

BN Medtronic 4th-Qtr Net Fell 66% on Settlement Costs (Update3)  
May 24 2005 19:12

(Adds chief executive's comments in eighth, ninth paragraphs.)

By Keith Snider

May 24 (Bloomberg) -- Medtronic Inc., the world's biggest producer of pacemakers, said fiscal fourth-quarter profit fell 66 percent because of costs to settle a patent-infringement dispute.

Net income dropped to \$194.4 million, or 16 cents a share, from \$568.9 million, or 47 cents, a year earlier, the Minneapolis-based company said in a statement today. Revenue in the quarter ended April 29 rose 4.2 percent to \$2.78 billion.

Medtronic agreed last month to pay \$1.35 billion to end a lawsuit by a Los Angeles surgeon over the use of his spinal-implant inventions, adding to fourth-quarter costs. The devices account for about 20 percent of Medtronic's revenue. Heart products including pacemakers and implantable defibrillators generate most of the company's other sales.

``With the settlement, they turned a negative into something quite positive for the company's future,'' Michael Obuchowski, who manages about \$40 million for Altanes Investments LLC in New York and owns Medtronic shares, said before the report.

Profit would have been 53 cents a share excluding costs for the settlement, Medtronic said. On that basis, earnings matched the average estimate of analysts in a Thomson Financial survey.

Shares of Medtronic fell 14 cents to \$52.78 at 4 p.m. in New York Stock Exchange composite trading. Results were released after regular U.S. trading hours.

#### Fiscal 2006

Medtronic expects fiscal 2006 per-share earnings of \$2.10 to \$2.15, Chief Financial Officer Gary Ellis said on a conference call. Analysts had expected a profit of \$2.17 a share. The company said it earned \$1.86 a share in the 2005 fiscal year, excluding legal settlements and other costs. Profit in 2007 will be about \$2.37 to \$2.47, Ellis said.

The 2006 forecast meets the company's goal of 15 percent profit growth each year, Chief Executive Officer Arthur Collins said in a telephone interview.

``As we look to next year, we will probably have the majority of the growth driven by the same two businesses that have driven growth this year,'' Collins said. ``That is our two largest businesses, our ICD business, or implantable defibrillators, and our spinal business.''

#### Defibrillator Sales

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Medtronic said its cardiac rhythm management business, which includes devices such as pacemakers and implantable defibrillators, generated sales of \$1.27 billion in the quarter.

The company's defibrillators had sales of \$682 million, a 14 percent increase from a year ago, accounting for half of the worldwide market for such devices, Medtronic said.

In the quarter, Medtronic had \$630 million in pretax costs related to litigation.

Medtronic had disclosed \$550 million of fourth-quarter costs when it announced a settlement with surgeon Gary K. Michelson last month. The company said then that it will record \$175 million of research costs when the agreement is completed, probably in the first quarter of fiscal 2006. The remaining amount will be amortized over 20 years.

#### Patent Dispute

The settlement ended a four-year legal battle over Michelson's claim that Medtronic made money off his patents without compensating him properly. The agreement gives Medtronic ownership of Michelson's spinal-treatment patents, including any inventions he develops in the next 15 years.

Medtronic also had costs last quarter to pay Etex Corp. \$80 million for breaching a contract as part of an arbitration decision.

The company said it had tax expenses in the quarter of \$49 million to return \$935 million in foreign profits to the U.S. under a tax holiday. The repatriation probably will occur in the fourth quarter of fiscal 2006, the company said.

Ellis said the company replaced 13,000 of its Marquis defibrillators in the quarter because of faulty batteries at a cost about \$18 million. An additional \$17 million was set aside to cover future replacements, he said.

#### Stent in Europe

Collins said European approval for Medtronic's Endeavor drug-coated cardiac stent is ``not too far away.'' Approval would make Medtronic the third competitor in a market now dominated by leader Boston Scientific Corp. and Johnson & Johnson.

The stent may grab 12 percent of the market in Europe this year and 15 percent in 2008, Morgan Stanley analyst Glenn Reicin said in a May 16 note to clients. The company plans to sell Endeavor in the U.S. in 2007, pending approval by the Food and Drug Administration.

Stents are tiny mesh tubes that prop open arteries that have

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been cleared of obstructions. Drug-coated versions, pioneered by Johnson & Johnson, are better at preventing growth of tissue that can reclog arteries.

For the full fiscal year, Medtronic's net income fell to \$1.8 billion, or \$1.48 a share, from \$1.96 billion, or \$1.60 a share in 2004. Revenue rose to \$10.1 billion from \$9.1 billion.

--With reporting by Marni Leff Kottle in San Francisco. Editors: Babula, Schauder, Simison, J. Ward.

Story illustration: To compare Medtronic results with analyst estimates, see {MDT US <Equity> SURP <GO>}. To compare the company with competitors, see {MDT US <Equity> RV <GO>}. For Medtronic's Web site, see <http://www.medtronic.com>

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