BOSTON SCIENTIFIC | 2000 ANNUAL REPORT

Boston Scientific

To our employees and shareholders:

Boston Scientific's mission is to improve the quality of patient care and the productivity of health care 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.

La mission de Boston Scientific est l'amélioration de la qualité des soins cliniques et de la productivité de l'administration de ces soins grâce à la mise au point, la promotion et la défense de méthodes et de dispositifs médicaux moins invasifs. Ce but est atteint au moyen d'un perfectionnement continuel des produits et méthodes existants ainsi que par la recherche et la mise au point de nouvelles technologies visant à réduire les risques, le traumatisme, les coûts, la durée des interventions et la nécessité de suivi.

ボストン・サイエンティフィック・コーポレーションは、低侵襲性治療器具および治療方法の開発、普及を通じ、患者看護の質と医療効率を向上させることを使命としています。この使命は、既存の製品および治療方法を絶えず改良し続け、また、危険や患者の精神的・肉体的負担、医療コスト、手技時間、アフターケアの必要を減らすことのできる新しい技術を探究し、開発することによって達成できるものです。

La misión de Boston Scientific Corporation es mejorar la calidad de la atención al paciente y la productividad del servicio de atención médica mediante el desarrollo y la recomendación de dispositivos y procedimientos médicos menos invasivos. Todo eso se logra mediante el constante perfeccionamiento de productos y procedimientos existentes y la investigación y el desarrollo de nuevas tecnologías que puedan reducir el riesgo, el trauma, el costo, el tiempo del procedimiento y la necesidad de atención o cuidado posteriores.

Bei Boston Scientific sind wir stets bemüht, die Qualität der Patientenbehandlung und die Leistungsfähigkeit der Gesundheitsversorgung durch die Entwicklung und Förderung von weniger invasiven medizinischen Geräten und Verfahren zu steigern – durch ständige Verbesserung bestehender Produkte und Verfahren sowie Erforschung und Entwicklung neuer Technologien, die Risiken, Verletzungen, Kosten, Behandlungszeiten sowie den Nachversorgungsbedarf reduzieren können.

波斯顿科学公司的使命是通过开发和倡导尽可能少进入人体的医疗设备和程序来提高医疗护理的质量和卫生保健的效率。为完成这一使命，我们将不断地改进现有的产品和程序，研究和开发那些能够减小风险、减少外伤、降低成本、缩短疗程以及后续护理的新技术。

波士頓科學公司的使命是通過開發和倡導盡可能少進入人體的醫療設備和程式來提高醫療護理的質量和衛生保健的效率。為完成這一使命，我們將不斷地改進現有的產品和程式，研究和開發那些能夠減小風險、減少外傷、降低成本、縮短療程以及後續護理的新技術。

Boston Scientific beschouwt het als haar missie, de kwaliteit en productiviteit van de zorgverlening aan patiënten te verbeteren door de ontwikkeling en gebruiksbevordering van minder invasieve medische hulpmiddelen en procedures. Aan het realiseren van deze doelstelling wordt gewerkt door een voortgaande verfijning van bestaande producten en procedures en door het verrichten van onderzoek naar en de ontwikkeling van nieuwe technologieën die kunnen bijdragen tot een vermindering van risico's, trauma, behandelingskosten, behandelingsduur en de noodzaak van nazorg.

The growth and success of our organization is dependent upon the shared values of our people. We must learn, understand and live by a unified set of values that will guide us in a continually changing medical environment:

- To provide our people with a strong understanding of our mission and shared values
- To think like our customers and work hard on their behalf
- To pay relentless attention to business fundamentals
- To bring a commitment to quality and a sense of urgency to everything we do

Innovation
Commitment
Quality
Excellence
Success

- To rely on one another, to treat each other well and to put the development and motivation of our people at the top of our priority lists
- To encourage innovation, experimentation and risk-taking
- To recognize bureaucracy as an archenemy and not allow it to inhibit our good sense and creative spirit
- To provide shareholders with an attractive return through sustained high-quality growth
- To recognize and reward excellence by sharing Boston Scientific's success with our employees

The year 2000 was a challenging one for Boston Scientific. We continued to make progress integrating and consolidating the businesses we have acquired over the past several years.

PETE NICHOLAS, CHAIRMAN OF THE BOARD

JIM TOBIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

A wide range of organizational and managerial improvements were introduced as well, including the addition of a number of senior leaders who brought with them decades of collective experience. And our financial performance was sound. Yet there were also frustrations, principally with our coronary stent pipeline. It continues to be clear that the financial markets will not reward our overall performance until we resolve the problems with our coronary stent program. We will address this issue — and our relationship with our stent vendor Medinol — later in the letter.

In last year's annual report, we told you we would remain focused on two critical themes in 2000: Innovation and Operational Excellence. Throughout the year, we focused intensely on these priorities, and the results have been encouraging.

Early in the year, the management structure was realigned to permit maximum emphasis on these objectives. Corporate research and development, and regulatory and clinical affairs, were concentrated under Kshitij Mohan, Ph.D., Senior Vice President and Chief Technology Officer, and operations and quality were centralized under Jim Taylor, Senior Vice President of Corporate Operations. Both have brought substantial change and improvement to their respective areas.

Innovation

Boston Scientific is committed to driving growth through harnessing technological innovation both in the near and long term. Our approach includes a mixture of tactical and strategic initiatives designed to provide sustainable growth through focusing on and delivering the products currently in our pipeline as well as strengthening our product development processes and tools. In addition, we are committed to building a strong foundation of key scientific competencies that underpin our products and technologies.

Progress included FDA clearances on 37 products, CE marks on eight, and approval by the Japanese Ministry of Health and Welfare on 39. We also conducted nearly 50 clinical trials, filed 479 patent applications and received 345 patents. Our commitment to technological innovation was evidenced in our plans to significantly increase our research and development spending in 2001. Progress continued during the first two months of 2001, with six FDA approvals, four CE marks and five approvals in Japan.

Another promising program is our drug-coated stent platform. In October we began clinical trials in Germany on a Paclitaxel-coated stent after extensive animal trials. Drug-coated stents show great promise for lowering rates of restenosis. In addition to Paclitaxel as our first choice for a drug-coated stent, we are building a portfolio of drugs and carrier materials to develop the most advantageous drug/carrier/stent combinations for different indications. We have also reinforced our portfolio of projects in the gastroenterology, endovascular and urology areas.

In order to create an organization that can efficiently convert innovative ideas into highly safe and effective new products, we have strengthened the processes, tools and core competencies in research and development, and regulatory and clinical affairs.

We have created a number of Centers of Technical Excellence and hired strong leaders to direct them.

- Robert Graziadei, M.D., was recruited to head a newly formed Center of Clinical Sciences that includes Mary Russell, M.D., who recently joined us as head of Cardiovascular Clinical Affairs. Worldwide clinical affairs is managed through the Center.
- Eric Ankerud joined the company as the head of worldwide Regulatory Affairs.
- Michael Helmus, Ph.D., was recruited to direct a newly created Center for Material Sciences.

Other newly established Centers include the Center for Process Technologies and the Center for Imaging and Electronics.

We believe that consolidating and strengthening our focus and technical excellence in these areas will enhance product development as well as provide for successful integration of products and technologies that we will continue to acquire through various strategic alliances.

Innovation for Boston Scientific has always meant combining internally developed products with those we have obtained externally, through our licensing and acquisition activities. Most successful innovation programs represent a balance between organic and acquired technology.

We have recently created alliances with a number of companies as part of that strategy, including the following completed and pending acquisitions:

- Interventional Technologies, Inc., a manufacturer of microsurgical devices for use in interventional cardiology. Its flagship product is the Cutting Balloon® catheter, a unique balloon angioplasty device that makes precise incisions in arterial

plaque during balloon inflation. This technology could serve as a platform for developing new therapies for treating coronary artery disease. The acquisition also adds sophisticated metallurgy technology to Boston Scientific's portfolio.

- Embolic Protection, Inc., the developer of the Filterwire™ embolic protection device, which captures embolic material dislodged during cardiovascular interventions. This acquisition will allow Boston Scientific to accelerate its entry into the embolic protection market, one of the most promising new growth segments in interventional medicine.

- Quanam Medical Corporation, a manufacturer of medical devices that specializes in drug-delivery stent systems. Quanam's technology will help Boston Scientific broaden its drug-delivery portfolio with an additional implant-based technology and a family of proprietary biomaterials.

- Catheter Innovations, Inc., a manufacturer of vascular access products. The acquisition of this technology presents opportunities for applications across other Boston Scientific product lines and therapies.

We would like to welcome the new members of the Boston Scientific team who are joining us as a result of these acquisitions.

Our acquisition strategy will remain a fundamental part of our innovation program as we continue to investigate opportunities that will keep our new product pipeline full and diversified.

Operational Excellence

Joint progress on Innovation and Operational Excellence was embodied in the global operations plan we announced in July. The plan increases productivity by creating greater operational efficiencies and generating savings, allowing the company to increase its ability to invest in research and development. The plan is estimated to achieve net, pre-tax operating savings of $250 million on an annualized basis beginning in 2003 by improving supply chain effectiveness, strengthening manufacturing process control and optimizing our network of plants.

The plan began showing preliminary results only months after its implementation:

- Supply chain initiatives have resulted in improved inventory management, which has reduced inventory levels and write-offs. In addition, our supplier management efforts have reduced materials and services costs.

- Manufacturing process control improvements are steadily raising production yields and manufacturing efficiencies, improving quality and reducing costs.

- Scheduled transfers of production, aimed at optimizing our network of plants and better allocating our resources through the creation of a more effective network of manufacturing and R&D facilities, are on target for completion by the end of 2001.

Looking forward to 2001 and beyond, we are expanding our vision of improvement to include even shorter lead times and higher manufacturing flexibility. Servicing our customers — from time of order through receipt of product — will be the focus of improvements designed to make production processes more robust and flexible, with reduced cycle times at all stages. Our customers will see the ultimate advantages of a more responsive organization that fully meets highest quality product supply needs and new product launch effectiveness.

Thanks to our employees, implementation of the global operations plan is proceeding smoothly, and we are on schedule to achieve our projected improvements, technology transfers and resulting savings. The plan is forward-looking and makes clear that innovation is our future and that we're creating the opportunity to make the added investments needed to support that innovation. It represents a thoughtful and thorough analysis and projection of the strategic needs of the company.

While implementation is going well, job dislocation was an unavoidable aspect of the plan, and we want to again acknowledge and thank all our affected employees for their dedication and continuing contributions during this transition period.

Strengthening Our Team

The global operations plan is part of a series of measures undertaken during the year to intensify our focus on Innovation and Operational Excellence. In addition to the responsibilities consolidated under Kshitij Mohan and Jim Taylor, a number of other appointments and promotions were made to strengthen the team.

- Steve Moreci was appointed to the newly created position of Senior Vice President and Group President for Endosurgery. Under this new group structure, Steve will oversee three divisions: Medi-tech, Microvasive Endoscopy and Microvasive Urology.
- Paul LaViolette, Senior Vice President and Group President for Cardiovascular, assumed management responsibility for three divisions: EP Technologies, Scimed and Target. He continues to lead our international business and oversee Corporate Marketing and Corporate Sales.
- Fred Colen was named Senior Vice President for Cardiovascular Technology, responsible for worldwide cardiovascular research and development.
- Mark Stautberg was named Senior Vice President for Sales at Scimed, responsible for the new cardiovascular sales organization, which serves interventional cardiologists, radiologists and vascular surgeons who treat coronary disease and peripheral vascular disease.
- Four division presidents were named: Jim Feenstra, Target; Dave McClellan, Medi-tech; John Pedersen, Microvasive Urology; and Mike Phalen, Microvasive Endoscopy.
- Michael Glynn was named General Manager for Asia Pacific. He leads a strong team that was distinguished by several promotions including Mike Daly, General Manager for Australia; Lim Poh Lin, Group Marketing Manager for Korea; and Sang Yi, Vice President for North Asia Business.
- Art Rosenthal, Ph.D., was appointed Chief Scientific Officer and is working with physicians and the scientific community to help the company develop and position its existing, emerging and future technologies.
- Dennis Ocwieja was named Vice President of Quality and is responsible for establishing a common quality system throughout the company.
- Paul Donovan was named Vice President of Corporate Communications, responsible for employee communications, corporate identity and media relations.

All these new people and positions speak to the company's ongoing commitment to its entrepreneurial spirit and risk-taking culture. Like most successful organizations, we are constantly looking to change, adapt and improve in ways that value unconventional thinking, bold action and original solutions. From the beginning, we have known that agility, flexibility and creativity have been — and will remain — the hallmarks of our success.

We also strengthened our team by investing in our people. We made significant improvements in our employee training and development programs. We also improved our vacation policy for all U.S. employees, and we continued to enhance the company contribution to the 401(k) retirement program. Finally, through the introduction of the Performance Achievement and Development Review (PADR) system, we strengthened our commitment to a compensation program that recognizes individual accomplishment.

Noteworthy

A number of other events and activities are worth noting.

- Overall, we remained highly profitable, and we continued to pay down debt rapidly. By reducing debt we strengthened our ability to fund new acquisitions and strategic alliances.
- Our facilities in Ireland performed well in both output and productivity, with plans for more product transfers and employment increases this year.
- Boston Scientific Japan again showed itself to be a leader both within the company and in the industry at large. In an environment of increasing competition and reimbursement reduction, BSJ

grew faster than its markets and increased market leadership in all critical franchises in the world's second largest health care market.

- The Boston Scientific team performed superbly during the year. Particularly impressive was the ability of the sales and marketing teams around the world to maintain and strengthen leadership positions in most of our markets in the face of stiff competition.

- We reached an agreement with Guidant Corporation to settle all outstanding litigation, which consisted of a number of lawsuits in the U.S. and Europe in which each had accused the other of patent infringement.

- While a jury ruled in our favor on five of six claims in a patent infringement dispute with Johnson & Johnson, J&J was awarded a $324 million verdict based on one finding of infringement. We disagree with this finding, and we believe the verdict is excessive, but it is not the final word. Several additional legal stages remain to be played out, and we believe in the end the lone finding of infringement will not stand.

- We remained active in the public policy arena, adding our voice to the national and international dialogue on issues affecting our industry, particularly those involving the development of technology and the delivery of health care. We will continue to contribute to the debate on these issues, advocating sound policies and appropriate reforms on regulation, reimbursement, international trade, harmonization of global regulatory standards, funding for scientific research and other important issues.

- As has been reported elsewhere, our relationship with Medinol remains unresolved at this writing. We have been engaged in negotiations to acquire them, but the process has taken longer than we had anticipated. While we hope to reach an agreement, we are proceeding aggressively with our own stent development program. The rapid pace of innovation in the coronary stent market demands that we resolve our relationship with Medinol one way or another, and we are committed to doing so.

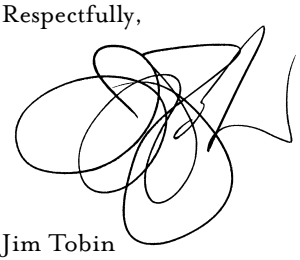
Looking ahead

Throughout this past year — as throughout others — we have been guided by our core values. While our execution has not always been flawless, it has always been — and will always be — informed by our best instincts. As we look ahead, we want to rededicate ourselves to living up to those values. They define us as a company and as individuals. They motivate our mission, our work and our actions.

In the coming year we will maintain our focus on Innovation and Operational Excellence. We will carry the momentum of the improvements and achievements of the past year into 2001. The changes we have put in place have begun to show results and will show even more in the future.

Above all, we will continue to provide our customers the most innovative and effective products and technologies that help them deliver the highest quality care to their patients. For all of you who have joined us in this endeavor, we thank you for your support and welcome your partnership as we continue our journey.

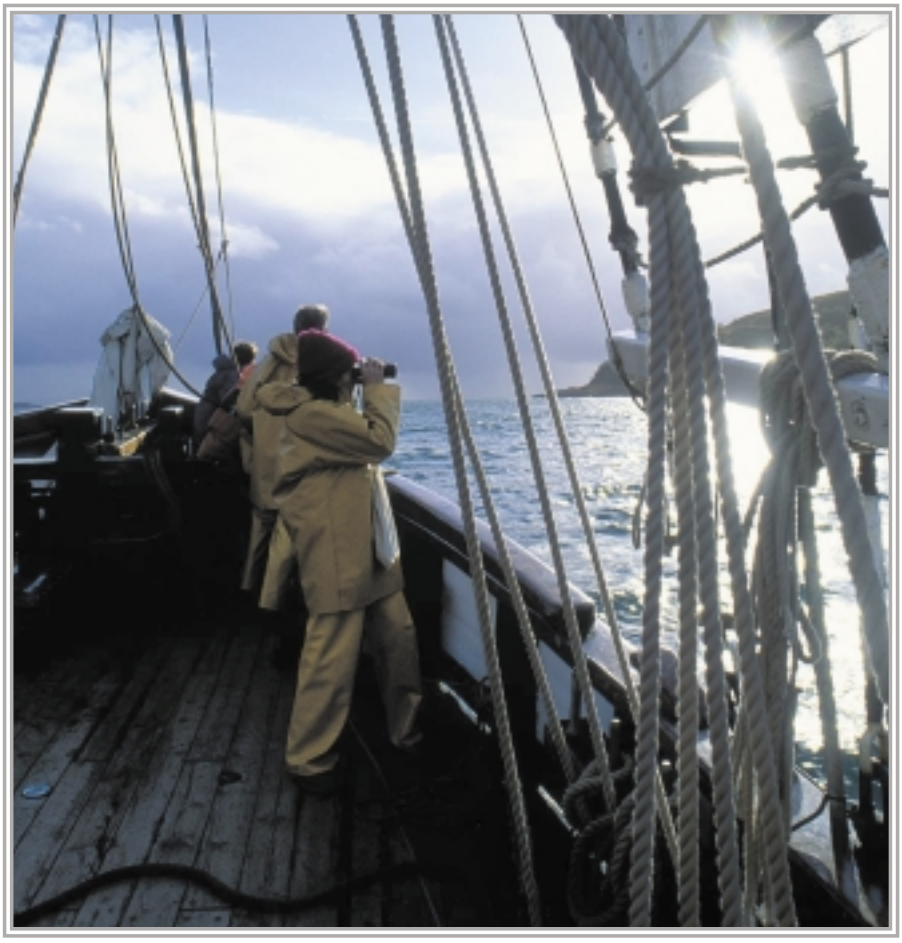
Respectfully,



Jim Tobin
President and Chief Executive Officer

Pete Nicholas
Chairman of the Board

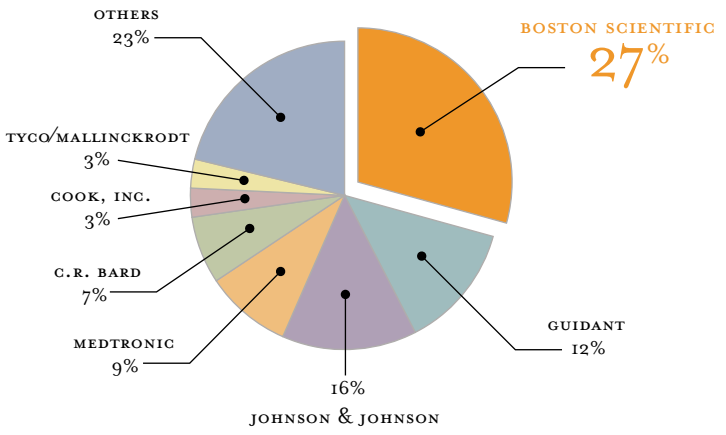
We are focused



14,000 EMPLOYEES • 15 TECHNOLOGY CENTERS •
DIRECT MARKETING AND SALES OPERATIONS IN 40 COUNTRIES •
SPECIALTIES: ELECTROPHYSIOLOGY, ENDOSCOPY, ENDOUROLOGY,
INTERVENTIONAL CARDIOLOGY, INTERVENTIONAL NEURORADIOLOGY,
INTERVENTIONAL RADIOLOGY, ONCOLOGY, VASCULAR SURGERY

...on advancing less invasive medicine to its fullest potential. No company has been bolder in pushing the boundaries of discovery and exploring better therapies for patients. No company can match our global reach, or our breadth and depth of products across such a wide range of medical specialties. No one has more talented and capable people inspired by shared values and an unwavering mission.

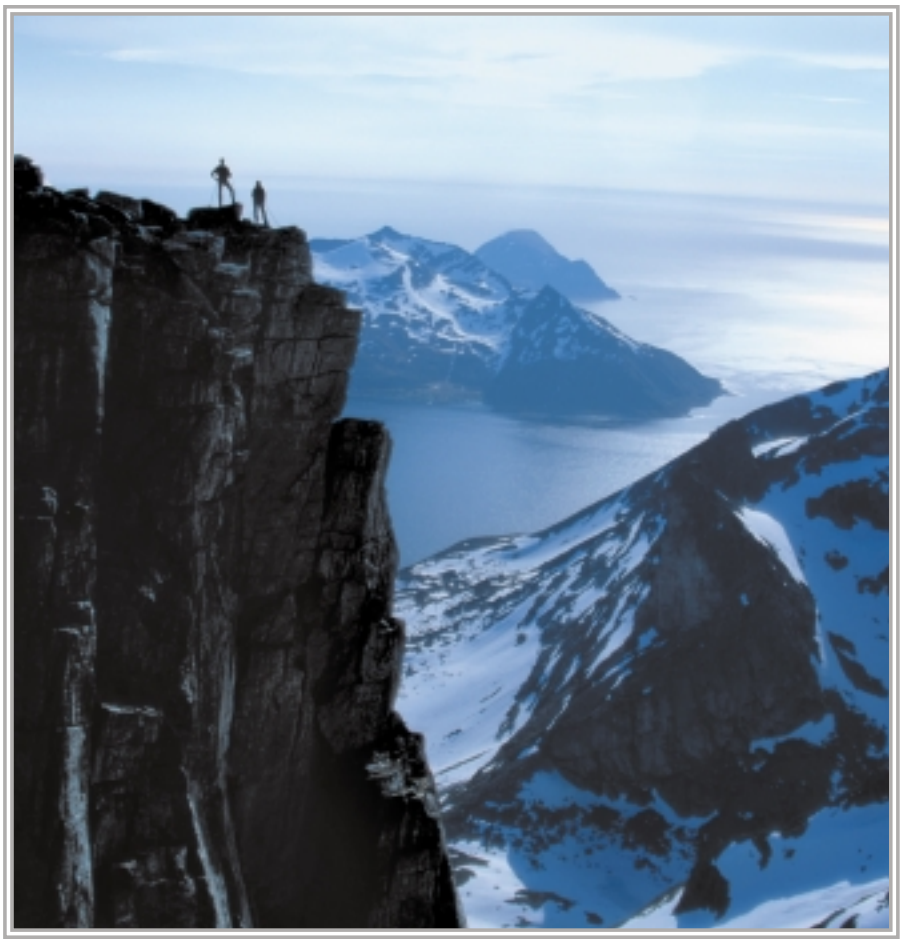
A Leading Role in the Less Invasive Medical Device Market



Boston Scientific has remained the undisputed leader in less invasive medicine since it pioneered this field. Leadership of such duration comes from a sustained willingness to take risks, literally creating new markets. Our research philosophy focuses not only on developing products that strengthen our presence in the markets we serve but on finding solutions that meet diverse and complex patient needs.

Source: IMS Health projections for the four quarters ending September 30, 2000.

We are determined



37 NEW PRODUCTS CLEARED BY THE FDA •
345 U.S. PATENTS ISSUED • 479 U.S. PATENT APPLICATIONS FILED

...to continue to create new technologies and products that save and improve lives. This is both our heritage and our future. By combining the best people and practices with the insights of the world's leading physicians, we will take innovation to an even higher level. Our collaboration with our physician partners will help develop even more new therapies, provide even better care and make it possible for even more people to lead active and fulfilling lives.

Leading through technology

Boston Scientific's leadership is tied closely to its many technology innovations, resulting in new products and ongoing product improvements, as the following examples illustrate:

The **Atlantis™ SR IVUS (intravascular ultrasound) imaging catheter** brings new capabilities to the diagnosis of coronary artery disease. It is the only commercially available 40MHz IVUS catheter compatible with smaller, increasingly popular 6 French guiding catheters, and its high frequency makes images easier to read.

Our new **NIRoyal™ Elite Monorail™ Stent System** represents our most advanced stent placement system. It combines several of our most current and innovative technologies in one product, providing excellent stent visualization, vessel support and ease of delivery.

The **GDC® SynerG™ Detachment System** is used in treating brain aneurysms. The latest improvements in the **Guglielmi Detachable Coil** focus on making it possible to detach a coil more accurately, efficiently and consistently.

We are committed

LESS INVASIVE SURGERY IMPACTS QUALITY OF LIFE:
FASTER RECOVERY TIME • FEWER COMPLICATIONS •
LESS TRAUMA • QUICKER RETURN TO NORMAL ACTIVITIES

...to improving the quality of life for patients, their families and loved ones. We are passionate about our work because we know we make a difference in countless lives. We come from many cultures. We live in many countries. We speak many languages. Yet we are united by one belief: that together we can change health care for the better, not just for a few patients, but for thousands around the world. In the end, it all comes down to people.

"*It's clear from all aspects — administrative, engineering, sales and marketing — that Boston Scientific's primary focus is on patients. It's clear in everything they do. One of the best things about working with Boston Scientific is that they bring the development engineers to the table early on to work with the docs who will use their products. No other company does it like Boston Scientific.*"

Dr. Douglas Coldwell
Interventional Radiologist
Good Samaritan Hospital, Phoenix

"*Boston Scientific's products are without peer. They are innovative and ergonomically well designed with a lot of physician input, and they're a clear leader in the marriage of coatings and devices. It's a company of great integrity.*"

Dr. Joseph Macaluso
Managing Director
The Urologic Institute of New Orleans

Approximately **9,000** partnering urologists

Approximately **75,000** U.S. patients had Medi-tech venous access products implanted

Approximately **130,000** new cases per year of colon cancer are diagnosed in the U.S.

8,000 partnering interventional radiologists

Over **75,000** aneurysms treated worldwide with the GDC® coil

Approximately **100,000** procedures performed in the U.S. using EPT products

750,000 patients treated worldwide using Scimed balloon catheters

Over **250,000** patients worldwide have advanced coronary artery disease

Approximately **8,000** partnering vascular surgeons

Approximately **9,000** partnering gastroenterologists

1,700,000 angioplasty procedures performed worldwide using Scimed products

Over **1,000,000** cases per year of primary liver cancers diagnosed worldwide

1,100,000 new and recurrent cases of coronary attack occur each year in the U.S.

Over **805,000** procedures for stone management performed worldwide using Microvasive products

Over **90,000** venous access procedures for infusion therapies and hemodialysis performed worldwide using Medi-tech Vaxcel™ products

Approximately **1,000** partnering interventional neuroradiologists and neurosurgeons

BOSTON SCIENTIFIC AND SUBSIDIARIES

Consolidated Financial Statements

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Results of Operations

Years Ended December 31, 2000 and 1999

Net sales for the year ended December 31, 2000 were $2,664 million as compared to $2,842 million in 1999, a decline of 6 percent. Net sales were adversely affected by approximately $30 million arising from foreign currency fluctuations compared to the prior year. Net income for 2000 was $373 million, or $0.91 per share (diluted), as compared to net income for 1999 of $371 million, or $0.90 per share.

United States (U.S.) revenues decreased approximately 9% to $1,577 million during 2000, while international revenues decreased approximately 1% to $1,087 million. The decrease in worldwide sales was principally attributable to a decline in the Company's sales of coronary stents and balloons, primarily in the U.S. Worldwide coronary stent revenues and worldwide coronary balloon revenues were approximately $427 million and $357 million, respectively, during 2000, compared to $604 million and $429 million, respectively, during 1999.

The worldwide coronary stent market is dynamic and highly competitive, with significant market share volatility. In addition, technology and competitive offerings in the market are constantly changing. The Company's reduction in coronary stent revenues during 2000 reflects this volatility. The decline in balloon revenues during 2000 results from new product offerings by the Company's competitors as well as a trend towards fewer balloons being used in stent procedures. In early 2001, the Company received approval from the U.S. Food and Drug Administration to market four NIR® coronary stent systems as well as its Maverick® balloon dilatation catheter in the U.S. The Company believes the launch of these new products will enable the Company to remain competitive in these markets. However, stent revenues for 2001 will be impacted by continued volatility in the worldwide coronary stent market, product development and the timing of submission for and receipt of regulatory approvals to market next generation coronary and peripheral stent platforms in the U.S. and international markets. All of these factors could also negatively impact the Company's ability to transition to new products and to continue to offer competitive stent products. Stent revenues for 2001 may be negatively impacted by a reduction in average selling prices due to competitive pressures.

Gross profit as a percentage of net sales increased from 65.3% in 1999 to 68.8% in 2000. The improvement in gross margin in 2000 is due primarily to the recording of a pre-tax provision of $62 million for excess NIR® stent inventories and purchase commitments during the third quarter of 1999. The improvement is also due to benefits that the Company realized through its increased ability to better manage inventory and lower product costs, partially offset by a shift in the Company's product sales mix.

The Company's new stent systems launched in the U.S. in the first quarter of 2001 will negatively impact gross margins because the systems include more expensive gold-coated stents with higher costing delivery systems. Further, the Company's ability to effectively manage its mix and levels of inventory, including consignment inventory, as the Company transitions to new products will be critical in minimizing excess inventories.

Medinol Ltd. (Medinol), an Israeli company, is the supplier of the NIR® coronary stent. Any unforeseen delays, stoppages or interruptions in the supply and/or mix of NIR® stent inventory could adversely affect the operating results and/or revenues of the Company. Generally, the Company has less control over inventory manufactured by third parties as compared to inventory manufactured internally. Furthermore, the purchase price of NIR® coronary stents, the amount of NIR® coronary stent sales as a percentage of worldwide sales and the mix of coronary stent platforms could significantly impact gross margins. As average selling prices for the NIR® stents fluctuate, the Company's cost to purchase the stents will change, because cost is based on a constant percentage of average selling prices. Therefore, if higher-costing NIR® stents are being sold as average selling prices are declining, gross margins could be negatively impacted. At December 31, 2000, the Company had approximately $149 million of net NIR® coronary stent inventory and was committed to purchase approximately $32 million of NIR® stents from Medinol. Worldwide NIR® coronary stent sales as a percentage of worldwide sales were approximately 15% in 2000 compared to approximately 20% in 1999. The Company's relationship with Medinol has been contentious, and the Company's ability to manage its relationship with Medinol could impact the future operating results of the Company.

During the third quarter of 2000, the Company approved and committed to a global operations plan which encompasses a series of strategic initiatives to increase productivity and enhance innovation. The plan includes manufacturing process and supply chain programs and a plant optimization initiative. The manufacturing process and supply chain programs are designed to lower inventory levels and the cost of manufacturing and to minimize inventory write-downs. Gross margin benefits will not be fully realized until manufacturing processes are improved and historical inventories are sold.

The intent of the plant optimization initiative is to better allocate the Company's resources by creating a more effective network of manufacturing and research and development facilities. It will consolidate manufacturing operations along product lines and shift significant amounts of production to Company facilities in Miami and Ireland and to contract manufacturing. The Company's plan includes the discontinuation of manufacturing activities at two facilities in the U.S. and the closure of a third facility. The Company expects that the plan will be substantially completed over the next twelve months. During 2000, the Company recorded a pre-tax special charge of approximately $58 million associated with the plant optimization initiative. The charge relates to severance and outplacement costs for the approximately 1,950 manufacturing, manufacturing support and management employees who are expected to be affected by the plan over the next twelve months. Less than $1 million had been charged against the related accrual for the approximately 10 employees terminated pursuant to the plan as of December 31, 2000. In addition, during 2000, the Company recorded pre-tax costs of $11 million as cost of sales related to transition costs associated with the plant optimization plan and accelerated depreciation on fixed assets whose useful lives have been reduced as a result of the initiative. During 2001, the Company estimates that it will record pre-tax expenses of approximately $70 million as cost of sales related to the plant optimization initiative, primarily for transition costs, accelerated depreciation and abnormal production variances related to under-utilized plant capacity.

The Company expects that it will make total cash outlays, net of proceeds from building and fixed asset sales, of approximately $115 million for the plant optimization initiative, $85 million of which the Company expects to make during 2001 with the remainder being primarily severance costs for employees terminated during 2001 but paid out in 2001 and 2002. The Company anticipates that these cash outlays will be funded from cash flows from operating activities and from the Company's borrowing capacity. The cash outlays include severance and outplacement costs, transition costs and capital expenditures related to the plan. The success of the initiative may be dependent on the Company's ability to retain existing employees and attract new employees during the transition period.

The Company estimates that the global operations plan will achieve pre-tax operating savings, relative to the base year of 1999, of approximately $100 million in 2001, $220 million in 2002 and $250 million in annualized savings thereafter. Incremental pre-tax savings expected to be realized in 2001 relative to 2000 are estimated to be approximately $30 million. These savings will be realized primarily as reduced cost of sales and are expected to help mitigate gross margin pressures resulting from the launch of higher costing stents and stent delivery systems. Additionally, the Company intends to use a portion of these savings, when generated, to increase its investment in research and development.

Selling, general and administrative expenses as a percentage of sales increased from 30% of sales in 1999 to 33% in 2000 and increased approximately $25 million from 1999 to $867 million. The increase in expenses as a percentage of sales in 2000 is primarily attributable to the reduction in sales combined with an increase in costs incurred to strengthen and retain the Company's field sales force and to expand its direct sales presence in international regions. The Company's ability to retain its established sales force may impact the operating results of the Company.

Amortization expense remained at approximately 3% of net sales while decreasing 1% from $92 million in 1999 to $91 million in 2000.

Royalties decreased approximately 20% from $46 million in 1999 to $37 million in 2000. The reduction in royalties is primarily due to non-recurring expenses of approximately $7 million recorded during 1999. The Company continues to enter into strategic technological alliances, some of which include royalty commitments.

Research and development expenses remained at approximately 7% of net sales while increasing 1% from $197 million in 1999 to $199 million in 2000. The investment in research and development dollars reflects spending on new product development programs as well as regulatory compliance and clinical research. The Company continues to be committed to refining existing products and procedures and to developing new technologies that can reduce risk, trauma, cost, procedure time and the need for aftercare. In 2001, the Company expects to increase its investment in research and development over 2000 levels to fund the development of new products and clinical trials, including the Company's drug-coated stent program, the carotid program and an internally developed stent platform. Additionally, the Company plans to expand its research and development teams to enhance the Company's product development, clinical affairs and regulatory compliance capabilities in 2001 and beyond.

Interest expense decreased from $118 million in 1999 to $70 million in 2000. The overall decrease in interest expense is primarily attributable to a lower average debt balance. Other income (expense), net, changed from expense of approximately $9 million in 1999 to income of approximately $17 million in 2000. The change is primarily due to an increase in net gains recognized on sales of available-for-sale securities and to an increase in gains on derivative financial instruments.

The Company's effective tax rate, including the impact of restructuring-related charges and credits, decreased from 34% in 1999 to 29% in 2000. Excluding the impact of restructuring-related charges and credits, the Company's effective tax rate decreased from 34% in 1999 to 30% in 2000. The decrease is primarily attributable to a shift in the mix of the Company's U.S. and international businesses. Management currently estimates that the 2001 effective tax rate will remain at approximately 30%. However, the effective tax rate could be negatively impacted by acquisitions of businesses contemplated by the Company in 2001.

Uncertainty remains with regard to future changes within the health care industry. The trend toward managed care and economically motivated and more sophisticated buyers in the U.S. may result in continued pressure on selling prices of certain products and resulting compression on gross margins. In addition to impacting selling prices, the trend to managed care in the U.S. has also resulted in more complex billing and collection procedures. The Company's ability to react effectively to the changing environment may impact its bad debt and sales allowances in the future. Further, the U.S. marketplace is increasingly characterized by consolidation among health care providers and purchasers of medical devices that prefer to limit the number of suppliers from which they purchase medical products. There can be no assurance that these entities will continue to purchase products from the Company.

International markets are also being affected by economic pressure to contain reimbursement levels and health care costs. The Company's ability to benefit from its international expansion may be limited by risks and uncertainties related to economic conditions in these regions, regulatory and reimbursement approvals, competitive offerings, infrastructure development, rights to intellectual property and the ability of the Company to implement its overall business strategy. Any significant changes in the competitive, political, regulatory or economic environment where the Company conducts international operations may have a material impact on revenues and profits, especially in Japan given its high profitability relative to its contribution to revenues. Deterioration in the Japanese and/or emerging markets economies may impact the Company's ability to grow its business and to collect its accounts receivable. Additionally, 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. These factors may impact the rate at which Boston Scientific can grow. In addition, the impact of selling higher costing stents, the cost of maintaining the Company's sales force and increasing its investment in research and development is expected to result in lower operating margins for 2001. However, management believes that it is positioning the Company to take advantage of opportunities that exist in the markets it serves.

Years Ended December 31, 1999 and 1998

Net sales increased 27% in 1999 to $2,842 million as compared to $2,234 million in 1998. The 1999 results include the operations of Schneider Worldwide (Schneider), which was acquired in the third quarter of 1998. On a pro forma basis, assuming Schneider revenues had been included in all of 1998, net sales in 1999 increased approximately 14%. Net income for 1999 was $371 million or $0.90 per share (diluted) as compared to a reported net loss for 1998 of $264 million, or $0.68 per share, including merger-related charges and credits of $667 million ($527 million, net of tax).

U.S. revenues increased approximately 25% to $1,741 million during 1999, while international revenues increased approximately 31% to $1,101 million. Without the impact of foreign currency exchange rates on translation of international revenues, worldwide sales for 1999 increased approximately 25%. The increase in sales was primarily attributable to the inclusion of Schneider sales for the entire year and the Company's sales of coronary stents in the U.S. and Japan. U.S. coronary stent revenues and worldwide coronary stent revenues, primarily sales of the NIR® stent, were approximately $409 million and $604 million, respectively, during 1999, compared to $211 million and $324 million, respectively, during 1998. Worldwide NIR® coronary stent sales as a percentage of worldwide sales were approximately 20% in 1999 compared to approximately 13% in 1998.

Gross profit as a percentage of net sales decreased from 67.1% in 1998 to 65.3% in 1999. The decrease in gross margin is primarily due to a provision recorded in the third quarter of 1999 of $62 million for excess NIR® stent inventories and purchase commitments. The excess position was driven primarily by a shortfall in planned third-quarter NIR® stent revenues, a reduction in NIR® stent sales forecasted for 1999 and 2000, and strategic decisions regarding versions of the NIR® stent system to be launched. In the third quarter of 1998, the Company provided $31 million for costs associated with the Company's decision to recall voluntarily the NIR ON® Ranger™ with Sox™ coronary stent system in the U.S. Excluding these charges, gross margins were 67.5% and 68.1% for 1999 and 1998, respectively. Gross margins during 1999 were positively impacted compared to 1998 by a reduction in other inventory charges. However, the reduction was offset by a decrease in average selling prices and increased manufacturing costs.

Selling, general and administrative expenses as a percentage of sales decreased from 34% of sales in 1998 to 30% of sales in 1999 and increased approximately $87 million from 1998 to $842 million. The decrease as a percentage of sales is primarily attributable to the increase in sales due to the launch of coronary stents in the U.S. and Japan, the realization of synergies as the Company integrated Schneider into its organization, and improved returns in Asia Pacific and Latin America as the Company continued to leverage its direct sales infrastructure. The increase in expense dollars is primarily attributable to higher selling expenses as a result of the launch of coronary stents in the U.S., increased costs to expand the Company's direct sales presence in Asia Pacific and Latin America, and increased legal expenses.

Amortization expense increased from $53 million in 1998 to $92 million in 1999 and increased as a percentage of sales from 2% to 3%. The increase is primarily a result of the amortization of intangibles related to the purchase of Schneider.

Royalty expense increased approximately 48% from $31 million in 1998 to $46 million in 1999. The increase in royalties is primarily due to royalty obligations assumed in connection with the Schneider acquisition and payments made to Medinol on sales of internally developed stent platforms.

Research and development expenses decreased as a percentage of sales from 9% in 1998 to 7% in 1999. Research and development expenses were $200 million in 1998 and $197 million in 1999. The decrease as a percentage of sales is primarily attributable to the launch of coronary stents in the U.S. and Japan and the realization of synergies in connection with the Schneider acquisition.

During 1999, the Company identified and reversed restructuring and merger-related charges of $10 million no longer deemed necessary. These amounts related primarily to the restructuring charges accrued in the fourth quarter of 1998 and reflect the reclassification of assets from held-for-disposal to held-for-use resulting from management's decision to resume a development program previously planned to be eliminated. In addition, estimated severance costs for 1998 initiatives were reduced as a result of attrition. During 1998, the Company recorded merger-related charges and credits of $667 million ($527 million, net of tax) primarily related to purchased research and development acquired in the $2.1 billion cash purchase of

Schneider. On September 10, 1998, the Company consummated its acquisition of Schneider, formerly a member of the Medical Technology Group of Pfizer Inc. The acquisition was accounted for using the purchase method of accounting. The consolidated financial statements include Schneider's operating results from the date of acquisition.

The aggregate purchase price of the Schneider acquisition has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The estimated excess of purchase price over the fair value of the net tangible assets acquired was allocated to specific intangible asset categories with the remainder assigned to excess of cost over net assets acquired. At December 31, 2000, the net intangibles recorded in connection with the Schneider acquisition, including the excess of cost over net assets acquired, represented 39% and 70% of the Company's total assets and stockholders' equity, respectively. Core technology, developed technology, assembled workforce, trademarks and patents are being amortized on a straight-line basis over periods ranging from 9 to 25 years. The Company is amortizing the value assigned to customer lists (relationships) over 25 years because it has been the Company's experience that physician and hospital relationships are built for the long term and fundamental to the Company's business of bringing innovative products to market. The Company realizes that maintaining these and similar relationships will require ongoing efforts. However, both Schneider and the Company have over a 20-year history of working closely with interventionalists and their institutions for both vascular and nonvascular applications, and management believes these relationships will continue to benefit the Company. In addition, after considering the long-term prospects for the less invasive medical device industry and the fundamental role of catheter-based interventional medicine, as well as Schneider's competitive position within the industry, management concluded that it is appropriate to amortize the excess of the Schneider purchase price over the fair value of the assets acquired over 40 years. Finally, the Company recorded a $671 million ($524 million, net of tax) charge to account for purchased research and development. The valuation of purchased research and development, for which management is primarily responsible, represents the estimated fair value at the date of acquisition related to in-process projects. As of the date of acquisition, the in-process projects had not yet reached technological feasibility and had no alternative future uses. Accordingly, the value attributable to these projects was immediately expensed at acquisition. If the projects are not successful or completed in a timely manner, the Company may not realize the financial benefits expected for these projects.

The income approach was used to establish the fair values of the purchased research and development. This approach established the fair value of an asset by estimating the after-tax cash flows attributable to the in-process project over its useful life and then discounting these after-tax cash flows back to a present value. Revenue estimates were based on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected product introductions by competitors. In arriving at the value of the in-process research and development projects, the Company considered, among other factors, the in-process project's stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs to complete, the contribution of core technologies and other acquired assets, the expected introduction date, and the estimated useful life of the technology. The discount rate used to arrive at a present value as of the date of acquisition was based on the time value of money and medical technology investment risk factors. For the Schneider purchased research and development programs, a risk-adjusted discount rate of 28% was utilized to discount the projected cash flows. The Company believes that the estimated purchased research and development amounts so determined represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the projects.

The most significant Schneider purchased research and development projects that were in-process at the date of acquisition were brachytherapy, devices for aneurysmal disease and coronary stents, which represented approximately 26%, 20% and 16% of the in-process value, respectively. Set forth below are descriptions of these in-process projects, including their status at the end of 2000.

The brachytherapy system is an intravascular radiation system designed to reduce clinical restenosis after a balloon angioplasty and/or a stent procedure. The system consists of a computer-controlled afterloader, beta radiation source, centering catheter, source delivery wire and dummy wire. As of the date of acquisition, the project was expected to be completed and the products commercially available in the U.S. within

two to three years, with an estimated cost to complete of approximately $5 million to $10 million.

The aneurysmal disease projects are endoluminal grafts for the treatment of late stage vascular aneurysms and occlusions. The most significant of the projects in this category at the date of acquisition was the endoluminal graft for the treatment of abdominal aortic aneurysms. As of the date of acquisition, the projects were expected to be completed and the products commercially available in the U.S. within two to three years, with an estimated cost to complete of approximately $10 million to $15 million.

Coronary stent systems underway at the date of acquisition were stent systems for native coronary artery disease, saphenous vein graft disease, and versions with novel delivery systems. The Company believes that the stent systems will be especially helpful in the treatment of saphenous vein graft disease. As of the date of acquisition, the projects were expected to be completed and the products commercially available for sale in the U.S. within one year with an estimated cost to complete of approximately $1 million to $3 million.

In the second quarter of 2000, the brachytherapy project was discontinued due to system performance issues. However, the Company recently outsourced this project to a third party in which it holds a minority interest. As part of a subsequent project consolidation program, the Schneider abdominal aortic aneurysm project has been integrated with another internal project. As a result, the Company will pursue the development of next-generation products for aortic aneurysmal disease with an integrated platform while minimizing duplicative research and development. The cost of the development is still estimated to be in the range of approximately $10 million to $15 million. The coronary stent projects have been completed.

During 1998, the Company established a rationalization plan in conjunction with the consummation of the Schneider acquisition, taking into consideration duplicate capacity as well as opportunities for further leveraging of cost and technology platforms. The Company's actions, approved and committed to in the fourth quarter of 1998, included the planned displacement of approximately 2,000 positions, over half of which were manufacturing positions and would result in annualized cost savings of approximately $50 million to $75 million. During the fourth quarter of 1998, the Company estimated the costs associated with these activities, excluding transition costs, to be approximately $62 million, most of which represented severance and related costs. Approximately $36 million of the total was capitalized as part of the purchase price of Schneider. The remaining $26 million was charged to operations during 1998. In addition, as part of the Schneider acquisition, the Company capitalized estimated costs of approximately $16 million to cancel Schneider's contractual obligations, primarily with its distributors.

The Company substantially completed its rationalization plan in 1999, including the closure of five Schneider facilities as well as the transition of manufacturing for selected Boston Scientific product lines to different sites. Approximately 1,800 positions were eliminated (resulting in the termination of approximately 1,500 employees) in connection with the rationalization plan, and the anticipated cost savings have been achieved. As noted previously, in the third quarter of 1999, the Company identified and reversed restructuring and merger-related charges of $10 million no longer deemed necessary. During 1999, the costs related to the transition of manufacturing operations were not significant and were recognized in operations as incurred.

The 1998 rationalization plan also resulted in the decision to expand, not close, the Target Therapeutics, Inc. (Target) facilities originally provided for in a 1997 merger-related charge and to relocate other product lines to those Target facilities. In the fourth quarter of 1998, the Company reversed $21 million of previously recorded merger-related charges, of which $4 million related to facility costs and which also included reductions for revisions of estimates relating to contractual commitment payments, associated legal costs and other asset write-downs originally provided for as a 1997 merger-related charge.

In the second quarter of 1998, the Company realigned its operating units and decided to operate Target independently instead of as a part of its vascular division as was planned at the date of the Target acquisition. Management believed that an independent Target would allow the business unit to develop its technologies and markets more effectively than it would as part of the vascular division. As a result of this decision, the Company reversed $20 million of 1997 Target merger-related charges primarily related to revised estimates for costs of workforce reductions and costs of canceling contractual commitments. In addition, the Company recorded purchased research and development of approximately $11 million in connection

with another acquisition consummated during 1998, and, in the fourth quarter of 1998, the Company recorded $30 million of year-end adjustments related primarily to write-downs of assets no longer deemed to be strategic. The assets related primarily to inventory, long-lived and intangible assets that the Company did not believe would be sold or realized, respectively, because of revisions to and terminations of strategic alliances. The provisions were recorded as costs of sales ($12 million), selling, general and administrative expenses ($12 million), amortization expenses ($2 million), royalties ($2 million), research and development expenses ($1 million) and other expenses ($1 million).

Interest expense increased from $68 million in 1998 to $118 million in 1999. The overall increase in interest expense was primarily attributable to a higher average outstanding debt balance borrowed in conjunction with the Schneider acquisition.

The Company's effective tax rate, including the impact of merger-related charges and credits, was approximately 4% in 1998 and 34% in 1999. The Company's pro-forma effective tax rate, excluding the impact of merger-related charges and credits, increased from approximately 33% in 1998 to 34% in 1999. The increase is primarily attributable to a shift in the mix of the Company's U.S. and international business.

Liquidity and Capital Resources

Cash and short-term investments totaled $60 million at December 31, 2000, compared to $78 million at December 31, 1999. The Company had $173 million of working capital at December 31, 2000 as compared to current assets equaling current liabilities at December 31, 1999. The increase in working capital is primarily due to the repayment of approximately $340 million of short-term debt obligations using the Company's cash flows from operations, partially offset by changes in other working capital accounts. Cash proceeds during 2000 were generated primarily from operating activities. Cash proceeds during the period were partially offset by the repayment of approximately $447 million of outstanding short-term and long-term debt obligations and purchases of the Company's common stock of approximately $222 million.

The Company had approximately $56 million and $277 million of commercial paper outstanding at December 31, 2000, and 1999, respectively, at weighted-average interest rates of 8.00% and 6.70%, respectively. In addition, the Company had approximately $187 million and $421 million in revolving credit facility borrowings outstanding at December 31, 2000 and 1999, respectively, at weighted-average interest rates of 4.54% and 6.66%, respectively. At December 31, 2000, the revolving credit facilities totaled $1.65 billion, consisting of a $1.0 billion credit facility that terminates in June 2002, a $600 million 364-day credit facility that terminates in September 2001 and a $50 million uncommitted credit facility. The revolving credit facilities also support the Company's commercial paper borrowings. Use of the borrowings is unrestricted and the borrowings are unsecured. The revolving credit facilities require the Company to maintain a specific ratio of consolidated funded debt (as defined) to consolidated net worth (as defined) plus consolidated funded debt of less than or equal to 60%. As of December 31, 2000, the ratio was approximately 26%.

The Company has the ability to refinance a portion of its short-term debt on a long-term basis through its revolving credit facilities. The Company does not expect that its short-term borrowings as of December 31, 2000, will remain outstanding beyond the next twelve months and, accordingly, the Company has not reclassified any of the short-term borrowings as long-term at December 31, 2000, compared to $108 million of such reclassifications at December 31, 1999.

In March 1998, the Company issued $500 million of seven-year senior notes. The senior notes bear a coupon of 6.625% payable semi-annually, and are not redeemable prior to maturity or subject to any sinking fund requirements.

The Company had 6.0 billion Japanese yen (translated to approximately $53 million and $58 million at December 31, 2000 and 1999, respectively) of borrowings outstanding with a syndicate of Japanese banks. The interest rate on the borrowings is 2.37% and the borrowings are payable in 2002. In addition, the Company had approximately 1.1 billion Japanese yen (translated to approximately $9 million) and 1.2 billion Japanese yen (translated to approximately $12 million) of borrowings outstanding from a Japanese bank used to finance a facility construction project at December 31, 2000, and 1999, respectively. The interest rate on the borrowings is 2.1% and principal payments are due semi-annually through 2012.

The Company has uncommitted Japanese credit facilities with several Japanese banks, which provided for borrowings and promissory notes discounting of up to 15.0 billion Japanese yen (translated to approximately $131 million) and 11.5 billion Japanese yen (translated to approximately $112 million) at December 31, 2000 and 1999, respectively. There was $12 million in borrowings outstanding under the Japanese credit facilities at an interest rate of 1.5% at December 31, 2000 compared to no borrowings at December 31, 1999. At December 31, 2000, approximately $108 million of notes receivable were discounted at average interest rates of approximately 1.5% compared to $112 million of discounted notes receivable at average interest rates of approximately 1.4% at December 31, 1999.

The Company has recognized net deferred tax assets aggregating $226 million at December 31, 2000, and $238 million at December 31, 1999. The assets relate principally to the establishment of inventory and product-related reserves and purchased research and development. In light of the Company's historical financial performance, the Company believes that these assets will be substantially recovered.

The Company is authorized to purchase on the open market and in private transactions up to approximately 60 million shares of the Company's common stock. Stock repurchased under the Company's systematic plan will be used to satisfy its obligations pursuant to its equity incentive plans. Under the authorization, the Company may also repurchase shares outside of the Company's systematic plan. These additional shares would principally be used to satisfy the Company's obligations pursuant to its equity incentive plans, but may also be used for general corporate purposes, including acquisitions. During 2000, the Company repurchased approximately 12 million shares at an aggregate cost of $222 million. As of December 31, 2000, a total of approximately 38 million shares of the Company's common stock have been repurchased.

In December 2000, a jury found that the Company's NIR® coronary stent infringed one claim of a patent owned by Johnson & Johnson. A final decision has not yet been entered pending post trial motions. The Company could be found liable and owe damages of approximately $324 million for past sales, plus interest, and additional damages for sales occurring after the jury verdict. The Company expects to appeal any adverse determination and post the necessary bond pending appeal.

On February 15, 2001, the Company announced the signing of a definitive agreement to acquire Interventional Technologies, Inc (IVT). IVT develops, manufactures and markets minimally invasive devices for use in interventional cardiology, including the Cutting Balloon™ catheter and the Infiltrator® transluminal drug delivery catheter. Boston Scientific will pay approximately $345 million in cash plus additional cash amounts contingent upon achieving performance and other milestones. The transaction is subject to regulatory approval and is expected to be consummated in the second quarter of 2001.

On February 27, 2001, the Company acquired privately held Embolic Protection, Inc., a developer of embolic protection medical devices. Boston Scientific will pay approximately $75 million in cash and assumed restricted stock and options plus additional amounts contingent upon achieving certain performance milestones. Contingent payments would be made in cash or stock of Boston Scientific at the Company's election.

On February 28, 2001, the Company announced the signing of a definitive agreement to acquire Quanum Medical Corporation (Quanum), a manufacturer of medical devices that specializes in drug delivery systems. Boston Scientific will pay an immaterial amount in stock as initial consideration plus additional payments contingent upon achieving performance and other milestones. Contingent payments would be made in stock of Boston Scientific.

On March 5, 2001, the Company announced the acquisition of Catheter Innovations, Inc., a manufacturer of vascular access products. Boston Scientific will pay an immaterial amount as initial consideration plus additional payments contingent upon achieving performance and other milestones. Contingent payments would be made in cash or stock of Boston Scientific at the Company's election.

These acquisition transactions involve contingent payments. The Company expects to make contingent payments in 2001 of approximately $100 million to $200 million for performance and other milestones achieved in connection with these transactions. All of these transactions will be accounted for using the purchase method of accounting.

Management believes it is developing a sound plan to integrate these businesses. The failure to successfully integrate these businesses effectively could impair the Company's ability to realize the strategic and financial

objectives of these transactions. As the health care environment continues to undergo rapid change, management expects that it will continue to focus on strategic initiatives and/or make additional investments in existing relationships. In connection with these and other acquisitions consummated during the last five years, the Company has acquired numerous in-process research and development projects. As the Company continues to build its research base, it is reasonable to assume that it will acquire additional research and development platforms.

Additionally, the Company expects to incur capital expenditures of approximately $100 million during 2001. The Company expects that its cash and cash equivalents, marketable securities, cash flows from operating activities and borrowing capacity will be sufficient to meet its projected operating cash needs, including capital expenditures, restructuring initiatives, and the above-mentioned acquisitions of businesses.

Further, the Company continues to engage in negotiations to acquire Medinol. If the Company is successful in its attempt to acquire Medinol, the Company will need additional financing capacity to consummate the transaction. Although the Company believes it will be able to obtain additional financing, there are no assurances that additional financing can be or will be obtained.

Market Risk Disclosures

In the normal course of business, the Company is exposed to market risk from changes in interest rates and foreign currency exchange rates. The Company addresses these risks through a risk management program that includes the use of derivative financial instruments. The program is operated pursuant to documented corporate risk management policies. The Company does not enter into any derivative transactions for speculative purposes.

The Company's floating and fixed-rate investments and debt obligations are subject to interest rate risk. As of December 31, 2000, a 100-basis-point increase in interest rates, assuming the amount invested and borrowed remained constant, would not result in a material increase in the Company's then current net interest.

The Company enters into foreign exchange forward contracts to hedge its net recognized foreign currency transaction exposures for periods consistent with commitments, generally one to six months. In addition, on January 1, 2000, the Company initiated a program to hedge a portion of its forecasted intercompany and third-party transactions with foreign exchange forward and option contracts upon adoption of the Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Hedging activity is intended to offset the impact of currency fluctuations on forecasted earnings and cash flow. However, the Company may be impacted by changes in foreign currency exchange rates related to the unhedged portion. The success of the hedging program depends, in part, on forecasts of transaction activity in various currencies (currently the Japanese yen and the euro). The Company may experience unanticipated foreign currency exchange gains or losses to the extent that there are timing differences between forecasted and actual activity during periods of currency volatility. The Company had foreign exchange forward and option contracts outstanding in the total notional amount of $452 million and $128 million as of December 31, 2000, and 1999, respectively. The Company has recorded approximately $37 million of assets and $1 million of liabilities to recognize the fair value of its contracts outstanding on December 31, 2000, as compared to an immaterial amount at December 31, 1999. Foreign exchange contracts that hedge net recognized foreign currency transaction exposures should not subject the Company's earnings and cash flow to material risk due to exchange rate movements because gains and losses on these contracts should offset losses and gains on the transactions being hedged. Hedges of anticipated transactions may subject the income statement to volatility.

A sensitivity analysis of changes in the fair value of foreign exchange contracts outstanding at December 31, 2000 indicates that, if the U.S. dollar uniformly weakened by 10% against all currencies, the fair value of these contracts would decrease by $37 million as compared to a $9 million decrease based on foreign exchange contracts outstanding at December 31, 1999. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by changes in the value of the underlying exposures being hedged. 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. Therefore, most international 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.

Although the Company engages in hedging transactions that may offset the effect of fluctuations in foreign currency exchange rates on foreign currency denominated assets, liabilities, earnings and cash flows, financial exposure may nonetheless result, primarily from the timing of transactions, forecast volatility and the movement of exchange rates.

Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates among existing sovereign currencies and the euro. On January 1, 2001, Greece became the twelfth member of the participating countries that have agreed to adopt the euro as their common legal currency. Fixed conversion rates among the participating countries' existing currencies (the legacy currencies) and the euro have been established. The legacy currencies are scheduled to remain legal tender as denominations of the euro until at least January 1, 2002 (but not later than July 1, 2002). During this transition period, parties may settle transactions using either the euro or a participating country's legacy currency. The Company has addressed and/or continues to address the potential impact resulting from the euro conversion, including adaptation of information technology systems, competitive implications related to pricing and foreign currency considerations.

Management currently believes that the euro conversion will not have a material impact related to its overall business in Europe or elsewhere. The increased price transparency resulting from the use of a single currency in the twelve participating countries may affect the ability of the Company to price its products differently in the various European markets. A possible result of this is price harmonization at lower average prices for products sold in some markets. However, uncertainty exists as to the effects the euro will have on the marketplace.

Litigation

The Company is involved in various lawsuits, including patent infringement and 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. Additionally, legal costs associated with asserting the Company's patent portfolio and defending against claims that the Company's products infringe the intellectual property of others are significant, and legal costs associated with non-patent litigation and compliance activities are rising. Depending upon the prevalence, significance and complexity of these matters, the Company's legal provision could be adversely affected in the future.

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 that management believes is adequate to protect against such product liability losses as could otherwise materially affect the Company's financial position.

Cautionary Statements 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 discussed in this report include, but are not limited to, statements with respect to, and the Company's performance may be affected by: (a) the Company's ability to timely implement the global operations plan within its cost estimates, to retain and attract employees as it implements its plant optimization initiative and to achieve estimated operating savings; (b) the Company's ability to achieve manufacturing cost declines, gross margin benefits and inventory reductions from its manufacturing process and supply chain programs; (c) the Company's ability to continue to realize benefits from

the Schneider acquisition, including purchased research and development and physician and hospital relationships; (d) the ability of the Company to manage accounts receivable, manufacturing costs and inventory levels and mix, and to react effectively to changing managed care environment, reimbursement levels and worldwide economic conditions; (e) the potential impacts of continued consolidation among health care providers, trends toward managed care, disease state management and economically motivated buyers, health care cost containment, the financial viability of health care providers, more stringent regulatory requirements and more vigorous enforcement activities; (f) management's ability to position the Company to take advantage of opportunities that exist in the markets it serves; (g) the Company's ability to retain its established sales force; (h) the Company's continued commitment to refine existing products and procedures and to develop new technologies that can reduce risk, trauma, cost, procedure time, and the need for aftercare; (i) the Company's ability to increase its investment in research and development and to develop, trial and launch products on a timely basis, including products resulting from purchased research and development; (j) risks associated with international operations; (k) 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; (l) the Company's ability to maintain its effective tax rate for 2001 and to substantially recover its net deferred tax assets; (m) the ability of the Company to meet its projected cash needs and obtain additional financing, if necessary; (n) the ability of the Company to manage its relationship with Medinol; (o) unforeseen delays, stoppages or interruptions in the supply and/or mix of NIR® coronary stent inventory, difficulties in managing inventory relating to new product introductions and the Company's cost to purchase the NIR® coronary stent; (p) NIR® coronary stent sales as a percentage of worldwide sales and the mix of coronary stent platforms; (q) volatility in the coronary stent market, delays in development of new stent platforms and the timing of submission for and receipt of regulatory approvals to market new coronary and peripheral stent platforms; (r) the Company's ability to remain competitive in the coronary stent and balloon markets; (s) the development of competing or technologically advanced products by the Company's competitors; (t) the ability of the Company to close the IVT and Quanum acquisitions; (u) the Company's ability to develop a sound integration plan, effectively integrate newly acquired businesses and realize their strategic and financial objectives; (v) the effect of litigation and compliance activities on the Company's legal provision and cash flow; (w) the impact of stockholder class action, patent, product liability, Federal Trade Commission and other litigation, as well as the outcome of the U.S. Department of Justice investigation and the adequacy of the Company's product liability insurance; (x) the potential impact resulting from the euro conversion, including adaptation of information technology systems, competitive implications related to pricing, and foreign currency considerations; and (y) the timing, size and nature of strategic initiatives and research and development platforms available to the Company.

Several important factors, in addition to the specific factors discussed in connection with such forward-looking statements individually, could affect the future results and growth rates of the Company and could cause those results and rates 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, third-party intellectual property, 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 MILLIONS, EXCEPT PER SHARE DATA)

Year Ended December 31,	2000	1999	1998
Net sales	$2,664	$2,842	$2,234
Cost of products sold	832	986	735
Gross profit	1,832	1,856	1,499
Selling, general and administrative expenses	867	842	755
Amortization expense	91	92	53
Royalties	37	46	31
Research and development expenses	199	197	200
Purchased research and development			682
Restructuring and merger-related charges (credits)	58	(10)	(15)
	1,252	1,167	1,706
Operating income (loss)	580	689	(207)
Other income (expense):			
Interest expense	(70)	(118)	(68)
Other, net	17	(9)	
Income (loss) before income taxes	527	562	(275)
Income taxes	154	191	(11)
Net income (loss)	$373	$371	$(264)
Net income (loss) per common share - basic	$ 0.92	$ 0.92	$ (0.68)
Net income (loss) per common share - assuming dilution	$ 0.91	$ 0.90	$ (0.68)

(SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.)

CONSOLIDATED BALANCE SHEETS (IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)

Year Ended December 31,	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54	$ 64
Short-term investments	6	14
Trade accounts receivable, net	361	445
Inventories	354	376
Deferred income taxes	152	121
Prepaid expenses and other current assets	65	35
Total current assets	992	1,055
Property, plant and equipment, net	567	604
Other assets:		
Excess of cost over net assets acquired, net	821	840
Technology – core and developed, net	507	570
Patents, trademarks and other intangibles, net	343	316
Deferred income taxes	74	117
Investments	99	55
Other assets	24	15
	$3,427	$3,572

(SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.)

CONSOLIDATED BALANCE SHEETS (CONTINUED) (IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)

Year Ended December 31,	2000	1999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Commercial paper	$ 56	$ 277
Bank obligations	204	323
Accounts payable	67	92
Accrued expenses	279	286
Accrual for restructuring and merger-related charges	73	32
Income taxes payable	137	42
Other current liabilities	3	3
Total current liabilities	819	1,055
Long-term debt	562	678
Obligations under capital leases	12	10
Other long-term liabilities	99	105
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $ .01 par value – authorized 50,000,000 shares, none issued and outstanding		
Common stock, $ .01 par value – authorized 600,000,000 shares, 414,922,050 shares issued at December 31, 2000 and 1999	4	4
Additional paid-in capital	1,210	1,210
Treasury stock, at cost – 15,074,381 shares at December 31, 2000 and 5,872,857 shares at December 31, 1999	(282)	(126)
Deferred compensation	(15)	
Retained earnings	1,116	752
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	(142)	(123)
Unrealized gain on available-for-sale securities, net	17	7
Unrealized gain on derivative financial instruments, net	27	
Total stockholders' equity	1,935	1,724
	$3,427	$3,572

(SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.)

Consolidated Statements of Stockholders' Equity (in millions, except share data)

	Common Stock		Additional Paid-In Capital	Contingent Stock Repurchase Obligation	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
	Shares Issued (In thousands)	Par Value							
BALANCE AT DECEMBER 31, 1997	195,611	$2	$433	$18	$(96)		$678	$(77)	
Comprehensive loss:									
Net loss							(264)		$(264)
Other comprehensive income (expense), net of tax:									
Foreign currency translation adjustment								22	22
Net change in equity investments								(16)	(16)
Issuance of common stock	2,047		47		96		(56)		
Stock split effected in the form of a stock dividend	196,528	2					(2)		
Expiration of stock repurchase obligation			18	(18)					
Tax benefit relating to incentive stock option and employee stock purchase plans			9				25		
BALANCE AT DECEMBER 31, 1998	394,186	4	507				381	(71)	$(258)
Comprehensive income:									
Net income							371		$371
Other comprehensive income (expense), net of tax:									
Foreign currency translation adjustment								(51)	(51)
Net change in equity investments								6	6
Issuance of common stock	20,736		654		1				
Purchases of common stock for treasury					(127)				
Tax benefit relating to incentive stock option and employee stock purchase plans			49						
BALANCE AT DECEMBER 31, 1999	414,922	4	1,210		(126)		752	(116)	$326
Comprehensive income:									
Net income							373		$373
Other comprehensive income (expense), net of tax:									
Foreign currency translation adjustment								(19)	(19)
Net change in equity investments								10	10
Net change in derivative financial instruments								27	27
Issuance of common stock			(7)		45		(9)		
Issuance of restricted stock			2		24	$(26)			
Cancellation of restricted stock					(3)	3			
Purchases of common stock for treasury					(222)				
Tax benefit relating to incentive stock option and employee stock purchase plans			5						
Amortization of deferred compensation						8			
BALANCE AT DECEMBER 31, 2000	414,922	$4	$1,210		$(282)	$(15)	$1,116	$(98)	$391

(See notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS (IN MILLIONS)

Year Ended December 31,	2000	1999	1998
OPERATING ACTIVITIES:			
Net income (loss)	$373	$371	$(264)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Gain on sale of equity investments	(14)		(5)
Depreciation and amortization	181	178	129
Deferred income taxes	2	(29)	(151)
Noncash special credits		(5)	(36)
Purchased research and development			682
Tax benefit relating to stock option and employee stock purchase plans	5	49	34
Increase (decrease) in cash flows from operating assets and liabilities:			
Trade accounts receivable	78	82	(95)
Inventories	15	68	(26)
Prepaid expenses and other current assets	(24)	8	7
Accounts payable and accrued expenses	(27)	38	36
Accrual for restructuring and merger-related charges	45	(45)	(22)
Other liabilities	91	58	11
Other, net	14	3	(7)
Cash provided by operating activities	739	776	293
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(76)	(80)	(175)
Proceeds from sales of property, plant and equipment	4	21	1
Sales of available-for-sale securities	15	5	11
Acquisitions of businesses, net of cash acquired			(2,060)
Payments related to 1998 acquisition		(128)	
Payments for acquisitions of and/or investments in certain technologies, net	(50)	(3)	(2)
Cash used for investing activities	(107)	(185)	(2,225)
FINANCING ACTIVITIES:			
Net (decrease) increase in commercial paper	(221)	(1,539)	1,393
Net (payments on) proceeds from borrowings on revolving credit facilities	(234)	421	
Proceeds from notes payable and long-term debt, net of debt issuance costs	22	8	522
Payments on notes payable, capital leases and long-term borrowings	(14)	(10)	(33)
Proceeds from issuances of shares of common stock	29	655	66
Acquisitions of treasury stock	(222)	(127)	
Other, net	2	(1)	(5)
Cash (used for) provided by financing activities	(638)	(593)	1,943
Effect of foreign exchange rates on cash	(4)	(4)	1
Net (decrease) increase in cash and cash equivalents	(10)	(6)	12
Cash and cash equivalents at beginning of year	64	70	58
Cash and cash equivalents at end of year	$54	$64	$70

(SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.)

Note A – Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Boston Scientific Corporation (Boston Scientific or the Company) and its subsidiaries, substantially all of which are wholly-owned, and include the results of Schneider Worldwide (Schneider) beginning in September 1998. Investments in companies, representing 20% to 50% of their ownership, are accounted for under the equity method, including the Company's 22% ownership in Medinol Ltd. (Medinol). Income recorded in connection with these investments did not have a material impact on the Company's operating results during the periods presented. Investments in companies, representing less than 20% of their ownership, are accounted for under the cost method.

ACCOUNTING ESTIMATES: The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

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, derivative instrument contracts 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. Counterparties to financial instruments expose the Company to credit-related losses in the event of non-performance. The Company transacts derivative instrument contracts with major financial institutions to limit its credit exposure.

The Company provides credit, in the normal course of business, primarily to hospitals, private and governmental institutions and health care agencies and doctors' offices. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses.

INVENTORIES: Inventories are stated at the lower of first-in, first-out cost or market. Generally, write-downs of consignment inventory are charged to selling, general and administrative expenses.

PROPERTY, PLANT AND EQUIPMENT: 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-12 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 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 recorded at historical cost and amortized using the straight-line method over the following lives: Patents and trademarks (3–20 years); Licenses (2–20 years); Core and developed technology (3–25 years); Excess of cost over net assets acquired (8–40 years); Other intangibles (various).

The Company reviews its excess of cost over net assets acquired and other intangible assets to determine if any adverse conditions exist that would indicate impairment. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset or an adverse action or assessment by a regulator. If the carrying amount of an asset exceeds the sum of its undiscounted cash flows, the carrying value is written down to fair value

in the period identified. Fair value is calculated as the present value of estimated future cash flows using a risk-adjusted discount rate commensurate with the Company's weighted-average cost of capital.

INCOME TAXES: The Company utilizes the asset and 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. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income taxes are provided on unremitted earnings of subsidiaries outside the United States (U.S.) where such earnings are expected to be repatriated. The Company intends to determine annually the amount of unremitted earnings of non-U.S. subsidiaries to invest indefinitely in its non-U.S. operations. It is not practical to estimate the amount of taxes payable on earnings determined to be invested indefinitely in non-U.S. operations. At December 31, 2000, unremitted earnings of non-U.S. subsidiaries were $758 million.

REVENUE RECOGNITION: The Company recognizes revenue from the sale of its products when the products are shipped to its customers unless a consignment arrangement exists. Revenue from consignment customers is recognized based on notification from the customer of usage indicating sales are complete. 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. Accruals are made and evaluated for adequacy for all returns.

LEGAL COSTS: The Company accrues costs of settlement, damages and, under certain conditions, costs of defense when such costs are probable and estimable. Otherwise, such costs are expensed as incurred.

RESEARCH AND DEVELOPMENT: Research and development costs are expensed as incurred.

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 for Stock-Based Compensation." Any compensation cost on fixed awards with pro rata vesting is recognized on a straight-line basis over the award's vesting period.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: As of January 1, 2000, the Company adopted Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was issued in June, 1998 and its amendments Statements 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133" and 138, "Accounting for Derivative Instruments and Certain Hedging Activities" issued in June 1999 and June 2000, respectively (collectively referred to as Statement 133).

As a result of adoption of Statement 133, the Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in stockholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting. Changes in fair values of derivatives not qualifying for hedge accounting are reported in earnings.

The Company recorded an immaterial transition adjustment upon adoption of Statement 133.

NEW ACCOUNTING STANDARD: In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," which the Company adopted in the fourth quarter of 2000. SAB 101 provides a framework for various revenue recognition issues and more conservative interpretations of existing accounting guidance. The Company's adoption of this bulletin had no material effect on the Company's reported results of operations or financial position.

SHIPPING AND HANDLING COSTS: The Company does not generally recognize revenue from shipping and handling of its products. Shipping and handling costs are recorded as selling, general and administrative expenses.

NET INCOME PER COMMON SHARE: Net income (loss) per common share is based upon the weighted-average number of common shares, common share equivalents and the dilutive effect of European put options, if applicable, outstanding each year. The Company paid a two-for-one stock split on November 30, 1998. All historical per-share amounts have been restated to reflect the stock split.

RECLASSIFICATIONS: Certain prior years' amounts have been reclassified to conform to the current year's presentation.

NOTE B – OTHER BALANCE SHEET INFORMATION

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

(In millions)	2000	1999
TRADE ACCOUNTS RECEIVABLE		
Accounts receivable	$428	$508
Less allowances	67	63
	$361	$445
INVENTORIES		
Finished goods	$172	$194
Work-in-process	59	60
Raw materials	123	122
	$354	$376
PROPERTY, PLANT AND EQUIPMENT		
Land	$ 56	$ 56
Buildings and improvements	365	376
Equipment, furniture and fixtures	521	508
	942	940
Less accumulated depreciation and amortization	375	336
	$567	$604
EXCESS OF COST OVER NET ASSETS ACQUIRED		
Excess of cost over net assets acquired	$879	$886
Less accumulated amortization	58	46
	$821	$840
TECHNOLOGY – CORE AND DEVELOPED		
Core technology	$421	$421
Developed technology	220	222
	641	643
Less accumulated amortization	134	73
	$507	$570
PATENTS, TRADEMARKS AND OTHER		
Patents and trademarks	$296	$284
Licenses	102	69
Other	77	75
	475	428
Less accumulated amortization	132	112
	$343	$316
ACCRUED EXPENSES		
Payroll and related liabilities	$ 112	$97
Other	167	189
	$279	$286

During 2000, the Company purchased approximately $130 million of NIR® coronary stents from Medinol and had approximately $149 million of net NIR® inventory on hand as of December 31, 2000. Any delays, stoppages, or interruptions in the supply and/or mix of the NIR® stent could adversely affect the operating results of the Company. Worldwide NIR® coronary stent sales were approximately 15% of 2000 worldwide sales.

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

(In millions)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
DECEMBER 31, 2000				
AVAILABLE-FOR-SALE:				
Cash and money market accounts	$54			$54
Equity securities (with a readily determinable fair value)	42	$28	$1	15
	$96	$28	$1	$69
DECEMBER 31, 1999				
AVAILABLE-FOR-SALE:				
Cash and money market accounts	$64			$64
Equity securities (with a readily determinable fair value)	29	$17	$5	17
	$93	$17	$5	$81

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, 2000 and 1999, the Company had investments totaling $63 million, including its investment in Medinol, and $40 million, respectively, in which the fair value was not readily determinable. During 2000, the Company received cash dividends of approximately $25 million, net of tax, from Medinol.

NOTE D – BORROWINGS AND CREDIT ARRANGEMENTS

The Company's borrowings at December 31 consisted of:

(In millions)	2000	1999
Commercial paper	$ 56	$277
Bank obligations – short-term	204	323
Long-term debt – fixed rate	562	570
Long-term debt – floating rate		108
Capital leases (see Note E)	12	10

The Company had approximately $56 million and $277 million of commercial paper outstanding at December 31, 2000 and 1999, respectively, at weighted-average interest rates of 8.00% and 6.70%, respectively. In addition, the Company had approximately $187 million and $421 million in revolving credit facility borrowings outstanding at December 31, 2000 and 1999, respectively, at weighted-average interest rates of 4.54% and 6.66%, respectively. At December 31, 2000, the revolving credit facilities totaled $1.65 billion, consisting of a $1.0 billion credit facility that terminates in June 2002, a $600 million 364-day credit facility that terminates in September 2001 and a $50 million uncommitted credit facility. The revolving credit facilities also support the Company's commercial paper borrowings. Use of the borrowings is unrestricted and the borrowings are unsecured. The revolving credit facilities require the Company to maintain a specific ratio of consolidated funded debt (as defined) to consolidated net worth (as defined) plus consolidated funded debt of less than or equal to 60%. The ratio was approximately 26% and 37% at December 31, 2000 and 1999, respectively.

The Company has the ability to refinance a portion of its short-term debt on a long-term basis through its revolving credit facilities. The Company does not expect that its short-term borrowings as of

December 31, 2000 will remain outstanding beyond the next twelve months and, accordingly, the Company has not reclassified any of the short-term borrowings as long-term at December 31, 2000, compared to $108 million of such reclassifications at December 31, 1999.

In March 1998, the Company issued $500 million of seven-year senior notes. The senior notes bear a coupon of 6.625% payable semi-annually, and are not redeemable prior to maturity or subject to any sinking fund requirements.

The Company had 6.0 billion Japanese yen (translated to approximately $53 million and $58 million at December 31, 2000 and 1999, respectively) of borrowings outstanding with a syndicate of Japanese banks. The interest rate on the borrowings is 2.37% and the borrowings are payable in 2002. In addition, the Company had approximately 1.1 billion Japanese yen (translated to approximately $9 million) and 1.2 billion Japanese yen (translated to approximately $12 million) of borrowings outstanding from a Japanese bank used to finance a facility construction project at December 31, 2000 and 1999, respectively. The interest rate on the borrowings is 2.1% and principal payments are due semi-annually through 2012.

The Company has uncommitted Japanese credit facilities with several Japanese banks, which provided for borrowings and promissory notes discounting of up to 15.0 billion Japanese yen (translated to approximately $131 million) and 11.5 billion Japanese yen (translated to approximately $112 million) at December 31, 2000 and 1999, respectively. There was $12 million in borrowings outstanding under the Japanese credit facilities at an interest rate of 1.5% at December 31, 2000, compared to no borrowings at December 31, 1999. At December 31, 2000, approximately $108 million of notes receivable were discounted at average interest rates of approximately 1.5% compared to $112 million of discounted notes receivable at average interest rates of approximately 1.4% at December 31, 1999.

In addition, the Company had other outstanding short-term bank obligations of $5 million and $10 million at December 31, 2000 and 1999, respectively, at weighted-average interest rates of 6.04% and 5.04%, respectively.

Interest paid, including interest paid under capital leases and mortgage loans, amounted to $69 million in 2000, $117 million in 1999, and $65 million in 1998.

Note E – Leases

Rent expense amounted to $36 million in 2000, $37 million in 1999 and $40 million in 1998. Future minimum rental commitments as of December 31, 2000 under noncancelable capital and operating lease agreements are as follows:

Year Ended December 31, (In millions)	Capital Leases	Operating Leases
2001	$ 2	$ 32
2002	2	27
2003	3	14
2004	3	9
2005	2	8
Thereafter	9	51
Total minimum lease payments	21	$141
Amount representing interest	9	
Present value of minimum lease payments	$ 12	

Note F – 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.

LONG-TERM DEBT: The fair value of the Company's fixed rate long-term debt is estimated

based on quoted market prices. The carrying amounts of the Company's floating rate long-term debt approximate their fair value.

FOREIGN EXCHANGE CONTRACTS: The fair values of foreign exchange contracts are estimated based on the amount that the Company would receive or pay to terminate the agreements at the reporting date. The Company had foreign exchange contracts outstanding in the notional amounts of $452 million and $128 million as of December 31, 2000 and 1999, respectively.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2000 and 1999 are as follows:

	2000		1999	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS:				
Cash, cash equivalents and investments	$ 96	$ 96	$ 93	$ 93
Foreign exchange contracts	37	37		
LIABILITIES:				
Commercial paper	$ 56	$ 56	$ 277	$ 277
Bank obligations – short-term	204	204	323	323
Long-term debt – fixed rate	562	518	570	530
Long-term debt – floating rate			108	108
Foreign exchange contracts	1	1		

NOTE G – INCOME TAXES

Income (loss) before income taxes consisted of:

	Year Ended December 31,		
(In millions)	2000	1999	1998
Domestic	$272	$422	$(346)
Foreign	255	140	71
	$527	$562	$(275)

The related provision (benefit) for income taxes consisted of:

	Year Ended December 31,		
(In millions)	2000	1999	1998
Current:			
Federal	$115	$164	$106
State	8	17	21
Foreign	29	39	13
	152	220	140
Deferred:			
Federal	(9)	(8)	(112)
State	(1)	(1)	(27)
Foreign	12	(20)	(12)
	2	(29)	(151)
	$154	$191	$ (11)

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

	Year Ended December 31,		
(In millions)	2000	1999	1998
Tax at statutory rate	$184	$197	$ (96)
State income taxes, net of federal benefit	5	11	8
Effect of foreign taxes	(36)	(20)	(25)
Non-deductible merger-related expenses and purchased research and development			93
Other, net	1	3	9
	$154	$191	$ (11)

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

(In millions)	2000	1999
Deferred tax assets:		
Inventory costs, intercompany profit and related reserves	$92	$ 89
Tax benefit of net operating loss and tax credits	33	42
Reserves and accruals	36	21
Restructuring and merger-related charges, including purchased research and development	228	230
Other, net	28	21
	417	403
Less valuation allowance on deferred tax assets	27	38
	$390	$365
Deferred tax liabilities:		
Property, plant and equipment	$ (4)	$ (3)
Intangible assets	(66)	(45)
Unremitted earnings of subsidiaries	(58)	(59)
Unrealized gains and losses on available-for-sale securities	(10)	(5)
Unrealized gains and losses on derivative financial instruments	(16)	
Other	(10)	(15)
	(164)	(127)
	$226	$238

At December 31, 2000, the Company had U.S. tax net operating loss carryforwards and tax credits of approximately $23 million that expire periodically beginning in the year 2007. In addition, the Company had foreign tax net operating loss carryforwards of approximately $10 million that will expire periodically beginning in the year 2002. The Company established a valuation allowance of $27 million for these carryforwards. The reduction from 1999 to 2000 in the valuation allowance is primarily related to the utilization of net operating loss carryforwards that were previously restricted by U.S. tax law.

Income taxes paid amounted to $50 million in 2000, $93 million in 1999 and $109 million in 1998. The income tax provision (benefit) of the unrealized gain or loss component of other comprehensive income (loss) was approximately $21 million, $4 million, and $(11) million for 2000, 1999, and 1998, respectively.

Note H – Stockholders' Equity

PREFERRED STOCK: The Company is authorized to issue 50 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, 2000, the Company had no shares of preferred stock outstanding.

COMMON STOCK: The Company is authorized to issue 600 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 paid a two-for-one stock split on November 30, 1998. All historical share and per share amounts have been restated to reflect the stock split except for share amounts presented in the Consolidated Statements of Stockholders' Equity which reflect the actual share amounts outstanding for each period presented.

On June 30, 1999, the Company completed a public offering of 14.950 million shares of its common stock at a price of $39.875 per share under a $1.2 billion shelf registration filed with the Securities and Exchange Commission in September 1998. The Company used the net proceeds from the public offering of approximately $578 million to repay borrowings under the revolving credit facilities. Approximately $604 million remain available for the issuance of various debt or equity securities under the shelf registration.

The Company is authorized to purchase on the open market and in private transactions up to approximately 60 million shares of the Company's common stock. Stock repurchased under the Company's systematic plan will be used to satisfy its obligations pursuant to its equity incentive plans. Under the authorization, the Company may also repurchase shares outside of the Company's systematic plan. These additional shares would principally be used to satisfy the Company's obligations pursuant to its equity incentive plans, but may also be used for general corporate purposes, including acquisitions. During 2000, the Company repurchased approximately 12 million shares at an aggregate cost of $222 million. As of December 31, 2000, a total of approximately 38 million shares of the Company's common stock have been repurchased.

Note I – Stock Ownership Plans

EMPLOYEE AND DIRECTOR STOCK INCENTIVE PLANS

Boston Scientific's 1992 and 1995 Long-Term Incentive Plans provide for the issuance of up to 40 million shares of common stock. During 2000, the Company's Board of Directors and stockholders approved and adopted the Boston Scientific 2000 Long-Term Incentive Plan, which reserves an additional 20 million shares of common stock for issuance under this plan. The terms of these three plans are similar. Together, the plans cover officers of, directors of, employees of and consultants 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 the Compensation Committee of the Board of Directors, consisting of two or more non-employee directors (the Committee), and, 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 directors, 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.

In January 2000, the Company granted under its 1992 and 1995 Long-Term Incentive Plans approximately 1.1 million shares of its common stock to a limited group of employees subject to certain forfeiture restrictions. The purpose of the program was to help retain key employees. The market value of these shares was approximately $26 million on the date of issuance and the vesting period is three years. This amount was recorded as deferred compensation and is shown as a separate component of stockholders' equity. The deferred compensation is being amortized to expense over the vesting period and amounted to approximately $8 million for the year ended December 31, 2000. During the year ended December 31, 2000, approximately 143,000 shares of restricted stock were forfeited. No stock grants were issued in 1999 and 5,000 shares were issued during 1998.

Boston Scientific's 1992 Non-Employee Directors' Stock Option Plan provides for the issuance of up to 200,000 shares of common stock and authorizes the automatic grant to outside directors of options to acquire a specified number of 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 incentive plans totaled approximately 52 million at December 31, 2000.

If the Company had elected to recognize compensation expense for the granting of options under 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 (loss) and earnings (loss) per share would have been reported as the following pro forma amounts:

(In millions, except per share data)	Year Ended December 31, 2000	1999	1998
Net income (loss)			
As reported	$ 373	$ 371	$ (264)
Pro forma	333	329	(302)
Earnings (loss) per common share – assuming dilution			
As reported	$0.91	$0.90	$(0.68)
Pro forma	0.83	0.80	(0.77)

The weighted-average grant-date fair value per share of options granted during 2000, 1999 and 1998, calculated using the Black-Scholes options pricing model, is $8.67, $13.81 and $13.13, respectively.

The fair value of the stock options used to calculate the pro forma net income (loss) and earnings (loss) per share amounts above is estimated using the Black-Scholes options pricing model with the following weighted-average assumptions:

	2000	1999	1998
Dividend yield	0%	0%	0%
Expected volatility	47.20%	48.60%	37.80%
Risk-free interest rate	6.01%	5.37%	5.64%
Actual forfeitures	2,737,000	1,272,000	1,127,000
Expected life	4.6	4.2	3.7

Information related to stock options at December 31 under stock incentive plans is as follows:

(Option amounts in thousands)	2000		1999		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at January 1	31,511	$23.63	32,048	$20.45	33,206	$15.76
Granted	18,441	18.22	6,634	31.57	6,621	35.91
Exercised	(1,348)	11.23	(5,195)	12.39	(5,557)	10.19
Canceled	(4,031)	28.18	(1,976)	28.29	(2,222)	22.02
Outstanding at December 31	44,573	21.36	31,511	23.63	32,048	20.45
Exercisable at December 31	16,921	$19.56	13,346	$16.22	13,053	$11.58

Below is additional information related to stock options outstanding and exercisable at December 31, 2000:

(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
$0.00–8.00	3,669	2.61	$5.71	3,669	$5.71
8.01-16.00	11,655	8.10	12.82	3,765	13.65
16.01-24.00	9,586	8.25	18.68	3,004	20.53
24.01-32.00	11,332	7.65	26.42	3,480	25.07
32.01-40.00	8,105	7.77	36.14	2,945	36.37
40.01-48.00	226	8.53	44.96	58	44.85
	44,573	7.51	$21.36	16,921	$19.56

STOCK PURCHASE PLAN

Boston Scientific's Global Employee Stock Ownership Plan (Stock Purchase Plan) provides for the granting of options to purchase up to 3 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 shares of the Company's common stock equal to not more than 10% of the employee's eligible compensation. Such options may be exercised generally 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 2000, approximately 754,000 shares were issued at prices ranging from $18.59 to $18.65 per share. During 1999, approximately 603,000 shares were issued at prices ranging from $22.47 to $22.79 per share, and during 1998, approximately 380,000 shares were issued at $23.35 per share. At December 31, 2000, there were approximately 219,000 shares available for future issuance.

Note J – Earnings Per Share

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

(In millions, except share and per share data)	Year Ended December 31, 2000	1999	1998
BASIC:			
Net income (loss)	$373	$371	$(264)
Weighted average shares outstanding (in thousands)	405,271	404,783	390,836
Net income (loss) per common share	$0.92	$0.92	$(0.68)
ASSUMING DILUTION:			
Net income (loss)	$373	$371	$(264)
Weighted average shares outstanding (in thousands)	405,271	404,783	390,836
Net effect of dilutive stock-based compensation (in thousands)	3,051	6,568	
Total	408,322	411,351	390,836
Net income (loss) per common share	$0.91	$0.90	$(0.68)

During 2000, 1999 and 1998, approximately 24 million, 7 million and 7 million potential common shares, respectively, were not included in the computation of earnings per share, assuming dilution, because exercise prices were greater than the average market price of the common shares. In addition, during 1998, approximately 9 million stock options were not included in the computation of earnings per share, assuming dilution, because they would have been antidilutive.

Note K – Derivative Instruments and Hedging Activities

Upon adoption of Statement 133, the Company initiated a program to hedge a portion of its forecasted intercompany and third-party transactions with foreign exchange forward and option contracts. These contracts are entered into to reduce the risk that the Company's earnings and cash flows resulting from certain forecasted transactions will be adversely affected by changes in foreign currency exchange rates. However, the Company may be impacted by changes in foreign currency exchange rates related to the unhedged portion. The success of the hedging program depends, in part, on forecasts of transaction activity in various currencies (currently the Japanese yen and the euro). The Company may experience unanticipated foreign currency exchange gains or losses to the extent that there are timing differences between forecasted and actual activity during periods of currency volatility. However, since the critical terms of forward contracts designated as cash flow hedging instruments are the same as the underlying forecasted transaction, changes in the fair value of forward contracts should be highly effective in offsetting the present value of changes in the expected cash flows from the forecasted transaction. The ineffective portion of any changes in the fair value of option contracts designated as cash flow hedging instruments is recognized immediately in earnings. The Company did not recognize material gains or losses resulting from either hedge ineffectiveness or changes in forecast probability during 2000.

The effective portion of any changes in the fair value of the derivative instruments, designated as cash flow hedges, is recorded in accumulated other comprehensive income/(loss) (AOCI) until the third-party

transaction associated with the hedged forecasted transaction occurs. Once the third-party transaction associated with the hedged forecasted transaction occurs, the effective portion of any related gain or loss on the cash flow hedge is reclassified from AOCI to earnings. In the event the hedged forecasted intercompany or third-party transaction does not occur, or it becomes probable that it will not occur, the effective portion of any gain or loss on the related cash flow hedge would be reclassified from AOCI to earnings at that time.

The Company recognized a net gain of approximately $8 million in earnings from derivative instruments designated as cash flow hedges of forecasted transactions during 2000. All of the derivative instruments, designated as cash flow hedges, outstanding at December 31, 2000, mature within the subsequent 24-month period. As of December 31, 2000, approximately $27 million of unrealized net gains have been recorded in AOCI, net of tax, to recognize the effective portion of any fair value of derivative instruments that are, or previously were, designated as cash flow hedges. Of this amount, a gain of approximately $14 million, net of tax, is expected to be reclassified to earnings within the next twelve months to mitigate foreign exchange risk.

Furthermore, the Company continues to hedge predominantly all of its net recognized foreign currency transactional exposures with forward foreign exchange contracts to reduce the risk that the Company's earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These foreign exchange contracts are not designated as cash flow, fair value or net investment hedges under Statement 133. These derivative instruments do not subject the Company's earnings or cash flows to material risk due to exchange rate movements because gains and losses on these derivatives offset losses and gains on the assets and liabilities being hedged. These forward foreign exchange contracts are entered into for periods consistent with commitments, generally one to six months.

In June 2000, the FASB approved certain interpretations of Statement 133 that affected the accounting for cash flow hedges of forecasted intercompany transactions in a manner that was not consistent with the intended accounting under the Company's hedging strategy. As a result, effective July 1, 2000, the Company removed the cash flow hedge designation from a portion of its derivative instruments that matured on various dates prior to December 31, 2000. Accordingly, changes in the fair value of derivative instruments that hedged forecasted transactions but were not designated as cash flow hedges were recorded in earnings each period. The Company recognized a net gain of approximately $6 million in earnings from these dedesignated hedges during 2000.

Note L – Commitments and Contingencies

On May 16, 2000, the Company entered into an agreement with Guidant Corporation (Guidant) to settle all outstanding litigation between the two companies and their affiliates. The Company and Guidant had pending a number of lawsuits in the U.S. and Europe in which each had accused the other of patent infringement. The litigation involved coronary stent delivery systems and dilatation catheters. As part of the settlement, the companies agreed to license certain patents to each other. In addition, the companies agreed to specified financial terms depending upon the ultimate resolution of Guidant's August 12, 1998, lawsuit against the Company filed in Indiana related to the Company's NIR® stent and of the Company's May 31, 1994, lawsuit against Guidant in California related to Guidant's RX ELIPSE™ PTCA catheter and RX MULTILINK™ stent delivery system (described below). All other disputes between the parties were dismissed.

On May 31, 1994, SCIMED Life Systems, Inc. (SCIMED), a subsidiary of the Company, filed a suit for patent infringement against Advanced Cardiovascular Systems, Inc. (ACS), a subsidiary of Guidant, alleging willful infringement of two of SCIMED's U.S. patents by ACS's RX ELIPSE™ PTCA catheter. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. In January 1998, the Company added the ACS RX MULTILINK™ stent delivery system to its complaint. On June 6, 1999, the Court granted summary judgment in favor of ACS affirming that SCIMED's patents were not infringed. SCIMED has appealed the judgment. A hearing was held October 2, 2000, and the Company is awaiting the decision.

On August 12, 1998, ACS and an affiliate of ACS filed suit for patent infringement against the Company and SCIMED alleging that the Company's NIR® stent infringes five patents owned by ACS. The suit was filed

in the U.S. District Court for the Southern District of Indiana seeking injunctive and monetary relief. On June 28, 2000, the Court granted the Company's motion to dismiss the action. ACS has appealed the decision.

On March 25, 1996, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson Company (Johnson & Johnson), 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. A trial date has not yet been set.

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, 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. A trial date has not yet been set.

On March 13, 1997, the Company (through its subsidiaries) filed suits against 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. After a trial on the merits in the United Kingdom during March 1998, the court ruled on June 26, 1998, that neither of the patents is infringed by the NIR® stent, and that both patents are invalid. Ethicon appealed, and on March 20, 2000, the appellate court upheld the trial outcome. On October 28, 1998, the Company's motion for a declaration of noninfringement in France was dismissed for failure to satisfy statutory requirements; the French invalidity suits were not affected.

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 in Sweden, Italy and Spain and a declaration of invalidity in Italy and Spain. In Italy, following a July 9, 1999, hearing, a technical expert was appointed by the court. 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. On April 2, 1997, the Johnson & Johnson entities filed a similar cross-border proceeding in The Netherlands with respect to a 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 appealed this decision with respect to the second patent; the appeal has been denied on the ground that there is a "ready chance" that the patent will be declared null and void. In January 1999, Johnson & Johnson amended the claims of the second patent, changed the action from a cross-border case to a Dutch national action, and indicated its intent not to pursue its action on the first patent. On June 23, 1999, the Dutch Court affirmed that there were no remaining infringement claims with respect to either patent. In late 1999, Johnson & Johnson appealed this decision. A hearing on the appeal has not yet been scheduled.

On May 6, 1997, Ethicon Endosurgery, Inc., sued the Company in Dusseldorf, Germany, alleging that the Company's NIR® stent infringes one of Ethicon's patents. On June 23, 1998, the case was stayed following a decision in an unrelated nullity action in which the Ethicon patent was found to be invalid.

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 the allegations of the complaint. A trial is expected to begin in fall 2002.

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. On April 13, 1998, Cordis filed a suit for patent infringement against the Company and SCIMED alleging that the Company's NIR® stent infringes two patents owned by Cordis. The suits were 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. A trial on both actions was held in November and December 2000. A jury found that the NIR® stent does not infringe three Cordis patents, but does infringe one Cordis patent and awarded damages of approximately $324 million to Cordis. A final decision has not yet been entered by the Court pending post trial motions scheduled through June 2001.

On June 7, 1999, the Company, SCIMED and Medinol filed suit for patent infringement against Johnson & Johnson, Johnson & Johnson Interventional Systems and Cordis, alleging two U.S. patents owned by Medinol are infringed by at least Cordis' CROWN™, MINI CROWN™ and CORINTHIAN™ stents. The suit was filed in the U.S. District Court for the District of Minnesota seeking injunctive and monetary relief. The case has been transferred to the U.S. District Court for the District of Delaware. A trial is scheduled to begin in August 2001.

On March 24, 2000, the Company (through its subsidiaries) and Medinol filed a cross-border suit against Johnson & Johnson, Cordis and certain of their foreign subsidiaries in The Netherlands alleging Cordis' BX Velocity™ stent delivery system infringes one of Medinol's European patents. In this action, the Company and Medinol requested monetary and injunctive relief covering The Netherlands, Austria, Belgium, Switzerland, Germany, Denmark, Spain, France, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, Portugal and Sweden. A hearing was held January 12, 2001. A decision is expected in March 2001.

On March 30, 2000, the Company (through its subsidiary) filed suit for patent infringement against two subsidiaries of Cordis alleging that Cordis' BX Velocity stent delivery system infringes a published utility model owned by Medinol and exclusively licensed to the Company. The complaint was filed in the District Court of Dusseldorf, Germany, seeking monetary and injunctive relief. A hearing is scheduled for March 15, 2001.

On April 14, 2000, the Company (through its subsidiaries) and Medinol filed suit for patent infringement against Johnson & Johnson, Cordis, and a subsidiary of Cordis alleging that Cordis' BX Velocity stent delivery system infringes a patent owned by Medinol. The complaint was filed in the U.S. District Court for the District of Delaware seeking monetary and injunctive relief. The Company filed a motion seeking a preliminary injunction, and a hearing on the motion was held on August 3, 2000. Trial is expected to begin in August 2001.

On August 13, 1998, Arterial Vascular Engineering, Inc., now named Medtronic AVE Inc. (AVE), filed a suit for patent infringement against the Company and SCIMED alleging that the Company's NIR® stent infringes two patents owned by AVE. The suit was filed in the U.S. District Court for the District of Delaware seeking injunctive and monetary relief. On May 25, 2000, AVE amended the complaint to include a third patent. The Company and SCIMED have answered, denying the allegations of the complaint. Trial is expected to begin in January 2002.

On December 15, 1998, the Company and SCIMED filed a cross-border suit against AVE in The Netherlands alleging that AVE's AVE GFX™, AVE GFX 2™, AVE LTX™ and USCI CALYPSO™ rapid exchange catheters and stent delivery systems infringe one of the Company's European patents. In this action, the Company requested relief covering The Netherlands, the United Kingdom, France, Germany and Italy. A hearing on the merits was held on October 22, 1999. The Court delayed its decision pending advice from the Dutch Patent Office, which was recently received. A final hearing has not yet been scheduled.

On December 18, 1998, AVE filed a suit for patent infringement against the Company and SCIMED alleging that the Company's MAXXUM™ and VIVA!™ catheters infringe a patent owned by AVE. The suit was

filed in the U.S. District Court for the District of Delaware seeking injunctive and monetary relief. The Company and SCIMED have answered, denying the allegations of the complaint. A trial is scheduled for June 4, 2001.

On March 10, 1999, the Company (through its subsidiary Schneider (Europe) AG) filed suit against AVE alleging that AVE's AVE GFX, AVE GFX2, AVE LTX, CALYPSO RELY™, PRONTO SAMBA™ and SAMBA RELY™ rapid-exchange catheters and stent delivery systems infringe one of the Company's German patents. The suit was filed in the District Court of Dusseldorf, Germany, seeking injunctive and monetary relief. A hearing was held on January 27, 2000. The Court has delayed its decision pending expert advice and on May 15, 2000, the Court appointed a technical expert.

On April 6, 1999, AVE filed suit against SCIMED and another subsidiary of the Company alleging that the Company's NIR® stent infringes one of AVE's European patents. The suit was filed in the District Court of Dusseldorf, Germany, seeking injunctive and monetary relief. A hearing was held in Germany on September 23, 1999, and on November 4, 1999, the court dismissed the complaint. On December 21, 1999, AVE appealed the dismissal and a hearing is scheduled for May 2001.

On May 14, 1999, Medtronic, Inc. (Medtronic), filed suit against the Company and SCIMED alleging that a variety of the Company's NIR® stent products infringe a Medtronic patent. The suit was filed in the U.S. District Court for the District of Minnesota seeking injunctive and monetary relief. In February 2000, the court found that the NIR® stent products do not infringe Medtronic's patent and the suit was dismissed. Medtronic appealed the decision. A hearing on the appeal was held on January 9, 2001, and the Company is awaiting the decision.

On July 7, 1999, Medtronic filed suit against the Company and SCIMED, alleging that SCIMED's RADIUS™ stent infringes two patents owned by Medtronic. The suit was filed in the U.S. District Court for the District Court of Minnesota seeking injunctive and monetary relief. The Company has answered, denying allegations of the complaint. A trial is scheduled for July 2001.

On March 28, 2000, the Company and certain subsidiaries filed suit for patent infringement against AVE alleging that AVE's S670 rapid exchange coronary stent system infringes a patent licensed to the Company. The suit was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. In July 2000, this matter was sent to arbitration. An arbitration hearing is currently scheduled for April 2001 to determine whether AVE's S670 and S660 rapid exchange coronary stent delivery systems and the R1 rapid exchange catheter are licensed pursuant to the terms of a pre-existing settlement agreement.

On December 6, 2000, the Company and SCIMED filed suit for patent infringement against AVE alleging that AVE's S660 and S670 coronary stent delivery systems and R1 rapid exchange catheter infringe a patent owned by the Company. The suit was filed in the United States District Court for the District of Delaware seeking monetary and injunctive relief.

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. Following the purchase of the assets of the Endotech/MinTec companies by the Company, the Company assumed control of the litigation. A final hearing was held on May 12, 1999, and the court held no infringement of the Cook patents. The case was dismissed in June 1999. Cook has appealed the decision. On July 27, 2000, the Court stayed the action pending the outcome of a nullity action filed by the Company against the patent.

On June 30, 1998, Cook filed suit in the Regional Court, Dusseldorf Division for Patent Disputes, in Dusseldorf, Germany, against the Company alleging that the Company's PASSAGER™ peripheral vascular stent graft and VANGUARD™ endovascular aortic graft products infringe the same Cook patent. A hearing was held on July 22, 1999, and a decision was received in September 1999 finding the Company's products infringe the Cook patent. The Company appealed the decision. A hearing is scheduled for June 21, 2001.

On March 18, 1999, Cook filed suit against the Company and SCIMED, alleging that SCIMED's RADIUS™ coronary stent infringes a certain U.S. patent owned by Cook. The suit was filed in the U.S. District Court for the Southern District of Indiana seeking monetary damages and injunctive relief. On July 14, 1999, Cook filed an amended complaint adding Meadox Medicals, Inc. (Meadox), a wholly owned subsidiary of the Company, as a party to the suit, and adding a breach of contract claim. The Company, SCIMED and Meadox have answered, denying the allegations of the complaint. A trial date is scheduled for April 2002.

On May 19, 2000, the Company and SCIMED filed suit against a subsidiary of Cook alleging that Cook's MBL-4™, MBL-6™, MBL-4-XL™ and MBL-6-OV™ ligating devices infringe three of the Company's patents. The suit was filed in the U.S. District Court for the District of Massachusetts seeking monetary damages and injunctive relief. Cook counterclaimed seeking declaratory judgment that the Company's patents are invalid and unenforceable and Cook's products do not infringe the Company's patents. The Company filed a motion requesting a preliminary injunction which was denied in September 2000. The Company has appealed the court's decision and a hearing on the appeal has not yet been scheduled.

On February 3, 1999, the Company filed suit against Influence, Inc. (Influence), alleging that Influence infringes certain of the Company's patents covering the treatment of female urinary incontinence. The suit was filed in the Northern District of California. Influence counterclaimed, alleging that the Company infringes certain Influence patents, also relating to the treatment of female urinary incontinence. On January 31, 2001, the Company and Influence entered into an agreement to settle the litigation. Pursuant to the terms of the agreement, both parties will cross-license patents relating to certain treatment for female urinary incontinence.

On March 27, 2000, American Medical Systems, Inc. (AMS), filed suit against the Company alleging that the Company induces infringement of an AMS patent covering a certain treatment for female urinary incontinence. The complaint also alleges misappropriation of trade secrets and breach of contract. The suit was filed in the U.S. District Court for the District of Minnesota seeking monetary and injunctive relief. On January 31, 2001, the Company and AMS entered into an agreement to settle the litigation. Pursuant to the terms of the agreement, both parties will cross-license patents relating to certain treatment for female urinary incontinence.

On October 31, 2000, the Federal Trade Commission (FTC) filed suit against the Company for alleged violations of a Consent Order dated May 5, 1995, pursuant to which the Company had licensed certain intravascular ultrasound technology to Hewlett-Packard Company (HP). The suit was filed in the U.S. District Court for the District of Massachusetts seeking civil penalties and injunctive relief. The Company has filed a motion to dismiss the complaint, and the FTC has filed a motion for summary judgment. The motions are scheduled to be heard on May 3, 2001.

Beginning November 4, 1998, a number of shareholders of the Company, on behalf of themselves and all others similarly situated, filed purported stockholders' class action suits in the U.S. District Court for the District of Massachusetts alleging that the Company and certain of its officers violated certain sections of the Securities Exchange Act of 1934. The complaints principally alleged that as a result of certain accounting irregularities involving the improper recognition of revenue by the Company's subsidiary in Japan, the Company's previously issued financial statements were materially false and misleading. In August 1999, lead plaintiffs and lead counsel filed a purported consolidated class action complaint adding allegations that the Company issued false and misleading statements with respect to the launch of its NIR ON® Ranger™ with Sox™ coronary stent delivery system and the system's subsequent recall. The Company and its officers have filed a motion to dismiss the consolidated complaint. The Plaintiffs have opposed the Company's motion to dismiss the consolidated complaint.

On July 28, 2000, Dr. Tassilo Bonzel filed a complaint naming certain of the Company's Schneider Worldwide subsidiaries and Pfizer Inc. (Pfizer), and certain of its affiliates as defendants, alleging that Pfizer failed to pay Dr. Bonzel amounts owed under a license agreement involving Dr. Bonzel's patented Monorail™ technology. The suit was filed in the District Court for the State of Minnesota seeking monetary relief. Dr. Bonzel has also provided a notice of breach of the agreement which could lead to its termination. On September 5, 2000, the Company and Boston Scientific Scimed, Inc. (formerly known as Schneider (USA), Inc.), filed suit against

Dr. Bonzel in the U.S. District Court for the District of Massachusetts seeking a declaratory judgment of non-infringement, because the Company has not breached the terms of the license agreement and that Dr. Bonzel is estopped from asserting infringement. Dr. Bonzel filed a motion to dismiss or stay the Massachusetts action, and a hearing was held on October 25, 2000. A decision on this motion is pending.

The Company is aware that the U.S. Department of Justice is conducting an investigation of matters that include the Company's NIR ON® Ranger™ with Sox™ coronary stent delivery system which was voluntarily recalled by the Company in October 1998 following reports of balloon leaks. The Company is cooperating fully in the investigation.

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. As of December 31, 2000, the potential exposure for litigation-related accruable costs is estimated to range from $16 million to $27 million. The Company's total accrual as of December 31, 2000, and 1999 for litigation-related reserves was approximately $16 million and $46 million, respectively. As of December 31, 2000, the range of loss for reasonably possible contingencies that can be estimated is $0 to $344 million, plus interest, and additional damages for sales occurring after the jury verdict related to the Cordis suit for patent infringement filed on October 22, 1997.

The Company believes that it has meritorious defenses against claims that it has infringed patents of others. However, there can be no assurance that the Company will prevail in any particular case. An adverse outcome in one or more cases in which the Company's products are accused of patent infringement could have a material adverse effect on the Company. Further, product liability claims may be asserted in the future relative to events not known to management at the present time. The Company has insurance coverage which management believes is adequate to protect against product liability losses as could otherwise materially affect the Company's financial position.

Note M – Business Combinations

On September 10, 1998, the Company consummated its acquisition of Schneider Worldwide, formerly a member of the Medical Technology Group of Pfizer Inc., for $2.2 billion, net of assets acquired and liabilities assumed. The acquisition was accounted for using the purchase method of accounting. The consolidated financial statements include Schneider's operating results from the date of acquisition. The aggregate purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at date of acquisition. The excess of purchase price over the fair value of net tangible assets acquired was allocated to specific intangible asset categories. These categories include core technology, developed technology, assembled workforce, customer lists, trademarks and patents, which are being amortized on a straight-line basis over periods ranging from 9 to 25 years and the excess of cost over net assets acquired, which is being amortized on a straight-line basis over 40 years.

In connection with the acquisition of Schneider, the Company recorded a charge to account for purchased research and development. The valuation of purchased research and development, for which management is primarily responsible, represents the estimated fair value at the date of acquisition related to in-process projects. As of the date of acquisition, the in-process projects had not yet reached technological feasibility and had no alternative future uses. Accordingly, the value attributable to these projects was immediately expensed at acquisition. If the projects are not successful or completed in a timely manner, the Company may not realize the financial benefits expected for these projects.

The income approach was used to establish the fair values of the purchased research and development. This approach established the fair value of an asset by estimating the after-tax cash flows attributable to the in-process project over its useful life and then discounting these after-tax cash flows back to a present value. Revenue estimates were based on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected product introductions by competitors. In arriving at the value of the in-process research and development projects, the Company considered, among other factors, the

in-process project's stage of completion, the complexity of the work completed as of the acquisition date, the costs already incurred, the projected costs to complete, the contribution of core technologies and other acquired assets, the expected introduction date, and the estimated useful life of the technology. The discount rate used to arrive at a present value as of the date of acquisition was based on the time value of money and medical technology investment risk factors. For the Schneider purchased research and development programs, a risk-adjusted discount rate of 28% was utilized to discount the projected cash flows. The Company believes that the estimated purchased research and development amounts so determined represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the projects.

The most significant Schneider purchased research and development projects that were in-process at the date of acquisition were brachytherapy, devices for aneurysmal disease and coronary stents, which represented approximately 26%, 20% and 16% of the in-process value, respectively. Set forth below are descriptions of these in-process projects, including their status at the end of 2000.

The brachytherapy system is an intravascular radiation system designed to reduce clinical restenosis after a balloon angioplasty and/or a stent procedure. The system consists of a computer-controlled afterloader, beta radiation source, centering catheter, source delivery wire and dummy wire. As of the date of acquisition, the project was expected to be completed and the products commercially available in the U.S. within two to three years, with an estimated cost to complete of approximately $5 million to $10 million.

The aneurysmal disease projects are endoluminal graft devices for the treatment of late stage vascular aneurysms and occlusions. The most significant of the projects in this category at the date of acquisition was the endoluminal graft for the treatment of abdominal aortic aneurysms. As of the date of acquisition, the projects were expected to be completed and the products commercially available in the U.S. within two to three years, with an estimated cost to complete of approximately $10 million to $15 million.

Coronary stent systems underway at the date of acquisition were stent systems for native coronary artery disease, saphenous vein graft disease, and versions with novel delivery systems. The Company believes that the stent systems will be especially helpful in the treatment of saphenous vein graft disease. As of the date of acquisition, the projects were expected to be completed and the products commercially available for sale in the U.S. within one year with an estimated cost to complete of approximately $1 million to $3 million.

In the second quarter of 2000, the brachytherapy project was discontinued due to system performance issues. However, the Company recently outsourced this project to a third party in which it holds a minority interest. As part of a subsequent project consolidation program, the Schneider abdominal aortic aneurysm project has been integrated with another internal project. As a result, the Company will pursue the development of next generation products for aortic aneurysmal disease with an integrated platform while minimizing duplicative research and development. The cost of the development is still estimated to be in the range of approximately $10 million to $15 million. The coronary stent projects have been completed.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and Schneider as if the acquisition had occurred at the beginning of 1998, with pro forma adjustments to give effect to amortization of intangibles, purchased research and development, an increase in interest expense on acquisition financing and certain other adjustments together with related tax effects:

Year Ended December 31, (In millions, except per share data)	1998
Net sales	$2,483
Net loss	(303)
Net loss per share – assuming dilution	(0.77)

Note N – Restructuring and Merger-Related Charges

At December 31, 2000, the Company had an accrual for restructuring and merger-related charges of $73 million, which is comprised of $58 million of accrued severance and related costs associated with the Company's 2000 plant optimization initiative, $8 million for costs accrued in connection with the Schneider acquisition (primarily costs for canceling contractual commitments and for severance and related costs) and $7 million of accruals remaining for 1998 and prior restructuring and merger-related initiatives (primarily costs associated with rationalized facilities and statutory benefits that are subject to litigation).

During 2000, the Company approved and committed to a global operations plan which encompasses a series of strategic initiatives to increase productivity and enhance innovation. The plan includes manufacturing process and supply chain programs and a plant optimization initiative. The intent of the plant optimization initiative is to better allocate the Company's resources by creating a more effective network of manufacturing and research and development facilities. The Company's plan includes the discontinuation of manufacturing activities at two facilities in the U.S. and the closure of a third facility. The Company expects that the plan will be substantially completed over the next twelve months. During 2000, the Company recorded a pre-tax special charge of approximately $58 million associated with the plant optimization initiative. The charge relates to severance and outplacement costs for the approximately 1,950 manufacturing, manufacturing support and management employees who are expected to be affected by the plan over the next twelve months. Less than $1 million had been charged against the related accrual for the approximately 10 employees terminated pursuant to the plan as of December 31, 2000.

The Company expects that it will make total cash outlays, net of proceeds from building and fixed asset sales, of approximately $115 million for the plant optimization initiative, $85 million of which the Company expects to make during 2001 with the remainder being primarily severance costs for employees terminated during 2001 but paid out in 2001 and 2002.

During 1998, the Company established a rationalization plan in conjunction with the consummation of the Schneider acquisition, taking into consideration duplicate capacity as well as opportunities for further leveraging of cost and technology platforms. The Company's actions, approved and committed to in the fourth quarter of 1998, included the planned displacement of approximately 2,000 positions, over half of which were manufacturing positions. During the fourth quarter of 1998, the Company estimated the costs associated with these activities, excluding transition costs, to be approximately $62 million, most of which represented severance and related costs. Approximately $36 million of the total was capitalized as part of the purchase price of Schneider. The remaining $26 million was charged to operations during 1998. In addition, as part of the Schneider acquisition, the Company capitalized estimated costs of approximately $16 million to cancel Schneider's contractual obligations, primarily with its distributors.

The Company substantially completed its rationalization plan in 1999, including the closure of five Schneider facilities as well as the transition of manufacturing for selected Boston Scientific product lines to different sites. Approximately 1,800 positions were eliminated (resulting in the termination of approximately 1,500 employees) in connection with the rationalization plan. In 1999, the Company identified and reversed restructuring and merger-related charges of $10 million no longer deemed necessary. These amounts relate primarily to the rationalization plan recorded in the fourth quarter of 1998 and reflect the reclassification of assets from held-for-disposal to held-for-use resulting from management's decision to resume a development program previously planned to be eliminated. In addition, estimated severance costs for 1998 initiatives were reduced as a result of attrition. The Company also recorded additional costs of $6 million as part of the purchase price of Schneider in 1999, representing revised estimates to recorded liabilities. During 2000 and 1999, the costs related to the transition of manufacturing operations were not significant and were recognized in operations as incurred.

The 1998 rationalization plan also resulted in the decision to expand, not close, the Target facilities originally provided for in a 1997 merger-related charge and to relocate other product lines to those Target facilities. In the fourth quarter of 1998, the Company reversed $21 million of previously recorded merger-related charges of which $4 million related to facility costs and which also included reductions for revisions of estimates relating to contractual commitment payments, associated legal costs and other asset

write-downs originally provided for as a 1997 merger charge. In the second quarter of 1998, the Company realigned its operating units and decided to operate Target independently instead of as a part of its vascular division as was planned at the date of the Target acquisition. As a result, in the second quarter of 1998, the Company reversed $20 million of 1997 merger-related charges primarily related to revised estimates for costs of workforce reductions and costs of canceling contractual commitments.

The activity impacting the accrual for restructuring and merger-related charges during 2000, 1999 and 1998, net of reclassifications made by management based on available information, is summarized in the table below:

(In millions)	Balance at December 31, 1997	Purchase Price Adjustments in 1998	Charges (Credits) to Operations in 1998	Charges Utilized in 1998	Balance at December 31, 1998	Purchase Price Adjustments in 1999
1998 AND PRIOR RESTRUCTURING AND MERGER-RELATED INITIATIVES AND ADJUSTMENTS						
Facilities	$20		$(4)	$(5)	$11	
Workforce reductions	25	$36	(2)	(15)	44	$3
Contractual commitments	30	16	(7)	(21)	18	3
Asset write-downs	16		1	(6)	11	
Direct transaction and other costs	11		(3)	(3)	5	
	$102	$52	$(15)	$(50)	$89	$6
2000 RESTRUCTURING INITIATIVE:						
Workforce reductions						
TOTAL:						
Facilities	$20		$(4)	$(5)	$11	
Workforce reductions	25	$36	(2)	(15)	44	$3
Contractual commitments	30	16	(7)	(21)	18	3
Asset write-downs	16		1	(6)	11	
Direct transaction and other costs	11		(3)	(3)	5	
	$102	$52	$(15)	$(50)	$89	$6

	Credits to Operations in 1999	Charges Utilized in 1999	Balance at December 31, 1999	Charges to Operations in 2000	Charges Utilized in 2000	Balance at December 31, 2000
	$(1)	$(7)	$3		$(1)	$2
	(4)	(24)	19		(14)	5
		(14)	7		(1)	6
	(4)	(3)	4		(4)	
	(1)	(1)	3		(1)	2
	$(10)	$(49)	$36		$(21)	$15
				$58		$58
	$(1)	$(7)	$3		$(1)	$2
	(4)	(24)	19	$58	(14)	63
		(14)	7		(1)	6
	(4)	(3)	4		(4)	
	(1)	(1)	3		(1)	2
	$(10)	$(49)	$36	$58	$(21)	$73

The 1998 and prior restructuring and merger-related charges were recognized under the provisions of EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The purchase price adjustments were recognized under the provisions of APB 16, "Business Combinations" and EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." The 2000 restructuring charge was recognized in accordance with EITF 94-3 and SAB 100, "Topic 5p. Restructuring Charges."

Total facilities write-downs under the Company's restructuring and merger-related charges provided for during 1996, 1997 and 1998 for owned assets were measured as the difference between carrying value and fair value less cost to sell (approximately $8 million, net of reversals). The charge for leased facilities during the same periods was measured using the lease commitments remaining after the facility was removed from service (approximately $3 million, net of reversals). Write-downs of machinery and equipment, intangibles and other assets were measured by the difference between the carrying value and fair market value of the assets (approximately $28 million, net of reversals). Reversals in 1998 and 1999 of previously recorded charges were primarily based on the initial amount charged. To the extent that any of the above assets continued to be used in operations before being sold, scrapped or abandoned, depreciation and lease payments continued to be charged to operations. Depreciation not charged to operations related to assets held for disposal was less than $1 million during 2000 and 1999 and was approximately $2 million in 1998.

Note O – Segment Reporting

Boston Scientific is a worldwide developer, manufacturer and marketer of medical devices for less invasive procedures. The Company has four reportable operating segments based on geographic regions: the United States, Europe, Japan and Inter-Continental. Each of the Company's reportable segments generates revenues from the sale of minimally invasive medical devices. The reportable segments represent an aggregate of operating divisions.

Sales and operating results of reportable segments are based on internally used standard foreign exchange rates, which may differ from year to year and do not include inter-segment profits. The segment information for 1999 and 1998 sales and operating results has been restated based on the Company's standard foreign exchange rates used for 2000. Because of the interdependence of the reportable segments, the operating profit as presented may not be representative of the geographic distribution that would occur if the segments were not interdependent. Total assets and purchases of property, plant and equipment are based on foreign exchange rates used in the Company's consolidated financial statements.

(In millions)	United States	Europe	Japan	Inter-Continental	Total
2000:					
Net sales	$1,577	$406	$544	$170	$2,697
Depreciation and amortization	63	20	4	3	90
Operating income excluding special charges	592	131	342	9	1,074
Total assets	1,251	391	201	101	1,944
Purchases of property, plant and equipment	51	16	5	4	76
1999:					
Net sales	$1,741	$422	$517	$165	$2,845
Depreciation and amortization	60	17	3	3	83
Operating income excluding special charges	662	129	315	23	1,129
Total assets	1,257	458	215	101	2,031
Purchases of property, plant and equipment	50	21	6	3	80
1998:					
Net sales	$1,394	$370	$404	$115	$2,283
Depreciation and amortization	64	16	3	1	84
Operating income excluding special charges	463	73	230	9	775
Total assets	1,395	552	204	75	2,226
Purchases of property, plant and equipment	97	51	19	8	175

A reconciliation of the totals reported for the reportable segments to the applicable line items in the consolidated financial statements is as follows:

(In millions)	Year Ended December 31, 2000	1999	1998
Net sales:			
Total net sales for reportable segments	$2,697	$2,845	$2,283
Foreign exchange	(33)	(3)	(49)
	$2,664	$2,842	$2,234
Depreciation and amortization:			
Total depreciation and amortization allocated to reportable segments	$ 90	$ 83	$ 84
Corporate expenses and foreign exchange	91	95	45
	$181	$178	$129
Income (loss) before income taxes:			
Total operating income excluding special charges for reportable segments	$1,074	$1,129	$ 775
Corporate expenses and foreign exchange	(436)	(450)	(315)
Purchased research and development			(682)
Restructuring and merger-related (charges) credits	(58)	10	15
	580	689	(207)
Other income (expense)	(53)	(127)	(68)
	$ 527	$ 562	$ (275)
Total assets:			
Total assets for reportable segments	$1,944	$2,031	$2,226
Corporate assets	1,483	1,541	1,667
	$3,427	$3,572	$3,893

Enterprise-wide Information

(In millions)	2000	1999	1998
Net sales:			
Vascular	$2,097	$2,309	$1,777
Nonvascular	567	516	426
Other		17	31
	$2,664	$2,842	$2,234
Long-lived assets:			
United States	$422	$446	$484
Ireland	103	110	119
Other foreign countries	42	48	77
	$567	$604	$680

Board of Directors
Boston Scientific Corporation

We have audited the accompanying consolidated balance sheets of Boston Scientific Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States. 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, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Boston, Massachusetts
February 1, 2001

Year Ended December 31,	2000	1999	1998	1997	1996
OPERATING DATA:					
Net sales	$2,664	$2,842	$2,234	$1,831	$1,551
Gross profit	1,832	1,856	1,499	1,285	1,123
Selling, general and administrative expenses	867	842	755	663	492
Amortization expense	91	92	53	33	24
Royalties	37	46	31	22	17
Research and development expenses	199	197	200	167	135
Purchased research and development			682	29	110
Restructuring and merger-related charges (credits)	58	(10)	(15)	146	32
Total operating expenses	1,252	1,167	1,706	1,060	810
Operating income (loss)	580	689	(207)	225	313
Income (loss) before cumulative effect of change in accounting	373	371	(264)	131	167
Cumulative effect of change in accounting (net of tax)				(21)	
Net income (loss)	$ 373	$ 371	$ (264)	$ 110	$ 167
Income (loss) per common share before cumulative effect of change in accounting:					
Basic	$ 0.92	$ 0.92	$(0.68)	$0.34	$0.43
Assuming dilution	$ 0.91	$ 0.90	$(0.68)	$0.33	$0.42
Net income (loss) per common share:					
Basic	$ 0.92	$ 0.92	$(0.68)	$0.28	$0.43
Assuming dilution	$ 0.91	$ 0.90	$(0.68)	$0.28	$0.42
Weighted-average shares outstanding – assuming dilution (in thousands)	408,322	411,351	390,836	399,776	398,706

Year Ended December 31,	2000	1999	1998	1997	1996
BALANCE SHEET DATA:					
Working capital	$ 173		$ (353)	$ 227	$ 335
Total assets	3,427	$3,572	3,893	1,924	1,585
Commercial paper	56	277	1,016	423	213
Bank obligations – short-term	204	323	11	24	28
Long-term debt, net of current portion	562	678	1,364	46	
Stockholders' equity	1,935	1,724	821	957	995
Book value per common share	$4.84	$4.21	$2.08	$2.47	$2.50

The Company paid a two-for-one stock split on November 30, 1998.
All historical amounts have been restated to reflect the stock split.

(SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.)

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) (IN MILLIONS, EXCEPT PER SHARE DATA)

Three Months Ended	March 31,	June 30,	Sept. 30,	Dec. 31,
YEAR ENDED DECEMBER 31, 2000				
Net sales	$679	$695	$652	$638
Gross profit	466	478	452	436
Operating income	169	182	132	97
Net income	106	122	85	60
Net income per common share – basic	$0.26	$0.30	$0.21	$0.15
Net income per common share – assuming dilution	$0.26	$0.30	$0.21	$0.15
YEAR ENDED DECEMBER 31, 1999				
Net sales	$708	$ 726	$ 691	$ 717
Gross profit	478	491	408	479
Operating income	189	202	115	183
Net income	100	109	55	107
Net income per common share – basic	$0.25	$0.27	$0.13	$0.26
Net income per common share – assuming dilution	$0.25	$0.27	$0.13	$0.26

During the third and fourth quarters of 2000, the Company recorded pre-tax charges of $23 million and $35 million, respectively, representing estimated severance and other related costs associated with the global operations plan. (See Note N)

During the third quarter of 1999, the Company recorded a provision of $62 million for excess NIR® stent inventories and purchase commitments. The excess position was driven primarily by a shortfall in planned third quarter NIR® stent revenues, a reduction in NIR® stent sales forecasted for 1999 and 2000, and strategic decisions regarding versions of the NIR® stent system to be launched. Additionally, the 1999 third quarter results include a provision for increased legal costs of $22 million to cover certain costs of defense. These expenses relate primarily to defense costs associated with stent-related litigation. Further, during the third quarter of 1999, the Company identified and reversed restructuring and merger-related charges of $10 million no longer deemed necessary. These amounts relate primarily to the restructuring charges accrued in the fourth quarter of 1998 and reflect the reclassification of assets from held-for-disposal to held-for-use following management's decision to resume a development program previously planned to be eliminated. In addition, estimated severance costs for 1998 initiatives were reduced as a result of attrition.

(SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.)

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

2000	High	Low
First Quarter	$25.875	$17.625
Second Quarter	29.188	19.375
Third Quarter	26.813	15.500
Fourth Quarter	16.875	12.188

1999	High	Low
First Quarter	$43.000	$23.000
Second Quarter	44.875	33.625
Third Quarter	47.063	21.563
Fourth Quarter	26.000	17.563

The Company has not paid a cash dividend during the past five years. 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, 2000, there were approximately 10,082 record holders of the Company's common stock.

(see notes to consolidated financial statements.)

9,000
PARTNERING UROLOGISTS

APPROXIMATELY 75,000
U.S. PATIENTS HAD MEDI-TECH VENOUS ACCESS PRODUCTS IMPLANTED

APPROXIMATELY 130,000
NEW CASES PER YEAR OF COLON CANCER ARE DIAGNOSED IN THE U.S.

8,000
PARTNERING INTERVENTIONAL RADIOLOGISTS

OVER 75,000
ANEURYSMS TREATED WORLDWIDE WITH THE GDC® COIL

APPROXIMATELY 100,000
PROCEDURES PERFORMED IN THE U.S. USING EPT PRODUCTS

750,000
PATIENTS TREATED WORLDWIDE USING SCIMED BALLOON CATHETERS

OVER 250,000
PATIENTS WORLDWIDE HAVE ADVANCED CORONARY ARTERY DISEASE

APPROXIMATELY 8,000
PARTNERING VASCULAR SURGEONS

APPROXIMATELY 9,000
PARTNERING GASTROENTEROLOGISTS

1,700,000
ANGIOPLASTY PROCEDURES PERFORMED WORLDWIDE USING SCIMED PRODUCTS

OVER 1,000,000
CASES PER YEAR OF PRIMARY LIVER CANCERS DIAGNOSED WORLDWIDE

1,100,000
NEW AND RECURRENT CASES OF CORONARY ATTACK OCCUR EACH YEAR IN THE U.S.

OVER 805,000
PROCEDURES FOR STONE MANAGEMENT PERFORMED WORLDWIDE USING MICROVASIVE PRODUCTS

OVER 90,000
VENOUS ACCESS PROCEDURES FOR INFUSION THERAPIES AND HEMODIALYSIS PERFORMED WORLDWIDE USING MEDI-TECH VAXCEL™ PRODUCTS

APPROXIMATELY 1,000
PARTNERING INTERVENTIONAL NEURORADIOLOGISTS AND NEUROSURGEONS

Executive Officers and Directors

John E. Abele
Director, Founder Chairman

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

Joseph A. Ciffolillo
Director, Private Investor

Paul Donovan
Vice President, Corporate Communications

Joel L. Fleishman *+#
Director; Senior Advisor to The Atlantic Philanthropic Service Company, Inc.; Professor of Law and Public Policy, Duke University

Ray J. Groves +#
Director; Chairman of Legg Mason Merchant Banking, Inc.

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

Paul A. LaViolette
Senior Vice President; President, Boston Scientific International; and Group President, Cardiovascular

Robert G. MacLean
Senior Vice President, Human Resources

Kshitij Mohan, Ph.D.
Senior Vice President and Chief Technology Officer

Stephen F. Moreci
Senior Vice President and Group President, Endosurgery

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

Peter M. Nicholas #
Director, Chairman of the Board

John E. Pepper *#
Director; Chairman of the Board of Directors, The Procter & Gamble Company

Arthur L. Rosenthal, Ph.D.
Senior Vice President and Chief Scientific Officer

Warren B. Rudman +#
Director; Former U.S. Senator; Partner, Paul, Weiss, Rifkind, Wharton and Garrison

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

James H. Taylor, Jr.
Senior Vice President, Corporate Operations

James R. Tobin
Director, President and Chief Executive Officer

** Member of the Audit Committee*
+ Member of the Executive Compensation and Human Resources Committee
Member of the Corporate Governance Committee

Corporate Headquarters

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508.647.2200 (Investor Relations Facsimile)
www.bsci.com

Regional Headquarters

Boston Scientific Argentina S.A.
Buenos Aires, Argentina

Boston Scientific Asia Pacific Pte. Ltd.
Singapore

Boston Scientific International B.V.
Paris, France

Boston Scientific Japan K.K.
Tokyo, Japan

Technology Centers

Cork, Ireland
Fremont, CA, U.S.A.
Galway, Ireland
Glens Falls, NY, U.S.A.
Maple Grove, MN, U.S.A.
Miami, FL, U.S.A.
Miyazaki, Japan
Natick, MA, U.S.A.
Plymouth, MN, U.S.A.
Redmond, WA, U.S.A.
San Jose, CA, U.S.A.
Spencer, IN, U.S.A.
Tullamore, Ireland
Watertown, MA, U.S.A.
Wayne, NJ, U.S.A.

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:

Equiserve, L.P.
Post Office Box 43010
Providence, RI 02940-3010
781.575.3100
www.equiserve.com

Independent Auditors
Ernst & Young LLP
Boston, MA

Annual Meeting
The annual meeting for shareholders will take place on Tuesday, May 8, 2001, beginning at 10:00 a.m. at the Fleet Conference and Training Center, 100 Federal Street, Boston, MA.

Investor Information Requests
Investors, shareholders and security analysts seeking information about the Company should refer to the Company's website at www.bsci.com or call Investor Relations at 508.650.8555.

A copy of the 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: RainCastle Communications, Newton, MA

Boston Scientific

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