NEW PEOPLES BANKSHARES INC
Form 10-Q
August 06, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

xQuarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 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 number: 000-33411

NEW PEOPLES BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**31-1804543**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
67 Commerce Drive **Honaker, Virginia**	**24260**
(Address of principal executive offices)	(Zip Code)

(276) 873-7000

(Registrant’s telephone number,including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

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 X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **o**	Accelerated filer **x**
Non-accelerated filer **o**	Smaller reporting company **o**

(Do not check if a 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 X

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

10,008,962 shares of common stock, par value $2.00 per share, outstanding as of July 27, 2009

NEW PEOPLES BANKSHARES, INC.

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Part I Financial Information

Item 1 Financial Statements

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

	2009	2008
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 12,340	$ 13,233
Federal funds sold	5	10
Investments	61	88
Total Interest and Dividend Income	12,406	13,331
INTEREST EXPENSE		
Deposits		
Demand	60	53
Savings	311	123
Time deposits	4,176	5,784
Interest on FHLB advances	261	361
Interest on other borrowings	62	10
Interest on trust preferred securities	153	279
Total Interest Expense	5,023	6,610
NET INTEREST INCOME	7,383	6,721
PROVISION FOR LOAN LOSSES	418	250
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,965	6,471
NONINTEREST INCOME		
Service charges	549	637
Fees, commissions and other income	528	636
Life insurance investment income	100	111
Total Noninterest Income	1,177	1,384
NONINTEREST EXPENSES		
Salaries and employee benefits	3,957	3,920
Occupancy expense	1,031	1,164
Other real estate & repossessions	109	44
Other operating expenses	1,752	1,662

Total Noninterest Expenses	6,849	6,790
INCOME BEFORE INCOME TAXES	1,293	1,066
INCOME TAX EXPENSE	387	299
NET INCOME	$ 906	$ 766
Earnings Per Share		
Basic	$ 0.09	$ 0.08
Fully Diluted	$ 0.09	$ 0.07
Average Weighted Shares of Common Stock		
Basic	10,008,902	9,962,816
Fully Diluted	10,187,461	10,285,135

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS EXCEPT SHARE DATA)

ASSETS		March 31, 2009 (Unaudited)		December 31, 2008 (Audited)
Cash and due from banks	$	19,347	$	22,099
Federal funds sold		3,578		1,813
Total Cash and Cash Equivalents		22,925		23,912
Investment securities				
Available-for-sale		2,402		3,449
Loans receivable		735,259		721,174
Allowance for loan losses		(7,121)		(6,904)
Net Loans		728,138		714,270
Bank premises and equipment, net		36,648		36,829
Equity securities (restricted)		4,028		3,903
Other real estate owned		3,920		2,496
Accrued interest receivable		4,631		4,537
Life insurance investments		10,236		10,153
Goodwill and other intangibles		4,589		4,633
Other assets		3,534		3,716
Total Assets	$	821,051	$	807,898
LIABILITIES				
Deposits:				
Demand deposits:				
Noninterest bearing	$	95,812	$	95,448
Interest-bearing		39,308		34,498
Savings deposits		79,733		89,787
Time deposits		503,748		485,955
Total Deposits		718,601		705,688
Federal Home Loan Bank advances		26,282		26,582
Accrued interest payable		1,700		2,155
Accrued expenses and other liabilities		1,842		1,741
Other borrowings		4,913		4,913
Trust preferred securities		16,496		16,496
Total Liabilities		769,834		757,575
STOCKHOLDERS' EQUITY				

Common stock - $2.00 par value; 50,000,000 shares authorized;		
10,008,902 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	20,017	20,017
Additional paid-in-capital	21,683	21,683
Retained earnings	9,482	8,576
Accumulated other comprehensive income	35	47
Total Stockholders' Equity	51,217	50,323
Total Liabilities and Stockholders' Equity	$ 821,051	$ 807,898

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(IN THOUSANDS INCLUDING SHARE DATA)

(UNAUDITED)

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accum-ulated Other Compre-hensive Income (Loss)	Total Shareholders' Equity	Compre-hensive Income (Loss)
Balance, December 31, 2007	9,959	$19,919	$21,484	$3,839	$7	$45,249	
Net Income				766		766	$766
Net of unrealized gain on available-for-sale securities, net of $9 tax					17	17	17
Stock Options Exercised	5	9	20			29	
Balance, March 31, 2008	9,964	$19,928	$21,504	$4,605	$24	$46,061	$783
Balance, December 31, 2008	10,008	$20,017	$21,683	$8,576	$47	$50,323	
Net Income				906		906	$906
Net of unrealized loss on available-for-sale securities, net of $4 tax					(12)	(12)	(12)
Balance, March 31, 2009	10,008	$20,017	$21,683	$9,482	$35	$51,217	$894

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(IN THOUSANDS)

(UNAUDITED)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 906	$ 766
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	711	894
Provision for loan losses	418	250
Income on life insurance, net	(83)	(94)
Loss on sale of foreclosed real estate	14	8
Amortization (accretion) of bond premiums	-	(6)
Amortization of core deposit intangible	44	51
Net change in:		
Interest receivable	(94)	245
Other assets	182	(906)
Accrued expenses and other liabilities	(354)	178
Net Cash Provided by Operating Activities	1,744	1,386
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase (decrease) in loans	(14,286)	1,610
Proceeds from sale and maturities of securities available-for-sale	1,034	4,017
Purchase of securities available for sale	-	(3,500)
Redemption (purchase) of Federal Home Loan Bank stock	(125)	718
Payments for the purchase of property	(530)	(1,381)
Change in other real estate owned	(1,437)	544
Net Cash Provided by (Used in) Investing Activities	(15,344)	2,008
CASH FLOWS FROM FINANCING ACTIVITIES		
Common stock options exercised	-	29
Repayments to Federal Home Loan Bank	(300)	(21,249)
Proceeds from other borrowings	-	500
Net change in:		
Demand and savings deposits	(4,880)	18,196
Time deposits	17,793	2,201
Net Cash Provided by (Used in) Financing Activities	12,613	(323)

Net increase (decrease) in cash and cash equivalents	(987)	3,071
Cash and Cash Equivalents, Beginning of Period	23,912	22,257
Cash and Cash Equivalents, End of Period	$ 22,925	$ 25,328

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS:

New Peoples Bankshares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of a community bank. New Peoples Bank, Inc. (the "Bank") was organized and incorporated under the laws of the Commonwealth of Virginia on December 9, 1997. The Bank commenced operations on October 28, 1998, after receiving regulatory approval. As a state chartered bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Deposit Insurance Corporation. In addition, as a member of the Federal Reserve System, the Bank and the Company are also subject to regulation by the Board of Governors of the Federal Reserve System. The Bank provides general banking services to individuals, small and medium size businesses and the professional community of southwestern Virginia, southern West Virginia, and eastern Tennessee. On June 9, 2003, the Company formed two wholly owned subsidiaries, NPB Financial Services, Inc. and NPB Web Services, Inc. In 2004 and 2006, the Company established NPB Capital Trust I and 2, respectively, for the purpose of issuing trust preferred securities. On January 1, 2009, NPB Financial Services, Inc. was transferred from New Peoples Bankshares, Inc. to become a subsidiary of New Peoples Bank, Inc.

NOTE 2 ACCOUNTING PRINCIPLES:

The financial statements conform to U. S. generally accepted accounting principles and to general industry practices. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position at March 31, 2009, and the results of operations for the three month periods ended March 31, 2009 and 2008. The notes included herein should be read in conjunction with the notes to financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for the three month periods ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 INVESTMENT SECURITIES:

The amortized cost and estimated fair value of securities at the dates indicated are as follows:

(Dollars are in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2009				
Available for Sale				
U.S. Government Agencies	$ 2,000	$ 43	$ -	$ 2,043
Mortgage backed Securities	350	9	-	359
Total Securities AFS	$ 2,350	$ 52	$ -	$ 2,402
December 31, 2008				
Available for Sale				
U.S. Government Agencies	$ 3,000	$ 63	$ -	$ 3,063
Mortgage backed Securities	378	7	-	385
Total Securities AFS	$ 3,378	$ 70	$ -	$ 3,448

The Bank, as a member of the Federal Reserve Bank and the Federal Home Loan Bank, is required to hold stock in each. These equity securities are restricted from trading and are recorded at a cost of $4.0 million and $3.9 million at March 31, 2009 and December 31, 2008, respectively.

The amortized cost and fair value of investment securities at March 31, 2009, by contractual maturity, are shown in the following schedule. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 INVESTMENT SECURITIES: (continued)

(Dollars are in thousands)	Amortized	Fair	Weighted Average	
Securities Available for Sale	Cost	Value	Yield	$ 56 $ 37 $ 176 $ 131

Interest expense, net for the three and nine months ended January 23, 2009 has been retrospectively adjusted for the impact of the adoption of the new authoritative guidance for convertible debt. See Note 3 for additional information.

Interest income includes interest earned on the Company s cash and cash equivalents, short- and long-term investments, the net realized and unrealized gain or loss on trading securities and the net realized gain or loss on the sale or impairment of available-for-sale debt securities. See Note 7 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 and debt discounts.

Note 15 Income Taxes

During the three months ended January 29, 2010, the Company recorded a $7 million benefit primarily associated with the finalization of its U.S. federal and certain of its foreign tax returns. During the nine months ended January 29, 2010, the Company recorded a $16 million benefit which included the $7 million tax benefit discussed above and a $9 million benefit associated with Irish research and development credit claims, the deductibility of a settlement expense, the finalization of certain foreign tax returns and changes to uncertain tax position reserves. These tax adjustments are operational in nature and are recorded in *provision for income taxes* on the condensed consolidated statements of earnings.

During the nine months ended January 29, 2010, the Company s gross unrecognized tax benefits increased from $431 million to $515 million. In addition, the Company had accrued interest and penalties of $132 million as of January 29, 2010. If all of the Company s unrecognized tax benefits were recognized, approximately $448 million would impact the Company s effective tax rate. The Company continues to record the liability for unrecognized tax benefits as a long-term liability as it does not expect significant payments to occur or the total amount of unrecognized tax benefits to change significantly over the next twelve months. The Company will continue to recognize interest and penalties related to income tax matters in the *provision for income taxes* in the condensed consolidated statements of earnings and record the liability in the current or long-term *accrued income taxes* in the condensed consolidated balance sheets, as appropriate.

As of January 29, 2010, there were no changes to significant unresolved matters with the U.S. Internal Revenue Service or foreign tax authorities from what was previously disclosed in the Company s Annual Report on Form 10-K for the year ended April 24, 2009.

Note 16 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.

In the first quarter of fiscal year 2010, the Company adopted new authoritative guidance for participating securities which affects the Company s earnings per share calculation. See Note 3 for additional information regarding the adoption of this new authoritative guidance.

Presented below is a reconciliation between basic and diluted earnings per share:

	Three months ended		Nine months ended	
(in millions, except per share data)	**January 29, 2010**	**January 23, 2009**	**January 29, 2010**	**January 23, 2009**
Numerator:				
Net earnings	$ 831	$ 698	$ 2,145	$ 1,967
Denominator:				
Basic weighted average shares outstanding	1,105.0	1,119.0	1,108.3	1,122.8
Effect of dilutive securities:				
Employee stock options	1.0	0.3	0.7	3.2
Employee restricted stock and restricted stock units	2.2	1.6	1.6	1.1
Other	0.5	0.9	0.4	0.9
Diluted weighted average shares outstanding	1,108.7	1,121.8	1,111.0	1,128.0
Basic earnings per share	$ 0.75	$ 0.62	$ 1.94	$ 1.75
Diluted earnings per share	$ 0.75	$ 0.62	$ 1.93	$ 1.74

The calculation of weighted average diluted shares outstanding excludes options for approximately 72 million and 67 million common shares for the three and nine months ended January 29, 2010, respectively, and approximately 91 million and 62 million for the three and nine months ended January 23, 2009, respectively, as the exercise price of those options was greater than the average market price for the period, resulting in an anti-dilutive effect on diluted earnings per share. For the three and nine months ended January 29, 2010 and January 23, 2009, common share equivalents related to the Company s $4.400 billion of Senior Convertible Notes were anti-dilutive as the market price of the Company s stock was below the conversion price of the Senior Convertible Notes and; therefore, were excluded from the calculation of weighted average diluted shares.

Note 17 Comprehensive Income and Accumulated Other Comprehensive Loss

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 available-for-sale marketable securities. Comprehensive income for the three months ended January 29, 2010 and January 23, 2009 was $883 million and $619 million, respectively. Comprehensive income for the nine months ended January 29, 2010 and January 23, 2009 was $2.149 billion and $2.219 billion, respectively.

Presented below is a summary of activity for each component of *accumulated other comprehensive loss*:

(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 24, 2009	$ (95)	$ 62	$ (398)	$ 228	$ (202)
Reclassification of other-than-temporary losses on marketable securities included in net income	(3)				(3)
Period Change	50	179	(7)	(227)	(5)
Balance July 31, 2009	$ (48)	$ 241	$ (405)	$ 1	$ (210)
Period Change	11	54	(3)	(105)	(43)
Balance October 30, 2009	$ (37)	$ 295	$ (408)	$ (104)	$ (253)
Period Change	3	(40)	4	85	52
Balance January 29, 2010	$ (34)	$ 255	$ (404)	$ (19)	$ (201)

Translation adjustments are not adjusted for income taxes as substantially all translation adjustments relate to permanent investments in non-U.S. subsidiaries. The tax effect on the unrealized loss on foreign exchange derivatives for the three and nine months ended January 29, 2010 was $45 million of expense and $128 million of benefit, respectively. The tax expense on the unrealized gain on investments for the three and nine months ended January 29, 2010 was $1 million and $34 million, respectively. The tax benefit on the net change in retirement obligations was not material for the three and nine months ended January 29, 2010. See Note 7 for additional information regarding the adoption of the new authoritative guidance for the recognition and presentation of other-than-temporary impairments.

Note 18 Stock-Based Compensation

Under the fair value recognition provisions of U.S. GAAP for accounting for stock-based compensation, the Company measures stock-based compensation expense at the grant date based on the fair value of the award and recognizes the compensation expense over the requisite service period, which is generally the vesting period. The Company elected the modified-prospective method of adopting this guidance, under which prior periods were not retroactively restated. The provisions of this guidance 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 under the prior guidance s pro forma disclosures.

The following table presents the components and classification of stock-based compensation expense recognized for the three and nine months ended January 29, 2010 and January 23, 2009:

	Three months ended		Nine months ended	
(in millions)	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009
Stock options	$ 23	$ 41	$ 91	$ 107
Restricted stock awards	22	25	73	59
Employee stock purchase plan	3	4	12	12
Total stock-based compensation expense	$ 48	$ 70	$ 176	$ 178
Cost of products sold	$ 5	$ 8	$ 20	$ 21
Research and development expense	12	17	43	43
Selling, general and administrative expense	31	45	113	114
Total stock-based compensation expense	$ 48	$ 70	$ 176	$ 178
Income tax benefits	(15)	(20)	(54)	(51)
Total stock-based compensation expense, net of tax	$ 33	$ 50	$ 122	$ 127

Note 19 Retirement Benefit Plans

The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), post-retirement medical plans (post-retirement benefits), defined contribution savings plans and termination indemnity plans, covering substantially all U.S. employees and many employees outside the U.S. The net periodic benefit cost of the pension benefits and post-retirement medical benefits include the following components for the three and nine months ended January 29, 2010 and January 23, 2009:

	U.S. Pension Benefits Three months ended		Non-U.S. Pension Benefits Three months ended		Post-Retirement Benefits Three months ended	
(in millions)	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009
Service cost	$ 16	$ 18	$ 5	$ 8	$ 3	$ 4
Interest cost	17	15	5	6	3	3
Expected return on plan assets	(25)	(25)	(5)	(6)	(2)	(3)
Amortization of net actuarial loss	1	1			1	
Net periodic benefit cost	9	9	5	8	5	4
Special termination benefits						
Total cost for period	$ 9	$ 9	$ 5	$ 8	$ 5	$ 4

	U.S. Pension Benefits Nine months ended		Non-U.S. Pension Benefits Nine months ended		Post-Retirement Benefits Nine months ended	
(in millions)	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009
Service cost	$ 46	$ 54	$ 19	$ 24	$ 9	$ 12
Interest cost	51	45	15	18	11	9
Expected return on plan assets	(75)	(74)	(17)	(18)	(6)	(9)
Amortization of net actuarial loss	2	3			1	
Net periodic benefit cost	24	28	17	24	15	12
Special termination benefits	7				2	
Total cost for period	$ 31	$ 28	$ 17	$ 24	$ 17	$ 12

As a result of the fiscal year 2009 restructuring initiative that began in the fourth quarter of fiscal year 2009, the Company recognized special termination benefits in the nine months ended January 29, 2010 related to employees electing to accept early retirement packages provided under the restructuring initiatives. The incremental expense from these special termination benefits is reflected in the table above. See Note 6 for additional information regarding the fiscal year 2009 restructuring initiative.

Note 20 Contingencies

The Company is involved in a number of legal actions. The outcomes of these legal actions are not within the Company s complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, that could require significant expenditures or result in lost revenues. In accordance with U.S. GAAP, the Company records a liability in the consolidated financial statements for 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 Corporation (Cordis) filed a lawsuit against the Company and its subsidiary, Medtronic AVE, Inc., in U.S. District Court for the District of New Jersey, alleging that Medtronic s Endeavor drug-eluting stent infringes three U.S. Morris patents alleged to be owned by Wyeth and exclusively licensed to Cordis. The Company is indemnified for the claims made by Wyeth and Cordis. The Company has not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP.

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 implantable cardioverter defibrillators (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 U.S. GAAP 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. One third party payor, Kinetic Knife, dismissed its original action without prejudice and on November 5, 2008 filed a putative class action relating to the same subject matter. After removing the case to the United States District Court for the District of Minnesota, Medtronic filed a motion to dismiss. That motion was denied on December 4, 2009.

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. 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 U.S. GAAP.

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 February 1, 2010, approximately 3,500 lawsuits regarding the Fidelis leads have been filed against the Company, including approximately 47 putative class action suits reflecting a total of approximately 7,900 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. Approximately 2,400 of the lawsuits have been commenced in state court, generally alleging similar causes of action. Of those state court actions, almost all are pending before a single judge in Hennepin County District Court in the state of Minnesota. On October 22, 2009, that court granted Medtronic s motion to dismiss ten cases that the parties had agreed represented all claims asserted in the cases pending before the Minnesota court. The court granted the motion on the grounds of federal preemption. Plaintiffs have appealed the dismissals to the Minnesota Court of Appeals. 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 appeal to the Eighth Circuit Court of Appeals is pending. In addition, one putative class action has been filed in the Ontario Superior Court of Justice in Canada. On October 20,

2009, that court certified a class proceeding, but denied class certification on plaintiffs claim for punitive damages, which the plaintiffs have appealed. 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 U.S. GAAP.

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 motion to alter the judgment was denied on May 29, 2009. Plaintiffs appeal to the Eighth Circuit Court of Appeals is pending.

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.

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 of 1974 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. Savings and Investment Plan, whose individual accounts held 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 without prejudice on May 26, 2009 on the grounds plaintiff lacked standing to assert his claims. Plaintiffs appeal to the Eighth Circuit Court of Appeals is pending.

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 August 1, 2009, plaintiffs filed a consolidated putative class action complaint making similar allegations but expanding the class to include those persons or entities who purchased securities of Medtronic from November 20, 2006 to November 17, 2008. Medtronic s motion to dismiss the consolidated complaint was denied on February 3, 2010.

On February 24, 2009, Christin Wright 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 of 1974. The complaint was filed purportedly on behalf of a putative class comprised of participants and beneficiaries of the Medtronic, Inc. 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 litigation with Fastenetix and the October 2008 settlement of the Cordis litigation. On September 30, 2009, plaintiffs filed a motion for leave to amend their complaint to add allegations similar to the allegations made in the Brown case. Medtronic s motion to dismiss the allegations in the original complaint and plaintiffs motion for leave to amend are pending.

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 U.S. GAAP.

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 certain 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 for the District of Delaware seeking a declaration that none of its products infringe any valid claims of either the 119 or 897 Patents. If certain conditions are fulfilled, the 119 and/or 897 Patents are determined to be valid and the Medtronic products are found to infringe the 119 and/or 897 Patents, Medtronic will be obligated to pay royalties to Mirowski based upon sales of certain CRT-D products. A bench trial commenced on January 25, 2010, and proceeded for four trial days. A fifth trial day will be scheduled in March 2010. As of January 29, 2010, the amount of disputed royalties and interest related to CRT-D products is $108 million. This amount has not been accrued because the outcome is not currently probable under U.S. GAAP.

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 January 29, 2010, the current balance in the interest-bearing escrow account is $88 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 288 Patent is determined to be invalid or Medtronic s products are found not to infringe, the escrowed funds will be released to Medtronic.

Other Matters

On February 22, 2010, the Company received a civil investigative demand from the United States Attorney s Office for the District of Massachusetts pursuant to the federal False Claims Act seeking documents relating to the relationship of the Company with the Lahey Clinic, specifically relating to cardiologists at the clinic, CoreValve, Inc. (CoreValve) and the Lahey Clinic, and certain employees of both the Company and the clinic among other topics. The Company will comply as required with the terms of the civil investigative demand.

On September 16, 2009, the Company received a subpoena from the Office of Inspector General for the Department of Health and Human Services in the District of California requesting production of documents relating to the Company s cardiac rhythm medical devices, including revenue, sales, marketing and promotional documents, documents relating to reimbursement communications to customers pertaining to the devices, documents relating to scientific studies and registries pertaining to the devices and documents relating to payments or items of value provided to customers. The Company 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.

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 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 with the terms of the subpoena.

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. On July 2, 2009, the United States District Court for the Southern District of Texas ordered the unsealing of a qui tam complaint related to the same matter that was filed against Medtronic on November 17, 2008. On August 21, 2009, the Department of Justice decided not to intervene at this time but may intervene at any time for good cause based upon a Court Order entered on August 28, 2009. The qui tam complaint was served on October 1, 2009. On December 16, 2009, Medtronic filed a motion to dismiss the complaint.

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 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.

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 February 19, 2010, a complaint captioned United States of America ex rel Tricia Nowak and Enda Dodd v. Medtronic, filed in the United States District Court for the District of Massachusetts was unsealed.

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.

On September 25, 2007, the Company received a letter from the U.S. Securities and Exchange Commission (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.

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 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.

In the normal course of business, the Company periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of the Company s products or the negligence of its personnel or claims alleging that its products infringe third-party patents or other intellectual property. The Company s maximum exposure under these indemnification provisions cannot be estimated, and the Company has not accrued any liabilities within the consolidated financial statements. Historically, the Company has not experienced significant losses on these types of indemnifications.

Note 21 Segment and Geographic Information

Segment 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 have similar economic characteristics, technology, manufacturing processes, customers, distribution and marketing strategies, regulatory environments and shared infrastructures. Net sales by operating segment are as follows:

	Three months ended		Nine months ended	
(in millions)	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009
Cardiac Rhythm Disease Management	$ 1,243	$ 1,169	$ 3,858	$ 3,714
Spinal	842	832	2,619	2,520
CardioVascular	722	565	2,107	1,792
Neuromodulation	394	354	1,151	1,045
Diabetes	311	277	905	818
Surgical Technologies	239	207	690	622
Physio-Control	100	90	291	259
Total Net Sales	$ 3,851	$ 3,494	$ 11,621	$ 10,770

In December 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. On February 18, 2010, the Company received notice from the FDA that, having successfully met requirements for improvements to the quality system, the Company may resume unrestricted worldwide shipments of its external defibrillators. As a result, the Company s immediate focus will be to ramp up our manufacturing capabilities to meet customer back orders and future product needs. The Company s plans to pursue a spin-off of Physio-Control will be re-evaluated thereafter. As additional information, Physio-Control s income/(loss) before interest and income taxes for the three and nine months ended January 29, 2010 is $5 million and $11 million, respectively and for the three and nine months ended January 23, 2009 is $(3) million and $(20) million, respectively.

Geographic information

Net sales to external customers by geography are as follows:

	Three months ended		Nine months ended	
(in millions)	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009
United States	$ 2,236	$ 2,172	$ 6,925	$ 6,617
Europe	1,013	828	2,921	2,644
Asia Pacific	475	382	1,396	1,151
Other Foreign	127	112	379	358
Total Net Sales	$ 3,851	$ 3,494	$ 11,621	$ 10,770

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

UNDERSTANDING OUR FINANCIAL INFORMATION

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Medtronic, Inc. and its subsidiaries (Medtronic or the Company, or we, us or our). For a full understanding of financial condition and results of operations, you should read this discussion along with management s discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the fiscal year ended April 24, 2009. In addition, you should read this discussion along with our condensed consolidated financial statements and related Notes thereto as of January 29, 2010.

Financial Trends

Throughout this discussion and analysis, you will read about transactions or events that materially contribute to or reduce earnings and materially affect financial trends. We refer to these transactions and events as 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 year 2010 is a fifty-three week year. Our first quarter fiscal year 2010 results included an extra week, resulting in a favorable impact on our net sales for the nine months ended January 29, 2010 compared to the same period in the prior 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 third quarter of fiscal year 2010 were $831 million, or $0.75 per diluted share, as compared to net earnings of $698 million, or $0.62 per diluted share for the same period in the prior fiscal year, representing an increase of 19 percent and 21 percent, respectively. Net earnings for the three months ended January 23, 2009 included an after-tax IPR&D charge that decreased net earnings by $72 million. See further discussion of this charge in the Restructuring, Certain Litigation and IPR&D Charges section of this management s discussion and analysis. The increase in net earnings for the three months ended January 29, 2010 was driven primarily by an increase in net sales compared to the same period in the prior fiscal year.

Net earnings for the nine months ended January 29, 2010 were $2.145 billion, or $1.93 per diluted share, as compared to net earnings of $1.967 billion, or $1.74 per diluted share for the same period in the prior fiscal year, representing an increase of 9 percent and 11 percent, respectively. Net earnings for the nine months ended January 29, 2010 included after-tax restructuring and certain litigation charges, net that decreased net earnings by $366 million. Net earnings for the nine months ended January 23, 2009 included after-tax restructuring, certain litigation and IPR&D charges that decreased net earnings by $325 million. See further discussion of these charges in the Restructuring, Certain Litigation and IPR&D Charges section of this management s discussion and analysis. The increase in net earnings for the nine months ended January 29, 2010 was driven primarily by an increase in net sales.

The nine months ended January 29, 2010 contained forty weeks, one more week than the nine months ended January 23, 2009.

The table below illustrates net sales by operating segment for the three and nine months ended January 29, 2010 and January 23, 2009:

	Three months ended			Nine months ended		
(in millions)	**January 29, 2010**	**January 23, 2009**	**% Change**	**January 29, 2010**	**January 23, 2009**	**% Change**
Cardiac Rhythm Disease Management	$ 1,243	$ 1,169	6%	$ 3,858	$ 3,714	4%
Spinal	842	832	1	2,619	2,520	4
CardioVascular	722	565	28	2,107	1,792	18
Neuromodulation	394	354	11	1,151	1,045	10
Diabetes	311	277	12	905	818	11
Surgical Technologies	239	207	15	690	622	11
Physio-Control	100	90	11	291	259	12
Total Net Sales	**$ 3,851**	**$ 3,494**	**10%**	**$ 11,621**	**$ 10,770**	**8%**

Net sales for the three and nine months ended January 29, 2010 were $3.851 billion and $11.621 billion, an increase of 10 percent and 8 percent, respectively, from the same periods in the prior fiscal year. Foreign currency translation had a favorable/(unfavorable) impact of $144 million and $(19) million on net sales for the three and nine months ended January 29, 2010, respectively, when compared to the same periods in the prior fiscal year. The net sales increase for the three and nine months ended January 29, 2010 was driven by sales growth in all operating segments including double digit sales growth in the CardioVascular, Neuromodulation, Diabetes, Surgical Technologies and Physio-Control operating segments. Sales outside the United States were $1.615 billion and $4.696 billion, respectively, for the three and nine months ended January 29, 2010, an increase of 22 percent and 13 percent, respectively, from the same periods in the prior fiscal year. Growth outside the U.S. continued to be positive, where five of our operating segments had double digit growth rates for both the three and nine months ended January 29, 2010. 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 alliances 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.

CRITICAL ACCOUNTING ESTIMATES

We have adopted various accounting policies to prepare the condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP). Our most significant accounting policies are disclosed in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 24, 2009.

The preparation of the condensed consolidated financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying Notes. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, asset impairment, legal proceedings, IPR&D, 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 U.S. GAAP, we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. 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 20 to the condensed consolidated financial statements. While it is not possible to predict the outcome for most of the matters discussed in Note 20 to the condensed consolidated financial statements, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position or cash flows.

Tax Strategies

Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may or may not prevail. These reserves are established and adjusted in accordance with the principles of U.S. GAAP. Under U.S. GAAP, if we determine that a tax position is more likely than not 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 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. Investors should consider this non-GAAP measure in addition to, and not as a substitute for, financial performance measures prepared in accordance with U.S. GAAP. In addition, this non-GAAP financial measure may not be the same as similar measures presented by other

companies.

Tax regulations require certain items to be included in the tax return at different times than when those items are required to be recorded in the 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 restructuring and certain litigation charges, net resulted in an effective tax rate of 21.80 percent and 21.57 percent for the three and nine months ended January 29, 2010, respectively. Excluding the impact of the restructuring and certain litigation charges, net for the three and nine months ended January 29, 2010, our operational and tax strategies have resulted in a non-GAAP nominal tax rate of 21.80 percent and 20.98 percent, respectively, versus the U.S. Federal statutory rate of 35.0 percent. An increase in our nominal tax rate of 1 percent would result in an additional income tax provision for the three and nine months ended January 29, 2010 of approximately $11 million and $32 million, respectively. See discussion of the tax rate and the 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, among 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 several estimates about fair value, most of which are based on projected future cash flows. Our estimates associated with the goodwill impairment test are considered critical due to the amount of goodwill recorded on our condensed consolidated balance sheets and the judgment required in determining fair value amounts, including projected future cash flows. Goodwill was $8.230 billion and $8.195 billion as of January 29, 2010 and April 24, 2009, 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 January 29, 2010, 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, was $2.289 billion and $2.477 billion as of January 29, 2010 and April 24, 2009, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

Information regarding new accounting pronouncements is included in Note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

PENDING ACQUISITION

On January 25, 2010 we announced the signing of a definitive agreement to acquire Invatec, S.p.A (Invatec), a developer of innovative medical technologies for the interventional treatment of cardiovascular disease, and two affiliated companies. The two affiliated companies include Fogazzi, the provider of polymer technology to Invatec, and Krauth Cardiovascular, an exclusive distributor of Invatec products in Germany. The terms of the transaction include an initial upfront payment of $350 million plus additional payments of up to $150 million contingent upon achievement of certain milestones. The transaction is expected to close in the fourth quarter of fiscal year 2010 and is contingent upon regulatory approval in certain jurisdictions.

ACQUISITIONS

Three and nine months ended January 29, 2010

In August 2009, we acquired certain intangible assets related to the distribution of coronary products within the CardioVascular Japan business. In connection with the acquisition, we recorded $29 million of intangible assets with an estimated useful life of five years.

Three and nine months ended January 23, 2009

During the third quarter of fiscal year 2009, we acquired all of the shares 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 all outstanding CryoCath common stock, the assumption and settlement of existing CryoCath debt and the 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.

In July 2008, we acquired Restore Medical, Inc. (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 Palatal Implant System provides 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 CryoCath and Restore acquisitions was not significant, individually or in the aggregate, to our results for the three and nine months ended January 23, 2009. 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 addition to the acquisitions disclosed above, we periodically acquire certain tangible or intangible assets in transactions that do not otherwise warrant separate disclosure. These transactions are largely reflected in the condensed consolidated statements of cash flows as a component of investing activities under *purchase of intellectual property.*

NET SALES

The table below illustrates net sales by product line and operating segment for the three and nine months ended January 29, 2010 and January 23, 2009:

	Three months ended			Nine months ended		
(in millions)	**January 29, 2010**	**January 23, 2009**	**% Change**	**January 29, 2010**	**January 23, 2009**	**% Change**
Defibrillation Systems	$ 756	$ 694	9%	$ 2,286	$ 2,182	5%
Pacing Systems	459	457		1,492	1,489	
Other	28	18	56	80	43	86
CARDIAC RHYTHM DISEASE MANAGEMENT	**1,243**	**1,169**	**6**	**3,858**	**3,714**	**4**
Core Spinal	630	627		1,968	1,896	4
Biologics	212	205	3	651	624	4
SPINAL	**842**	**832**	**1**	**2,619**	**2,520**	**4**
Coronary	386	296	30	1,108	960	15
Endovascular	120	99	21	359	281	28
Structural Heart	216	170	27	640	551	16
CARDIOVASCULAR	**722**	**565**	**28**	**2,107**	**1,792**	**18**

NEUROMODULATION	**394**	**354**	**11**	**1,151**	**1,045**	**10**
DIABETES	**311**	**277**	**12**	**905**	**818**	**11**
SURGICAL TECHNOLOGIES	**239**	**207**	**15**	**690**	**622**	**11**
PHYSIO-CONTROL	**100**	**90**	**11**	**291**	**259**	**12**
TOTAL	**$ 3,851**	**$ 3,494**	**10%**	**$ 11,621**	**$ 10,770**	**8%**

Net sales for the three and nine months ended January 29, 2010 were favorably/(unfavorably) impacted by foreign currency translation of $144 million and $(19) million, respectively, when compared to the same periods of the prior fiscal year. The primary exchange rate movements that impacted our consolidated net sales growth were the U.S. dollar as compared to the Euro and the Japanese Yen. The impact of foreign currency fluctuations on net sales was 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 Item 3 Quantitative and Qualitative Disclosures About Market Risk in this Quarterly Report on Form 10-Q and Note 9 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 24, 2009 for further details on foreign currency instruments and our related risk management strategies.

Cardiac Rhythm Disease Management

CRDM products consist primarily of pacemakers, implantable defibrillators, leads and delivery systems, ablation products, electrophysiology catheters, products for the treatment of atrial fibrillation (AF) and information systems for the management of patients with our CRDM devices. CRDM net sales for the three and nine months ended January 29, 2010 were $1.243 billion and $3.858 billion, an increase of 6 percent and 4 percent, respectively, when compared to the same periods of the prior fiscal year. Foreign currency translation had a favorable/(unfavorable) impact on net sales for the three and nine months ended January 29, 2010 of approximately $54 million and $(7) million, respectively, when compared to the same periods of the prior fiscal year.

Worldwide net sales of Defibrillation Systems, our largest product line, for the three and nine months ended January 29, 2010 were $756 million and $2.286 billion, an increase of 9 percent and 5 percent, respectively, when compared to the same periods of the prior fiscal year. Foreign currency translation had a favorable/(unfavorable) impact on net sales growth of approximately $28 million and $(8) million for the three and nine months ended January 29, 2010, respectively, when compared to the same periods of the prior fiscal year. The increase is primarily the result of net sales growth within our Vision 3D portfolio, specifically from worldwide sales of Secura implantable cardioverter defibrillators (ICDs) and Consulta cardiac resynchronization therapy-defibrillators (CRT-Ds). We continue to see a shift in product mix toward CRT-Ds. Both the Secura ICDs and Consulta CRT-Ds feature OptiVol Fluid Status Monitoring (OptiVol) and 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. Additionally, net sales in the U.S. for the three months and nine months ended January 29, 2010 were positively impacted by the Attain Ability left-heart lead. The Attain Ability left-heart lead, which became commercially available in the U.S. in the first quarter of fiscal year 2010, offers a thin lead body, providing physicians a tool to deliver therapy to hard-to-reach areas of the heart in heart failure patients.

Pacing Systems net sales for the three and nine months ended January 29, 2010 were $459 million and $1.492 billion, respectively. Net sales for the three and nine months ended January 29, 2010 were flat when compared to the same periods of the prior fiscal year. Foreign currency translation had a favorable impact on net sales growth of approximately $25 million for the three months ended, but did not have a significant impact on net sales for the nine months ended January 29, 2010, when compared to the same periods of the prior fiscal year. Net sales remained flat for the three and nine months ended January 29, 2010 primarily as a result of modest growth outside the U.S. in the Adapta family of pacemakers, but was offset by continued pressure in the Japan market as a result of the Kappa/Sigma field action that was announced in early fiscal year 2010. The Adapta family of pacemakers incorporates several 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.

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

- The future and continued 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.

The future regulatory and market approval of our Protecta SmartShock (Protecta) family of devices. The Protecta portfolio will leverage the already established Vision 3D platform to deliver a full suite of single, dual and triple chamber defibrillators that represent a significant new technology that should provide a meaningful reduction in shocks. We expect to launch Protecta worldwide in the first half of fiscal year 2011.

Increased use in the U.S. of devices with OptiVol, which was granted reimbursement effective January 1, 2009. OptiVol 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 our first generation MRI safe pacing system, EnRhythm MRI SureScan pacing system (EnRhythm MRI) in certain European countries. EnRhythm MRI was the first pacemaker system to be developed and tested specifically for safe use in MRI machines under specified scanning conditions. In the first half of fiscal year 2011 we expect to launch Advisa DR MRI our next generation MRI pacing system in Europe and Revo MRI, our first generation MRI pacing system in the U.S. Both Advisa DR MRI and Revo MRI are designed to address and mitigate interactions between the pacing system and the magnetic resonance environment**.**

Continued U.S. acceptance 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 continued U.S. acceptance of the Attain Ability left-heart lead. The Attain Ability left-heart lead is commercially available in every major market in the world.

The continued integration of our recent investments in what we believe are two breakthrough atrial fibrillation therapy systems. In November 2008, we acquired 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. Arctic Front is expected to launch in the U.S. in the first half of fiscal year 2011. In addition, in February 2009 we acquired Ablation Frontiers, Inc. (Ablation Frontiers), a company that 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. and is anticipated to launch in the U.S. in the second half of fiscal year 2011.

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 or maintain our market position. The current CRDM market is characterized by pricing pressures and significant competition, and through the third quarter of fiscal year 2010, we believe that Medtronic s growth was stable compared to the overall market.

Spinal

Spinal products include thoracolumbar, cervical, neuro monitoring, surgical access, bone graft substitutes and biologic products. Spinal net sales for the three and nine months ended January 29, 2010 were $842 million and $2.619 billion, an increase of 1 percent and 4 percent, respectively, when compared to the same periods of the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended January 29, 2010 of approximately $17 million, but did not have a significant impact on net sales for the nine months ended January 29, 2010, when compared to the same periods of the prior fiscal year.

Core Spinal net sales for the three and nine months ended January 29, 2010 were $630 million and $1.968 billion, respectively. Net sales for the three months ended January 29, 2010 were flat in comparison to the same period of the prior fiscal year, and net sales for the nine months ended January 29, 2010 increased 4 percent, in comparison to the same period of the prior fiscal year. Modest growth in the periods was primarily driven by continued acceptance of our products for the thoracolumbar region of the spine. Thoracolumbar net sales increased for the three and nine months ended January 29, 2010 primarily because of worldwide net sales of the CD Horizon Legacy (CD HORIZON) and TSRH family of products. Net sales modestly increased in the U.S for both the three and nine months ended January 29, 2010 primarily because of the CD HORIZON Legacy Percutaneous screws and PEEK 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. Our market share in the Core Spinal business continues to experience pressure from the proliferation of smaller, public and privately held companies competing in the market. Core Spinal net sales growth outside the U.S. for both the three and nine months ended January 29, 2010 was positively impacted from having sales from our joint venture with Shandong Weigao Group Medical Polymer Company Limited (Weigao) during these periods. The joint venture, which distributes Medtronic s spinal products and Weigao s orthopedic products in China, commenced operations at the end of the second quarter of fiscal year 2009. In addition, net sales growth was negatively impacted by the decrease in demand for Kyphon Balloon Kyphoplasty (BKP). We believe growth was negatively impacted by the vertebroplasty articles in the New England Journal of Medicine.

Biologics net sales for the three and nine months ended January 29, 2010 were $212 million and $651 million, an increase of 3 percent and 4 percent, respectively, when compared to the same periods of the prior fiscal year. The increase in net sales for the three months and nine months ended January 29, 2010 is mainly due to the modest growth in sales of INFUSE Bone Graft and strong growth in other biologics, including MasterGraft and Progenix products. INFUSE Bone Graft contains a recombinant human 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. INFUSE bone graft is indicated for use in spinal fusion with certain Medtronic titanium interbody fusion devices for single level lumbar degenerative disc disease; for acute, open tibial shaft fractures stabilized with IM nail fixation within 14 days of the initial fracture; and as an alternative to autogenous bone graft for sinus augmentations and for localized ridge augmentations for defects associated with extraction sockets.

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, MAST and PEEK Rod Systems.

Continued acceptance of the TSRH 3Dx Spinal System, which was launched in November 2009. The TSRH 3Dx Spinal System offers two screws designed to address multiple pathologies. The Multi Planar Adjusting Screw option provides surgeons a variable angle posted screw for targeted, controlled correction maneuvers. The OSTEOGRIP Screw enhances bone fixation by incorporating a dual-lead thread pattern that reduces toggle at the bone-screw interface. This next generation pedicle screw system includes competitive differentiating technology for addressing multiple spinal pathologies, from degenerative disc disease to spinal deformity.

Improved procedural integration of our thoracolumbar and cervical fixation and interbody implant products with proprietary NIM neuro monitoring technologies and MAST Quadrant and METRx access technologies.

Full launch of the Solera Legacy products. At the end of the second quarter of fiscal year 2010, we began a limited launch and anticipate the full roll-out of these products in fiscal year 2011. The full impact on net sales from this launch will build over the next six quarters.

Continued and future acceptance of our BKP technology. We believe growth continues to be negatively impacted by the vertebroplasty articles in the New England Journal of Medicine. In addition, we anticipate a potential new competitor entrance to the U.S. marketplace.

Future growth opportunities will be supported by the anticipated launch of high pressure balloons and syringes, curettes, and fixation materials in fiscal years 2010 and 2011. In addition, the KYPHON Cement Delivery System (CDS) was launched in the U.S. in September 2009. CDS allows physicians to keep a farther distance from the radiation source during the cement delivery phase than with Medtronic s current delivery system used in the balloon kyphoplasty procedure. It allows for the delivery of KYPHON HV-R Bone Cement with one-handed operation, preserving some tactile feel during delivery with the ability to halt bone cement flow on demand with the quick-release button. Additionally, we expect a positive impact from regulatory clearance and reimbursement approval for BKP in Japan during late fiscal year 2010 and early fiscal year 2011, respectively.

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 continued acceptance of the Atlantis Translational Cervical Plate System, the VERTEX SELECT Reconstruction System and the future acceptance of the recently launched PEEK PREVAIL Cervical Interbody Device. The Atlantis Translational Plate provides expanded options for our market leading anterior cervical portfolio. The VERTEX SELECT Reconstruction System 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 offers surgeons another option for cervical interbody fusion procedures.

Continued challenges presented by the complex legal and regulatory environment confronting the medical device industry.

CardioVascular

CardioVascular products consist of coronary and peripheral stents and related delivery systems, endovascular stent graft systems, heart valve replacement technologies, tissue ablation systems and open heart and coronary bypass grafting surgical products. CardioVascular net sales for the three and nine months ended January 29, 2010 were $722 million and $2.107 billion, an increase of 28 percent and 18 percent, respectively, when compared to the same periods in the prior fiscal year. Foreign currency translation had a favorable/(unfavorable) impact on net sales for the three and nine months ended January 29, 2010 of approximately $39 million and $(5) million, respectively, when compared to the same periods of the prior fiscal year.

Coronary net sales for the three and nine months ended January 29, 2010 were $386 million and $1.108 billion, an increase of 30 percent and 15 percent, respectively, when compared to the same periods in the prior fiscal year. The increase in net sales for the three and nine months ended January 29, 2010 was primarily the result of the recent launch of Endeavor in Japan, strong sales of Endeavor in the U.S. and strong sales of Endeavor and the Resolute drug-eluting stent outside the U.S. Endeavor and Resolute generated worldwide revenue of $198 million and $580 million for the three and nine months ended January 29, 2010, respectively. In addition, in August 2009 we entered into a buyout agreement with our coronary distributor in Japan. In order to settle a preexisting relationship with this distributor, a revenue reversal of $18 million was recorded in the first quarter of fiscal year 2010 related to inventory previously sold to the distributor.

Endovascular net sales for the three and nine months ended January 29, 2010 were $120 million and $359 million, an increase of 21 percent and 28 percent, respectively, when compared to the same periods in the prior fiscal year. The increase in net sales for the three and nine months ended January 29, 2010 was primarily driven by increased sales in the Endurant Abdominal Stent Graft System outside the U.S. The Endurant Abdominal Stent Graft 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. The Endurant Abdominal Stent Graft System also enables treatment of patients with small or tortuous iliac arteries due to lower crossing profile of the delivery system.

Structural Heart Disease net sales for the three and nine months ended January 29, 2010 were $216 million and $640 million, an increase of 27 percent and 16 percent, respectively, when compared to the same periods in the prior fiscal year. The increase in net sales for the three and nine months ended January 29, 2010 was primarily due to growth outside the U.S. from our CoreValve transcatheter valve, tissue surgical valves and cannulae products.

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

Continued acceptance of Endeavor in the Japan market. Endeavor received approval by the Japanese Ministry of Health, Labor and Welfare in fiscal year 2009 and was launched in Japan in the first quarter of fiscal year 2010. We anticipate increased competition in the Japan marketplace as a result of two competitive product approvals in January.

Continued acceptance of Resolute in markets outside the U.S. 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 elution of Zotarolimus while providing excellent biocompatibility. The design goal of Resolute is enhanced safety and efficacy in the most complex lesions and patients.

Launch of new Integrity bare metal coronary stent in Western Europe. Integrity features a unique laser fused sinusoidal technology that is designed to significantly improve flexibility and conformability compared to Driver and other technologies.

Further growth in the U.S. and Japan from the Talent Thoracic Stent Graft System, which was initially released in the first quarter of fiscal year 2009 and the first quarter of fiscal year 2010, respectively.

Sales growth outside the U.S. with continued acceptance of our next generation Endurant Abdominal Stent Graft System and the launch of our Valiant Thoracic Stent Graft System on the recently released Captivia delivery system. Valiant Captivia received CE Mark approval and was commercially launched in the second quarter of fiscal year 2010, and the Endurant Abdominal Stent

Graft System was commercially launched in fiscal year 2009.

Continued integration of Ventor Technologies Ltd. (Ventor) and CoreValve, Inc. (CoreValve) into our CardioVascular operating segment. We acquired Ventor and CoreValve in the fourth quarter of fiscal year 2009. 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 in development stage 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 CardioVascular operating segment and leverage our global footprint.

Our ability to consistently grow with the drug-eluting stent market. Our growth in this market has been and will continue to be contingent upon continued market growth and our ability to increase or maintain market share upon the entrance of competitors products into the marketplace.

Neuromodulation

Neuromodulation products consist of implantable neurostimulation therapies and drug delivery devices for the treatment of chronic pain, movement disorders, obsessive-compulsive disorder (OCD), overactive bladder and gastroparesis, as well as a device used to treat enlarged prostate. Neuromodulation net sales for the three and nine months ended January 29, 2010 were $394 million and $1.151 billion, an increase of 11 percent and 10 percent, respectively, when compared to the same periods in the prior fiscal year. Foreign currency translation had a favorable/(unfavorable) impact on net sales for the three and nine months ended January 29, 2010 of approximately $13 million and $(3) million, respectively, when compared to the same periods of the prior fiscal year.

Neuromodulation net sales for the three and nine months ended January 29, 2010 were driven by increased worldwide sales of InterStim and Medtronic Deep Brain Stimulation (DBS) Therapies, with ongoing momentum from Activa PC and Activa RC neurostimulator sales in Europe and the first quarter fiscal year 2010 launch in the U.S.

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

Market leadership as a result of having a comprehensive portfolio of primary cell and rechargeable neurostimulation systems, including surgical and percutaneous leads used in spinal cord stimulation. The portfolio of products includes the RestoreULTRA system offering an innovative patient programmer that allows patients to customize their pain control.

Our ability to consistently grow with the Pain Stimulation market, which is characterized by significant competition. We remain focused on a number of key initiatives in the areas of sales performance and therapy adoption growth, which we expect will sustain our market leadership.

Continued and future acceptance of our current indications for Medtronic DBS Therapy for the treatment of the most common movement disorders, OCD, as well as a planned indication for epilepsy, which is now under review by the U.S. Food and Drug Administration (FDA). The DBS Therapy portfolio includes Activa PC, our smallest and most advanced primary cell battery, and Activa RC, the therapy s first rechargeable device. We continue to educate neurologists and the patient population on the treatment options that Medtronic DBS Therapy offers them.

Continued acceptance of InterStim Therapy for the treatment of the symptoms of overactive bladder and urinary retention. InterStim Therapy for Bowel Control is also approved in Europe and is pending FDA approval in the U.S.

Continued leadership in the Intrathecal Drug Delivery market as we anticipate future competition.

Diabetes

Diabetes products consist of external insulin pumps and related consumables (together referred to as Durable Pump Systems) and subcutaneous continuous glucose monitoring (CGM) systems. Diabetes net sales for the three and nine months ended January 29, 2010 were $311 million and $905 million, an increase of 12 percent and 11 percent, respectively, when compared to the same periods of the prior fiscal year. Foreign currency translation had a favorable/(unfavorable) impact on net sales for the three and nine months ended January 29, 2010 of approximately $11 million and $(5) million, respectively, when compared to the same periods of the prior fiscal year.

Durable Pump Systems net sales for the three and nine months ended January 29, 2010 were $268 million and $777 million, an increase of 10 percent and 7 percent, respectively, when compared to the same periods of the prior fiscal year. For the three and nine months ended January 29, 2010, the increase in net sales resulted from demand in the U.S. for the MiniMed Paradigm REAL-Time System and the increase in worldwide net sales of related consumables. The MiniMed Paradigm REAL-Time System integrates CGM and insulin delivery. Additionally, net sales outside the U.S. were positively impacted from the third quarter launch of the MiniMed Paradigm Veo System. Net sales of CGM systems and

other accessories for the three and nine months ended January 29, 2010 were $43 million and $128 million, an increase of 25 percent and 41 percent, respectively, when compared to the same periods of the prior fiscal year. Growth for each period was primarily driven by strong acceptance of CGM systems worldwide. Additionally, net sales for the nine month period were to some extent negatively impacted by the July 2009 recall of specific lots of Quick-set infusion sets that are used with MiniMed Paradigm insulin pumps. The recall was initiated because the affected infusion sets may not allow the insulin pump to vent air pressure properly, which could potentially result in the device delivering too much or too little insulin. During the second quarter of fiscal year 2010, we reached settlements with the suppliers involved in the recall. We do not anticipate the recall having a significant impact to total net sales for fiscal year 2010.

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

Continued acceptance from both physicians and patients of insulin-pump therapy and CGM therapy.

The continued acceptance and expanded launch of a series of new insulin pumps, including the MiniMed Paradigm Veo System, 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 MiniMed Paradigm Veo System was launched in select markets in Asia and Europe in the third quarter of fiscal year 2010 and will continue to be launched throughout Asia and Europe in the fourth quarter of fiscal year 2010. In addition, the next MiniMed Paradigm REAL-Time System is expected to be launched in the U.S. in the first half of calendar year 2010. The launch of this system will extend our line of sensor-augmented therapy options available on the market.

Continued acceptance and improved reimbursement of CGM technologies, which provide patients and physicians valuable insight into glucose levels.

Our ability to increase or maintain market share through the successful introduction of future products within the competitive pump market.

Potential stagnation in consumer spending. Given the elective nature of an insulin pump and CGM 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 (ENT), and certain neurological disorders. Additionally, we manufacture and sell image-guided surgery systems and intra-operative imagining 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 (IGS) systems. Surgical Technologies net sales for the three and nine months ended January 29, 2010 were $239 million and $690 million, an increase of 15 percent and 11 percent, respectively, when compared to the same periods of the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended January 29, 2010 of approximately $7 million, but did not have a significant impact on net sales for the nine months ended January 29, 2010.

Surgical Technologies net sales for the three and nine months ended January 29, 2010, were driven by strong performance worldwide in nerve monitoring products, power disposables and the continued success of the Fusion EM IGS System in the U.S., which is an advanced electromagnetic-based image-guided surgery system to facilitate sinus surgeries. Additionally, net sales for the three and nine months ended January 29, 2010 increased as a result of service revenue in the U.S. and the continued adoption of the O-Arm Imaging System outside the U.S. The O-Arm Imaging System is a multi-dimensional surgical imaging platform that is optimized for use in spine and orthopedic surgery.

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

Continued acceptance in the U.S. of our Fusion EM IGS System.

Continued acceptance of the StealthStation S7 System and the Synergy Cranial 2.0 software, which were both launched in fiscal year 2009. The Synergy Cranial 2.0 software completed the software offering for cranial procedures on the StealthStation S7 System hardware platform. In addition, we look forward to the future acceptance of the Synergy Cranial 2.1 software, which was launched in the second quarter of fiscal year 2010.

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.

Future acceptance of new products, including NIM 3.0, a next generation nerve monitoring system, which we launched in the first quarter of fiscal year 2010 and the MR7 Pneumatic Drill, which were launched in the second quarter of fiscal year 2010.

Continued and future acceptance of the O-Arm Imaging System in the U.S. and outside the U.S. The O-Arm Imaging System was launched in Japan during the first quarter of fiscal year 2010.

Potential stagnation in consumer and hospital spending as a result of the 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 many factors, including 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:

	Three months ended		Nine months ended	
	January 29, 2010	January 23, 2009	January 29, 2010	January 23, 2009
Cost of products sold	23.7%	24.3%	24.1%	24.0%
Research & development	8.9	9.6	9.3	9.2
Selling, general & administrative	34.5	36.0	34.6	35.6
Restructuring			0.5	0.9
Certain litigation charges, net			3.2	2.5
IPR&D		2.1		0.8
Other expense, net	3.8	1.4	3.2	3.2
Interest expense, net	1.5	1.1	1.5	1.2

Cost of Products Sold

Cost of products sold for the three and nine months ended January 29, 2010, as a percent of net sales, decreased 0.6 of a percentage point for the three months ended January 29, 2010 and increased 0.1 of a percentage point for the nine months ended January 29, 2010. Cost of products sold as a percent of net sales in the three months ended January 29, 2010 was primarily impacted by favorable margin variances due to a shift in product mix. Cost of products sold as a percent of net sales in the nine months ended January 29, 2010 was negatively impacted by 0.5 of a percentage point from foreign currency adjustments, offset by 0.4 of a percentage point in favorable margin variances, the majority of which was due to the launch of Endeavor in Japan.

Research and Development

Consistent with prior periods, we have continued to invest in the future by spending aggressively on research and development efforts. For the three and nine months ended January 29, 2010, research and development spending was $344 million and $1.083 billion, or 8.9 percent and 9.3 percent of net sales, respectively, which both include a negative 30 basis point impact due to foreign currency translation. Research and development spending for the three and nine months ended January 23, 2009 was $337 million and $987 million, or 9.6 percent and 9.2 percent of net sales, respectively. 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 numerous clinical trials. 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

Selling, general and administrative expense for the three months ended January 29, 2010, as a percent of net sales decreased by 1.5 percent to 34.5 percent, as compared to the same period of the prior fiscal year. For the nine months ended January 29, 2010, there was a decrease as a percent of net sales of 1.0 percent to 34.6 percent, as compared to the same period of the prior fiscal year. For the three and nine months ended January 29, 2010, our initiatives to leverage our cost structure helped reduce selling, general and administrative expense. This decrease was partially offset by an increase in legal expenses driven by an increasing amount of government scrutiny on the medical device industry during

the nine months ended January 29, 2010 as compared to the same period of the prior fiscal year.

Restructuring, Certain Litigation and IPR&D Charges

Restructuring, certain litigation and IPR&D charges for the three and nine months ended January 29, 2010 and January 23, 2009 were as follows:

	Three months ended		Nine months ended	
(in millions)	**January 29, 2010**	**January 23, 2009**	**January 29, 2010**	**January 23, 2009**
Restructuring charges	$	$	$ 69	$ 96
Certain litigation charges, net			374	266
IPR&D charges		72		90
Total restructuring, certain litigation and IPR&D charges		72	443	452
Net tax impact of restructuring, certain litigation and IPR&D charges			(77)	(127)
Total restructuring, certain litigation and IPR&D charges, net of tax	$	$ 72	$ 366	$ 325

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 continued to pursue opportunities to streamline the organization and standardize or centralize certain functional activities which were not unique to individual businesses. In connection with these efforts to create One Medtronic, this initiative was 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 impacted most businesses and certain corporate functions. Of the $5 million of asset write-downs, $3 million related 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 consisted of severance and the associated costs of continued medical benefits and outplacement services.

As a continuation of the fiscal year 2009 initiative, in the first quarter of fiscal year 2010 we incurred $72 million of incremental restructuring charges, which consisted of employee termination costs of $62 million and asset write-downs of $10 million. Of the $10 million of asset write-downs, $7 million related to inventory write-offs and production-related asset impairments and therefore was recorded within *cost of products sold* in the condensed consolidated statement of earnings. Included in the $62 million restructuring charge was $9 million of incremental defined benefit pension and post-retirement related expenses for those employees who accepted early retirement packages. For further discussion on the incremental defined benefit pension and post-retirement related expenses, see Note 19 to the condensed consolidated financial statements.

In connection with the fiscal year 2009 initiative, as of the end of the first quarter of fiscal year 2010, we had identified approximately 1,500 positions for elimination which will be achieved through early retirement packages offered to employees, voluntary separation and involuntary separation. Of these 1,500 positions, approximately 1,300 positions had been eliminated as of January 29, 2010. The fiscal year 2009 initiative is scheduled to be substantially complete by the end of the first quarter of fiscal year 2011 and is expected to produce annualized operating savings of approximately $125 million. These savings will arise mostly from reduced compensation expense.

Global Realignment Initiative

In the fourth quarter of fiscal year 2008, we began a global realignment initiative which focused on shifting resources to those areas where we had the greatest opportunities for growth and streamlining operations to drive operating leverage. The global realignment initiative impacted most businesses and certain corporate functions.

In the first quarter of fiscal year 2010, we recorded an $8 million reversal of excess reserves primarily as a result of favorable severance negotiations as well as a higher than expected percentage of employees identified for elimination finding positions elsewhere in the Company. This $8 million reversal of excess reserves was partially offset by a $5 million charge we recorded in the first quarter of fiscal year 2010 related to the further write-down of a non-inventory related asset resulting from the continued decline in the international real estate market.

In connection with the global realignment initiative, as of the end of the first quarter of fiscal year 2009, we had identified approximately 900 positions for elimination which were achieved through both voluntary and involuntary separation. As of January 29, 2010 the restructuring initiatives were substantially complete and are expected to produce annualized operating savings of approximately $96 million. These savings will arise mostly from reduced compensation expense.

Certain Litigation Charges, Net

We classify material litigation reserves and gains recognized as certain litigation charges, net. During the three months ended January 29, 2010, we did not incur any certain litigation charges, net. During the nine months ended January 29, 2010, we recorded certain litigation charges, net of $374 million related to settlements with Abbott Laboratories (Abbott) and W.L. Gore & Associates (Gore). The Abbott settlement accounted for $444 million in litigation charges and the Gore settlement accounted for a $70 million certain litigation gain. The Abbott settlement related to the global resolution of all outstanding intellectual property litigation. The terms of the agreement stipulate that neither party will sue each other in the field of coronary stent and stent delivery systems for a period of at least 10 years, subject to certain conditions. Both parties also agreed to a cross-license of the disputed patents within the defined field. The $444 million settlement amount included a $400 million payment made to Abbott and a $42 million success payment made to evYsio Medical Devices, LLC (evYsio). In addition, a $2 million payment was made to evYsio in connection with an amendment to the parties existing agreement in order to expand the scope of the definition of the license field from evYsio. The Gore settlement related to the resolution of outstanding patent litigation related to selected patents in Medtronic s Jervis and Wiktor patent families. The terms of the agreement stipulate that neither party will sue each other in the defined field of use, subject to certain conditions. We granted Gore a worldwide, irrevocable, non-exclusive license in the defined field of use. In addition and subject to certain conditions, Gore will pay us quarterly payments beginning in January 2010 through the fiscal quarter ending October 2018.

During the three months ended January 23, 2009, we did not incur any certain litigation charges, net. During the nine months ended January 23, 2009, we incurred certain litigation charges of $266 million. Of the amount recorded, $229 million relates to litigation with Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson (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. The remainder of the certain litigation charge of $37 million relates to costs for the settlement of 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 had an estimated useful life of 7 years.

IPR&D Charges

During the three and nine months ended January 29, 2010, we did not incur any IPR&D charges.

During the three months ended January 23, 2009, we recorded $72 million of IPR&D charges related to technology acquired through the purchase of CryoCath that had not yet reached technological feasibility and had no future alternative use.

During the nine months ended January 23, 2009, we recorded $90 million of IPR&D charges of which $72 million related to CryoCath and $18 million related to the purchase of certain intellectual property for use in our Spinal operating segment. These payments were expensed as IPR&D since technological feasibility of the underlying project had not yet been reached and such technology has no future alternative use.

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. Other expense, net for the three and nine months ended January 29, 2010 was $148 million and $372 million, respectively, compared to $50 million and $344 million, respectively, for the same periods in the prior fiscal year. The increase of $98 million for the three months ended January 29, 2010 was primarily due to the impact of foreign currency gains and losses. Total foreign currency losses recorded in the third quarter of fiscal year 2010 were $29 million compared to gains of $31 million in the same period of the prior fiscal year. Also contributing to the year-over-year increase was higher royalty expenses and reduced license payment receipts within our CardioVascular operating segment and increased amortization of intangible assets related to the acquisition of CoreValve. The increase of $28 million for the nine months ended January 29, 2010 was primarily due to an increase in royalty expense within our CardioVascular operating segment, an increase in the amortization of intangible assets related to the acquisitions of Ablation Frontiers and CoreValve, a decrease in Diabetes royalty income, partially offset by a $77 million decrease in foreign currency losses.

Interest Expense, Net

Interest expense, net includes interest earned on investments, interest paid on our borrowings, amortization of debt issuance costs, the net realized and unrealized gain or loss on trading securities and the net realized gain or loss on the sale or impairment of available-for-sale debt securities. For the three and nine months ended January 29, 2010, we had interest expense, net of $56 million and $176 million, respectively, as compared to interest expense, net of $37 million and $131 million for the same periods of the prior fiscal year. The increase in interest expense, net during the three and nine months ended January 29, 2010 was primarily the result of increased interest expense as we issued new debt in the fourth quarter of fiscal year 2009 and decreased interest income earned on our investments as interest rates decreased from the third quarter of fiscal year 2009.

INCOME TAXES

	Three months ended		Nine months ended	
(dollars in millions)	**January 29, 2010**	**January 23, 2009**	**January 29, 2010**	**January 23, 2009**
Provision for income taxes	$ 232	$ 195	$ 590	$ 465
Effective tax rate	21.80%	21.87%	21.57%	19.10%
Impact of restructuring, certain litigation and IPR&D charges		(1.64)	(0.59)	1.41
Non-GAAP nominal tax rate (1)	21.80%	20.23%	20.98%	20.51%

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

Our effective tax rate for the three and nine months ended January 29, 2010 was 21.80 percent and 21.57 percent, respectively, compared to 21.87 percent and 19.10 percent, respectively, from the same periods of the prior fiscal year. The change in our effective tax rate for both the three and nine months ended January 29, 2010 was primarily due to the impact of restructuring, certain litigation and IPR&D charges, the impact of tax benefits derived from our international operations, and operational tax benefits discussed below. Our non-GAAP nominal tax rate for the three and nine months ended January 29, 2010 was 21.80 percent and 20.98 percent, respectively, compared to 20.23 percent and 20.51 percent for the same periods of the prior fiscal year. The change in the Company s non-GAAP nominal tax rate for the three and nine months ended January 29, 2010 as compared to the same periods of the prior fiscal year was due to the impact of tax benefits derived from our international operations and operational tax benefits discussed below.

During the three months ended January 29, 2010, we recorded $7 million in operational tax benefits primarily associated with the finalization of our U.S. federal and certain of our foreign tax returns. During the same period of the prior fiscal year, we recorded $12 million in operational tax benefits for the finalization of the U.S. Federal and certain foreign tax returns and changes to uncertain tax position reserves. During the nine months ended January 29, 2010, we recorded a $16 million benefit which includes the $7 million benefit discussed above and a $9 million benefit associated with Irish research and development credit claims, the deductibility of a settlement expense, the finalization of certain tax returns and changes to uncertain tax position reserves. During the same period of the prior fiscal year, we recorded a $28 million benefit which included the $12 million benefit discussed above and a $16 million 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. The $16 million tax benefit related to a retroactive adjustment for the first seven months of calendar year 2008. These tax adjustments are operational in nature and are recorded in *provision for income taxes* on the condensed consolidated statements of earnings.

As of January 29, 2010, there were no changes to significant unresolved matters with the U.S. Internal Revenue Service (IRS) or foreign tax authorities from what was previously disclosed in our Annual Report on Form 10-K for the year ended April 24, 2009.

See Note 15 to the condensed consolidated financial statements for additional information.

LIQUIDITY AND CAPITAL RESOURCES

(in millions)	January 29, 2010	April 24, 2009
Working capital	$ 4,185	$ 4,305
Current ratio*	2.1:1.0	2.4:1.0
Cash, cash equivalents and short-term investments	$ 2,292	$ 1,676
Long-term investments in debt and trading securities**	3,463	2,242
Cash, cash equivalents, short-term investments and long-term debt and trading securities	$ 5,755	$ 3,918
Short-term borrowings and long-term debt	$ 7,426	$ 6,775
Net cash position***	$ (1,671)	$ (2,857)

* 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 and trading securities.

*** Net cash position is the sum of cash, cash equivalents, short-term investments and long-term investments in debt and trading securities less short-term borrowings and long-term debt.

We believe our liquidity remains strong as of January 29, 2010 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 $2.336 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 January 29, 2010, our Standard and Poor s Ratings Group and Moody s Investors Service ratings remain unchanged as compared to the fiscal year ended April 24, 2009, with long-term debt ratings of AA- and A1, respectively, and strong short-term debt ratings of A-1+ and P-1.

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 20 to the condensed consolidated financial statements provides information regarding amounts we have accrued, if any, related to significant legal proceedings. In accordance with U.S. GAAP, we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. For the nine months ended January 29, 2010, we have made significant payments related to certain legal proceedings. For information regarding these payments, refer to Note 16 of the consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 24, 2009 and Note 5 of the current period s condensed consolidated financial statements.

At January 29, 2010 and April 24, 2009, approximately $5.288 billion and $3.628 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 also include $154 million of cash invested in government securities held in an indemnification trust established for self-insurance coverage on our directors and officers. These investments are restricted and are the property of the trust and can only be used to indemnify or advance expenses related to claims against our directors and/or officers.

The IRS has issued guidance that expands the ability of a U.S. corporation to obtain financing from its foreign subsidiaries without the financing acting as a deemed repatriation of cash. At January 29, 2010, Medtronic, Inc., our parent corporation, had outstanding borrowings of approximately $300 million from one of our non-U.S. subsidiaries. The proceeds of this inter-company note were used to reduce short-term borrowings (and also reduced cash and short-term investments as of January 29, 2010). Subsequent to the quarter ended January 29, 2010, we repaid this inter-company note to our non-U.S. subsidiary using proceeds from short-term borrowings. None of these borrowings acted as a repatriation of cash to the U.S.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include government securities, commercial paper, corporate debt securities, bank certificates of deposit and mortgage backed and other asset backed securities including auction rate securities. Market conditions 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 three and nine months ended January 29, 2010, other-than-temporary impairment losses on available-for-sale debt securities were $11 million and $28 million, respectively, of which $10 million and $17 million, respectively, were recognized in other comprehensive income resulting in $1 million and $11 million, respectively, of charges being recognized in earnings. In determining this other-than-temporary impairment loss, U.S. GAAP 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 in estimating the credit loss portion of other-than-temporary impairment losses. Based on our assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which we are invested, we believe we have recorded all necessary other-than-temporary impairments as we do not have the intent to sell, nor is it more likely than not that we will be required to sell before recovery of the amortized cost. However, as of January 29, 2010, we have $88 million of gross unrealized losses on our aggregate short-term and long-term available-for-sale debt securities of $4.265 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 8 to the condensed consolidated financial statements for additional information regarding fair value measurements.

SUMMARY OF CASH FLOWS

	Nine months ended	
(in millions)	**January 29, 2010**	**January 23, 2009**
Cash provided by (used in):		
Operating activities	$ 2,894	$ 2,755
Investing activities	(2,045)	(1,245)
Financing activities	(681)	(1,217)
Effect of exchange rate changes on cash and cash equivalents	24	(70)
Net change in cash and cash equivalents	$ 192	$ 223

Operating Activities

Our net cash provided by operating activities was $2.894 billion for the nine months ended January 29, 2010 compared to $2.755 billion provided by operating activities for the nine months ended January 23, 2009. The $139 million increase in net cash provided by operating activities was primarily attributable to an increase in net earnings during the nine months ended January 29, 2010 compared to the nine months ended January 23, 2009.

Investing Activities

Our net cash used in investing activities was $2.045 billion for the nine months ended January 29, 2010 compared to $1.245 billion used in investing activities for the nine months ended January 23, 2009. The increase in cash used for investing activities in the nine months ended January 29, 2010 is primarily related to an increase in net purchases of marketable securities for the nine months ended January 29, 2010 compared to the nine months ended January 23, 2009, offset by a reduction in acquisition and intellectual property spending in comparison to the prior year which included the acquisition of CryoCath.

Financing Activities

Our net cash used in financing activities was $681 million for the nine months ended January 29, 2010 compared to $1.217 billion used in financing activities for the nine months ended January 23, 2009. The $536 million decrease in net cash used in financing activities was primarily attributable to an increase in short-term borrowings for the nine months ended January 29, 2010 compared to the nine months ended January 23, 2009. The increase in short-term borrowing was caused by an increase in commercial paper outstanding for legal settlement payments and share repurchases that occurred during the nine months ended January 29, 2010.

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 January 29, 2010. See Notes 9 and 10 to the condensed consolidated financial statements for additional information regarding long-term debt and foreign currency contracts. See Note 15 to the condensed consolidated financial statements for additional information regarding accrued income tax obligations, which are not reflected in the table below.

		Maturity by Fiscal Year					
(in millions)	Total	Remaining 2010	2011	2012	2013	2014	Thereafter
Contractual obligations related to off-balance sheet arrangements:							
Foreign currency contracts (1)	$ 5,630	$ 2,470	$ 2,405	$ 755	$	$	$
Operating leases (2)	314	33	84	61	44	36	56
Inventory purchases (3)	421	58	273	56	10	10	14
Commitments to fund minority investments/contingent acquisition consideration (4)	464	6	292	88	15	10	53
Interest payments (5)	1,263	91	173	131	131	95	642
Other (6)	194	26	48	46	22	18	34
Total	$ 8,286	$ 2,684	$ 3,275	$ 1,137	$ 222	$ 169	$ 799
Contractual obligations reflected in the balance sheet:							
Long-term debt, including current portion (7)	$ 6,724	$	$ 2,616	$ 32	$ 2,213	$ 563	$ 1,300
Capital leases	19			1	1	1	16
Total	$ 6,743	$	$ 2,616	$ 33	$ 2,214	$ 564	$ 1,316

(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. The amounts listed above are the gross notional amounts of the foreign exchange contracts outstanding.

(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. The table above excludes our pending acquisition of Invatec.

(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 due 2014, 5.600 percent on $400 million of the New Senior Notes due 2019, 6.500 percent on $300 million of the New Senior Notes due 2039, 1.500 percent on the $2.200 billion Senior Convertible Notes due 2011, 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. The table above excludes the impact of the debt discount amortization, due to the adoption of the new authoritative guidance for convertible debt accounting, on the Senior Convertible Notes.

(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, $1.000 billion Senior Notes 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. The table above includes the impact of the five year interest rate swaps entered into in June and December 2009. See Notes 9 and 10 to the condensed consolidated financial statements for additional information regarding the interest rate swap agreements.

DEBT AND CAPITAL

Our capital structure consists of equity and interest-bearing debt. Interest-bearing debt as a percentage of total interest-bearing debt and equity was 34 percent at both January 29, 2010 and April 24, 2009.

Share Repurchase Program

In June 2007 and June 2009, our Board of Directors authorized the repurchase of up to 50 million shares and 60 million shares of our common stock, respectively.

Shares are repurchased from time to time to support our stock-based compensation programs and to take advantage of favorable market conditions. During the three and nine months ended January 29, 2010, we repurchased approximately 0.6 million and 18.0 million shares, respectively, at an average price per share of $39.63 and $35.08, respectively. As of January 29, 2010, we had approximately 59.8 million shares remaining under current buyback authorizations approved by the Board of Directors.

Financing Arrangements

We have used a combination of bank borrowings and commercial paper to fund our short-term needs. Short-term debt, including the current portion of our debt and capital lease obligations, at January 29, 2010 was $1.430 billion compared to $522 million at April 24, 2009. We utilize a combination of Contingent Convertible Debentures, Senior Convertible Notes and Senior Notes to meet our long-term financing needs. Long-term debt at January 29, 2010 was $5.996 billion compared to $6.253 billion at April 24, 2009. For more information on our financing arrangements, see Note 9 to the condensed consolidated financial statements.

Credit Arrangements and Debt Ratings

We had existing unsecured lines of credit of approximately $2.866 billion with various banks at January 29, 2010. The existing lines of credit included 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.

As of January 29, 2010 and April 24, 2009, we had unused credit lines and commercial paper capacity of approximately $2.336 billion and $2.799 billion, respectively.

We maintain a commercial paper program that allows us to have a maximum of $2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of January 29, 2010 and April 24, 2009, outstanding commercial paper totaled $933 million and $385 million, respectively. During the three and nine months ended January 29, 2010, the weighted average original maturity of the commercial paper outstanding was approximately 81 days and 64 days, respectively, and the weighted average interest rate was 0.185 percent and 0.225 percent, respectively. The issuance of commercial paper reduces the amount of credit available under our existing lines of credit.

In connection with the issuance of the Contingent Convertible Debentures, 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 as compared to the fiscal year ending April 24, 2009. For more information on credit arrangements, see Note 9 to the condensed consolidated financial statements.

OPERATIONS OUTSIDE OF THE UNITED STATES

The table below illustrates U.S. net sales versus net sales outside the U.S. for the three and nine months ended January 29, 2010 and January 23, 2009:

	Three months ended		Nine months ended	
(in millions)	**January 29, 2010**	**January 23, 2009**	**January 29, 2010**	**January 23, 2009**
U.S. net sales	$ 2,236	$ 2,172	$ 6,925	$ 6,617
Non-U.S. net sales	1,615	1,322	4,696	4,153
Total net sales	$ 3,851	$ 3,494	$ 11,621	$ 10,770

For the three and nine months ended January 29, 2010, consolidated net sales outside the U.S. grew 22 percent and 13 percent, respectively, over the same periods of the prior year. For the three and nine months ended January 29, 2010, growth outside the U.S. was 19 percentage points and 8 percentage points, respectively, higher than net sales growth in the U.S. primarily as a result of CRDM, CardioVascular and Spinal operating segments. Overall, for the three and nine months ended January 29, 2010, sales outside the U.S. were led by all three of CardioVascular s businesses, CRDM s Defibrillator Systems and Spinal s Core Spinal 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 $1.779 billion at January 29, 2010, or 56 percent, of total outstanding accounts receivable, and $1.592 billion at April 24, 2009, or 50 percent, of total outstanding accounts receivable.

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 FDA to address the quality system issues and resumed limited shipments to critical need customers to meet public health and safety needs. 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 addressed issues raised by the FDA during inspections regarding Physio-Control s quality system processes and outlined the actions Physio-Control needed to take in order to resume unrestricted distribution of our external defibrillators. On February 18, 2010, we received notice from the FDA that, having successfully met requirements for improvements to the quality system, we may resume unrestricted worldwide shipments of our external defibrillators.

Medtronic routinely interacts with physicians and other health care providers in order to foster innovation in support of its mission to improve the lives of individuals. In particular, Medtronic pays consulting fees for education and training, clinical trial design and administration, and product design and safety, and it pays royalties to physicians who make inventive contributions. To increase transparency about our policies relating to payments to physicians, we have voluntarily decided to disclose our payments of $5,000 or more made to U.S. physicians for consulting fees, royalties or honoraria, beginning in May 2010.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements contained in this Quarterly Report on Form 10-Q and other written and oral statements made from time to time by us do not relate strictly to historical or current facts. As such, they are considered forward-looking statements which provide current expectations or forecasts of future events. Our forward-looking statements generally relate to our growth strategies, financial results, product development and product launches, regulatory approvals, competitive strengths, patient outcomes, intellectual property rights, litigation and tax matters, mergers and acquisitions, integration of our acquisitions, market acceptance or continued 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, looking ahead, may, plan, possible, potential, project, should, will expressions. One must carefully consider forward-looking statements and understand that such statements may be affected by inaccurate assumptions and may involve a variety of risks and uncertainties, known and unknown, including, among others, risks related to competition in the medical device industry, reduction or interruption on our supply, quality problems, liquidity, decreasing prices, adverse regulatory action, litigation success, self-insurance, healthcare policy changes and international operations, as well as those discussed in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended April 24, 2009 and in this Quarterly Report. 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 forward-looking statement, 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 (if any), in which we may discuss in more detail various important factors that could cause actual results to differ from expected or historical results. It is not possible to foresee or identify all such factors. As such, investors should not consider any list of such factors to be an exhaustive statement of all risks, uncertainties or potentially inaccurate assumptions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Due to the global nature of our operations, we are subject to the exposures that arise from foreign currency exchange rate fluctuations. In a period where the U.S. dollar is strengthening/weakening as compared to other currencies, our revenues and expenses denominated in foreign currencies are translated into a lower/higher 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 $5.630 billion and $5.296 billion at January 29, 2010 and April 24, 2009, respectively. The fair value of these contracts at January 29, 2010 was $68 million more than the original contract value. A sensitivity analysis of changes in the fair value of all foreign exchange derivative contracts at January 29, 2010 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 $481 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, which include our fixed-to-floating interest rate swaps. 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 January 29, 2010 indicates that the fair value of these instruments would correspondingly change by $15 million.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include government securities, commercial paper, corporate debt securities, bank 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 management s discussion and analysis.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

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

of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective 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 U.S. Securities and Exchange Commission s (SEC) applicable rules and forms.

Changes in internal control

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

A discussion of the Company s policies with respect to legal proceedings is included in the management s discussion and analysis and our legal proceedings and other loss contingencies are described in Note 20 of the condensed consolidated financial statements.

Item 1A. Risk Factors

In addition to the risk factors set forth below and the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our fiscal year 2009 Annual Report filed on Form 10-K, which could materially affect our business, financial condition, or future results.

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

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the Obama administration, members of Congress, state governments, regulators and third-party payors to control these costs and, more generally, to reform the U.S. healthcare system. Certain of these proposals could limit the prices we are able to charge for our products, or the amounts of reimbursement available for our products, and could limit the acceptance and availability of our products. Moreover, as discussed below, legislative proposals currently pending in Congress would impose significant new taxes on medical device makers such as us. The adoption of some or all of these proposals could have a material adverse effect on our financial position and results of operations.

On November 7, 2009, the U.S. House of Representatives passed the Affordable Health Care for America Act, and on December 24, 2009, the U.S. Senate passed similar, but not identical, healthcare reform legislation. We cannot predict whether legislation will be enacted, the final form any legislation might take or the effects of such legislation. The current versions of both the House and Senate proposals would impose significant new taxes on medical device makers. Under these proposals, the total cost to the medical device industry would be approximately$20 billion over ten years. These taxes, if implemented, would result in a significant increase in the tax burden on our industry, which could have a material, negative impact on our results of operations and our cash flows. Other elements of this pending legislation such as comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions could meaningfully change the way healthcare is developed and delivered, and may materially impact numerous aspects of our business.

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. We are also subject to periodic inspections by the FDA to determine compliance with the FDA s requirements, including primarily the quality system regulations and medical device reporting regulations. The results of these inspections can include inspectional observations on FDA s Form-483, warning letters, or other forms of enforcement. 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 or refuse to grant pending premarket approval (PMA) applications or requests for certificates to foreign governments for exports, and/or 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. Currently, we have two outstanding warning letters from the FDA: one issued in June 2009 to one of our facilities in Puerto Rico and another issued in November 2009 to our CRDM Mounds View facility.

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.

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

Issuer Purchases of Equity Securities

The following table provides information about the shares repurchased by Medtronic during the third quarter of fiscal year 2010:

Fiscal Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
10/31/09-11/27/09	271,404	$ 36.05	271,404	60,137,567
11/28/09-1/1/10	353,998	42.37	353,998	59,783,569
1/2/10-1/29/10				59,783,569
Total	625,402	$ 39.63	625,402	59,783,569

(1) In June 2007 and June 2009, the Company s Board of Directors authorized the repurchase of 50 million and 60 million shares of the Company s stock, respectively. As authorized by the Board of Directors our program expires when its total number of authorized shares has been repurchased.

Item 6. Exhibits

(a) Exhibits

12.1	Medtronic, Inc. Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Medtronic s Quarterly Report on Form 10-Q for the quarter ended January 29, 2010, formatted in Extensive Business Reporting Language (XBRL), (i) condensed consolidated statements of earnings, (ii) condensed consolidated balance sheets, (iii) condensed consolidated statements of cash flows, and (iv) the notes to the condensed consolidated financial statements.

SIGNATURES

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

	Medtronic, Inc. (Registrant)
Date: March 10, 2010	/s/ William A. Hawkins William A. Hawkins Chairman and Chief Executive Officer
Date: March 10, 2010	/s/ Gary L. Ellis Gary L. Ellis Senior Vice President and Chief Financial Officer