

November 14, 2006

North America

Healthcare

Medical Supplies & Devices

Medical Supplies & Devices

Market Commentary/Strategy

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AHA Noise; Stent/Spine Panels; MDT FY2Q

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Sector View:

New: 1-Positive

Old: 1-Positive

Investment conclusion

- It is our opinion that investors should be looking for opportunities to increase exposure to the ICD players (primarily STJ/MDT) over the next 3-4 mos in anticipation of better ICD results in 07. We think the MDT earnings call will be a neutral for ICD players, but we do see some real headline risk from these upcoming panels. For MDT, the upcoming panels may create some downside, but because we view the risks as manageable we would view the volatility as a buying opportunity. For BSX we see greater risk however, and downside back to the old lows. For STJ, we like the risk reward in the low \$30s.

Summary

- Between now and year-end there are three remaining events of significance that could impact valuations for MDT, BSX and STJ. Those events include the 11/20 MDT earnings call; the 11/30 CMS spine panel; and the 12/07/06 FDA stent panel to discuss drug eluting stent safety. In this note we briefly preview all three events in light of recent events including new data points from AHA.

- Between now and year-end, there are three remaining events of significance that we think could impact valuations for MDT, BSX and STJ. Those events include the 11/20 MDT earnings call; the 11/30 CMS spine panel; and the 12/07/06 FDA stent panel to discuss drug eluting stent safety. In this note we briefly preview all three events in light of recent events including new data points from AHA.
- It is our opinion that investors should be looking for opportunities to increase exposure to the ICD players (primarily STJ/MDT) over the next three to four months in anticipation of better ICD results in 2007. We think the MDT earnings call on 11/20 will be a neutral for ICD players, but we do see some real headline risk from these upcoming panels (especially the Stent panel). For MDT, the upcoming FDA and CMS panels may create some downside, but because we view the risks as manageable we anticipate that the volatility would be a buying opportunity. For BSX we see greater risk however, and downside back to the old lows. For STJ, we like the risk reward in the low \$30s. It is worth mentioning that there is one scenario where the Stent panel becomes a positive for BSX. We place a 25% probability on this outcome, which would be the FDA forcing a meaningful delay in the approval process for new DES platforms.
- **The Stent Panel:** The Utah data from AHA yesterday suggesting that drug eluting stents may cause adverse events in non-target lesions is an apples to oranges comparison not much above the level of anecdote in our view and we don't believe the FDA panel will even discuss it....but the fear that it raised in the market place is not entirely misplaced in our view. As we talk about in the attached note, discussions and follow-up in the press during and after the FDA stent panel are likely to maintain or increase concerns among consumers and doctors regarding off-label use and take DES penetration down further. We model 80% DES penetration in the US but feel we might see 75%. We do not see any recovery going forward until potentially 2008 when new devices become available. FDA is likely to call for more cautious language on the DES label, which may raise liability fears with off-label use driving down penetration. At risk off-label use where little to no supporting data exists includes stenting in ACS, bifurcations and full metal jackets (25%+ of all stent procedures). Some new data will be discussed at panel from what we hear and JNJ's diabetic data from its randomized trials will likely be debated as well. While JNJ has decent counter arguments, the patient level Meta-analysis from JNJ's four best designed randomized trials that showed a statistically significant increase in all-cause mortality in the diabetic population at three years follow-up will provide solid fodder for the stent bears on the panel as will Colombo's data from 1995 that published in JACC showing a 29% thrombosis rate for those that went off anti-platelet therapy early.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 6 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7

- The stent panel will have 15-25 members, and we believe that the panel members will include at least the following cardiologists - William H. Maisel, M.D., M.P.H. Brigham and Women's Hospital, and Harvard Medical School, Boston, MA (Chairperson); Steve Nissen (Cleveland Clinic, OH); Eric Topol (SCRIPPS Clinic, La Jolla, CA); Christopher White (Oschner Clinic, New Orleans); Douglas Morrison (Tucson VA Hospital, AZ); and Mitch Krucoff (Duke). We have also heard that the TCT organizers may present data as well. Dr. Krucoff probably has as much credibility with the FDA as any doctor given that he sits on most FDA advisory panels for cardiovascular devices and from listening to Dr. Krucoff present we feel he will advocate a balanced approach. We view Maisel/White/Krucoff as balanced; Topol as becoming more balanced of late and Nissen as a stent bear. We do not know enough about Dr. Morrison to comment.
- What Will The Stent Panel Do? Unless the panel recommends a recall (0% probability in our view) the panel cannot force doctors to stop using DES off-label, but they can recommend a label change to more strongly highlight the lack of data or risks involved with off-label use. The panel can also change a label to require more anti-platelet use but that is not likely to have a major impact on penetration. The panel can also recommend longer-term follow-up for new DES systems currently in trials. This is a risk for MDT, ABT and CONR heading into the panel, but as we wrote about last week we only place 25% probability on this outcome given that these programs (especially MDT and CONR) may offer safety advantages over first generation programs. The only outcome that would hurt MDT meaningfully would be a requirement for more than nine month follow-up from the E4 study (currently MDT says it will only need 3 month follow-up from this study but a delay to nine months would not hurt models much as most model little 07 contribution from MDT's DES program).
- **MDT Earnings Call:** On MDT's 11/20 earnings call, as always, ICD sales will be key. We model \$680mm in ICD sales for the quarter and while the official consensus is closer to \$695, our sense is that as long as MDT can get to \$680mm, which would suggest three points of sequential share gains, the stock should be stable. We are confident in our \$680mm estimate. The only other area that we worry about with MDT is spine given the changing competitive dynamic, tougher Infuse comparisons and the recent moderation in the market growth rate. Spine may be a source of volatility in the near term, but we do not expect a significant miss and the new pipeline from Infuse and artificial discs for late 2007/2008 suggests to us that any spine driven volatility, away from a serious change in business tone, should be seen as an opportunity. Overall, we expect MDT to hit consensus revenue and EPS numbers.
- **The CMS Spine Panel:** Ten days after MDT reports earnings there will be a Medicare Advisory Panel to look at the evidence base to support spine fusion surgery in the US. What makes this panel interesting is that as any spine surgeon will tell you – the evidence base is thin. The largest randomized trial in spine (the SPORT study) has yet to be published, and while some of the SPORT data may be available for the panel, it is not likely to be available in its entirety, which greatly diminished the importance of this meeting.
- Our conversations with CMS suggest that everything is on the table for this meeting including a recommendation for a potential national non-coverage decision for certain types of fusion, although the probabilities of that outcome are very low. Once a procedure has become a standard of care in Medicine, the hurdle for CMS not to reimburse is very high according to our conversations with CMS. We expect the CMS panel to point out areas where the evidence base is relatively weak and where trials should be conducted, but the absence of SPORT limits the potential damage to the spine manufacturers in our view. Nonetheless, the tone of the meeting will probably be negative for the spine players, but because we do not see any near term ramifications from any of the panel's recommendations we view the panel as only a slight negative.

What Happened At AHA Yesterday?

- Yesterday, at the AHA meeting, an Intermountain Heart Collaborative Study group from the University of Utah (K.G. Meredith et al.) presented their findings on "real world" outcomes with the DES. The findings were based on the retrospective data collected on patients who received BMS (n=7,022 pts) or DES (SES=988 pts and PES = 1,033 pts) between 1993 and 2005. According to the authors, at the average FU of 2.1 years no advantage was seen in TVR rates in patients treated with DES vs. BMS. Additionally, all-cause mortality was significantly higher in patients that received DES. It was hypothesized that disease seen in non-target lesions may have been caused by DES. This is not something that has been discussed previously. While this publication represents a troubling interesting observation, we don't think these data will be seriously considered in the debate about relative DES efficacy and safety due to several methodological limitations including 1) the retrospective nature of the analysis, 2) the lack of uniform FU procedures for the pts included in the study, 3) the different lesion types and much tougher lesions studied in the DES arm. It does not seem particularly helpful to compare bare metal stents treating easier lesions in the mid 90s to drug eluting stents treating more difficult lesions in 2004-2006.
- A publication that echoes our viewpoint will be presented on Tuesday, by a group of investigators from Mayo Clinic (M.Singh, D. Holmes et al.) who analyzed 25-year trends in outcomes on 24,410 patients who underwent PCI at their institution. The authors divided patients into 4 groups based on significant differences in the patient population and approaches to the treatment at different time periods. Group 1 (1979-89) included 3,708 pts who had PCI (balloon angioplasty only era); Group 2 (1990-96) included n=7020 pts from new device and early stent era; Group 3 (1996-2003) with n=10,952 pts symbolized stent era; and Group 4 (March 2003 - September 2004) had 1,819 pts from the DES era. Although higher-risk patients (significantly older, sicker, with higher prevalence of comorbid conditions, heart failure, and prior revascularization) underwent PCI in the recent time periods, there was a significant improvement in the in-hospital and long-term outcomes.

In the Figures that follow we provide more information that may be useful for MDT's upcoming earnings report. Figure 1 provides a snapshot of our estimates, current consensus and guidance. We also provide our ICD and DES market models and a summary of our revenue growth projections for MDT by segment.

Figure 1: MDT Financial Snapshot for FY2Q

MDT FY2Q Earnings Release								
Date: Monday, November 20th (4:00 pm)								
Conf. Call: Monday, November 20th (4:30 pm)								
Dial-in: (612) 288-0318								
Replay: (320) 365-3844; passcode: 847654								

MEDTRONIC INC	FY2Q07	FY3Q07	FY4Q07	FY07E	FY08E	YOY Growth		
Financial Snapshot (in \$mm)	(\$MM)	(\$MM)	(\$MM)	(\$MM)	(\$MM)	FY2Q07	FY07E	FY08E
High Power	\$680	\$700	\$718	\$2,772	\$3,026	-7%	-6%	9%
Low Power	474	438	480	1,851	1,903	3%	3%	3%
Cardiac Rhythm Management	1,266	1,268	1,384	5,168	5,550	-2%	-1%	7%
Cardiac Surgery	169	162	192	690	741	5%	4%	7%
Vascular	272	274	296	1,127	1,346	21%	20%	19%
Neurological & Diabetes	567	569	620	2,280	2,658	16%	16%	17%
Spine/ENT/SNT	672	698	751	2,788	3,089	11%	11%	11%
Total Revenue	\$2,944	\$2,970	\$3,243	\$12,054	\$13,384	6%	7%	11%
Margins								
Gross Profit	74.7%	74.4%	74.4%	74.5%	75.1%			
SG&A	33.8%	33.7%	33.6%	33.7%	32.8%			
R&D	10.0%	10.1%	10.0%	10.1%	10.0%			
Operating Income	30.9%	30.7%	30.8%	30.7%	32.3%			
EPS (excl. options)	\$0.58	\$0.57	\$0.62	\$2.34	\$2.76	9%	6%	18%
GAAP EPS (incl. options)	\$0.57	\$0.56	\$0.60	\$2.28	\$2.64	6%	3%	16%
Guidance								
Revenue				\$12,200-12,600	\$13,700-14,500		8-12%	11-14%
EPS excl. options*				\$2.42-2.50	\$2.77-2.87		10-13%	14-15%
EPS incl. options				\$2.30-2.38	\$2.65-2.75		10-14%**	13-17%
Consensus								
Revenue	\$2,971	\$3,031	\$3,334	\$12,226	\$13,714			
EPS excl. options	\$0.59	\$0.61	\$0.68	\$2.44	\$2.82			
EPS incl. options	\$0.56	\$0.58	\$0.65	\$2.33	\$2.68			

* Options expense is expected to have a \$0.12 impact in 2007; we assume the same for 2008.

** Based on pro forma FY2006 EPS (provided by management).

Source: Company data, Firstcall, Lehman estimates

In Figure 2 on the following page we provide our current ICD market model. Our due diligence suggests MDT will at least meet our expectation of \$680 mm for the quarter, which would suggest the market declined 5.6% y/y and 5.1% sequentially and that MDT gained approximately 300 bps of share from BSX. We continue to model 5% market growth for CY07 and CY08, noting that this requires only 1% US growth in 07 (see Figure 3).

Figure 2: WW ICD Market Model

WW HPD Market	CY05A		1Q 2006A		2Q 2006A		3Q 2006E		4Q 2006E		CY06E		CY07E		CY08E	
	Sales	Growth	Sales	Growth	Sales	Growth	Sales	Growth	Sales	Growth	Sales	Growth	Sales	Growth	Sales	Growth
WW Sales and Growth																
MDT	\$2,855	24.1%	768	12.6%	673	-6.3%	680	-7.2%	700	-3.1%	\$2,821	-1.2%	2,972	5.4%	3,101	4.3%
BSX	1,651	-6.4%	419	-12.3%	383	-18.5%	315	-4.9%	320	-14.0%	1,437	-13.0%	1,394	-3.0%	1,415	1.5%
STJ	1,007	72.7%	262	27.2%	278	13.9%	271	-2.2%	280	0.0%	1,091	8.3%	1,248	14.4%	1,378	10.4%
Total	\$5,513	18.6%	\$1,449	6.1%	\$1,334	-6.8%	\$1,266	-5.6%	\$1,300	-5.4%	\$5,349	-3.0%	5,614	5.0%	5,894	5.0%
WW HPD Market	CY05A		1Q 2006A		2Q 2006E		3Q 2006E		4Q 2006E		CY06E		CY07E		CY08E	
	Sales	Share	Sales	Share	Sales	Share	Sales	Share	Sales	Share	Sales	Share	Sales	Share	Sales	Share
WW Sales and Market Share																
MDT	\$2,855	51.8%	\$768	53.0%	\$673	50.4%	\$680	53.7%	\$700	53.8%	\$2,821	52.7%	\$2,972	52.9%	\$3,101	52.6%
BSX	1,651	29.9%	419	28.9%	383	28.7%	315	24.9%	320	24.6%	1,437	26.9%	1,394	24.8%	1,415	24.0%
STJ	1,007	18.3%	262	18.1%	278	20.8%	271	21.4%	280	21.5%	1,091	20.4%	1,248	22.2%	1,378	23.4%
Total	\$5,513		\$1,449		\$1,334		\$1,266		\$1,300		\$5,349		\$5,614		\$5,894	

Source: Company data; Lehman estimates

Figure 3: US ICD Market Model

US HPD Market (\$ in MM\$)	2004A	2005A	Q1 06A	Q2 06A	Q3 06A	Q4 06E	2006E	2007E	2008E
US Sales									
MDT	\$1,827	\$2,263	\$580	\$495	\$500	\$501	\$2,076	\$2,096	\$2,194
BSX	1,396	1,232	309	273	215	220	1,017	960	968
STJ	425	783	196	201	196	202	795	874	951
Total	\$3,648	\$4,278	\$1,085	\$969	\$911	\$923	\$3,888	\$3,930	\$4,113
US Market Share									
MDT	50%	53%	53%	51%	55%	54%	53%	53%	53%
BSX	38%	29%	28%	28%	24%	24%	26%	24%	24%
STJ	12%	18%	18%	21%	22%	22%	20%	22%	23%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Y/Y Growth									
MDT	26%	24%	4%	(12%)	(14%)	(11%)	(8%)	1%	5%
BSX	15%	(12%)	(16%)	(21%)	(13%)	(19%)	(17%)	(6%)	1%
STJ	34%	84%	26%	6%	(11%)	(8%)	1%	10%	9%
Total	22%	17%	0%	(12%)	(13%)	(13%)	(9%)	1%	5%

Source: Company data; Lehman estimates.

Figure 4: DES Market Model

US	2005A	2006E	2007E	2008E	2009E
US Pricing	\$2,330	\$2,250	\$2,138	\$2,031	\$1,929
US Stents per Procedure	1.53	1.54	1.53	1.45	1.55
US DES Penetration	87%	84%	80%	80%	80%
US DES Market Size	\$3,086	\$2,956	\$2,820	\$2,639	\$2,788
% Growth	11%	-4%	-5%	-6%	6%
BSX US Market Share	57%	54%	52%	35%	32%
BSX Taxus Share	57%	54%	52%	12%	9%
BSX Xience Share	0%	0%	0%	23%	23%
JNJ US Market Share	43%	46%	45%	22%	16%
ABT US Market Share	0%	0%	0%	25%	30%
MDT US Market Share	0%	0%	4%	10%	10%
CONR US Market Share	0%	0%	0%	8%	12%
Biosensors US Market Share	0%	0%	0%	0%	0%

Europe	2005A	2006E	2007E	2008E	2009E
Europe Pricing	\$1,685	\$1,530	\$1,454	\$1,395	\$1,340
Europe Stents per Procedure	1.64	1.70	1.71	1.71	1.72
Europe DES Penetration	55%	55%	55%	54%	54%
Europe DES Market Size	\$958	\$1,106	\$1,139	\$1,205	\$1,239
% Growth	56%	15%	3%	6%	3%
BSX Europe Market Share	47%	38%	36%	31%	28%
BSX Taxus Share	47%	36%	22%	15%	11%
BSX Xience Share	0%	2%	14%	16%	17%
JNJ Europe Market Share	47%	38%	24%	18%	17%
ABT Europe Market Share	0%	2%	14%	20%	23%
MDT Europe Market Share	4%	15%	13%	15%	15%
CONR Europe Market Share	0%	4%	11%	15%	17%
Other Europe Market Share*	1%	3%	2%	1%	2%

ROW	2005A	2006E	2007E	2008E	2009E
ROW Pricing	\$1,750	\$1,725	\$1,570	\$1,470	\$1,420
ROW Stents per Procedure	1.71	1.74	1.74	1.75	1.75
ROW DES Penetration	66%	69%	71%	73%	74%
ROW DES Market Size	\$723	\$863	\$886	\$919	\$952
% Growth	55%	19%	3%	4%	4%
BSX ROW Market Share	47%	42%	36%	31%	29%
BSX Taxus Share	47%	40%	21%	15%	13%
BSX Xience Share	0%	2%	15%	16%	16%
JNJ ROW Market Share	47%	38%	23%	16%	14%
ABT ROW Market Share	0%	4%	18%	26%	27%
MDT ROW Market Share	2%	12%	14%	16%	17%
CONR ROW Market Share	0%	2%	7%	8%	8%
Other ROW Market Share*	4%	2%	3%	4%	4%

Japan	2005A	2006E	2007E	2008E	2009E
Japan Pricing	\$2,500	\$2,300	\$2,250	\$2,100	\$2,050
Japan Stents per Procedure	1.62	1.55	1.61	1.59	1.59
Japan DES Penetration	60%	65%	68%	68%	69%
Japan DES Market Size	\$490	\$512	\$658	\$679	\$684
% Growth	251%	4%	29%	3%	1%
BSX Japan Market Share	0%	0%	43%	49%	51%
BSX Taxus Share	0%	0%	43%	49%	51%
BSX Xience Share	0%	0%	0%	0%	0%
JNJ Japan Market Share	100%	100%	57%	51%	42%
ABT Japan Market Share	0%	0%	0%	0%	7%
MDT Japan Market Share	0%	0%	0%	0%	0%
CONR Japan Market Share	0%	0%	0%	0%	0%
Other Japan Market Share*	0%	0%	0%	0%	0%

WORLDWIDE	2005A	2006E	2007E	2008E	2009E
WW Pricing	\$2,101	\$1,970	\$1,859	\$1,749	\$1,678
WW Stents per Procedure	1.61	1.62	1.63	1.61	1.64
WW DES Penetration	74%	75%	74%	75%	75%
WW DES Market Size	\$5,257	\$5,437	\$5,503	\$5,442	\$5,662
% Growth	31%	3%	1%	-1%	4%
BSX WW Market Share	49%	44%	45%	35%	33%
BSX WW Taxus Share	49%	43%	40%	17%	13%
BSX WW Xience Share	0%	1%	5%	18%	20%
JNJ WW Market Share	49%	48%	38%	24%	19%
ABT WW Market Share	0%	1%	6%	21%	25%
MDT WW Market Share	2%	5%	7%	11%	11%
CONR WW Market Share	0%	1%	3%	9%	11%
Other WW Market Share**	0%	1%	1%	1%	1%

*Other market share includes Biosensors and Sorin.

Source: Company data, Lehman estimates

Figure 5 on the following page shows a summary of our revenue growth estimates for MDT by segment. We project total revenue growth for FY07-FY09 of 7%, 11%, and 11% respectively.

Figure 5: MDT Revenue Growth Projections (FY07-09)

MDT: Revenue Growth Summary	Lehman Estimates		
	FY07	FY08	FY09
Pacemakers	3%	3%	2%
ICDs	(6%)	9%	3%
ICD Market Share*	53%	53%	NA
ICD Market Growth	5%	5%	NA
Spine - Traditional	10%	12%	15%
Spine - BMP	15%	6%	10%
Vascular	20%	19%	23%
US DES Share*	4%	10%	10%
OUS DES Share	10%	12%	12%
Neuro/Diabetes	16%	17%	17%
Cardiac Surgery	4%	7%	6%
Total Revenue	7%	11%	11%

* ICD and DES market share and market growth projections are for calendar years.

Source: Lehman estimates

Analyst Certification:

I, Bob Hopkins, hereby certify (1) that the views expressed in this research Industry Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Industry Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Industry Note.

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Important Disclosures:

Boston Scientific (BSX)

US\$ 16.06 (10-Nov-2006)

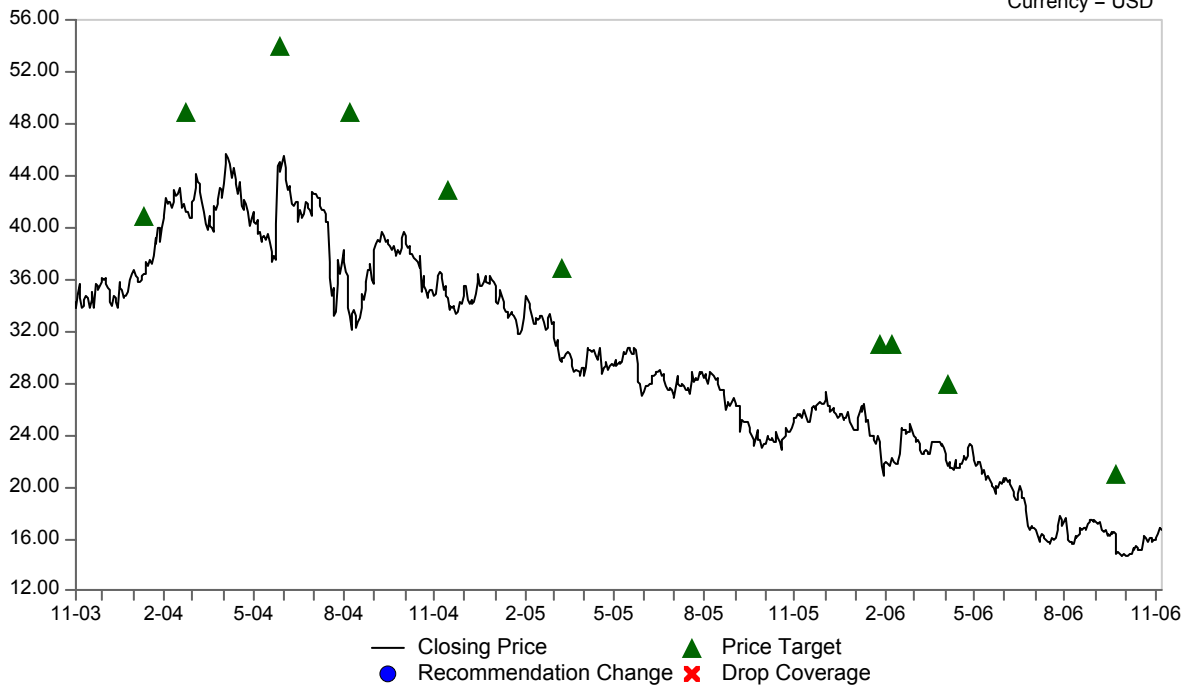
1-Overweight / 1-Positive

Rating and Price Target Chart:

BOSTON SCIENTIFIC

As of 07-Nov-2006

Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
22-Sep-06	14.85		21.00
05-Apr-06	21.69		28.00
08-Feb-06	22.23		31.00
26-Jan-06	23.15		31.00
09-Mar-05	29.75		37.00
15-Nov-04	34.60		43.00

Date	Closing Price	Rating	Price Target
06-Aug-04	33.21		49.00
28-May-04	44.30		54.00
24-Feb-04	41.27		49.00
12-Jan-04	36.40		41.00

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Important Disclosures Continued:

Medtronic Inc (MDT)

US\$ 48.96 (10-Nov-2006)

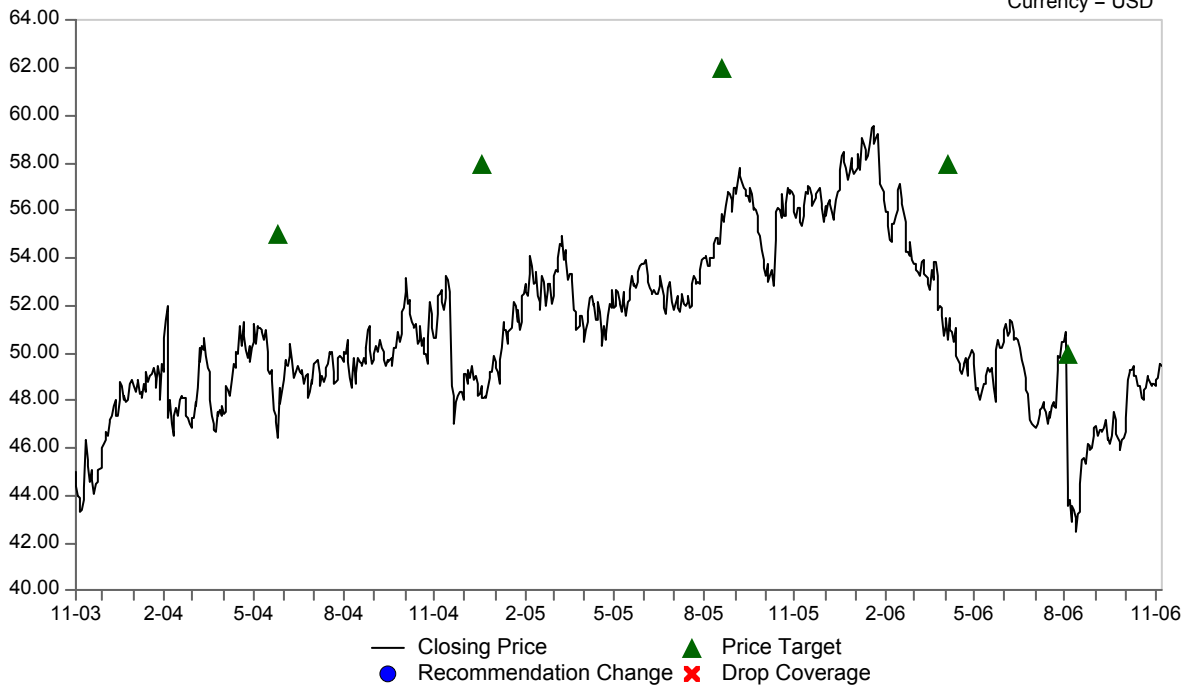
1-Overweight / 1-Positive

Rating and Price Target Chart:

MEDTRONIC INC

As of 07-Nov-2006

Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
04-Aug-06	43.62		50.00
05-Apr-06	50.58		58.00
18-Aug-05	55.84		62.00

Date	Closing Price	Rating	Price Target
17-Dec-04	48.65		58.00
26-May-04	46.40		55.00

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Risks Which May Impede the Achievement of the Price Target: While we see very little risk to the numbers in the near term and expect MDT to meet or exceed expectations, there are three risks, in our view: 1) Vascular franchise growth may never reemerge. 2) BMP sales may not offset slower sales in spine hardware business. 3) MiniMed may not deliver on its mid-20% growth rate expectations.

Important Disclosures Continued:

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (10-Nov-2006)	Stock / Sector Rating
Boston Scientific	BSX	US\$ 16.06	1-Overweight / 1-Positive
Medtronic Inc	MDT	US\$ 48.96	1-Overweight / 1-Positive

Sector Coverage Universe

Below is the list of companies that constitute the sector coverage universe:

Advanced Medical Optics (EYE)	Alcon, Inc (ACL)
Angiotech Pharmaceuticals (ANPI)	Bausch & Lomb (BOL)
Biomet, Inc (BMET)	Boston Scientific (BSX)
C.R. Bard Inc. (BCR)	Conor Medsystems (CONR)
DJ Orthopedics (DJO)	Greatbatch Inc. (GB)
Johnson & Johnson (JNJ)	Medtronic Inc (MDT)
Nuvasive Inc. (NUVA)	St. Jude Medical (STJ)
Stryker Corp (SYK)	Syneron Medical (ELOS)
Thoratec Corp (THOR)	Wright Medical Group (WMGI)
Zimmer Holdings (ZMH)	

Guide to Lehman Brothers Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). To see a list of the companies that comprise a particular sector coverage universe, please go to www.lehman.com/disclosures

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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Lehman Brothers Equity Research has 1949 companies under coverage.

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