1

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 28, 1994

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) 574-4000

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 28, 1994:

57,351,993

2

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

MEDTRONIC, INC.
STATEMENT OF CONSOLIDATED EARNINGS
(Unaudited)

	Three months ended		Nine months ended	
	Jan. 28, 1994	Jan. 29, 1993	Jan. 28, 1994	Jan. 29, 1993
	(In thousands, except per share data)			

Net sales	$334,601	$308,206	$997,964	$969,924
Costs and expenses:				
Cost of products sold	103,237	97,485	309,067	307,287
Research and development expense	38,986	32,976	112,964	96,493
Selling, general, and administrative expense	107,947	106,676	342,851	356,590
Interest expense	1,956	2,531	6,189	8,323
Interest income	(2,471)	(2,335)	(6,332)	(6,330)
Gain on sale of subsidiary	--	--	(13,962)	--
Litigation settlement	--	--	--	(50,000)
Intangible asset amortization	--	--	--	18,000
Foundation commitment	--	--	--	12,000
Total costs and expenses	249,655	237,333	750,777	742,363
Earnings before income taxes	84,946	70,873	247,187	227,561
Provision for income taxes	28,034	23,033	81,574	73,957
Net earnings before cumulative effect of accounting changes	56,912	47,840	165,613	153,604
Cumulative effect of accounting changes:				
Postretirement benefits (net of deferred taxes of $5,674)	--	--	--	(9,256)
Income taxes	--	--	--	(5,100)
Net earnings	$ 56,912	$ 47,840	$165,613	$139,248
Weighted average shares outstanding	57,219	59,715	57,405	59,597
Earnings per share:				
Earnings before cumulative effect of accounting changes	$ .99	$ 0.80	$ 2.88	$ 2.58
Cumulative effect of accounting changes	--	--	--	(.24)
Net earnings per share	$ .99	$ 0.80	$ 2.88	$ 2.34

See accompanying Notes to Condensed Consolidated Financial Statements.

MEDTRONIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

ASSETS	January 28, 1994	April 30, 1993
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 118,986	$ 76,994
Short-term investments	87,721	78,984
Trade accounts receivable, less allowance for		

doubtful accounts of $18,638 and $9,456	297,067	331,248
Other accounts receivable, net	21,795	18,741
Total accounts receivable	318,862	349,989
Inventories:		
Finished goods	85,548	90,046
Work in process	40,911	45,658
Raw materials	60,935	53,362
Total inventories	187,394	189,066
Prepaid expenses	81,307	79,655
Total current assets	794,270	774,688
Property, plant, and equipment	562,446	550,450
Accumulated depreciation	(295,615)	(267,667)
Net property, plant, and equipment	266,831	282,783
Goodwill and other intangible assets, net	139,740	139,558
Other assets	114,098	89,421
Total assets	$1,314,939	$1,286,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 27,685	$ 91,864
Accounts payable	65,581	82,176
Accrued liabilities	190,194	174,056
Total current liabilities	283,460	348,096
Long-term liabilities	105,794	91,864
Deferred income taxes	5,386	5,012
Shareholders' equity:		
Common stock--par value $.10	5,734	5,782
Retained earnings	969,347	870,303
Cumulative translation adjustment	(21,232)	(1,057)
	953,849	875,028
Receivable from Employee Stock Ownership Plan	(33,550)	(33,550)
Total shareholders' equity	920,299	841,478
Total liabilities and shareholders' equity	$1,314,939	$1,286,450

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Nine months ended

	Jan. 28, 1994	Jan. 29, 1993
	(in thousands)	
OPERATING ACTIVITIES:		
Net earnings	$165,613	$139,248
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	59,261	50,311
Gain on sale of subsidiary	(9,424)	--
Change in assets and liabilities excluding effects of divestiture:		
Decrease (increase) in accounts receivable	11,914	(15,777)
Increase in inventories	(3,724)	(19,666)
Decrease in accounts payable and accrued liabilities	(6,696)	(14,997)
Increase in postretirement benefit accrual	2,305	16,368
Increase in deferred income	2,515	22,018
Changes in other operating assets and liabilities	(5,648)	20,052
Net cash provided by operating activities	216,116	197,557
INVESTING ACTIVITIES:		
Additions to property, plant, and equipment	(37,064)	(53,539)
Acquisition of subsidiary, net of cash acquired	--	(18,668)
Proceeds from sale of subsidiary	21,000	--
Purchases of marketable securities	(87,596)	(59,737)
Sales of marketable securities	63,858	13,134
Other investing activities,net	(13,887)	454
Net cash used in investing activities	(53,689)	(118,356)
FINANCING ACTIVITIES:		
Decrease in short-term borrowings (net)	(57,454)	(23,119)
Additions to long-term debt (net)	3,911	7,991
Dividends to shareholders	(29,199)	(25,045)
Repurchase of common stock	(52,026)	(11,945)
Issuance of common stock	14,607	15,746
Net cash used in financing activities	(120,161)	(36,372)
Effect of exchange rate changes on cash and cash equivalents	(274)	(100)
NET CHANGE IN CASH AND CASH EQUIVALENTS	41,992	42,729
Cash and cash equivalents at beginning of period	76,994	100,816
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$118,986	$143,545

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1--Accounting Policies

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 which may be expected for the year as a whole. Certain prior period amounts have been reclassified to present data on a consistent basis.

Other accounts receivable consist primarily of amounts due under royalty agreements and receivables retained from divested subsidiaries and product lines. Amounts are reported net of allowances for potentially uncollectible amounts of $7.6 million and $7.0 million at January 28, 1994 and April 30, 1993, respectively.

The company adopted Statement of Financial Accounting Standards (SFAS) No. 112 "Employers' Accounting for Post-Employment Benefits" during the quarter ended July 30, 1993. SFAS No. 112 requires that a liability be recorded for the estimated cost of benefits to be provided to former or inactive employees who have not reached retirement. In adopting SFAS No. 112, the company recognized a charge of $2.3 million in selling, general, and administrative expenses.

Note 2--Divestiture

On July 9, 1993, the company sold substantially all of the assets of its Medtronic Andover Medical, Inc. (AMI) subsidiary to CONMED for $21.0 million, recognizing a pretax gain of $14.0 million. AMI developed, manufactured, and marketed external electrodes used primarily with electrical nerve stimulation and neuromuscular stimulation devices. On an annual basis, the sale of AMI will not have a material impact on the operating results of the company. Annual sales of AMI were approximately $23 million.

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

Results of Operations

Net Earnings

Net earnings for the third quarter ended January 28, 1994 were $56.9 million, representing a 19.0 percent increase over the $47.8 million of the same quarter a year ago. Earnings per share were $0.99, an increase of 23.8 percent over the $0.80 per share of the third quarter of last year. Net earnings for the nine-month period ended January 28, 1994 increased 18.9 percent to $165.6 million compared to $139.2 million for the same period last year.

Sales

Excluding the effects of foreign currency translation and divestitures, sales for the third quarter ended January 28, 1994 increased 14.9 percent over last year, while sales for the nine-month period then ended increased 11.1 percent. Sales growth in the quarter and nine-month period was negatively impacted by $5.7 million and $27.6 million, respectively, of unfavorable exchange rate movements primarily caused by the strengthening of the U.S. dollar versus major European currencies.

Sales of the pacing business, excluding the effects of foreign currency translation and divestitures, grew 18.2 percent in the quarter and 11.9 percent in the nine-month period ended January 28, 1994, compared to the same periods a year ago. This increase is attributable to both the tachyarrthmia management and bradycardia businesses. Sales growth within the tachyarrthymia management business is attributable to commercial release of the implantable pacer/cardioverter/defibrillator (PCD(R)) device in February 1993 as well as more recent clinical product introductions. In December 1993, the U.S. Food and Drug Administration cleared Transvene(R) leads for commercial sale, thus establishing the Medtronic PCD(R) system as the only complete tiered-therapy tachyarrhythmia system cleared for transvenous implant in the United States. The new, smaller Jewel(TM) PCD devices, recently released in markets outside the United States, also contributed to tachyarrhythmia revenues. Bradycardia pacing revenues in the quarter again surpassed the rate of market growth due to continued demand for dual chamber, rate responsive pacemakers and the company's broad line of pacing leads.

Sales of the other cardiovascular business (consisting of interventional vascular, heart valves, and cardiopulmonary) increased 8.3 percent and 8.8 percent on a comparable operations basis in the quarter and nine-month period ended January 28, 1994, respectively. The interventional vascular business continued its strong double digit growth trend with sales of the Spirit(TM) and 14K(R) balloon catheters. Sales of bioprosthetic heart valves, especially tissue valves, also continued to reflect solid growth. Sales within the cardiopulmonary business continued to be affected by a moderation in the growth rate of major cardiac procedures, with a decline in sales of the Maxima(R) oxygenator in the current quarter compared to the same period last year.

Sales of the neurological and other businesses increased 8.5 percent and 11.7 percent in the quarter and nine-month period ended January 28, 1994, respectively, compared to the same periods in the prior year. The neurological business was led by sales of the Medtronic SynchoMed(R) implantable drug infusion system. Medtronic was notified on February 4, 1994 that the U.S. Health Care Financing Administration authorized Medicare reimbursement for the SynchroMed(R) system when used to treat severe spasticity and malignant or non-malignant pain.

Costs of Products Sold

Costs of products sold as a percentage of sales was 30.9 percent for the quarter and 31.0 percent for the nine-months ended January 28, 1994 compared to 31.6 percent and 31.7 percent, respectively, for the same periods a year ago. These favorable results reflect the efficiencies of higher production levels and effective cost controls.

Research and Development Expense

Research and development expense was $39.0 million for the quarter and $113.0 million for the nine-month period ended January 28, 1994, an increase of 18.2 percent and 17.1 percent, repectively, over the comparable periods of the prior year. Research and development expense as a percent of sales was 11.7 percent for the quarter and 11.3 percent for the nine months ended January 28, 1994 compared to 11.3 percent and 9.9 percent, respectively, for the same periods last year. The increase in research and development expense reflects the company's continued commitment and strategy to increase revenue and market share by developing the most technologically advanced medical devices to meet patient needs.

Selling, General, and Administrative Expense (SG&A)

SG&A expense for the quarter ended January 28, 1994 was $107.9 million compared with $106.7 million in the third quarter of fiscal 1993. As a percent of sales, SG&A spending decreased during the third quarter from 34.6 percent last year to 32.3 percent this year. SG&A as a percent of sales for the nine-months ended January 28, 1994 was 34.4 percent compared to 36.8 percent last year. The decrease in SG&A for the quarter and nine-month period is primarily the result of cost control efforts and reduced costs associated with divestitures of certain businesses in prior periods, as well as a charge incurred in the prior period relating to the devaluation of certain European currencies. SG&A for the nine-months ended January 28, 1994 includes $14.3 million of non-recurring charges which primarily relate to the impact of adoption of a new accounting principle as discussed in Note 1 of Notes to Condensed Consolidated Financial Statements and a provision for potentially uncollectible trade and other receivables.

Tax Rate

Federal tax legislation has been passed which could have a significant impact on the company's future operating results. The most significant changes include an increase in the U.S. federal tax rate, limitations on the benefits from operations in Puerto Rico, and retroactive reinstatement of research tax credits.

The increase in the federal tax rate and Puerto Rico benefit limitations will put upward pressure on the company's effective tax rate. Income taxes are estimated to be 33.0 percent of earnings before income taxes for fiscal 1994 compared to an effective tax rate of 32.5 percent for fiscal 1993. However, the effective tax rate in future years will be primarily dependant upon the level of the company's operating activity in Puerto Rico and research activities. Accordingly, the company cannot determine the impact the tax legislation will have on future operating results.

Liquidity and Capital Resources

Operating activities provided $216.1 million of cash and cash equivalents for the nine months ended January 28, 1994 compared to $197.6 million in the same period a year ago. Included in the prior year is $75.0 million of cash received in connection with a patent litigation settlement. Working capital was $510.8 million at January 28, 1994, an increase of $84.2 million from April 30, 1993. The current ratio at January 28, 1994 was 2.8:1 compared to 2.3:1 at April 30, 1993. Cash and cash equivalents increased $42.0 million during the nine months ended January 28, 1994 compared to an increase of $42.7 million during the same period last year. Primary sources of cash from other than operating activities include $21.0 million in proceeds from the sale of AMI discussed in Note 2 of Notes to Condensed Consolidated Financial Statements and $63.9 million from the sale of marketable securities. Primary uses of cash were $37.1 million for additions to property, plant, and equipment, $87.6 million for purchases of marketable securities, $57.5 million for repayments of short term borrowings, $29.2 million for dividends to shareholders, and $52.0 million for repurchases of 841,000 shares of common stock.

In December, 1993 the company entered into a merger agreement to acquire all of the common stock of Electromedics, Inc. for $6.875 per share, payable in cash, shares of company stock, or a combination thereof. Under terms of the agreement, the cash payment is limited to 50 percent of the total consideration to be exchanged for Electromedics' common stock. Assuming the maximum conversion of shares for cash, the company estimates that the total cash to be paid will be approximately $48 million. The merger is subject to approval by vote of Electromedics' shareholders; no approval is required by Medtronic's shareholders. Electromedics designs, manufactures and markets blood management and blood conservation equipment for use in autotransfusion during major medical procedures. Electromedics currently has approximately 14 million shares of common stock outstanding. Electromedics reported sales of $39.1 million for its year ended December 31, 1992.

The company's strong financial position contributes to its ability to fund ongoing diversification strategies which include research and development, internal ventures, and acquisitions. The company intends to continue exploring potential mergers and acquisitions to enhance current businesses and to add complementary new ones.

Government Regulation

President Clinton's Administration has introduced a health care reform bill which would cause significant changes in health care delivery. Congress is currently considering this bill and others proposing significant health care reforms. It is generally expected that Congress will pass a health care reform bill in some form which will affect health care expenditures. Similar initiatives to reduce health care costs are also underway in several other countries in which the company does business. Because of the uncertainty as to the outcome of any proposed legislation, the company cannot predict the impact any such legislation may have on future operating results.

PART II--OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11 - Statement on computation of per share earnings

(b) Reports on Form 8-K

No report on Form 8-K was filed by the company during the quarter ended January 28, 1994.

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 3, 1994

/s/ WILLIAM W. GEORGE
____
William W. George
President
and Chief Executive Officer

Date: March 3, 1994

/s/ ROBERT L. RYAN
____
Robert L. Ryan
Senior Vice President
and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description	Sequentially Numbered Page
11	Statement on computation of per share earnings.	12

EXHIBIT NUMBER 11

STATEMENT ON COMPUTATION OF
PER SHARE EARNINGS

MEDTRONIC, INC.
(Unaudited)

	Three months ended		Nine months ended	
	Jan. 28, 1994	Jan. 29, 1993	Jan. 28, 1994	Jan. 29, 1993
	(In thousands, except per share data)			
PRIMARY				
Shares outstanding:				
Weighted average outstanding	57,219	59,715	57,405	59,597
Share equivalents (1)	568	818	451	761
Adjusted shares outstanding	57,787	60,533	57,856	60,358
Net earnings	$56,912	$47,840	$165,613	$139,248
FULLY DILUTED				
Shares outstanding:				
Weighted average outstanding	57,219	59,715	57,405	59,597
Share equivalents (1)	683	898	683	864
Adjusted shares outstanding	57,902	60,613	58,088	60,461
Net earnings	$56,912	$47,840	$165,613	$139,248

(1) Share equivalents consist primarily of nonqualified stock options.