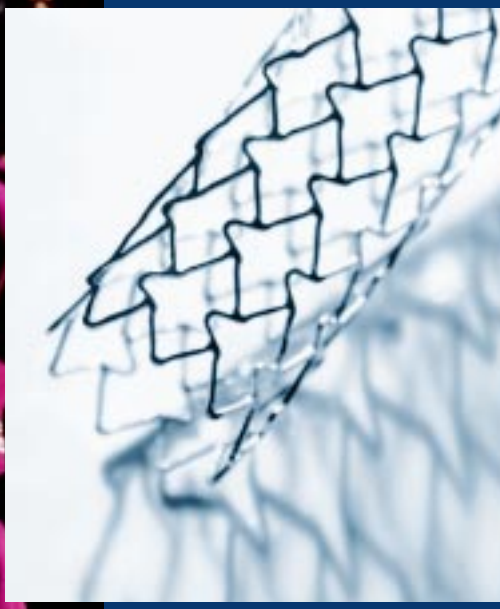
Global Resources Focused on Local Needs, Everywhere.

Boston Scientific 1997 Annual Report



Boston Scientific

Boston Scientific

BOSTON SCIENTIFIC – AN INTEGRATED, GLOBAL HEALTHCARE ENTERPRISE

Over the last three years, Boston Scientific focused intensely on creating and rapidly building Strategic Mass. A concept introduced in our 1995 Annual Report, Strategic Mass means selectively assembling the components required for future success and leadership in our chosen business segments. Through a concerted program of mergers and acquisitions, we have significantly broadened the capabilities we offer our physician customers and the patients they treat around the world. As we have added new companies, integrated new businesses, developed new technologies and expanded into new geographies, we have literally transformed ourselves into a new Boston Scientific – an integrated, global healthcare enterprise.

Historically, our customers have come to know us as one of our individual business units, while to our shareholders and the financial community, we were Boston Scientific. Our new corporate identity better describes who we are to all constituents by expressing the broader value of our combined organizations: a sense of unity, of shared commitment, and of global leadership as a focused, dynamic force in the field of less invasive medicine.

With our new identity, we present Boston Scientific to the world as a single entity while continuing to build upon the powerful equity we have in our business unit names. By unifying and strengthening the relationship between each unit and the corporation, the new identity will underscore the clinical and economic value of Boston Scientific as a global healthcare enterprise with an unmatched team of professionals across a wide range of disciplines and specialties.

Our new corporate identity is much more than simply a new look. It is an ongoing reflection of our values, and it communicates how we will succeed as we go forward – as a single, integrated enterprise effectively leveraging the individual strengths of our business units, our geographies and our people on a worldwide basis.

Chairman's letter

Reflecting back on 1997, I am pleased to report that last year was another extraordinary one for your company. We once again achieved record revenues, maintained superior sales growth and momentum worldwide, and launched more new products than ever before. We successfully integrated the Target team into our worldwide organization. We welcomed many other new teammates to Boston Scientific and established new area organizations in Asia Pacific and Latin America. We implemented our new global information systems on schedule and almost to completion, making enterprise-wide business planning a worldwide reality in 1998 and thereby creating new opportunities for increased efficiency and profitability. We initiated a new corporate identity program in order to clarify and strengthen the image of our company so as to enable our customers to better understand who we are and what we do. We continued the process of consolidating and restructuring our operations worldwide by closing manufacturing facilities in Denmark, France and Massachusetts while expanding and strengthening our identified Centers of Excellence in Massachusetts, Minnesota, Indiana, California, Florida, Washington, Ireland and Japan. We also formalized long-term partnership agreements with a number of our group buying customers in the United States, furthering our commitment to become an even more valued partner to both large and small healthcare provider groups worldwide.

While we were busy discovering new and better ways to serve our customers and further extend our leadership, we also became more appreciative of our vulnerabilities. For example, a critical element of our goal to rapidly achieve Strategic Mass included a massive investment over the past three years to enlarge our presence in global markets outside of North America. While we have enjoyed significant growth in this connection and have established ourselves as the number one global enterprise in several of our industry segments, in 1997, Asian and European currency markets worked against us and significantly reduced the value of our operational successes. Further, significant and unexpected reductions in reimbursement prices in France and Germany plus unwarranted delays in product approvals and reimbursement coverage, principally in Japan, collectively cost the company in excess of $200 million in planned revenue, much of which fell directly to earnings. These phenomena are, of course, external and for the most part beyond our control, and external events can have either positive or negative effects during any given period. In 1997, the effect was clearly negative and reduced business and financial flexibility. This also magnified the challenges presented to our maturing organization by our own highly ambitious plans.

While the Strategic Mass that we have achieved, which we now call the New Boston Scientific, continues to create the potential for enormous competitive advantage and great promise for strengthening our leadership position throughout the world, we recognize, more clearly than ever, the work yet required to realize fully the benefits of the New Boston Scientific.

We operated throughout most of 1997 utilizing legacy information systems we inherited with our many acquisitions. These were cobbled together for the short term while we invested aggressively in a global systems project to supersede them. The conversion to the new systems, now largely complete, has occurred with remarkable speed and success. Our interim reliance on the older systems, however, dramatically confirmed the urgent need to replace them. They simply could not provide the kind of timely and accurate information needed to knowledgeably manage our business, and our execution suffered. Throughout the year, increases in working capital reduced our cash; visibility on manufacturing costs was less than optimal; new product planning and execution were below our goals; and inaccurate forecasting created a cascade of new challenges throughout the worldwide operation that we had not previously experienced. While we believe these effects are now largely behind us, they were unprecedented in both occurrence and impact. As a result, our fundamental financial business model was compromised in 1997. Period charges reduced gross margins, and lost revenue opportunities and the cost of debt further reduced profitability.

Even as our business discipline and our business fundamentals were compromised in 1997 by both external factors and internal issues, we were already establishing plans and programs designed to restore this aspect of our business to our historic standards. Every member of the Boston Scientific Team now better understands how his or her role relates to this objective, and we are committed to achieving rapid success.

While we are committed to demonstrate superior business practices and accomplishments across all areas of business performance, we must not lose sight of the underlying operational success we have experienced with our customers and the market place in general. In 1997, our market shares again increased in every market in which we competed worldwide and our unit growth was up substantially, indicating that we improved more patients' lives than our sales numbers suggest. Absent pricing reductions worldwide and exchange rate losses, which understate and therefore misrepresent the impact we have on our customers, our business model in 1997 would have looked quite different. If we had met our own expectations and standards for execution, our business model would have looked even better.

Mindful of this and now more appreciative of what we can and must do to restore strong business fundamentals throughout the organization, we have established clear goals and processes for ourselves in 1998.

Systems

As our investment in enterprise-wide systems winds down and this new technology becomes an everyday way of life at Boston Scientific, we expect to see significant improvements in process, planning and control. Not only will formal planning and performance analysis become friendlier and more timely, the full range of activities which affect the supply chain will improve dramatically. We now have the opportunity to gain visibility worldwide on working capital, requirements planning and logistics. These are all areas where we struggled in 1997 as a result of the geographically far-flung nature of our operations and the growing size and complexity of our business.

Globalization

As the new millennium approaches, we foresee more than half of our revenue and activities based on commerce outside of the United States. We are actively becoming a truly global enterprise. For Boston Scientific, this means thinking transnationally about business organization and new product opportunities; about

increased collaborations with worldwide customers; about priorities based on being first to market globally with innovation; and about governance and management. It means benchmarking our own behavior and standards against world-class best practices regardless of source, and having the courage to measure ourselves against them.

The Team

At the end of the day, it is the quality and competence of Boston Scientific people that makes the real difference.

Each year, we develop our plan very carefully with the worldwide organization. Our objectives are to insure that everyone understands the overall plan, understands their own role and contribution to the plan, possesses the competency to perform successfully, and not only believes in the plan and their own ability to positively affect it, but also is a genuinely enthusiastic member of the Team committed to the achievement of success.

Our traditional processes to accomplish this were not adequate to support the New Boston Scientific requirements. Consequently, we have created new and improved communication processes and are providing essential messages in multiple formats. We have developed competency models and self-help programs to enable Team members to improve their own effectiveness. We have revised monthly and quarterly business review formats and content to insure we focus on those elements of business activity which are most important to performance improvement, and we have simplified and clarified year-end performance-based incentive programs to better align behavior and more clearly focus the Team's attention on the most crucial success factors.

Boston Scientific Executive Committee from top left to right: Bob MacLean, Jim Corbett, Paul LaViolette, Mike Berman, Phil Le Goff, Pete Nicholas, Mike Mabrey, Paul Sandman, Larry Best, Art Rosenthal, John Abele

We have also added more management depth and experience to the Team. In particular, I would like to welcome two new Boston Scientific executives. During the last quarter of 1997, Michel Darnaud joined us as President of Boston Scientific Europe and Philip Le Goff was appointed Senior Vice President and Group President of Boston Scientific worldwide Vascular Businesses. Both Michel and Phil bring great talent and leadership skills from successful transnational experiences in the healthcare industry, and we are fortunate to have attracted them to our company.

These senior management additions, as well as other initiatives, are clearly aimed at broadening and strengthening our Team. On-the-job training and business as usual in and of itself may yield dividends in overall organization efficiency and effectiveness, but this is not enough. We must assure ourselves that we employ and retain the very best people available throughout the organization and that all are highly motivated. They must share together a real sense of urgency and enthusiasm for what they do and that what they do is characterized by speed, absolute quality and unqualified success. Our goal is to strengthen our organization and continuously improve individual and Team effectiveness worldwide with processes which become ingrained as a way of life at BSC.

Subsequent Events

1998 has certainly become the year of the stent in the medical device industry. This class of device has overnight become the single largest selling product in the history of our young industry. I am pleased to report that during the months of December and January, we filed our long-awaited PMA's with the U.S. Food & Drug Administration for the Radius™ and NIR™ stent platforms. Boston Scientific has achieved stent leadership outside of North America, and we expect to match that performance in North America when these important new devices are approved and made available to physicians and their patients in the United States. Our comprehensive stent portfolio is discussed in detail later in this report.

In closing, I would be remiss if I did not note that the healthcare industry in the United States, and indeed worldwide, continues to experience dramatic transformation and realignment. Within our segment of this system, consolidation will continue at a brisk pace as the forces of cost, scale, efficiency, outcomes and the demands of strategic focus continue to redefine the conventional wisdom of our business.

Through this change, the mission of Boston Scientific, as shown on the next page, remains clear. As we look back over our brief history as a company, "Our Fantastic Voyage," we can now see more clearly our own transition from a small, *private start-up company* seeking to find its way (1979-1992); to a newly minted *public company* with aspirations for leadership, finally with the currency to do something about it (1992-1994); to a leader/consolidator/builder of *Strategic Mass* in order to achieve better alignment with the new world of economic buyers and national group purchasing organizations (1994-1997); to where we are today poised on the threshold of the *execution era*. This change that surrounds us we take as an opportunity and an advantage.

The Boston Scientific Team is solid, intact, and learning every day to move faster and more efficiently, taking risks, stretching and extending itself on behalf of its customers. We are guided by a set of proven values and Team conviction that every product, every procedure, every technology, every device we develop and sell provides the opportunity for a physician somewhere in the world to reach out to sick patients and make them better. Boston Scientific is an exhilarating company building for the future. Those who believe in our vision for the future and share that belief with the BSC Team will be rewarded.

Thank you Boston Scientific Teammates, shareholders, customers and friends for sharing our vision. Together our shared beliefs, commitments, loyalty and unselfishness make our vision a reality.

Respectfully,

Pete M. Nicholas

Mission-driven, global resources focused on local needs everywhere. This is much more than the theme of our 1997 annual report. It is a behavior that we have adopted at Boston Scientific and one that we believe will enable continued leadership in less invasive medicine. Our ongoing challenge is effectively and efficiently harnessing global resources to improve patient outcomes and lower treatment costs in ways that are meaningful in local markets. How we apply our global strengths in product development, customer education, distribution and the application of less invasive technologies with the responsiveness of a local company is described on the following pages.

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.

Where advanced education prepares physicians to respond to local needs

Every year, the entire Boston Scientific Japan team gets together to review the past year's accomplishments and discuss key opportunities for the future. Here, Masashi Yamamoto, President of Boston Scientific Japan K.K., and other team members begin their recently held 1998 annual meeting by participating in the traditional Japanese celebration of Kagami-wari.

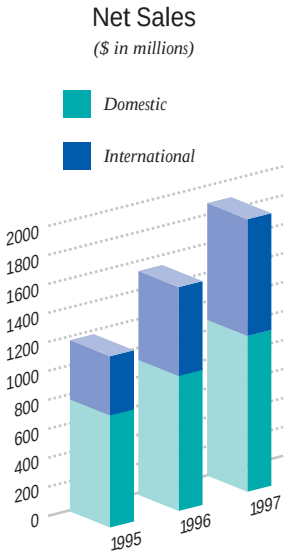
Our definition of a global company is one that successfully meets the specific local needs of customers around the world. In the field of less invasive medicine, this local focus requires an understanding of the unique problems facing physicians and their patients, and the ability to direct global resources to address them.

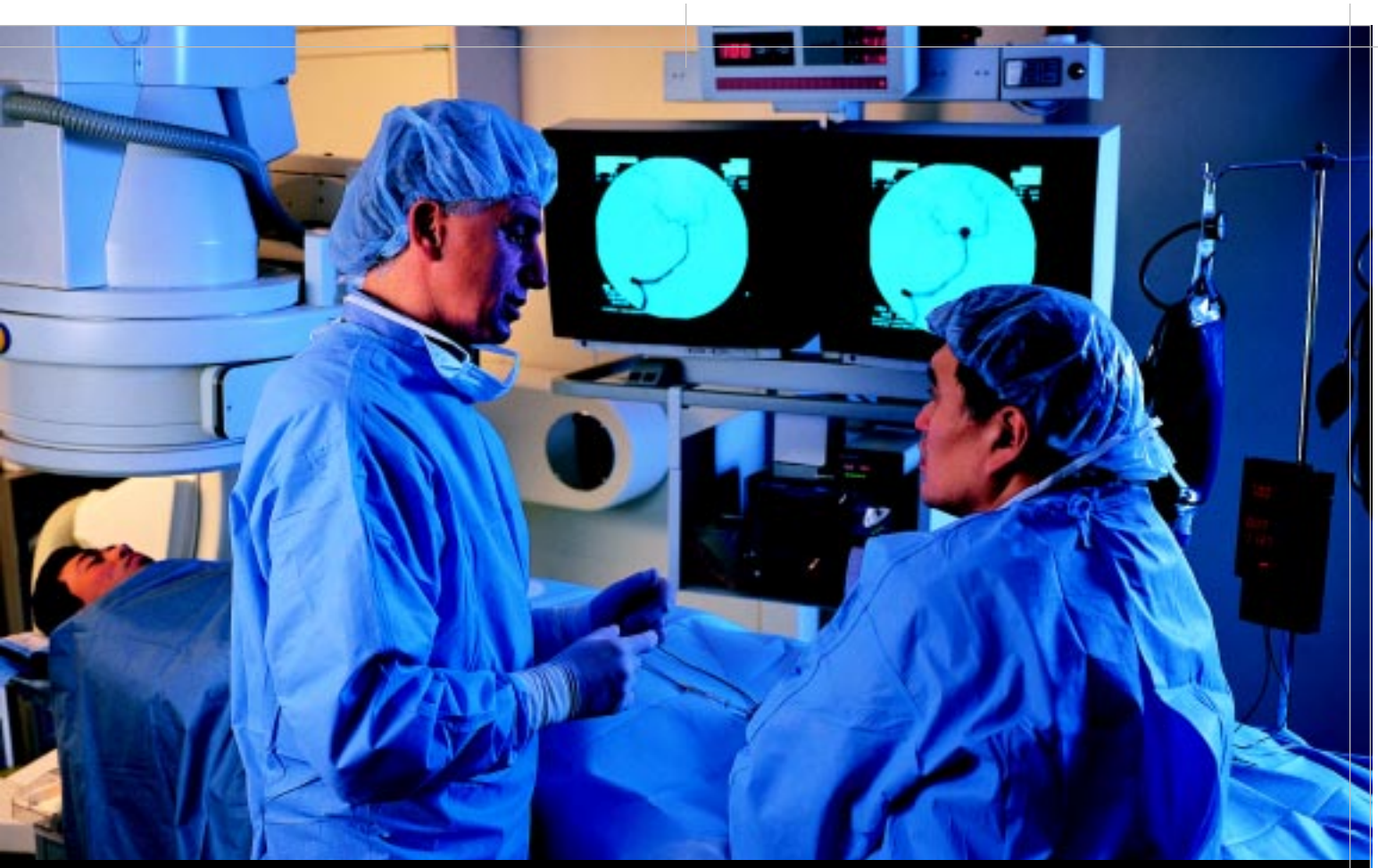
Our broad technology portfolio is a critical resource as we focus on developing and leveraging technologies aimed at advancing the treatment of prevalent diseases within a particular region. In Japan, where there are high incidences of certain types of cancer, Medi-tech is adapting neuro-microcatheter and coil technologies originally developed by its sister business unit, Target Therapeutics, to enable interventional radiologists to embolize liver tumors. As we continue to develop and expand our less invasive anti-cancer technologies, our Microvasive Urology business unit is exploring a promising treatment alternative for the most common form of bladder cancer that combines local chemotherapy with heat to create a synergistic effect that may be more effective than either treatment alone.

Developing technologies to meet local needs is only the beginning. Continued leadership in Japan means helping our customers become skilled, comfortable and productive with new interventional techniques. For months prior to our Rotablator® device approval, more than 200 Japanese cardiologists from 90 hospitals participated in advanced rotational atherectomy proctorship programs with U.S. and European colleagues. When reimbursement approval occurred in early March of 1998, prepared physicians hit the ground running and were quickly able to bring the benefits of this new technology to their patients.

We must also provide our customers with "best-in-class" product training programs conducted in an environment where interaction and collaboration enable two-way learning. The Boston Scientific Miyazaki Technology and Education Center represents the next phase in our ongoing commitment to the Japanese market. Equipped with a 150-seat auditorium for didactic training, as well as procedural training rooms, the facility will offer an intensive, hands-on environment in which physicians and training specialists can share skills, knowledge and experience directly with one another. Most exciting about this initiative is the connection with our physician customers that will enable us to solve unique Japanese problems and develop outcomes-oriented technologies that reduce healthcare costs in an iterative and open fashion.

Our efforts in Japan do more than meet local needs. They demonstrate how we capitalize on the unique global strength of Boston Scientific – by thinking and acting as a Japanese-based organization with access to global resources and by applying what we learn from our customers in Japan to meeting similar healthcare needs throughout the world.





"I think the best way for physicians to increase their knowledge about new neurointerventional procedures is on a peer-to-peer basis from other physicians, such as Dr. Boccardi, who have extensive clinical experience with them. Boston Scientific's GDC Proctorship Program provides this essential, hands-on training."

Dr. Yoshifumi Konishi (right) of Kyorin University Hospital, shown here with Dr. Edoardo Boccardi of Niguarda Hospital, Milan, Italy

Scheduled to open in mid-1998, the Miyazaki Technology and Education Center will include both advanced facilities for physician training and product development operations for the Japanese market. By bringing researchers in direct contact with physicians, Boston Scientific Japan can develop and refine technologies to meet local customer needs.

Where direct investments are bringing more effective treatment within reach

We are energized by the opportunity to provide more effective and affordable healthcare treatments to physicians and their patients in less developed countries. These regions, which include some of the largest and fastest-growing populations in the world, have had few alternatives to highly invasive procedures, sometimes performed under less than ideal conditions.

We have a unique opportunity to make a significant, positive difference in the quality of life for thousands of people in markets such as Latin America, the Middle East, China and Southeast Asia. We have opted to pursue a sales model that places local Boston Scientific employees throughout the world and enables us to more closely collaborate with our physician customers to develop technologies and to realize optimal product utilization and economic value for their needs. In addition, we are better able to access unique physician talents in these markets and apply their insights globally. For example, we travel to Buenos Aires, Argentina to work with Dr. Juan Parodi, a recognized leader and pioneer in endovascular surgery, as part of our global development process.

Members of Boston Scientific's Emerging Markets management team are joined by Pete Nicholas, Chairman and CEO, for the facility dedication of our recently opened Singapore Operations Center.

Left to right: Jim Corbett, Greg Barrett, Ed Northup, Pete Nicholas

As we grow the sales organization, our focus is first on providing advanced sales and product training to every member of the team. We began the new year by bringing together sales representatives from more than 20 countries to learn side by side with their peers during an intensive training seminar. More experienced colleagues from different areas of the world led many of the sessions, conducted in nine languages, and shared their knowledge and insight. When it was over, 300 professional, highly trained, enthusiastic sales representatives returned to their home countries equipped to demonstrate the value of less invasive technology solutions to local physicians and well connected to their colleagues and the Boston Scientific knowledge base for continuous learning.

Our ongoing supply chain integration initiatives and systems have made it not only possible, but also practical for us to reach customers throughout this part of the world quickly and efficiently. The opening of our Singapore facility in early 1997 has enhanced this effort by creating a third global hub in the Boston Scientific distribution network. Our global systems project will further strengthen our ability to aggressively manage worldwide product inventory and logistics through our Far East, South American, North American, European and Japanese facilities. No matter where a product is sourced or how it travels through the system, the goal is the same – a seamless process that enables us to get the product into the physician's hands overnight.

Leadership in Emerging Markets will be achieved and maintained if we follow a few simple tenets of the Boston Scientific philosophy: customer intimacy is the core; more effective and affordable healthcare is the outcome; direct, two-way, face-to-face communication with local physicians is the method; and patients around the world benefiting from less invasive solutions is the ultimate goal.

In January of 1998, 300 marketing and sales representatives from 20 countries gathered in Newport Beach, California, U.S.A. for a week of intensive training in new technologies and market development.

Oscar Terk of Argentina was suffering from an abdominal aortic aneurysm (AAA) and considered a poor risk for surgery when he was referred to Dr. Juan Parodi of the Instituto Cardiovascular de Buenos Aires. Under local anesthesia, the aneurysm was successfully treated with a Meadox Vanguard™ Endovascular Stent Graft. Without any complications, Mr. Terk was able to return home three days after the procedure.

Where new technologies help to manage health – and cost

The economic and social pressures which erupted in 1997 throughout Europe have dramatically increased the economic influence on healthcare purchasing decisions virtually overnight. While the magnitude of this change is a significant challenge for all participants in the medical device market, we see it ultimately as a long-term opportunity for Boston Scientific.

We fundamentally believe that our focus on less invasive treatments and the breadth of our Strategic Mass enables us to deliver better patient outcomes at a lower total cost to society. In the past, proving clinical benefit was enough to succeed, but the new economic environment across Europe requires similar rigor in demonstrating that patients treated with our products require a lower total cost of treatment for equivalent or better outcomes.

We are capturing data and building health economics modeling capabilities to bring the right clinical and economic information to the new decision makers in Europe and around the world: physicians, hospital purchasers, insurance companies and governments. We are expanding our ability to precisely measure, model and communicate the full economic benefits for each technology, and because medical practices and reimbursement systems vary by country even within Europe, we are taking a local approach where appropriate.

In response to changing customer needs, we are entering a new era of European customer service and distribution capability. The investments we have made in systems will begin paying off in 1998. Before mid-year, our central European warehouse in The Netherlands will be linked real time electronically not only with our international manufacturing center in Galway, Ireland, but with all of our plants and distribution centers around the world. We will spend less time, effort and money handling products while getting them to customers faster.

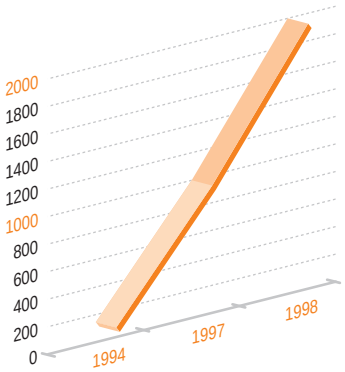
Incorporating manufacturing and development closer to the customer continues to be an important theme for Boston Scientific. In the gastrointestinal cancer arena, we are beginning to experience the benefits of close collaboration with European GI endoscopists as colonic stents, being developed and manufactured in Ireland, enter clinical trials in early 1998.

Continued growth in international markets and the outstanding performance of our Galway workforce have led us to pursue a second Irish facility in Cork. Initially, this facility will be a small international manufacturing center for neuroradiology products developed by Boston Scientific's Target business unit, today our third largest business in Europe. Ultimately, it will provide additional capacity to serve growth markets.

Lasting growth and leadership in a Europe preparing for and then adapting to unification will require close customer contact and fast response to changing needs. Strategic Mass, leveraged locally by our European team, provides Boston Scientific both the capability and the adaptability to excel.

Intellectual Property

Number of Patents Issued: January 1994, 145; Year end 1997, 1000+; 1998, 2000+ pending.



We are extremely proud of the accomplishments of our research and development teams. As shown here, their efforts play a key role in building and strengthening our intellectual property.

"Our Galway facility brings European product manufacturing and development together under one roof for the first time. This creates a collaborative working environment in which groups share continuous learning to create products of ever-higher quality and manufacturability."

Michel Darnaud, President of Boston Scientific Europe

We believe that the economic constraints that have affected the healthcare environment across Europe only serve to underscore the need for close, consultative relationships between the Boston Scientific sales team and physicians. Here, Nicole Weimar, our German Microvasive Endoscopy sales representative, and Prof. Velcovsky of the Klinik Seltersberg of the JL University of Giessen, review clinical and economic benefits associated with a new endoscopic device.

Where innovation drives growth and greater efficiency

Stents are the most important new technology in less invasive medicine since the balloon dilatation catheter. These tiny tubes and coils that expand and support diseased vessels already constitute a $1.2 billion global market and the largest single product category in interventional cardiology. While today cardiology represents the most visible application, we are intently focused on continuous expansion of stent technologies into every specialty market we serve.

Our employees have been fully trained on how to use our global information systems and are currently shipping more than 5,000 packages daily from the Marina Bay Customer Fulfillment Center.

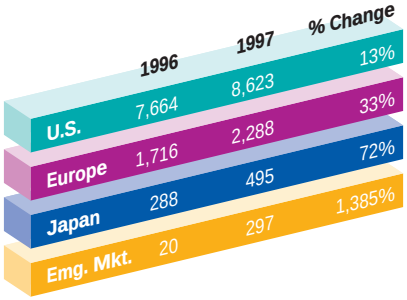
Looking ahead, we expect that Scimed, our cardiology business unit, will introduce two coronary stents to the U.S. market this year. The NIR™ stent, a product that has received high marks from our European physician customers and currently enjoys a leading market share position there, is expected to launch in the second half of 1998. The NIR is a highly flexible, highly conformable, balloon-expandable stent. We will also launch Radius™ this year, our first self-expanding, nitinol stent. Key to Boston Scientific's ability to treat a broad range of diseased arteries is providing platforms with differential performance characteristics in a variety of sizes – all intended to equip the interventional physician with the right stent for the right application.

While new technology energizes and motivates us, we understand that the innovation is not complete until physicians are bringing the benefits of the technology to their patients. Our ability to accomplish this requires a unique infrastructure that supports and meets the needs of our customers. Throughout 1997, we have worked diligently to create systems that will enable more efficient distribution and impeccable, consistent service quality. We began implementing a $100 million global supply chain management system in early 1996. Thanks to the intensive focus and commitment of the team, our global SAP-based system will be fully deployed in April of 1998. This system will provide the vital information required to enhance our business performance. The availability of comprehensive data on customer demand and product supply will enable more accurate sales activity forecasting, as well as improved materials resource planning and inventory management.

As we continue to focus on execution, the combined capabilities of our customer service and distribution teams into our new Boston Scientific Customer Fulfillment Center will further enhance our ability to quickly and efficiently respond to customer needs. Today we are able to ship more than 11,000 different products, from every Boston Scientific manufacturing facility, to locations around the world, including our other regional distribution centers in The Netherlands, Singapore and Japan.

It's all a part of our commitment to realizing the economic and efficiency benefits of integration, the greatest of which is the ability to get the right product to the right place at the right time – anywhere in the world.

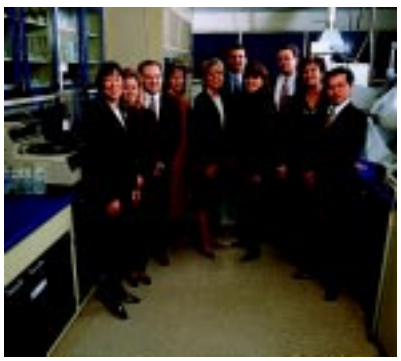
Annual Employee Growth



NIR is a trademark of Medinol, Ltd., Jerusalem, Israel.

Boston Scientific's Marina Bay Customer Fulfillment Center opened in May of 1997. Located in Quincy, Massachusetts, U.S.A., the 1.3 million-square-foot facility is equipped with state-of-the-art distribution equipment, including our global information systems. By integrating inventory from all plants into one central location, we expect to realize increased U.S. distribution efficiencies of 17-20%.

Boston Scientific's ability to leverage global expertise to develop new treatment solutions is well illustrated through our carotid stent technology program being developed for multiple Boston Scientific specialty markets. The team consists of employees from various functional areas across Boston Scientific business units.



Optimizing stent solutions

Throughout the body are many types of tubes and vessels which can become blocked or can malfunction due to disease or injury. Stents are an important tool our physician customers use for long-term, less invasive treatment of these problems. Figure 1 shows where Boston Scientific stent technology is currently being applied as well as areas under development.

We apply the same principles of Strategic Mass to our stent technology that we do across our entire business – product line breadth and technology leverage – to effectively provide the right tool for the job. Because the variety of places and problems which are treated with stents require unique solutions, we have developed multiple technology platforms and leveraged those platforms to where they provide the most useful treatment (see Figure 2).

The next step in optimal stent solutions is to provide adjunctive technologies which help stents perform better and can also be therapies themselves. We are researching the use of antiproliferative agents such as paclitaxel, genes and other pharmacologically active compounds delivered in coatings on stents or by special balloons to address vessel restenosis and further increase long-term patient benefit.

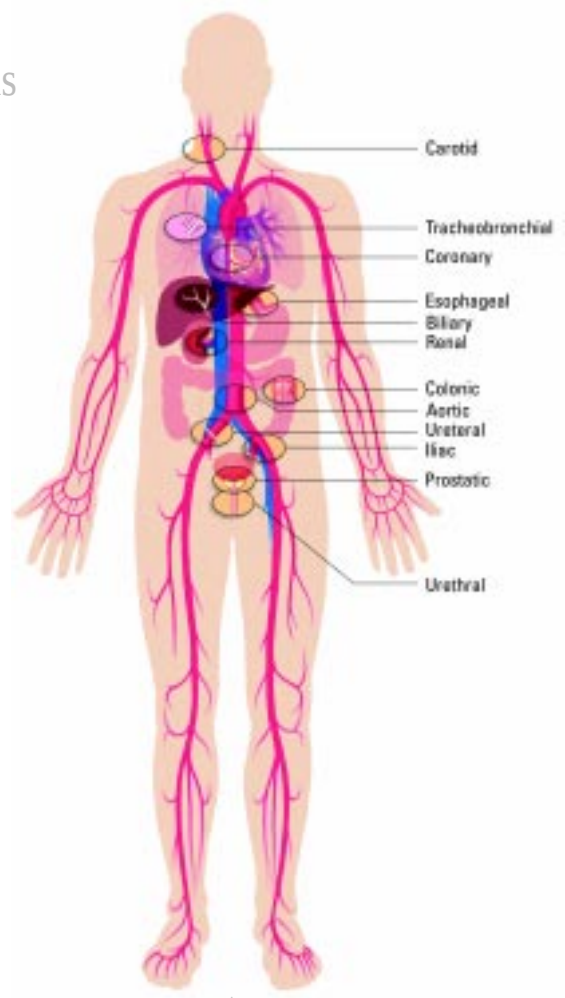


Figure 1

Figure 2 *The clinical applications for stenting are many and varied. We are actively working to extend our multiplatform stent and delivery system capabilities to provide our customers with optimal stent solutions that are as unique and diverse as the diseased arteries, lumens and vessels they treat.*

	ANATOMICAL APPLICATION						
STENT PLATFORM	Biliary	GI/Pulmonary	Urological	Coronary	Peripheral	Aortic	Carotid
NIR™	X[3]			X[2,3]	X[4]		
RADIUS™				X[3]			X[1,4]
SYMPHONY®	X	X			X[1,2]		
STRECKER™	X	X, X[2]	X[2]		X[2]		
VANGUARD™						X[1,2]	
SHORT-TERM IMPLANT			X, X[5]				
DIAMOND™	X	X					
PASSAGER™					X[2]		

X. Available worldwide 1. Under investigation in the U.S. 2. Available for sale outside U.S. only 3. Pending U.S. approval 4. Under investigation outside U.S. 5. Trestle™ Prostatic Stent – available in Europe only

Boston Scientific Corporation and Subsidiaries 1997

Consolidated Financial Statements

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Financial Highlights (unaudited)

(In thousands, except per share data)

Year Ended December 31,	1997	1996	1995
Net sales	$1,872,282	$1,551,238	$1,190,821
Gross profit	1,321,903	1,123,400	848,074
Operating income	268,992	313,171	52,111
Net income (loss)	139,334	167,094	(18,419)
Net income (loss) per common share - basic	$0.72	$0.86	$(0.10)
Net income (loss) per common share - assuming dilution	0.70	0.84	(0.10)

The above amounts include merger-related and special charges of $259 million ($192 million, net-of-tax), $142 million ($128 million, net-of-tax) and $272 million ($231 million, net-of-tax) recorded in 1997, 1996 and 1995, respectively. See notes to consolidated financial statements.

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

Results of Operations

During the past three years, Boston Scientific Corporation (Boston Scientific or the Company) has consummated numerous mergers and acquisitions 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 or acquired 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 merged with or acquired EP Technologies, Inc. (EPT), Symbiosis Corporation (Symbiosis) and Endotech Ltd. and MinTec Inc., and certain related companies (Endotech/MinTec).

On April 8, 1997, the Company completed its merger with Target Therapeutics, Inc. (Target) in a tax-free, stock-for-stock transaction 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. In conjunction with this merger, Target's stockholders received 1.07 shares of Boston Scientific common stock in exchange for each share of Target common stock. Approximately 16.5 million shares of the Company's common stock were issued in connection with the Target acquisition.

The Company has substantially completed the integration of all mergers and acquisitions consummated in 1995 and 1996. The Company expects to complete the integration of Target by the end of 1998. 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, 1997 and 1996

Net sales increased 21% in 1997 to $1,872 million from $1,551 million in 1996. International net sales for the year were adversely impacted by changes in foreign currency exchange rates. Without the impact of changes in exchange rates, net sales for the year increased approximately 26%. Net income for the year ended December 31, 1997, excluding merger-related and special charges, increased 12% to $331 million from $295 million during the year ended December 31, 1996.

In 1997, the Company recorded merger-related expenses ($146 million) and purchased research and development ($29 million), and the Company recorded special charges related to inventory write-downs ($19 million), litigation-related reserves ($34 million), and the impact of implementing a recently issued accounting standard related to business process reengineering ($31 million). During 1996, the Company recorded merger-related expenses ($32 million) and purchased research and development ($110 million).

Reported net income for the year was $139 million, or $0.70 per share (diluted), as compared to $167 million, or $0.84 per share, for the prior year.

United States (U.S.) revenues increased approximately 17% from 1996 to $1,076 million in 1997, while international revenues, including export sales, increased approximately 27% from 1996 to $796 million in 1997. International sales as a percentage of worldwide sales increased from 40% in 1996 to 43% in 1997. International sales during 1997 were negatively impacted compared to 1996 by approximately $82 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 and nonvascular sales increased 19% and 27%, respectively, from 1996 to 1997.

Gross profit as a percentage of net sales was approximately 70.6% and 72.4% during 1997 and 1996, respectively. The decline in gross margins during 1997 is primarily attributable to write-downs for excess and obsolete inventory. Future gross margins may be impacted by the Company's ability to effectively manage its inventory level and mix. The Company is in the process of implementing a new global information system that is expected to improve supply chain management. The decrease in gross margin percentage is also partially due to a decline in average selling prices as a result of continuing pressure on healthcare costs and increased competition. In addition, gross margins were negatively impacted by the unfavorable foreign exchange rate movements discussed above. The negative impact of the above conditions was partially offset by the Company's U.S. cost containment programs and the positive gross margin impact of selected new product offerings.

Selling, general and administrative expenses increased 33% from $516 million in 1996 to $688 million in 1997, and increased as a percentage of sales from 33% to 37% of net sales. The increase includes $34 million in litigation-related reserves recorded in 1997. In addition, the Company continued to expand its domestic and international sales and distribution organizations. The Company believes the additional investments will enhance its competitive position in the future.

Royalty expenses remained at approximately 1% of net sales while increasing 30% from $17 million in 1996 to $22 million in 1997. The increase in overall royalty expense dollars is due to increased sales and royalties due under several strategic alliances that the Company initiated in 1997 and prior years.

Research and development expenses remained at approximately 9% of net sales while increasing 24% from $135 million in 1996 to $167 million in 1997. The increase in research and development 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.

During 1996 and 1997, the Company expanded its direct sales presence in Asia Pacific and Latin America so as to be in a position to take advantage of expanded market opportunities. The costs of expansion have negatively impacted the Company's operating margins. The Company's ability to benefit from its expansion may be limited by risks and uncertainties related to economic conditions in these regions, in addition to competitive offerings, infrastructure development, rights to intellectual property, and the ability of the Company to implement its overall business strategy. 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 believes that it will be able to realize improved long-term returns on its investments with a direct selling presence in these regions.

The Company's 1997 operating expenses increased at a faster percentage than net sales and the Company expects this relationship to continue during the first half of 1998. However, the Company also expects that the additional investments in infrastructure will enhance its competitive position in the second half of 1998 and beyond.

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 reimbursement levels and 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.

Interest and dividend income was $4 million as compared to $6 million in 1996. 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 fund the Company's working capital, finance several of the Company's recent acquisitions and alliances and to repurchase the Company's common stock. Interest expense increased from $12 million in 1996 to $14 million in 1997. The overall increase in interest expense is primarily attributable to a higher outstanding balance related to the Company's commercial paper borrowings. Other income (expense), net, changed from expense of $5 million in 1996 to less than $1 million of income in 1997. The change is primarily attributable to net gains on sales of equity investments of approximately $11 million compared to net gains of $1 million in 1996.

The Company's effective tax rate was approximately 45% in 1996 and 38% in 1997. The effective tax rates for 1996 and 1997 include the impact of special charges. Excluding these items, the pro forma effective tax rate improved from approximately 34% during 1996 to 32% during 1997. The reduction

in the Company's effective tax rate, excluding the impact of special charges, is primarily due to increased business in lower tax geographies and certain tax planning initiatives.

In 1997, the Company recorded a $31 million ($21 million, net-of-tax) cumulative effect of change in accounting from implementing Emerging Issues Task Force No. 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation." The Company does not expect future costs for the business process reengineering component of its global information systems project to be material.

Years Ended December 31, 1996 and 1995

Net sales increased 30% in 1996 to $1,551 million from $1,191 million in 1995. Net income for the year increased to $167 million, or $0.84 per share (diluted), as compared to a loss of $18 million, or $0.10 per share, in the prior year. Net income for the year ended December 31, 1996, excluding special charges related to 1996 and 1995 acquisitions, increased 39% to $295 million from $212 million during the year ended December 31, 1995.

U.S. revenues increased approximately 20% from 1995 to $924 million in 1996, while international revenues, including export sales, increased approximately 50% from 1995 to $627 million in 1996, or 57% excluding the negative impact of exchange rate movements. International sales as a percentage of worldwide sales increased from 35% in 1995 to 40% in 1996. Worldwide vascular sales increased 29% from 1995 to 1996 and worldwide nonvascular sales during the same periods increased 26%.

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. The programs impacted the Company's manufacturing and selling, general and administrative costs.

Gross profit as a percentage of net sales was approximately 72.4% 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.

Selling, general and administrative expenses increased 32% from $392 million in 1995 to $516 million in 1996, and remained approximately 33% of net sales. The increase reflects continued expansion of the Company's domestic and international sales organizations and related marketing support.

Royalty expenses decreased 35% from $26 million in 1995 to $17 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 28% from $106 million in 1995 to $135 million in 1996 and remained approximately 9% 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.

Interest and dividend income was $6 million in 1996 as compared to $16 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 $12 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 $5 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.

The Company's effective tax rate was approximately 129% in 1995 and 45% in 1996. The effective tax rates for 1995 and 1996 include the impact of 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.

Liquidity and Capital Resources

During 1997, the Company continued to invest in several strategic initiatives and infrastructure in order to take advantage of certain growth opportunities that exist in less invasive medicine. Cash, cash equivalents, and short-term investments totaled approximately $80 million as of December 31, 1997 compared to $118 million as of December 31, 1996. Working capital was reduced from $335 million at December 31, 1996 to $256 million at December 31, 1997, and cash provided by operating activities decreased from $142 million during 1996 to $80 million during 1997. The decrease in cash and marketable securities is primarily attributable to cash used to repurchase the Company's common stock, capital expenditures incurred to expand the Company's manufacturing and distribution facilities, additional strategic initiatives and payment of merger-related costs. The cash expenditures were par-

tially offset by proceeds from operating activities and additional borrowings under the Company's financing arrangements.

During 1997, accounts receivable increased $93 million as a result of the Company's sales growth and the transition to selling directly to international customers. Days sales outstanding has increased from 68 days in 1996 to 77 days in 1997 primarily as a result of the growth in international sales. The Company's bad debt provision may be impacted by its ability to effectively collect receivables due from its international distributors. Inventory increased $150 million during 1997 primarily as a result of stocking the NIR™ stent in preparation of the Company's planned 1998 launch in the U.S. and Japan. The remaining increase is a result of inefficiencies in the global supply chain. The Company is committed to purchase approximately $75 million of NIR stents during 1998. The Company expects inventory levels to peak in mid-1998 and then begin to decline as the NIR stent is launched in the U.S. and Japan, and as the Company's new global supply chain becomes fully operational. Successful implementation of the Company's supply chain initiatives is necessary to reduce the Company's inventory to an acceptable level. 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 1997 was $251 million and was primarily related to property, plant and equipment costs associated with the Company's expansion of manufacturing and distribution capacity.

During 1997, net cash provided by financing activities was approximately $162 million and consisted primarily of proceeds from issuance of commercial paper and long-term borrowings and the exercise of stock options partially offset by the acquisition of treasury stock.

In connection with its 1995 and 1996 mergers and acquisitions and the Company's initial investment in Medinol, Ltd. (Medinol), the Company recorded merger-related charges of approximately $272 million ($231 million, net-of-tax) and $142 million ($128 million, net-of-tax), respectively. In addition, during 1997, the Company recorded special charges in connection with its acquisitions of approximately $175 million ($135 million, net-of-tax). Estimated costs include purchased research and development ($29 million) and those costs typical in a merging of operations and relate to, among other things, rationalization of facilities, workforce reductions, unwinding of various contractual commitments, asset write-downs and other integration costs. The Company does not expect costs incurred to complete purchased research and development projects to be material. During 1997, cash payments related to these charges were approximately $105 million and estimated cash payments for 1998 are $51 million.

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 1997, the Company repurchased 3.5 million shares of its common stock at an aggregate cost of $188 million. Prior to 1997, 6.5 million shares of the Company's common stock were repurchased under the program.

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 $230 million in 1998, including completion of construction of additional manufacturing space and completion of its global information system. The Company's new global information system is Year 2000 compliant. The Company is assessing other programs and products to determine if they are Year 2000 compliant and the Company does not anticipate that additional compliance costs will have a material impact on its business, operations or its financial condition.

In October 1997, the Company filed a Public Debt Registration Statement with the U.S. Securities and Exchange Commission. Under the Registration Statement, the Company may issue up to $500 million in debt securities in the public market. In February 1998, the Company made an additional filing necessary to issue $500 million of debt securities under the Registration Statement. The Company expects the issuance to move forward and to receive the proceeds of the issuance during March 1998. A significant portion of the net proceeds from the sale of the securities will be used for repayment of indebtedness under the Company's commercial paper program, and the remainder of the net proceeds of this offering will be used principally to fund general corporate purposes. The Company may borrow additional amounts under its revolving credit agreement in the future, and the Company plans to increase its Japanese borrowing facilities used primarily to discount its accounts receivable. The Company expects that its cash and cash equivalents, marketable securities, cash flows from operating activities, proceeds from the issuance of the debt securities noted above and borrowing capacity will be sufficient to meet its projected operating cash needs, including integration costs at least through the end of 1998. The Company may need to increase its bank facilities during 1998 if it continues to execute strategic initiatives, although there are no assurances that additional financing can be or will be obtained.

Market Risk Disclosures

The Company's floating and fixed rate debt obligations are subject to interest rate risk. If interest rates increase 100 basis points in 1998, the increase would not result in a material change in the Company's interest expense or the fair value of the Company's debt obligations. A 100 basis point increase would not result in a material increase in interest income or the fair value of the Company's short-term investments.

The Company enters into forward foreign exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with commitments, generally one to six months. The Company does not engage in speculation. The

Company's foreign exchange contracts, which amounted to approximately $177 million at December 31, 1997, should not subject the Company to material risk due to exchange rate movements because gains and losses on these contracts should 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. The short-term nature of these contracts has resulted in these instruments having insignificant fair market values at December 31, 1997. In addition, unhedged foreign currency balance sheet exposures as of December 31, 1997 are not expected to result in a significant loss of earnings or cash flows. As the Company 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 and these fluctuations may have an impact on margins. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

Litigation

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. During 1997, the Company recorded approximately $34 million of litigation-related reserves to cover costs of defense and settlement, and unfavorable outcomes. The reserves are included in selling, general and administrative expenses.

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 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 and its ability to benefit from investments in expansion; (b) the Company's plans to continue to invest in its global systems and worldwide manufacturing and distribution capacity; (c) the potential impacts of continued consolidation among healthcare providers, trends towards managed care, healthcare cost containment, more stringent regulatory requirements and more vigorous enforcement activities; (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) risks associated with international operations; (h) the process and plan for the integration of businesses acquired by the Company and the successful implementation of the plan; (i) the potential effect of foreign currency fluctuations on revenues, expenses and resulting margins and the trend toward increasing sales and expenses denominated in foreign currencies; (j) the ability of the Company to successfully manage accounts receivable and inventory levels and mix; (k) the ability of the Company to meet its projected cash needs through the end of 1998; (l) the Company's plans for launch of the NIR™ stent in the U.S. and Japan; (m) the ability of global information systems to improve supply chain management; (n) costs associated with implementing Year 2000 compliance and business process reengineering; (o) the Company's belief that operating expenses will increase at a faster percentage than net sales during the first half of 1998 and the expectation that the additional investments in infrastructure will enhance the Company's competitive position in the second half of 1998 and beyond; and (p) the ability of additional investments in sales and distribution organizations to enhance the Company's future competitive position. 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 Operations

(In thousands, except per share data)

Year Ended December 31,	1997	1996	1995
Net sales	$1,872,282	$1,551,238	$1,190,821
Cost of products sold	550,379	427,838	342,747
Gross profit	1,321,903	1,123,400	848,074
Selling, general and administrative expenses	688,174	515,908	391,548
Royalties	22,177	17,061	26,233
Research and development expenses	167,194	134,919	105,788
Purchased research and development	29,475	110,000	67,946
Merger-related charges	145,891	32,341	204,448
	1,052,911	810,229	795,963
Operating income	268,992	313,171	52,111
Other income (expense):			
Interest and dividend income	3,706	6,297	16,311
Interest expense	(14,285)	(11,518)	(9,591)
Other, net	255	(4,620)	3,847
Income before income taxes and cumulative effect of change in accounting	258,668	303,330	62,678
Income taxes	98,254	136,236	81,097
Income (loss) before cumulative effect of change in accounting	160,414	167,094	(18,419)
Cumulative effect of change in accounting (net-of-tax)	(21,080)		
Net income (loss)	$ 139,334	$ 167,094	$(18,419)
Earnings (loss) per common share - basic:			
Income (loss) before cumulative effect of change in accounting	$0.82	$0.86	$(0.10)
Cumulative effect of change in accounting	(0.10)		
Net income (loss) per common share - basic	$0.72	$0.86	$(0.10)
Earnings (loss) per common share - assuming dilution:			
Income (loss) before cumulative effect of change in accounting	$0.80	$0.84	$(0.10)
Cumulative effect of change in accounting	(0.10)		
Net income (loss) per common share - assuming dilution	$0.70	$0.84	$(0.10)

See notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands, except share and per share data)

December 31,	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,993	$ 72,175
Short-term investments	22,316	45,606
Trade accounts receivable, net	413,838	321,025
Inventories	386,742	236,670
Deferred income taxes	146,956	97,364
Prepaid expenses and other current assets	36,176	43,977
Total current assets	1,064,021	816,817
Property, plant, equipment and leaseholds, net	498,967	362,302
Other assets:		
Intangibles, net	313,346	319,762
Investments	66,239	55,735
Other assets	25,234	30,429
	$1,967,807	$1,585,045

See notes to consolidated financial statements.

Consolidated Balance Sheets (continued)

(In thousands, except share and per share data)

December 31,	1997	1996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Commercial paper	$ 423,250	$ 212,500
Bank obligations	23,958	28,056
Accounts payable	98,878	66,877
Accrued expenses	161,236	96,907
Accrual for merger-related charges	68,358	48,144
Income taxes payable	26,039	27,403
Other current liabilities	6,292	1,929
Total current liabilities	808,011	481,816
Long-term debt	46,325	
Accrual for merger-related charges	8,283	
Deferred income taxes	58,034	59,975
Other long-term liabilities	60,922	48,139
Commitments and contingencies		
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, 195,611,491 shares issued at December 31, 1997 and at December 31, 1996	1,956	1,956
Additional paid-in capital	432,556	437,074
Contingent stock repurchase obligation	18,295	24,855
Retained earnings	706,542	574,051
Foreign currency translation adjustment	(94,279)	(37,964)
Unrealized gain on available-for-sale securities, net	17,422	18,886
Treasury stock, at cost - 1,800,627 shares at December 31, 1997 and 643,991 shares at December 31, 1996	(96,260)	(23,743)
Total stockholders' equity	986,232	995,115
	$1,967,807	$1,585,045

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock Shares Issued	Common Stock Par Value	Additional Paid-In Capital	Contingent Stock Repurchase Obligation	Retained Earnings	Foreign Currency Translation Adjustment	Unrealized Gain On Available-For-Sale Securities, Net	Treasury Stock	Total
BALANCE AT DECEMBER 31, 1994	194,574	$1,945	$413,434		$437,296	$(227)	$13	$(58,271)	$794,190
Net loss					(18,419)				(18,419)
Foreign currency translation adjustment						(14,352)			(14,352)
Issuance of common stock	461	5	3,362		(600)			31,975	34,742
Tax benefit relating to incentive stock option and employee stock purchase plans			14,180						14,180
Change in fiscal year of a pooled entity					(11,456)				(11,456)
Net change in equity investments							8,820		8,820
Other			76		136				212
BALANCE AT DECEMBER 31, 1995	195,035	1,950	431,052		406,957	(14,579)	8,833	(26,296)	807,917
Net income					167,094				167,094
Foreign currency translation adjustment						(23,385)			(23,385)
Issuance of common stock	576	6	(5,500)					66,385	60,891
Purchase of common stock for treasury								(66,355)	(66,355)
Sale of stock repurchase obligation			(24,855)	$24,855				2,523	2,523
Tax benefit relating to incentive stock option and employee stock purchase plans			36,377						36,377
Net change in equity investments							10,053		10,053
BALANCE AT DECEMBER 31, 1996	195,611	1,956	437,074	24,855	574,051	(37,964)	18,886	(23,743)	995,115
Net income					139,334				139,334
Foreign currency translation adjustment						(56,315)			(56,315)
Issuance of common stock			(47,713)		(11,758)			114,134	54,663
Purchase of common stock for treasury								(188,159)	(188,159)
Sale of stock repurchase obligation			(18,295)	18,295				1,508	1,508
Expiration of stock repurchase obligation			24,855	(24,855)					
Tax benefit relating to incentive stock option and employee stock purchase plans			36,635		4,915				41,550
Net change in equity investments							(1,464)		(1,464)
BALANCE AT DECEMBER 31, 1997	195,611	$1,956	$432,556	$18,295	$706,542	$(94,279)	$17,422	$(96,260)	$986,232

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	1997	1996	1995
OPERATING ACTIVITIES:			
Net income (loss)	$139,334	$167,094	$(18,419)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Net cash adjustment to conform year end of pooled entity			(11,472)
Gain on sale of equity investments	(10,526)	(827)	
Depreciation and amortization	86,692	66,317	43,396
Deferred income taxes	(52,214)	(11,749)	(8,510)
Noncash special charges write-offs	37,104	14,378	15,237
Purchased research and development	29,475	110,000	67,946
Exchange (gain) loss	4,212	2,115	(7,617)
Increase (decrease) in cash flows from operating assets and liabilities:			
Trade account receivables	(107,837)	(105,370)	(71,065)
Inventories	(175,113)	(90,980)	(48,493)
Prepaid expenses and other current assets	9,751	(19,399)	8,844
Accounts payable and accrued expenses	101,378	31,342	12,111
Accrual for merger-related charges	28,489	(60,420)	67,312
Other liabilities	(2,472)	32,175	(25,137)
Other, net	(7,779)	7,303	8,403
Cash provided by operating activities	80,494	141,979	32,536
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment, net	(220,097)	(145,332)	(74,800)
Net maturities of held-to-maturity short-term investments	28,555	28,152	5,033
Purchases of available-for-sale securities	(7,834)	(74,947)	(57,737)
Sales of available-for-sale securities	5,351	70,260	111,516
Acquisitions of businesses, net of cash acquired	(18,076)	(264,493)	(96,792)
Payments for investments in certain technologies	(39,066)	(8,564)	(67,351)
Other, net	205	(6,379)	(2,304)
Cash used in investing activities	(250,962)	(401,303)	(182,435)
FINANCING ACTIVITIES:			
Net increase in commercial paper	210,750	212,500	
Proceeds from notes payable and long-term borrowings	52,005		28,191
Net payments on notes payable, capital leases and long-term borrowings	(10,929)	(27,816)	(67,097)
Proceeds from issuances of shares of common stock, net-of-tax benefits	96,213	77,642	48,922
Acquisitions of treasury stock, net of proceeds from put options	(186,651)	(63,832)	
Other, net	484	762	(107)
Cash provided by financing activities	161,872	199,256	9,909
Effect of foreign exchange rates on cash	(5,586)	(2,588)	(4,939)
Net decrease in cash and cash equivalents	(14,182)	(62,656)	(144,929)
Cash and cash equivalents at beginning of period	72,175	134,831	279,760
Cash and cash equivalents at end of period	$ 57,993	$ 72,175	$134,831

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.

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).

On March 23, 1995, the Company completed the acquisition of Vesica Medical, Inc. (Vesica) which 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.

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.

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.

On March 14, 1996, the Company acquired Symbiosis Corporation (Symbiosis), formerly a wholly-owned subsidiary of American Home Products Corporation. Boston Scientific purchased Symbiosis 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). The Company purchased Endotech/MinTec's assets for approximately $72 million in a cash transaction accounted for using the purchase method of accounting.

On April 8, 1997, the Company completed its merger with Target Therapeutics, Inc. (Target) in a tax-free, stock-for-stock transaction accounted for as a pooling-of-interests. In conjunction with this merger, Target's stockholders received 1.07 shares of the Company's common stock in exchange for each share of Target common stock. Approximately 16.5 million shares of the Company's common stock were issued in connection with the Target merger.

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, EPT and Target 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.

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, furniture and fixtures are depreciated over a 2- to 7-year life. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

The Company capitalizes interest incurred on funds used to construct property, plant and equipment. Interest capitalized during 1997 was $5 million. The Company receives grant money equal to a percentage of expenditures on eligible capital equipment which is recorded as deferred income and recognized ratably over the life of the underlying assets. The grant money would be repayable, in whole or in part, should the Company fail to meet certain employment goals.

INTANGIBLE ASSETS: Intangible assets are amortized using the straight-line method over the following lives: Patents and trademarks (3 - 20 years); Licenses (2 - 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, 1997, unremitted earnings of non-U.S. subsidiaries were $311 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 amounted to $177 million at December 31, 1997 and 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 1997 and 1996, net foreign currency transaction and translation net gains (losses) that are reflected as Other Income (Expense) on the Consolidated Statements of Operations totaled approximately $4 million and $2 million, respectively, of net foreign exchange losses compared to $8 million of net foreign exchange gains in 1995.

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.

(Note B continued to Note E)

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".

ACCOUNTING CHANGE: The Company has implemented Emerging Issues Task Force (EITF) No. 97-13 "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project that Combines Business Process Reengineering and Information Technology Transformation," the effect of which ($31 million or $21 million, net-of-tax) is reflected as a cumulative change in accounting.

NEW ACCOUNTING STANDARDS: The Company has not yet adopted SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" both of which will require adoption in 1998. The Company is in the process of determining the effect of adoption of these statements on its consolidated financial statements and related disclosures.

NET INCOME PER COMMON SHARE: In 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share". Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the Company's previously reported primary earnings per share. All earnings per share amounts for all periods presented have been restated to conform to the Statement 128 requirements.

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, 1997				
AVAILABLE-FOR-SALE:				
Cash and money market accounts	$ 57,993			$ 57,993
Equity securities (with a readily determinable fair value)	47,828	$31,079	$2,090	18,839
Corporate obligations:				
Within one year	828			828
U.S. debt securities:				
Within one year	15,779			15,779
	$122,428	$31,079	$2,090	$ 93,439
DECEMBER 31, 1996				
AVAILABLE-FOR-SALE:				
Cash and money market accounts	$ 60,426			$ 60,426
Equity securities (with a readily determinable fair value)	45,966	$31,580	$1,808	16,194
Corporate obligations:				
Within one year	3,997			3,997
U.S. debt securities:				
Within one year	9,765			9,765
	$120,154	$31,580	$1,808	$ 90,382
HELD-TO-MATURITY:				
Corporate obligations:				
Within one year	$ 11,843			$ 11,843
U.S. debt securities:				
Within one year	28,461			28,461
	$ 40,304			$ 40,304

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 stockholders' equity until realized. The cost of available-for-sale securities is based on the specific identification method.

At December 31, 1997 and 1996, the Company had investments totaling $24 million and $13 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)	1997	1996
TRADE ACCOUNTS RECEIVABLE		
Accounts receivable	$444,317	$335,875
Less allowances	30,479	14,850
	$413,838	$321,025
INVENTORIES		
Finished goods	$204,668	$130,696
Work-in-process	45,683	45,293
Raw materials	136,391	60,681
	$386,742	$236,670
DEPRECIABLE ASSETS AND LEASEHOLDS		
Land	$ 45,213	$ 32,573
Buildings and improvements	247,873	175,473
Equipment, furniture and fixtures	354,344	280,780
Leasehold improvements	59,085	40,901
	706,515	529,727
Less accumulated depreciation and amortization	207,548	167,425
	$498,967	$362,302
INTANGIBLE ASSETS		
Patents and trademarks	$129,610	$121,149
Licenses	58,040	47,924
Purchased technologies	89,004	82,850
Excess of cost over net assets acquired	115,638	120,673
Other intangibles	13,768	13,547
	406,060	386,143
Less accumulated amortization	92,714	66,381
	$313,346	$319,762
ACCRUED EXPENSES		
Payroll and related liabilities	$ 40,547	$ 41,920
Other	120,689	54,987
	$161,236	$ 96,907

NOTE E — CREDIT ARRANGEMENTS

The Company's borrowings at December 31 consisted of:

(In thousands)	1997	1996
Commercial paper	$423,250	$212,500
Bank obligations - short-term	23,958	28,056
Long-term debt	46,325	

At December 31, 1997, the Company had a $500 million revolving line of credit with a syndicate of U.S. and international banks (the Credit Agreement). Under the Credit Agreement, the Company has the option to borrow amounts at various interest rates, payable quarterly in arrears. The terms of the Credit Agreement extend to 2002. Use of the borrowings is unrestricted and the borrowings are unsecured. The Credit Agreement requires the Company to maintain a specific ratio of consolidated funded debt (as defined) to consolidated tangible net worth (as defined) plus consolidated funded debt. At December 31, 1997, the Company had no outstanding borrowings under the Credit Agreement.

The Company maintains a commercial paper program that is supported by the Company's Credit Agreement. Outstanding commercial paper reduces available borrowings under the Credit Agreement. At December 31, 1997, the Company had approximately $423 million in commercial paper outstanding with interest rates ranging from 5.84% to 7.35%, compared to $213 million outstanding with interest rates ranging from 5.55% to 6.03% at December 31, 1996.

In October 1997, the Company filed a Public Debt Registration Statement with the U.S. Securities and Exchange Commission. During the first quarter of 1998, the Company plans to issue up to $500 million in debt securities under this Registration Statement. A significant portion of the proceeds from the public offering will be used to repay the Company's borrowings under its commercial paper program.

The Company has uncommitted credit facilities with several Japanese banks that provide for borrowings and promissory notes discounting of up to 10.5 billion yen, or approximately $81 million. At December 31, 1997 and 1996, borrowings

outstanding under these credit facilities were 2.7 billion yen (approximately $21 million at December 31, 1997) and were borrowed at rates of approximately 1%. During 1997, approximately $194 million of receivables were discounted through promissory notes compared to $130 million during 1996. At December 31, 1997, approximately $50 million of receivables were discounted at average interest rates of approximately 1.6%; thus, the net availability under these credit lines was $10 million.

During July 1997, the Company borrowed 6 billion yen (approximately $46 million at December 31, 1997) under a fixed interest rate (2.22%) financing arrangement with a syndicate of Japanese banks. The borrowings are payable in 2002.

Interest paid, including interest paid under capital leases and mortgage loans, but excluding interest paid on a patent litigation judgment (in 1995), amounted to $19 million in 1997, $13 million in 1996, and $6 million in 1995.

NOTE F — LEASES

Rent expense amounted to $37 million in 1997, $22 million in 1996 and $15 million in 1995. These amounts include rent expense paid to related parties of $1 million during each of 1997, 1996 and 1995.

Future minimum rental commitments as of December 31, 1997 under noncancelable capital and operating lease agreements are as follows:

	Year Ending December 31,	
(In thousands)	Capital Leases	Operating Leases
1998	$ 4,139	$ 28,490
1999	1,306	25,553
2000	1,159	16,860
2001	1,156	9,123
2002	1,174	7,931
Thereafter	7,445	53,289
Total minimum lease payments	16,379	$141,246
Amount representing interest	5,954	
Present value of minimum lease payments	$10,425	

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 amounted to $177 million at December 31, 1997 and which were immaterial at December 31, 1996, are based on quoted market prices of comparable contracts.

The carrying amounts and fair values of the Company's financial instruments at December 31, 1997 and 1996 are as follows:

	1997		1996	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents, and investments	$122,428	$122,428	$160,458	$160,458
Liabilities:				
Commercial paper	423,250	423,250	212,500	212,500
Bank obligations - short-term	23,958	23,958	28,056	28,056
Long-term debt	46,325	47,255		

NOTE H - INCOME TAXES

Income (loss) before income taxes and cumulative effect of change in accounting consisted of:

	Year Ended December 31,		
(In thousands)	1997	1996	1995
Domestic	$178,381	$253,239	$75,448
Foreign	80,287	50,091	(12,770)
	$258,668	$303,330	$62,678

The related provision for income taxes consisted of:

	Year Ended December 31,		
(In thousands)	1997	1996	1995
Current:			
Federal	$108,444	$116,191	$67,617
State	14,567	9,108	6,615
Foreign	20,010	22,686	15,375
	143,021	147,985	89,607
Deferred:			
Federal	(30,123)	4,175	3,759
State	(5,648)	522	606
Foreign	(8,996)	(16,446)	(12,875)
	(44,767)	(11,749)	(8,510)
	$ 98,254	$136,236	$81,097

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

	Year Ended December 31,		
(In thousands)	1997	1996	1995
Tax at statutory rate	$ 90,534	$106,166	$21,938
State income taxes, net of federal benefit	7,760	8,778	4,706
Effect of foreign taxes	(13,732)	3,641	1,925
Non-deductible merger-related expenses and purchased research and development	14,957	19,902	53,510
Other, net	(1,265)	(2,251)	(982)
	$ 98,254	$136,236	$81,097

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

(In thousands)	1997	1996
Deferred tax assets:		
Inventory costs	$ 26,170	$ 8,890
Deferred intercompany sales	70,057	59,357
Tax benefit of net operating loss and tax credits	28,808	26,359
Reserves and accruals	16,317	11,520
Litigation-related reserves	15,518	839
Reengineering costs	7,447	
Merger-related charges	28,742	26,069
Other	19,894	12,391
Deferred tax assets	212,953	145,425
Less valuation allowance on deferred tax assets	23,250	24,050
	$189,703	$121,375
Deferred tax liabilities:		
Tax over book depreciation	$ (26,542)	$ (42,459)
Unremitted earnings of subsidiaries	(52,104)	(26,921)
Capitalized expenses	(9,192)	(1,396)
Other	(1,376)	(2,324)
Deferred tax liabilities	(89,214)	(73,100)
Deferred SFAS No. 115 adjustment	(11,567)	(10,886)
	$ 88,922	$ 37,389

At December 31, 1997, the Company had U.S. tax net operating loss carryforwards and research and development tax credits of approximately $17 million that will expire periodically beginning in the year 2002. In addition, the Company had foreign net operating loss carryforwards of $12 million that will expire periodically beginning in the year 2000. The Company established a valuation allowance of $23 million for these carryforwards primarily attributable to the carryforwards acquired as part of the Company's 1995, 1996 and 1997 mergers and acquisitions.

Income taxes paid amounted to $89 million in 1997, $85 million in 1996 and $83 million in 1995.

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, 1997, 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.

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 1997, the Company repurchased approximately

3.5 million shares of its common stock at an aggregate cost of $188 million. Prior to 1997, a total of 6.5 million shares of the Company's common stock was repurchased under the program.

As part of the stock repurchase program, the Company has been selling European equity put options to an independent broker-dealer. 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. Proceeds are recorded as a reduction to the cost of the Company's treasury stock. During 1996, the Company sold European put options for 600,000 shares and received proceeds of approximately $3 million. The put options for these 600,000 shares expired during 1997. During 1997, the Company sold put options for 329,000 shares and received proceeds of approximately $2 million. Repurchase prices relating to put options outstanding at December 31, 1997 range from $55 per share to $56 per share. The Company's contingent obligation to repurchase shares upon exercise of the outstanding put options approximated $18 million at December 31, 1997.

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 7,500 shares, 1,000 shares and 29,000 shares were issued to employees during 1997, 1996 and 1995, 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.

Shares reserved for future issuance under all of the Company's plans totaled approximately 24 million at December 31, 1997.

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 SFAS No. 123, "Accounting for Stock-Based Compensation", net income and earnings per share would have been reported as the following pro forma amounts:

(In thousands, except per share data)	Year Ended December 31, 1997	1996	1995
Net income (loss)			
As reported	$139,334	$167,094	$(18,419)
Pro forma	111,908	151,820	(24,901)
Earnings (loss) per common share - assuming dilution			
As reported	$0.70	$0.84	$(0.10)
Pro forma	0.56	0.76	(0.13)

The weighted average grant-date fair value of options granted during 1997, 1996 and 1995, calculated using the Black-Scholes options pricing model, is $18.16, $14.41 and $10.12, respectively.

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:

	1997	1996	1995
Dividend yield	0%	0%	0%
Expected volatility	35.90%	37.70%	37.70%
Risk-free interest rate	6.42%	6.12%	5.93%
Actual forfeitures	670,000	341,000	142,000
Expected life	4.0	3.7	4.0

The effects of expensing the estimated fair value of stock options on 1997, 1996 and 1995 pro forma amounts are not necessarily representative of the effects on reporting the results of operations for future years as the periods presented include only one, two and three 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:

	1997		1996		1995	
(Option amounts in thousands)	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	14,539	$22.84	14,699	$16.55	13,562	$11.67
Granted	5,358	49.40	3,327	41.04	4,430	27.69
Exercised	(2,553)	17.95	(2,974)	12.46	(2,677)	10.83
Canceled	(741)	37.15	(513)	20.72	(616)	14.16
Outstanding at December 31	16,603	31.51	14,539	22.84	14,699	16.55
Exercisable at December 31	6,115	$18.15	5,392	$15.85	5,973	$13.51

Below is additional information related to stock options outstanding and exercisable at December 31, 1997:

(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
$00.00-15.00	4,401	5.62	$10.76	3,144	$10.58
15.01-30.00	4,240	5.95	24.45	2,307	21.85
30.01-45.00	2,885	8.50	40.60	606	39.87
45.01-60.00	4,913	9.33	49.68	45	51.99
60.01-75.00	164	9.33	66.99	13	62.43
	16,603	7.34	$31.51	6,115	$18.15

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 period designated by the Committee as an offering period, an option to purchase a number of shares equal to not more than 10% of the employee's eligible compensation 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 1997, approximately 120,000 shares were issued at prices ranging from $46.909 to $48.663 per share. During 1996, approximately 120,000 shares were issued at prices ranging from $36.125 to $39.419 per share, and, during 1995, approximately 133,000 shares were issued at prices ranging from $13.60 to $21.463 per share. At December 31, 1997, there were approximately 970,000 shares available for future issuance.

NOTE K — EARNINGS PER SHARE

The following table sets forth the computations of basic and diluted earnings per share:

Year Ended December 31, (In thousands, except per share data)	1997	1996	1995
Basic:			
Net income (loss)	$139,334	$167,094	$(18,419)
Weighted average shares outstanding	194,573	193,509	190,787
Net income (loss) per common share	$0.72	$0.86	$(0.10)
Assuming dilution:			
Net income (loss)	$139,334	$167,094	$(18,419)
Weighted average shares outstanding	194,573	193,509	190,787
Net effect of dilutive put options	14		
Net effect of dilutive stock options	5,301	5,844	
Total	199,888	199,353	190,787
Net income (loss) per common share	$0.70	$0.84	$(0.10)

At December 31, 1997, approximately 5 million stock options were not included in the diluted computation of earnings per share because they would have been antidilutive.

NOTE L — COMMITMENTS AND CONTINGENCIES

Beginning in 1993, Schneider (Europe) AG and Schneider (USA) Inc., subsidiaries of Pfizer, Inc., 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 Company subsequently amended its complaint to seek a declaratory judgment that the patent is unenforceable. The Schneider companies filed counterclaims against the Company, alleging the Company's willful infringement of the patent and seeking monetary and injunctive relief. In October 1997, the District Court granted the Company's motion for summary judgment on noninfringement, and ruled that the Company cannot litigate the issues of validity and enforceability, which had previously been litigated by SCIMED Life Systems, Inc. (SCIMED), the Company's subsidiary. Both parties have filed notices of appeal. The Company ceased marketing its Synergy catheters in August 1996.

On May 31, 1994, 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. 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. Both suits were filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. The cases were sent to consolidated arbitration for a threshold determination of one issue covered by the November 27, 1991 settlement agreement between the parties. On March 14, 1997, the arbitration panel reached a final determination in the consolidated arbitration. Pursuant to this determination, the Company is continuing its action as to the ELIPSE product and has dismissed the actions as to the FLOWTRACK and LIFESTREAM products. ACS has answered, denying the allegations of the complaint. In January 1998, the Company moved to add the ACS RX MULTILINK™ (stent delivery system) to its complaint. Trial is scheduled to begin in late 1998 or early 1999.

SCIMED has also accused ACS's RX MULTILINK HP™ stent delivery system and ACS's RX ROCKET™ and RX COMET™ PTCA catheters of infringing several SCIMED patents. These claims, as well, are subject to arbitration relating to a threshold determination under the November 27, 1991 settlement agreement. The hearing in the combined arbitration on these products is scheduled to begin on May 11, 1998. If SCIMED is successful in the arbitration, it intends immediately to commence patent infringement litigation to enforce its rights under the relevant patents against ACS.

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. Trial is scheduled to begin in November 1998.

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. Trial is scheduled to begin in November 1998 as to the EXPRESS PLUS products and January 1999 as to the BANDIT product.

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 aris-

ing 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. In October 1997, the court granted the defendants' motion to dismiss. The Company has filed a notice of appeal.

On September 16, 1997, ACS filed a suit for patent infringement against the Company and SCIMED, alleging that SCIMED's REBEL™ PTCA catheter infringes two U.S. patents licensed to ACS and one U.S. patent owned by ACS. Suit was filed in the U.S. District Court for the Northern District of California seeking monetary damages, injunctive relief and that the patents be adjudged valid, enforceable and infringed. The Company and SCIMED have answered, denying the allegations in 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 and Cordis Corporation's (Cordis) TRANSIT® and RAPIDTRANSIT™ microcatheters infringe a patent assigned to Target. On May 2, 1996, the District Court entered an order granting a preliminary injunction to Target prohibiting SCIMED and Cordis from marketing or selling the accused products. 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. Upon the recent merger between the Company and Target, the lawsuit was dismissed as to the Company. Subsequently, the Court of Appeals vacated the preliminary injunction. The lawsuit was dismissed as to Cordis pursuant to a Settlement Agreement signed January 9, 1998.

On October 3, 1995, Cordis Endovascular, Inc. and Cordis filed a suit alleging patent infringement against Target Therapeutics, Inc. (Target) alleging that Target's DASHER® guidewires, FASGUIDE® catheters and TRACKER® and FASTRACKER® guide microcatheters infringe three patents owned by Cordis. The lawsuit was dismissed pursuant to a Settlement Agreement signed January 9, 1998.

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 MaxForce TTS™ catheter, infringe 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 MaxForce TTS catheter or any other infringing product, monetary damages and expenses. After a jury trial in June 1997, the jury returned a verdict finding that the Company infringed the Bard patent and awarded damages to Bard in the amount of $10.8 million. No judgment has been entered pending trial on the Company's claim that the patent was obtained by inequitable conduct. The Company intends to appeal any judgment entered on the jury verdict. The Company no longer markets the accused devices.

On February 28, 1997, C.R. Bard, Inc. (Bard) filed a suit for patent infringement against SCIMED alleging that SCIMED's WAVE™ and SURPASS™ catheters are infringing a patent assigned to Bard. The suit was filed in the U.S. District Court for the District of New Jersey seeking monetary and injunctive relief. The lawsuit was dismissed pursuant to a Settlement Agreement signed December 4, 1997.

On March 7, 1996, Cook, Inc. (Cook) filed suit in the Regional Court, Munich 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 answered, denying the allegations. The court has requested that an expert be named to provide the court technical advice, and the parties have submitted suggestions; an expert has not yet been chosen.

On March 25, 1996, Cordis 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 SCIMED catheter products, including SCIMED's BANDIT and EXPRESS PLUS catheters. 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. Trial is scheduled for June 1998.

On March 13, 1997, the Company (through its subsidiaries) filed suits in The Netherlands and the United Kingdom, and on March 17, 1997 filed suit in France, seeking a declaration of noninfringement for the Company's LEAP balloon in relation to a European patent owned by Cordis. The United Kingdom suit has been dismissed for lack of controversy and the Netherlands suit has been withdrawn. A decision in the suit in France is expected late in 1998.

On July 18, 1997, Cordis filed a cross border suit in The Netherlands against various subsidiaries of the Company, alleging that the LEAP balloon infringes one of Cordis' European patents. In this action, Cordis requested expedited relief, including an injunction, covering The Netherlands, Germany, France, the United Kingdom and Italy. The court posed certain questions to the European Patent Office (EPO). A response is expected in April 1998. The Company appealed the court's decision to present questions to the EPO. A hearing on the appeal is set for June 16, 1998.

On March 27, 1997, SCIMED filed suit for patent infringement against Cordis alleging willful infringement of several SCIMED U.S. patents by Cordis' TRACKSTAR 14™, TRACKSTAR 18™, OLYMPIX™, POWERGRIP™, SLEEK™, SLEUTH™, THOR™, TITAN™ and VALOR™ catheters. The suit was filed in the U.S. District Court for the

District of Minnesota, Fourth District, seeking monetary and injunctive relief. The parties have agreed to add Cordis' CHARGER™ and HELIX™ catheters to the suit. Cordis has answered, denying the allegations of the complaint. Trial is scheduled for November 1998.

On December 13, 1996, the Superior Court of the State of Arizona granted the motion of Impra, Inc. (Impra) to add the Company as an additional defendant in Impra's case against Endomed, Inc. (Endomed). Impra (now a subsidiary of C.R. Bard, Inc.) alleges that Endomed misappropriated certain Impra trade secrets and that the Company acted in concert with Endomed to utilize the technology. On the same date, Endomed and the Company were preliminarily enjoined, among other things, from any further use or disclosure of the technology. The Company has answered, denying the allegations of the complaint. Trial is scheduled to begin in April 1998.

On March 13, 1997, the Company (through its subsidiaries) filed suits against Johnson & Johnson Company (Johnson & Johnson) (through its subsidiaries) in The Netherlands, the United Kingdom and Belgium, and on March 17, 1997 filed suit in France, seeking a declaration of noninfringement for the NIR™ stent relative to two European patents licensed to Ethicon, Inc. (Ethicon), a Johnson & Johnson subsidiary, as well as a declaration of invalidity with respect to those patents. Trial begins in the United Kingdom on March 23, 1998. On March 18, 1997, the Company (through its subsidiary) filed a similar suit in Germany, but seeking only a declaration of noninfringement for the NIR stent relative to the two patents. On March 20, 21 and 22, 1997, the Company (through its subsidiaries) filed additional suits against Johnson & Johnson (through its subsidiaries) in Sweden, Italy and Spain, respectively, seeking a declaration of noninfringement for the NIR stent relative to one of the European patents licensed to Ethicon and a declaration of invalidity in relation to that patent (in Italy and Spain only). Ethicon and other Johnson & Johnson subsidiaries filed a cross-border suit in The Netherlands on March 17, 1997, alleging that the NIR stent infringes one of the European patents licensed to Ethicon. In this action, the Johnson & Johnson entities requested relief, including provisional relief (a preliminary injunction), covering Austria, Belgium, France, Greece, Italy, The Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom. The Johnson & Johnson entities thereafter filed a similar cross-border proceeding in The Netherlands with respect to the second European patent licensed to Ethicon. Johnson & Johnson subsequently withdrew its request for cross-border relief in the United Kingdom. In October 1997, Johnson & Johnson's request for provisional cross-border relief on both patents was denied by the Dutch court, on the ground that it is "very likely" that the NIR stent will be found not to infringe the patents. Johnson & Johnson has appealed this decision with respect to one of the patents. A hearing on Johnson & Johnson's appeal of the denial of relief is expected to be held on March 10, 1998; a hearing on the merits is expected late in 1998.

On May 6, 1997, Ethicon Endosurgery, Inc. sued the Company in Düsseldorf, Germany, alleging that its NIR stent infringes one of Ethicon's patents. A hearing is scheduled for June 19, 1998.

On March 13, 1997, the Company filed a Motion to Intervene in Johnson & Johnson Interventional Systems Co. et al. v. Cook, Incorporated et al., an action in the U.S. District Court for the Southern District of Indiana. The motion seeks intervention for the purpose of modifying the present protective order to direct the Clerk of Court to retain, and the parties and their counsel not to destroy, materials and testimony assembled in that action. By agreement, the Company is receiving access to the documents and materials.

On June 16, 1997, the Company and SCIMED filed a suit against Johnson & Johnson and related entities in the U.S. District Court for the District of Massachusetts seeking a declaratory judgment of noninfringement for the NIR stent relative to two patents licensed to Johnson & Johnson and that the two patents are invalid and unenforceable. The Company subsequently amended its complaint to add a third patent. In October 1997, Johnson & Johnson's motion to dismiss the suit was denied. Johnson & Johnson has answered, denying the allegations of the complaint, and counterclaiming for patent infringement. This action has been consolidated with the Delaware action described below.

On August 22, 1997, Johnson & Johnson filed a suit for patent infringement against the Company alleging that the sale of the NIR stent infringes certain Canadian patents owned by Johnson & Johnson. Suit was filed in the federal court of Canada seeking a declaration of infringement, monetary damages and injunctive relief. The Company has answered, denying allegations of the complaint.

On October 22, 1997, Cordis filed a suit for patent infringement against the Company and SCIMED alleging that the importation and use of the NIR stent infringes two patents owned by Cordis. The suit was filed in the U.S. District Court for the District of Delaware seeking monetary damages, injunctive relief and that the patents be adjudged valid, enforceable and infringed. The Company and SCIMED have answered the complaint, denying Cordis' allegations. The Massachusetts case described above has been consolidated with this action.

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 par-

ticular 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.

During 1997, the Company recorded approximately $34 million of litigation-related reserves to cover costs of defense and settlement, and unfavorable outcomes. The reserves are included in selling, general and administrative expenses.

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 product liability losses as could otherwise materially affect the Company's financial position.

NOTE M — BUSINESS COMBINATIONS

In 1997, the Company increased to approximately 25% its voting ownership in Medinol, Ltd. (Medinol), a developer of innovative technologies for cardiovascular applications. Accordingly, the Company has retroactively applied the equity method of accounting to account for this investment which had been accounted for under the cost method since 1995, the year of the Company's original investment. This accounting had the effect of increasing the amount of the previously reported charges for purchased research and development and reducing net earnings in 1995 by $35 million, or approximately $0.18 per share. The effect of this change in 1996 and 1997 was not significant.

In 1997, Boston Scientific consummated its merger with Target. 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 Target for 1996 and 1995 are as follows:

(In thousands)	Boston Scientific	Target	Combined Boston Scientific
Year ended December 31, 1996:			
Net sales	$1,462,043	$89,195	$1,551,238
Net income (loss)	167,420	(326)	167,094
Year ended December 31, 1995 :			
Net sales	$1,129,185	$61,636	$1,190,821
Net income (loss)	(28,994)	10,575	(18,419)

Target's net sales, gross profit and net income for the three months ended March 31, 1997 were approximately $31 million, $24 million and $2 million, respectively. The restated financial data is not necessarily indicative of the operating results or financial position that would have occurred if the Target merger had been consummated during the periods presented, nor is it necessarily indicative of future operating results or financial position.

NOTE N — MERGER-RELATED CHARGES AND EXPENSES

In 1997, the Company recorded merger-related charges of $175 million ($135 million, net-of-tax). Charges include $29 million for purchased research and development recorded in conjunction with accounting for the Company's additional investment in Medinol ($12 million) and the Company's other strategic acquisitions ($17 million), $16 million in direct transaction costs and $96 million of estimated costs to be incurred in merging the separate operating business of Target with subsidiaries of the Company. The remaining amounts represent primarily adjustments to merger-related charges recorded in 1996 and 1995 based on actual costs incurred or changes in estimates (approximately $15 million) and write-downs of assets in connection with the Company's implementation of a global information system.

In connection with the mergers and acquisitions consummated in 1996 and 1995 (see Note A) and the Company's initial investment in Medinol, the Company recorded merger-related charges of $142 million ($128 million, net-of-tax) and $272 million ($231 million, net-of-tax), 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 write-downs and other integration costs. The merger-related 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 1997 and 1996, net of reclassifications made by management based on available information, is summarized in the table below:

(In thousands)	Balance at December 31, 1995	Charges to Operations in 1996	Charges Utilized in 1996	Charges to Operations in 1997	Charges Utilized in 1997	Balance at December 31 1997
Facilities	$ 25,642	$ 7,118	$ 13,863	$ 8,193	$ 7,101	$ 19,989
Workforce reductions	31,863	3,655	9,621	24,655	25,310	25,242
Contractual commitments	50,921	1,940	44,705	52,673	31,495	29,334
Asset write-downs	7,541	4,497	5,790	27,602	18,048	15,802
Direct transaction and other costs	19,291	15,131	28,063	32,768	27,836	11,291
Total	$135,258	$32,341	$102,042	$145,891	$109,790	$101,658

The December 31, 1997 accrual for merger-related and special charges is classified within the balance sheet as follows:

(In thousands)	
Accrual for merger-related charges – current	$ 68,358
Property, plant, equipment and leaseholds, net	25,017
Accrual for merger-related charges – non-current	8,283
	$101,658

Most of the plans are expected to be completed by the end of 1998. Cash outlays to complete the balance of the Company's initiative to integrate the businesses related to all mergers and acquisitions consummated since 1994 are estimated to be approximately $59 million.

NOTE O — FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Boston Scientific is a worldwide developer, manufacturer and marketer of medical devices for less invasive procedures and operates in one segment. 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)	United States	Europe	Asia Pacific	Corporate Expenses and Other	Eliminations	Consolidated Total
1997						
Direct sales to unaffiliated customers	$1,076,292	$336,512	$403,851	$18,461		$1,835,116
Export sales	6,446	30,720				37,166
Transfers between areas	430,993	207,302			$(638,295)	
	1,513,731	574,534	403,851	18,461	(638,295)	1,872,282
Operating income without special charges	306,992	70,800	189,549	(70,233)		497,108
Operating income with special charges	235,639	(12,326)	149,662	(103,983)		268,992
Identifiable assets	1,599,263	683,669	360,942	17,166	(693,233)	1,967,807
1996						
Direct sales to unaffiliated customers	$ 924,205	$270,301	$214,482	$ 6,306		$1,415,294
Export sales	105,884	30,060				135,944
Transfers between areas	224,315	116,970			$(341,285)	
	1,254,404	417,331	214,482	6,306	(341,285)	1,551,238
Operating income without special charges	302,118	77,622	118,985	(43,213)		455,512
Operating income with special charges	198,672	39,727	117,985	(43,213)		313,171
Identifiable assets	1,434,777	410,331	209,997	5,956	(476,016)	1,585,045
1995						
Direct sales to unaffiliated customers	$ 772,986	$189,631	$111,266			$1,073,883
Export sales	97,471	19,467				116,938
Transfers between areas	148,852	112,620			$(261,472)	
	1,019,309	321,718	111,266		(261,472)	1,190,821
Operating income without special charges	220,039	64,558	65,473	(25,565)		324,505
Operating income with special charges	(2,053)	21,761	57,968	(25,565)		52,111
Identifiable assets	1,057,221	200,687	120,932		(219,395)	1,159,445

See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of special charges.

Five-Year Selected Financial Data

(In thousands, except per share data)

Year Ended December 31,	1997	1996	1995	1994	1993
OPERATING DATA:					
Net sales	$1,872,282	$1,551,238	$1,190,821	$932,969	$779,894
Gross profit	1,321,903	1,123,400	848,074	638,872	535,243
Selling, general and administrative expenses	688,174	515,908	391,548	311,296	333,285
Royalties	22,177	17,061	26,233	25,682	24,473
Research and development expenses	167,194	134,919	105,788	86,320	69,045
Purchased research and development	29,475	110,000	67,946		
Merger-related charges	145,891	32,341	204,448		
Total operating expenses	1,052,911	810,229	795,963	423,298	426,803
Operating income	268,992	313,171	52,111	215,574	108,440
Income (loss) before cumulative effect of change in accounting	160,414	167,094	(18,419)	142,274	73,731
Cumulative effect of change in accounting (net-of-tax)	(21,080)				
Net income (loss)	$139,334	$167,094	$(18,419)	$142,274	$ 73,731
Income (loss) per common share before cumulative effect of change in accounting:					
Basic	$0.82	$0.86	$(0.10)	$0.76	$0.40
Assuming dilution	0.80	0.84	(0.10)	0.75	0.39
Net income (loss) per common share:					
Basic	$0.72	$0.86	$(0.10)	$0.76	$0.40
Assuming dilution	0.70	0.84	(0.10)	0.75	0.39
Weighted average shares outstanding - assuming dilution	199,888	199,353	190,787	189,563	187,283

In addition to the merger-related charges noted in the Operating Data, the Company also recorded $34 million and $67 million of litigation-related charges which are included in selling, general and administrative expenses in 1997 and 1993, respectively.

Year Ended December 31,	1997	1996	1995	1994	1993
BALANCE SHEET DATA:					
Working capital	$ 256,010	$ 335,001	$ 344,609	$ 475,255	$ 362,816
Total assets	1,967,807	1,585,045	1,159,445	1,114,433	840,104
Commercial paper	423,250	212,500			
Bank obligations - short-term	23,958	28,056	57,520	88,948	57,141
Long-term debt, net of current portion	46,325		4,162	16,800	3,671
Stockholders' equity	986,232	995,115	807,917	794,190	601,844
Book value per common share	$4.93	$4.99	$4.23	$4.19	$3.21

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, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 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 provide a reasonable basis for our opinion.

In our opinion, 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As more fully described in Note B, the Company changed its accounting policy to conform to the consensus reached by the FASB Emerging Issues Task Force on its Issue No. 97-13.

Boston, Massachusetts
February 20, 1998

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, 1997				
Net sales	$430,531	$473,749	$474,773	$493,229
Gross profit	309,474	342,294	338,866	331,269
Operating income (loss)	112,915	(18,972)	124,351	50,698
Income (loss) before cumulative effect of change in accounting	75,436	(26,896)	88,405	23,469
Net income (loss)	75,436	(26,896)	88,405	2,389
Net income (loss) per common share - assuming dilution	$0.38	$(0.14)	$0.44	$0.01
YEAR ENDED DECEMBER 31, 1996				
Net sales	$343,553	$379,237	$395,788	$432,660
Gross profit	251,598	277,851	284,564	309,387
Operating income	38,708	41,968	109,123	123,372
Net income	2,190	13,089	71,234	80,581
Net income per common share - assuming dilution	$0.01	$0.07	$0.36	$0.40

During the second and fourth quarters of 1997, the Company recorded merger-related charges and purchased research and development totaling $158 million and $17 million, respectively. In addition, during the fourth quarter of 1997, the Company recorded inventory write-downs ($19 million), litigation-related reserves ($34 million) and implemented EITF No. 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project that Combines Business Process Reengineering and Information Technology Transformation," the effect of which ($31 million) is reflected as a cumulative change in accounting. During the first and second quarters of 1996, the Company recorded merger-related charges and purchased research and development totaling $69 million and $73 million, respectively.

All earnings per share amounts presented have been restated to conform to SFAS No. 128 "Earnings per Share" requirements (see Note B).

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		High	Low
1997			**1996**		
First Quarter	$71.500	$58.625	First Quarter	$51.625	$39.875
Second Quarter	62.938	41.000	Second Quarter	47.375	37.750
Third Quarter	78.438	53.250	Third Quarter	57.625	39.625
Fourth Quarter	59.750	41.000	Fourth Quarter	61.500	52.875

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, 1997, there were approximately 9,300 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

Philip P. Le Goff
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 (Pete) 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
508-647-2200 (Investor Relations Facsimile)
www.bsci.com

Regional Headquarters

Boston Scientific Argentina S.A.
Buenos Aires, Argentina

Boston Scientific International B.V.
Paris, France

Boston Scientific Asia Pacific Pte. Ltd.
Singapore

Boston Scientific Japan K.K.
Tokyo, Japan

Technology Centers

San Jose, CA, USA
Miami, FL, USA
Spencer, IN, USA
Natick, MA, USA
Quincy, MA, USA
Watertown, MA, USA
Maple Grove, MN, USA
Oakland, NJ, USA
Redmond, WA, USA
Galway, Ireland
Tel Aviv, Israel

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:

BankBoston N.A.
c/o BostonEquiserve, L.P.
Post Office Box 8040
Boston, MA 02266-8040
781-575-3100
www. Equiserve.com

Independent Auditors
Ernst & Young LLP
Boston, Massachusetts

Annual Meeting
The annual meeting for shareholders will take place on Tuesday, May 5, 1998, beginning at 10:00 a.m. at BankBoston, Corporate Headquarters, 100 Federal Street, Boston.

Investor Information Requests
Investors, shareholders and security analysts seeking information about the Company should call Investor Relations at (508) 650-8555 or refer to the Company's website at www.bsci.com.

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
508-647-2200 (Facsimile)

Design: Foster Design Group, Boston, MA

Boston Scientific

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508.650.8000
www.bsci.com

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