentures under which the New Senior Notes were issued contain customary covenants. The Company used the net proceeds from the sale of the New Senior Notes for repayment of a portion of its commercial paper and for general corporate uses.

In September 2005, the Company issued two tranches of Senior Notes with the aggregate face value of $1.000 billion. The first tranche consisted of $400 million of 4.375 percent Senior Notes due 2010 and the second tranche consisted of $600 million of 4.750 percent Senior Notes due 2015. Each tranche was issued at a discount which resulted in an effective interest rate of 4.433 percent and 4.760 percent for the five and ten year Senior Notes, respectively. Interest on each series of Senior Notes is payable semi-annually, on March 15 and September 15 of each year. The Senior Notes are unsecured unsubordinated obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of the Company. The indentures under which Senior Notes were issued contain customary covenants. The Company used the net proceeds from the sale of the Senior Notes for repayment of a portion of its commercial paper.

In November 2005 and June 2007, the Company entered into a five year interest rate swap agreement with a notional amount of $200 million, and an eight year interest rate swap agreement with a notional amount of $300 million, respectively. These interest rate swap agreements were designated as fair value hedges of the changes in fair value of a portion of the Company's fixed-rate $400 million Senior Notes due 2010 and fixed-rate $600 million Senior Notes due 2015, respectively. The outstanding market values of these swap agreements were $8 million and $27 million of unrealized gains, respectively, at April 25, 2008. The unrealized gains of $8 million and $27 million at April 25, 2008 were recorded in *long-term debt* with the offset recorded in *other assets* on the consolidated balance sheets.

In December 2008, the Company terminated the interest rate swap agreements. At that time, the contracts were in an asset position, resulting in cash receipts of $62 million, which included $3 million of accrued interest. The gain from terminating the interest rate swap agreements increased the outstanding balance of the Senior Notes and is being amortized as a reduction of interest expense over the remaining life of the Senior Notes. The cash flows from the termination of these interest rate swap agreements have been reported as operating activities in the consolidated statement of cash flows.

Contingent Convertible Debentures As of April 24, 2009, the Company has $15 million remaining in aggregate principal amount of 1.250 percent Contingent Convertible Debentures, Series B due 2021 (the Debentures) outstanding. Interest is payable semi-annually. Each Debenture is convertible into shares of common stock at an initial conversion price of $61.81 per share; however, the Debentures are not convertible before their final maturity unless the closing price of our common stock reaches 110 percent of the conversion price for 20 trading days during a consecutive 30 trading day period. Upon conversion of the Debentures, the Company will pay holders cash equal to the lesser of the principal amount of the Debentures or their conversion value, and shares of the Company's common stock to the extent the conversion value exceeds the principal amount of the Debentures. The Company may be required to repurchase the remaining debentures at the option of the holders in September 2011 or 2016. For put options exercised by the holders of the Debentures, the purchase price is equal to the principal amount of the applicable debenture plus any accrued and unpaid interest thereon to the repurchase date. If the put option is exercised, the Company will pay holders the repurchase price solely in cash. The Company can redeem the debentures for cash at any time.

Commercial Paper The Company maintains a commercial paper program that allows the Company to have a maximum of $2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. At April 24, 2009 and April 25, 2008, outstanding commercial paper totaled $385 million and $874 million, respectively. During fiscal years 2009 and 2008, the weighted average original maturity of the commercial paper outstanding was approximately 50 and 35 days, respectively, and the weighted average interest rate was 1.60 percent and 4.46 percent, respectively. The issuance of commercial paper reduces the amount of credit available under our existing lines of credit.

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

Lines of Credit The Company has existing unsecured lines of credit of approximately $2.807 billion with various banks at April 24, 2009. The existing lines of credit include a five-year $1.750 billion syndicated credit facility dated December 20, 2006 that will expire on December 20, 2011 (Credit Facility). The Credit Facility provides backup funding for the commercial paper program and may also be used for general corporate purposes. The Credit Facility provides the Company with the ability to increase its capacity by an additional $500 million at any time during the life of the five-year term of the agreement.

On November 2, 2007, the Company entered into a new Credit Agreement (New Credit Agreement) with the Bank of Tokyo-Mitsubishi UFJ, Ltd. (New Lender). The New Credit Agreement provides for a $300 million unsecured revolving credit facility (New Facility) maturing November 2, 2010. In addition to certain initial fees, the Company is obligated to pay a commitment fee based on the total revolving commitment.

As of April 24, 2009 and April 25, 2008, $508 million and $1.350 billion, respectively, were outstanding on all lines of credit.

Interest rates on these borrowings are determined by a pricing matrix, based on the Company's long-term debt ratings, assigned by Standard and Poor's Ratings Group and Moody's Investors Service. Facility fees are payable on the credit facilities and are determined in the same manner as the interest rates.

As of April 24, 2009, the Company has unused credit lines and commercial paper of approximately $2.799 billion.

Maturities of long-term debt, including capital leases, for the next five fiscal years are as follows:

(in millions)

Fiscal Year	Obligation
2010	$ 14
2011	2,616
2012	32
2013	2,220
2014	550
Thereafter	1,300
Total long-term debt	6,732
Less: Current portion of long-term debt	14
Long-term portion of long-term debt	$ 6,718

9. Derivatives and Foreign Exchange Risk Management

In the fourth quarter of fiscal year 2009, the Company adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities."

The Company uses operational and economic hedges, as well as forward exchange derivative contracts to manage the impact of foreign exchange rate changes on earnings and cash flows. In order to reduce the uncertainty of foreign exchange rate movements, the Company enters into derivative instruments, primarily forward exchange contracts, to manage its exposure related to foreign exchange rate changes. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets, liabilities, net investments and probable commitments. At inception of the forward contract, the derivative is designated as either a freestanding derivative, net investment hedge or cash flow hedge. Principal currencies hedged are the Euro and the Japanese Yen. The Company does not enter into forward exchange derivative contracts for speculative purposes. The gross notional amount of these contracts outstanding at April 24, 2009 and April 25, 2008 was $5.296 billion and $6.613 billion, respectively. The aggregate foreign currency gains/(losses) were $(53) million, $(134) million and $22 million in fiscal years 2009, 2008 and 2007, respectively. These gains/(losses) represent the net impact to the consolidated statements of earnings for the derivative instruments presented below offset by remeasurement gains/(losses) on foreign currency denominated assets and liabilities.

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

Freestanding Derivative Forward Contracts

Freestanding derivative forward contracts are used to offset the Company's exposure to the change in value of certain foreign currency denominated assets and liabilities. These derivatives are not designated as hedges, and, therefore, changes in the value of these forward contracts are recognized currently in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities. The cash flows from these contracts are reported as operating activities in the consolidated statements of cash flows. The gross notional amount of these contracts, not designated as hedging instruments, outstanding at April 24, 2009 was $1.162 billion.

The amount of gains and location of the gains in the consolidated statement of earnings related to derivative instruments not designated as hedging instruments for the fiscal year ended April 24, 2009 were as follows:

(in millions)

Derivatives Not Designated as Hedging Instruments under SFAS No. 133	Location	Amount
Foreign exchange contracts	Other expense, net	$ 208

Net Investment Hedges

Net investment hedges are used to hedge the long-term investment (equity) in foreign operations. For hedges that meet effectiveness requirements, the net gains/(losses) related to changes in the current rates, or spot rates, are recorded as a cumulative translation adjustment, a component of *accumulated other comprehensive (loss)/ income* (AOCI) on the consolidated balance sheets. Net gains/(losses) associated with changes in forward rates of the contracts are reflected in *other expense, net* in the consolidated statements of earnings. Recognition in earnings of amounts previously recorded as a cumulative translation adjustment is limited to circumstances such as complete or substantially complete liquidation of the long-term investment (equity) in foreign operations. The cash flows from these contracts are reported as investing activities in the consolidated statements of cash flows. As of April 24, 2009, there were no open derivative contracts.

The amount of gains and location of the gains in the consolidated statement of earnings and AOCI related to derivative instruments designated as net investment hedges for the fiscal year ended April 24, 2009 are presented in the table below. There were no reclassifications of the effective portion of net investment hedges out of AOCI into income for the fiscal year ended April 24, 2009.

(in millions)	Gain Recognized as Cumulative Translation within AOCI on Effective Portion of Derivative	Ineffective Portion of Gain Recognized in Income on Derivative and Amount Excluded from Effectiveness Testing	
Derivatives in SFAS No. 133 Net Investment Hedging Relationships	**Amount**	**Location**	**Amount**
Foreign exchange contracts	$ 27	Other expense, net	$ 5

Cash Flow Hedges

Forward contracts designated as cash flow hedges are designed to hedge the variability of cash flows associated with forecasted transactions, denominated in a foreign currency that will take place in the future. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. No gains or losses relating to ineffectiveness of cash flow hedges were recognized in earnings during fiscal years 2009, 2008 and 2007. No components of the hedge contracts were excluded in the measurement of hedge ineffectiveness and no hedges were derecognized or discontinued during fiscal years 2009, 2008 and 2007. The cash flows from these contracts are reported as operating activities in the consolidated statements of cash flows. The gross notional amount of these contracts, designated as cash flow hedges, outstanding at April 24, 2009 was $4.134 billion and will mature within the subsequent 36-month period.

The amount of gains/(losses) and location of the gains/(losses) in the consolidated statement of earnings and other comprehensive income (OCI) related to derivative instruments designated as cash flow hedges for the fiscal year ended April 24, 2009 are as follows:

(in millions)	Gross Gain Recognized in OCI on Effective Portion of Derivative	Effective Portion of (Loss) on Derivative Reclassified from AOCI into Income	
Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	**Amount**	**Location**	**Amount**
Foreign exchange contracts	$ 814	Other expense, net	$ (16)
		Cost of products sold	(25)
Total	$ 814		$ (41)

As of April 24, 2009, the Company had a balance of $228 million in after-tax net unrealized gains associated with cash flow hedging instruments recorded in AOCI. The Company expects that $135 million of this balance will be reclassified into the consolidated statement of earnings over the next twelve months.

Fair Value Hedges

Interest rate derivative instruments designated as fair value hedges are designed to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. As of April 24, 2009, the Company did not have any fair value hedges outstanding because, in December 2008, the Company terminated the existing interest rate swap agreements. At that time, the contracts were in an asset position, resulting in cash receipts of $62 million, which included $3 million of accrued interest. The $59 million gain from terminating the interest rate swap agreements increased the outstanding balance of the Senior Notes and is being amortized as a reduction of interest expense over the remaining life of the Senior Notes. The cash flows from the termination of these interest swap agreements are reported as operating activities in the consolidated statements of cash flows.

During fiscal years 2009, 2008 and 2007, the Company did not have any ineffective fair value hedging instruments. In addition, the Company did not recognize any gains or losses during fiscal years 2009, 2008 and 2007 on firm commitments that no longer qualify as fair value hedges.

Balance Sheet Presentation

The following table summarizes the location and fair value amounts of derivative instruments reported in the consolidated balance sheet as of April 24, 2009. The fair value amounts are presented on a gross basis and are segregated between derivatives that are designated and qualify as hedging instruments and those that are not, and are further segregated by type of contract within those two categories.

	Asset Derivatives		Liability Derivatives	
(in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign exchange contracts	Prepaid expenses and other current assets	$ 249	Other accrued expenses	$ 27
Foreign exchange contracts	Other assets	187	Other long-term liabilities	3
Total derivatives designated as hedging instruments		**$ 436**		**$ 30**
Derivatives not designated as hedging instruments				
Foreign exchange contracts	Prepaid expenses and other current assets	$ —	Other accrued expenses	$ 1
Total derivatives not designated as hedging instruments		$ —		**$ 1**
Total derivatives		**$ 436**		**$ 31**

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of interest-bearing investments, forward exchange derivative contracts and trade accounts receivable.

The Company maintains cash and cash equivalents, investments and certain other financial instruments (including forward exchange contracts) with various major financial institutions. The Company performs periodic evaluations of the relative credit standings of these financial institutions and limits the amount of credit exposure with any one institution.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. However, a significant amount of trade receivables are with national healthcare systems in many countries. Although the Company does not currently foresee a credit risk associated with these receivables, repayment is dependent upon the financial stability of the economies of those countries. As of April 24, 2009 and April 25, 2008, no customer represented more than 10 percent of the outstanding accounts receivable.

10. Interest Expense/(Income), net

Interest income and interest expense for fiscal years 2009, 2008 and 2007 are as follows:

	Fiscal Year		
(in millions)	2009	2008	2007
Interest income	$ (188)	$ (364)	$ (382)
Interest expense	217	255	228
Interest expense/(income), net	$ 29	$ (109)	$ (154)

Interest income includes interest earned on the Company's cash and cash equivalents, short- and long-term investments and the net realized gains or losses on the sale or impairment of AFS debt securities. See Note 5 for further discussion of these items.

Interest expense includes the expense associated with the interest that the Company pays on its outstanding borrowings, including short- and long-term instruments and the amortization of debt issuance costs.

11. Shareholders' Equity

Repurchase of Common Stock In June 2007, the Company's Board of Directors authorized the repurchase of up to 50 million shares of the Company's stock. In addition, in April 2006, the Board of Directors made a special authorization for the repurchase of up to 50 million shares in connection with the $4.400 billion Senior Convertible Note offering (see Note 8 for further discussion). Shares are repurchased from time to time to support the Company's stock-based compensation programs and to take advantage of favorable market conditions. The Company repurchased approximately 16.5 million and 30.7 million shares at an average price of $45.94 and $50.28, respectively, during fiscal years 2009 and 2008. As of April 24, 2009, the Company has approximately 17.8 million shares remaining under the buyback authorizations approved by the Board of Directors. The Company accounts for repurchases of common stock using the par value method and shares repurchased are cancelled.

Shareholder Rights Plan On October 26, 2000, the Company's Board of Directors adopted a Shareholder Rights Plan and declared a dividend of one preferred share purchase right (a "right") for each outstanding share of common stock with a par value of $ 0 .10 per share. Each right will allow the holder to purchase 1/5000 of a share of Series A Junior Participating Preferred Stock at an exercise price of $400 per share, once the rights become exercisable. The rights are not exercisable or transferable apart from the common stock until 15 days after the public announcement that a person or group (the Acquiring Person) has acquired 15 percent or more of the Company's common stock or 15 business days after the announcement of a tender offer which would increase the Acquiring Person's beneficial ownership to 15 percent or more of the Company's common stock. After any person or group has become an Acquiring Person, each right entitles the holder (other than the Acquiring Person) to purchase, at the exercise price, common stock of the Company having a market price of two times the exercise price. If the Company is acquired in a merger or other business combination transaction, each exercisable right entitles the holder to purchase, at the exercise price, common stock of the acquiring company or an affiliate having a market price of two times the exercise price of the right.

The Board of Directors may redeem the rights for $0.005 per right at any time before any person or group becomes an Acquiring Person. The Board may also reduce the threshold at which a person or group becomes an Acquiring Person from 15 percent to no less than 10 percent of the outstanding common stock. The rights expire on October 26, 2010.

12. Stock Purchase and Award Plans

Effective April 29, 2006, the Company adopted SFAS No. 123(R) which replaced SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25). Under the fair value recognition provisions of SFAS No. 123(R), the Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognizes the compensation expense over the requisite service period, which is generally the vesting period. The Company elected the modified-prospective method of adopting SFAS No. 123(R), under which prior periods are not retroactively restated. The provisions of SFAS No. 123(R) apply to awards granted after the April 29, 2006 effective date. Stock-based compensation expense for the non-vested portion of awards granted prior to the effective date is being recognized over the remaining service period using the fair-value based compensation cost estimated for SFAS No. 123 pro forma disclosures.

Stock Options Stock option awards are granted at exercise prices equal to the closing price of the Company's common stock on the grant date. The majority of the Company's stock option awards are non-qualified stock options with a 10-year life and a four-year ratable vesting term. In fiscal year 2009, the Company granted stock options under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (2008 Plan), the Medtronic, Inc. 2003 Long-Term Incentive Plan (2003 Plan) and the Medtronic, Inc. 1998 Outside Directors Stock Compensation Plan (Directors Plan). The 2008 and 2003 Plans were approved by the Company's shareholders in August 2008 and August 2003, respectively, and provide for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock, performance awards, and other stock and cash-based awards. The Directors Plan, a stock compensation plan for outside directors, was adopted in fiscal year 1998 and replaced the provisions in the 1994 stock award plan relating to awards granted to outside directors. Upon adoption of the 2008 Plan, Medtronic no longer grants awards from any prior plan. As of April 24, 2009, there were approximately 31 million shares available for future grants under the 2008 Plan.

Restricted Stock Awards Restricted stock and restricted stock units (collectively referred to as restricted stock awards) are granted to officers and key employees. Restricted stock awards are subject to forfeiture if employment terminates prior to the lapse of the restrictions. The Company grants restricted stock awards that typically cliff vest between three and five years. Restricted stock awards are expensed over the vesting period. The Company also grants shares of performance-based restricted stock that will cliff vest only if the Company has also achieved certain performance objectives. Performance awards are expensed over the performance period based on the probability of achieving the performance objectives. Shares of restricted stock are considered issued and outstanding shares of the Company at the grant date and have the same dividend and voting rights as other common stock. Restricted stock units are not considered issued or outstanding common stock of the Company. Dividend equivalent units are accumulated on restricted stock units during the vesting period. In fiscal year 2009, the Company granted restricted stock awards under the 2008 Plan and the 2003 Plan.

Employee Stock Purchase Plan The Medtronic, Inc. 2005 Employee Stock Purchase Plan (ESPP) allows participating employees to purchase shares of the Company's common stock at a discount through payroll deductions. Employees can contribute up to the lesser of 10 percent of their wages or the statutory limit under the U.S. Internal Revenue Code toward the purchase of the Company's common stock at 85 percent of its market value at the end of the calendar quarter purchase period. Employees purchased 3 million shares at an average price of $33.05 per share in the fiscal year ended April 24, 2009. As of April 24, 2009, plan participants have had approximately $6 million withheld to purchase Company common stock at 85 percent of its market value on June 30, 2009, the last trading day before the end of the calendar quarter purchase period. At April 24, 2009, approximately 2 million shares of common stock were available for future purchase under the ESPP.

Valuation Assumptions The Company uses the Black-Scholes option pricing model (Black-Scholes model) to determine the fair value of stock options as of the grant date. The fair value of stock options under the Black-Scholes model requires management to make assumptions regarding projected employee stock option exercise behaviors, risk-free interest rates, volatility of the Company's stock price and expected dividends.

The expense recognized for shares purchased under the Company's ESPP is equal to the 15 percent discount the employee receives at the end of the calendar quarter purchase period. The expense recognized for restricted stock awards is equal to the grant date fair value, which is equal to the closing stock price on the date of grant.

The following table provides the weighted average fair value of options granted to employees and the related assumptions used in the Black-Scholes model:

	Fiscal Year		
	2009	2008	2007
Weighted average fair value of options granted	$ 8.96	$ 15.29	$ 11.72
Assumptions used:			
Expected life (years)(a)	6.05	5.42	4.83
Risk-free interest rate (b)	3.11%	4.02%	4.66%
Volatility (c)	25.64%	22.27%	19.90%
Dividend yield (d)	2.03%	1.05%	0.90%

(a) *Expected life*: The Company analyzes historical employee stock option exercise and termination data to estimate the expected life assumption. Beginning in the third quarter of fiscal year 2008, the Company began to calculate the expected life assumption using the midpoint scenario, which combines historical exercise data with hypothetical exercise data, as the Company believes this data currently represents the best estimate of the expected life of a new employee option. Prior to the third quarter of fiscal year 2008, the Company calculated the expected life based solely on historical data. The Company also stratifies its employee population into two groups based upon distinctive exercise behavior patterns. Prior to adopting SFAS No. 123(R), the Company used one pool, the entire employee population, for estimating the expected life assumptions.

(b) *Risk-free interest rate*: The rate is based on the grant date yield of a zero-coupon U.S. Treasury bond whose maturity period equals or approximates the option's expected term.

(c) *Volatility*: Beginning in the third quarter of fiscal year 2007, the expected volatility is based on a blend of historical volatility and an implied volatility of the Company's common stock. Implied volatility is based on market traded options of the Company's common stock. Prior to the third quarter of fiscal year 2007, the Company calculated the expected volatility based exclusively on historical volatility.

(d) *Dividend yield*: The dividend yield rate is calculated by dividing the Company's annual dividend, based on the most recent quarterly dividend rate, by the closing stock price on the grant date.

Stock-Based Compensation Expense Upon the adoption of SFAS No. 123(R), the Company changed its method of recognition and now recognizes stock-based compensation expense based on the substantive vesting period for all new awards. As a result, compensation expense related to stock options granted prior to fiscal year 2007 is being recognized over the stated vesting term of the grant rather than being accelerated upon retirement eligibility.

The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest. The Company estimates pre-vesting forfeitures at the time of grant by analyzing historical data and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. Ultimately, the total expense recognized over the vesting period will equal the fair value of awards that actually vest.

The following table presents the components and classification of stock-based compensation expense, for options, restricted stock awards and ESPP recognized for fiscal years 2009, 2008 and 2007:

(in millions)	2009	2008	2007
Stock options	$ 140	$ 138	$ 135
Restricted stock awards	82	63	35
Employee stock purchase plan	15	16	15
Total stock-based compensation expense	$ 237	$ 217	$ 185
Cost of products sold	$ 28	$ 24	$ 19
Research and development expense	58	52	39
Selling, general and administrative expense	151	141	127
Total stock-based compensation expense	$ 237	$ 217	$ 185
Income tax benefits	(69)	(64)	(58)
Total stock-based compensation expense, net of tax	$ 168	$ 153	$ 127

In connection with the acquisition of Kyphon in November 2007, the Company assumed Kyphon's unvested stock-based awards. These awards are amortized over 2.5 years, which was their remaining weighted average vesting period at the time of acquisition. For fiscal years 2009 and 2008, the Company recognized $21 million and $24 million, respectively, of stock-based compensation expense associated with the assumed Kyphon awards, which is included in the amounts presented above.

Stock Options The following table summarizes all stock option activity, including activity from options assumed or issued as a result of acquisitions, during fiscal years April 24, 2009, April 25, 2008 and April 27, 2007:

	Fiscal Year					
	2009		2008		2007	
	Options (in thousands)	Wtd. Avg. Exercise Price	Options (in thousands)	Wtd. Avg. Exercise Price	Options (in thousands)	Wtd. Avg. Exercise Price
Beginning balance	92,444	$ 47.21	90,906	$ 46.99	88,838	$ 46.23
Granted	12,447	37.25	9,436	48.13	10,529	48.64
Assumed from Kyphon acquisition	—	—	3,486	27.73	—	—
Exercised	(8,046)	39.01	(9,111)	37.80	(6,089)	37.37
Canceled	(3,451)	47.59	(2,273)	50.18	(2,372)	50.22
Outstanding at year-end	93,394	$ 46.57	92,444	$ 47.21	90,906	$ 46.99
Exercisable at year-end	67,795	$ 47.78	67,741	$ 46.80	67,017	$ 45.47

For options outstanding and exercisable at April 24, 2009, the weighted average remaining contractual life was 5.41 years and 4.20 years, respectively. The total intrinsic value, calculated as the closing stock price at year-end less the option exercise price, of options exercised during fiscal years 2009, 2008 and 2007 was $105 million, $138 million and $88 million, respectively. For options outstanding and exercisable at April 24, 2009, the total intrinsic value of in-the-money options was $7 million and $6 million, respectively. The Company issues new shares when stock option awards are exercised. Cash received from the exercise of stock options for the fiscal year ended April 24, 2009 was $305 million. The Company's tax deductions related to the exercise of stock options for fiscal year 2009 were $33 million. Unrecognized compensation expense related to outstanding stock options as of April 24, 2009 was $200 million and is expected to be recognized over a weighted average period of 2.5 years and will be adjusted for any future changes in estimated forfeitures.

Restricted Stock Awards The following table summarizes restricted stock award activity during fiscal years 2009, 2008 and 2007:

	Fiscal Year					
	2009		2008		2007	
	Awards (in thousands)	Wtd. Avg. Grant Price	Awards (in thousands)	Wtd. Avg. Grant Price	Awards (in thousands)	Wtd. Avg. Grant Price
Nonvested, beginning balance	5,789	$ 49.24	3,982	$ 50.16	2,008	$ 51.64
Granted	3,520	36.47	2,204	47.74	2,192	48.19
Assumed from Kyphon acquisition	—	—	402	46.88	—	—
Vested	(564)	47.42	(492)	47.60	(112)	47.57
Forfeited	(399)	51.17	(307)	49.88	(106)	51.16
Nonvested at year-end	8,346	$ 43.88	5,789	$ 49.24	3,982	$ 50.16

Unrecognized compensation expense related to restricted stock awards as of April 24, 2009 was $173 million and is expected to be recognized over a weighted average period of 2.8 years and will be adjusted for any future changes in estimated forfeitures.

13. Income Taxes

The provision for income taxes is based on earnings before income taxes reported for financial statement purposes. The components of earnings before income taxes are:

	Fiscal Year		
(in millions)	2009	2008	2007
U.S.	$ 1,138	$ 713	$ 1,579
International	1,456	2,172	1,936
Earnings before income taxes	$ 2,594	$ 2,885	$ 3,515

The provision for income taxes consists of:

(in millions)	Fiscal Year 2009	2008	2007
Current tax expense:			
U.S.	$ 264	$ 458	$ 712
International	291	267	239
Total current tax expense	555	725	951
Deferred tax expense (benefit):			
U.S.	4	(40)	(216)
International	(134)	(31)	(22)
Net deferred tax expense (benefit)	(130)	(71)	(238)
Total provision for income taxes	$ 425	$ 654	$ 713

Deferred taxes arise because of the different treatment of transactions for financial statement accounting and income tax accounting, known as "temporary differences." The Company records the tax effect of these temporary differences as "deferred tax assets" and "deferred tax liabilities." Deferred tax assets generally represent items that can be used as a tax deduction or credit in a tax return in future years for which the Company has already recorded the tax benefit in the consolidated statements of earnings. The Company establishes valuation allowances for deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. The Company has established valuation allowances for federal, state and foreign net operating losses, credit carryforwards, capital loss carryforwards and deferred tax assets which are capital in nature in the amount of $234 million and $177 million at April 24, 2009 and April 25, 2008, respectively. These carryover attributes expire at various points in time, from within a year to no expiration date. These valuation allowances would result in a reduction to the *provision for income taxes* in the consolidated statement of earnings, if they are ultimately not required. Deferred tax liabilities generally represent tax expense recognized in the consolidated financial statements for which payment has been deferred or expense has already been taken as a deduction on the Company's tax return but has not yet been recognized as an expense in the consolidated statements of earnings. Deferred tax assets/(liabilities) are comprised of the following:

(in millions)	April 24, 2009	April 25, 2008
Deferred tax assets:		
Inventory (intercompany profit in inventory and excess of tax over book valuation)	$ 315	$ 265
Convertible debt interest	215	254
Unrealized loss on available for sale securities and derivative financial instruments	—	186
Stock-based compensation	185	130
Accrued liabilities	143	128
Federal and state benefit on uncertain tax positions	111	112
Accrued legal reserves	156	90
Net operating loss and credit carryforwards	136	15
Pension and post-retirement benefits	76	—
Unrealized currency loss	43	6
Allowance for doubtful accounts	12	24
Unrealized loss on equity investments	15	14
Warranty reserves	7	15
Other	113	98
Total deferred tax assets (net of valuation allowance)	1,527	1,337
Deferred tax liabilities:		
Intangible assets	(595)	(488)
Realized loss on derivative financial instruments	(113)	(103)
Unrealized gain on available for sale securities and derivative financial instruments	(100)	—
Accumulated depreciation	(28)	(8)
Pension and post-retirement benefits	—	(8)
Other	(21)	(27)
Total deferred tax liabilities	(857)	(634)
Deferred tax assets, net	$ 670	$ 703

The Company's effective income tax rate varied from the U.S. Federal statutory tax rate as follows:

	Fiscal Year		
	2009	2008	2007
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state taxes, net of Federal tax benefit	0.6	1.1	1.2
Research and development credit	(1.5)	(0.6)	(0.4)
Domestic production activities	(0.5)	(0.4)	(0.2)
International	(19.5)	(18.3)	(12.9)
Impact of special, restructuring, certain litigation and IPR&D charges	9.0	5.9	0.3
Reversal of excess tax accruals	(5.1)	—	(3.7)
Other, net	(1.6)	—	1.0
Effective tax rate	16.4%	22.7%	20.3%

In fiscal year 2009, the Company recorded a $132 million certain tax benefit associated with the reversal of excess tax accruals in connection with the settlement of certain issues reached with the U.S. Internal Revenue Service (IRS) involving the review of the Company's fiscal year 2005 and fiscal year 2006 domestic income tax returns, the resolution of various state audit proceedings covering fiscal years 1997 through 2007 and the completion of foreign audits covering various years. The $132 million certain tax benefit was recorded in the *provision for income taxes* in the consolidated statement of earnings for fiscal year 2009.

In fiscal year 2007, the Company recorded a $129 million certain tax benefit associated with the reversal of excess tax accruals in connection with the settlement reached with the IRS involving the review of the Company's fiscal year 2003 and fiscal year 2004 domestic income tax returns, and the resolution of competent authority issues for fiscal year 1992 through fiscal year 2000. The $129 million certain tax benefit was recorded in the *provision for income taxes* in the consolidated statement of earnings for fiscal year 2007.

The Company has not provided U.S. income taxes on certain of its non-U.S. subsidiaries' undistributed earnings as such amounts are permanently reinvested outside the U.S. At April 24, 2009 and April 25, 2008, such earnings were approximately $9.738 billion and $8.338 billion, respectively. Currently, the Company's operations in Puerto Rico, Switzerland and Ireland have various tax incentive grants. Unless these grants are extended, they will expire between fiscal years 2010 and 2027.

As a result of the implementation of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48), effective April 28, 2007, the Company recognized a $1 million decrease in its existing liabilities for uncertain tax positions which has been recorded as an increase to the opening balance of retained earnings for fiscal year 2008. The Company had $431 million and $455 million of gross unrecognized tax benefits as of April 24, 2009 and April 25, 2008, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits for fiscal years 2009 and 2008 is as follows:

	Fiscal Years	
(in millions)	2009	2008
Gross unrecognized tax benefits at beginning of fiscal year	$ 455	$ 408
Gross increases:		
Prior year tax positions	3	21
Current year tax positions	106	51
Gross decreases:		
Prior year tax positions	(116)	(23)
Settlements	(15)	(2)
Statute of limitation lapses	(2)	—
Gross unrecognized tax benefits at end of fiscal year	$ 431	$ 455

If all of the Company's unrecognized tax benefits as of April 24, 2009 and April 25, 2008 were recognized, $360 million and $370 million would impact the Company's effective tax rate, respectively. Although the Company believes that it has adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on the Company's effective tax rate in future periods. The Company has recorded the FIN No. 48 liability as a long-term liability, as it does not expect significant payments to occur or the total amount of unrecognized tax benefits to change significantly over the next 12 months. Prior to the adoption of FIN No. 48, the Company classified uncertain tax positions in *current accrued income taxes* on the consolidated balance sheet.

The Company recognizes interest and penalties related to income tax matters in the *provision for income taxes* in the consolidated statement of earnings and records the liability in the current or long-term income taxes payable, as appropriate. The Company had $114 million and $126 million of accrued gross interest and penalties as of April 24, 2009 and April 25, 2008, respectively. During the fiscal year ended April 24, 2009, the Company recognized interest expense, net of tax benefit, of approximately $18 million in the *provision for income taxes* in the consolidated statement of earnings.

Tax audits associated with the allocation of income, and other complex issues, may require an extended period of time to resolve and may result in income tax adjustments if changes to the Company's allocation are required between jurisdictions with different tax rates. Tax authorities periodically review the Company's tax returns and propose adjustments to the Company's tax filings. The IRS has settled its audits with the Company for all years through fiscal year 1996. Tax years settled with the IRS may remain open for foreign tax audits and competent authority proceedings. Competent authority proceedings are a means to resolve intercompany pricing disagreements between countries.

In August 2003, the IRS proposed adjustments arising out of its audit of the fiscal years 1997, 1998 and 1999 tax returns. The Company initiated defense of these adjustments at the IRS appellate level and in the second quarter of fiscal year 2006 the Company reached settlement on most, but not all matters. The remaining issue relates to the allocation of income between Medtronic, Inc., and its wholly owned subsidiary in Switzerland. On April 16, 2008, the IRS issued a statutory notice of deficiency with respect to this remaining issue. The Company filed a Petition with the U.S. Tax Court on July 14, 2008 objecting to the deficiency and intends to defend its position vigorously.

In September 2005, the IRS issued its audit report for fiscal years 2000, 2001 and 2002. In addition, the IRS issued its audit report for fiscal years 2003 and 2004 in March 2007. The Company has reached agreement with the IRS on substantially all of the proposed adjustments for these fiscal years 2000 through 2004. The only item of significance that remains open for these years relates to the carryover impact of the allocation of income issue proposed for fiscal years 1997 through 1999.

In March 2009, the IRS issued its audit report for fiscal years 2005 and 2006. The Company has reached agreement with the IRS on many, but not all, of the proposed adjustments for fiscal years 2005 and 2006. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly owned subsidiaries and the timing of the deductibility of a settlement payment. For the proposed adjustments that the Company does not agree with, the Company has filed its protest with the IRS.

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

14. Retirement Benefit Plans

The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), post-retirement medical plans (post-retirement benefits), defined contribution savings plans and termination indemnity plans, covering substantially all U.S. employees and many employees outside the U.S. The cost of these plans was $223 million, $222 million and $184 million in fiscal years 2009, 2008 and 2007, respectively. The Company adopted the measurement date provisions of SFAS No. 158 effective April 26, 2008. The U.S. plans and some plans outside the U.S. previously had a measurement date of January 31. All plans now measure their funded status as of the Company's year end. The adoption of the measurement date provisions of SFAS No. 158 resulted in an after-tax decrease to shareholders' equity of $13 million, a decrease to other long-term assets of $5 million and an increase to long-term accrued compensation and retirement benefits of $8 million.

In the U.S., the Company maintains a qualified pension plan designed to provide guaranteed minimum retirement benefits to all eligible U.S. employees. Pension coverage for non-U.S. employees of the Company is provided, to the extent deemed appropriate, through separate plans. In addition, U.S. and Puerto Rico employees of the Company are also eligible to receive specified Company paid healthcare and life insurance benefits through the Company's post-retirement medical plans. In addition to the benefits provided under the qualified pension plan, retirement benefits associated with wages in excess of the IRS allowable limits are provided to certain employees under a non-qualified plan.

As of April 24, 2009 and 2008, the net (underfunded)/overfunded status of the Company's benefit plans was $(157) million and $90 million, respectively.

The change in benefit obligation and funded status of the Company's employee retirement plans follow:

(in millions)	U.S. Pension Benefits Fiscal Year 2009	U.S. Pension Benefits Fiscal Year 2008	Non-U.S. Pension Benefits Fiscal Year 2009	Non-U.S. Pension Benefits Fiscal Year 2008	Post-Retirement Benefits Fiscal Year 2009	Post-Retirement Benefits Fiscal Year 2008
Accumulated benefit obligation at end of year:	$ 759	$ 751	$ 308	$ 324	$ 174	$ 184
Change in projected benefit obligation:						
Projected benefit obligation at beginning of year	$ 902	$ 868	$ 400	$ 353	$ 184	$ 196
Adjustment due to adoption of SFAS No. 158 measurement date provisions	34	—	4	—	6	—
Service cost	74	72	29	32	14	16
Interest cost	60	52	19	16	12	12
Employee contributions	—	—	10	9	5	4
Plan amendments	—	1	—	1	—	—
Actuarial gain	(199)	(70)	(8)	(49)	(36)	(35)
Benefits paid	(29)	(24)	(8)	(14)	(12)	(10)
Medicare Part D reimbursements	—	—	—	—	1	—
Special termination benefits	—	3	—	—	—	1
Foreign currency exchange rate changes	—	—	(73)	52	—	—
Projected benefit obligation at end of year	842	902	373	400	174	184
Change in plan assets:						
Fair value of plan assets at beginning of year	1,100	1,008	335	280	141	127
Adjustment due to adoption of SFAS No. 158 measurement date provisions	(25)	—	1	—	(3)	—
Actual (loss)/return on plan assets	(302)	31	(49)	(26)	(41)	1
Employer contributions	89	85	66	42	18	19
Employee contributions	—	—	10	9	5	4
Benefits paid	(29)	(24)	(8)	(14)	(12)	(10)
Foreign currency exchange rate changes	—	—	(64)	44	—	—
Fair value of plan assets at end of year	833	1,100	291	335	108	141
Funded status at end of year:						
Fair value of plan assets	833	1,100	291	335	108	141
Benefit obligations	842	902	373	400	174	184
Overfunded/(underfunded) status of the plan	(9)	198	(82)	(65)	(66)	(43)
Recognized asset (liability)	$ (9)	$ 198	$ (82)	$ (65)	$ (66)	$ (43)
Amounts recognized on the consolidated balance sheet consist of:						
Non-current assets	$ 82	$ 300	$ 1	$ 2	$ —	$ —
Current liabilities	(5)	(5)	(1)	(2)	—	—
Non-current liabilities	(86)	(97)	(82)	(65)	(66)	(43)
Recognized asset (liability)	$ (9)	$ 198	$ (82)	$ (65)	$ (66)	$ (43)
Amounts recognized in accumulated other comprehensive (loss)/income:						
Prior service (benefit)/cost	$ (7)	$ (9)	$ 7	$ 9	$ 2	$ 3
Net actuarial loss	465	221	90	41	44	19
Ending balance	$ 458	$ 212	$ 97	$ 50	$ 46	$ 22

In certain countries outside the U.S., fully funding pension plans is not a common practice, as funding provides no income tax benefit. Consequently, certain pension plans were partially funded as of April 24, 2009 and April 25, 2008. U.S. and non-U.S. plans with accumulated benefit obligations in excess of plan assets consist of the following:

	Fiscal Year	
(in millions)	2009	2008
Accumulated benefit obligation	$ 239	$ 129
Projected benefit obligation	256	159
Plan assets at fair value	104	15

Plans with projected benefit obligations in excess of plan assets:

	Fiscal Year	
(in millions)	2009	2008
Projected benefit obligation	$ 432	$ 403
Plan assets at fair value	258	232

The net periodic benefit costs of the plans include the following components:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Post-Retirement Benefits		
	Fiscal Year			Fiscal Year			Fiscal Year		
(in millions)	2009	2008	2007	2009	2008	2007	2009	2008	2007
Service cost	$ 74	$ 72	$ 64	$ 29	$ 32	$ 27	$ 14	$ 16	$ 13
Interest cost	60	52	45	19	16	12	12	12	10
Expected return on plan assets	(99)	(87)	(74)	(20)	(18)	(13)	(12)	(11)	(9)
Amortization of prior service costs	(1)	(1)	(1)	1	1	1	—	—	—
Amortization of net actuarial loss	6	15	15	—	2	2	—	2	2
Net periodic benefit cost	40	51	49	29	33	29	14	19	16
Special termination benefits	—	3	—	—	—	—	—	1	—
Total cost for period	$ 40	$ 54	$ 49	$ 29	$ 33	$ 29	$ 14	$ 20	$ 16

The changes in the components of unrecognized benefit plan costs for fiscal year 2009 are as follows:

(in millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Post-Retirement Benefits
Net actuarial loss	$ 250	$ 60	$ 24
Adjustment due to adoption of SFAS No. 158 measurement date provisions	1	1	—
Amortization of prior service costs	1	(1)	—
Amortization of net actuarial loss	(6)	—	—
Effect of exchange rates	—	(13)	—
Changes in unrecognized benefit plan costs	$ 246	$ 47	$ 24

The estimated amounts that will be amortized from accumulated other comprehensive (loss)/income into net periodic benefit cost, before tax, in fiscal year 2010 are as follows:

(in millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Post-Retirement Benefits
Amortization of prior service cost	$ (1)	$ —	$ —
Amortization of net actuarial loss	2	1	2
	$ 1	$ 1	$ 2

The actuarial assumptions were as follows:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Post-Retirement Benefits		
	Fiscal Year			Fiscal Year			Fiscal Year		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Weighted average assumptions – projected benefit obligation:									
Discount rate	8.25%	6.75%	6.00%	5.41%	5.37%	4.42%	8.25%	6.75%	6.00%
Rate of compensation increase	4.00%	4.24%	4.24%	2.90%	3.10%	3.09%	N/A	N/A	N/A
Healthcare cost trend rate	N/A	N/A	N/A	N/A	N/A	N/A	8.50%	9.00%	10.00%
Weighted average assumptions – net periodic benefit cost:									
Discount rate	6.75%	6.00%	6.00%	5.37%	4.42%	4.34%	6.75%	6.00%	6.00%
Expected return on plan assets	8.75%	8.75%	8.75%	5.97%	5.76%	5.59%	8.75%	8.75%	8.75%
Rate of compensation increase	4.24%	4.24%	4.24%	3.10%	3.09%	3.07%	N/A	N/A	N/A
Healthcare cost trend rate	N/A	N/A	N/A	N/A	N/A	N/A	9.00%	10.00%	9.00%

The Company's discount rates are determined by considering current yield curves representing high quality, long-term fixed income instruments. The resulting discount rates are consistent with the duration of plan liabilities.

The expected long-term rate of return on plan assets assumptions is determined using a building block approach, considering historical averages and real returns of each asset class. In certain countries, where historical returns are not meaningful, consideration is given to local market expectations of long-term returns.

Retirement Benefit Plan Investment Strategy The Company has an account that holds the assets for both the U.S. pension plan and other post-retirement benefits, primarily retiree medical. For investment purposes, the plans are managed in an identical way, as their objectives are similar.

The Company has a Qualified Plan Committee (the Plan Committee) that sets investment guidelines with the assistance of an external consultant. These guidelines are established based on market conditions, risk tolerance, funding requirements and expected benefit payments. The Plan Committee also oversees the investment allocation process, selects the investment managers and monitors asset performance. As pension liabilities are long-term in nature, the Company employs a long-term total return approach to maximize the long-term rate of return on plan assets for a prudent level of risk. An annual analysis on the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption.

The investment portfolio contains a diversified portfolio of investment categories, including equities, fixed income securities, hedge funds and private equity. Securities are also diversified in terms of domestic and international securities, short- and long-term securities, growth and value styles, large cap and small cap stocks, active and passive management and derivative-based styles. The Plan Committee believes with prudent risk tolerance and asset diversification, the account should be able to meet its pension and other post-retirement obligations in the future.

Plan assets also include investments in the Company's common stock of $38 million and $62 million at April 24, 2009 and April 25, 2008, respectively.

The Company's pension plan weighted average asset allocations and the target allocations at April 24, 2009 and April 25, 2008, by asset category, is as follows:

U.S. Plans

	Pension Benefits Allocation		Target Allocation	
	2009	2008	2009	2008
Asset Category				
Equity securities	46%	53%	60%	60%
Debt securities	19	11	10	10
Other	35	36	30	30
Total	100%	100%	100%	100%

Non-U.S. Plans

	Pension Benefits Allocation		Target Allocation	
	2009	2008	2009	2008
Asset Category				
Equity securities	36%	41%	37%	41%
Debt securities	16	12	15	14
Cash	4	1	—	—
Other	44	46	48	45
Total	100%	100%	100%	100%

It is the Company's policy to fund retirement costs within the limits of allowable tax deductions. During fiscal year 2009, the Company made discretionary contributions of approximately $89 million to the U.S. pension plan and approximately $18 million to fund post-retirement benefits. Internationally, the Company contributed approximately $66 million for pension benefits during fiscal year 2009. During fiscal year 2010, the Company anticipates that its contribution for pension benefits and post-retirement benefits will be consistent with those contributions made during fiscal year 2009. Based on the guidelines under the U.S. Employee Retirement Income Security Act (ERISA) and the various guidelines which govern the plans outside the U.S., the majority of anticipated fiscal year 2010 contributions will be discretionary.

Retiree benefit payments, which reflect expected future service, are anticipated to be paid as follows:

(in millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Post-Retirement Benefits	
Fiscal Year	Gross Payments	Gross Payments	Gross Payments	Gross Medicare Part D Receipts
2010	$ 32	$ 12	$ 8	$ 1
2011	36	14	9	1
2012	41	15	10	1
2013	46	16	11	1
2014	52	17	13	1
2015 – 2019	377	105	96	13
Total	$ 584	$ 179	$ 147	$ 18

In August 2006, the Pension Protection Act was signed into law in the U.S. The Pension Protection Act replaces the funding requirements for defined benefit pension plans by subjecting defined benefit plans to 100 percent of the current liability funding target. Defined benefit plans with a funding status of less than 80 percent of the current liability are defined as being "at risk." The Pension Protection Act was effective for the 2008 plan year. The Company's U.S. qualified defined benefit plans are funded in excess of 80 percent, and therefore the Company expects that the plans will not be subject to the "at risk" funding requirements of the Pension Protection Act and that the law will not have a material impact on future contributions.

The healthcare cost trend rate for post-retirement benefit plans was 8.5 percent at April 24, 2009. The trend rate is expected to decline to 5.0 percent over a five-year period. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

(in millions)	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on post-retirement benefit cost	$ 2	$ (2)
Effect on post-retirement benefit obligation	9	(9)

Defined Contribution Savings Plans The Company has defined contribution savings plans that cover substantially all U.S. employees and certain non-U.S. employees. The general purpose of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on employee contributions and Company performance and starting in fiscal year 2006 the entire match is made in cash. Expense under these plans was $103 million, $85 million and $64 million in fiscal years 2009, 2008 and 2007, respectively.

Effective May 1, 2005, the Company froze participation in the existing defined benefit pension plan in the U.S. and implemented two new plans including an additional defined benefit pension plan and a new defined contribution pension plan, respectively: the Personal Pension Account (PPA) and the Personal Investment Account (PIA). Employees in the U.S. hired on or after May 1, 2005 have the option to participate in either the PPA or the PIA. Participants in the PPA receive an annual allocation of their salary and bonus on which they will receive an annual guaranteed rate of return which is based on the 10-year Treasury bond rate. Participants in the PIA also receive an annual allocation of their salary and bonus; however, they are allowed to determine how to invest their funds among identified fund alternatives. The cost associated with the PPA is included in the U.S. Pension Benefits in the tables presented earlier. The defined contribution cost associated with the PIA was approximately $37 million, $30 million and $25 million in fiscal years 2009, 2008 and 2007, respectively.

15. Leases

The Company leases office, manufacturing and research facilities and warehouses, as well as transportation, data processing and other equipment under capital and operating leases. A substantial number of these leases contain options that allow the Company to renew at the fair rental value on the date of renewal.

Future minimum payments under capitalized leases and non-cancelable operating leases at April 24, 2009 are:

(in millions) Fiscal Year	Capitalized Leases	Operating Leases
2010	$ 17	$ 77
2011	19	50
2012	19	31
2013	21	23
2014	—	21
2015 and thereafter	—	35
Total minimum lease payments	$ 76	$ 237
Less amounts representing interest	(9)	N/A
Present value of net minimum lease payments	$ 67	N/A

Rent expense for all operating leases was $150 million, $135 million and $112 million in fiscal years 2009, 2008 and 2007, respectively.

In April 2006, the Company entered into a sale-leaseback agreement with a financial institution whereby certain manufacturing equipment was sold to the financial institution and is being leased by the Company over a seven year period. The transaction has been recorded as a capital lease and included in the preceding table. Payments for the remaining balance of the sale-leaseback agreement are due semi-annually. The lease provides for an early buyout option whereby the Company, at its option, could repurchase the equipment at a predetermined fair market value in calendar year 2009.

16. Contingencies

The Company is involved in a number of legal actions. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, that could require significant expenditures or result in lost revenues. In accordance with SFAS No. 5, the Company records a liability in the consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. While it is not possible to predict the outcome for most of the matters discussed, the Company believes it is possible that costs associated with them could have a material adverse impact on the Company's consolidated earnings, financial position or cash flows.

Litigation with Wyeth and Cordis Corporation

On February 22, 2008, Wyeth and Cordis filed a lawsuit against the Company and its subsidiary, Medtronic AVE, Inc., in U.S. District Court for the District of New Jersey, alleging that Medtronic's Endeavor drug-eluting stent infringes three U.S. "Morris" patents alleged to be owned by Wyeth and exclusively licensed to Cordis. The Company believes it is indemnified for the claims made by Wyeth and Cordis. The Company has not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Litigation with Johnson & Johnson and Cordis Corporation

On February 20, 2006, an arbitration panel issued a final, non-appealable award concluding that Medtronic Vascular's S670, S660, S540, S7 and Driver stents, which were formerly the subject of a patent infringement dispute between J&J and Cordis and Medtronic Vascular, are licensed under a 1997 agreement between the two companies and subject to a covenant not to sue contained within a 1998 amendment to the 1997 agreement. Cordis since initiated six arbitration proceedings against Medtronic Vascular alleging that certain of the products infringe certain patents of J&J and Cordis, and is seeking royalties for such infringement, if any. On May 8, 2009, the parties settled the six arbitrations, including all current and potential disputes between the two parties under their 1997 agreement relating to coronary angioplasty stent design and balloon material patents. As consideration for the settlement, Medtronic paid J&J and Cordis a lump sum of $270 million on May 8, 2009, and recorded an expense of $270 million in the matter.

Litigation with Abbott Cardiovascular Systems Inc.

On December 24, 1997, Abbott Cardiovascular Systems Inc. (ACS), a subsidiary of Abbott Laboratories (Abbott), sued Medtronic Vascular in U.S. District Court for the Northern District of California alleging that certain models of Medtronic Vascular's bare metal stents infringe the Lau stent patents held by ACS, and seeking injunctive relief and monetary damages. In February 2005, following trial in Delaware federal district court, a jury determined that the ACS Lau stent patents were valid and that Medtronic's Driver, GFX, MicroStent, S540, S660, S670, Bestent2 and S7 stents (the bare metal stents) infringe those patents. Medtronic Vascular made numerous post-trial motions challenging the jury's verdict of infringement and validity. In August 2005, the Court issued an order continuing a stay of any further proceedings on the questions of damages or willful infringement.

On March 30, 2007, the District Court denied Medtronic's post-trial motions, and on April 24, 2007, the District Court ruled that the patents were enforceable. In May 2007, the District Court entered judgment in favor of ACS and against Medtronic Vascular on the issues of validity, infringement and enforceability of the Lau patents. On May 18, 2007, the District Court confirmed that a trial on issues of damages or willful infringement would be deferred pending the U.S. Court of Appeals for the Federal Circuit review of the liability issues concerning alleged infringement, invalidity and inequitable conduct.

ACS filed a motion for injunction in the District Court on June 29, 2007 on both the bare metal stents and the Endeavor drug-eluting stent, which had never previously been named as an accused product in the lawsuit. On July 6, 2007, Medtronic filed its motion to stay ACS's June 29, 2007 motion for a permanent injunction pending arbitration under a 2002 agreement with Abbott providing Medtronic with a license that Medtronic asserted precluded the ACS injunction motion.

On August 6, 2007, the Delaware District Court granted Medtronic's July 6, 2007 motion to stay, in part, permitting arbitration to proceed on Medtronic's assertion that it has a license to practice the U.S. Lau patents in its Endeavor stent. On February 26, 2008, an arbitrator concluded that the Company was not licensed to practice the U.S. Lau patents in its Endeavor stent and ACS filed a sealed motion with the District Court seeking to lift the July 6, 2007 stay of proceedings on ACS's motion for an injunction as to Endeavor. On September 29, 2008, the Delaware District Court granted ACS's motion to lift the stay of proceedings with regard to Endeavor and then denied ACS's motion for a permanent injunction with respect to both Driver and Endeavor. On October 2, 2008, Medtronic filed its Notice of Appeal to the U.S. Court of Appeals for the Federal Circuit with respect to the May 2007 judgment in favor of ACS, and all other adverse rulings to Medtronic. On October 15, 2008, ACS appealed from the District Court's September 29, 2008 order denying ACS's request for a permanent injunction. Medtronic filed its principal brief in the appeal on January 26, 2009. Briefing is expected to be completed by early June 2009, after which the U.S. Court of Appeals for the Federal Circuit will set a date for hearing oral argument.

On June 18, 2008, Abbott initiated legal proceedings in the Netherlands against Medtronic BV, Medtronic Trading NL BV and BV Medtronic FSC asserting that certain of Medtronic's Driver, Endeavor and Endeavor Resolute large vessel diameter stents infringe an Abbott European Lau patent issued on June 18, 2008. On August 28, 2008, a judge of the district court granted Abbott a preliminary injunction against Medtronic prohibiting Medtronic from making, selling and distributing certain large vessel diameter Medtronic stents in the Netherlands. On March 11, 2009 the three judge Netherlands trial court issued an opinion in favor of Medtronic, finding that the accused large vessel stents did not infringe Abbott's European Lau patent and permitting Medtronic to seek damages for the time during which the preliminary injunction was in effect. The court did not decide whether the European Lau patent was valid, but deferred ruling until the European Patent Office ruled on pending oppositions to the patent. The European Lau patent remains subject to challenges to the patent's validity in opposition proceedings in the European patent office. Abbott has filed similar lawsuits against Medtronic's large vessel bare metal stents in France, Germany and Japan. In the German proceeding, a trial date is set for August 20, 2009. In France, a trial is scheduled for November 30, 2009. In Japan, a series of hearings are being held throughout 2009. The first hearing was on February 2, 2009 , and the next will be on July 15, 2009.

In response to Medtronic's Request for Reexamination for each of the four Lau patents, in December 2006, the United States Patent and Trademark Office (USPTO) issued an initial "office action" finding that the claims which Medtronic products were previously found to have infringed were not patentable. The USPTO granted a second petition to reexamine each of the four Lau patents in 2007. On June 30, 2008, the USPTO determined for a second time that all of the claims of the earliest Lau patent (US 5,514,154) that Medtronic was found to infringe were invalid. After granting a third petition to reexamine two of the other four Lau patents (US 6,066,167 and 6,066,168) in 2008, on September 30, 2008, the USPTO again determined that all claims of those two Lau patents that Medtronic was found to have infringed were invalid. Finally, with respect to the fourth and latest issued Lau patent (US 6,432,133), on March 3, 2008, the USPTO again determined that all claims of this Lau patent that Medtronic was found to infringe were invalid with the exception of a single claim. This latest issued Lau patent is involved in a reexamination proceeding, which allows Medtronic to participate in the USPTO proceedings. Responses to the USPTO's rejection of the claims of this patent were filed by both parties in October 2008. The patent holder will have an opportunity to challenge the USPTO's determinations in further proceedings in the reexaminations. Until these reexaminations are concluded, their potential impact upon the claims relating to the Lau patents in the above proceeding remains unknown.

The Company has not recorded an expense related to damages in this matter because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Litigation with DePuy Spine

On January 26, 2001, DePuy Spine (formerly DePuy/AcroMed), a subsidiary of J&J, and Biedermann Motech GmbH (collectively, DePuy) filed suit in U.S. District Court for the District of Massachusetts alleging that Medtronic's subsidiary, Medtronic Sofamor Danek USA, Inc. (MSD), was infringing a patent relating to a design for a thoracolumbar multi-axial screw (MAS). DePuy subsequently supplemented its allegations to claim that MSD's M10, M8 and Vertex screws infringe the patent. On April 17, 2003 and February 26, 2004, the District Court ruled on summary judgment that the M10, M8 and Vertex screws do not infringe. On October 1, 2004, a jury found that MAS screws, which MSD no longer sells in the U.S., infringe under the doctrine of equivalents. The jury awarded damages of $21 million and on February 9, 2005, the Court entered judgment against MSD, including prejudgment interest, in the aggregate amount of $24 million. In the third quarter of fiscal year 2005, the Company recorded an expense equal to the $24 million judgment in the matter. DePuy appealed the Court's decisions that the M10, M8 and Vertex screws do not infringe, and MSD appealed the jury's verdict that the MAS screws infringe valid claims of the patent. On November 20, 2006, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the District Court that the M10 and M8 screws do not infringe, affirmed the jury's verdict and damage award on the MAS screws, affirmed the decision that the Vertex screws do not literally infringe, but remanded the case, ruling that there is a triable issue of fact as to whether the Vertex screws infringe under the doctrine of equivalents. On remand, DePuy further supplemented its allegations to claim that an additional product, the Vertex Max screws, also infringe. On March 20, 2007, the District Court declined to stay execution of the judgment relating to the MAS product. On March 30, 2007, the judgment plus accrued interest was paid under protest. On September 27, 2007, a jury found that the Vertex and Vertex Max screws infringe under the doctrine of equivalents and awarded $226 million in damages to DePuy, and the District Court entered judgment against Medtronic on December 12, 2007. Thereafter, the District Court ruled on all post-trial motions, increasing the award to DePuy to an estimated amount of $272 million. The District Court also granted a permanent injunction against Medtronic that prohibits Medtronic from making, using and selling Vertex and Vertex Max polyaxial screws in the U.S.; however, Medtronic's Vertex Select multi-axial screw is not affected by the injunction. Medtronic appealed to the U.S. Court of Appeals for the Federal Circuit. DePuy cross-appealed. On June 1, 2009, the Court of Appeals for the Federal Circuit affirmed the determination of infringement and award of lost profits, but reversed the remaining elements of the damages awarded. The court remanded the case to the District Court for the calculation of post-judgment interest on damages of $149 million. The final judgment will also include pre-judgment interest. In the fourth quarter of fiscal year 2009, the Company recorded an expense in the amount of $178 million relating to the matter.

Marquis/Maximo/InSync Matters

On February 10, 2005, Medtronic voluntarily began to advise physicians about the possibility that a specific battery shorting mechanism might manifest itself in a subset of ICDs and cardiac resynchronization therapy-defibrillators (CRT-Ds). These included certain Marquis VR/DR and Maximo VR/DR ICDs and certain InSync I/II/III CRT-D devices. Subsequent to this voluntary field action, a number of lawsuits were filed against the Company alleging a variety of claims, including individuals asserting claims of personal injury and third party payors alleging entitlement to reimbursement. Many of these lawsuits were settled, and in the third quarter of fiscal year 2008, the Company recorded an expense of $123 million relating to the settlement in accordance with SFAS No. 5 as the potential loss was both probable and reasonably estimable. The Company paid substantially all of the $123 million in the first quarter of fiscal year 2009. O ne third party payor , Kinetic Knife, dismissed its original action without prejudice and subsequently filed a putative class action relating to the same subject matter. Medtronic removed the action to federal court in the District of Minnesota and filed a motion to dismiss, which is pending. In addition, class action product liability suits pending in Canada are consolidated in the Ontario Superior Court of Justice. That court certified a class proceeding on December 6, 2007 and denied Medtronic's leave to appeal certification on May 15, 2008. The class was certified to include individual implant recipients and their family members. In addition, the subrogated claims of the provincial health insurers to recover costs incurred in providing medical services to the implant class are claimed in the class proceeding. Pretrial proceedings are underway. The Company has not recorded an expense related to damages for the remaining suits because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Sprint Fidelis Product Liability Matters

On October 15, 2007, the Company voluntarily suspended worldwide distribution of its Sprint Fidelis (Fidelis) family of defibrillation leads. The leads are used to deliver therapy in patients with ICDs, but are generally not used in pacemaker patients. The U.S. Food and Drug Administration (FDA) subsequently classified the Company's action as a Class I recall. As of June 15 , 2009, approximately 1,250 lawsuits regarding the Fidelis leads have been filed against the Company, including approximately 37 putative class action suits reflecting a total of approximately 2,300 individual personal injury cases. In general, the suits allege claims of product liability, warranty, negligence, unjust enrichment, emotional distress and consumer protection violations. One lawsuit includes a claim by an individual purporting to act as a surrogate for the Center for Medicare and Medicaid Services, and one lawsuit has been brought by a third party payor as a putative class action suit. In addition, one putative class action has been filed in the Ontario Superior Court of Justice in Canada. Approximately 400 of the lawsuits have been filed in state court, generally alleging similar causes of action. Of those state court actions, approximately 380 are consolidated before a single judge in Hennepin County District Court in the state of Minnesota. That judge has scheduled a hearing on Medtronic's motion to dismiss the Minnesota cases for September 4, 2009, and discovery continues to be stayed. The federal court cases have been consolidated for pretrial proceedings before a single federal judge in the U.S. District Court for the District of Minnesota pursuant to the Multi-District Litigation (MDL) rules. On January 5, 2009, the MDL court entered an order dismissing with prejudice the master consolidated complaint for individuals and the master consolidated complaint for third party payors on grounds of federal preemption. On May 12, 2009, the MDL court denied plaintiffs' request to file a motion for reconsideration of the dismissals and plaintiffs' motion seeking permission to amend the master consolidated complaint. The court dismissed with prejudice 229 cases that adopted the master consolidated complaint and stayed all other cases pending further order of the court. Plaintiffs in the 229 cases filed a notice of appeal to the Eighth Circuit Court of Appeals on May 29, 2009. Oral argument in the Court of Appeals is anticipated in December 2009. Discovery in the Minnesota state court continues to be stayed .

The Company has not recorded an expense related to damages in connection with the matter because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Shareholder Related Matters

On November 8, 2007, Stanley Kurzweil filed a putative class action complaint against the Company and certain of its officers in the U.S. District Court for the District of Minnesota, alleging violations of Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act) and Rule 10b-5 thereunder. The complaint is brought on behalf of persons or entities who purchased securities of Medtronic during the period of June 25, 2007 through October 15, 2007. The complaint alleges that "materially false and misleading" representations were made as to the market acceptance and use of the Fidelis defibrillator leads to artificially inflate Medtronic's stock price. Pursuant to court order, the caption of the case was changed to Medtronic, Inc., Securities Litigation, and a consolidated putative class action complaint was filed on April 18, 2008. On March 10, 2009, the court entered an order dismissing the complaint with prejudice and denying plaintiffs leave to amend. Plaintiffs have filed a motion to alter the judgment, which was denied on May 29, 2009.

On November 29 and December 14, 2007 respectively, Feivel Gottlieb and Alan Weinberg filed shareholder derivative actions in Hennepin County District Court in the state of Minnesota against both the Company and certain of its officers and directors, alleging breach of fiduciary duty, waste of corporate assets and other claims arising from the same subject matter as the consolidated class action complaint. On July 28, 2008, the state court stayed these actions pending final resolution of the related consolidated class action complaint.

Similarly, on January 9, 2008, Iris Markewich filed a shareholder derivative action against both the Company and certain of its officers, directors, and employees (the defendants) in the U.S. District Court for the District of Minnesota, alleging breach of fiduciary duty, waste of corporate assets and other claims arising from the same subject matter as the consolidated class action complaint. After the defendants moved to dismiss the complaint, the plaintiffs amended their complaint to add similar allegations relating to alleged off-label promotion of INFUSE Bone Graft. On May 11, 2009, the court granted the defendants motion to dismiss without prejudice.

On January 9, 2009, Richard Gulbrandsen filed a similar shareholder derivative action against both the Company and certain of its officers, directors and employees in Hennepin County District Court in the state of Minnesota, alleging breach of fiduciary duty and other claims arising from the same subject matter as the Markewich putative class action complaint. On April 9, 2009, the court stayed the action until resolution of the Markewich matter pursuant to a stipulation of the parties.

In addition, on August 11, 2008, Mark Brown filed a complaint against the Company and certain directors, officers and other company personnel in the U.S. District Court for the District of Minnesota, alleging violations of the Employee Retirement Income Security Act arising from the same subject matter as the consolidated putative class complaint. The complaint was filed on behalf of a putative class of participants in and beneficiaries of the Medtronic Inc. Saving and Investment Plan whose individual accounts hold shares of company stock at any time from February 15, 2007 to November 19, 2007. On December 29, 2008, the plaintiff amended the complaint to add similar allegations relating to alleged off-label promotion of INFUSE Bone Graft and to amend the class to include participants in the plan from February 15, 2007 to December 12, 2008. The defendants' motion to dismiss was granted on May 26, 2009.

On December 11, 2008, the Minneapolis Firefighters' Relief Association filed a putative class action complaint against the Company and two of its officers in the U.S. District Court for the District of Minnesota, alleging violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The complaint is brought on behalf of persons or entities who purchased securities of Medtronic from November 19, 2007 through November 17, 2008. The complaint alleges that the defendants made false and misleading public statements concerning the INFUSE Bone Graft product which artificially inflated Medtronic's stock price during the period. On May 28, 2009, the court order appointed a lead plaintiff and lead counsel.

On February 24, 2009, Christin Wright filed a complaint against the Company and certain directors, officers and other company personnel in the United States District Court for the District of Minnesota, alleging violations of the Employee Retirement Income Security Act. The complaint was filed purportedly on behalf of a putative class comprised of participants and beneficiaries of the Medtronic Savings and Investment Plan whose individual accounts held shares of company stock at any time from June 28, 2006 to November 18, 2008. The plaintiff claims the defendants breached fiduciary duties by allegedly failing to properly disclose the September 2008 settlement of the Fastenetix litigation and the October 2008 settlement of the Cordis litigation.

The Company has not recorded an expense related to damages in connection with these shareholder related matters because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Mirowski

Medtronic is a licensee to the RE 38,119 patent (‘119 Patent) and RE 38,897 patent (‘897 Patent) owned by Mirowski Family Ventures, LLC (Mirowski) relating to the treatment of hemodynamic dysfunction. Medtronic and Mirowski dispute the application of the ‘119 and ‘897 Patents to certain Medtronic cardiac resynchronization products. The parties entered into a tolling agreement deferring and conditioning any litigation of the dispute upon conditions precedent. The tolling agreement expired on October 1, 2007. In subsequent notices, Mirowski identified certain claims of the two patents that Mirowski asserts Medtronic is using. On December 17, 2007, Medtronic filed an action in U.S. District Court in Delaware seeking a declaration that none of its products infringe any valid claims of either the ‘119 or ‘897 Patents. If certain conditions are fulfilled, the ‘119 and/or ‘897 Patents are determined to be valid and the Medtronic products are found to infringe the ‘119 and/or ‘897 Patents, Medtronic will be obligated to pay royalties to Mirowski based upon sales of certain CRT-D products. A trial date has not been set. As of April 24, 2009, the amount of disputed royalties and interest related to CRT-D products is $103 million. This amount has not been accrued because the outcome is not currently probable under SFAS No. 5.

In addition, Medtronic is a licensee to the 4,407,288 Patent (‘288 Patent) owned by Mirowski relating to ICDs. Until November 2001, Medtronic accrued and paid royalties under the license based on a percentage of ICD sales. Medtronic and Mirowski dispute the application of the ‘288 Patent to certain Medtronic ICD products. In November 2001, Medtronic ceased paying royalties and entered into an agreement with Mirowski to pay putative royalties into an interest-bearing escrow account through the expiration of the ‘288 Patent in December of 2003. As of April 24, 2009, the current balance in the interest-bearing escrow account is $85 million. The parties also entered into a tolling agreement deferring and conditioning any litigation of the obligation to pay royalties upon certain conditions precedent. If these conditions are fulfilled and the patent determined to be invalid or Medtronic’s products found not to infringe, the escrowed funds will be released to Medtronic.

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

17. Quarterly Financial Data (unaudited)

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Net Sales					
2009	**$ 3,706**	**$ 3,570**	**$ 3,494**	**$ 3,829**	**$ 14,599**
2008	3,127	3,124	3,405	3,860	13,515
Gross Profit					
2009	**$ 2,851**	**$ 2,687**	**$ 2,646**	**$ 2,897**	**$ 11,081**
2008	2,335	2,284	2,535	2,915	10,069
Net Earnings					
2009	**$ 747**	**$ 571**	**$ 723**	**$ 128**	**$ 2,169**
2008	675	666	77	812	2,231
Basic Earnings per Share					
2009	**$ 0.67**	**$ 0.51**	**$ 0.65**	**$ 0.11**	**$ 1.94**
2008	0.59	0.59	0.07	0.72	1.97
Diluted Earnings per Share					
2009	**$ 0.66**	**$ 0.51**	**$ 0.65**	**$ 0.11**	**$ 1.93**
2008	0.59	0.58	0.07	0.72	1.95

The data in the schedule above has been intentionally rounded to the nearest million and therefore the quarterly amounts may not sum to the fiscal year to date amounts.

18. Segment and Geographic Information

The Company functions in seven operating segments, consisting of CRDM, Spinal, CardioVascular, Neuromodulation, Diabetes, Surgical Technologies and Physio-Control.

Each of the Company's operating segments has similar economic characteristics, technology, manufacturing processes, customers, distribution and marketing strategies, regulatory environments and shared infrastructures. Net sales by operating segment are as follows:

	Fiscal Year		
(in millions)	**2009**	**2008**	**2007**
Cardiac Rhythm Disease Management	$ 5,014	$ 4,963	$ 4,876
Spinal	3,400	2,982	2,417
CardioVascular	2,437	2,131	1,909
Neuromodulation	1,434	1,311	1,183
Diabetes	1,114	1,019	863
Surgical Technologies	857	780	666
Physio-Control	343	329	385
Total Net Sales	$ 14,599	$ 13,515	$ 12,299

On December 4, 2006, the Company announced its intention to pursue a spin-off of Physio-Control into an independent, publicly traded company. However, as discussed in the "Other Matters" section of the management's discussion and analysis, the Company announced, in January 2007, a voluntary suspension of U.S. shipments of Physio-Control products manufactured at its facility in Redmond, Washington in order to address quality system issues. The Company continues to work with the FDA to address the quality system issues that must be resolved in order to resume unrestricted distribution of its external defibrillators. As a result of this issue, the Company's plans to pursue a spin-off of Physio-Control are on hold for at least the next twelve months. As additional information, Physio-Control's (loss)/income before interest and income taxes for fiscal years 2009, 2008 and 2007 is $(17) million, $(28) million and $7 million, respectively.

Geographic Information

Net sales to external customers by geography are as follows:

(in millions)	**United States**	**Europe**	**Asia Pacific**	**Other Foreign**	**Consolidated**
Fiscal Year 2009					
Net sales to external customers	$ 8,997	$ 3,564	$ 1,558	$ 480	$ 14,599
Long-lived assets*	$ 7,236	$ 5,660	$ 185	$ 286	$ 13,367
Fiscal Year 2008					
Net sales to external customers	$ 8,336	$ 3,288	$ 1,437	$ 454	$ 13,515
Long-lived assets*	$ 7,456	$ 4,791	$ 168	$ 36	$ 12,451
Fiscal Year 2007					
Net sales to external customers	$ 7,900	$ 2,811	$ 1,195	$ 393	$ 12,299
Long-lived assets*	$ 7,388	$ 604	$ 161	$ 34	$ 8,187

* Excludes other long-term financial instruments and long-term deferred tax assets, net, as applicable.

No single customer represents over 10 percent of the Company's consolidated net sales in fiscal years 2009, 2008 or 2007.

Selected Financial Data

(in millions, except per share data)	Fiscal Year 2009	2008	2007	2006	2005
Operating Results for the Fiscal Year:					
Net sales	$ 14,599	$ 13,515	$ 12,299	$ 11,292	$ 10,055
Cost of products sold	3,518	3,446	3,168	2,815	2,446
Gross margin percentage	75.9%	74.5%	74.2%	75.1%	75.7%
Research and development expense	$ 1,355	$ 1,275	$ 1,239	$ 1,113	$ 951
Selling, general and administrative expense	5,152	4,707	4,153	3,659	3,214
Special charges	100	78	98	100	—
Restructuring charges	120	41	28	—	—
Certain litigation charges	714	366	40	—	654
Purchased in-process research and development charges	621	390	—	364	—
Other expense, net	396	436	212	167	291
Interest expense/(income)	29	(109)	(154)	(87)	(45)
Earnings before income taxes	2,594	2,885	3,515	3,161	2,544
Provision for income taxes	425	654	713	614	740
Net earnings	$ 2,169	$ 2,231	$ 2,802	$ 2,547	$ 1,804
Per Share of Common Stock:					
Basic earnings	$ 1.94	$ 1.97	$ 2.44	$ 2.11	$ 1.49
Diluted earnings	1.93	1.95	2.41	2.09	1.48
Cash dividends declared	0.75	0.50	0.44	0.39	0.34
Financial Position at Fiscal Year-end:					
Working capital	$ 4,313	$ 3,787	$ 5,355	$ 5,971	$ 4,042
Current ratio	2.4:1.0	2.1:1.0	3.1:1.0	2.4:1.0	2.2:1.0
Total assets	$ 23,661	$ 22,198	$ 19,512	$ 19,665	$ 16,617
Long-term debt	6,772	5,802	5,578	5,486	1,973
Shareholders' equity	12,851	11,536	10,977	9,383	10,450
Additional Information:					
Full-time employees at year-end	37,665	36,484	34,554	32,280	29,835
Full-time equivalent employees at year-end	41,158	40,351	37,800	35,733	33,067

Price Range of Medtronic Stock

	Fiscal Quarter First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009 High	$ 54.41	$ 56.55	$ 40.69	$ 34.56
2009 Low	46.98	37.81	28.67	24.38
2008 High	54.05	57.86	51.21	50.44
2008 Low	50.57	47.00	45.25	46.19

Prices are closing quotations. On June 22, 2009, there were approximately 53,600 shareholders of record of the Company's common stock. The regular quarterly cash dividend was 18.75 cents per share for fiscal year 2009 and 12.50 cents per share for fiscal year 2008.

Medtronic, Inc. and Subsidiaries ***As of April 24, 2009***

Company	Jurisdiction of Formation
7157240 Canada Inc.	Canada
Ablation Frontiers BVBA	Belgium
Ablation Frontiers L.L.C.	Delaware
Arterial Vascular Engineering Canada, Company	Nova Scotia
Arterial Vascular Engineering Netherlands Holding B.V.	Netherlands
Arterial Vascular Engineering UK Limited	United Kingdom
AVECOR Cardiovascular Limited	England, Wales
B.V. Medtronic FSC	Netherlands
Cardiotron G.m.b.H.	Germany
Carmel Biosensors Ltd.	Israel
CorMedica Corporation	Delaware
CryoCath Europe B.V.	Netherlands
Fondazione Medtronic Italia	Italy
Fundacion Medtronic Aula Miguel Servet	Spain
IGN AB	Sweden
IGN GmbH	Germany
India Medtronic Private Limited	India
Kyphon Americas, Inc.	Delaware
Kyphon Australia Pty Ltd.	Australia
Kyphon Cayman Ltd.	Cayman Islands
Kyphon GmbH (Austria)	Austria
Kyphon Iberica, S.L.	Spain
Kyphon Ireland Ltd.	Ireland
Kyphon Ireland Research Holding	Ireland
Kyphon Italia S.R.L.	Italy
Kyphon Nippon K.K.	Japan
Kyphon South Africa (Proprietary) Ltd.	South Africa
Kyphon Sàrl	Switzerland
Kyphon UK Limited	United Kingdom
MG Biotherapeutics LLC	Delaware
Magnolia Medical, LLC	Delaware
Medical Education Y.K.	Japan
Medtronic (Africa) (Proprietary) Limited	South Africa
Medtronic (Schweiz) A.G. (Medtronic (Suisse) S.A.)	Switzerland
Medtronic (Shanghai) Ltd.	China
Medtronic (Taiwan) Ltd.	Taiwan
Medtronic (Thailand) Limited	Thailand
Medtronic A/S	Denmark
Medtronic Ablation Frontiers LLC	Delaware
Medtronic Ablation Reorganization LLC	Delaware
Medtronic AF Acquisition LLC	Delaware
Medtronic AF Luxembourg S.a.r.l.	Luxembourg
Medtronic Aktiebolag	Sweden
Medtronic Angiolink, Inc.	Delaware
Medtronic Asia, Ltd.	Minnesota
Medtronic Australasia E.S.P. Company Pty. Limited	Australia
Medtronic Australasia Pty. Limited	New South Wales
Medtronic B.V.	Netherlands
Medtronic Bakken Research Center B.V.	Netherlands
Medtronic Belgium S.A./N.V.	Belgium

Company	Jurisdiction of Formation
Medtronic Bio-Medicus, Inc.	Minnesota
Medtronic CV, LLC	Delaware
Medtronic CV Luxembourg S.a.r.l.	Luxembourg
Medtronic CV Reorganization LLC	Delaware
Medtronic China, Ltd.	Minnesota
Medtronic Comercial Ltda.	Brazil
Medtronic CoreValve LLC	Delaware
Medtronic CryoCath Inc.	Canada
Medtronic CryoCath LP	Canada
Medtronic CryoCath Technologies Inc.	Canada
Medtronic Czechia s.r.o.	Czech Republic
Medtronic Danmark A/S	Denmark
Medtronic Europe BVBA/SPRL	Belgium
Medtronic Europe Sàrl	Switzerland
Medtronic Fabrication SAS	France
Medtronic Finland Oy	Finland
Medtronic France S.A.S.	France
Medtronic Functional Diagnostics Zinetics, Inc.	Utah
Medtronic Functional Diagnostics, Inc.	New Jersey
Medtronic G.m.b.H.	Germany
Medtronic Hellas Medical Device Commercial S.A.	Greece
Medtronic Holding Switzerland G.m.b.H.	Switzerland
Medtronic Hungaria Kereskedelmi Kft	Hungary
Medtronic Ibérica S.A.	Spain
Medtronic InStent (Israel) Ltd.	Israel
Medtronic International Technology, Inc.	Minnesota
Medtronic International Trading Sàrl	Switzerland
Medtronic International Trading, Inc.	Minnesota
Medtronic International, Ltd.	Delaware
Medtronic Interventional Vascular, Inc.	Massachusetts
Medtronic Ireland Limited	Ireland
Medtronic Ireland Manufacturing Limited	Ireland
Medtronic Italia S.p.A.	Italy
Medtronic Japan Co., Ltd.	Japan
Medtronic Korea Co. Ltd.	Korea
Medtronic LLC	Russia
Medtronic Latin America Inc. Sucursal Columbia	Columbian/Amer.
Medtronic Latin America, Inc.	Minnesota
Medtronic Lifelink MD, Inc.	Delaware
Medtronic Limited	United Kingdom
Medtronic Medical Appliance Technology and Service (Shanghai) Ltd.	China
Medtronic Medical Technology Ticaret Limited Sirketi	Turkey
Medtronic Mediterranean SAL	Beirut, Lebanon
Medtronic Mexico S. de R.L. de C.V. (Tijuana)	Mexico
Medtronic Micro Motion Sciences, Inc.	Delaware
Medtronic MiniMed, Inc.	Delaware
Medtronic Navigation Israel Ltd.	Israel
Medtronic Navigation, Inc.	Delaware
Medtronic New Zealand Limited	New Zealand
Medtronic Norge AS	Norway
Medtronic Oesterreich G.m.b.H.	Austria
Medtronic PS Medical, Inc.	California
Medtronic Pacific Trading, Inc.	Minnesota
Medtronic Physio-Control Limited	United Kingdom

Company	Jurisdiction of Formation
Medtronic Poland Sp. z o.o.	Poland
Medtronic Portugal - Comércio e Distribuiçao de Aparelhos Médicos Lda	Portugal
Medtronic Puerto Rico Operations Co.	Cayman Islands
Medtronic S. de R.L. de C.V. (Mexico City)	Mexico
Medtronic S.A.I.C.	Argentina
Medtronic Servicios S. de R.L. de C.V.	Mexico
Medtronic Singapore Operations Pte. Ltd.	Singapore
Medtronic Sofamor Danek (NZ) Limited	New Zealand
Medtronic Sofamor Danek (UK) Ltd.	England, Wales
Medtronic Sofamor Danek Australia Pty. Ltd.	Australia
Medtronic Sofamor Danek Co., Ltd.	Japan
Medtronic Sofamor Danek Deggendorf GmbH	Germany
Medtronic Sofamor Danek South Africa (Proprietary) Limited	South Africa
Medtronic Sofamor Danek USA, Inc.	Tennessee
Medtronic Sofamor Danek, Inc.	Indiana
Medtronic Spinal and Biologics Europe BVBA	Belgium
Medtronic Spine International Holding Company	Cayman Islands
Medtronic Spine LLC	Delaware
Medtronic Synectics Aktiebolag	Sweden
Medtronic Trading NL BV	Netherlands
Medtronic Transneuronix, Inc.	Delaware
Medtronic Treasury International, Inc.	Minnesota
Medtronic Treasury Management, Inc.	Minnesota
Medtronic Urinary Solutions, Inc.	Ohio
Medtronic USA, Inc.	Minnesota
Medtronic VT, LLC	Delaware
Medtronic Vascular Connaught	Ireland
Medtronic Vascular Galway Limited	Ireland
Medtronic Vascular Holdings Limited	Ireland
Medtronic Vascular, Inc.	Delaware
Medtronic Ventor Technologies Ltd.	Israel
Medtronic Vertelink, Inc.	California
Medtronic VidaMed, Inc.	Delaware
Medtronic Weigao Orthopaedic Device Company Ltd.	China
Medtronic World Trade Corporation	Minnesota
Medtronic Xomed Instrumentation SAS	France
Medtronic Xomed U.K. Limited	United Kingdom
Medtronic Xomed, Inc.	Delaware
Medtronic do Brasil Ltda.	Brazil
Medtronic of Canada Ltd.	Canada
Medtronic, Inc.	Minnesota
MiniMed Distribution Corp.	Delaware
MiniMed Pty Ltd.	Australia
Ovum Ventures GmbH	Germany
Physio-Control International, Inc.	Washington
Physio-Control Manufacturing, Inc.	Washington
Physio-Control, Inc.	Washington
S.F.M.T. Europe B.V.	Netherlands
Sanatis GmbH	Germany
Setagon, Inc.	Delaware
Societe De Fabrication de Material Orthopedique En Abrege Sofamor	France
SpinalGraft Technologies, LLC	Tennessee
St. Francis Medical Technologies UK Limited	United Kingdom
Transneuronix International GmbH	Germany

Company	Jurisdiction of Formation
VidaMed International Limited	United Kingdom
Vitatron A.G.	Switzerland
Vitatron Belgium S.A./N.V.	Belgium
Vitatron Czechia s.r.o.	Czech Republic
Vitatron Denmark A/S	Denmark
Vitatron Finland Oy	Finland
Vitatron GmbH	Austria
Vitatron Holding B.V.	Netherlands
Vitatron Medical España, S.A.	Spain
Vitatron Nederland B.V.	Netherlands
Vitatron Portugal - Comércio e Distribuição de Dispositivos Médicos, Lda	Portugal
Vitatron Sweden Aktiebolag	Sweden
Vitatron U.K. Limited	United Kingdom
Warsaw Orthopedic, Inc.	Indiana

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-136361 and 333-157777) and on Form S-8 (Nos. 33-55329, 33-63805, 333-04099, 333-07385, 333-65227, 333-71259, 333-71355, 333-74229, 333-75819, 333-90381, 333-44766, 333-52840, 333-66978, 333-68594, 333-100624, 333-106566, 333-112267, 333-128531, 333-129872, 333-147399, 333-148672 and 333-153636) of Medtronic, Inc. of our report dated June 18, 2009 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in Exhibit 13 to this Form 10-K. We also consent to the incorporation by reference of our report dated June 18, 2009 relating to the financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
June 23, 2009

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Shareholders and Board of Directors of Medtronic, Inc.:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated June 18, 2009 appearing in the 2009 Exhibit 13 to this Annual Report on Form 10-K of Medtronic, Inc. (which report and consolidated financial statements are included in Exhibit 13 to this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
June 18, 2009

Exhibit 24

POWER OF ATTORNEY

Each of the undersigned directors of Medtronic, Inc., a Minnesota corporation, hereby constitutes and appoints each of WILLIAM A. HAWKINS and KEYNA P. SKEFFINGTON, acting individually or jointly, their true and lawful attorneys-in-fact and agents, with full power to act for them and in their name, place and stead, in any and all capacities, to do any and all acts and execute any and all documents which either such attorney and agent may deem necessary or desirable to enable Medtronic, Inc. to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission in respect thereof, in connection with the filing with the Commission of Medtronic's Annual Report on Form 10-K for the fiscal year ended April 24, 2009, including specifically, but without limiting the generality of the foregoing, power and authority to sign the names of the undersigned directors to the Form 10-K and to any instruments and documents filed as part of or in connection with the Form 10-K or any amendments thereto; and the undersigned hereby ratify and confirm all actions taken and documents signed by each said attorney and agent as provided herein.

The undersigned have set their hands this 18th day of June, 2009.

/s/ Richard H. Anderson
Richard H. Anderson

/s/ David L. Calhoun
David L. Calhoun

/s/ Victor J. Dzau
Victor J. Dzau, M.D.

/s/ William A. Hawkins
William A. Hawkins

/s/ Shirley Ann Jackson
Shirley Ann Jackson, Ph.D.

/s/ James T. Lenehan
James T. Lenehan

/s/ Denise M. O'Leary
Denise M. O'Leary

/s/ Kendall J. Powell
Kendall J. Powell

/s/ Robert C. Pozen
Robert C. Pozen

/s/ Jean-Pierre Rosso
Jean-Pierre Rosso

/s/ Jack W. Schuler
Jack W. Schuler

Exhibit 31.1

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

I, William A. Hawkins, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: June 23, 2009

/s/ William A. Hawkins
William A. Hawkins
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, Gary L. Ellis, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: June 23, 2009

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

Exhibit 32.1

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

In connection with this annual report on Form 10-K of Medtronic, Inc. for the fiscal year ended April 24, 2009, the undersigned hereby certifies, in his capacity as Chief Executive Officer of Medtronic, Inc., for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: June 23, 2009

/s/ William A. Hawkins
William A. Hawkins
Chairman and Chief Executive Officer

Exhibit 32.2

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

In connection with this annual report on Form 10-K of Medtronic, Inc. for the fiscal year ended April 24, 2009, the undersigned hereby certifies, in his capacity as Chief Financial Officer of Medtronic, Inc., for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: June 23, 2009

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