UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 29, 1999

OR

[ ] 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 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.)

7000 Central Avenue N.E.
Minneapolis, Minnesota 55432
(Address of principal executive offices)

Telephone number: (612) 514-4000

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 ___

Shares of common stock, $.10 par value, outstanding on February 26, 1999:

586,876,433

PART I--FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

MEDTRONIC, INC.
CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

	Three months ended		Nine months ended	
	Jan. 29,	Jan. 30,	Jan. 29,	Jan. 30,

	1999	1998	1999	1998
	(in millions, except per share data)			
Net sales	$ 1,038.9	$ 806.7	$ 3,015.1	$ 2,384.3
Costs and expenses:				
Cost of products sold	295.0	222.8	803.0	628.5
Research and development expense	107.5	93.1	313.8	264.1
Selling, general, and administrative expense	337.9	249.3	924.0	748.7
Non-recurring charges	284.4	156.4	408.7	156.4
Foundation commitment	0.0	36.0	0.0	36.0
Interest expense	14.1	3.7	24.9	11.4
Interest income	(17.0)	(8.0)	(39.8)	(20.3)
Total costs and expenses	1,021.9	753.3	2,434.6	1,824.8
Earnings before income taxes	17.0	53.4	580.5	559.5
Provision for income taxes	52.1	20.1	270.2	193.3
Net earnings (loss)	$ (35.1)	$ 33.3	$ 310.3	$ 366.2
Weighted average shares outstanding	583.0	566.7	575.9	564.5
Basic earnings (loss) per share	$ (0.06)	$ 0.06	$ 0.54	$ 0.65
Earnings (loss) per share assuming dilution	$ (0.06)	$ 0.06	$ 0.53	$ 0.63
Weighted average shares Outstanding assuming dilution	583.0	580.5	590.2	578.4

See accompanying notes to condensed consolidated financial statements.

MEDTRONIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

ASSETS	January 29, 1999	April 30, 1998
	(in millions)	
Current assets:		
Cash and cash equivalents	$ 346.6	$ 519.5
Short-term investments	212.5	123.6
Accounts receivable, less allowance for doubtful accounts of $33.6 and $24.1	933.8	789.6
Inventories:		
Finished goods	286.0	207.8
Work in process	101.4	90.2
Raw materials	138.1	124.8
Total inventories	525.5	422.8
Deferred tax assets	259.1	155.3
Prepaid expenses and other current assets	248.8	126.5
Total current assets	2,526.3	2,137.3
Property, plant, and equipment	1,435.1	1,189.4
Accumulated depreciation	(685.5)	(562.4)
Net property, plant, and equipment	749.6	627.0

Goodwill and other intangible assets, net	1,229.3	563.8
Long-term investments	216.8	138.6
Other assets	188.2	179.5
Total assets	$ 4,910.2	$ 3,646.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 225.3	$ 130.8
Accounts payable	139.5	122.0
Accrued liabilities	801.7	511.3
Total current liabilities	1,166.5	764.1
Long-term debt	22.6	61.2
Deferred tax liabilities	6.0	13.4
Other long-term liabilities	140.2	156.9
Total liabilities	1,335.3	995.6
Shareholders' equity:		
Common stock--par value $.10	58.6	57.0
Retained earnings	3,602.4	2,676.0
Accumulated other non-owner changes in equity	(60.0)	(54.5)
	3,601.0	2,678.5
Receivable from Employee Stock Ownership Plan	(26.1)	(27.9)
Total shareholders' equity	3,574.9	2,650.6
Total liabilities and shareholders' equity	$ 4,910.2	$ 3,646.2

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended	
	Jan. 29, 1999	Jan. 30, 1998
	(in millions)	
OPERATING ACTIVITIES:		
Net earnings	$ 310.3	$ 366.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	160.9	112.4
Non-recurring charges	267.7	156.4
Change in assets and liabilities:		
Increase in accounts receivable	(123.6)	(65.2)
Increase in inventories	(62.2)	(64.0)
Increase in deferred taxes	(98.7)	(63.0)
Increase (decrease) in accounts payable and accrued liabilities	41.5	(37.2)
Changes in other operating assets and liabilities	(123.0)	9.2
Net cash provided by operating activities	372.9	414.8

INVESTING ACTIVITIES:		
Additions to property, plant, and equipment	(187.7)	(121.5)
Acquisition of subsidiaries, net of cash acquired	(910.7)	0.0
Purchases of marketable securities	(647.2)	(86.8)
Sales and maturities of marketable securities	542.8	45.3
Other investing activities (net)	(13.1)	(3.5)
Net cash used in investing activities	(1,215.9)	(166.5)
FINANCING ACTIVITIES:		
Increase (decrease) in short-term borrowings (net)	94.0	(9.7)
Decrease in long-term debt (net)	(38.6)	(1.4)
Proceeds from stock offering of acquired subsidiary	0.0	1.2
Dividends to shareholders	(93.9)	(77.2)
Repurchases of common stock	(106.8)	(122.4)
Issuance of common stock	814.3	63.0
Net cash provided by (used in) financing activities	669.0	(146.5)
Effect of exchange rate changes on cash and cash equivalents	1.1	1.9
Net change in cash and cash equivalents	(172.9)	103.7
Cash and cash equivalents at beginning of period	519.5	228.4
Cash and cash equivalents at end of period	$ 346.6	$ 332.1
Supplemental Noncash Investing and Financing Activities		
Issuance of common stock for acquisition of subsidiary	$ 67.4	$ 0.0

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Medtronic, Inc. and all of its subsidiaries, after elimination of all significant intercompany transactions and accounts. In the opinion of management, all adjustments necessary for a fair presentation of operating results have been made. All such adjustments are of a normal recurring nature. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole.

Note 2 - Acquisitions

On January 28, 1999, the company issued approximately 50.6 million shares of its common stock for all of the outstanding capital stock of Arterial Vascular Engineering, Inc. (AVE). AVE designs and manufactures minimally invasive solutions for the treatment of coronary artery and peripheral vascular disease. AVE's product offerings include coronary stents, balloon catheters, guidewires and guiding catheters.

On January 27, 1999, the company issued approximately 45.0 million shares of its common stock for all of the outstanding capital stock of Sofamor Danek Group, Inc. (Sofamor Danek). Sofamor Danek is primarily involved in developing, manufacturing, and marketing devices, instruments, computer-assisted visualization products and biomaterials used in the treatment of spinal and cranial disorders.

On December 14, 1998, AVE acquired all of the outstanding capital stock of World Medical Manufacturing Corporation (World Medical) in exchange for approximately $71 million in AVE common stock and other consideration. AVE accounted for this acquisition as a purchase and, accordingly, the results of operations have been included in the consolidated financial statements since the date of acquisition. World Medical develops, manufactures, and markets an endovascular stented graft and delivery system for the treatment of abdominal aortic aneurysms.

The acquisitions of Sofamor Danek and AVE have been accounted for as poolings-of-interests and, accordingly, the company's consolidated financial statements for the first and second quarters of fiscal 1999 and for prior years have been restated to include the results of operations, financial positions, and cash flows of Sofamor Danek and AVE.

Net sales and net earnings for the individual entities for three and nine months ended January 30, 1998 were as follows (in millions):

	Medtronic	Sofamor Danek	AVE	Combined
Three months ended January 30, 1998				
Net sales	$676.9	$91.5	$38.3	$806.7
Net earnings	9.6	15.9	7.8	33.3
Nine months ended January 30, 1998				
Net sales	2,054.4	243.1	86.8	2,384.3
Net earnings	304.0	44.0	18.2	366.2

The above results include the impact of the $205.3 million pre-tax charges recorded during the third quarter of fiscal 1998.

In connection with the Sofamor Danek and AVE mergers, $121.9 million of one-time transaction related costs were incurred and expensed during the quarter as part of the $302.2 million pre-tax charge (See Note 3). These costs include professional fees, "change of control" payments, and other direct transaction costs associated with the mergers.

The restated consolidated financial results for the three and nine months ended January 30, 1998, respectively, include Sofamor Danek's and AVE's results for the three and nine month periods ended December 31, 1997, respectively. Effective May 1, 1998, Sofamor Danek's and AVE's fiscal year end has been changed from December 31 and June 30, respectively, to April 30 to conform to the company's fiscal year end. The combined results for the fiscal year ended April 30, 1998 represent the historical results of Medtronic for the fiscal year ended April 30, 1998 combined with the historical results of Sofamor Danek and AVE for the 12 months ended March 31, 1998. Accordingly, Sofamor Danek's and AVE's results for the one month period ended April 30, 1998 have been excluded from the company's combined results and have been reported as an adjustment to May 1, 1998 retained earnings.

Net sales and net results for individual entities acquired using the purchase method of accounting are not presented as the activity is not deemed to be material.

Note 3 - Non-Recurring Charges
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The company recorded pre-tax charges totaling $302.2 million during the third quarter of fiscal 1999. As discussed in Note 2, $121.9 million of this pre-tax charge related to one-time transaction related costs incurred in connection with the Sofamor Danek and AVE mergers. $91.7 million of this pre-tax charge pertained to management initiatives to restructure worldwide operations for the new Vascular organization. These actions will include the closing of five manufacturing facilities and will result in the elimination of approximately 1,600 positions over the next year. The components of these charges included $5.4 million for facility reductions, $41.5 million for severance and related costs, $26.8 million for impairments to reduce the carrying value of fixed assets and certain other assets to fair value, and $18.0 million for noncancelable contractual commitments and other non-recurring expenses. The company is anticipating the recording of an additional pre-tax non-recurring charge of approximately $45.0 million in the fourth quarter of fiscal 1999 for actions in that period related to the mergers.

Also, in connection with the restructuring of the operations, the $302.2 million pre-tax charge included a $17.8 million charge to cost of products sold for discontinued product lines.

The $302.2 million pre-tax charge includes a charge for the purchase of in-process research and development related to AVE's December 1998 acquisition of World Medical. $45.8 million of the $70.8 million purchase price represents purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately expensed upon consummation of the World Medical acquisition. The value assigned to purchased in-process technology was based on a valuation prepared by an independent third-party appraisal company and was determined by identifying research projects in areas for which technological feasibility had not been established, including the Talent System and two smaller programs. The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that takes into account the uncertainty surrounding the successful development of the purchased in-process technology.

Included in the $302.2 million pre-tax charge was $25.0 million for additional reserves necessary to conclude certain outstanding litigation of Sofamor Danek.

The company recorded pre-tax charges totaling $205.3 million during the third quarter of fiscal 1998. Applications during the third quarter of fiscal 1999 against the remaining accruals from fiscal 1998 and related to the $302.2 million pre-tax charges recorded in the third quarter of fiscal 1999 were as follows (amounts in millions):

	Balance at Oct. 30, 1998	New Charges	Charges Utilized	Balance at Jan. 29, 1999
Transaction related costs	$0.0	$121.9	$(55.6)	$66.3
Purchased in-process R&D	0.0	45.8	(45.8)	0.0
Facility reductions	3.0	5.4	(0.5)	7.9
Severance and related costs	31.7	41.5	(14.2)	59.0
Asset write-downs	0.0	44.6	(44.6)	0.0
Noncancelable contractual obligations and other	4.1	18.0	(1.2)	20.9
Litigation reserve	25.3	25.0	(3.4)	46.9
Total	$64.1	$302.2	$(165.3)	$201.0

The majority of the actions relating to the fiscal 1998 charge are expected to be completed by the end of fiscal 1999. Since the inception of the fiscal 1998 restructuring program, approximately 900 positions have been eliminated. The initiatives announced in the third quarter of fiscal 1999 are expected to be completed by the end of fiscal 2000. The remaining reserve balances at January 29, 1999 are included in current accrued liabilities.

After accounting for the poolings, the first half of fiscal 1999 results include pre-tax non-recurring charges of $124.4 million consisting of $95.3 million of purchased in-process research and development in conjunction with AVE's October 1998 acquisition of the coronary catheter lab business of C. R. Bard, Inc., $21.1 million of one-time transaction related costs associated with the September 1998 merger with Physio-Control, and $8.0 million related to Sofamor Danek's June 1998 special charge for payments made under two strategic development and licensing agreements.

As noted above, approximately $95.3 million of the $610.7 million purchase price related to AVE's October 1998 acquisition of the coronary catheter lab business of C. R. Bard, Inc. represents purchased in-process technology that had not yet reached technological feasibility and had no alternative use. Accordingly, this amount was immediately expensed upon consummation of the acquisition. The value assigned to purchased in-process technology was based on a valuation prepared by an independent third-party appraisal company and was determined by identifying research projects in areas for which technological feasibility had not been established, including a rapid exchange perfusion catheter, a stent development program, and eight other minor product categories. The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that takes into account the uncertainty

surrounding the successful development of the purchased in-process technology.

Note 4 - Other Non-Owner Changes in Equity

During the first quarter of fiscal 1999, the company adopted Statement of Financial Accounting Standard No. 130 "Reporting Comprehensive Income" (SFAS No. 130). In addition to net earnings (loss), other non-owner changes in equity includes, as applicable, unrealized gains and losses on available for sale securities, foreign currency translation adjustments, and minimum pension liability. For the third quarter ended January 29, 1999 and January 30, 1998, the company's other non-owner changes in equity was $(17.2) million and $10.1 million, respectively. For the nine month periods ended January 29, 1999 and January 30, 1998, the company's other non-owner changes in equity was $304.8 million and $356.8 million, respectively. The company's adoption of SFAS No. 130 had no effect on the company's reported results of operations, cash flows or financial position.

Note 5 - New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which is required to be adopted for fiscal years beginning after June 15, 1999, although earlier application is permitted as of the beginning of any fiscal quarter. This statement will require the company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The company is in the process of determining if earlier application would be feasible and what effect the adoption of SFAS No. 133 will have on the company's results of operations, cash flows or financial position.

Note 6 - Subsequent Event

On March 8, 1999, the company issued approximately 1.3 million shares of its common stock for all of the outstanding capital stock of AVECOR Cardiovascular Inc. (AVECOR). The transaction will be accounted for as a purchase. AVECOR develops, manufactures and markets specialty medical devices for heart/lung bypass surgery and long-term respiratory support. It is the company's intent to repurchase the equivalent number of shares issued for this transaction as soon as practical through open market repurchases of the company's common stock.

In conjunction with this acquisition, the company has formulated management initiatives to restructure the worldwide operations of the new perfusion systems organization. As a result, certain manufacturing sites will be closed which will result in the displacement of approximately 700 positions in the worldwide perfusion systems workforce. The company is anticipating the recording of an additional non-recurring charge in the fourth quarter of fiscal 1999 related to these actions.

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

Results of Operations

Net Results

After pre-tax non-recurring charges of $302.2 million, the results for the third quarter ended January 29, 1999 were reduced to a net loss of $35.1 million or a loss of $0.06 per share diluted, compared with net earnings of $33.3 million or $0.06 earnings per share diluted, after $205.3 million of pre-tax non-recurring charges taken in the third quarter last year. Net earnings were $310.3 million or $0.53 per share diluted for the nine month period ended January 29, 1999,

compared to $366.2 million, or $0.63 per share diluted for the comparable period last year. Without the $302.2 million of pre-tax non-recurring charges, diluted earnings per share would have been $0.36 for the quarter ended January 29, 1999. Without the $426.6 million of pre-tax non-recurring charges, diluted earnings per share would have been $1.12 for the nine-month period ended January 29, 1999.

Sales
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Sales for the quarter and nine-month period ended January 29, 1999 increased 28.8 percent and 26.5 percent, respectively, compared to the same periods last year. Exclusive of the effects of foreign currency translation, sales for the quarter and nine-month period ended January 29, 1999 increased 28.0 percent and 27.2 percent, respectively, over the comparable periods last year. Sales growth in the quarter was positively impacted by $6.4 million of exchange rate movements by the U.S. dollar versus major European currencies and the Japanese Yen, while sales growth for the nine-month period ended January 29, 1999 has been negatively impacted by $18.0 million.

Net sales of Cardiac Rhythm Management products, which consist primarily of products for bradycardia pacing, tachyarrhythmia management, external defibrillators, ablation, and components, increased 15.3 percent and 10.5 percent during the quarter and nine-month period ended January 29, 1999, respectively, after removing the impact of foreign exchange rate fluctuations, compared to the same periods a year ago. This growth was led by tachyarrhythmia management's strong market share gains worldwide, solid bradycardia pacing results and significant growth from Physio-Control. Unit sales of bradycardia implantable pulse generators (IPG's) achieved 5 percent growth during the quarter on sales of the Medtronic.Kappa 700 series pacemakers in international locations and of the Medtronic.Kappa 400 series pacemakers in the U.S. The Medtronic.Kappa 700 series pacemakers received FDA clearance in the U.S. on the last day of the quarter. Tachyarrhythmia management, led by sales of the Gem DR defibrillator, reestablished global market leadership with nearly 45 percent growth over the comparable period last year. The Gem II DR, the world's smallest full-featured implantable defibrillator, received FDA clearance subsequent to quarter end and is planned to be launched this spring. Physio-Control, which was acquired in September 1998 and which was accounted for as a pooling-of-interests, grew 25.0 percent over the comparable period last year on the strength of its Lifepak 12 and Lifepak 500 external defibrillators.

Net sales of vascular product lines, consisting of balloon and guiding catheters, and stents, more than doubled during the quarter and nine-month period ended January 29, 1999, respectively, compared to the same periods a year ago. However, third quarter revenues from AVE, which was acquired January 28, 1999 and accounted for as a pooling of interests, fell below management expectations due to weaker than expected U.S. stent sales. AVE's third quarter coronary stent sales declined more than 35 percent from the second quarter, as competitive shifts in U.S. market share were greater than anticipated. AVE's second generation of coronary stent, the GFX2, is expected to receive FDA clearance during the fourth quarter of fiscal 1999. The S670, AVE's third generation coronary stent, is expected to be market released in Europe this spring.

Net sales of cardiac surgery product lines, which consist of heart valves, perfusion systems, cannulae, and surgical accessories, increased 1.6 percent and 4.2 percent, during the quarter and nine-month period ended January 29, 1999, respectively, compared to the same periods a year ago. Unit sales of heart valve products increased more than 10 percent during the quarter on continuing strong U.S. sales of the Freestyle stentless aortic tissue valve. Sales of cannulae grew in the low-single digits, while sales of perfusion systems declined slightly.

Net sales of Neurological and Spinal products, consisting primarily of neurosurgery and spinal products, implantable neurostimulation devices, drug administration systems, and functional diagnostics, increased 35.1 percent and 31.1 percent for the quarter and nine-month period ended January 29, 1999, respectively. Sales of neurosurgery and spinal product lines (consisting of Sofamor Danek, PS Medical and Midas Rex) increased 40 percent from the prior

year comparative period. Midas Rex, which was acquired in late October 1998, and was accounted for as a purchase, contributed to the growth in neurosurgery product sales during the quarter. Sofamor Danek currently awaits FDA clearance of the Interfix cage. Sales of core neurological product lines (consisting of neurostimulation, drug administration systems and functional diagnostics) grew approximately 30 percent compared to the same period last year. Sales growth was achieved in the drug delivery product line as a result of increased demand for the SynchroMed(R) drug infusion system for delivery of morphine for chronic pain and for delivery of Lioresal (baclofen, USP)Intrathecal for treatment of cerebral and spinal spasticity. The Medtronic Activa(TM) neurostimulation therapy for control of essential tremor and tremor associated with Parkinson's disease also contributed to the growth during the quarter.

Costs of Products Sold
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Cost of products sold as a percent of sales for the quarter and nine-month period ended January 29, 1999 was 28.4 percent and 26.6 percent compared to 27.6 percent and 26.4 percent for the same periods a year ago. Without the $17.8 million special charge for discontinued product lines as a result of the mergers, cost of products sold as a percent of sales for the quarter and nine-month period ended January 29, 1999 would have been 26.7 percent and 26.0 percent, respectively, compared to pre-charge ratios of 26.0 percent and 25.8 percent, respectively, for the comparable periods last year. The increase in the cost of products sold as a percent of sales resulted primarily from the increased negative impact of foreign exchange rate fluctuations between the time products are shipped to non-U.S. locations and the time they are sold to customers. In addition, certain changes in product and geographic mixes contributed to the increase.

Research and Development Expense
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Research and development expense was $107.5 million for the quarter and $313.8 for the nine-month period ended January 29, 1999. The company remains committed to spending aggressively on research and development (R&D) to develop technological enhancements and new indications for existing products, as well as to develop less invasive and new technologies to address unmet patient needs and to help reduce procedural costs and length of hospital stay. R&D as a percent of net sales was 10.3 percent and 10.4 percent for the quarter and nine-month period ended January 29, 1999, respectively, compared to 11.5 and 11.1 percent for the comparable periods last year.

Selling, General, and Administrative Expense (SG&A)
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SG&A expense for the quarter ended January 29, 1999, was $337.9 million compared to $249.3 million for the comparable period last year. SG&A as a percent of sales increased from 30.9 percent a year ago to 32.5 percent for the current quarter. The increase in SG&A as a percent of sales was primarily attributable to increased marketing and distribution spending to support new product launches and by a decrease in the dollar amount of gains recognized in the current quarter from hedging activities as compared to the comparative period last year.

Non-Recurring Charges
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As discussed in Note 3, the company recorded $302.2 million of pre-tax charges during the third quarter of fiscal 1999. Management believes the restructuring portion of this charge will result eventually in annualized pre-tax savings of more than $50 million.

Interest
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Interest expense was $14.1 million for the quarter as compared to $3.7 million for the same period last year. The increase in interest expense was primarily the result of changes in average debt balances from year to year for debt balances assumed as part of the acquisitions of Sofamor Danek and AVE. Prior to quarter end, the company paid off the $550 million debt associated with AVE's October 1998 acquisition of the coronary catheter lab business of C. R. Bard, Inc. Interest income during the quarter was $17.0 million compared to $8.0

million for the same period last year. The increase in interest income was primarily the result of increased average investment balances over the prior year as a result of the $691.8 million net proceeds raised from the September 1998 secondary stock offering and by investment balances assumed as part of the acquisitions of Sofamor Danek and AVE.

Income Taxes
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The pre-charge effective tax rate for the quarter and nine-month period ended January 29, 1999 was 33.2 percent and 34.3 percent, respectively, compared to an effective tax rate of 34.7 percent, after restatement for the acquisitions of Sofamor Danek and AVE, for the fiscal year ended April 30, 1998. The reduction in the fiscal 1999 effective tax rate is primarily due to a greater proportion of income being derived from Switzerland and other tax planning initiatives, partially offset by tax legislation that reduces U.S. tax benefits derived from the company's operations in Puerto Rico.

Liquidity and Capital Resources
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Operating activities provided $372.9 million of cash and cash equivalents for the nine-month period ended January 29, 1999 compared to $414.8 million for the same period a year ago. Working capital was $1,359.8 million at January 29, 1999 compared to $1,373.2 million at April 30, 1998. The current ratio was 2.2:1 at January 29, 1999, compared to 2.8:1 at April 30, 1998. The decrease in the current ratio at January 29, 1999 is primarily related to increased accrued liability balances at January 29, 1999 related to the $302.2 million pre-tax charge taken during the third quarter of fiscal 1999. Cash and cash equivalents were $346.6 million at January 29, 1999 compared to $519.5 million at April 30, 1998.

Significant sources of cash during the nine-month period ended January 29, 1999 included proceeds provided by the September 1998 secondary stock offering (approximately $691.8 million of cash, net of issuance costs) and the issuance of $550 million of debt (by AVE) in conjunction with AVE's October 1998 acquisition of the coronary catheter lab business of C. R. Bard, Inc.

Significant uses of cash during the nine-month period ended January 29, 1999 included repayments on long-term debt (including the $550 million debt related to AVE's acquisition of the coronary catheter lab business of C. R. Bard, Inc.), the acquisitions of Midas Rex, World Medical, and the coronary catheter lab business of C. R. Bard, Inc., purchases of property, plant, and equipment, purchases of marketable securities, repurchases of common stock under the company's systematic stock repurchase plan, and dividends paid to shareholders.

In addition, changes in other operating assets and liabilities for the nine-month period ended January 29, 1999, includes approximately $70 million in prepayments of foreign tax liabilities. These tax prepayments were funded through additional non-U.S. short-term borrowings.

Due to legal restrictions imposed on share repurchases as a result of the recent mergers with Sofamor Danek and AVE and the previously pending acquisition of AVECOR, the company could not repurchase common stock during the third quarter ended January 29, 1999. The company will again repurchase shares under the systematic stock repurchase plan subsequent to the March 8, 1999 closing of AVECOR (see Note 6), which removed the remaining legal restrictions imposed on share repurchases.

Year 2000 Readiness Disclosure
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Medtronic has had a formal program in place since 1996 with assigned Year 2000 staff to ensure that its critical areas, related to business information systems, products, non-information systems with embedded technology and key third party suppliers, will operate normally before, during and after the Year 2000.

The company has completed a review of its business information systems with regard to Year 2000 compliance and will either replace or correct, through programming modifications, those computer systems that have been found to have date-related deficiencies. It is anticipated that this remediation will be

substantially complete by mid-calendar 1999. No significant information technology projects have been deferred as a result of the company's efforts on Year 2000.

The company's products have been assessed and found to be Year 2000 compliant with the exception of a few requiring minor corrective actions. The minor corrective actions are limited to certain programmers and certain other instruments. These minor corrective actions are date-related and present no adverse health impact to the patient or system functions. The software for such items will be updated or instructions will be provided to achieve compliance prior to the Year 2000. The company's implantable devices, including pacemakers, defibrillators, drug infusion systems, neurostimulators, and heart valves, are not affected by the Year 2000 issue because they do not deliver therapy on the basis of a calendar date.

The company is also assessing facility and telecommunication systems, and systems used to support manufacturing processes to ensure that these will be Year 2000 ready. It is anticipated that this assessment and any required remediation will be completed by mid-calendar 1999.

The company relies on third party providers for services such as raw materials procurement, telecommunications, utilities, financial services, distribution services, and other key services. Interruption of those services due to Year 2000 issues could affect the company's operations. The company is in the process of contacting its major suppliers to determine its potential exposure to a supply or sales interruption. Because the company's Year 2000 compliance is dependent upon key third parties also being Year 2000 compliant, there can be no guarantee that the company's efforts will prevent a material adverse impact on its financial position, results of operations or liquidity in future periods should a significant number of suppliers and customers experience business disruptions as a result of their lack of Year 2000 readiness.

The company estimates that it has incurred approximately $18 million to date in external and internal costs on a pre-tax basis to address its Year 2000 readiness issues. The company currently estimates that the total additional costs for addressing its internal Year 2000 readiness will not exceed $20 million on a pre-tax basis. Approximately $6 million of these costs have been capitalized to date related to Sofamor Danek's worldwide installation of a comprehensive software package. Remaining Year 2000 costs are being expensed as they are incurred and are being funded through operating cash flows. The company plans to devote the necessary resources to resolve all significant Year 2000 issues in a timely manner. The above cost estimates include costs associated with Year 2000 readiness for businesses acquired through January 29, 1999. Estimates will be adjusted, as necessary, for acquisitions closing after this date.

Throughout 1999, the company will determine areas where contingency planning is needed. The planning efforts include, but are not limited to, identification and mitigation of potential serious business interruptions, adjustment of inventory levels to meet customer needs, and establishing crisis response processes to address unexpected problems.

The company's statements regarding its Year 2000 readiness are forward-looking statements and are therefore subject to change as a result of known and unknown factors. Both the company's cost estimates and completion time frames could be influenced by the company's ability to successfully identify all Year 2000 issues, the nature and amount of remediation required, the availability and cost of trained personnel in this area and the Year 2000 success that key third parties and customers attain. While these and other unforeseen factors could have a material adverse impact on the company's financial position, results of operations or liquidity in future periods due to possible manufacturing delays or business disruptions caused by a lack of third party Year 2000 readiness, management believes that it has implemented an effective Year 2000 compliance program that will minimize the possible negative consequences to the company.

The Year 2000 readiness disclosure statement set forth above is a "Year 2000 Readiness Disclosure" under the federal Year 2000 Information and Readiness Disclosure Act.

Cautionary Factors That May Affect Future Results
- ----------

Certain statements contained in this document and other written and oral statements made from time to time by the company 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. Such statements can be identified by the use of terminology such as "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "possible," "plan," "project," "will," "forecast" and similar words or expressions. The company's forward-looking statements generally relate to its growth strategies, financial results, product development and regulatory approval programs, and sales efforts. One must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions, including, among others, those discussed in the section entitled "Government Regulation and Other Matters" in the company's Annual Report and Form 10-K. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially.

The company undertakes no obligation to update any forward-looking statement, but investors are advised to consult any further disclosures by the company on this subject in its filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q and 8-K (if any), in which the company discusses in more detail various important factors that could cause actual results to differ from expected or historic results. The company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995. 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.

PART II -- OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The company operates in an industry susceptible to significant product liability claims. In recent years, there has been increased public interest in product liability claims for implanted medical devices, including pacemakers and leads. These claims may be brought by individuals seeking relief for themselves or, increasingly, by groups seeking to represent a class, and the company has experienced an increase in such claims. During the past several years, United States District Courts in California, Florida, Kentucky, and Ohio have refused to certify class actions in cases brought against the company. This is consistent with the trend in class action law as it applies to the medical device industry generally. In addition, product liability claims may be asserted against the company in the future related to events not known to management at the present time. Management believes that the company's risk management practices, including insurance coverage, are reasonably adequate to protect against potential product liability losses.

Beginning in 1994, Medtronic's newly acquired subsidiary, Medtronic Sofamor Danek, Inc., was named as a defendant in approximately 3,000 product liability lawsuits brought in various federal and state courts around the country. The lawsuits allege the plaintiffs were injured by spinal implants manufactured by Sofamor Danek and other manufacturers. All efforts to obtain class certification have been denied or withdrawn. In essence, the plaintiffs claim that they have suffered a variety of injuries resulting from use of a spinal system for pedicle fixation and that the company and other manufacturers have conspired to promote such implant systems in violation of law. As of January 1999, over 1,000 suits have been dismissed or resolved in favor of the company. Discovery is proceeding in the remaining cases. The company believes these claims are without merit and will continue to defend against them vigorously.

A patent infringement lawsuit commenced in 1993 against Sofamor Danek by AcroMed Corporation has been set for trial in the U.S. District Court in Cleveland, Ohio in April 1999. The suit alleges that certain plate and rod implant systems infringe four patents and seeks damages and injunctive relief. Sofamor Danek has obtained summary judgment as to two patents and continues to vigorously defend against the remaining claims.

In November 1997, the company filed suit against Guidant Corporation in U.S. District Court in Minneapolis claiming that Guidant's ACS RX Multi-Link coronary stent infringes a patent owned by the company. Medtronic is seeking injunctive relief and monetary damages, and discovery is proceeding. The stent industry is currently characterized by extensive patent litigation and Medtronic's newly

acquired subsidiary, Medtronic AVE, Inc., is both a plaintiff and a defendant in lawsuits with Johnson & Johnson and Guidant Corporation, and a plaintiff in a lawsuit with Boston Scientific Corporation, over their respective patents, with plaintiffs in each case alleging patent infringement and seeking injunctive relief and monetary damages.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27 - Financial Data Schedule (For SEC use only)

(b) Reports on Form 8-K

During the quarter ended January 29, 1999, the company filed (i) a Report on Form 8-K dated November 9, 1998 reporting under Item 5 the announced signing of an agreement to acquire Sofamor Danek Group, Inc., (ii) a Report on Form 8-K dated November 19, 1998 reporting under Item 5 the announcement of financial results for the fiscal second quarter ended October 30, 1998,(iii) a Report on Form 8-K dated November 30, 1998 reporting under Item 5 the restated financial statements for fiscal years ended April 30, 1996, 1997, and 1998, to reflect the acquisition of Physio-Control International Corporation, which occurred on September 30, 1998, as a pooling-of-interests, (iv) a Report on Form 8-K dated December 3, 1998 reporting under Item 5 the announced signing of an agreement to acquire Arterial Vascular Engineering, Inc., (v) a Report on Form 8-K dated January 25, 1999 reporting under Item 5 the conversion ratio for the proposed merger with Sofamor Danek Group, Inc., (vi) a Report on Form 8-K dated January 26, 1999 reporting under Item 2 the completion of the previously announced transaction with Sofamor Danek Group, Inc., (vii) a Report on Form 8-K dated January 27, 1999 reporting under Item 5 the conversion ratio for the proposed merger with Arterial Vascular Engineering, Inc., and (viii) a Report on Form 8-K dated January 28, 1999 reporting under Item 2 the completion of the previously announced transaction with Arterial Vascular Engineering, Inc.

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 12, 1999

/S/ WILLIAM W. GEORGE

William W. George
Chairman
and Chief Executive Officer

Date: March 12, 1999

/S/ ROBERT L. RYAN

Robert L. Ryan
Senior Vice President
and Chief Financial Officer

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF EARNINGS AND CONDENSED CONSOLIDATED BALANCE SHEET FOR THE QUARTERLY PERIOD ENDED JANUARY 29, 1999 FILED WITH THE SEC ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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