MEDTRONIC INC
Form 10-Q
September 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended July 31, 2009**

Commission File Number 1-7707
MEDTRONIC, INC.
(Exact name of registrant as specified in its charter)

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

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

(763) 514-4000
(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data Filing 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 x No o

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

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

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

Shares of common stock, $.10 par value, outstanding on September 3, 2009: 1,106,803,531

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MEDTRONIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three months ended			
		July 31, 2009		July 25, 2008
	(in millions, except per share data)			
Net sales	$	3,933	$	3,706
Costs and expenses:				
Cost of products sold		966		855
Research and development expense		370		324
Selling, general and administrative expense		1,368		1,318
Restructuring charges		62		96
Certain litigation charges		444		
Other expense, net		96		151
Interest expense, net		66		47
Total costs and expenses		3,372		2,791
Earnings before income taxes		561		915
Provision for income taxes		116		192
Net earnings	$	445	$	723
Basic earnings per share	$	0.40	$	0.64
Diluted earnings per share	$	0.40	$	0.64
Basic weighted average shares outstanding		1,112.6		1,125.2
Diluted weighted average shares outstanding		1,114.6		1,131.7
Cash dividends declared per common share	$	0.205	$	0.188

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

MEDTRONIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 31, 2009	April 24, 2009
	(in millions, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,022	$ 1,271
Short-term investments	522	405
Accounts receivable, less allowances of $63 and $61, respectively	3,113	3,123
Inventories	1,492	1,426
Deferred tax assets, net	600	605
Prepaid expenses and other current assets	535	622
Total current assets	7,284	7,452
Property, plant and equipment	5,057	4,887
Accumulated depreciation	(2,724)	(2,608)
Property, plant and equipment, net	2,333	2,279
Goodwill	8,226	8,195
Other intangible assets, net	2,408	2,477
Long-term investments	3,037	2,769
Other assets	286	416
Total assets	$ 23,574	$ 23,588
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 658	$ 522
Accounts payable	373	382
Accrued compensation	662	901
Accrued income taxes	123	130
Other accrued expenses	1,316	1,212
Total current liabilities	3,132	3,147
Long-term debt	6,307	6,253
Long-term accrued compensation and retirement benefits	351	329
Long-term accrued income taxes	485	475
Long-term deferred tax liabilities, net	62	115
Other long-term liabilities	93	87
Total liabilities	10,430	10,406
Commitments and contingencies (Note 20)		
Shareholders equity:		
Preferred stock par value $1.00		
Common stock par value $0.10	111	112
Retained earnings	13,243	13,272
Accumulated other comprehensive loss	(210)	(202)
Total shareholders equity	13,144	13,182
Total liabilities and shareholders equity	$ 23,574	$ 23,588

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

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

	Three months ended July 31, 2009	Three months ended July 25, 2008
	(in millions)	
Operating Activities:		
Net earnings	$ 445	$ 723
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	188	173
Amortization of discount on senior convertible notes	43	38
Provision for doubtful accounts	8	6
Deferred income taxes	68	(3)
Stock-based compensation	62	55
Excess tax benefit from exercise of stock-based awards		(11)
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	29	42
Inventories	(35)	(59)
Accounts payable and accrued liabilities	(136)	(81)
Other operating assets and liabilities	(1)	110
Certain litigation charges	444	
Certain litigation payments	(494)	(193)
Net cash provided by operating activities	621	800
Investing Activities:		
Acquisitions, net of cash acquired		(29)
Additions to property, plant and equipment	(150)	(127)
Purchases of marketable securities	(1,156)	(1,103)
Sales and maturities of marketable securities	860	558
Other investing activities, net	(83)	21
Net cash used in investing activities	(529)	(680)
Financing Activities:		
Change in short-term borrowings, net	148	481
Payments on long-term debt	(6)	(300)
Dividends to shareholders	(228)	(211)
Issuance of common stock	36	198
Excess tax benefit from exercise of stock-based awards		11
Repurchase of common stock	(344)	(175)
Net cash (used in) provided by financing activities	(394)	4
Effect of exchange rate changes on cash and cash equivalents	53	(14)
Net change in cash and cash equivalents	(249)	110
Cash and cash equivalents at beginning of period	1,271	1,060
Cash and cash equivalents at end of period	$ 1,022	$ 1,170
Supplemental Cash Flow Information		
Income taxes paid	$ 68	$ 62
Interest paid	58	38

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

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

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial condition and cash flows in conformity with U.S. GAAP. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of Medtronic, Inc. and its subsidiaries (Medtronic or the Company) for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosures at the date of the financial statements and during the reporting period. Actual results could materially differ from these estimates. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended April 24, 2009.

All prior periods presented have been retrospectively adjusted for the impact of the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) Accounting Principles Board (APB) Opinion No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB No. 14-1), and FSP Emerging Issues Task Force (EITF) Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF No. 03-6-1) (see Note 3).

The Company has evaluated its subsequent events through September 9, 2009, the filing date of the Company s Quarterly Report on Form 10-Q for the period ended July 31, 2009.

The Company s fiscal years 2010, 2009 and 2008 will end or ended on April 30, 2010, April 24, 2009 and April 25, 2008, respectively.

Note 2 New Accounting Pronouncements

In December 2008, the FASB issued FSP Statement of Financial Accounting Standards (SFAS) No. 132(R)-1, Employers Disclosures About Postretirement Benefit Plan Assets (FSP SFAS No. 132(R)-1). FSP SFAS No. 132(R)-1 requires increased disclosures about an entity s postretirement benefit plan assets. Specifically, FSP SFAS No. 132(R)-1 requires an entity to disclose information regarding its investment policies and strategies, its categories of plan assets, its fair value measurements of plan assets and any significant concentrations of risk in plan assets. FSP SFAS No. 132(R)-1 is effective for the Company beginning in the first quarter of fiscal year 2010 but only requires the revised annual disclosures on a prospective basis. The Company will provide the additional disclosures necessary to the consolidated financial statements beginning in the Company s fiscal year 2010 Annual Report on Form 10-K.

In June 2009, the FASB issued SFAS No. 168, The *FASB Accounting Standards Codification* and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168). SFAS No. 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles to be applied by nongovernmental entities in the preparation of financial statements. In addition, SFAS No. 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws as authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, all nongrandfathered, non-SEC accounting literature not included in the Codification is deemed nonauthoritative. SFAS No. 168 will be effective for the Company beginning in the second quarter of fiscal year 2010. Upon adoption, the Company will reference GAAP by using the numbering system prescribed by the Codification. As the Codification was not intended to change existing GAAP, it will not have any impact on the Company s consolidated financial statements.

Note 3 Retrospective Adoption of Accounting Pronouncements

In May 2008, the FASB issued FSP APB No. 14-1. FSP APB No. 14-1 requires the proceeds from the issuance of applicable convertible debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. FSP APB No. 14-1 changes the accounting treatment for the Company s $2.200 billion of 1.500 percent and $2.200 billion of 1.625 percent Senior Convertible Notes due 2011 and 2013, respectively, which were issued in April 2006 (collectively, the Senior Convertible Notes), and the $15 million remaining balance of the Company s Contingent Convertible Debentures due 2021 (the Debentures).

The effect of the adoption of FSP APB No. 14-1 on the Senior Convertible Notes at April 2006 was a debt discount of $967 million and an increase of $614 million, net of tax, to shareholders equity.

The resulting debt discount for the Company s Debentures is to be amortized over the period from the effective date, January 2005, through the first date holders of the Debentures had the ability to put them back to the Company, September 2006. Therefore, the retrospective adoption of FSP APB No. 14-1 for the Debentures had no impact on results of operations for periods following fiscal year 2007.

In addition, in June 2008, the FASB issued FSP EITF No. 03-6-1. FSP EITF No. 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method. The Company adopted FSP EITF No. 03-6-1 in the first quarter of fiscal year 2010 and is required to retrospectively adjust all prior-period EPS data. The resulting impact of the adoption of FSP EITF No. 03-6-1 was to include 3.5 million and 4.3 million of unvested restricted shares in the basic weighted average shares outstanding calculation for the three months ended July 31, 2009 and July 25, 2008, respectively.

The following table illustrates the impact of the adoption of FSP APB No. 14-1 and FSP EITF No. 03-6-1 on certain financial statement line items in the condensed consolidated statement of earnings for the three months ended July 31, 2009:

(in millions)	**Previous Method**	**Effect of Change of FSP APB No. 14-1**	**Effect of Change of FSP EITF No. 03-6-1**	**As Reported**
Interest expense, net	$ 23	$ 43	$	$ 66
Provision for income taxes	131	(15)		116
Net earnings	473	(28)		445
Earnings per share:				
Basic	0.43	(0.03)		0.40
Diluted	0.43	(0.03)		0.40

The following table illustrates the impact of the adoption of FSP APB No. 14-1 on certain financial statement line items in the condensed consolidated balance sheet as of July 31, 2009:

(in millions)	**Previous Method**	**Effect of Change**	**As Reported**
ASSETS			
Prepaid expenses and other current assets (debt issuance costs)	$ 542	$ (7)	$ 535
Long-term deferred tax assets, net	103	(103)	
Total assets	23,684	(110)	23,574
LIABILITIES AND SHAREHOLDERS EQUITY			
Long-term debt	6,782	(475)	6,307
Long-term deferred tax liabilities, net		62	62
Total liabilities	10,843	(413)	10,430
Retained earnings	12,940	303	13,243
Total shareholders equity	12,841	303	13,144
Total liabilities and shareholders equity	23,684	(110)	23,574

The following table illustrates the impact of the adoption of FSP APB No. 14-1 on certain financial statement line items in the condensed consolidated sta