1996 Annual Report

Boston Scientific Corporation

About Our Cover

What does it take to be a leader, improving the quality of life for patients through less invasive intervention? The collection of words on the cover of this year's annual report reflects the aspirations we have for ourselves. Boston Scientific is a complex and demanding organization. We challenge ourselves to attain the promise of leadership – to be the biggest, the fastest, the best medical device company in the world.

Boston Scientific Corporation Mission Statement

Since its origin in the late 1960s, Boston Scientific Corporation's mission has been to improve the quality of patient care and the productivity of healthcare delivery through the development and advocacy of less invasive medical devices and procedures. This is accomplished through the continuing refinement of existing products and procedures and the investigation and development of new technologies which can reduce risk, trauma, cost, procedure time, and the need for aftercare.

Our series of regional headquarters offices is how we keep our business in touch with the needs of our customers in markets around the world.

BOSTON SCIENTIFIC CORPORATION
GLOBAL ORGANIZATION

Boston Scientific Corporation
North America
Natick, MA
USA

Boston Scientific Japan K.K.
Japan
Tokyo, Japan

Boston Scientific International B.V.
Europe
Paris, France

Boston Scientific Asia Pacific PTE. Ltd.
Asia Pacific
Singapore

Boston Scientific Latin America
Latin America
Buenos Aires, Argentina

	San Jose, CA USA	Miami, FL USA	Spencer, IN USA	Mansfield, MA USA	Milford, MA USA	Natick, MA USA	Watertown, MA USA	Maple Grove, MN USA	Oakland, NJ USA	Redmond, WA USA	Freeport, Bahamas	Stenløse, Denmark	Jaunay Clan, France	Galway, Ireland	Tel-Aviv, Israel
EP Technologies *electrophysiology*	● ■													●	
Meadox *vascular surgery and endovascular procedures*	● ■	■					● ■	■	● ■		● ■			● ■	
Medi·tech *interventional radiology*	● ■	● ■	● ■			■	● ■	● ■	● ■	● ■	● ■	● ■	● ■	● ■	● ■
Microvasive *endourology*	● ■	● ■	● ■		●	■	● ■		●					● ■	
Microvasive *GI endoscopy*	● ■	● ■	● ■	●		■	● ■	● ■				● ■		● ■	
Neuro Interventional Systems *interventional neuroradiology*						■	●	●							
SCIMED *interventional cardiology*	● ■						●	● ■	■	● ■				● ■	● ■
Cardiac Assist *cardiology, cardiac surgery*				● ■											

As of: April 1, 1997

● = Manufacturing

■ = Research and Development

This matrix provides an at-a-glance summary of our worldwide operations. Each Boston Scientific division provides valued clinical solutions for less invasive procedures within a given medical specialty. Reading from left to right, you can see where research and development and device manufacturing occur for Boston Scientific business units. Reading from top to bottom, you can see how each Technology Center leverages their capabilities and knowledge across multiple divisions.

Last year, I reported to you that 1995 was an extraordinary year for BSC. 1996 was an extraordinary year for BSC, as well.

But to say "extraordinary" is to understate the magnitude of both the accomplishments and the profound changes effected by the BSC team last year.

In order to remain relevant amid the continuing shifts in competition, industry structure, and demand for healthcare, we further accelerated our program of building Strategic Mass. Within the short 12 months of 1996, we continued the integration of nine major acquisitions and completely restructured the worldwide BSC organization. Within the same time frame, we also fundamentally re-engineered our business processes to achieve better strategic alignment internally as well as more intensive customer focus in our chosen markets.

Along the way, we:

- Integrated almost 2,300 new employees worldwide;
- Restructured and enlarged our European and Japanese subsidiary operations and management teams;
- Implemented regional management organizations in Asia Pacific, India, Latin America and Central Europe;
- Continued our expansion of manufacturing operations in Galway, Ireland; Minneapolis, Minnesota; San Jose, California; Spencer, Indiana; and Miami, Florida;
- Created a new European distribution center in Beek, Holland;
- Implemented a new worldwide divisional and corporate group management structure;
- Completed the redesign and implementation of new tax, controllership, and worldwide finance and audit groups;
- Initiated and successfully attained major milestones in the BSC Global Systems Project, an enterprise-wide data management system; and
- Implemented a worldwide code of ethics and values program.

We implemented these and other major change initiatives over the past two years in anticipation of continuing industry shifts. The focus on healthcare reform worldwide, although less politically visible today than in the recent past, continues to pressure the system to improve quality, cost and access. Consolidation and integration continue to characterize our industry, and pricing pressure from our customers continues unabated as healthcare providers everywhere look for relief from declining revenues and margins.

The issues and challenges we face are global. Our world has changed. So has BSC.

1996 Results

Against this backdrop of massive internal and external change and potential chaos, the BSC organization worldwide continued to demonstrate superior innovation, superior growth and superior overall financial performance. Worldwide revenue and earnings hit record highs, and our rate of annual top-line growth — which had already set the pace for the industry in 1995 — increased to 30 percent. Our productivity increased as well, as the BSC team continued to enlarge and strengthen its leadership in all of our markets throughout the world and created more than $2 billion in incremental value for BSC shareholders.

Building Strategic Mass

Most significantly, our vision of Strategic Mass, which we have spoken of in the past and which we believe is crucial to our future success, became a reality in 1996. The competitive platform we have sought so urgently to create now exists at the core of our company. Through execution of event and internal strategies, BSC has repositioned itself for competitive differentiation and sustainable superior growth.

As the "new BSC", we are considerably larger and better organized to achieve global growth through long-term partnerships with our customers. We have expanded our capacity not only to supply a broader range of leadership products, but also to train and support our provider customers with new outcomes programs and other value-added services.

We have become a financially strong, technology-driven and even more customer-focused enterprise with broad product lines and leading market shares throughout the world. But there is much more to do.

What We Have Learned

It is clear, I believe, that our early understanding of the imperative to rapidly achieve Strategic Mass was correct. Today, being big can be an asset. As a result of newly-achieved Strategic Mass, BSC now possesses the unique combination of resources, people and competitive advantage which creates for us the real possibility of long-term, superior, worldwide growth and sustainable market and industry leadership. But size alone will not suffice.

Strategies for Success — Toward the New Millennium

Our tasks over the last two years have been focused on event strategies to accelerate the creation of the new BSC. Our strategies going forward will be redirected inward to ensure that the BSC team fully understands its own capabilities; only by doing so can we plan and execute our new global strategies with the same speed, precision and decisiveness that characterized our past performance.

BSC Executive Committee from left to right: Paul Sandman, Mike Mabrey, Jim Corbett, Paul LaViolette, Mike Berman, Pete Nicholas, Art Rosenthal, Dan Cole, Larry Best, John Abele, Bob MacLean

The Company has identified new and potentially transforming opportunities to redefine the way we do business in the United States. These involve the creation of centralized corporate marketing activities which complement divisional sales and service programs with unique value-added concepts. I will be reporting more to you about this activity in the future.

As we shift our focus inward, we are increasing our corporate and divisional Research and Development spending to over $150 million and augmenting our New Business and Strategic Planning resources to foster a robust flow of innovative new devices and technologies that improve our customers' clinical effectiveness while reducing costs. This will enable BSC to sustain rich new product revenues upon which our future growth and leadership depend.

Vision, Leadership, Execution — Toward a More Global Enterprise

At the new BSC, we express our vision in a very concise way: to simply be the biggest, fastest and best medical device company in the world.

This is not a simple notion. It is a profoundly complex concept given meaning by our core values and beliefs, our code of conduct, and the high standards of performance to which we aspire. It is a notion empowered by both our commitment and our eagerness to place our customers before ourselves – and not to be overcome by illusions of our own success.

Our vision postulates that we can be better than we are. That we can reach beyond ourselves. That we can extend ourselves, much like an athlete, to turn apparent potential into vivid, measurable reality. That we can achieve higher levels of performance through innovation, customer-oriented behavior and constant organizational and spiritual renewal. Our vision embodies the value of continuous learning and improvement and the use of new knowledge to create real competitive advantage through improved service to our customers. It is a notion born, not of arrogance, but of the passionate belief that our opportunities are real and that the BSC team can realize them.

Understanding this is to understand the place that is BSC and the specialness of the BSC team.

Toward Uncharted Waters

Understanding this is also to know that we face a risk that is fundamentally a human one. The risk of losing our focus and our enthusiasm. The risk of losing our identity and understanding of who we are, how we behave, what we consider important, where we came from, and how we have gotten to where we are. As many companies that have experienced rapid growth have discovered, the greatest challenges to continued success are preservation of focus, clarity of vision, and constancy of purpose.

We have taken steps in the past year to strengthen our common understanding of the BSC vision. We have broadened and strengthened the programs that help us know and preserve our values and our culture. Every BSC team member has had personal exposure to these programs this year to ensure that we understand and live the BSC way. In doing so, we will demonstrate year after year that the best performance is always based upon the best practices.

Exercising leverage by acquiring and sharing knowledge. Fostering innovation and risk-taking. Embracing world-class business processes. Executing smart strategies. Motivating and inspiring one another. Applying new ideas and technologies to revolutionize the treatment of sick people. These are some of the core values of the new BSC to which we aspire.

Subsequent Events — Target Therapeutics

After the close of our 1996 fiscal year, BSC announced an agreement to acquire Target Therapeutics, Inc. Headquartered in Fremont, California with direct and representative organizations throughout the world, Target is dedicated to being the leader in the diagnosis and treatment of cerebrovascular disease. With a BSC-like organization and mission, Target provides a perfect fit to complement the mission and purpose of BSC. Target is expected to join the BSC family in the second quarter of 1997, and we welcome the entire Target family of employees, customers and partners to our fold.

The New BSC

BSC fills a unique and purposeful place in our lives. It is a place that challenges the ingenuity of our Team to make a real and valued difference in the treatment of sick people. On behalf of all the stakeholders of BSC, I would like to offer special thanks to each and every member of the BSC team for their hard work, dedication, loyalty and understanding of the BSC way. It is a great and high calling.

Leadership always is.

Respectfully,

Pete M. Nicholas

Healthcare is an industry in transition. At Boston Scientific, our people link the relevancy of our mission to the reality of our changing marketplace.

The following pages of this annual report address some of the ways we are instilling our core values, providing meaningful solutions to our customers, and translating vision into action.

To the many new employees who have recently joined us and to the employees who have grown with us over the years, know that our future success together is based upon our continued understanding of and belief in these concepts.

As we discussed in last year's annual report, Strategic Mass is more than size. It is a collection of attributes that increases our ability to serve our global customers' needs: breadth of product line, worldwide direct distribution, effective leverage of technology platforms, and global market share leadership. But simply accumulating mass is not enough. Being uniquely able to use these components in concert is what makes Strategic Mass work.

We hear more and more about Strategic Mass. How does it really work?

One of the most significant challenges we face in realizing the benefits of Strategic Mass is to communicate our vision and goals clearly enough to enable our people at all levels of the organization to make the best decisions, and to our customers to understand the value proposition we may provide them. Internally, this is especially critical in situations where decisions involve apparently conflicting goals. At BSC, we rely on our shared values to guide us through these difficult decisions. But we rely even more on our creativity to turn potential tradeoffs into win-win opportunities.

Turning Paradox into Progress

Paradox	BSC View
Speed versus Quality	High product quality is the minimum standard set by our customers; at the same time, our goal of sustained market leadership requires us to move extremely fast. We measure the impact of our innovation process by the speed at which we are able to create highly valued, high quality products and solutions for our customers.
Size versus Responsiveness to Customers	Our new, economically focused customers require us to offer a broad product line to be relevant. To do what is best for treatment in our key specialty markets requires close contact and direct attention. By combining corporate Strategic Mass and a divisional business focus, we are uniquely equipped to meet these new market requirements.
Rapid Growth versus Stability	Chaos in the healthcare market has driven an enormous amount of change at BSC — in size, in breadth, in geography, in organization. These changes, however, have actually been necessary for us to remain steadfast and stable in our mission, our values and our commitment to our customers in the new marketplace.
Multiple Cultures versus Standard Set of Values	Our growth, our geographic expansion and our acquisition strategies have brought together a diverse group of individuals with different styles and experiences from different cultures. We are able to work effectively together and to enrich each other with our differences because we share a common purpose and a commitment to the same underlying values.

The Endovascular Opportunity

Three industry leaders — Endotech/MinTec, Meadox, and Medi-tech/BSC — recently came together to create a strong competitive platform for Boston Scientific in the emerging therapeutic area of endovascular surgery.

Through a powerful combination of proprietary technologies, research and development resources, clinical experience, market presence and world class manufacturing, BSC has an opportunity to make a difference in the lives of thousands of patients suffering from abdominal aortic aneurysms (AAA). As a less invasive alternative to open abdominal surgery, endovascular treatment of AAA is a significant technological advancement that benefits both patients and physicians; less invasive means less risk, reduced hospital stays, quicker recovery and reduced cost.

This leverage opportunity came about in May of 1996, when BSC acquired Endotech/MinTec, a small, entrepreneurial company that pioneered the development of endovascular stent grafts for the repair of AAA, peripheral aneurysms and peripheral vascular occlusive disease. By combining this proprietary technology platform with other BSC stent technologies, along with the unique vascular graft technology of our Meadox division, BSC was able to accelerate the development and commercialization last year of advanced second generation CE mark approved stent graft devices. These devices were launched in Europe during the second half of 1996.

In addition, BSC leveraged Medi-tech's expertise in catheter-based delivery systems to design an improved delivery device for our pioneering AAA repair system. The collaborative efforts of our newly formed endovascular team enabled an immediate clinical opportunity to be realized.

Having built a strategic platform of technologies, resources and capabilities, Boston Scientific now faces the critical challenge of effectively employing them to maintain and grow our leadership role in less invasive medicine. We must excel in increasingly complex markets, across ever-expanding geographies, and against even tougher competition. We welcome this challenge, and we do not take it lightly.

As more and more demands are placed on the organization, how do we manage the workload?

Boston Scientific is a customer-focused organization. We're driven by technology. And we're a hard-working team that knows how to seek and quickly maximize leverage opportunities. These key strengths and core values provide a solid foundation for the future.

We are building on those strengths and values with new initiatives that support our continued growth and enable us to do more with less. One such initiative is Global Strategic Planning. By establishing clear global strategies, communicating them consistently, and implementing them locally, we can make coordinated, effective decisions. Our Global Systems Project , another new initiative, will put the proper process tools and information in place, so that we can assess the impact of our decisions quickly. And with Regional Management Organizations in place around the world, we can take prompt, decisive action in our local markets with a minimum of infrastructure.

The importance of technology leadership will only increase as our markets evolve. With greater product diversity and ever-increasing technical complexity, we know that we cannot develop in-house all of the specialized capabilities and skills required for future technologies. Our strategy is to lead by leveraging and building our internal development resources where they have maximum impact and by augmenting them with externally developed technologies where appropriate.

The ultimate measure of our success is our ability to get the best, less invasive solutions quickly into the hands of our customers worldwide. To do this requires working together across boundaries. We will continue to establish organizational development and training initiatives that will enable the BSC team to accomplish more together than we ever thought possible.

Executing Effectively Through Global Systems

Multiple information systems, multiple languages, multiple currencies, multiple users. These are just a few of the issues we face in developing a long-term strategy to meet our information technology needs. The Global Systems Project, one of the largest initiatives ever undertaken by BSC, will fully integrate and update our systems and business processes across all divisions, both domestic and international, through shared information and systems technology.

In order to rapidly build the system and infrastructure needed to support our global operations and continued growth, BSC has partnered with best-in-class providers of information technology services. This approach enables us to focus our resources on applying sophisticated, enterprise-wide technology to meet the rapidly evolving needs of our customers and our business.

The potential impact of the system is as exciting as it is far-reaching. The ability to share up-to-the-minute information among all BSC departments and divisions worldwide will enable closer collaboration. Enhanced global supply chain efficiencies will ensure that products are in the hands of our customers when they need them. The flexibility of the system will make it easier for our customers to do business with us, either as Boston Scientific Corporation or as a focused marketing division. The system will also enable BSC business expansion without the need for system redesign.

This ambitious redefinition of our business systems is designed to create a global information environment where BSC data is integrated, leveraged and shared, much like the skills, intellect and enthusiasm of our people.

One of the uniting characteristics of the BSC team is a desire to truly make a difference for our customers and their patients. We have brought together a number of fast moving, aggressive, entrepreneurial companies, while continuing to hire the kind of people who excel in that environment. Our challenge together is to maintain the excitement, the vigor and the entrepreneurial spirit of a start-up in our new, multi-billion dollar global organization.

How do we continue to make contributions in a changing environment?

To BSC, entrepreneurial means a bias toward action, taking initiative, focusing on the customer, thinking outside of the box, and pulling together to get the job done. That spirit is driven by the knowledge that what we do as individuals contributes directly to the performance of our teams. Each of us can — and does — make a measurable, positive impact.

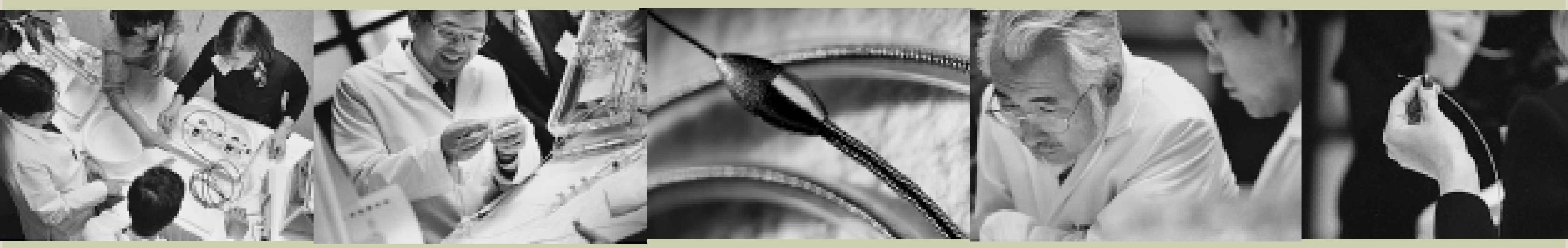
For example, in 1995, our SCIMED division accepted the challenge to bring the CHOICE™ PT polymer tipped cardiology guidewire to market. The performance specifications that our customers demanded seemed impossible to design, let alone manufacture. By deciding to take the risk to enter this new product area, our sales and marketing, manufacturing and R&D teams, together, enabled Boston Scientific to bring a top performing product to our customers at a valued price.

You can see our entrepreneurial spirit in our R&D organization where engineers are encouraged to think in an unstructured fashion about questions, opportunities and ideas outside of their current assignment. You can see it in the way we accept the challenge of not only creating new kinds of procedures, but also developing the markets for them and educating the physicians who will use them. That's what we've done in both percutaneous bladder neck suspension for stress urinary incontinence (Vesica™) and rotational atherectomy for plaque removal (Rotablator®). We have also had to reach beyond the traditional role of device manufacturer to define new approaches, to create solutions, and to share value with our emerging economic customers.

Going forward, new challenges are everywhere. We are trying to bring less invasive options to difficult new disease states: abdominal aortic aneurysms, atrial fibrillation, cerebrovascular defects, cancer. We are continuing to learn how to partner with economic buyers.

As we grow larger, we need to continue to cultivate and encourage this entrepreneurial spirit. We must provide the opportunities and the support that will empower people to take the lead, take risks and be successful. It is up to us to maintain that energy and that impact, because that is how Boston Scientific brings better products and solutions to our customers and their patients.

Applying Entrepreneurial Spirit to Interventional Cardiology



In March of 1997, Boston Scientific is scheduled to release an important new product to the Japanese market. The Rotablator®, a proprietary, catheter-based technology, utilizes high-speed rotational ablation to remove highly calcified plaque from the congested arteries of patients with atherosclerosis.

The Rotablator requires unique clinical training by international physicians with extensive knowledge and experience with the device. To provide for this need in the Japanese interventional cardiology community, Boston Scientific developed a specialized, multi-phase Rotablator training program at its Northwest Technology Center in Redmond, Washington. During Phase One, Japanese physicians worked closely with international training colleagues in Redmond in a two-day regimen of lectures, hands-on training using simulated heart models, and live case presentations.

After the Rotablator had been approved for clinical use in Japan, Phase Two training began. During Phase Two, physicians who were unable to attend the Redmond courses receive the same high level of expert instruction and hands-on training in their own country from a group of highly experienced international physicians. During the first six to 12 months of the product launch, physicians from around the world will travel to Japan to participate in Rotablator training. At the same time, the international physicians will offer initial clinical case support to the Japanese cardiologists who completed Phase One training.

Finally, in Phase Three, six months after initial training, Boston Scientific will offer follow-up training and consultation by the same international physicians to ensure that Japanese physicians and their patients are deriving maximum benefit from the Rotablator.

We recognize that providing training across the world requires unique skills; therefore, we offered a program to our international physicians to maximize their effectiveness as cross-cultural instructors. The program, "Working Effectively in Japan," covers a broad range of social and cultural issues, including overcoming language barriers and understanding the differences between Japanese and Western philosophies and treatment practices.

Some people might never make the connection between cultural customs and arterial plaque removal. But it's connections like these that strengthen the most important connection of all — the one between Boston Scientific and its customers.

Leverage is the ultimate expression of how Boston Scientific works — through teamwork and collaboration across traditional boundaries. Because leverage enriches both our people and the value we offer to our customers, it has been a driving principle of our success to date. And it continues to be a key enabler of Strategic Mass for the future.

How does leverage work when Boston Scientific's divisions, markets, customers and technologies are managed separately?

In describing Strategic Mass, we have often discussed technology leverage, but there are many other major areas where leverage comes into play at Boston Scientific, including operations, geography, customer service and human resource development.

Technology. Through the coordination of our Technology Executive Council, Boston Scientific has created a virtual R&D organization that leverages technology platforms across divisions — thereby creating greater development efficiencies, reducing time-to-market and enabling additional innovation.

Operations. Boston Scientific's Worldwide Operations Council coordinates our global manufacturing, distribution and technology transfer strategies, which enable us to deliver the right product at the right price to the right place at the right time. This effort will soon be enhanced by the information-sharing capabilities of our Global Systems Project.

Geographic. Boston Scientific has created regional marketing organizations around the world that effectively apply divisional strategies to local markets. This gives us the ability to extend our geographic reach without the cost and bureaucracy of individual country organizations.

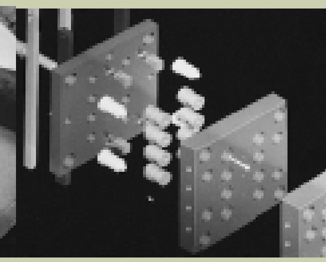
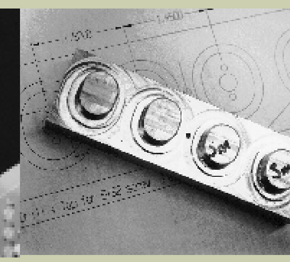
Customer service. Our matrixed corporate sales and marketing organization focuses across divisions on identifying and meeting the unique needs of our corporate customers, such as hospital systems and integrated networks. This frees each division to concentrate its resources on serving our physician specialists.

Human resource development. This emerging effort is designed to develop consistent and effective recruiting, communication, training and career development processes across all Boston Scientific organizations. This will ensure that we continue to build and maintain the most productive and effective global team in the industry.

In the end, leverage is a mind-set at Boston Scientific. We all understand its value and we continue to create opportunities for individuals across the company to share knowledge and experience. That's how Boston Scientific ensures that one plus one always equals more than just two.

A Prototype for Technological Leverage



Computer Aided Design (CAD), the ability to display, manipulate and share designs electronically, is an essential tool for advanced product development. BSC divisional technology teams have long recognized this, developing and implementing CAD capabilities over time in a number of locations. These evolving capabilities, combined with the added expertise of our Miami Technology Center (as part of the Symbiosis acquisition), created a significant leverage opportunity. Could we link worldwide technology centers using CAD capabilities to dramatically reduce product development cycles, thereby improving quality, responsiveness and time to market?

Our Technology Executive Council (TEC) established the Rapid Prototyping Council (RPC), a virtual team drawn from technology organizations around the company, to capture this opportunity. The RPC identified and implemented best practices, rolled out equipment and established the required infrastructure to enable global communication of CAD designs and images.

The system leverages communication systems (video, voice and data), linked through our global computer network, enabling seamless design sharing within and among our technology centers worldwide. For example, an engineer working on a product design in Ireland can tap into Miami's expertise in mold design, and have that input back in her system when she arrives for work the next morning. She can have a prototype manufactured directly from her design file without having to transcribe drawings. She can consult with our machine design experts in Minneapolis on the manufacturability of a component before the design is finalized. Worldwide teamwork becomes a daily reality.

The Rapid Prototyping Council's efforts have significantly enhanced our ability to leverage technology globally. Collaboration flourishes. And as BSC engineering groups efficiently share detailed designs among their peers at our worldwide technology centers, we are enabling rapid knowledge transfer, concurrent engineering and faster turn around of design ideas and prototypes. The ultimate result is higher quality, more powerful solutions — more quickly in the hands of our customers, more quickly helping patients.

There is no doubt that the dramatic transformation we are witnessing in the global healthcare system will continue for the foreseeable future. Consolidation will not abate. Strong forces will continue to push us to find better, faster, safer, less costly ways to care for patients. Change will be a constant watchword.

The change BSC has undergone in building Strategic Mass over the last 24 months has helped prepare us for this new environment. While putting in place the attributes of Strategic Mass, we have learned how to take advantage of change in our company and in our markets. We have experienced first hand that change is not always easy, but that it is required to move ahead.

To say that BSC has built Strategic Mass does not mean that we have "arrived" or that we are done. Strategic Mass is an ongoing goal that gives us the opportunity and, more importantly, the responsibility to lead. It challenges us to push forward, to be proactive, to improve healthcare on a global basis. It will challenge our team in ways we have not even considered. We must be vigilant, resourceful and creative. Our success will depend on looking outward to anticipate, advocate and educate, and looking inward to innovate, facilitate and communicate.

The future is full of promise for ourselves, for our customers and for their patients. We have been able to transform our company to be relevant to a current vision of that future. As global healthcare continues to evolve, so must we. Our foundation is solid: mission, values, people, passion. We must continue to look forward and to synthesize our global talents as we move nearer to our goal of becoming the biggest, the fastest, the best medical device company in the world.

Boston Scientific Corporation and Subsidiaries
1996 Consolidated Financial Statements

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Financial Highlights (unaudited)

(In thousands, except per share data)

Year Ended December 31,	1996	1995	1994
Net sales	$1,462,043	$1,129,185	$888,572
Gross profit	1,061,077	804,122	608,800
Operating income	309,498	74,921	207,134
Net income	167,106	6,440	135,307
Net income per common share	$0.92	$0.04	$0.78

1996 and 1995 amounts include $128 million ($114 million, net-of-tax) and $237 million ($195 million, net-of-tax), respectively, of non-recurring and special charges recorded in connection with Boston Scientific's 1996 and 1995 mergers and acquisitions.

See notes to consolidated financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

During the past two years, Boston Scientific Corporation (Boston Scientific or the Company) has consummated several alliances that are expected to improve the strategic position of the Company to take advantage of additional significant growth opportunities in less invasive medicine. In 1995, the Company merged with SCIMED Life Systems, Inc. (SCIMED), Cardiovascular Imaging Systems, Inc. (CVIS), Vesica Medical, Inc. (Vesica), Meadox Medicals, Inc. (Meadox) and Heart Technology, Inc. (Heart). In 1996, the Company acquired EP Technologies, Inc. (EPT), Symbiosis Corporation (Symbiosis) and Endotech Ltd. and MinTec Inc., and certain related companies (Endotech/MinTec).

In addition, on January 20, 1997, the Company announced its intention to merge in a tax-free, stock-for-stock transaction with Target Therapeutics, Inc. (Target) to be accounted for as a pooling-of-interests. Target designs, develops, manufactures and markets catheter-based disposable and implantable medical devices used in minimally invasive procedures to treat neurovascular diseases and disorders. Under the terms of the merger agreement, Target shareholders would receive 1.07 shares of Boston Scientific common stock in exchange for each share of Target common stock. The merger is expected to close during the second quarter of 1997 and is subject to the approval of the shareholders of Target.

The Company has substantially completed the integration of SCIMED, CVIS, Vesica, Meadox, and Heart, and is completing the integrations of EPT, Symbiosis, and Endotech/MinTec. Integration plans of all acquisitions consummated by December 31, 1996 are expected to be substantially completed by the end of 1997. Management believes it has developed a sound plan for continuing and concluding the integration process, and that it will achieve that plan. However, in view of the number of major transactions undertaken by the Company, the dramatic changes in the size of the Company and the complexity of its organization resulting from these transactions, management also believes that the successful implementation of its plan presents a significant degree of difficulty. The failure to integrate these businesses effectively could adversely affect the Company's operating results in the near term, and could impair the Company's ability to realize the strategic and financial objectives of these transactions.

The restated historical results of operations are not necessarily indicative of the operating results or financial position that would have occurred if the mergers and acquisitions had been consummated during the periods presented, nor are they necessarily indicative of future operating results or financial position.

Years Ended December 31, 1996 and 1995

Net sales increased 29.5% in 1996 to $1,462 million from $1,129 million in 1995. Net income for the year increased to $167 million, or $0.92 per share, as compared to $6 million, or $0.04 per share, for the prior year. Net income for the year ended December 31, 1996, excluding special charges related to 1996 and 1995 acquisitions, increased 39% to $281 million from $202 million during the year ended December 31, 1995.

United States (U.S.) revenues increased approximately 19% from 1995 to $897 million in 1996, while international revenues, including export sales, increased approximately 51% from 1995 to $565 million in 1996. International sales as a percentage of worldwide sales increased from 33% in 1995 to 39% in 1996. The increase in international sales reflects results from the Company's strategy to build its international organization. International sales during 1996 were negatively impacted compared to 1995 by approximately $21 million of unfavorable exchange rate movements caused primarily by the strengthening of the U.S. dollar versus major European currencies and the Japanese yen. Worldwide vascular sales increased 28% from 1995 to 1996, from $891 million to $1,143 million, and worldwide non-vascular sales during the same periods increased 34% from $238 million to $319 million.

During 1996, the Company accelerated its forward build and spend programs so as to be in a position to take advantage of the expanded market opportunities it expects in 1997 and beyond. The programs impacted the Company's manufacturing, selling, general and administrative costs. The Company's ability to benefit from its forward build and spend programs may be limited by risks and uncertainties related to competitive offerings, timing and scope of regulatory approvals, infrastructure development, continued international expansion, rights to intellectual property, and the ability of the Company to implement its overall business strategy.

Gross profit as a percentage of net sales was approximately 72.6% and 71.2% during 1996 and 1995, respectively. During 1996, the Company's gross margins improved as a result of the Company's U.S. cost containment programs, an increase in the percentage of international sales compared to U.S. sales, and certain benefits of converting from selling through international distributors to direct sales operations. However, the positive impact of these initiatives was offset by the forward spend programs discussed previously, a slight decline in average selling prices due to continuing pressure on healthcare costs and increased competition, and a shift in the Company's product sales mix. In addition, gross margins were negatively impacted by the unfavorable foreign exchange rate movements discussed above.

Uncertainty remains with regard to future changes within the healthcare industry. The trend towards managed care and economically motivated buyers in the U.S. may result in continued pressure on selling prices of certain products and resulting compression on gross margins. The U.S. marketplace is increasingly characterized by consolidation among healthcare providers and purchasers of medical devices who prefer to limit the number of suppliers from whom they purchase medical products. There can be no assurance that these entities will continue to purchase products from the Company. In addition, international markets are also being affected by economic pressure to contain healthcare costs. Although these factors will continue to impact the rate at which Boston Scientific can grow, the Company believes that it is well positioned to take advantage of opportunities for growth that exist in the markets it serves.

Selling, general and administrative expenses increased 32% from $373 million in 1995 to $492 million in 1996, and increased as a percentage of sales from 33% to 34% of net sales. The increase reflects continued expansion of the Company's domestic and international sales organizations and related marketing support.

Royalty expenses decreased 39% from $25 million in 1995 to $15 million in 1996 and decreased from approximately 2% of net sales to 1% of net sales. The decrease is primarily attributable to a reduction in sales of certain of the Company's PTCA products that are subject to royalties. However, the reduction was partially offset by royalties due under several strategic alliances that the Company initiated in 1996 and prior years.

Research and development expenses increased 24% from $94 million in 1995 to $116 million in 1996 and remained approximately 8% of net sales. The increase in dollars reflects increased spending in regulatory, clinical research and various other product development programs, and reflects the Company's continued commitment to refine existing products and procedures and to develop new technologies that provide simpler, less traumatic, less costly and more efficient diagnosis and treatment. The trend in countries around the world toward more stringent regulatory requirements for product clearance and more vigorous enforcement activities has generally caused or may cause medical device manufacturers to experience more uncertainty, greater risk and higher expenses. In addition, regulatory approval times for new products continue to be lengthy, a concern of medical device manufacturers generally. Several of the research and development projects acquired in connection with the Company's strategic acquisitions have been completed. Costs for ongoing development activities are attributable primarily to clinical studies, design, prototype development and testing. The Company estimates that approximately $5 million will be expensed during each of the next several years in connection with completion of acquired research and development projects.

Interest and dividend income was $4 million as compared to $15 million in 1995. The decrease is primarily attributable to a decrease in the Company's average cash and marketable securities balance resulting from the use of cash to finance several of the Company's strategic alliances and infrastructure build during the second half of 1995 and throughout 1996. Interest expense increased from $10 million in 1995 to $11 million in 1996. The increase in interest expense is primarily attributable to interest on borrowings used principally to finance the acquisitions of Symbiosis and Endotech/MinTec and the Company's stock repurchase program. Other income (expense), net, changed from income of $4 million in 1995 to expense of $6 million in 1996. The change is primarily attributable to net foreign exchange losses recorded in 1996 of $2 million compared to net gains of $8 million recorded in 1995.

As Boston Scientific has expanded its international operations, its sales and expenses denominated in foreign currencies have expanded and that trend is expected to continue. Thus, certain sales and expenses have been, and are expected to be, subject to the effect of foreign currency fluctuations. In addition, because the percentage of sales denominated in foreign currencies has been and is expected to continue to be somewhat greater than the percentage of expenses denominated in foreign currencies, foreign currency fluctuations may have some impact on margins.

The Company enters into forward foreign exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with commitments. The Company does not engage in speculation. The Company's foreign exchange contracts, which were immaterial at December 31, 1996, do not subject the Company to material risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the assets and liabilities being hedged. Although the Company engages in hedging transactions that may offset the effect of fluctuations in foreign currency exchange rates on foreign currency denominated assets and liabilities, financial exposure may nonetheless result, primarily from the timing of transactions and the movement of exchange rates. Further, any significant changes in the political, regulatory or economic environment where the Company conducts international operations may have a material impact on revenues and profits.

The Company's effective tax rate was approximately 92% in 1995 and 44% in 1996. The effective tax rates for 1995 and 1996 include the impact of non-recurring and special charges (see discussion following). Excluding these items, the pro forma effective tax rate improved from approximately 37% during 1995 to 34% during 1996. During 1995, the Company reorganized its international legal structure, which has contributed to a reduction in the effective tax rate. The Company expects to continue to realize tax benefits from its new international legal structure. Changes in tax laws and regulations may impact the Company's ability to realize these tax benefits.

Years Ended December 31, 1995 and 1994

Net sales increased 27% in 1995 to $1,129 million from $889 million in 1994. Net income for the year decreased to $6 million, or $0.04 per share, as compared to $135 million, or $0.78 per share, for the prior year. The reduction in net income from 1994 to 1995 was attributable to $237 million ($195 million, net-of-tax) of non-recurring and special charges recorded in 1995 in connection with the acquisitions of SCIMED, CVIS, Vesica, Meadox and Heart.

U.S. revenues increased approximately 20% from 1994 to $754 million in 1995, while international revenues, including export sales, increased approximately 45% from 1994 to $375 million in 1995. International sales as a percentage of worldwide sales increased from 29% in 1994 to 33% in 1995. The increase in international sales reflects results from the Company's strategy to strengthen its international presence by converting several of its distributor relationships to direct sales operations. International sales during 1995 and 1994 were also positively impacted by approximately $18 million and $3 million, respectively, of favorable exchange rate movements caused primarily by the weakening of the U.S. dollar versus major European currencies and the Japanese yen. Worldwide vascular sales increased 29% from 1994 to 1995, from $692 million to $891 million, and worldwide non-vascular sales during the same periods increased 21% from $197 million to $238 million.

Gross profit as a percentage of net sales was approximately 71% and 69% during 1995 and 1994, respectively. During 1995, the Company's gross margins improved as a result of the Company's U.S. cost containment programs, an increase in the percentage of international sales compared to U.S. sales, the benefits of converting from selling through international distributors to direct sales operations, and a shift in the Company's product sales mix. However, the positive impact of these initiatives was partially offset by a slight decline in average selling prices due to continuing pressure on healthcare costs and increased competition.

Selling, general and administrative expenses increased 25% from $299 million in 1994 to $373 million in 1995, but these expenses decreased from approximately 34% to 33% of net sales. The increase in overall expense dollars reflects continued expansion of the Company's domestic and international sales organizations and related marketing support.

Royalty expenses decreased from $26 million to $25 million during 1995 and decreased as a percentage of net sales from approximately 3% of net sales to 2% of net sales. The decrease is primarily attributable to a decrease in SCIMED's EXPRESS® catheter sales.

Research and development expenses increased 22% from $77 million in 1994 to $94 million in 1995 and decreased as a percentage of net sales from approximately 9% of net sales to 8% of net sales. The increase in dollars resulted from increased spending in regulatory, clinical research and various other product development programs, and reflects the Company's continued commitment to refine existing products and procedures and to develop new technologies that provide simpler, less traumatic, less costly and more efficient diagnosis and treatment.

Interest and dividend income increased 9% from $13 million in 1994 to $15 million in 1995. Higher average interest rates earned on investments were offset somewhat by a reduction of the Company's investment holdings resulting from its strategic initiatives. Interest expense was $10 million and $8 million in 1995 and 1994, respectively. 1995 interest expense was incurred primarily to purchase Heart's new headquarters facility. Other income (expense), net, improved from $3 million expense in 1994 to income of $4 million in 1995. The improvement is primarily attributable to approximately $8 million of net foreign exchange gains recorded in 1995 compared to approximately $3 million of net foreign exchange gains recorded in 1994, and, in 1994, the Company recorded $3 million for litigation settlement expense.

The Company's effective tax rate was approximately 35% in 1994 and 92% in 1995. The effective tax rate for 1995 includes the impact of non-recurring and special charges (see discussion following) and results for 1994 include $7 million in benefit for income taxes resulting from the reversal of a deferred tax asset valuation allowance. Excluding these items, the pro forma effective tax rate was approximately 38% during 1994 and 37% during 1995. During 1995, the Company reorganized its international legal structure which contributed to a reduction in the effective tax rate. However, the benefits were offset by the impact of Heart's reporting income tax expense for the first time.

Liquidity and Capital Resources

During 1996, the Company continued to invest in several strategic initiatives in order to take advantage of certain growth opportunities that exist in less invasive medicine. Cash, cash equivalents, short-term investments, and treasury securities totaled approximately $81 million as of December 31, 1996 compared to $161 million as of December 31, 1995. Working capital was reduced from $291 million at December 31, 1995 to $285 million at December 31, 1996, and cash provided by operating activities increased from $20 million during 1995 to $134 million during 1996. The decrease in cash and marketable securities is primarily attributable to approximately $225 million paid in conjunction with the Company's acquisitions of Symbiosis and Endotech/MinTec, capital expenditures incurred primarily to expand the Company's manufacturing and distribution facilities in Europe, cash used to repurchase the Company's common stock, payment of merger-related costs and net payments on line of credit borrowings. The cash expenditures were partially offset by proceeds received in connection with the Company's initiation of a commercial paper program. The increase in cash provided from operating activities was primarily attributable to increased profits and a reduction in merger-related payments from 1995 to 1996.

During 1996, accounts receivable increased as a result of the Company's international sales growth, while inventory increases have resulted from the Company's overall increase in sales and the shift from international distributors to direct sales forces. Selling directly to international customers has resulted in accounts receivable increasing by a greater percentage than sales. The process of developing new products, gaining regulatory approval, and manufacturing new products in a well-established timeline should assist in management of inventory levels. Although no significant issues have arisen in the past, there can be no assurance that current or future suppliers of the Company's raw materials will be able to continue to meet the quality and quantity demands of the Company at current suppliers' prices.

Cash used for investing activities for 1996 was $398 million and was used primarily for the purchases of Symbiosis and Endotech/MinTec, and for purchases of property, plant and equipment.

During 1996, net cash provided by financing activities was approximately $208 million and consisted primarily of proceeds from the issuances of commercial paper and proceeds from the exercise of stock options and the purchase of stock under the Company's employee stock purchase plan.

In connection with the acquisitions of SCIMED, CVIS, Vesica, Meadox, Heart, EPT, Symbiosis and Endotech/MinTec, the Company recorded non-recurring and special charges of approximately $237 million ($195 million, net-of-tax) and $128 million ($114 million, net-of-tax) during 1995 and 1996, respectively. Estimated costs include those typical in a merging of operations and relate to, among other things, rationalization of facilities, workforce reductions, unwinding of various contractual commitments, asset writedowns and other integration costs. During 1996, cash payments related to these charges were approximately $60 million and estimated cash payments for 1997 are $47 million. The Company expects to record non-recurring and special charges during 1997 in conjunction with merging the Target business with subsidiaries of the Company, if the merger is consummated.

During 1996, the Company resumed its program to repurchase stock. The Company is authorized to purchase on the open market up to approximately 20 million shares of the Company's common stock. Purchases will be made at prevailing prices as market conditions and cash availability warrant. Stock repurchased under the Company's systematic plan will be used to satisfy the Company's obligations pursuant to its employee benefit and incentive plans. During 1996, the Company repurchased 1.3 million shares of its common stock at an aggregate cost of $52 million. Prior to 1996, a total of 4.9 million shares of the Company's common stock was repurchased under the program.

As part of the stock repurchase program, the Company sold European equity put options to an independent broker-dealer during 1996 and prior years. Each option, if exercised, obligates the Company to purchase from the broker-dealer a specified number of shares of the Company's common stock at a predetermined exercise price. The put options are exercisable only on the first anniversary of the date the options were sold. During 1996, the Company sold European put options for 600,000 shares and received proceeds of approximately $3 million. Proceeds are recorded as a reduction to the cost of the Company's treasury stock. Repurchase prices relating to put options outstanding at December 31, 1996 range from $41.10 per share to $41.75 per share. The Company's contingent obligation to repurchase shares upon exercise of the outstanding put options approximated $25 million at December 31, 1996. At December 31, 1996, the aggregate contingent repurchase obligation has been reclassified from permanent equity and is presented as a contingent stock repurchase obligation. Prior to 1996, the Company sold European put options for one million shares.

Since early 1995, the Company has entered into several transactions involving acquisitions and alliances, certain of which have involved equity investments. As the healthcare environment continues to undergo rapid change, management expects that it will continue focusing on strategic initiatives and/or make additional investments in existing relationships. In addition, the Company expects to incur capital expenditures of approximately $200 million in 1997, including construction of additional manufacturing and distribution space and development of a global information system. The Company expects that its cash and cash equivalents, marketable securities, cash flows from operating activities, and borrowing capacity will be sufficient to meet its projected operating cash needs, including integration costs at least through the end of 1997.

The Company is involved in various lawsuits, including product liability suits, from time to time in the normal course of business. In management's opinion, the Company is not currently involved in any legal proceeding other than those specifically identified in the notes to the consolidated financial statements which, individually or in the aggregate, could have a material effect on the financial condition, operations and cash flows of the Company. The Company believes that it has meritorious defenses against claims that it has infringed patents of others. However, there can be no assurance that the Company will prevail in any particular case. An adverse outcome in one or more cases in which the Company's products are accused of patent infringement could have a material adverse effect on the Company.

Further, product liability claims may be asserted in the future relative to events not known to management at the present time. The Company has insurance coverage which management believes is adequate to protect against such product liability losses as could otherwise materially affect the Company's financial position.

Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

This report contains forward-looking statements. The Company desires to take advantage of the new safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all forward-looking statements. Forward-looking statements contained in this report include, but are not limited to, statements with respect to: (a) the Company's forward build and spend programs; (b) the Company's plans to continue to invest aggressively in its global systems and worldwide manufacturing and distribution capacity; (c) the potential impacts of continued consolidation among healthcare providers, trends towards managed care, and healthcare cost containment; (d) the Company's belief that it is well positioned to take advantage of opportunities for growth that exist in the markets it serves; (e) the Company's continued commitment to refine existing products and procedures and to develop new technologies that provide simpler, less traumatic, less costly and more efficient diagnosis and treatment; (f) the research and development expenditures that will be incurred to complete purchased research and development projects; (g) the ability of the Company to realize tax benefits from its new international legal structure; (h) the process and plan for the integration of businesses acquired by the Company; (i) the potential effect of foreign currency fluctuations on revenues, expenses and resulting margins; (j) the ability of the Company to manage accounts receivable and inventory levels; and (k) the ability of the Company to meet its projected cash needs through the end of 1997. Several important factors, in addition to the specific factors discussed in connection with such forward-looking statements individually, could affect the future results of the Company and could cause those results to differ materially from those expressed in the forward-looking statements contained herein. Such additional factors include, among other things, future economic, competitive and regulatory conditions, demographic trends, financial market conditions and future business decisions of Boston Scientific and its competitors, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Boston Scientific. Therefore, the Company wishes to caution each reader of this report to consider carefully these factors as well as the specific factors discussed with each forward-looking statement in this report and as disclosed in the Company's filings with the Securities and Exchange Commission as such factors, in some cases, have affected, and in the future (together with other factors) could affect, the ability of the Company to implement its business strategy and may cause actual results to differ materially from those contemplated by the statements expressed herein.

Consolidated Statements of Income

(In thousands, except per share data)

Year Ended December 31,	1996	1995	1994
Net sales	$1,462,043	$1,129,185	$888,572
Cost of products sold	400,966	325,063	279,772
Gross profit	1,061,077	804,122	608,800
Selling, general and administrative expenses	491,813	373,390	299,292
Royalties	15,130	24,874	25,682
Research and development expenses	116,295	93,843	76,692
Purchased research and development	96,000	32,646	
Special charges	32,341	204,448	
	751,579	729,201	401,666
Operating income	309,498	74,921	207,134
Other income (expense):			
Interest and dividend income	4,475	14,638	13,408
Interest expense	(11,184)	(9,591)	(8,378)
Other, net	(5,818)	3,837	(3,306)
Income before income taxes	296,971	83,805	208,858
Income taxes	129,865	77,365	73,551
Net income	$ 167,106	$ 6,440	$135,307
Net income per common share	$0.92	$0.04	$0.78
Primary weighted average number of common shares	181,293	177,534	174,197

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

December 31,	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,497	$ 117,321
Short-term investments	17,051	38,832
Treasury security	5,000	5,000
Trade accounts receivable, net	298,886	214,232
Inventories	226,213	148,572
Deferred income taxes	101,064	31,149
Prepaid expenses and other current assets	42,167	20,085
Total current assets	748,878	575,191
Property, plant, equipment and leaseholds, net	347,186	256,093
Other assets:		
Intangibles, net	308,408	137,704
Investments	77,890	70,415
Deferred income taxes		37,852
Other assets	29,766	32,679
	416,064	278,650
	$1,512,128	$1,109,934

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except share and per share data)

December 31,	1996	1995
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Commercial paper	$ 212,500	
Bank obligations	28,056	$ 57,520
Accounts payable	64,453	43,058
Accrued expenses	83,807	63,264
Accrual related to special charges	48,144	80,144
Income taxes payable	24,934	26,112
Other current liabilities	1,929	13,625
Total current liabilities	463,823	283,723
Accrual related to special charges		37,699
Deferred income taxes	59,975	
Other long-term liabilities	47,204	14,362
Commitments and contingencies		
Contingent stock repurchase obligation	24,855	
Stockholders' equity:		
Preferred stock, $ .01 par value - authorized 25,000,000 shares, none issued and outstanding		
Common stock, $ .01 par value - authorized 300,000,000 shares, 179,101,866 shares issued at December 31, 1996 and 179,079,298 shares issued at December 31, 1995	1,791	1,791
Additional paid-in capital	380,967	386,610
Retained earnings	585,057	417,951
Foreign currency translation adjustment	(37,994)	(14,739)
Unrealized gain on available-for-sale securities, net	10,193	8,833
Treasury stock, at cost - 643,991 shares at December 31, 1996 and 2,425,490 shares at December 31, 1995	(23,743)	(26,296)
Total stockholders' equity	916,271	774,150
	$1,512,128	$1,109,934

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands, except share data)

	Common Stock Shares Issued	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustment	Unrealized Gain On Available-for-Sale Securities, Net	Treasury Stock	Total
Balance at December 31, 1993	176,457,515	$1,764	$322,213	$288,532	$ (1,847)		$(65,366)	$545,296
Net income				135,307				135,307
Foreign currency translation adjustment					1,563			1,563
Issuance of common stock under options, warrants and stock purchase plans	1,567,054	16	9,215	(408)			1,540	10,363
Sale of common stock	594,000	6	17,554					17,560
Tax benefit relating to incentive stock option and employee stock purchase plans			5,613					5,613
Expiration of contingent stock repurchase obligation			10,938					10,938
Net change in equity investments						$ 13		13
Other	(901)		6,904				5,555	12,459
Balance at December 31, 1994	178,617,668	1,786	372,437	423,431	(284)	13	(58,271)	739,112
Net income				6,440				6,440
Foreign currency translation adjustment					(14,455)			(14,455)
Issuance of common stock under options, warrants, and stock purchase plans	461,630	5	1,283	(600)			31,975	32,663
Tax benefit relating to incentive stock option and employee stock purchase plans			13,068					13,068
Change in fiscal year of a pooled entity				(11,456)				(11,456)
Net change in equity investments						8,820		8,820
Other			(178)	136				(42)
Balance at December 31, 1995	179,079,298	1,791	386,610	417,951	(14,739)	8,833	(26,296)	774,150
Net income				167,106				167,106
Foreign currency translation adjustment					(23,255)			(23,255)
Issuance of common stock under options, warrants, and stock purchase plans	22,568		(13,571)				52,343	38,772
Purchase of common stock for treasury							(52,313)	(52,313)
Contingent stock repurchase obligation			(24,855)				2,523	(22,332)
Tax benefit relating to incentive stock option and employee stock purchase plans			32,783					32,783
Net change in equity investments						1,360		1,360
Balance at December 31, 1996	179,101,866	$1,791	$380,967	$585,057	$(37,994)	$10,193	$(23,743)	$916,271

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Year ended December 31,	1996	1995	1994
OPERATING ACTIVITIES:			
Net income	$167,106	$ 6,440	$135,307
Adjustments to reconcile net income to cash provided by operating activities:			
Net cash adjustment to conform year end of pooled entity		(11,472)	
Depreciation and amortization	61,400	40,532	37,804
Deferred income taxes	(12,426)	(8,907)	(21,957)
Noncash special charges write-offs	110,378	47,883	
Exchange (gain) loss	2,095	(7,617)	(2,800)
Increase (decrease) in cash flows from operating assets and liabilities net-of-effects from purchase acquisitions:			
Trade accounts receivable	(94,449)	(69,294)	(34,304)
Inventories	(87,887)	(47,038)	(24,119)
Prepaid expenses and other assets	(18,710)	11,738	(3,592)
Accounts payable and accrued expenses	30,655	8,928	11,393
Special charges and merger-related accrual	(60,420)	67,312	(3,441)
Other liabilities	27,682	(27,488)	(2,394)
Other, net	8,918	8,800	4,697
Cash provided by operating activities	134,342	19,817	96,594
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment, net	(135,320)	(69,726)	(80,859)
Acquisitions of businesses, net-of-cash acquired	(241,580)	(87,783)	
Net maturities of held-to-maturity short-term investments	28,152	5,033	49,323
Purchases of available-for-sale securities	(22,217)	(8,210)	(7,000)
Sales of available-for-sale securities	12,557	64,678	9,057
Payments for acquisitions of certain technologies	(24,879)	(9,009)	(18,737)
Increase in equity investments	(8,116)	(67,485)	(6,419)
Sales of equity investments			16,693
Other	(6,835)	(307)	(12,509)
Cash used in investing activities	(398,238)	(172,809)	(50,451)
FINANCING ACTIVITIES:			
Net increase in commercial paper	212,500		
Proceeds from notes payable and long-term borrowings		27,400	54,542
Principal payments on notes payable	(27,357)	(67,097)	(11,351)
Proceeds from issuances of shares of common stock, net-of-tax benefits	71,555	45,729	33,356
Acquisition of treasury stock, net-of-proceeds from put options	(49,790)		
Other	752	(61)	
Cash provided by financing activities	207,660	5,971	76,547
Effect of foreign exchange rates on cash	(2,588)	(4,939)	(1,477)
Net increase (decrease) in cash and cash equivalents	(58,824)	(151,960)	121,213
Cash and cash equivalents at beginning of year	117,321	269,281	148,068
Cash and cash equivalents at end of year	$ 58,497	$117,321	$269,281

See notes to consolidated financial statements.

NOTE A—MERGERS AND ACQUISITIONS

On February 24, 1995, Boston Scientific Corporation (Boston Scientific or the Company) completed its merger with SCIMED Life Systems, Inc. (SCIMED) in a stock-for-stock transaction. The transaction, which is accounted for as a pooling-of-interests, was effected through the exchange of 3.4152 shares of the Company's common stock in exchange for each SCIMED share held. Approximately 52.7 million shares of common stock were issued in connection with the SCIMED merger. SCIMED is a leader in the development, manufacture and marketing of medical devices primarily to treat cardiovascular disease.

On March 9, 1995, the Company completed its merger with Cardiovascular Imaging Systems, Inc. (CVIS), which is accounted for under the purchase method of accounting. CVIS shareholders received $10.50 per share for an aggregate purchase price of approximately $94 million (or approximately $82 million, net of cash acquired, cash received and to be received from a third party under an agreement, signed in conjunction with the acquisition, to license certain intravascular ultrasound technology). CVIS develops, manufactures and markets intravascular ultrasound imaging catheters and systems to aid in the diagnosis of cardiovascular disease.

On March 23, 1995, the Company completed the acquisition of Vesica Medical, Inc. (Vesica), a urology-based company focused principally on the treatment of a form of urinary stress incontinence. The acquisition is accounted for under the purchase method of accounting. The purchase price is not material to the Company's financial position or results of operations and the acquisition did not have a material pro forma impact on the Company's operations.

On November 16, 1995, the Company completed its merger with Meadox Medicals, Inc. (Meadox). To effect the merger, Boston Scientific exchanged approximately 10.2 million shares of the Company's common stock for all the issued and outstanding capital stock of Meadox on a fully-diluted basis in a stock-for-stock, pooling-of-interests transaction. Meadox, a global leader in textile vascular prostheses, markets a broad range of woven, knitted and collagen-sealed grafts.

On December 29, 1995, the Company completed its merger with Heart Technology, Inc. (Heart) in a stock-for-stock transaction. The transaction, which is accounted for as a pooling-of-interests, was effected through the exchange of 0.675 shares of the Company's common stock for each Heart share held. Approximately 11.9 million shares of the Company's common stock were issued in connection with the Heart merger. Heart develops, manufactures and markets the Rotablator system, a unique high-speed, diamond tip rotational device for the treatment of atherosclerosis in coronary and peripheral arteries.

On January 22, 1996, the Company completed its merger with EP Technologies, Inc. (EPT) in a stock-for-stock transaction. The transaction, which is accounted for as a pooling-of-interests, was effected through the exchange of 0.297 shares of the Company's common stock for each EPT share held. Approximately 3.4 million shares of the Company's common stock were issued in conjunction with the EPT merger. EPT designs, develops, manufactures and markets advanced electrophysiology catheters and systems for use in minimally invasive procedures to diagnose and treat tachyarrhythmias (abnormally rapid heart rates resulting from defective or diseased cardiac tissues that interfere with the normal conduction of electrical activity responsible for heart muscle contraction).

On March 14, 1996, the Company acquired Symbiosis Corporation (Symbiosis), formerly a wholly-owned subsidiary of American Home Products Corporation. Boston Scientific purchased Symbiosis, a developer and manufacturer of specialty medical devices, for approximately $153 million in a cash transaction. The acquisition was accounted for using the purchase method of accounting.

On May 3, 1996, Boston Scientific acquired assets from Endotech, Ltd. and MinTec Inc., and certain related companies (Endotech/MinTec) dedicated to the development of stent graft technology for the repair of diseased blood vessels. The Company purchased Endotech/MinTec's assets for approximately $72 million in a cash transaction accounted for using the purchase method of accounting.

NOTE B—SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, substantially all of which are wholly-owned, and include the results of SCIMED, Meadox, Heart, and EPT accounted for as poolings-of-interests, for all periods presented. The statements also include the results of CVIS, beginning in March 1995, the results of Symbiosis, beginning in March 1996 and the results of Endotech/MinTec, beginning in May 1996. Investments in affiliates, representing 20% to 50% of the ownership of such companies, are accounted for under the equity method. Investments in affiliates, representing less than 20% of the ownership of such companies, are accounted for under the cost method.

Accounting Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year: The Company has a fiscal year ending on December 31. In connection with the SCIMED merger, effective January 1, 1995, SCIMED changed its fiscal year end from the last day of February to December 31. As a result of the change in SCIMED's fiscal year, the operations for the period January 1, 1995 through February 28, 1995 have been included in the results of operations of Boston Scientific both for the years ended December 31, 1995 and 1994. Summarized results of SCIMED's operations for this two-month period are: Net sales: $55 million; Gross margin: $42 million; Operating income: $18 million; Net income: $11 million.

Translation of Foreign Currency: All assets and liabilities of foreign subsidiaries are translated at the rate of exchange at year end while sales and expenses are translated at the average rates in effect during the year. The net effect of these translation adjustments is shown in the accompanying financial statements as a component of stockholders' equity.

Cash and Cash Equivalents: The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Short-Term Investments: Short-term investments are recorded at fair value, which approximates cost.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of temporary cash and cash equivalents, marketable securities and accounts receivable. The Company invests its excess cash primarily in high quality securities and limits the amount of credit exposure to any one financial institution. The Company's investment policy limits exposure to concentration of credit risk and changes in market conditions.

The Company provides credit, in the normal course of business, primarily to hospitals, private and governmental institutions and healthcare agencies and doctors' offices. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses which, when realized, have been within the range of management's expectations. Credit risk on trade receivables is minimized as a result of the large and diverse nature of the Company's worldwide customer base.

Inventories: Inventories are stated at the lower of first-in, first-out cost or market.

Property, Plant, Equipment and Leaseholds: Property, plant, equipment and leaseholds are stated at historical cost. Expenditures for maintenance and repairs are charged to expense; betterments are capitalized. The Company provides for depreciation and amortization by the straight-line method at rates which are intended to depreciate and amortize the cost of these assets over their estimated useful lives. Buildings and improvements are depreciated over a 15- to 40-year life; equipment and office furniture and fixtures are depreciated over a 2- to 7-year life.

Intangible Assets: Intangibles assets are amortized using the straight-line method over the following lives:

Patents and trademarks	3 - 20 years
Licenses	3 - 20 years
Purchased technologies	3 - 20 years
Excess of cost over net assets acquired	15 - 40 years
Other intangibles	Various

The Company examines the carrying value of its goodwill and other long-lived intangible assets to determine whether there are any impairment losses. If indicators of impairment were present in long-lived intangible assets used in operations, and future cash flows were not sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified. No event has been identified that would impair the value of material long-lived intangible assets recorded in the accompanying consolidated financial statements.

Income Taxes: The Company utilizes the liability method for accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Taxes are not provided on unremitted earnings of subsidiaries outside the United States (U.S.) where such earnings are permanently reinvested. At December 31, 1996, unremitted earnings of non-U.S. subsidiaries were $196 million. When these earnings are distributed in the form of dividends or otherwise, the Company will be subject to both U.S. income taxes and foreign withholding taxes less an adjustment for applicable foreign tax credits. It is not practical to estimate the amount of taxes payable on these foreign earnings. Research and development tax credits are recorded as a reduction in income tax expense in the year realized.

Foreign Exchange Contracts: The Company enters into forward foreign exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with commitments. The Company does not engage in speculation. The Company's foreign exchange contracts, which were immaterial at December 31, 1996, do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the assets and liabilities being hedged. During 1996, net foreign currency transaction and translation net gains (losses) that are reflected as Other Income (Expense) on the Consolidated Statements of Income totaled approximately $2 million of net foreign exchange losses compared to $8 million and $3 million of net foreign exchange gains in 1995 and 1994, respectively.

Although the Company engages in hedging transactions that may offset the effect of fluctuations in foreign currency exchange rates on foreign currency denominated assets and liabilities, financial exposure may nonetheless result, primarily from the timing of transactions and the movement of exchange rates. Further, any significant changes in the political, regulatory or economic environment where the Company conducts international operations may have a material impact on revenues and profits.

Revenue Recognition: The Company recognizes revenue from the sale of its products when the products are shipped to its customers. The Company allows its customers to return certain products for credit. The Company also allows customers to return defective or damaged products for credit or replacement. Returned merchandise will be accepted only with written authorization from the Company. Accruals are made and evaluated for adequacy on a monthly basis for all returns.

Research and Development: Research and development costs are expensed as incurred.

Net Income Per Common Share: Net income (loss) per common share is based upon the weighted average number of common shares, common share equivalents and the dilutive effect of European put options, if applicable, outstanding each year.

Stock Compensation Arrangements: The Company accounts for its stock compensation arrangements under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and intends to continue to do so.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting and Disclosure of Stock-Based Compensation". These provisions require the Company to disclose pro forma net income and earnings per share amounts as if compensation expense related to grants of stock options were recognized based on new fair value accounting rules (see Note J).

Reclassifications: Certain prior years' amounts have been reclassified to conform to the current years' presentation.

NOTE C—Cash, Cash Equivalents and Investments

Cash, cash equivalents, and investments, stated at fair market value, consisted of the following:

(In thousands)	Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
December 31, 1996				
Available-for-sale:				
Cash and money market accounts	$ 46,748			$ 46,748
Equity securities (with a readily determinable fair value)	31,468	$17,369	$1,808	15,907
Corporate obligations:				
Within one year	3,997			3,997
U.S. debt securities:				
Within one year	9,765			9,765
	$ 91,978	$17,369	$1,808	$ 76,417
Held-to-maturity:				
U.S. debt securities:				
Within one year	$ 16,749			$ 16,749
December 31, 1995				
Available-for-sale:				
Cash and money market accounts	$ 68,606			$ 68,606
Repurchase agreements	4,830			4,830
Equity securities (with a readily determinable fair value)	19,694	$12,975	$ 496	7,215
Corporate obligations:				
Within one year	3,998			3,998
Greater than one year	3,980			3,980
U.S. debt securities:				
Within one year	17,735	43		17,692
Greater than one year	17,192	25		17,167
	$136,035	$13,043	$ 496	$123,488
Held-to-maturity:				
Corporate obligations:				
Within one year	$ 810			$ 810
U.S. debt securities:				
Within one year	44,091			44,091
	$ 44,901			$ 44,901

The Company has no trading securities. Unrealized gains and temporary losses for available-for-sale securities are excluded from earnings and are reported, net-of-tax, as a separate component of shareholders' equity until realized. The cost of available-for-sale securities is based on the specific identification method.

At December 31, 1996 and 1995, the Company had investments totaling $50 million and $51 million, respectively, in which the fair market value was not readily determinable.

NOTE D—OTHER BALANCE SHEET INFORMATION

Components of other selected captions in the Consolidated Balance Sheets at December 31 consisted of:

(In thousands)	1996	1995
TRADE ACCOUNTS RECEIVABLE		
Accounts receivable	$313,123	$220,604
Less allowances	14,237	6,372
	$298,886	$214,232
INVENTORIES		
Finished goods	$125,778	$ 75,892
Work-in-process	42,632	35,178
Raw materials	57,803	37,502
	$226,213	$148,572
DEPRECIABLE ASSETS AND LEASEHOLDS		
Land	$ 32,573	$ 24,323
Buildings and improvements	173,169	136,726
Equipment	217,547	150,718
Office furniture and fixtures	41,184	30,718
Leasehold improvements	40,901	28,021
	505,374	370,506
Less accumulated depreciation and amortization	158,188	114,413
	$347,186	$256,093
INTANGIBLE ASSETS		
Patents and trademarks	$119,894	$ 58,103
Licenses	45,924	38,630
Purchased technologies	77,099	29,635
Excess of cost over net assets acquired	117,256	50,251
Other intangibles	12,707	3,775
	372,880	180,394
Less accumulated amortization	64,472	42,690
	$308,408	$137,704
ACCRUED EXPENSES		
Payroll and related liabilities	$ 30,840	$ 31,608
Royalties payable	3,464	7,497
Commissions payable	6,720	4,484
Other	42,783	19,675
	$ 83,807	$ 63,264

NOTE E—CREDIT ARRANGEMENTS

The Company's borrowings at December 31 consisted of:

(In thousands)	1996	1995
Commercial paper	$212,500	
Bank obligations	28,056	$57,520

At December 31, 1995, the Company had line of credit agreements with two U.S. banks (the Credit Agreements) that provided maximum worldwide borrowings of $71 million. On April 1, 1996, the Company increased its maximum worldwide borrowings provided under the Credit Agreements to $121 million. The term of the increased borrowings extended through June 7, 1996, at which time, the Credit Agreements were terminated and replaced by a new $350 million revolving line of credit with a syndicate of U.S. and international banks (New Credit Agreement). Under the New Credit Agreement, the Company has the option to borrow amounts at various interest rates, payable quarterly in arrears. The term of the borrowings extends through June 6, 2001; use of the borrowings is unrestricted and the borrowings are unsecured. The New Credit Agreement requires the Company to maintain a minimum consolidated tangible net worth and a ratio of consolidated funded debt to consolidated tangible net worth. At December 31, 1996, the Company did not have any outstanding borrowings under the New Credit Agreement.

During the second quarter of 1996, the Company initiated a commercial paper program. The commercial paper is supported by the Company's New Credit Agreement; outstanding commercial paper reduces available borrowings under the New Credit Agreement. Proceeds from issuing the commercial paper were used for repayment of a $100 million short-term seller-financed loan associated with the acquisition of Symbiosis, repayment of borrowings under the Credit Agreements, and repurchase of the Company's common stock. The remaining proceeds primarily were used for general operating purposes. At December 31, 1996, the Company had approximately $213 million in commercial paper outstanding with interest rates ranging from 5.55% to 6.03%.

The Company has uncommitted credit facilities with several Japanese banks that provide for borrowings and promissory notes discounting of up to 9 billion yen, or approximately $78 million. At December 31, 1996, borrowings outstanding under these credit facilities were 3 billion yen, or approximately $24 million and were borrowed at rates of approximately 1%. During 1996, approximately $130 million of receivables were discounted through promissory notes. At December 31, 1996, approximately $30 million of receivables were discounted at average discount rates of approximately 2% and $3 million of the facilities was used to support other Company obligations; thus, the net availability under these credit lines was $21 million. The Company also has credit lines totaling $1 million with various other international banks. At December 31, 1996, the Company did not have any outstanding borrowings under these additional lines of credit.

At December 31, 1995, the interest rate on domestic revolving lines of credit borrowings ranged from 6.25% to 6.33% and interest rates on foreign revolving lines of credit borrowings ranged from 1.125% to 10.28%.

Interest paid, including interest paid under capital leases and mortgage loans, but excluding interest paid on a patent litigation judgment (in 1995 and 1994), amounted to $13 million in 1996, $6 million in 1995 and $4 million in 1994.

NOTE F—LEASES

Rent expense amounted to $21 million in 1996, $14 million in 1995 and $13 million in 1994. These amounts include rent expense paid to related parties of $1 million during each of 1996, 1995 and 1994.

Future minimum rental commitments as of December 31, 1996 under capital and operating lease agreements are as follows:

	Year Ending December 31,	
(In thousands)	Capital Leases	Operating Leases
1997	$ 4,473	$16,484
1998	1,085	12,386
1999	1,107	10,081
2000	1,128	6,909
2001	1,151	4,423
Thereafter	8,706	22,103
Total minimum lease payments	17,650	$72,386
Amount representing interest	6,844	
Present value of minimum lease payments	$10,806	

NOTE G—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Cash and Cash Equivalents: The carrying amounts reported in the balance sheets for cash and cash equivalents are valued at cost which approximates their fair value.

Investments: The fair values for marketable debt and equity securities are based on quoted market prices when readily determinable.

Commercial Paper and Bank Obligations: The carrying amounts of the Company's borrowings under its commercial paper program and its financing agreements approximate their fair value.

Forward Foreign Exchange Contracts: The fair values of the Company's forward foreign exchange contracts, which were immaterial at December 31, 1996 and 1995, are estimated based on quoted market prices of comparable contracts.

The carrying amounts and fair values of the Company's financial instruments at December 31, 1996 and 1995 are as follows:

	1996		1995	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents, and investments	$108,727	$108,727	$180,936	$180,936
Liabilities:				
Commercial paper	212,500	212,500		
Bank obligations	28,056	28,056	57,520	57,520

NOTE H—Income Taxes

Income (loss) before income taxes consisted of:

(In thousands)	Year Ended December 31, 1996	1995	1994
Domestic	$251,937	$64,305	$214,204
Foreign	45,034	19,500	(5,346)
	$296,971	$83,805	$208,858

The provision for income taxes consisted of:

(In thousands)	Year Ended December 31, 1996	1995	1994
Current:			
Federal	$111,763	$65,023	$77,604
State	8,268	6,123	10,932
Foreign	22,260	15,126	6,972
	142,291	86,272	95,508
Deferred:			
Federal	3,739	3,503	(2,588)
State	281	465	(214)
Foreign	(16,446)	(12,875)	(6,655)
	(12,426)	(8,907)	(9,457)
	129,865	77,365	86,051
Deferred tax assets valuation allowance			(12,500)
	$129,865	$77,365	$73,551

The reconciliation of taxes on income at the federal statutory rate to the actual provision for income taxes is:

(In thousands)	Year Ended December 31, 1996	1995	1994
Tax at statutory rate	$103,940	$29,332	$73,100
Tax credits	(6,017)	(6,731)	(2,162)
Reversal of valuation allowance on deferred tax assets			(12,500)
Stock award			3,213
State income taxes, net of federal benefit	8,549	5,467	7,251
Effect of dividends from wholly-owned foreign subsidiaries	4,930	4,491	(815)
Effect of foreign tax rates	5,194	3,594	2,071
Foreign sales corporation	(4,247)	(2,041)	(1,527)
Non-deductible merger-related expenses	15,002	41,155	
Tax-exempt income	(267)	(1,338)	(1,196)
Other, net	2,781	3,436	6,116
	$129,865	$77,365	$73,551

Significant components of the Company's deferred tax assets and liabilities at December 31 consisted of:

(In thousands)	1996	1995
Deferred tax assets:		
Inventory costs	$ 7,998	$ 4,540
Deferred intercompany sales	59,357	18,546
Tax benefit of U.S. net operating loss and tax credits	22,696	35,326
Tax benefit of foreign net operating loss	1,759	3,606
Reserves and accruals	10,766	6,250
Capitalized research and development	3,384	5,199
Merger-related expenses	26,069	34,698
Other	8,787	8,130
Deferred tax assets	140,816	116,295
Less valuation allowance on deferred tax assets	(23,672)	(28,367)
	$117,144	$ 87,928
Deferred tax liabilities:		
Tax over book depreciation	$(41,284)	$ (1,809)
Unremitted earnings of subsidiaries	(25,355)	(8,500)
Research and development	(1,396)	(3,098)
Other	(2,652)	(1,806)
Deferred tax liabilities	(70,687)	(15,213)
	46,457	72,715
Deferred SFAS No. 115 adjustment	(5,368)	(3,714)
	$ 41,089	$ 69,001

At December 31, 1996, the Company had U.S. tax net operating loss carryforwards and research and development tax credits of approximately $23 million that will expire periodically beginning in the year 2004. In addition, the Company had foreign net operating loss carryforwards of $2 million that will expire periodically beginning in the year 1998. The Company established a valuation allowance of $24 million for these carryforwards primarily attributable to the carryforwards acquired as part of the Company's 1995 and 1996 mergers and acquisitions.

Income taxes paid amounted to $80 million in 1996, $79 million in 1995, and $92 million in 1994.

NOTE I—STOCKHOLDERS' EQUITY

Preferred stock: The Company is authorized to issue 25 million shares of preferred stock in one or more series and to fix the powers, designations, preferences and relative, participating, option or other rights thereof, including dividend rights, conversion rights, voting rights, redemption terms, liquidation preferences and the number of shares constituting any series, without any further vote or action by the Company's stockholders. At December 31, 1996, the Company had no shares of preferred stock outstanding.

Common stock: The Company is authorized to issue 300 million shares of common stock, $.01 par value per share. Holders of common stock are entitled to one vote per share. Holders of common stock are entitled to receive dividends when and if declared by the Board of Directors and to share ratably in the assets of the Company legally available for distribution to its stockholders in the event of liquidation. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The holders of common stock do not have cumulative voting rights. The holders of a majority of the shares of common stock can elect all of the Directors and can control the management and affairs of the Company.

During 1996, the Company resumed its program to repurchase stock. The Company is authorized to purchase on the open market up to approximately 20 million shares of the Company's common stock. Purchases will be made at prevailing prices as market conditions and cash availability warrant. Stock repurchased under the Company's systematic plan will be used to satisfy its obligations pursuant to employee benefit and incentive plans. During 1996, the Company repurchased approximately 1.3 million shares of its common stock at an aggregate cost of $52 million. Prior to 1996, a total of 4.9 million shares of the Company's common stock was repurchased under the program.

As part of the stock repurchase program, the Company sold European equity put options to an independent broker-dealer during 1996 and prior years. Each option, if exercised, obligates the Company to purchase from the broker-dealer a specified number of shares of the Company's common stock at a predetermined exercise price. The put options are exercisable only on the first anniversary of the date the options were sold. During 1996, the Company sold European put options for 600,000 shares and received proceeds of approximately $3 million. Proceeds are recorded as a reduction to the cost of the Company's treasury stock. Repurchase prices relating to put options outstanding at December 31, 1996 range from $41.10 per share to $41.75 per share. The Company's contingent obligation to repurchase shares upon exercise of the outstanding put options approximated $25 million at

December 31, 1996. At December 31, 1996, the aggregate contingent repurchase obligation has been reclassified from permanent equity and is presented as a contingent stock repurchase obligation. Prior to 1996, the Company sold European put options for one million shares, none of which were outstanding after December 31, 1994.

NOTE J—STOCK OWNERSHIP PLANS

Employee and Director Stock Ownership Plans

Boston Scientific's 1992 and 1995 Long-Term Incentive Plans provide for the issuance of up to 20 million shares of common stock. The terms of these two plans are similar. The plans cover officers, employees and consultants of and to the Company and provide for the grant of various incentives, including qualified and non-qualified options, stock grants, share appreciation rights and performance awards. Options granted to purchase shares of common stock are either immediately exercisable or exercisable in installments as determined by an appointed committee consisting of two or more non-employee directors (Committee), and, in the case of any qualified options, expire within ten years from date of grant. In the case of qualified options, if an employee owns more than 10% of the voting power of all classes of stock, the option granted will be at 110% of the fair market value of the Company's common stock on the date of grant, and will expire over a period not to exceed five years.

The Committee may also make stock grants in which shares of common stock may be issued to officers, employees and consultants at a purchase price less than fair market value. The terms and conditions of such issuances, including whether achievement of individual or Company performance targets is required for the retention of such awards, are determined by the Committee. The Committee may also issue shares of common stock and/or authorize cash awards under the incentive plans in recognition of the achievement of long-term performance objectives established by the Committee. Stock grants for 1,000 shares, 29,000 shares and 15 shares were issued to employees during 1996, 1995 and 1994, respectively.

Boston Scientific's 1992 Non-Employee Directors' Stock Option Plan provides for the issuance of up to 100,000 shares of common stock and authorizes the automatic grant to outside directors of options to acquire 2,000 shares of common stock generally on the date of each annual meeting of the Stockholders of the Company. Options under this plan are exercisable ratably over a three-year period and expire ten years from the date of grant.

Prior to their mergers with Boston Scientific, each of SCIMED, CVIS, Meadox, Heart, EPT and Symbiosis had stock ownership plans. Substantially all outstanding options were converted into Boston Scientific options using the applicable exchange rates and the option prices were adjusted accordingly (see Note A). No future grants are anticipated to be made under these plans. Shares reserved for issuance under all of the Company's plans totaled approximately 25 million at December 31, 1996.

If the Company had elected to recognize compensation expense for the granting of options under the aforementioned stock option plans based on the fair values at the grant dates consistent with the methodology prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", net income and earnings per share would have been reported as the following pro forma amounts:

		Year Ended December 31,	
(In thousands, except per share data)		1996	1995
Net income	As reported	$167,106	$6,440
	Pro forma	153,700	400
Earnings per share	As reported	$0.92	$0.04
	Pro forma	0.85	

The fair value of the stock options used to calculate the pro forma net income and earnings per share amounts above is estimated using the Black-Scholes options pricing model with the following weighted average assumptions for 1996 and 1995: dividend yield of 0%, expected volatility of 37.7%, a weighted average risk-free interest rate of 6.12% and 5.95%, respectively, actual forfeitures of 194,000 and 78,000 options, respectively, and a weighted average expected life of 3.8 years and 4 years, respectively. The weighted average grant-date fair value of options granted during 1996 and 1995 calculated using the Black-Scholes options pricing model is $15.07 and $10.37, respectively. The effects on 1995 and 1996 pro forma amounts of expensing the estimated fair value of stock options are not necessarily representative of the effects on reporting the results of operations for future years as the periods presented include only one and two years of option grants under the Company's plans.

Information related to stock options at December 31 under the aforementioned stock ownership plans is as follows:

(Option amounts in thousands)	1996 Options	1996 Weighted Average Exercise Price	1995 Options	1995 Weighted Average Exercise Price	1994 Options	1994 Weighted Average Exercise Price
Outstanding at January 1	12,852	$17.05	11,819	$11.96	10,524	$11.06
Granted	2,646	42.76	3,971	28.27	3,371	13.56
Exercised	2,508	13.16	2,386	11.09	1,133	7.19
Canceled	366	24.27	552	14.60	943	13.39
Outstanding at December 31	12,624	23.00	12,852	17.05	11,819	11.96
Exercisable at December 31	4,643	14.89	5,244	13.57	5,772	9.84

Below is additional information related to stock options outstanding and exercisable at December 31, 1996:

(Option amounts in thousands)	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 00-10.00	127	6.0	$ 4.25	113	$ 3.59
10.01-20.00	6,308	6.8	12.82	3,844	12.80
20.01-30.00	3,655	8.3	27.45	609	27.13
30.01-40.00	42	7.4	32.58	34	34.08
40.01-50.00	2,238	9.3	41.84	43	43.09
50.01-60.00	254	9.8	53.63		
	12,624	7.7	$23.00	4,643	$14.89

Warrants

Information related to warrants activity is as follows:

(Warrant amounts in thousands)	1996 Warrants	1996 Weighted Average Price	1995 Warrants	1995 Weighted Average Price	1994 Warrants	1994 Weighted Average Price
Outstanding at January 1	446	$ 1.40	706	$ 2.93	1,321	$1.57
Exercised	412	0.43	220	2.07	615	0.01
Canceled			40	24.76		
Outstanding at December 31	34	$13.15	446	$ 1.40	706	$2.93

Stock Purchase Plan

Boston Scientific's 1992 Employee Stock Purchase Plan (Stock Purchase Plan) provides for the granting of options to purchase up to 1.5 million shares of the Company's common stock to all eligible employees. Under the Stock Purchase Plan, each eligible employee is granted, at the beginning of each six-month period designated by the Committee as an offering period, an option to purchase a number of shares equal to not more than 5% of the employee's prior year's adjusted gross income divided by 85% of the fair market value of the Company's common stock as of the beginning of that offering period. Such options may be exercised only to the extent of accumulated payroll deductions at the end of the offering period, at a purchase price equal to 85% of the fair market value of the Company's common stock at the beginning or end of each offering period, whichever is less.

During 1996, approximately 120,000 shares were issued at prices ranging from $36.125 to $39.419 per share. During 1995, approximately 133,000 shares were issued at prices ranging from $13.60 to $21.463 per share, and, during 1994, 114,000 shares were issued at prices ranging from $8.606 to $11.475 per share. At December 31, 1996, there were 1,089,000 shares available for issuance under the Stock Purchase Plan.

NOTE K—COMMITMENTS AND CONTINGENCIES

Schneider (Europe) AG and Schneider (USA) Inc., subsidiaries of Pfizer, Inc., have alleged that the Company's Synergy™ products infringe one of their patents. On May 13, 1994, the Company filed a lawsuit against them in the U.S. District Court for the District of Massachusetts seeking a declaratory judgment that this patent is invalid and that the Company's Synergy products do not infringe the patent. The Schneider companies filed counterclaims against the Company, alleging the Company's willful infringement of the patent and seeking monetary and injunctive relief. The parties have made cross motions for summary judgment on various aspects of the case.

On May 31, 1994, SCIMED Life Systems, Inc. (SCIMED) filed a suit for patent infringement against Advanced Cardiovascular Systems, Inc. (ACS), alleging willful infringement of two of SCIMED's U.S. patents by ACS's FLOWTRACK-40™ and RX ELIPSE™ PTCA catheters. Suit was filed in the U.S. District Court for the Northern District of California and seeks monetary and injunctive relief. The case has been sent to arbitration for a threshold determination of one issue covered by the November 27, 1991 Settlement Agreement (the Settlement Agreement) between the parties. The arbitration hearing was held in October 1996 and a final decision is expected in the early part of 1997.

On November 17, 1995, SCIMED filed a suit for patent infringement against ACS, alleging willful infringement of three of SCIMED's U.S. patents by the ACS RX LIFESTREAM™ PTCA catheter. Suit was filed in the U.S. District Court for the Northern District of California and seeks monetary and injunctive relief. The case has also been sent to arbitration under the terms of the Settlement Agreement. The arbitration hearing was held in October 1996 and a final decision is expected in the early part of 1997.

On October 10, 1995, ACS filed a suit for patent infringement against SCIMED, alleging willful infringement of four U.S. patents licensed to ACS by SCIMED'S EXPRESS PLUS™ and EXPRESS PLUS II™ PTCA catheters. Suit was filed in the U.S. District Court for the Northern District of California and seeks monetary and injunctive relief. SCIMED has answered, denying the allegations of the complaint.

On December 15, 1995, the Company and SCIMED filed a suit for restraint of trade, unfair competition and conspiracy to monopolize against ACS and the Schneider companies, alleging certain violations of state and federal antitrust laws arising from the improper prosecution, enforcement and cross-licensing of U.S. patents relating to rapid exchange balloon dilatation angioplasty catheters. Suit was filed in the U.S. District Court for the District of Massachusetts and seeks monetary, declaratory and injunctive relief. The defendants have moved for dismissal.

On March 12, 1996, ACS filed two suits for patent infringement against SCIMED, alleging in one case the willful infringement of a U.S. patent by SCIMED's EXPRESS PLUS, EXPRESS PLUS II and LEAP EXPRESS PLUS PTCA catheters, and in the other case the willful infringement of a U.S. patent by SCIMED's BANDIT™ PTCA catheter. The suits were filed in the U.S. District Court for the Northern District of California and seek monetary and injunctive relief. SCIMED has answered, denying the allegations of the complaint.

On November 9, 1994, Target Therapeutics, Inc. (Target) filed a lawsuit in the U.S. District Court for the Northern District of California alleging that SCIMED's VENTURE® and VENTURE II™ microcatheters infringe a patent assigned to Target. On May 2, 1996, the District Court entered an order granting a preliminary injunction prohibiting SCIMED from marketing or selling the accused product. On July 1, 1996, the Court of Appeals for the Federal Circuit stayed the preliminary injunction pending a decision on SCIMED's appeal of the District Court's order. In view of the announced merger between the Company and Target, a decision on the appeal has been stayed until April 14, 1997.

On April 5, 1995, C.R. Bard, Inc. (Bard) filed a lawsuit in the U.S. District Court for the District of Delaware alleging that certain Company products, including the Company's Max Force TTS™ catheter, infringes a patent assigned to Bard. The lawsuit seeks a declaratory judgment that the Company has infringed the Bard patent, preliminary and permanent injunctions enjoining the manufacture, use or sale of the Max Force TTS catheter or any other infringing product, monetary damages and expenses. The Company has answered, denying the allegations of the complaint.

On March 25, 1996, Cordis Corporation, a subsidiary of Johnson & Johnson Company, filed a suit for patent infringement against SCIMED, alleging the infringement of five U.S. patents by SCIMED's LEAP™ balloon material, used in certain models of SCIMED's BANDIT and EXPRESS PLUS products. The suit was filed in the U.S. District Court for the District of Minnesota and seeks monetary and injunctive relief. SCIMED has answered, denying the allegations of the complaint.

On March 7, 1996, Cook Inc. filed suit in the Regional Court, Division for Patent Disputes, in Munich, Germany against MinTec, Inc. Minimally Invasive Technologies alleging that the Cragg EndoPro™ System I and Stentor™ endovascular device infringe a certain Cook patent. Since the purchase of the assets of the Endotech/MinTec companies by the Company, the Company has assumed control of the litigation. The defendant has answered, denying the allegations. Supplemental hearings are scheduled for July 1997.

On September 1, 1995, a purported class action lawsuit was filed in the Court of Chancery in the State of Delaware in and for New Castle County captioned Kinder v. Auth, et al., alleging breaches of fiduciary duty by the Board of Directors of Heart Technology, Heart Technology and the Company in connection with the Agreement and Plan of Merger entered into between the Company and Heart Technology. In January 1996, the parties agreed to settle the suit for an amount the Company does not deem to be material.

The Company is involved in various other lawsuits from time to time. In management's opinion, the Company is not currently involved in any legal proceedings other than those specifically identified above which, individually or in the aggregate, could have a material effect on the financial condition, operations or cash flows of the Company.

The Company believes that it has meritorious defenses against claims that it has infringed patents of others. However, there can be no assurance that the Company will prevail in any particular case. An adverse outcome in one or more cases in which the Company's products are accused of patent infringement could have a material adverse effect on the Company.

Further, product liability claims may be asserted in the future relative to events not known to management at the present time. The Company has insurance coverage which management believes is adequate to protect against such product liability losses as could otherwise materially affect the Company's financial position.

NOTE L—Business Combinations

In 1996, Boston Scientific consummated its merger with EPT. The acquisition is accounted for as a pooling-of-interests (see Note A), thus, the combined consolidated financial statements serve as the basis for historical financial statements of Boston Scientific. Combined and separate results of Boston Scientific and EPT for 1995 and 1994 are as follows:

(In thousands)	Boston Scientific	EPT	Combined Boston Scientific
Year ended December 31, 1995:			
Net sales	$1,106,681	$22,504	$1,129,185
Net income (loss)	8,408	(1,968)	6,440
Year ended December 31, 1994:			
Net sales	$ 876,822	$11,750	$ 888,572
Net income (loss)	144,714	(9,407)	135,307

The restated financial data is not necessarily indicative of the operating results or financial position that would have occurred if the EPT merger had been consummated during the periods presented, nor is it necessarily indicative of future operating results or financial position.

Additionally, during March 1996 the Company also completed its merger with Symbiosis which has been accounted for as a purchase (see Note A). The consolidated financial statements include the Symbiosis operating results from the date of acquisition. The purchase price of the Symbiosis acquisition ($153 million) has been allocated to the assets acquired based on their estimated fair values. This accounting treatment resulted in approximately $146 million of intangible assets that will be amortized over their estimated period of benefit. Approximately $39 million of the acquisition cost represented purchased research and development. The Company also recorded a deferred tax liability of approximately $39 million representing the tax effect of timing differences recorded as part of the acquisition. The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and Symbiosis as if the acquisition had occurred at the beginning of 1995, with pro forma adjustments to give effect to amortization of intangibles, reduction in interest income on acquisition financing and certain other adjustments together with the related tax effects:

	Year Ended December 31,	
(In thousands, except per share data)	1996	1995
Net sales	$1,466,219	$1,152,117
Net income (loss)	205,593	(16,994)
Net income (loss) per share	$1.12	($0.10)

On May 3, 1996, Boston Scientific acquired assets from Endotech/MinTec, a company dedicated to the development of stent graft technology for the repair of diseased blood vessels. The Company purchased Endotech/MinTec's assets for approximately $72 million in a cash transaction. The transaction, which was accounted for under the purchase method of accounting, was financed from the Company's available cash and borrowings under its financing arrangements (see Note E). The purchase price was allocated to the assets acquired based on their estimated fair values. The treatment resulted in approximately $14 million of intangible assets that will be amortized over their estimated period of benefit. The acquisition did not have a material pro forma impact on the Company's operations, other than approximately $57 million of the acquisition cost representing purchased research and development.

NOTE M—MERGER-RELATED CHARGES AND EXPENSES

In 1996, the Company recorded special charges of $128 million which primarily related to the merger with EPT and the acquisitions of Symbiosis and Endotech/MinTec. Charges include $96 million for purchased research and development, $5 million in direct transaction costs and $12 million of estimated costs to be incurred in merging the separate operating businesses of EPT with subsidiaries of Boston Scientific. Estimated costs include those typical in a merging of operations and relate to, among other things, rationalization of facilities, workforce reductions, unwinding of various contractual commitments, asset writedowns and other integration costs. The majority of the remaining $15 million, which is primarily nondeductible for tax purposes, represents a change in management's estimates of the merger-related charges recorded in 1995. The change to prior year estimates relates primarily to the costs of unwinding various contractual obligations and the rationalization of facilities.

In connection with the 1995 acquisitions of SCIMED, CVIS, Vesica, Meadox and Heart, the Company recorded non-recurring and special charges of $237 million. Estimated costs include purchased research and development and those costs typical in a merging of operations and relate to, among other things, rationalization of facilities, workforce reductions and unwinding of various contractual commitments.

The special charges are determined based on formal plans approved by the Company's management using the best information available to it at the time. The workforce-related initiatives involve substantially all of the Company's employee groups. The amounts the Company may ultimately incur may change as the plans are executed.

The activity impacting the accrual related to these charges during 1996 and 1995, net of reclassifications made by management based on available information, is summarized in the table below:

(In thousands)	Charges to Operations in 1995	Charges Utilized in 1995	Charges to Operations in 1996	Charges Utilized in 1996	Balance at December 31, 1996
Facilities	$ 25,642		$ 7,118	$ 13,863	$18,897
Workforce reductions	42,078	$10,215	3,655	9,621	25,897
Contractual commitments	63,832	12,911	1,940	44,705	8,156
Asset writedowns	19,315	11,774	4,497	5,790	6,248
Direct transaction and other costs	53,581	34,290	15,131	28,063	6,359
Total	$204,448	$69,190	$32,341	$102,042	$65,557

The December 31, 1996 accrual for special charges is classified within the balance sheet as follows:

(In thousands)	
Accrual related to special charges	$48,144
Property, plant, equipment and leaseholds, net	11,165
Inventories	4,378
Intangibles, net	1,870
	$65,557

The plans are expected to be substantially completed by the end of 1997. Cash outlays to complete the balance of the Company's initiative to integrate the businesses related to 1995 and 1996 business combinations are estimated to be approximately $47 million for 1997.

NOTE N—SUBSEQUENT EVENT

On January 20, 1997, the Company announced the signing of a definitive agreement to merge in a tax-free stock-for-stock transaction with Target Therapeutics, Inc. (Target) to be accounted for as a pooling-of-interests. Target designs, develops, manufactures and markets catheter-based disposable and implantable medical devices used in minimally invasive procedures to treat neurovascular diseases and disorders. Under the merger agreement, Target shareholders would receive 1.07 shares of Boston Scientific common stock in exchange for each share of Target common stock. The merger is expected to close during the second quarter of 1997 and is subject to the approval of the shareholders of Target.

NOTE O—FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Boston Scientific is a worldwide developer, manufacturer and marketer of medical devices for less invasive procedures. The Company operates in one segment and its products are sold principally by its direct sales force, although, in some markets, the Company continues to sell its products through independent distributors. Net sales, operating income and assets by major geographic area are summarized below. Sales between geographic areas are made at prices which would approximate transfers to unaffiliated distributors. In the presentation below, the profit derived from such transfers is attributed to the area in which the sale to the unaffiliated customer is eventually made. Because of the interdependence of the geographic areas, the operating profit as presented may not be representative of the geographic distribution which would occur if the areas were not interdependent. In addition, comparison of operating results between geographic areas and between years may be impacted by foreign currency fluctuations.

(In thousands)	North America	Europe	Asia/ Pacific	Eliminations	Consolidated Total
1996					
Net sales to unaffiliated customers	$ 947,200	$300,361	$214,482		$1,462,043
Transfers between areas	224,315	116,970		($341,285)	
	1,171,515	417,331	214,482	(341,285)	1,462,043
Operating income	151,786	39,727	117,985		309,498
Identifiable assets	1,367,836	410,331	209,977	(476,016)	1,512,128
1995					
Net sales to unaffiliated customers	$ 808,821	$209,098	$111,266		$1,129,185
Transfers between areas	148,852	112,620		($261,472)	
	957,673	321,718	111,266	(261,472)	1,129,185
Operating income (loss)	(4,808)	21,761	57,968		74,921
Identifiable assets	1,007,710	200,687	120,932	(219,395)	1,109,934
1994					
Net sales to unaffiliated customers	$ 675,804	$139,451	$ 73,317		$ 888,572
Transfers between areas	115,919	21,341		($137,260)	
	791,723	160,792	73,317	(137,260)	888,572
Operating income	152,355	27,242	28,502	(965)	207,134
Identifiable assets	945,448	121,210	47,833	(64,942)	1,049,549

Included in North America net sales are export sales of $50 million in 1996, $55 million in 1995, and $46 million in 1994.

Five-Year Selected Financial Data

(In thousands, except per share data)

Year Ended December 31,	1996	1995	1994	1993	1992
OPERATING DATA:					
Net sales	$1,462,043	$1,129,185	$ 888,572	$746,983	$614,957
Gross profit	1,061,077	804,122	608,800	515,037	429,657
Selling, general and administrative expenses	491,813	373,390	299,292	257,391	198,530
Royalties	15,130	24,874	25,682	24,473	28,000
Research and development expenses	116,295	93,843	76,692	62,024	45,348
Purchased research and development	96,000	32,646			
Special charges (1)	32,341	204,448		67,000	6,899
Total operating expenses	751,579	729,201	401,666	410,888	278,777
Operating income	309,498	74,921	207,134	104,149	150,880
Net income	167,106	6,440	135,307	69,466	89,031
Net income per common share	$0.92	$0.04	$0.78	$0.40	$0.53
Dividend per common share (2)					0.212
Primary weighted average number of common shares	181,293	177,534	174,197	172,123	169,236
BALANCE SHEET DATA:					
Working capital	$ 285,055	$ 291,468	$ 432,201	$323,094	$383,941
Total assets	1,512,128	1,109,934	1,049,549	786,823	644,503
Commercial paper	212,500				
B ank obligations	28,056	57,520	88,948	57,141	27,390
Contingent stock repurchase obligation	24,855			10,938	
Stockholders' equity (2) (3)	916,271	774,150	738,685	544,643	498,045
Book value per common share	$5.05	$4.36	$4.24	$3.16	$2.94

(1) The Company's 1993 results include an estimated loss from patent litigation of approximately $67 million.

(2) The Company has never paid dividends, other than in March 1992 (which was prior to the initial public offering of Boston Scientific common stock in May of 1992) when the Company paid a one-time dividend of an aggregate of $20 million, or $0.212 per share, to holders of common stock. The $0.212 per share is based on Boston Scientific's weighted average number of common shares outstanding at the time the dividend was declared, rather than the restated weighted average number of common shares outstanding. The Company currently intends to retain all of its earnings to finance the continued growth of its business. Boston Scientific may consider declaring and paying a dividend in the future; however, there can be no assurance that it will do so.

(3) During 1992, the Company sold 26.5 million shares of common stock in a public offering at a price to the public of $17 per share. Concurrent with the offering, 19 million shares of common stock were purchased from a shareholder. The Company realized net proceeds of $122 million.

See notes to consolidated financial statements.

Report of Independent Auditors

Board of Directors
Boston Scientific Corporation

We have audited the accompanying consolidated balance sheets of Boston Scientific Corporation and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1994 financial statements of SCIMED Life Systems, Inc., Heart Technology, Inc. and Meadox Medicals, Inc., wholly-owned subsidiaries, which statements reflect total revenues constituting 48% in 1994 of the related consolidated total. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it is related to data included for SCIMED Life Systems, Inc., Heart Technology, Inc. and Meadox Medicals, Inc. for 1994 is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 1994, the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boston Scientific Corporation and subsidiaries at December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 14, 1997

Quarterly Results of Operations (unaudited)

(In thousands, except per share data)

Three Months Ended	March 31,	June 30,	September 30,	December 31,
YEAR ENDED DECEMBER 31, 1996				
Net sales	$322,383	$357,188	$373,744	$408,728
Gross profit	236,749	262,304	269,290	292,734
Special charges	68,675	59,666		
Operating income	34,399	51,622	105,175	118,302
Net income (loss)	(991)	23,510	67,843	76,744
Net income (loss) per common share	(0.01)	0.13	0.37	0.42
YEAR ENDED DECEMBER 31, 1995				
Net sales	$262,909	$277,952	$283,094	$305,230
Gross profit	184,127	195,875	200,619	223,501
Special charges	124,749			112,345
Operating income (loss)	(50,781)	74,552	78,075	(26,925)
Net income (loss)	(64,062)	49,029	49,356	(27,883)
Net income (loss) per common share	(0.37)	0.27	0.27	(0.16)

Market for the Company's Common Stock and Related Matters (unaudited)

The following table shows the market range for the Company's common stock based on reported sales prices on the New York Stock Exchange.

	High	Low
1996		
First Quarter	$51.625	$39.875
Second Quarter	47.375	37.750
Third Quarter	57.625	39.625
Fourth Quarter	61.500	52.875

	High	Low
1995		
First Quarter	$26.375	$16.625
Second Quarter	33.250	24.625
Third Quarter	42.625	30.500
Fourth Quarter	49.375	37.375

The Company has never paid dividends, other than in March 1992, when the Company paid a one-time dividend of an aggregate of $20 million, or $0.212 per share, to holders of common stock. The $0.212 per share is based on Boston Scientific's weighted average number of the common shares outstanding at the time the dividend was declared rather than the restated weighted average number of the common shares outstanding. The Company currently intends to retain all of its earnings to finance the continued growth of its business. Boston Scientific may consider declaring and paying a dividend in the future; however, there can be no assurance that it will do so.

At December 31, 1996, there were approximately 7,200 record holders of the Company's common stock.

Executive Officers and Directors

John E. Abele
Director, Founder Chairman

†* **Charles J. Aschauer, Jr.**
Director, Retired Executive Vice President and Director of Abbott Laboratories

† **Randall F. Bellows**
Director, Retired Executive Vice President of Cobe Laboratories, Inc.

Michael Berman
President - Scimed Life Systems, Inc. and Group President - Cardiology Businesses

Lawrence C. Best
Senior Vice President - Finance & Administration and Chief Financial Officer

Joseph A. Ciffolillo
Director, Retired Executive Vice President and Chief Operating Officer of Boston Scientific Corporation

J. Daniel Cole
Senior Vice President and Group President - Vascular Businesses

James M. Corbett
President, Boston Scientific International

†* **Joel L. Fleishman**
Director, President of The Atlantic Philanthropic Service Company, Inc. and Professor of Law and Public Policy, Duke University

* **Lawrence L. Horsch**
Director, Chairman of Eagle Management & Financial Corp.

Paul A. LaViolette
Senior Vice President and Group President - Nonvascular Businesses

C. Michael Mabrey
Senior Vice President - Operations

Robert G. MacLean
Senior Vice President - Human Resources

* **N.J. Nicholas, Jr.**
Director, Private Investor

Peter M. Nicholas
Director, Founder, Chief Executive Officer and Chairman of the Board

Arthur L. Rosenthal
Senior Vice President and Chief Development Officer

Paul W. Sandman
Senior Vice President, Secretary and General Counsel

Dale A. Spencer
Director, Former Executive Vice President of Boston Scientific Corporation

**Member of the Audit Committee*
†Member of the Compensation Committee

Corporate Headquarters

Boston Scientific Corporation
One Boston Scientific Place
Natick, MA 01760-1537
508-650-8000
508-650-8923 (Investor Relations Fax)
www.bsci.com

Regional Headquarters

Boston Scientific Latin America
Buenos Aires, Argentina

Boston Scientific International B.V.
Paris, France

Boston Scientific Asia Pacific PTE. Ltd.
Singapore

Boston Scientific Japan K.K.
Toyko, Japan

Technology Centers

San Jose, CA, USA
Miami, FL, USA
Spencer, IN, USA
Mansfield, MA, USA
Milford, MA, USA
Natick, MA, USA
Watertown, MA, USA
Maple Grove, MN, USA
Oakland, NJ, USA
Redmond, WA, USA
Freeport, Bahamas
Stenløse, Denmark
Jaunay Clan, France
Galway, Ireland
Tel-Aviv, Israel

International Sales Subsidiaries

Boston Scientific Pty.
Australia

Boston Scientific Ges.m.b.H LTD
Austria

Boston Scientific Benelux SA
Belgium

Boston Scientific Ltd. (BSL)
Canada

Boston Scientific S.A.
France

Boston Scientific Medizintechnik GmbH
Germany

Boston Scientific S.p.A.
Italy

Boston Scientific Korea Co., Ltd.
Korea

Boston Scientific Japan K.K.
Japan

Boston Scientific International B.V.
The Netherlands

Boston Scientific S.A.
Spain

Boston Scientific Nordic A/B
Sweden

Boston Scientific AG
Switzerland

Boston Scientific Limited
United Kingdom

Stockholder Information

Stock Listing
Boston Scientific Corporation common stock is traded on the NYSE under the symbol "BSX".

Transfer Agent
Inquiries concerning the transfer or exchange of shares, lost stock certificates, duplicate mailings or changes of address should be directed to the Company's Transfer Agent at:

The First National Bank of Boston
c/o BostonEquiserve, L.P.
Shareholder Services
Mail Stop: 45-02-64
Post Office Box 644
Boston, MA 02102
617-575-3100
www. EquiServe.com

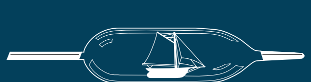
Independent Auditors
Ernst & Young LLP
Boston, Massachusetts

Annual Meeting
The annual meeting for shareholders will take place on Tuesday, May 6, 1997, beginning at10:00 a.m. at the Copley Plaza Hotel, Boston.

Investor Information Requests
Investors, shareholders and security analysts seeking information about the Company should call Investor Relations at (508) 650-8555.

A copy of Form 10-K filed with the Securities and Exchange Commission may be obtained upon written request to the Company.

Address requests to:
Investor Relations
Boston Scientific Corporation
One Boston Scientific Place
Natick, MA 01760-1537
(508) 650-8555
(508) 650-8923 (Fax)



www.bsci.com

Design: Foster Design Group, Boston, MA

Boston Scientific Corporation

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