

BOSTON SCIENTIFIC CORP  
Form 10-K  
February 28, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO  
SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission File No. 1-11083

BOSTON SCIENTIFIC CORPORATION  
(Exact Name Of Company As Specified In Its Charter)

DELAWARE  
(State of Incorporation)

04-2695240  
(I.R.S. Employer Identification No.)

ONE BOSTON SCIENTIFIC PLACE, NATICK, MASSACHUSETTS 01760-1537  
(Address Of Principal Executive Offices)

(508) 650-8000  
(Company's Telephone Number)

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, \$.01 PAR VALUE PER SHARE  
(Title Of Class)

NEW YORK STOCK EXCHANGE  
(Name of Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes:  No

Indicate by check mark if the Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes:  No

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes:  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes:  No

The aggregate market value of the Company's common stock held by non-affiliates of the Company was approximately \$20.5 billion based on the closing price of the Company's common stock on June 29, 2007, the last business day of the Company's most recently completed second fiscal quarter.

The number of shares outstanding of the Company's common stock as of January 31, 2008, was 1,492,320,521.

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## PART I

### ITEM 1. BUSINESS

#### The Company

Boston Scientific Corporation is a worldwide developer, manufacturer and marketer of medical devices that are used in a broad range of interventional medical specialties including interventional cardiology, cardiac rhythm management, peripheral interventions, electrophysiology, neurovascular intervention, oncology, endoscopy, urology, gynecology and neuromodulation. When used in this report, the terms “we,” “us,” “our” and “the Company” mean Boston Scientific Corporation and its divisions and subsidiaries.

Since we were formed in 1979, we have advanced the practice of less-invasive medicine by helping physicians and other medical professionals treat a variety of diseases and improve patients’ quality of life by providing alternatives to surgery and other medical procedures that are typically traumatic to the body. Some of the uses of our products include: enlarging narrowed blood vessels to prevent heart attack and stroke; clearing passages blocked by plaque to restore blood flow; detecting and managing fast, slow or irregular heart rhythms; mapping electrical problems in the heart; opening obstructions and bringing relief to patients suffering from various forms of cancer; performing biopsies and intravascular ultrasounds; placing filters to prevent blood clots from reaching the lungs, heart or brain; treating urological, gynecological, renal, pulmonary, neurovascular and gastrointestinal diseases; and modulating nerve activity to treat chronic pain.

Our history began in the late 1960s when our co-founder, John Abele, acquired an equity interest in Medi-tech, Inc., a research and development company focused on developing alternatives to surgery. Medi-tech introduced its initial products in 1969, a family of steerable catheters used in some of the first less-invasive procedures performed. In 1979, John Abele joined with Pete Nicholas to form Boston Scientific Corporation, which indirectly acquired Medi-tech. This acquisition began a period of active and focused marketing, new product development and organizational growth. Since then, our net sales have increased substantially, growing from \$2 million in 1979 to approximately \$8.4 billion in 2007.

Our growth has been fueled in part by strategic acquisitions and alliances designed to improve our ability to take advantage of growth opportunities in the medical device industry. Our 2006 acquisition of Guidant Corporation, a world leader in the treatment of cardiac disease, enabled us to become a major provider in the \$10 billion global cardiac rhythm management (CRM) market, enhancing our overall competitive position and long-term growth potential and further diversifying our product portfolio. This acquisition has established us as one of the world’s largest cardiovascular device companies and a global leader in microelectronic therapies. This and other acquisitions have helped us add promising new technologies to our pipeline and to offer one of the broadest product portfolios in the world for use in less-invasive procedures. We believe that the depth and breadth of our product portfolio has also enabled us to compete more effectively in, and better absorb the pressures of, the current healthcare environment of cost containment, managed care, large buying groups, government contracting and hospital consolidation.

Information including revenues, profits and total assets for each of our business segments, as well as by geographical area, appears in Note P – Segment Reporting to our 2007 consolidated financial statements included in Item 8 of this Form 10-K.

#### The Drug-Eluting Stent Opportunity

Our broad, innovative product offerings have enabled us to become a leader in the interventional cardiology market. This leadership is due in large part to our coronary stent product offerings. Coronary stents are tiny, mesh tubes used in the treatment of coronary artery disease, which are implanted in patients to prop open arteries and facilitate blood flow to and from the heart. We have further enhanced the outcomes associated with the use of coronary stents,

particularly the processes that lead to restenosis (the growth of neointimal tissue within an artery after angioplasty and stenting), through dedicated internal and external product development and scientific research of drug-eluting stent systems.

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Since its U.S. launch in March 2004 and its launch in our Europe and Inter-Continental markets in 2003, our proprietary polymer-based paclitaxel-eluting stent technology for reducing coronary restenosis, the TAXUS® Express2™ coronary stent system, has become the worldwide leader in the drug-eluting coronary stent market. In addition, we now have access to a second drug-eluting coronary stent program, which complements our existing TAXUS stent system. During the fourth quarter of 2006, we initiated a limited launch of the PROMUS™ everolimus-eluting coronary stent system, which is a private-labeled XIENCE™ V drug-eluting stent system supplied to us by Abbott Laboratories, in certain European countries and, during 2007, expanded our launch in Europe, as well as in key countries in other regions. In June 2007, Abbott submitted the final module of a pre-market approval (PMA) application to the FDA seeking approval in the U.S. for both the XIENCE V and PROMUS stent systems. In November 2007, the FDA advisory panel reviewing Abbott's PMA submission voted to recommend the stent systems for approval. Following FDA approval, which Abbott is expecting in the first half of 2008, we plan to launch the PROMUS stent system in the U.S.

We continue to enhance our product offerings in the drug-eluting stent market. We successfully launched our next-generation drug-eluting stent product, the TAXUS® Liberté® stent system, during 2005 in our Europe and Inter-Continental markets, and expect to launch the product in the U.S. in the second half of 2008, subject to regulatory approval. The Liberté coronary stent is designed to further enhance deliverability and conformability, particularly in challenging lesions.

Our U.S. TAXUS stent system sales decreased in 2007 relative to 2006, due in part to a decline in the size of the U.S. market following recent uncertainty regarding the perceived risk of late stent thrombosis<sup>1</sup> following the use of drug-eluting stents. However, we believe that recent data addressing this risk and supporting the safety of drug-eluting stent systems could positively affect the size of the drug-eluting stent market, as referring cardiologists regain confidence in this technology.

#### The Cardiac Rhythm Management Opportunity

As a result of our 2006 acquisition of Guidant, we now develop, manufacture and market products that focus on the treatment of cardiac arrhythmias and heart failure. Natural electrical impulses stimulate the heart's chambers to pump blood. In healthy individuals, the electrical current causes the heart to beat at an appropriate rate and in synchrony. We manufacture a variety of implantable devices that monitor the heart and deliver electricity to treat cardiac abnormalities, including:

- Implantable cardiac defibrillator (ICD) systems used to detect and treat abnormally fast heart rhythms (tachycardia) that could result in sudden cardiac death, including implantable cardiac resynchronization therapy defibrillator (CRT-D) systems used to treat heart failure; and
- Implantable pacemaker systems used to manage slow or irregular heart rhythms (bradycardia), including implantable cardiac resynchronization therapy pacemaker (CRT-P) systems used to treat heart failure.

Tachycardia (abnormally fast or chaotic heart rhythms) prevents the heart from pumping blood efficiently and can lead to sudden cardiac death. ICD systems (defibrillators, leads, programmers, our LATITUDE® Patient Management System and accessories) monitor the heart and deliver electrical energy, restoring a normal rhythm. Our defibrillators deliver tiered therapy—a staged progression from lower intensity pacing pulses designed to correct the abnormal rhythm to more aggressive shocks to restore a heartbeat.

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<sup>1</sup>Late stent thrombosis is the formation of a clot, or thrombus, within the stented area one year or more after implantation of the stent.



Heart failure (the heart's inability to pump effectively) is a debilitating, progressive condition, with symptoms including shortness of breath and extreme fatigue. Statistics show that one in five persons die within the first year of a heart failure diagnosis, and patients with heart failure suffer sudden cardiac death at six to nine times the rate of the general population. The condition is pervasive, with approximately five million people in the U.S. affected.

Bradycardia (slow or irregular heart rhythms) often results in a heart rate insufficient to provide adequate blood flow throughout the body, creating symptoms such as fatigue, dizziness and fainting. Cardiac pacemaker systems (pulse generators, leads, programmers and accessories) deliver electrical energy to stimulate the heart to beat more frequently and regularly. Pacemakers range from conventional single-chamber devices to more sophisticated adaptive-rate, dual-chamber devices.

Our remote monitoring system, the LATITUDE® Patient Management System, may be placed in a patient's home (at their bedside) and reads implantable device information at times specified by the patient's physician. The communicator then transmits the data to a secure Internet server where the physician (or other qualified third party) can access this medical information anytime, anywhere. In addition to automatic device data uploads, the communicator enables a daily confirmation of the patient's device status, providing assurance the device is operating properly. Available as an optional component to the system is the LATITUDE Weight Scale and Blood Pressure Monitor. Weight and blood pressure data is captured by the communicator and sent to the secure server for review by the patient's physician (or other qualified third party). In addition, this weight and blood pressure information is available immediately to patients in their home to assist their compliance with the day-to-day and home-based heart failure instructions prescribed by their physician.

### Strategic Initiatives

In 2007, we announced several new initiatives designed to enhance short- and long-term shareholder value, including:

- the restructuring of several businesses and product franchises in order to leverage resources, strengthen competitive positions, and create a more simplified and efficient business model;
- the sale of five non-strategic businesses, including our Auditory, Cardiac Surgery, Vascular Surgery, Venous Access and Fluid Management businesses; and
- significant expense and head count reductions.

Our goal is to better align expenses with revenues, while preserving our ability to make needed investments in quality, research and development projects, capital and our people that are essential to our long-term success. We expect these initiatives to help provide better focus on our core businesses and priorities, which will strengthen Boston Scientific for the future and position us for increased, sustainable and profitable sales growth. Each of these initiatives are described more fully in our Management's Discussion and Analysis included in Item 7 of this Form 10-K.

### Business Strategy

Our mission is to improve the quality of patient care and the productivity of healthcare delivery through the development and advocacy of less-invasive medical devices and procedures. We believe that the pursuit of this mission will enhance shareholder value. We intend to accomplish our mission through the continuing refinement of existing products and procedures and the investigation and development of new technologies that can reduce risk, trauma, cost, procedure time and the need for aftercare. Our approach to innovation combines internally developed products and technologies with those we obtain externally through acquisitions and alliances. Our research and development program is largely focused on the development of



next-generation and novel technology offerings across multiple programs and divisions. Key elements of our overall business strategy include the following:

#### Product Quality

Our commitment to quality and the success of our quality objectives are designed to build customer trust and loyalty. This commitment to provide quality products to our customers runs throughout our organization and is one of our most critical business objectives. In order to strengthen our corporate-wide quality controls, we established Project Horizon, a cross-functional initiative to improve and harmonize our overall quality processes and systems. Under Project Horizon, we have made an overarching effort to elevate quality thinking in all that we do. In 2007, we made significant improvements to our quality systems, including in the areas of field action decision-making, corrective and preventative actions, management controls, process validations and complaint management systems. We also engaged a third party to audit our corporate-wide quality systems as we strive to improve those systems continuously.

In addition, our Board of Directors has created a Compliance and Quality Committee to monitor our compliance and quality initiatives. Our quality policy, applicable to all employees, is "I improve the quality of patient care and all things Boston Scientific." This personal commitment connects our people with the vision and mission of Boston Scientific.

#### Innovation

We are committed to harnessing technological innovation through a mixture of tactical and strategic initiatives that are designed to offer sustainable growth in the near and long term. Combining internally developed products and technologies with those obtained through our acquisitions and alliances allows us to focus on and deliver products currently in our own research and development pipeline as well as to strengthen our technology portfolio by accessing third-party technologies.

#### Clinical Excellence

Our commitment to innovation is demonstrated further by our clinical capabilities. Our clinical groups focus on driving innovative therapies aimed at transforming the practice of medicine. Our clinical teams are organized by therapeutic specialty to better support our research and development pipeline. During 2007, our clinical organization planned, initiated and conducted an expanding series of focused clinical trials that support regulatory and reimbursement requirements and demonstrated the safe and effective clinical performance of critical products and technologies.

#### Product Diversity

We offer products in numerous product categories, which are used by physicians throughout the world in a broad range of diagnostic and therapeutic procedures. The breadth and diversity of our product lines permit medical specialists and purchasing organizations to satisfy many of their less-invasive medical device requirements from a single source.

#### Operational Excellence

We are focused on continuously improving our supply chain effectiveness, strengthening our manufacturing processes and increasing operational efficiencies within our organization. By shifting global manufacturing along product lines, we are able to leverage our existing resources and concentrate on new product development, including the enhancement of existing products, and their commercial launch. We are implementing new systems designed to provide improved quality and reliability, service, greater efficiency and lower supply chain costs. We have substantially increased our focus on process controls and validations, supplier controls, distribution controls and providing our operations teams with the training and tools necessary to drive continuous improvement in product

quality. In 2007, we also focused on examining our operations and general business activities to identify cost-improvement opportunities in order to enhance our operational effectiveness. We intend to continue these efforts in 2008.

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### Customer Focused Marketing

We consistently strive to understand and exceed the expectations of our customers. Each of our business groups maintains dedicated sales forces and marketing teams focusing on physicians who specialize in the diagnosis and treatment of different medical conditions. We believe that this focused disease state management enables us to develop highly knowledgeable and dedicated sales representatives and to foster close professional relationships with physicians.

### Active Participation in the Medical Community

We believe that we have positive working relationships with physicians and others in the medical industry, which enable us to gain a detailed understanding of new therapeutic and diagnostic alternatives and to respond quickly to the changing needs of physicians and their patients. Active participation in the medical community contributes to physician understanding and adoption of less-invasive techniques and the expansion of these techniques into new therapeutic and diagnostic areas.

### Corporate Culture

We believe that success and leadership evolve from a motivating corporate culture that rewards achievement, respects and values individual employees and customers, and focuses on quality, patient care, integrity, technology and service. This high performance culture has embraced an intense focus on quality, and now places quality at the top of its priorities. We believe that our success is attributable in large part to the high caliber of our employees and our commitment to respecting the values on which we have based our success.

### Research and Development

Our investment in research and development is critical to driving our future growth. We have directed our development efforts toward regulatory compliance and innovative technologies designed to expand current markets or enter new markets. We believe that streamlining, prioritizing and coordinating our technology pipeline and new product development activities are essential to our ability to stimulate growth and maintain leadership positions in our markets. Our approach to new product design and development is through focused, cross-functional teams. We believe that our formal process for technology and product development aids in our ability to offer innovative and manufacturable products in a consistent and timely manner. Involvement of the research and development, clinical, quality, regulatory, manufacturing and marketing teams early in the process is the cornerstone of our product development cycle. This collaboration allows these teams to concentrate resources on the most viable and clinically relevant new products and technologies and bring them to market in a timely manner. In addition to internal development, we work with hundreds of leading research institutions, universities and clinicians around the world to develop, evaluate and clinically test our products.

We believe our future success will depend upon the strength of these development efforts. In 2007, we expended \$1.091 billion on research and development, representing approximately 13 percent of our 2007 net sales. Our investment in research and development reflects:

- regulatory compliance and clinical research, particularly relating to our next-generation stent and CRM platforms and other development programs obtained through our acquisitions; and
- sustaining engineering efforts which factor customer (or “post market”) feedback into continuous improvement efforts for currently marketed products.

## Acquisitions and Alliances

Since 1995, we have undertaken a strategic acquisition program to assemble the lines of business necessary to achieve the critical mass that allows us to continue to be a leader in the medical device industry. Our 2007 acquisitions included the following:

- EndoTex Interventional Systems, Inc., a developer of stents used in the treatment of stenotic lesions in the carotid arteries, intended to expand our carotid artery disease portfolio;
- Remon Medical Technologies, Inc., a development-stage company focused on creating communication technology for medical device applications, intended to expand our sensor and wireless communication technology portfolio and complement our CRM product line; and
- Celsion Corporation's Prolieve® Thermodilatation System, technology for treating symptomatic benign prostatic hyperplasia (BPH), intended to expand our technology portfolio used to treat urologic conditions.

Our investment portfolio includes investments in both publicly traded and privately held companies. Many of these alliances involve complex arrangements with third parties and some include the option to purchase these companies at pre-established future dates, generally upon the attainment of performance, regulatory and/or revenue milestones. These arrangements allow us to evaluate new technologies prior to acquiring them. We expect that we will continue to focus selectively on acquisitions and alliances in order to provide new products and technology platforms to our customers, including making additional investments in several of our existing strategic relationships.

## Products

Our products are offered for sale principally by three dedicated business groups—Cardiovascular (including our Interventional Cardiology, CRM and Cardiovascular businesses), Endosurgery (including our Endoscopy and Urology/Gynecology businesses, and until February 2008, included our Oncology business) and Neuromodulation (including our Pain Management business, and, until January 2008, included our Auditory business). In February 2008, we completed the sale of our Venous Access franchise, previously part of our Oncology business, along with our Fluid Management business, and integrated our remaining Oncology franchises into other business units. In addition, in January 2008, we completed the sale of a controlling interest in our Auditory business, along with our drug pump development program, to entities affiliated with the former principal shareholders of Advanced Bionics Corporation. Our Cardiovascular organization focuses on products and technologies for use in interventional cardiology, cardiac rhythm management, peripheral interventions, electrophysiology, neurovascular, and, until January 2008, cardiac surgery and vascular surgery procedures. In January 2008, we completed the sale of our Cardiac Surgery and Vascular Surgery businesses. During 2007, we derived 78 percent of our net sales from our Cardiovascular businesses, approximately 18 percent from our Endosurgery businesses and approximately four percent from our Neuromodulation business.

The following section describes certain of our Cardiovascular, Endosurgery and Neuromodulation offerings as of December 31, 2007, before the divestitures of certain of our businesses:

### Cardiovascular

#### Coronary Stent Business

##### Drug-Eluting Stents

We are the market leader in the worldwide drug-eluting stent market. We market our TAXUS® Express2™ paclitaxel-eluting coronary stent system principally in the U.S. and Japan. We also market our second-generation

coronary stent, the TAXUS® Liberté® stent system, in our Europe and Inter-Continental markets. We expect to launch the TAXUS Liberté coronary stent system in the U.S. in the second half of 2008,

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subject to regulatory approval. In December 2007, we received CE Mark approval for the use of the TAXUS® Liberté® stent system in diabetic patients, and, in May 2007, we received CE Mark approval for our TAXUS Liberté Long stent, a specialty stent designed for more efficient stenting of long lesions.

In the fourth quarter of 2006, we began marketing our PROMUS™ everolimus-eluting coronary stent system in certain of our Europe and Inter-Continental countries, expanding our drug-eluting stent portfolio to include two distinct drug platforms. We expect to launch the PROMUS stent system in the U.S. in the first half of 2008, subject to regulatory approval. We also expect to launch an internally developed and manufactured next-generation everolimus-based stent system in Europe in late 2009 or early 2010 and in the U.S. in late 2012 or early 2013. In addition, we have commenced clinical trials for our third-generation paclitaxel-eluting stent, the TAXUS® Element™ platinum chromium coronary stent system. In July 2007, we announced the first implant of the TAXUS Element stent system.

#### Bare-Metal Stents

We offer our Liberté bare-metal coronary stent system globally. The Liberté coronary stent system serves as the platform for our second-generation paclitaxel-eluting stent system, the TAXUS Liberté coronary stent system. The Liberté bare-metal coronary stent system is designed to enhance deliverability and conformability, particularly in challenging lesions. We are also developing a bare-metal version of the TAXUS Element coronary stent system.

#### Cardiac Surgery and Vascular Surgery

Cardiac surgery devices are used to perform endoscopic vessel harvesting, cardiac surgical ablation and less-invasive coronary artery by-pass surgery. Vascular Surgery devices include abdominal, thoracic and peripheral vascular grafts for the treatment of aortic aneurysms and dissections, peripheral vascular occlusive diseases and dialysis access. In connection with our strategic initiatives, we identified these businesses as non-strategic and, in January 2008, completed the sale of our Cardiac Surgery business (acquired with Guidant) and Vascular Surgery business to the Getinge Group of Sweden.

#### Coronary Revascularization

We market a broad line of products used to treat patients with atherosclerosis. Atherosclerosis, a principal cause of coronary artery obstructive disease, is characterized by a thickening of the walls of the coronary arteries and a narrowing of arterial lumens (openings) caused by the progressive development of deposits of plaque. The majority of our products in this market are used in percutaneous transluminal coronary angioplasty (PTCA) procedures and include bare-metal and drug-eluting stent systems; PTCA balloon catheters, such as the Maverick® balloon catheter; the Cutting Balloon® microsurgical dilatation device; rotational atherectomy systems; guide wires; guide catheters and diagnostic catheters. We also market a broad line of fluid delivery sets, pressure monitoring systems, custom kits and accessories that enable the injection of contrast and saline or otherwise facilitate cardiovascular procedures.

#### Intraluminal Ultrasound Imaging

We market a family of intraluminal catheter-directed ultrasound imaging catheters and systems for use in coronary arteries and heart chambers as well as certain peripheral systems. The iLab® Ultrasound Imaging System, launched in the U.S. in 2006, continues as our flagship console and is compatible with our full line of imaging catheters. This system enhances the diagnosis and treatment of blocked vessels and heart disorders. In 2007, we received approval for the sale of the iLab imaging system in Japan and other international markets.

#### Embolic Protection

Our FilterWire EZ™ Embolic Protection System is a low profile filter designed to capture embolic material



that may become dislodged during a procedure, which could otherwise travel into the microvasculature where it could cause a heart attack or stroke. It is commercially available in the U.S., Europe and other international markets for multiple indications, including the treatment of disease in peripheral, coronary and carotid vessels. It is also available in the U.S. for the treatment of saphenous vein grafts and carotid artery stenting procedures.

#### Peripheral Interventions

We sell various products designed to treat patients with peripheral disease (disease which appears in blood vessels other than in the heart and in biliary strictures), including a broad line of medical devices used in percutaneous transluminal angioplasty and peripheral vascular stenting. Our peripheral product offerings include vascular access products, balloon catheters, stents and peripheral vascular catheters, wires and accessories. In the first quarter of 2008, we began integrating certain products used for non-vascular intervention, previously part of our Oncology business, into our Peripheral Interventions business. We also sell products designed to treat patients with non-vascular disease (disease which appears outside the blood system). Our non-vascular suite of products includes biliary stents, drainage catheters, biopsy devices and micro-puncture sets, designed to treat, diagnose and palliate various forms of benign and malignant tumors. We market the PolarCath™ peripheral dilatation system used in CryoPlasty® Therapy, an innovative approach to the treatment of peripheral artery disease in the lower extremities. In January 2007, we completed the acquisition of EndoTex Interventional Systems, Inc., and, in February 2007, launched the NexStent® Carotid Stent System, a laser-cut, nitinol stent with a rolled sheet design that enables one stent size to adapt to multiple diameters in tapered or non-tapered vessel configurations.

In the first quarter of 2008, we began integrating our Peripheral Interventions business with our Interventional Cardiology business under a single management structure to help create a more integrated business focused on interventional specialists, while enhancing technology and operational efficiencies.

#### Neurovascular Intervention

We market a broad line of detachable coils (coated and uncoated), micro-delivery stents, micro-guidewires, micro-catheters, guiding catheters and embolics to neuro-interventional radiologists and neurosurgeons to treat diseases of the neurovascular system. We market the GDC® Coils (Guglielmi Detachable Coil) and Matrix® systems to treat brain aneurysms. We also offer the NeuroForm® stent for the treatment of wide neck aneurysms and the Wingspan® Stent System with Gateway® PTA Balloon Catheter, each under a Humanitarian Device Exemption approval granted by the FDA. The Wingspan Stent System is designed to treat atherosclerotic lesions or accumulated plaque in brain arteries. Designed for the brain's fragile vessels, the Wingspan Stent System is a self-expanding, nitinol stent sheathed in a delivery system that enables it to reach and open narrowed arteries in the brain. The Wingspan Stent System is currently the only device available in the U.S. for the treatment of intracranial atherosclerotic disease (ICAD) and is indicated for improving cerebral artery lumen diameter in patients with ICAD who are unresponsive to medical therapy.

#### Electrophysiology

We offer medical devices for the diagnosis and treatment of cardiac arrhythmias (abnormal heartbeats). Included in our product offerings are RF generators, intracardiac ultrasound and steerable ablation catheters, as well as a line of diagnostic catheters and associated accessories. Our leading brands include the Blazer™ cardiac ablation catheter, and the Chilli II™ cooled ablation catheter, the first bidirectional cooled-tip catheter available in the U.S. We also offer a next-generation line of RF generators, the MAESTRO 3000® Cardiac Ablation System. During 2008, we will integrate our Electrophysiology business with our CRM business in order to serve better the needs of electrophysiologists by creating a more efficient organization.

## Cardiac Rhythm Management (CRM)

We offer a variety of implantable devices that monitor the heart and deliver electrical impulses to treat cardiac rhythm abnormalities, including tachycardia and bradycardia. We also offer devices that treat heart failure by delivering electrical impulses to help the heart to beat in a more coordinated fashion. A key component of many of our implantable device systems is our remote LATITUDE® Patient Management System, which provides clinicians with information about a patient's device and clinical status non-invasively via the Internet, allowing for more frequent monitoring in order to guide treatment decisions.

Our U.S. CRM product offerings include:

- VITALITY®2 ICD systems;
- ENDOTAK RELIANCE® defibrillation leads;
- CONTAK RENEWAL® 3 RF CRT-D systems;
- ACUITY™ Steerable left ventricular leads;
  - INSIGNIA® pacing systems;
  - DEXTRUS™ pacing leads;
- LATITUDE® Patient Management System;
- LIVIAN™ CRT-D (approved February 2008); and
- CONFIENT™ ICD (approved February 2008).

Our international CRM product offerings include:

- ENDOTAK RELIANCE® defibrillation leads;
- CONTAK RENEWAL® 3 RF CRT-D systems;
  - INSIGNIA® pacing systems;
  - LIVIAN™ CRT-D; and
  - CONFIENT™ ICD.

The year 2007 was characterized by a re-engineering of how we design, build, test and report on our CRM products. We also saw continued rapid adoption of our LATITUDE® Patient Management System; we started the year with 11,500 patients enrolled on the LATITUDE System and finished 2007 with more than 80,000 patients enrolled. In November 2007, we announced the industry's first patient data integration between a CRM remote monitoring system and a physician's electronic medical record, using the LATITUDE System to allow clinicians to access information from a patient's ICD device and store this information within the GE Centricity® Electronic Medical Record (EMR) system in the form of lab results.

In 2007, we launched two new lead systems that connect pulse generators to the heart – the ACUITY™ Steerable left ventricular leads and the DEXTRUS™ pacing leads. In April 2007, we received regulatory approval for and launched in Japan our VITALITY® DR ICD system. In addition, in October 2007, we received CE Mark approval for CONFIENT™, our next-generation ICD product, and, in December 2007, we received European approval of LIVIAN™, our next-generation CRT-D device. Further, in the first quarter of 2008, we received CE Mark approval for our next-generation COGNIS™ CRT-D device and our next-generation TELIGEN™ ICD system, as well as U.S. FDA approval for CONFIENT and LIVIAN.

## Endosurgery

In March 2007, we announced our intent to explore the benefits that could be gained from operating our Endosurgery group as a separately traded public company that would become a majority-owned subsidiary of Boston Scientific. In July 2007, we completed this exploration and determined that the group will remain wholly owned by Boston Scientific. The following are the components of our Endosurgery business:

Esophageal, Gastric and Duodenal (Small Intestine) Intervention

We market a broad range of products to diagnose, treat and palliate a variety of gastrointestinal diseases and conditions, including those affecting the esophagus, stomach and colon. Common disease states include esophagitis, portal hypertension, peptic ulcers and esophageal cancer. Our product offerings in this area include disposable single and multiple biopsy forceps, balloon dilatation catheters, hemostasis catheters and

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enteral feeding devices. We also market a family of esophageal stents designed to offer improved dilatation force and greater resistance to tumor in-growth. We offer the Radial Jaw® 4 Single-Use Biopsy Forceps, which are designed to enable collection of large high-quality tissue specimens without the need to use large channel therapeutic endoscopes.

#### Colorectal Intervention

We market a line of hemostatic catheters, polypectomy snares, biopsy forceps, enteral stents and dilatation catheters for the diagnosis and treatment of polyps, inflammatory bowel disease, diverticulitis and colon cancer.

#### Pancreatico-Biliary Intervention

We sell a variety of products to diagnose, treat and palliate benign and malignant strictures of the pancreatico-biliary system (the gall bladder, common bile duct, hepatic duct, pancreatic duct and the pancreas) and to remove stones found in the common bile duct. Our product offerings include diagnostic catheters used with contrast media, balloon dilatation catheters and sphincterotomes. We also market self-expanding metal and temporary biliary stents for palliation and drainage of the common bile duct. In May 2007, we announced the worldwide launch of our Spyglass® Direct Visualization System for direct imaging of the bile duct system. The Spyglass system is the first single-operator cholangioscopy device that offers clinicians a direct visualization of the bile duct system and includes supporting devices for tissue acquisition, stone management and lithotripsy.

#### Pulmonary Intervention

We market devices to diagnose, treat and palliate diseases of the pulmonary system. Our product offerings include pulmonary biopsy forceps, transbronchial aspiration needles, cytology brushes and tracheobronchial stents used to dilate strictures or for tumor management.

#### Urinary Tract Intervention and Bladder Disease

We sell a variety of products designed primarily to treat patients with urinary stone disease, including: ureteral dilatation balloons used to dilate strictures or openings for scope access; stone baskets used to manipulate or remove stones; intracorporeal shock wave lithotripsy devices and holmium laser systems used to disintegrate stones; ureteral stents implanted temporarily in the urinary tract to provide short-term or long-term drainage; and a wide variety of guidewires used to gain access to specific sites. We have also developed other devices to aid in the diagnosis and treatment of bladder cancer and bladder obstruction.

#### Prostate Intervention

We currently market electro-surgical resection devices designed to resect large diseased tissue sites for the treatment of benign prostatic hyperplasia (BPH). We also market disposable needle biopsy devices, designed to take core prostate biopsy samples. In June 2007, we purchased Celsion Corporation's Prolieve® Thermodilatation System, a transurethral microwave thermotherapy system for the treatment of BPH, which we had previously distributed for Celsion. In addition, we distribute and market the DuoTome™ SideLite™ holmium laser treatment system for treatment of symptoms associated with BPH.

#### Pelvic Floor Reconstruction and Urinary Incontinence

We market a line of less-invasive devices to treat female pelvic floor conditions in the areas of stress urinary incontinence and pelvic organ prolapse. These devices include a full line of mid-urethral sling products, sling materials, graft materials, suturing devices and injectables. We have exclusive U.S. distribution rights to the Coaptite® Injectable Implant, a next-generation bulking agent, for the treatment of stress urinary incontinence.



## Gynecology

We also market other products in the area of women's health. Our Hydro ThermAblator® System offers a less-invasive technology for the treatment of excessive uterine bleeding by ablating the lining of the uterus, the tissue responsible for menstrual bleeding.

## Oncology

In 2007, we marketed a broad line of products designed to treat, diagnose and palliate various forms of benign and malignant tumors. Our suite of products includes microcatheters, embolic agents and coils designed to restrict blood supply to targeted sites, as well as radiofrequency-based therapeutic devices for the ablation of various forms of soft tissue lesions (tumors). Also included in our oncology portfolio during 2007 was a complete line of venous access products, used for infusion therapy. In February 2008, we sold our Venous Access franchise, as well as our Fluid Management business to Avista Capital Partners. In the first quarter of 2008, we began integrating our remaining Oncology franchises into other business units. We incorporated our Radiofrequency Tumor Ablation franchise into our Endoscopy business; our Peripheral Embolization franchise into our Neurovascular business; and our Non-Vascular Intervention franchise into our Peripheral Interventions business, which is part of our Cardiovascular business group.

## Neuromodulation

### Pain Management

We market the Precision® Spinal Cord Stimulation (SCS) System for the treatment of chronic pain of the lower back and legs. This system delivers advanced pain management by applying a small electrical signal to mask pain signals traveling from the spinal cord to the brain. The Precision System utilizes a rechargeable battery and features a patient-directed fitting system for fast and effective programming. The Precision System is also being assessed for use in treating sources of other peripheral pain. In July 2007, we launched our new Precision Plus™ SCS System, the world's smallest rechargeable SCS neuromodulation device for the treatment of chronic pain of the trunk, back and limbs.

### Cochlear Implants

In 2007, we developed and marketed in the U.S., Europe and Japan the HiResolution® 90K Cochlear Implant System to restore hearing to the profoundly deaf. We also offered our next-generation cochlear implant technology, the Harmony™ HiResolution Bionic Ear System. In January 2008, we sold a controlling interest in our Auditory business and drug pump development program to the principal former shareholders of Advanced Bionics Corporation. We retained and continue to operate the Pain Management business and emerging indications development program acquired with Advanced Bionics in 2004.

## Marketing and Sales

A dedicated sales force of approximately 2,200 individuals in approximately 45 countries internationally, and over 3,700 individuals in the U.S. marketed our products worldwide as of December 31, 2007. Sales in countries where we have direct sales organizations accounted for approximately 94 percent of our net sales during 2007. A network of distributors and dealers who offer our products worldwide accounts for our remaining sales. We will continue to leverage our infrastructure in markets where commercially appropriate and use third parties in those markets where it is not economical or strategic to establish or maintain a direct presence. We also have a dedicated corporate sales organization in the U.S. focused principally on selling to major buying groups and integrated healthcare networks.

In 2007, we sold our products to over 10,000 hospitals, clinics, outpatient facilities and medical offices. We are not dependent on any single institution and no single institution accounted for more than ten percent of our net sales in 2007. However, large group purchasing organizations, hospital networks and other

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buying groups have become increasingly important to our business and represent a substantial portion of our U.S. net sales.

We also distribute certain products for third parties, including an introducer sheath and certain guidewires, various graft materials, and pneumatic and laser lithotripters for use in connection with urology and gynecology procedures. Employing our sales and marketing strength, we expect to continue to seek new opportunities for distributing complementary products as well as new technologies.

#### International Operations

Internationally, during 2007, we operated through three business units divided among the geographic regions of Europe, Asia Pacific and Inter-Continental. Maintaining and expanding our international presence is an important component of our long-term growth plan. Through our international presence, we seek to increase net sales and market share, leverage our relationships with leading physicians and their clinical research programs, accelerate the time to bring new products to market, and gain access to worldwide technological developments that we can implement across our product lines. After our acquisition of Guidant, we integrated Guidant's international sales operations into our geographic regions. Consistent with our geographic focus, the Guidant CRM business became a business unit within each country organization across Europe, Asia Pacific and Inter-Continental. In the first quarter of 2008, we began operating through two international business units: EMEA, consisting of Europe, Middle East and Africa; and Inter-Continental, consisting of Japan, Asia Pacific, Canada and Latin America. This reorganization is designed to allow for better leverage of infrastructure and resources as well as restored competitiveness.

International sales accounted for approximately 41 percent of our net sales in 2007. Net sales and operating income attributable to our 2007 geographic regions are presented in Note P—Segment Reporting to our 2007 consolidated financial statements included in Item 8 of this Form 10-K.

We have five international manufacturing facilities in Ireland, one in Costa Rica and one in Puerto Rico. Presently, approximately 22 percent of our products sold worldwide are manufactured at these facilities. We also maintain an international research and development facility in Ireland, a training facility in Tokyo, Japan, and a training and research and development center in Miyazaki, Japan. Through April of 2008, we will continue to share a training facility with Abbott in Brussels, Belgium, and will then move to our own international training facility in Paris, France.

#### Manufacturing and Raw Materials

We design and manufacture the majority of our products in technology centers around the world. Many components used in the manufacture of our products are readily fabricated from commonly available raw materials or off-the-shelf items available from multiple supply sources. Certain items are custom made to meet our specifications. We believe that in most cases, redundant capacity exists at our suppliers and that alternative sources of supply are available or could be developed within a reasonable period of time. We also have an on-going program to identify single-source components and to develop alternative back-up supplies. However, in certain cases, we may not be able to quickly establish additional or replacement suppliers for specific components or materials, largely due to the regulatory approval system and the complex nature of our manufacturing processes and those of our suppliers. A reduction or interruption in supply, an inability to develop and validate alternative sources if required, or a significant increase in the price of raw materials or components could adversely affect our operations and financial condition, particularly materials or components related to our TAXUS® and PROMUS™ drug-eluting coronary stent systems and our CRM products.

#### Quality Assurance

On December 23, 2005, Guidant received an FDA warning letter citing certain deficiencies with respect to its manufacturing quality systems and record keeping procedures in its CRM facility in St. Paul, Minnesota. In  
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April 2007, following FDA reinspections of our CRM facilities, we resolved the warning letter and all associated restrictions were removed.

On January 26, 2006, legacy Boston Scientific received a corporate warning letter from the FDA notifying us of serious regulatory problems at three of our facilities and advising us that our corporate-wide corrective action plan relating to three site-specific warning letters issued to us in 2005 was inadequate. As stated in this FDA warning letter, the FDA may not grant our requests for exportation certificates to foreign governments or approve PMA applications for class III devices to which the quality control or current good manufacturing practices deficiencies described in the letter are reasonably related until the deficiencies have been corrected.

In order to strengthen our corporate-wide quality controls, we established Project Horizon, a corporate-wide cross-functional initiative to improve and harmonize our overall quality processes and systems. As part of Project Horizon, we made modifications to our management controls, process validation, corrections and removals, distribution and product control, corrective and preventive actions, and complaint management systems. Project Horizon resulted in the reallocation of internal employee and management resources to quality initiatives, as well as incremental spending, resulting in adjustments to product launch schedules of certain products and the decision to discontinue certain other product lines over time. Project Horizon ended as a formal program on December 31, 2007 and we transferred all open projects to sustaining organizations. We have since implemented the Quality Master Plan to drive continuous improvement in compliance and quality performance. In addition, our Board of Directors has created a Compliance and Quality Committee to monitor our compliance and quality initiatives. Our quality policy, applicable to all employees, is "I improve the quality of patient care and all things Boston Scientific." This personal commitment connects our people with the vision and mission of Boston Scientific.

We believe we have identified solutions to the quality issues cited by the FDA, and continue to make progress in transitioning our organization to implement those solutions. We engaged a third party to audit our enhanced quality systems in order to assess our corporate-wide compliance prior to reinspection by the FDA. We completed substantially all of these third-party audits during 2007 and, in February 2008, the FDA commenced its reinspection of certain of our facilities. We believe that these reinspections represent a critical step toward the resolution of the corporate warning letter.

In addition, in August 2007, we received a warning letter from the FDA regarding the conduct of clinical investigations associated with our abdominal aortic aneurysm (AAA) program acquired from TriVascular, Inc. We are taking corrective action and have made certain commitments to the FDA regarding the conduct of our clinical trials. We terminated the TriVascular AAA program in 2006 and do not believe the recent warning letter will have an impact on the timing of the resolution of our corporate warning letter.

We are committed to providing high quality products to our customers. To meet this commitment, we have implemented updated quality systems and concepts throughout our organization. Our quality system starts with the initial product specification and continues through the design of the product, component specification process and the manufacturing, sales and servicing of the product. Our quality system is intended to build in quality and process control and to utilize continuous improvement concepts throughout the product life. These systems are designed to enable us to satisfy the quality system regulations of the FDA with respect to products sold in the U.S. Many of our operations are certified under ISO 9001, ISO 9002, ISO 13485, ISO 13488, EN 46001 and EN 46002 international quality system standards. ISO 9002 requires, among other items, an implemented quality system that applies to component quality, supplier control and manufacturing operations. In addition, ISO 9001 and EN 46001 require an implemented quality system that applies to product design. These certifications can be obtained only after a complete audit of a company's quality system by an independent outside auditor. Maintenance of these certifications requires that these facilities undergo periodic re-examination.

We maintain an ongoing initiative to seek ISO 14001 certification at our plants around the world. ISO 14001, the environmental management system standard in the ISO 14000 series, provides a voluntary framework to identify key

environmental aspects associated with our businesses. We engage in continuous environmental  
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performance improvement around these aspects. At present, nine of our manufacturing and distribution facilities have attained ISO 14001 certification. We expect to continue this initiative until each of our manufacturing facilities, including those we acquire, becomes certified.

### Competition

We encounter significant competition across our product lines and in each market in which we sell our products from various companies, some of which may have greater financial and marketing resources than we do. Our primary competitors have historically included Johnson & Johnson (including its subsidiary, Cordis Corporation) and Medtronic, Inc. (including its subsidiary, Medtronic AVE, Inc.), as well as a wide range of companies that sell a single or limited number of competitive products or participate in only a specific market segment. Since we acquired Guidant, Abbott has become a primary competitor of ours in the interventional cardiology market and we now compete with St. Jude Medical, Inc. in the CRM and neuromodulation markets. We also face competition from non-medical device companies, such as pharmaceutical companies, which may offer alternative therapies for disease states intended to be treated using our products.

We believe that our products compete primarily on their ability to safely and effectively perform diagnostic and therapeutic procedures in a less-invasive manner, including ease of use, reliability and physician familiarity. In the current environment of managed care, economically-motivated buyers, consolidation among healthcare providers, increased competition and declining reimbursement rates, we have been increasingly required to compete on the basis of price, value, clinical outcomes, reliability and efficiency. We believe that our continued competitive success will depend upon our ability to create or acquire scientifically advanced technology, apply our technology cost-effectively and with superior quality across product lines and markets, develop or acquire proprietary products, attract and retain skilled development personnel, obtain patent or other protection for our products, obtain required regulatory and reimbursement approvals, continually enhance our quality systems, manufacture and successfully market our products either directly or through outside parties and supply sufficient inventory to meet customer demand.

### Regulation

The medical devices that we manufacture and market are subject to regulation by numerous regulatory bodies, including the FDA and comparable international regulatory agencies. These agencies require manufacturers of medical devices to comply with applicable laws and regulations governing the development, testing, manufacturing, labeling, marketing and distribution of medical devices. Devices are generally subject to varying levels of regulatory control, the most comprehensive of which requires that a clinical evaluation program be conducted before a device receives approval for commercial distribution.

In the U.S., permission to distribute a new device generally can be met in one of three ways. The first process requires that a pre-market notification (510(k) Submission) be made to the FDA to demonstrate that the device is as safe and effective as, or substantially equivalent to, a legally marketed device that is not subject to PMA (i.e., the “predicate” device). An appropriate predicate device for a pre-market notification is one that (i) was legally marketed prior to May 28, 1976, (ii) was approved under a PMA but then subsequently reclassified from class III to class II or I, or (iii) has been found to be substantially equivalent and cleared for commercial distribution under a 510(k) Submission. Applicants must submit descriptive data and, when necessary, performance data to establish that the device is substantially equivalent to a predicate device. In some instances, data from human clinical trials must also be submitted in support of a 510(k) Submission. If so, these data must be collected in a manner that conforms to the applicable Investigational Device Exemption (IDE) regulations. The FDA must issue an order finding substantial equivalence before commercial distribution can occur. Changes to existing devices covered by a 510(k) Submission that do not raise new questions of safety or effectiveness can generally be made without additional 510(k) Submissions. More significant changes, such as new designs or materials, may require a separate 510(k) with data to support that the modified device remains substantially equivalent.



The second process requires the submission of an application for PMA to the FDA to demonstrate that the device is safe and effective for its intended use as manufactured. This approval process applies to certain class III devices. In this case, two steps of FDA approval are generally required before marketing in the U.S. can begin. First, we must comply with the applicable IDE regulations in connection with any human clinical investigation of the device in the U.S. Second, the FDA must review our PMA application, which contains, among other things, clinical information acquired under the IDE. The FDA will approve the PMA application if it finds that there is a reasonable assurance that the device is safe and effective for its intended purpose.

The third process requires that an application for a Humanitarian Device Exemption (HDE) be made to the FDA for the use of a Humanitarian Use Device (HUD). A HUD is intended to benefit patients by treating or diagnosing a disease or condition that affects, or is manifested in, fewer than 4,000 individuals in the U.S. per year. The application submitted to the FDA for an HDE is similar in both form and content to a PMA application, but is exempt from the effectiveness requirements of a PMA. This approval process demonstrates there is no comparable device available to treat or diagnose the condition, the device will not expose patients to unreasonable or significant risk, and the benefits to health from use outweigh the risks. The HUD provision of the regulation provides an incentive for the development of devices for use in the treatment or diagnosis of diseases affecting small patient populations.

The FDA can ban certain medical devices; detain or seize adulterated or misbranded medical devices; order repair, replacement or refund of these devices; and require notification of health professionals and others with regard to medical devices that present unreasonable risks of substantial harm to the public health. The FDA may also enjoin and restrain certain violations of the Food, Drug and Cosmetic Act and the Safe Medical Devices Act pertaining to medical devices, or initiate action for criminal prosecution of such violations. International sales of medical devices manufactured in the U.S. that are not approved by the FDA for use in the U.S., or are banned or deviate from lawful performance standards, are subject to FDA export requirements. Exported devices are subject to the regulatory requirements of each country to which the device is exported. Some countries do not have medical device regulations, but in most foreign countries, medical devices are regulated. Frequently, regulatory approval may first be obtained in a foreign country prior to application in the U.S. to take advantage of differing regulatory requirements. Most countries outside of the U.S. require that product approvals be recertified on a regular basis, generally every five years. The recertification process requires that we evaluate any device changes and any new regulations or standards relevant to the device and conduct appropriate testing to document continued compliance. Where recertification applications are required, they must be approved in order to continue selling our products in those countries.

In the European Union, we are required to comply with the Medical Devices Directive and obtain CE Mark certification in order to market medical devices. The CE Mark certification, granted following approval from an independent notified body, is an international symbol of adherence to quality assurance standards and compliance with applicable European Medical Devices Directives. We are also required to comply with other foreign regulations such as the requirement that we obtain Ministry of Health, Labor and Welfare approval before we can launch new products in Japan. The time required to obtain these foreign approvals to market our products may vary from U.S. approvals, and requirements for these approvals may differ from those required by the FDA.

We are also subject to various environmental laws, directives and regulations both in the U.S. and abroad. Our operations, like those of other medical device companies, involve the use of substances regulated under environmental laws, primarily in manufacturing and sterilization processes. We believe that compliance with environmental laws will not have a material impact on our capital expenditures, earnings or competitive position. Given the scope and nature of these laws, however, there can be no assurance that environmental laws will not have a material impact on our results of operations. We assess potential environmental contingent liabilities on a quarterly basis. At present, we are not aware of any such liabilities that would have a material impact on our business. We are also certified with respect to the enhanced environmental FTSE4Good criteria and are a constituent member of the London Stock Exchange's FTSE4Good Index, which recognizes companies that meet certain corporate responsibility standards.

In 2007, we were recognized for environmental stewardship, winning a Leadership in Energy and Environmental Design (LEED) award for our new research and development facility in Maple Grove, Minnesota. We also expect to receive LEED awards for renovation projects that have been completed at our Marlborough and Quincy facilities in Massachusetts.

In early 2007, we joined the U.S. Climate Action Partnership (USCAP). USCAP is a diverse group of 27 major businesses and six environmental non-governmental organizations with a commitment to work with Congress and the President to rapidly enact legislation that would significantly slow, stop and reverse the growth of greenhouse gas emissions.

### Third-Party Coverage and Reimbursement

Our products are purchased principally by hospitals, physicians and other healthcare providers around the world that typically bill various third-party payors, including governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed care programs, for the healthcare services provided to their patients. Third-party payors may provide or deny coverage for certain technologies and associated procedures based on independently determined assessment criteria. Reimbursement by third-party payors for these services is based on a wide range of methodologies that may reflect the services' assessed resource costs, clinical outcomes and economic value. These reimbursement methodologies confer different, and often conflicting, levels of financial risk and incentives to healthcare providers and patients, and these methodologies are subject to frequent refinements. Third-party payors are also increasingly adjusting reimbursement rates and challenging the prices charged for medical products and services. There can be no assurance that our products will be covered automatically by third-party payors, that reimbursement will be available or, if available, that the third-party payors' coverage policies will not adversely affect our ability to sell our products profitably.

Initiatives to limit the growth of healthcare costs, including price regulation, are also underway in many countries in which we do business. Implementation of cost containment initiatives and healthcare reforms in significant markets such as Japan, Europe and other international markets may limit the price of, or the level at which reimbursement is provided for, our products and may influence a physician's selection of products used to treat patients.

### Proprietary Rights and Patent Litigation

We rely on a combination of patents, trademarks, trade secrets and non-disclosure agreements to protect our intellectual property. We generally file patent applications in the U.S. and foreign countries where patent protection for our technology is appropriate and available. At December 31, 2007, we held approximately 6,700 U.S. patents (many of which have foreign counterparts) and had more than 10,500 patent applications pending worldwide that cover various aspects of our technology. The divestiture of certain of our businesses in the first quarter of 2008 reduced our portfolio of U.S. patents to approximately 6,200 and U.S. patents pending to 10,200. In addition, we hold exclusive and non-exclusive licenses to a variety of third-party technologies covered by patents and patent applications. There can be no assurance that pending patent applications will result in the issuance of patents, that patents issued to or licensed by us will not be challenged or circumvented by competitors, or that these patents will be found to be valid or sufficiently broad to protect our technology or to provide us with a competitive advantage.

We rely on non-disclosure and non-competition agreements with employees, consultants and other parties to protect, in part, trade secrets and other proprietary technology. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop equivalent proprietary information or that third parties will not otherwise gain access to our trade secrets and proprietary knowledge.

There has been substantial litigation regarding patent and other intellectual property rights in the medical



device industry, particularly in the areas in which we compete. We have defended, and will continue to defend, ourself against claims and legal actions alleging infringement of the patent rights of others. Adverse determinations in any patent litigation could subject us to significant liabilities to third parties, require us to seek licenses from third parties, and, if licenses are not available, prevent us from manufacturing, selling or using certain of our products, which could have a material adverse effect on our business. Additionally, we may find it necessary to initiate litigation to enforce our patent rights, to protect our trade secrets or know-how and to determine the scope and validity of the proprietary rights of others. Patent litigation can be costly and time-consuming, and there can be no assurance that our litigation expenses will not be significant in the future or that the outcome of litigation will be favorable to us. Accordingly, we may seek to settle some or all of our pending litigation. Settlement may include cross licensing of the patents that are the subject of the litigation as well as our other intellectual property and may involve monetary payments to or from third parties.

See Item 3. Legal Proceedings and Note L—Commitments and Contingencies to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for a further discussion of patent and other litigation and proceedings in which we are involved. In management's opinion, we are not currently involved in any legal proceeding other than those specifically identified in Note L, which, individually or in the aggregate, could have a material effect on our financial condition, results of operations and liquidity.

### Risk Management

The testing, marketing and sale of human healthcare products entails an inherent risk of product liability claims. In the normal course of business, product liability and securities claims are asserted against us. Product liability and securities claims may be asserted against us in the future related to unknown events at the present time. We are substantially self-insured with respect to general and product liability claims. We maintain insurance policies providing limited coverage against securities claims. The absence of significant third-party insurance coverage increases our potential exposure to unanticipated claims or adverse decisions. Product liability claims, product recalls, securities litigation and other litigation in the future, regardless of their outcome, could have a material adverse effect on our business. We believe that our risk management practices, including limited insurance coverage, are reasonably adequate to protect against anticipated general, product liability and securities litigation losses. However, unanticipated catastrophic losses could have a material adverse impact on our financial position, results of operations and liquidity.

### Employees

As of December 31, 2007, we had approximately 27,500 employees, including approximately 13,700 in operations; 1,900 in administration; 4,900 in clinical, regulatory and research and development; and 7,000 in selling, marketing, distribution and related administrative support. Of these employees, we employed approximately 9,200 outside the U.S., approximately 5,500 of whom are in the manufacturing operations function. We believe that the continued success of our business will depend, in part, on our ability to attract and retain qualified personnel. In October 2007, we committed to an expense and headcount reduction plan, which will result in the elimination of approximately 2,300 positions worldwide. More than half of the employees impacted by the head count reduction plan were notified in the fourth quarter of 2007, and effectively ceased providing services to us; however due to certain notification period requirements, many of the impacted employees did not terminate employment with us until January 2008. As of January 31, 2008, as a result of these employment terminations and the divestiture of certain of our businesses, we had approximately 24,500 employees.

### Seasonality

Our worldwide sales do not reflect any significant degree of seasonality; however, customer purchases have been lighter in the third quarter of prior years than in other quarters. This reflects, among other factors, lower demand during summer months, particularly in European countries.



## Available Information

Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our website ([www.bostonscientific.com](http://www.bostonscientific.com)) as soon as reasonably practicable after we electronically file the material with or furnish it to the SEC. Our Corporate Governance Guidelines and Code of Conduct, which applies to all of our directors, officers and employees, including our Board of Directors, Chief Executive Officer, Chief Financial Officer and Corporate Controller, are also available on our website, along with any amendments to those documents. Any amendments to or waivers for executive officers or directors of our Code of Conduct will be disclosed on our website promptly after the date of any such amendment or waiver. Printed copies of these posted materials are also available free of charge to shareholders who request them in writing from Investor Relations, One Boston Scientific Place, Natick, MA 01760-1537. Information on our website or connected to our website is not incorporated by reference into this Form 10-K.

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

Certain statements that we may make from time to time, including statements contained in this report and information incorporated by reference into this report, constitute “forward-looking statements” within the meaning of Section 27E of the Securities Exchange Act of 1934. Forward-looking statements may be identified by words like “anticipate,” “expect,” “project,” “believe,” “plan,” “estimate,” “intend” and similar words and include, among other things, statements regarding our financial performance; our growth strategy; the effectiveness of our restructuring, expense and head count reduction initiatives; timing of regulatory approvals; our regulatory and quality compliance; expected research and development efforts; product development and new product launches; our market position and competitive changes in the marketplace for our products; the effect of new accounting pronouncements; the outcome of matters before taxing authorities; intellectual property and litigation matters; our capital needs and expenditures; our ability to meet the financial covenants required by our term loan and revolving credit facility, or to renegotiate the terms of or obtain waivers for compliance with those covenants; and potential acquisitions and divestitures. These forward-looking statements are based on our beliefs, assumptions and estimates using information available to us at this time and are not intended to be guarantees of future events or performance. If our underlying assumptions turn out to be incorrect, or if certain risks or uncertainties materialize, actual results could vary materially from the expectations and projections expressed or implied by our forward-looking statements. As a result, investors are cautioned not to place undue reliance on any of our forward-looking statements.

We do not intend to update the forward-looking statements below or the risk factors described in Item 1A under the heading “Risk Factors” even if new information becomes available or other events occur in the future. We have identified these forward-looking statements below and the risk factors described in Item 1A under the heading “Risk Factors” in order to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain factors that could cause actual results to differ materially from those expressed in forward-looking statements are contained below and in the risk factors described in Item 1A under the heading “Risk Factors.”

## Coronary Stent Business

- Volatility in the coronary stent market, competitive offerings and the timing of receipt of regulatory approvals to market existing and anticipated drug-eluting stent technology and other stent platforms;

Our ability to launch our next-generation drug-eluting stent system, the TAXUS® Liberté® coronary stent system, in the U.S., subject to regulatory approval, and to maintain or expand our worldwide market positions through reinvestment in our two drug-eluting stent programs;

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Our share of the worldwide drug-eluting stent market, the impact of concerns relating to late stent thrombosis on the size of the coronary stent market, the distribution of share within the coronary stent market in the U.S. and around the world, the average number of stents used per procedure and average selling prices;

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• The overall performance of, and continued physician confidence in, our and other drug-eluting stent systems, our ability to adequately address concerns regarding the perceived risk of late stent thrombosis, and the results of drug-eluting stent clinical trials undertaken by us, our competitors or other third parties;

- The penetration rate of drug-eluting stent technology in the U.S. and international markets;

• Our ability to leverage our position as an early entrant in the U.S. drug-eluting stent market, to anticipate competitor products as they enter the market and to respond to the challenges presented as additional competitors enter the U.S. drug-eluting stent market;

• Changes in FDA clinical trial and post-market surveillance requirements and the associated impact on new product launch schedules and the cost of product approval and compliance;

• Our ability to manage inventory levels, accounts receivable, gross margins and operating expenses and to react effectively to worldwide economic and political conditions;

- Our ability to retain key members of our cardiology sales force and other key personnel; and

• Our ability to manage the mix of our PROMUS™ stent system revenue relative to our total drug-eluting stent revenue and to launch a next-generation everolimus-eluting stent system with profit margins more comparable to our TAXUS® stent system, and to maintain our overall profitability as a percentage of revenue.

#### CRM Business

• Our estimates for the worldwide CRM market, the recovery of the CRM market to historical growth rates and our ability to increase CRM net sales;

• The overall performance of, and referring physician, implanting physician and patient confidence in, our and our competitors' CRM products and technologies, including our LATITUDE® Patient Management System and next-generation pulse generator platform;

- The results of CRM clinical trials undertaken by us, our competitors or other third parties;

• Our ability to launch various products utilizing our next-generation CRM pulse generator platform in the U.S. over the next 12 to 24 months and to expand our CRM market position through reinvestment in our CRM products and technologies;

- Our ability to retain key members of our CRM sales force and other key personnel;

• Competitive offerings in the CRM market and the timing of receipt of regulatory approvals to market existing and anticipated CRM products and technologies;

- Our ability to continue to implement a direct sales model for our CRM products in Japan; and

• Our ability to avoid disruption in the supply of certain components or materials or to quickly secure additional or replacement components or materials on a timely basis.

## Litigation and Regulatory Compliance

Any conditions imposed in resolving, or any inability to resolve, our corporate warning letter or other FDA matters, as well as risks generally associated with our regulatory compliance and quality systems;

- Our ability to minimize or avoid future FDA warning letters or field actions relating to our products;

The effect of our litigation; risk management practices, including self-insurance; and compliance activities on our loss contingencies, legal provision and cash flows;

The impact of our stockholder derivative and class action, patent, product liability, contract and other litigation, governmental investigations and legal proceedings;

- The on-going, inherent risk of potential physician advisories or field actions related to medical devices;

- Costs associated with our on-going compliance and quality activities and sustaining organizations; and

The impact of increased pressure on the availability and rate of third-party reimbursement for our products and procedures worldwide.

## Innovation

Our ability to complete planned clinical trials successfully, to obtain regulatory approvals and to develop and launch products on a timely basis within cost estimates, including the successful completion of in-process projects from purchased research and development;

Our ability to manage research and development and other operating expenses consistent with our expected revenue growth;

Our ability to develop next-generation products and technologies within our drug-eluting stent and CRM businesses, as well as our ability to develop products and technologies successfully in addition to these technologies;

Our ability to fund and achieve benefits from our focus on internal research and development and external alliances as well as our ability to capitalize on opportunities across our businesses;

- Our failure to succeed at, or our decision to discontinue, any of our growth initiatives;

- Our ability to integrate the acquisitions and other alliances we have consummated, including Guidant;

Our decision to exercise, or not to exercise, options to purchase certain companies with which we have alliances and our ability to fund with cash or common stock these and other acquisitions, or to fund contingent payments associated with these alliances;

Our ability to prioritize our internal research and development project portfolio and our external investment portfolio to keep expenses in line with expected revenue levels, or our decision to sell, discontinue, write down or reduce the funding of certain of these projects;

The timing, size and nature of strategic initiatives, market opportunities and research and development platforms available to us and the ultimate cost and success of these initiatives; and

Our ability to successfully identify, develop and market new products or the ability of others to develop products or technologies that render our products or technologies noncompetitive or obsolete.

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## International Markets

- Dependency on international net sales to achieve growth;

Risks associated with international operations, including compliance with local legal and regulatory requirements as well as changes in reimbursement practices and policies; and

The potential effect of foreign currency fluctuations and interest rate fluctuations on our net sales, expenses and resulting margins.

## Liquidity

- Our ability to generate sufficient cash flow to fund operations, capital expenditures, and strategic investments, as well as debt reduction over the next twelve months and beyond;

Our ability to maintain positive operating cash flow in 2008 and to generate sufficient cash flow to effectively manage our debt levels and minimize the impact of interest rate fluctuations on our earnings and cash flows;

- Our ability to recover substantially all of our deferred tax assets;

Our ability to access the public and private capital markets and to issue debt or equity securities on terms reasonably acceptable to us;

Our ability to regain investment-grade credit ratings and to remain in compliance with our financial covenants; and

Our ability to implement, fund, and achieve sustainable cost improvement measures, including our expense and head count reduction initiatives and restructuring program, that will better align operating expenses with expected revenue levels and reallocate resources to better support growth initiatives.

## Other

Risks associated with significant changes made or to be made to our organizational structure, or to the membership of our executive committee;

Risks associated with our acquisition of Guidant, including, among other things, the indebtedness we have incurred and the integration costs and challenges we will continue to face;

Our ability to retain our key employees and avoid business disruption and employee distraction as we execute our expense and head count reduction initiatives; and

Our ability to maintain management focus on core business activities while also concentrating on resolving the corporate warning letter and implementing strategic initiatives, including expense and head count reductions and our restructuring program, in order to streamline our operations and reduce our debt obligations.

Several important factors, in addition to the specific factors discussed in connection with each forward-looking statement individually and the risk factors described in Item 1A under the heading "Risk Factors," could affect our future results and growth rates and could cause those results and rates to differ materially from those expressed in the forward-looking statements and the risk factors contained in this report. These additional factors include, among other things, future economic, competitive, reimbursement and regulatory



conditions; new product introductions; demographic trends; intellectual property; financial market conditions; and future business decisions made by us and our competitors, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Therefore, we wish to caution each reader of this report to consider carefully these factors as well as the specific factors discussed with each forward-looking statement and risk factor in this report and as disclosed in our filings with the SEC. These factors, in some cases, have affected and in the future (together with other factors) could affect our ability to implement our business strategy and may cause actual results to differ materially from those contemplated by the statements expressed in this report.

## ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-K and the exhibits hereto, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements set forth at the end of Item 1 of this Form 10-K. Additional risks not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition or results of operations.

We derive a significant portion of our revenue from the sale of drug-eluting coronary stent systems and cardiac rhythm management (CRM) products. A decline in market size, a failure of market growth rates to return to historic levels, increased competition, supply interruption or product launch delays may materially adversely affect our results of operations, our financial position, including our goodwill balances, or financial condition.

Drug-eluting coronary stent revenues represented approximately 21 percent of our consolidated net sales during the year ended December 31, 2007. Our U.S. TAXUS® sales declined in 2007 relative to prior years, due in part to a decline in the U.S. market size attributable to recent uncertainty regarding the perceived risk of late stent thrombosis following the use of drug-eluting stents. Late stent thrombosis is the formation of a clot, or thrombus, within the stented area one year or more after implantation of the stent. In addition, a decline in the overall percutaneous coronary intervention market contributed to the decline in our TAXUS stent system sales in 2007. There can be no assurance that these concerns will be alleviated in the near term or that drug-eluting stent penetration rates or the size of the U.S. drug-eluting stent market will return to previous levels. In 2007, our TAXUS stent system and Johnson & Johnson's CYPHER® stent system were the only two drug-eluting stents available in the U.S. market. In February 2008, Medtronic received FDA approval for its Endeavor® drug-eluting stent system. We expect our share of the drug-eluting stent market, as well as unit prices, to continue to be adversely affected as additional significant competitors enter the drug-eluting stent market, including Abbott's anticipated launch of the XIENCE™ V everolimus-eluting stent system in the first half of 2008. Abbott currently sells its XIENCE V stent system in competition with us in certain international markets.

The manufacture of our TAXUS coronary stent system involves the integration of multiple technologies, critical components, raw materials and complex processes. Significant favorable or unfavorable changes in forecasted demand, as well as disruptions associated with our TAXUS stent manufacturing process, may impact our inventory levels. Variability in expected demand or the timing of the launch of next-generation products may result in excess or expired inventory positions and future inventory charges, which may adversely impact our results from operations. We share with Abbott rights to everolimus-eluting stent technology, including its XIENCE V everolimus-eluting stent program. As a result of our sharing arrangements, we are reliant on Abbott's regulatory and clinical activities and on their continued supply of both PROMUS™ everolimus-eluting stent systems and certain components utilized in our drug-eluting stent research and development programs. Delays in receipt of regulatory approvals for the XIENCE V stent system, receipt of insufficient quantities of the PROMUS stent system from Abbott, material nonacceptance of these stents in the marketplace, or disruption in our supply of components (including everolimus) for research and development could adversely affect our results of operations, as well as our ability to effectively differentiate ourselves from our competitors in the drug-eluting stent market as the leading competitor with two drug-eluting stent programs.

During 2007 and 2006, the operating and financial performance of our CRM business was adversely impacted by various ICD and pacemaker system field actions in the industry and a corresponding reduction in CRM market growth rates. The worldwide CRM market growth rate, including the growth rate of the U.S. ICD market, declined during 2007; these growth levels are below those experienced in recent years. The U.S. ICD market represents approximately 40 percent of the worldwide CRM market. There can be no assurance that the CRM market will return to its historical growth rate or that we will be able to regain CRM market share lost due to contraction of the market or increase net sales in a timely manner, if at all.



Because we derive a significant amount of our revenues from our cardiovascular businesses, changes in market or regulatory conditions that impact that business or our inability to develop non-cardiovascular products, could have a material adverse effect on our business, financial condition or results of operations.

During 2007, we derived approximately 79 percent of our net sales from our cardiovascular group, which includes our Interventional Cardiology, CRM and Cardiovascular businesses. As a result, our sales growth and profitability from our cardiovascular businesses may be limited by risks and uncertainties related to market or regulatory conditions that impact those businesses. If the worldwide CRM market and the U.S. ICD market do not return to their historical growth rates or we are unable to regain CRM market share or increase CRM net sales, it may adversely affect our business, financial condition or results of operations. Revenue from drug-eluting coronary stent systems represented approximately 24 percent of our consolidated net sales for 2007. If the decline in U.S. drug-eluting stent market penetration rates attributable to concerns regarding the perceived risk of late stent thrombosis following the use of drug-eluting stents or the declines in overall percutaneous coronary intervention volumes continue, there can be no assurance that the drug-eluting stent market will recover to previous levels, which may have a material adverse effect on our business. Similarly, our inability to develop products and technologies successfully in addition to our drug-eluting stent and CRM technologies could further expose us to fluctuations and uncertainties in these markets.

We may be unable to resolve issues related to our FDA warning letters in a timely manner, which could delay the production and sale of our products and have a material adverse impact on our business, financial condition and results of operations.

We are currently taking remedial action in response to certain deficiencies of our quality systems as cited by the FDA in its warning letters to us. On January 26, 2006, we received a corporate warning letter from the FDA notifying us of serious regulatory problems at three of our facilities and advising us that our corrective action plan relating to three site-specific warning letters issued to us in 2005 was inadequate. As stated in this FDA warning letter, the FDA may not grant our requests for exportation certificates to foreign governments or approve PMA applications for our class III devices to which the quality control or current good manufacturing practices deficiencies described in the letter are reasonably related until the deficiencies have been corrected. If we are unable to resolve the issues raised by the FDA in its warning letters to the satisfaction of the FDA on a timely basis, we may not be able to launch our new class III devices as planned, including the anticipated U.S. launch of our Taxus® Liberté® drug-eluting stent system, which may weaken our competitive position in the drug-eluting stent market.

In addition, in August 2007, we received a warning letter from the FDA regarding the conduct of clinical investigations associated with our TriVascular abdominal aortic aneurysm (AAA) program. We are taking corrective action and have made certain commitments to the FDA regarding the conduct of our clinical trials. We terminated the TriVascular AAA program in 2006 and do not believe the recent warning letter will have an impact on the timing of the resolution of our corporate warning letter.

We may face enforcement actions in connection with these FDA warning letters, including injunctive relief, consent decrees or civil fines. While we are working with the FDA to resolve these issues, this work has required and will continue to require the dedication of significant incremental internal and external resources and has resulted in adjustments to the product launch schedules of certain products and the decision to discontinue certain other product lines over time. There can be no assurances regarding the length of time or cost it will take us to resolve these issues to the satisfaction of the FDA. In addition, if our remedial actions are not satisfactory to the FDA, we may have to devote additional financial and human resources to our efforts and the FDA may take further regulatory actions against us including, but not limited to, seizing our product inventory, obtaining a court injunction against further marketing of our products, assessing civil monetary penalties or imposing a consent decree on us, which could result in further regulatory constraints, including the governance of our quality system by a third party. If we, or our manufacturers, fail to adhere to quality system regulations or ISO requirements, this could delay production of our products and lead to fines, difficulties in obtaining regulatory clearances, recalls or other consequences, which could, in turn, have a material adverse effect on our financial condition or results of operations.



We are subject to extensive medical device regulation, which may impede or hinder the approval process for our products and, in some cases, may not ultimately result in approval or may result in the recall or seizure of previously approved products.

Our products, development activities and manufacturing processes are subject to extensive and rigorous regulation by the FDA pursuant to the Federal Food, Drug, and Cosmetic Act (FDC Act), by comparable agencies in foreign countries, and by other regulatory agencies and governing bodies. Under the FDC Act, medical devices must receive FDA clearance or approval before they can be commercially marketed in the U.S. In addition, most major markets for medical devices outside the U.S. require clearance, approval or compliance with certain standards before a product can be commercially marketed. The process of obtaining marketing approval or clearance from the FDA for new products, or with respect to enhancements or modifications to existing products, could:

- take a significant period of time;
- require the expenditure of substantial resources;
- involve rigorous pre-clinical and clinical testing, as well as increased post-market surveillance requirements;
- require changes to the products; and
- result in limitations on the indicated uses of the products.

Countries around the world have recently adopted more stringent regulatory requirements that are expected to add to the delays and uncertainties associated with new product releases, as well as the clinical and regulatory costs of supporting those releases. Even after products have received marketing approval or clearance, product approvals and clearances by the FDA can be withdrawn due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial approval. There can be no assurance that we will receive the required clearances from the FDA for new products or modifications to existing products on a timely basis or that any FDA approval will not be subsequently withdrawn or conditioned upon extensive post-market study requirements.

In addition, regulations regarding the development, manufacture and sale of medical devices are subject to future change. We cannot predict what impact, if any, those changes might have on our business. Failure to comply with regulatory requirements could have a material adverse effect on our business, financial condition and results of operations. Later discovery of previously unknown problems with a product or manufacturer could result in fines, delays or suspensions of regulatory clearances, seizures or recalls of products, operating restrictions and/or criminal prosecution. The failure to receive product approval clearance on a timely basis, suspensions of regulatory clearances, seizures or recalls of products or the withdrawal of product approval by the FDA could have a material adverse effect on our business, financial condition or results of operations.

We may not meet regulatory quality standards applicable to our manufacturing and quality processes, which could have an adverse effect on our business, financial condition and results of operations.

As a medical device manufacturer, we are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with its Quality System Regulation (QSR) requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. In addition, the Federal Medical Device Reporting regulations require us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. Compliance with applicable regulatory requirements is subject to continual review and is monitored rigorously through periodic inspections by the FDA. In the European Community, we are required to maintain certain ISO certifications in order to sell our products and must undergo periodic inspections by notified bodies to obtain and maintain these certifications.

Pending and future intellectual property litigation could be costly and disruptive to us.

We operate in an industry that is susceptible to significant intellectual property litigation and, in recent years, it has been common for companies in the medical device field to aggressively challenge the patent rights of other companies in order to prevent the marketing of new devices. We are currently the subject of various patent litigation proceedings and other proceedings described in more detail under Item 3. Legal Proceedings. Intellectual property litigation is expensive, complex and lengthy and its outcome is difficult to predict. Pending or future patent litigation may result in significant royalty or other payments or injunctions that can prevent the sale of products and may significantly divert the attention of our technical and management personnel. In the event that our right to market any of our products is successfully challenged, and if we fail to obtain a required license or are unable to design around a patent, our business, financial condition or results of operations could be materially adversely affected.

We may not effectively be able to protect our intellectual property rights, which could have an adverse effect on our business, financial condition or results of operations.

The medical device market in which we primarily participate is in large part technology driven. Physician customers, particularly in interventional cardiology, have historically moved quickly to new products and new technologies. As a result, intellectual property rights, particularly patents and trade secrets, play a significant role in product development and differentiation. However, intellectual property litigation to defend or create market advantage is inherently complex and unpredictable. Furthermore, appellate courts frequently overturn lower court patent decisions.

In addition, competing parties frequently file multiple suits to leverage patent portfolios across product lines, technologies and geographies and to balance risk and exposure between the parties. In some cases, several competitors are parties in the same proceeding, or in a series of related proceedings, or litigate multiple features of a single class of devices. These forces frequently drive settlement not only of individual cases, but also of a series of pending and potentially related and unrelated cases. In addition, although monetary and injunctive relief is typically sought, remedies and restitution are generally not determined until the conclusion of the proceedings and are frequently modified on appeal. Accordingly, the outcomes of individual cases are difficult to time, predict or quantify and are often dependent upon the outcomes of other cases in other geographies.

Several third parties have asserted that our current and former stent systems or other products infringe patents owned or licensed by them. We have similarly asserted that stent systems or other products sold by our competitors infringe patents owned or licensed by us. Adverse outcomes in one or more of these proceedings against us could limit our ability to sell certain stent products in certain jurisdictions, or reduce our operating margin on the sale of these products. In addition, damage awards related to historical sales could be material.

Patents and other proprietary rights are and will continue to be essential to our business, and our ability to compete effectively with other companies will be dependent upon the proprietary nature of our technologies. We rely upon trade secrets, know-how, continuing technological innovations, strategic alliances and licensing opportunities to develop, maintain and strengthen our competitive position. We pursue a policy of generally obtaining patent protection in both the U.S. and abroad for patentable subject matter in our proprietary devices and attempt to review third-party patents and patent applications to the extent publicly available in order to develop an effective patent strategy, avoid infringement of third-party patents, identify licensing opportunities and monitor the patent claims of others. We currently own numerous U.S. and foreign patents and have numerous patent applications pending. We also are party to various license agreements pursuant to which patent rights have been obtained or granted in consideration for cash, cross-licensing rights or royalty payments. No assurance can be made that any pending or future patent applications will result in the issuance of patents, that any current or future patents issued to, or licensed by, us will not be challenged or circumvented by our competitors, or that our patents will not be found invalid.

In addition, we may have to take legal action in the future to protect our patents, trade secrets or know-how or to assert them against claimed infringement by others. Any legal action of that type could be costly and time consuming and no assurances can be made that any lawsuit will be successful. We are generally involved as both a plaintiff and a defendant in a number of patent infringement and other intellectual property-related actions. We are involved in numerous patent-related claims with our competitors, including Johnson & Johnson and Medtronic, Inc.

The invalidation of key patents or proprietary rights that we own, or an unsuccessful outcome in lawsuits to protect our intellectual property, could have a material adverse effect on our business, financial position or results of operations.

Pending and future product liability claims and other litigation, including private securities litigation, shareholder derivative suits and contract litigation, may adversely affect our business, reputation and ability to attract and retain customers.

The design, manufacture and marketing of medical devices of the types that we produce entail an inherent risk of product liability claims. Many of the medical devices that we manufacture and sell are designed to be implanted in the human body for long periods of time or indefinitely. A number of factors could result in an unsafe condition or injury to, or death of, a patient with respect to these or other products that we manufacture or sell, including component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information. These factors could result in product liability claims, a recall of one or more of our products or a safety alert relating to one or more of our products. Product liability claims may be brought by individuals or by groups seeking to represent a class.

We are currently the subject of numerous product liability claims and other litigation, including private securities litigation and shareholder derivative suits including, but not limited to, the claims and litigation described under Item 3. Legal Proceedings. Our efforts to settle product liability cases, including Guidant litigation, may not be successful.

The outcome of litigation, particularly class action lawsuits, is difficult to assess or quantify. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, including not only actual damages, but also punitive damages. The magnitude of the potential losses relating to these lawsuits may remain unknown for substantial periods of time. In addition, the cost to defend against any future litigation may be significant. Further, we are substantially self-insured with respect to general and product liability claims. We maintain insurance policies providing limited coverage against securities claims. The absence of significant third-party insurance coverage increases our potential exposure to unanticipated claims and adverse decisions. Product liability claims, product recalls, securities litigation and other litigation in the future, regardless of their outcome, could have a material adverse effect on our financial position, results of operations or liquidity.

We may not be successful in our strategic acquisitions of, investments in or alliances with, other companies and businesses, which have been a significant source of historical growth for us.

Our strategic acquisitions, investments and alliances are intended to further expand our ability to offer customers effective, high quality medical devices that satisfy their interventional needs. Many of these alliances involve equity investments and some give us the option to acquire the other company or assets of the other company in the future. If we are unsuccessful in our acquisitions, investments and alliances, we may be unable to continue to grow our business significantly or may record asset impairment charges in the future. These acquisitions, investments and alliances have been significant sources of growth for us. The success of any acquisition, investment or alliance that we may undertake will depend on a number of factors, including:

- our ability to identify suitable opportunities for acquisition, investment or alliance, if at all;

- our ability to finance any future acquisition, investment or alliance on terms acceptable to us, if at all;

• whether we are able to establish an acquisition, investment or alliance on terms that are satisfactory to us, if at all;

- the strength of the other companies' underlying technology and ability to execute;
- intellectual property and litigation related to these technologies; and

• our ability to successfully integrate the acquired company or business with our existing business, including the ability to adequately fund acquired in-process research and development projects.

If we are unsuccessful in our acquisitions, investments and alliances, we may be unable to continue to grow our business significantly or may record asset impairment charges in the future.

We may not realize the expected benefits from our expense reduction measures; our long-term expense reduction programs may result in an increase in short-term expense; and our head count reductions may lead to additional unintended consequences.

As part of our efforts to reduce expenses, improve our operating cost structure and better position ourselves competitively, we are implementing several expense reduction measures. These cost reduction initiatives include cost improvement measures designed to better align operating expenses with expected revenue levels, resource reallocations, head count reductions, the sale of certain non-strategic assets and efforts to streamline our business, among other actions. These measures could yield unintended consequences, such as distraction of our management and employees, business disruption, attrition beyond our planned reduction in workforce and reduced employee productivity. We may be unable to attract or retain key personnel. Attrition beyond our planned reduction in workforce or a material decrease in employee morale or productivity could negatively affect our business, financial condition and results of operations. In addition, our head count reductions may subject us to the risk of litigation, which could result in substantial cost. Moreover, our expense reduction programs could result in current period charges and expenses that could impact our operating results. We cannot guarantee that these measures, or other expense reduction measures we take in the future, will result in the expected cost savings.

We have decided to divest certain non-strategic assets. These divestitures could pose significant risks and may materially adversely affect our business, financial condition and operating results.

We have divested certain non-strategic assets, including our Auditory, Cardiac Surgery, Vascular Surgery, Fluid Management and Venous Access businesses, and continue to seek to identify other non-strategic assets for sale. Divestitures of businesses may involve a number of risks, including the diversion of management and employee attention, significant costs and expenses, the loss of customer relationships, revenues and earnings associated with the divested business, and the disruption of operations in the affected business. In addition, divestitures involve significant post-closing separation activities through transition service arrangements, which could involve the expenditure of significant financial and employee resources and under which we will be reliant on third parties for the provision of significant services. Our inability to effectively consummate identified divestitures or manage the post-separation transition arrangements could adversely affect our business, financial condition and results of operations.

We incurred substantial indebtedness in connection with our acquisition of Guidant and if we are unable to manage our debt levels, it could have an adverse effect on our financial condition or results of operations.

We had total debt of \$8.189 billion at December 31, 2007, attributable in large part to our acquisition of Guidant. We will be required to use a significant portion of our operating cash flows to reduce our outstanding debt obligations over the next several years. We are examining all of our operations in order to identify cost improvement measures that will better align operating expenses with expected revenue levels and cash flows, and have decided to sell certain non-strategic assets and have implemented other strategic initiatives to generate proceeds that would be available for

debt repayment. There can be no assurance that

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these initiatives will be effective in reducing expenses sufficiently to enable us to repay our indebtedness. Our term loan and revolving credit facility agreement contains financial covenants that require us to maintain specified financial ratios. If we are unable to maintain these covenants, we may be required to obtain waivers from our lenders and no assurance can be made that our lenders would grant such waivers on favorable terms or at all.

Our credit ratings are currently below investment grade, which could have an adverse impact on our ability to borrow funds or issue debt securities in the public capital markets.

During the third quarter of 2007, our credit ratings from Standard & Poor's Rating Services and Fitch Ratings were downgraded to BB+, and our credit rating from Moody's Investor Service was downgraded to Ba1. All of these are below investment grade ratings and the ratings outlook by all three rating agencies is currently negative. These credit rating changes and our inability to regain investment grade credit ratings could increase the cost of borrowing funds in the future on terms reasonably acceptable to us.

Our future growth is dependent upon the development of new products, which requires significant research and development, clinical trials and regulatory approvals, all of which are very expensive and time-consuming and may not result in a commercially viable product.

In order to develop new products and improve current product offerings, we focus our research and development programs largely on the development of next-generation and novel technology offerings across multiple programs and divisions, particularly in our drug-eluting stent and CRM programs. We expect to launch our TAXUS® Liberté® coronary stent system in the U.S. in the second half of 2008, subject to regulatory approval. In addition, we expect to continue to invest in our CRM technologies, including our LATITUDE® Patient Management System and our next-generation CRM pulse generator platform. If we are unable to develop and launch these and other products as anticipated, our ability to maintain or expand our market position in the drug-eluting stent and CRM markets may be materially adversely impacted.

Further, we expect to invest selectively in areas outside of drug-eluting stent and CRM technologies. There can be no assurance that these or other technologies will achieve technological feasibility, obtain regulatory approval or gain market acceptance. A delay in the development or approval of these technologies or our decision to reduce funding of these projects may adversely impact the contribution of these technologies to our future growth.

As a part of the regulatory process of obtaining marketing clearance from the FDA for new products, we conduct and participate in numerous clinical trials with a variety of study designs, patient populations and trial endpoints. Unfavorable or inconsistent clinical data from existing or future clinical trials conducted by us, by our competitors or by third parties, or the market's perception of this clinical data, may adversely impact our ability to obtain product approvals from the FDA, our position in, and share of, the markets in which we participate and our business, financial condition, results of operations or future prospects.

We face intense competition and may not be able to keep pace with the rapid technological changes in the medical devices industry, which could have an adverse effect on our business, financial condition or results of operations.

The medical device market is highly competitive. We encounter significant competition across our product lines and in each market in which our products are sold from various medical device companies, some of which may have greater financial and marketing resources than we do. Our primary competitors have historically included Johnson & Johnson (including its subsidiary, Cordis Corporation) and Medtronic, Inc. (including its subsidiary, Medtronic AVE, Inc.). Through our acquisition of Guidant, Abbott has become a primary competitor of ours in the interventional cardiology market and we now compete with St. Jude Medical, Inc. in the CRM and neuromodulation markets. In addition, we face competition from a wide range of companies that sell a single or a limited number of competitive products or which participate in only a specific market segment, as well as from non-medical device companies, including pharmaceutical companies, which may offer alternative therapies for disease states intended to be treated

using our products.

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Additionally, the medical device market is characterized by extensive research and development, and rapid technological change. Developments by other companies of new or improved products, processes or technologies, in particular in the drug-eluting stent and CRM markets, may make our products or proposed products obsolete or less competitive and may negatively impact our revenues. We are required to devote continued efforts and financial resources to develop or acquire scientifically advanced technologies and products, apply our technologies cost-effectively across product lines and markets, attract and retain skilled development personnel, obtain patent and other protection for our technologies and products, obtain required regulatory and reimbursement approvals and successfully manufacture and market our products consistent with our quality standards. If we fail to develop new products or enhance existing products, it could have a material adverse effect on our business, financial condition or results of operations.

Because we derive a significant amount of our revenues from international operations and a significant percentage of our future growth is expected to come from international operations, changes in international economic or regulatory conditions could have a material impact on our business, financial condition or results of operations.

Sales outside the U.S. accounted for approximately 41 percent of our net sales in 2007. Additionally, a significant percentage of our future growth is expected to come from international operations. As a result, our sales growth and profitability from our international operations may be limited by risks and uncertainties related to economic conditions in these regions, foreign currency fluctuations, exchange rate fluctuations, regulatory and reimbursement approvals, competitive offerings, infrastructure development, rights to intellectual property and our ability to implement our overall business strategy. Further, international markets are also being affected by economic pressure to contain reimbursement levels and healthcare costs. The trend in countries around the world, including Japan, toward more stringent regulatory requirements for product clearance, changing reimbursement models and more rigorous inspection and enforcement activities has generally caused or may cause medical device manufacturers to experience more uncertainty, delay, risk and expense. In addition, most international jurisdictions have adopted regulatory approval and periodic renewal requirements for medical devices, and we must comply with these requirements in order to market our products in these jurisdictions. Further, some emerging markets rely on the FDA's Certificate for Foreign Government (CFG) in lieu of their own regulatory approval requirements. Our FDA corporate warning letter prevents our ability to obtain CFGs; therefore, our ability to market new products or renew marketing approvals in countries that rely on CFGs will continue to be impacted until the corporate warning letter is revoked. Any significant changes in the competitive, political, legal, regulatory, reimbursement or economic environment where we conduct international operations may have a material impact on our business, financial condition or results of operations.

Healthcare cost containment pressures and legislative or administrative reforms resulting in restrictive reimbursement practices of third-party payors or preferences for alternate therapies could decrease the demand for our products, the prices which customers are willing to pay for those products and the number of procedures performed using our devices, which could have an adverse effect on our business, financial condition or results of operations.

Our products are purchased principally by hospitals, physicians and other healthcare providers around the world that typically bill various third-party payors, including governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed care programs, for the healthcare services provided to their patients. The ability of customers to obtain appropriate reimbursement for their products and services from private and governmental third-party payors is critical to the success of medical technology companies. The availability of reimbursement affects which products customers purchase and the prices they are willing to pay. Reimbursement varies from country to country and can significantly impact the acceptance of new products and services. After we develop a promising new product, we may find limited demand for the product unless reimbursement approval is obtained from private and governmental third-party payors. Further legislative or administrative reforms to the reimbursement systems in the U.S., Japan, or other international countries in a manner that significantly reduces reimbursement for procedures using our medical devices or denies coverage for those procedures could have a material adverse effect on our business, financial condition or results of operations.



Major third-party payors for hospital services in the U.S. and abroad continue to work to contain healthcare costs. The introduction of cost containment incentives, combined with closer scrutiny of healthcare expenditures by both private health insurers and employers, has resulted in increased discounts and contractual adjustments to hospital charges for services performed and has shifted services between inpatient and outpatient settings. Initiatives to limit the increase of healthcare costs, including price regulation, are also underway in several countries in which we do business. Hospitals or physicians may respond to these cost-containment pressures by substituting lower cost products or other therapies for our products. In light of Guidant's product recalls, third-party payors may seek claims and further recourse against us for the recalled defibrillator and pacemaker systems for which Guidant had previously received reimbursement.

Consolidation in the healthcare industry could lead to demands for price concessions or the exclusion of some suppliers from certain of our significant market segments, which could have an adverse effect on our business, financial condition or results of operations.

The cost of healthcare has risen significantly over the past decade and numerous initiatives and reforms initiated by legislators, regulators and third-party payors to curb these costs have resulted in a consolidation trend in the healthcare industry, including hospitals. This in turn has resulted in greater pricing pressures and the exclusion of certain suppliers from important market segments as group purchasing organizations, independent delivery networks and large single accounts continue to consolidate purchasing decisions for some of our hospital customers. We expect that market demand, government regulation, third-party reimbursement policies, government contracting requirements, and societal pressures will continue to change the worldwide healthcare industry, resulting in further business consolidations and alliances among our customers and competitors, which may reduce competition, exert further downward pressure on the prices of our products and may adversely impact our business, financial condition or results of operations.

We rely on external manufacturers to supply us with materials and components used in our products and any disruption of such sources of supply could adversely impact our production efforts.

We vertically integrate operations where integration provides significant cost, supply or quality benefits. However, we purchase many of the materials and components used in manufacturing our products, some of which are custom made. Certain supplies are purchased from single-sources due to quality considerations, costs or constraints resulting from regulatory requirements. We may not be able to establish additional or replacement suppliers for certain components or materials in a timely manner largely due to the complex nature of our and many of our suppliers' manufacturing processes. Production issues, including capacity constraint; quality issues affecting us or our suppliers; an inability to develop and validate alternative sources if required; or a significant increase in the price of materials or components could adversely affect our operations and financial condition.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written comments that were received from the SEC staff 180 days or more before the end of our fiscal year relating to our periodic or current reports under the Securities Exchange Act of 1934.

## ITEM 2. PROPERTIES

Our world headquarters are located in Natick, Massachusetts. We have regional headquarters located in Tokyo, Japan and Paris, France. As of December 31, 2007, our manufacturing, research, distribution and other key facilities totaled more than 10 million square feet, of which more than seven million square feet were owned by us and the balance under lease arrangements. As of December 31, 2007, our principal manufacturing and technology centers were located in Massachusetts, Indiana, Minnesota, New Jersey, Florida, California, New York, Utah, Washington, Puerto Rico, Ireland, Costa Rica and Japan, and our principal distribution centers were located in Massachusetts, The Netherlands and Japan. As of December 31, 2007, we maintained 37 manufacturing, distribution and technology centers, 26 in the U.S., one in Puerto Rico, five in Ireland, one in Costa Rica, two in The Netherlands and two in Japan. Many of these facilities produce and manufacture products for more than one of our divisions and include research facilities. In addition, we share a training facility in Brussels, Belgium with Abbott and are currently building our own international training institute in Paris, France, which is scheduled to open in the first half of 2008. The following is a summary of our facilities (in square feet):

	Total Space	Owned	Leased
Domestic	8,006,000	5,912,000	2,094,000
Foreign	2,769,000	1,386,000	1,383,000
Total	10,775,000	7,298,000	3,477,000

## ITEM 3. LEGAL PROCEEDINGS

See Note L—Commitments and Contingencies to our 2007 consolidated financial statements included in Item 8 of this Form 10-K.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## PART II

## ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol "BSX." Our annual CEO certification for the previous year has been submitted to the NYSE.

The following table provides the market range for our common stock for each of the last eight quarters based on reported sales prices on the NYSE.

	High	Low
2007		
First Quarter	\$ 18.59	\$ 14.22
Second Quarter	16.67	14.59
Third Quarter	15.72	12.16
Fourth Quarter	15.03	11.47
2006		
First Quarter	\$ 26.48	\$ 20.90
Second Quarter	23.30	16.65
Third Quarter	17.75	14.77
Fourth Quarter	17.18	14.65

We have not paid a cash dividend during the past two years. We currently do not intend to pay dividends, and intend to retain all of our earnings to repay indebtedness and invest in the continued growth of our business. We may consider declaring and paying a dividend in the future; however, there can be no assurance that we will do so.

At February 20, 2008, there were 15,182 record holders of our common stock.

The closing price of our common stock on February 20, 2008 was \$12.61.

We did not repurchase any of our common stock in 2007 or 2006. We repurchased approximately 25 million shares of our common stock at an aggregate cost of \$734 million in 2005. There are approximately 37 million remaining shares authorized for purchase under our share repurchase program. We currently do not anticipate material repurchases in 2008.

Stock Performance Graph

The graph below compares the five-year total return to stockholders on our common stock with the return of the Standard & Poor's 500 Stock Index and the Standard & Poor's Healthcare Equipment Index. The graph assumes \$100 was invested in our common stock and in each of the named indices on January 1, 2003, and that all dividends were reinvested.

## ITEM 6. SELECTED FINANCIAL DATA

## FIVE-YEAR SELECTED FINANCIAL DATA

(in millions, except per share data)

## Operating Data

Year Ended December 31,	2007	2006	2005	2004	2003
Net sales	\$ 8,357	\$ 7,821	\$ 6,283	\$ 5,624	\$ 3,476
Gross profit	6,015	5,614	4,897	4,332	2,515
Selling, general and administrative expenses	2,909	2,675	1,814	1,742	1,171
Research and development expenses	1,091	1,008	680	569	452
Royalty expense	202	231	227	195	54
Amortization expense	641	530	152	112	89
Purchased research and development	85	4,119	276	65	37
Restructuring charges	176				
Litigation-related charges	365		780	75	15
Loss on assets held for sale	560				
Total operating expenses	6,029	8,563	3,929	2,758	1,818
Operating (loss) income	(14)	(2,949)	968	1,574	697
(Loss) income before income taxes	(569)	(3,535)	891	1,494	643
Net (loss) income	(495)	(3,577)	628	1,062	472
Net (loss) income per common share					
Basic	\$ (0.33)	\$ (2.81)	\$ 0.76	\$ 1.27	\$ 0.57
Assuming dilution	\$ (0.33)	\$ (2.81)	\$ 0.75	\$ 1.24	\$ 0.56
Weighted-average shares outstanding — basic	1,486.9	1,273.7	825.8	838.2	821.0
Weighted-average shares outstanding — assuming dilution	1,486.9	1,273.7	837.6	857.7	845.4

## Balance Sheet Data

As of December 31,	2007	2006	2005	2004	2003
Cash, cash equivalents and marketable securities	\$ 1,452	\$ 1,668	\$ 848	\$ 1,640	\$ 752
Working capital*	2,671	3,399	1,152	684	487
Total assets	31,197	30,882	8,196	8,170	5,699
Borrowings (long-term and short-term)	8,189	8,902	2,020	2,367	1,725
Stockholders' equity	15,097	15,298	4,282	4,025	2,862
Book value per common share	\$ 10.12	\$ 10.37	\$ 5.22	\$ 4.82	\$ 3.46

\*In 2007, certain assets and liabilities were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" captions in our consolidated balance sheets. These assets and liabilities are labeled as 'current' to give effect to the short term nature of those assets and liabilities that were divested in the first quarter of 2008 in connection with the sale certain of our businesses. We have reclassified 2006 balances for comparative purposes, both on the face of the consolidated balance sheets, and in the working capital metric above. We have not restated working capital for 2005 or prior periods, as we did not have assets and liabilities held for sale prior to 2006, nor are they presented on the face of the consolidated balance sheets.

We paid a two-for-one stock split in the form of a 100 percent stock dividend on November 5, 2003. All information above pertaining to 2003 above has been restated to reflect the stock split.

See also the notes to our consolidated financial statements included in Item 8.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Boston Scientific Corporation is a worldwide developer, manufacturer and marketer of medical devices that are used in a broad range of interventional medical specialties. Our mission is to improve the quality of patient care and the productivity of healthcare delivery through the development and advocacy of less-invasive medical devices and procedures. We accomplish this mission through the continuing refinement of existing products and procedures and the investigation and development of new technologies that can reduce risk, trauma, cost, procedure time and the need for aftercare. Our approach to innovation combines internally developed products and technologies with those we obtain externally through our acquisitions and alliances. The growth and success of our organization is dependent upon the shared values of our people. Our quality policy, applicable to all employees, is "I improve the quality of patient care and all things Boston Scientific." This personal commitment connects our people with the vision and mission of Boston Scientific.

Our management's discussion and analysis (MD&A) begins with an executive summary that outlines financial highlights of 2007 and identifies key trends that impacted operating results during the year. We supplement this summary with an in-depth look at the major issues we believe are most relevant to our current and future prospects. We follow this discussion with an examination of the material changes in our operating results for 2007 as compared to 2006 and for 2006 as compared to 2005. We then provide an examination of liquidity, focusing primarily on material changes in our operating, investing and financing cash flows, as depicted in our consolidated statements of cash flows included in Item 8 of this Form 10-K, and the trends underlying these changes. Finally, the MD&A provides information on our critical accounting policies.

On April 21, 2006, we consummated our acquisition of Guidant Corporation. With this acquisition, we have become a major provider in the \$10 billion global Cardiac Rhythm Management (CRM) market, enhancing our overall competitive position and long-term growth potential, and further diversifying our product portfolio. The acquisition has established us as one of the world's largest cardiovascular device companies and a global leader in microelectronic therapies. As a result of the acquisition, we now manufacture a variety of implantable devices that monitor the heart and deliver electricity to treat cardiac abnormalities, including tachycardia (abnormally fast or chaotic heart rhythms), bradycardia (slow or irregular heart rhythms), and heart failure (the heart's inability to pump effectively). These devices include implantable cardioverter defibrillator (ICD) and pacemaker systems. In addition, we acquired Guidant's Cardiac Surgery business, which produces cardiac surgery systems to perform cardiac surgical ablation, endoscopic vessel harvesting and clampless beating-heart bypass surgery. We divested the Cardiac Surgery business in a separate transaction in 2008; see Strategic Initiatives within the Executive Summary that follows for more information on this and our other business divestitures. We also now share certain drug-eluting technology with Abbott Laboratories, which gives us access to a second drug-eluting stent program, and complements our TAXUS® stent system program. See Note C - Acquisitions to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for further details on the Guidant acquisition and Abbott transaction.

Our operating results for the year ended December 31, 2007 include a full year of results of our CRM and Cardiac Surgery businesses that we acquired from Guidant. Our operating results for the year ended December 31, 2006 include the results of the CRM and Cardiac Surgery businesses beginning on the date of acquisition. We have included supplemental pro forma financial information in Note C – Acquisitions to our 2007 consolidated financial statements included in Item 8 of this Form 10-K, which gives effect to the acquisition as though it had occurred at the beginning of 2006 and 2005.

## Executive Summary

### Financial Highlights and Trends

Our net sales in 2007 increased to \$8.357 billion from \$7.821 billion in 2006, an increase of \$536 million or 7 percent. Our reported net loss for 2007 was \$495 million, or \$0.33 per diluted share, on approximately 1.5 billion weighted-average shares outstanding, as compared to a net loss for 2006 of \$3.577 billion, or \$2.81 per diluted share, on approximately 1.3 billion weighted-average shares outstanding. Our reported results included acquisition-, divestiture-, litigation- and restructuring-related charges<sup>2</sup> (after tax) of \$1.092 billion, or \$0.73 per diluted share in 2007, as compared to acquisition-related charges (after tax) of \$4.566 billion, or \$3.58 per diluted share, in 2006. Cash provided by operating activities was \$934 million in 2007 as compared to \$1.845 billion in 2006.

The increase in our net sales for 2007 was driven primarily by our 2006 acquisition of Guidant. Worldwide sales of our CRM business increased to \$2.124 billion from \$1.371 billion in 2006, an increase of \$753 million or 55 percent, on an as reported basis. On a pro forma basis, including the acquired CRM business for the entire year in 2006, CRM revenue increased \$98 million, or five percent. The increase was a result of growth in the size of the worldwide markets for both ICD and pacemaker systems. We estimate that the size of the combined worldwide CRM market increased six percent in 2007, as compared to 2006.

Partially offsetting increases in sales of our CRM products was a decrease in our coronary stent system sales. Worldwide sales of our coronary stent systems in 2007 were \$2.027 billion, as compared to \$2.506 billion in 2006, a decrease of \$479 million or 19 percent. The deterioration was driven by decreases in sales of our drug-eluting coronary stent systems, attributable primarily to a decline in the worldwide drug-eluting stent market size. Uncertainty regarding the perceived risk of late stent thrombosis<sup>3</sup> following the use of drug-eluting stents has resulted in lower procedural volumes and contributed to the overall decline. During 2007, we successfully launched our TAXUS® Express2™ drug-eluting coronary stent system in Japan, and have achieved a leadership position within the worldwide drug-eluting stent market.

During 2007, worldwide sales from our Endosurgery businesses increased to \$1.479 billion from \$1.346 billion in 2006, an increase of 10 percent. Further, our Neuromodulation business generated \$317 million in net sales during 2007, as compared to \$234 million in 2006, an increase of 36 percent.

At December 31, 2007, we had total debt of \$8.189 billion, cash and cash equivalents of \$1.452 billion and working capital of \$2.671 billion. During 2007, we prepaid \$750 million of debt and prepaid an additional \$200 million in January 2008. We expect to make a further payment of \$425 million before the end of the first quarter of 2008 and expect to continue to use a significant portion of our future operating cash flows over the next several years to reduce our debt obligations.

### Strategic Initiatives

In 2007, we announced several new initiatives designed to enhance short- and long-term shareholder value,

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<sup>2</sup>In 2007, these charges (after-tax) include: a \$553 million charge associated with the write-down of goodwill in connection with business divestitures; a \$294 million charge associated with on-going patent litigation; \$131 million of restructuring-related charges associated with our expense and head count reduction initiatives; an \$84 million charge for in-process research and development costs; and \$30 million in charges related to our 2006 acquisition of Guidant. In 2006, these charges included: \$4.477 billion in purchase price adjustments related to Guidant, associated primarily with a \$4.169 billion charge for in-process research and development costs and a \$169 million charge for the step-up value of Guidant inventory sold; \$143 million in other costs related primarily to the Guidant acquisition; and a \$54 million credit resulting primarily from the reversal of accrued contingent payments due to the cancellation

of the abdominal aortic aneurysm (AAA) program that we obtained as part of our acquisition of TriVascular, Inc.

<sup>3</sup>Late stent thrombosis is the formation of a clot, or thrombus, within the stented area one year or more after implantation of the stent.

including the restructuring of several of our businesses and the sale of five non-strategic businesses, as well as significant expense and head count reductions. Our goal is to better align expenses with revenues, while preserving our ability to make needed investments in quality, research and development (R&D), capital and our people that are essential to our long-term success. We expect these initiatives to help provide better focus on our core businesses and priorities, which will strengthen Boston Scientific for the future and position us for increased, sustainable and profitable sales growth. Our plan is to reduce R&D and selling, general and administrative (SG&A) expenses by \$475 million to \$525 million against a \$4.1 billion baseline, which represented our estimated annual R&D and SG&A expenses at the time we committed to these initiatives in 2007. This range represents the annualized run rate amount of reductions we expect to achieve as we exit 2008, as the implementation of these initiatives will take place throughout the year; however, we expect to realize the majority of these savings in 2008. In addition, we expect to reduce our R&D and SG&A expenses by an additional \$25 million to \$50 million in 2009.

#### Restructuring

In October 2007, our Board of Directors approved an expense and head count reduction plan, which we expect will result in the elimination of approximately 2,300 positions worldwide. We are providing affected employees with severance packages, outplacement services and other appropriate assistance and support. The plan is intended to bring expenses in line with revenues as a part of our initiatives to enhance short- and long-term shareholder value. We initiated activities under the plan in the fourth quarter of 2007 and expect to complete substantially all of these activities worldwide by the end of 2008. As of December 31, 2007, we had completed more than half of the anticipated head count reductions. The plan also provides for the restructuring of several businesses and product franchises in order to leverage resources, strengthen competitive positions, and create a more simplified and efficient business model. We expect that the execution of this plan will result in total costs of approximately \$425 million to \$450 million. We recorded \$205 million of these costs in the fourth quarter of 2007, and expect to record the remainder throughout 2008 and into 2009. We are recording these costs primarily as restructuring charges, with a portion recorded through other lines within our consolidated statements of operations. Refer to Results of Operations and Note G - Restructuring to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information on these initiatives.

#### Divestitures

During 2007, we determined that our Auditory, Vascular Surgery, Cardiac Surgery, Venous Access and Fluid Management businesses were no longer strategic to our ongoing operations. Therefore, we initiated the process of selling these businesses in 2007, and completed the sale of these businesses in 2008, as discussed below. We received gross proceeds of approximately \$1.3 billion from these divestitures, and estimate future tax payments of approximately \$350 million associated with these transactions. The combined 2007 revenues generated from these businesses was \$553 million, or seven percent of our net sales. Approximately 2,000 positions were eliminated in connection with our business divestitures.

In January 2008, we completed the sale of a controlling interest in our Auditory business and drug pump development program to entities affiliated with the principal former shareholders of Advanced Bionics Corporation for an aggregate payment of \$150 million. In connection with the sale, we recorded a loss of \$367 million (pre-tax) in 2007, attributable primarily to the write-down of goodwill.

In January 2008, we completed the sale of our Cardiac Surgery and Vascular Surgery businesses for \$750 million in cash. In connection with the sale, we recorded a loss of \$193 million (pre-tax) in 2007, attributable primarily to the write-down of goodwill. In addition, we expect to record a tax expense of approximately \$50 million in the first quarter of 2008 in connection with the closing of the transaction.

In February 2008, we completed the sale of our Fluid Management business and our Venous Access franchise, previously part of our Oncology business, for \$425 million in cash. We expect to record a pre-tax gain of

approximately \$230 million during the first quarter of 2008 associated with this transaction.

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Refer to Note E – Assets Held for Sale to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information regarding these transactions.

In March 2007, we announced our intent to explore the benefits that could be gained from operating our Endosurgery group as a separately traded public company that would become a majority-owned subsidiary of Boston Scientific. In July 2007, we completed our exploration of an IPO of a minority interest in our Endosurgery group and determined that the group will remain wholly owned by Boston Scientific.

#### Monetization of Investments

During the second quarter of 2007, we announced our decision to monetize the majority of our investment portfolio in order to eliminate investments determined to be non-strategic. Following this decision, in 2007, we monetized several of our investments in, and notes receivable from, certain publicly traded and privately held companies. We received total gross proceeds of \$243 million in 2007 from the sale of investments and collections of notes receivable. We intend to monetize the rest of our non-strategic portfolio investments over the next several quarters. The total carrying value of our portfolio of equity investments and notes receivable was \$378 million as of December 31, 2007. We believe that the fair value of our individual investments and notes receivable equals or exceeds their carrying values as of December 31, 2007; however, we could recognize losses as we monetize these investments depending on the market conditions for these investments at the time of sale and the net proceeds we ultimately receive. Refer to our Other, net discussion and Note F – Investments and Notes Receivable to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information on our investment portfolio and activity.

#### FDA Warning Letters

In December 2005, Guidant received an FDA warning letter citing certain deficiencies with respect to its manufacturing quality systems and record-keeping procedures in its CRM facility in St. Paul, Minnesota. In April 2007, following FDA reinspections of our CRM facilities, we resolved the warning letter and all associated restrictions were removed.

In January 2006, legacy Boston Scientific received a corporate warning letter from the FDA notifying us of serious regulatory problems at three of our facilities and advising us that our corporate-wide corrective action plan relating to three site-specific warning letters issued to us in 2005 was inadequate. In order to strengthen our corporate-wide quality controls, we launched Project Horizon, which has resulted in significant incremental spending on and the reallocation of internal employee and management resources to quality initiatives. It has also resulted in adjustments to the launch schedules of certain products and the decision to discontinue certain other product lines over time.

We believe we have identified solutions to the quality system issues cited by the FDA and continue to make progress in transitioning our organization to implement those solutions. We engaged a third party to audit our enhanced quality systems in order to assess our corporate-wide compliance prior to reinspection by the FDA. We completed substantially all of these third-party audits during 2007 and, in February 2008, the FDA commenced its reinspection of certain of our facilities. We believe that these reinspections represent a critical step toward the resolution of the corporate warning letter.

In addition, in August 2007, we received a warning letter from the FDA regarding the conduct of clinical investigations associated with our TriVascular AAA program. We are taking corrective action and have made certain commitments to the FDA regarding the conduct of our clinical trials. We terminated the TriVascular AAA program in 2006 and do not believe this warning letter will have an impact on the timing of the resolution of our corporate warning letter.

There can be no assurances regarding the length of time or cost it will take us to resolve these quality issues to our satisfaction and to the satisfaction of the FDA. Our inability to resolve these quality issues in a timely



manner may further delay product launch schedules, including the anticipated U.S. launch of our next-generation drug-eluting stent system, the TAXUS® Liberté®, which may weaken our competitive position in the market. If our remedial actions are not satisfactory to the FDA, we may need to devote additional financial and human resources to our efforts, and the FDA may take further regulatory actions.

## Outlook

### Coronary Stent Business

Coronary stent revenue represented approximately 24 percent of our consolidated net sales for 2007, as compared to 32 percent in 2006, as a result of our acquisition of Guidant, which significantly expanded our product offerings, as well as a decline in our coronary stent system sales in 2007. We estimate that the worldwide coronary stent market approximated \$5.0 billion in 2007, as compared to approximately \$6.0 billion in 2006, and estimate that drug-eluting stents represented approximately 80 percent of the dollar value of worldwide coronary stent market sales in 2007, as compared to 90 percent in 2006. Coronary stent market size is driven primarily by the number of percutaneous coronary intervention (PCI) procedures performed; the number of devices used per procedure; average drug-eluting stent selling prices; and the drug-eluting stent penetration rate (a measure of the mix between bare-metal and drug-eluting stents used across procedures). Uncertainty regarding the efficacy of drug-eluting stents, as well as the increased perceived risk of late stent thrombosis following the use of drug-eluting stents, has contributed to a decline in the worldwide drug-eluting stent market size. However, recent data addressing this risk and supporting the safety of drug-eluting stent systems could positively affect the size of the drug-eluting stent market, as referring cardiologists regain confidence in this technology.

In October 2006, we received CE mark approval to begin marketing our PROMUS™ everolimus-eluting coronary stent system, which is a private-labeled XIENCE™ V drug-eluting stent system supplied to us by Abbott. Under the terms of our supply arrangement with Abbott, the profit margin of a PROMUS stent system is significantly lower than that of our TAXUS stent system. Therefore, an increase in PROMUS stent system revenue relative to our total drug-eluting stent revenue could have a negative impact on our profit margins. We will incur incremental costs and expend incremental resources in order to develop and commercialize additional products utilizing everolimus-eluting stent technology and to support an internally developed and manufactured everolimus-eluting stent system in the future. We expect that this stent system will have profit margins more comparable to our TAXUS stent system. See the Purchased Research and Development section for further discussion.

In June 2007, Abbott submitted the final module of a pre-market approval (PMA) application to the FDA seeking approval in the U.S. for both the XIENCE V and PROMUS stent systems. In November 2007, the FDA advisory panel reviewing Abbott's PMA submission voted to recommend the stent systems for approval. Following FDA approval, which Abbott is expecting in the first half of 2008, we plan to launch the PROMUS stent system in the U.S.

The following are the components of our worldwide coronary stent system sales:

(in millions)	Year Ended December 31, 2007			Year Ended December 31, 2006		
	U.S.	International	Total	U.S.	International	Total
Drug-eluting	\$ 1,006	\$ 782	\$ 1,788	\$ 1,561	\$ 797	\$ 2,358
Bare-metal	104	135	239	52	96	148
	\$ 1,110	\$ 917	\$ 2,027	\$ 1,613	\$ 893	\$ 2,506

During 2007, sales of our TAXUS® stent system in the U.S. declined \$555 million or 36 percent, as compared to the prior year, due to a decline in market size. Decreases in drug-eluting stent penetration rates, as well as



decreases in PCI procedural volume contributed to an overall reduction in the U.S. coronary stent market size. Drug-eluting stent penetration rates were 62 percent exiting 2007, as compared to 73 percent exiting 2006. Penetration rates decreased throughout 2007, but appear to have stabilized at approximately 62 percent during the fourth quarter of 2007, which was largely consistent with the third quarter average penetration rate of 63 percent. We estimate that the number of PCI procedures performed in the U.S. in 2007 decreased eight percent, as compared to 2006. Despite the decrease in the size of the U.S. drug-eluting stent market, we remain the market leader with 55 percent market share for 2007. However, we expect that there will be increased pressure on our U.S. drug-eluting stent system sales due to new competitive launches. Until February 2008, the TAXUS stent system was one of only two drug-eluting stent products in the U.S. market. In February, however, an additional competitor entered the U.S. drug-eluting stent market. Our share of this market, as well as unit prices, are expected to be negatively impacted as additional competitors enter the U.S. drug-eluting stent market, including Abbott's anticipated launch of XIENCE™ V in the first half of 2008.

During 2007, our international drug-eluting stent system net sales decreased \$15 million, or two percent, as compared to 2006, due primarily to an overall decline in the size of the international drug-eluting stent market. Sales of our drug-eluting stent systems in our Europe and Inter-Continental markets were negatively impacted by declines in market size as a result of decreases in drug-eluting stent penetration rates and decreased PCI procedural volume, as compared to 2006, driven primarily by continued concerns regarding safety and efficacy. This decline was offset partially by the successful launch of our TAXUS® Express2™ drug-eluting coronary stent system in Japan in May 2007.

Historically, the worldwide coronary stent market has been dynamic and highly competitive with significant market share volatility. In addition, in the ordinary course of our business, we conduct and participate in numerous clinical trials with a variety of study designs, patient populations and trial end points. Unfavorable or inconsistent clinical data from existing or future clinical trials conducted by us, by our competitors or by third parties, or the market's perception of this clinical data, may adversely impact our position in and share of the drug-eluting stent market and may contribute to increased volatility in the market. In addition, the FDA has informed stent manufacturers of new requirements for clinical trial data for PMA applications and post-market surveillance studies for drug-eluting stent products, which could affect our new product launch schedules and increase the cost of product approval and compliance.

We believe that we can maintain our leadership position within the worldwide drug-eluting stent market for a variety of reasons, including:

- the broad and consistent long-term results of our TAXUS clinical trials, including up to five years of clinical follow up;
  - the performance benefits of our current and future technology;
- the strength of our pipeline of drug-eluting stent products, including opportunities to expand indications for use through FDA review of existing and additional randomized trial data in extended use subsets;
- our overall position in the worldwide interventional medicine market and our experienced interventional cardiology sales force;
  - our sales, clinical, marketing and manufacturing capabilities; and
- our two drug-eluting stent platform strategy, including our TAXUS® paclitaxel-eluting and our PROMUS™ everolimus-eluting coronary stent systems.

However, a further decline in revenues from our drug-eluting stent systems could continue to have a significant adverse impact on our operating results and operating cash flows. The most significant variables that may impact the size of the drug-eluting stent market and our position within this market include:

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- the entry of additional competitors into the market, including the recent approval of a competitive product in the U.S.;
- physician and patient confidence in our technology and attitudes toward drug-eluting stents, including expected abatement of prior concerns regarding the risk of late stent thrombosis;
- drug-eluting stent penetration rates, the overall number of PCI procedures performed, average number of stents used per procedure, and declines in average selling prices of drug-eluting stent systems;
  - variations in clinical results or perceived product performance of our or our competitors' products;
    - delayed or limited regulatory approvals and unfavorable reimbursement policies;
    - the outcomes of intellectual property litigation;
- our ability to launch next-generation products and technology features, including our TAXUS® Liberté® paclitaxel-eluting coronary stent system and our PROMUS™ everolimus-eluting coronary stent system, in the U.S. market;
  - our ability to retain key members of our sales force and other key personnel; and
- changes in FDA clinical trial data and post-market surveillance requirements and the associated impact on new product launch schedules and the cost of product approvals and compliance.

#### CRM Business

CRM revenue represented approximately 25 percent of our consolidated net sales for 2007, as compared to approximately 18 percent in 2006, or 24 percent on a pro forma basis, including the CRM business for the entire year in 2006. We estimate that the worldwide CRM market approximated \$10.0 billion in 2007, as compared to approximately \$9.5 billion in 2006, and estimate that U.S. ICD system sales represented approximately 40 percent of the worldwide CRM market in 2007, as it did in 2006.

The following are the components of our worldwide CRM sales:

(in millions)	Year Ended December 31, 2007			Year Ended December 31, 2006		
	U.S.	International	Total	U.S.	International	Total
ICD systems	\$ 1,053	\$ 489	\$ 1,542	\$ 1,053	\$ 420	\$ 1,473
Pacemaker systems	318	264	582	305	248	553
	\$ 1,371	\$ 753	\$ 2,124	\$ 1,358	\$ 668	\$ 2,026
				Less: Jan 1 - Apr 20 net sales		655
				CRM sales, as reported		\$ 1,371

On a pro forma basis, our U.S. sales of ICD systems for 2007 remained flat with 2006, with both the market size and our share of the market substantially unchanged. Our international ICD system sales increased 16 percent in 2007, as compared to 2006, on a pro forma basis, due primarily to an increase in market size. We also experienced year-over-year growth, on a pro forma basis, in pacemaker system sales in both the U.S. and



international markets. However, a field action initiated in 2007 by one of our competitors may have an adverse impact on the overall size of the CRM market. In addition, our net sales and market share in Japan were negatively impacted by a decision made in 2007 by our CRM distributor in that country to no longer distribute our CRM products. As a result, we are currently moving to a direct sales model in Japan and, until we fully implement this model, our net sales and market share in Japan may be negatively impacted.

Worldwide CRM market growth rates in 2007 and 2006, including the U.S. ICD market, were below those experienced in prior years, resulting primarily from previous field actions in the industry and from a lack of new indications for use. While we expect that growth rates in the worldwide CRM market will improve over time, there can be no assurance that these markets will return to their historical growth rates or that we will be able to increase net sales in a timely manner, if at all. The most significant variables that may impact the size of the CRM market and our position within that market include:

- our ability to launch next-generation products and technology features in a timely manner;
- our ability to re-establish the trust and confidence of the implanting physician community, the referring physician community and prospective patients in our technology;
  - future product field actions or new physician advisories by us or our competitors;
- successful conclusion and positive outcomes of on-going clinical trials that may provide opportunities to expand indications for use;
  - variations in clinical results, reliability or product performance of our and our competitors' products;
    - delayed or limited regulatory approvals and unfavorable reimbursement policies;
    - our ability to retain key members of our sales force and other key personnel;
      - new competitive launches;
  - declines in average selling prices and the overall number of procedures performed; and
    - the outcome of legal proceedings related to our CRM business.

In April 2007, following FDA reinspections of our CRM facilities, we resolved the warning letter issued to Guidant in December 2005 and all associated restrictions were removed. We believe the FDA's decision is a crucial element in our ongoing efforts to rebuild trust and restore confidence in our CRM product offerings, and has allowed us to resume our new product cadence. Following the resolution of the warning letter, we received various FDA approvals that had been pending and have since launched several new CRM products.

#### Intellectual Property Litigation

There continues to be significant intellectual property litigation in the coronary stent market. We are currently involved in a number of legal proceedings with our existing competitors, including Johnson & Johnson and Medtronic, Inc. There can be no assurance that an adverse outcome in one or more of these proceedings would not impact our ability to meet our objectives in the coronary stent market. See Note L - Commitments and Contingencies to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for a description of these legal proceedings.

#### Innovation

Our approach to innovation combines internally developed products and technologies with those we obtain

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externally through acquisitions and alliances. Our research and development program is focused largely on the development of next-generation and novel technology offerings across multiple programs and divisions. We now have access to a second drug-eluting stent program, which complements our existing TAXUS® stent system program. We expect to continue to invest in our paclitaxel drug-eluting stent program, along with our internally developed and manufactured everolimus-eluting stent program, to continue to sustain our leadership position in the worldwide drug-eluting stent market. During 2008, we expect to incur incremental capital expenditures and research and development expenses as a result of our two drug-eluting stent programs. We successfully launched our next-generation drug-eluting stent product, the TAXUS® Liberté® stent system, during 2005 in our Europe and Inter-Continental markets, and expect to launch the product in the U.S. in the second half of 2008, subject to regulatory approval. In addition, we expect to continue to invest in our CRM technologies, including our LATITUDE® Patient Management System, a technology that enables physicians to monitor device performance remotely while patients remain in their homes. In October 2006, the FDA approved expansion of our LATITUDE system to be used for remote monitoring in certain existing ICD systems and cardiac resynchronization defibrillator (CRT-D) systems. In addition, we will continue to invest in our next-generation pulse generator platform acquired with Guidant. We recently received CE Mark approval for our next-generation COGNIS™ CRT-D and TELIGEN™ ICD devices utilizing this technology and expect to launch these products in the U.S. in the second half of 2008, subject to regulatory approval. We also expect to invest selectively in areas outside of drug-eluting stent and CRM technologies. There can be no assurance that these technologies will achieve technological feasibility, obtain regulatory approvals or gain market acceptance. A delay in the development or approval of these technologies may adversely impact our future growth.

Our acquisitions are intended to expand further our ability to offer our customers effective, high-quality medical devices that satisfy their interventional needs. Management believes it has developed a sound plan to integrate acquired businesses. However, our failure to integrate these businesses successfully could impair our ability to realize the strategic and financial objectives of these transactions. Potential future acquisitions, including companies with whom we currently have alliances or options to purchase, or the fulfillment of our contingent consideration obligations may be dilutive to our earnings and may require additional debt or equity financing, depending on their size and nature. Further, in connection with these acquisitions and other alliances, we have acquired numerous in-process research and development projects. As we continue to undertake strategic growth initiatives, it is reasonable to assume that we will acquire additional in-process research and development projects.

We have entered a significant number of alliances with both privately held and publicly traded companies. Many of these alliances involve equity investments and some give us the option to acquire the other company or its assets in the future. We enter these alliances to broaden our product technology portfolio and to strengthen and expand our reach into existing and new markets. During 2007, we began the process of monetizing certain investments and alliances no longer determined to be strategic (see the Strategic Initiatives section). While we believe our remaining strategic investments are within attractive markets with an outlook for sustained growth, the full benefit of these alliances is highly dependent on the strength of the other companies' underlying technology and ability to execute. An inability to achieve regulatory approvals and launch competitive product offerings, or litigation related to these technologies, among other factors, may prevent us from realizing the benefit of these alliances.

While we believe that the size of drug-eluting stent and CRM markets will increase above existing levels, there can be no assurance as to the timing or extent of this recovery. In 2008, we will continue to examine and, if necessary, reprioritize our internal research and development project portfolio and our external investment portfolio based on expectations of future market growth. This reprioritization may result in our decision to sell, discontinue, write down, or otherwise reduce the funding of certain projects, operations, investments or assets. Any proceeds from sales, or any increases in operating cash flows, resulting from these reprioritization activities may be used to reduce debt or may be reinvested in other research and development projects or other operational initiatives.

## Reimbursement and Funding

Our products are purchased principally by hospitals, physicians and other healthcare providers worldwide that typically bill various third-party payors, such as governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed-care programs for the healthcare services provided to their patients. Third-party payors may provide or deny coverage for certain technologies and associated procedures based on independently determined assessment criteria. Reimbursement by third-party payors for these services is based on a wide range of methodologies that may reflect the services' assessed resource costs, clinical outcomes and economic value. These reimbursement methodologies confer different, and often conflicting, levels of financial risk and incentives to healthcare providers and patients, and these methodologies are subject to frequent refinements. Third-party payors are also increasingly adjusting reimbursement rates and challenging the prices charged for medical products and services. There can be no assurance that our products will be automatically covered by third-party payors, that reimbursement will be available or, if available, that the third-party payors' coverage policies will not adversely affect our ability to sell our products profitably. There is no way of predicting the outcome of these reimbursement decisions, nor their impact on our operating results.

## International Markets

International markets, including Japan, are also affected by economic pressure to contain reimbursement levels and healthcare costs. Our profitability from our international operations may be limited by risks and uncertainties related to economic conditions in these regions, currency fluctuations, regulatory and reimbursement approvals, competitive offerings, infrastructure development, rights to intellectual property and our ability to implement our overall business strategy. Any significant changes in the competitive, political, regulatory, reimbursement or economic environment where we conduct international operations may have a material impact on our business, financial condition or results of operations. Initiatives to limit the growth of healthcare costs, including price regulation, are under way in many countries in which we do business. Implementation of cost containment initiatives and healthcare reforms in significant markets such as Japan, Europe and other international markets may limit the price of, or the level at which reimbursement is provided for, our products and may influence a physician's selection of products used to treat patients. We expect these practices to put increased pressure on reimbursement rates in these markets.

In addition, most international jurisdictions have adopted regulatory approval and periodic renewal requirements for medical devices, and we must comply with these requirements in order to market our products in these jurisdictions. Further, some emerging markets rely on the FDA's Certificate for Foreign government (CFG) in lieu of their own regulatory approval requirements. Our FDA corporate warning letter prevents our ability to obtain CFGs; therefore, our ability to market new products or renew marketing approvals in countries that rely on CFGs will continue to be impacted until the corporate warning letter is resolved. Our limited ability to market our full line of existing products and to launch new products within these jurisdictions could have a material adverse impact on our business.

## Results of Operations

### Net Sales

The following table provides our worldwide net sales by region and the relative change on an as reported and constant currency basis:

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(in millions)				2007 versus 2006		2006 versus 2005	
	2007	2006	2005	As Reported Currency Basis	Constant Currency Basis	As Reported Currency Basis	Constant Currency Basis
United States	\$ 4,923	\$ 4,840	\$ 3,852	2%	2%	26%	26%
Europe	1,807	1,576	1,204	15%	5%	31%	29%
Asia Pacific	1,176	948	866	24%	23%	9%	13%
Inter-Continental	451	457	361	(1%)	(6%)	27%	23%
International	3,434	2,981	2,431	15%	9%	23%	22%
Worldwide	\$ 8,357	\$ 7,821	\$ 6,283	7%	5%	24%	24%

The following table provides our worldwide net sales by division and the relative change on an as reported basis:

(in millions)	2007	2006	2005	2007 versus 2006	2006 versus 2005
Interventional Cardiology	\$ 3,117	\$ 3,612	\$ 3,783	(14%)	(5%)
Peripheral Interventions/ Vascular Surgery	627	666	715	(6%)	(7%)
Electrophysiology	147	134	132	10%	2%
Neurovascular	352	326	277	8%	18%
Cardiac Surgery	194	132	N/A	47%	N/A
Cardiac Rhythm Management	2,124	1,371	N/A	55%	N/A
Cardiovascular	6,561	6,241	4,907	5%	27%
Oncology	233	221	207	5%	7%
Endoscopy	843	754	697	12%	8%
Urology	403	371	324	9%	15%
Endosurgery	1,479	1,346	1,228	10%	10%
Neuromodulation	317	234	148	36%	58%
Worldwide	\$ 8,357	\$ 7,821	\$ 6,283	7%	24%

We manage our international operating regions and divisions on a constant currency basis, and we manage market risk from currency exchange rate changes at the corporate level. The relative change on a constant currency basis by division approximated the change on an as reported basis. To calculate revenue growth rates that exclude the impact of currency exchange, we convert actual current-period net sales from local currency to U.S. dollars using constant currency exchange rates. The regional constant currency growth rates in the table above can be recalculated from our net sales by reportable segment as presented in Note P – Segment Reporting to our 2007 consolidated financial statements included in Item 8 of this Form 10-K. Growth rates are based on actual, non-rounded amounts and may not recalculate precisely.

U.S. Net Sales

In 2007, our U.S. net sales increased \$83 million, or two percent, as compared to 2006. The increase related primarily to increases in U.S. CRM and Cardiac Surgery business sales of \$502 million due to a full year of consolidated operations in 2007, whereas the results for these businesses were included only following the April 21, 2006 acquisition date in 2006. In addition, we achieved year-over-year U.S. sales growth of \$64 million in our Endosurgery businesses and \$65 million in our Neuromodulation business. Offsetting these increases was a decline in U.S. net sales of our TAXUS® drug-eluting stent system of \$555 million, due primarily to a decrease in the size of the U.S. drug-eluting stent market. This decrease was driven principally by continued declines in drug-eluting stent penetration rates resulting from ongoing concerns regarding the safety and efficacy of drug-eluting stents. Our U.S. drug-eluting stent market share was stable during both

2007 and 2006; we maintained continuous market share of at least 53 percent throughout those periods. See the Outlook section for a more detailed discussion of both the drug-eluting stent and CRM markets and our position within those markets.

In 2006, our U.S. net sales increased \$988 million, or 26 percent, as compared to 2005. The increase is related primarily to the inclusion of \$1.025 billion of U.S. net sales from our CRM and Cardiac Surgery businesses acquired in April 2006. In addition, we achieved year-over-year U.S. sales growth of \$83 million in our Endosurgery businesses and \$75 million in our Neuromodulation business. Offsetting these increases were declines in U.S. net sales of our TAXUS drug-eluting stent system of \$202 million, due principally to a decrease in the size of the U.S. drug-eluting stent market, and a decline in our average market share in 2006, as compared to 2005. In addition, decreases in net sales of approximately \$70 million were attributable to the first quarter 2006 expiration of our agreement to distribute certain third-party guidewire and sheath products.

#### International Net Sales

In 2007, our international net sales increased \$453 million, or 15 percent, as compared to 2006. The increase related partially to an increase in net sales from our CRM and Cardiac Surgery businesses of \$210 million, due to a full year of consolidated results in 2007, and \$85 million associated with increased sales of both ICD and pacemaker systems. In addition, net sales of our drug-eluting stent systems in our Asia Pacific region increased \$131 million in 2007, as compared to 2006, due primarily to the May 2007 launch of our TAXUS® Express2™ coronary stent system in Japan. The favorable impact of foreign currency fluctuations also contributed \$180 million to our sales growth in 2007. Offsetting these increases were declines in net sales of our drug-eluting stent systems in our Europe and Inter-Continental markets by \$145 million in 2007, as compared to 2006, due primarily to an overall decline in the size of the drug-eluting stent market as well as market share declines in these regions, as additional competitive products entered the market. See the Outlook section for a more detailed discussion of both the drug-eluting stent and CRM markets and our position within those markets.

In 2006, our international net sales increased by \$550 million, or 23 percent, as compared to 2005. The increase related primarily to the inclusion of \$478 million of international net sales from our CRM and Cardiac Surgery businesses acquired in April 2006. The remainder of the increase in our net sales in these markets was due to growth in various product franchises, including \$35 million in net sales from our Endosurgery businesses, as well as \$27 million of sales growth from our Neurovascular business.

#### Gross Profit

In 2007, our gross profit was \$6.015 billion, as compared to \$5.614 billion in 2006, an increase of \$401 million or seven percent. As a percentage of net sales, our gross profit increased slightly to 72.0 percent for 2007, as compared to 71.8 percent for 2006. For 2006, our gross profit was \$5.614 billion, as compared to \$4.897 billion for 2005. As a percentage of net sales, our gross profit decreased to 71.8 percent for 2006, as compared to 77.9 percent for 2005. The following is a reconciliation of our gross profit percentages from 2005 to 2006 and 2006 to 2007:

	Year Ended	
	December 31,	
	2007	2006
Gross profit - prior year	71.8%	77.9%
Inventory step-up charge in 2006	3.4%	(3.8)%
Shifts in product mix	(1.8)%	(0.8)%
Impact of lower production volumes	(0.8)%	
Impact of period expenses	(0.8)%	(2.0)%
All other	0.2%	0.5%
Gross profit - current year	72.0%	71.8%



Included in cost of products sold for 2006 was an adjustment of \$267 million, representing the step-up value of acquired Guidant inventory sold during the year. There were no amounts included in our 2007 cost of products sold related to the inventory step-up and, as of December 31, 2007, we had no step-up value remaining in inventory. Factors contributing to a shift in our product sales mix toward lower margin products in 2007 included a decrease in sales of our higher margin TAXUS® drug-eluting stent system and an increase in sales of our CRM products, which generally have lower gross profit margins. In addition, we have manufactured lower volumes of certain of our products, including our drug-eluting stent systems, which has resulted in higher unit costs during 2007. Our period expenses included, among other items, increased charges for scrapped inventory in 2007 as compared to 2006.

Included in cost of products sold for 2006 was the \$267 million inventory step-up adjustment discussed above, whereas there were no such amounts included in our 2005 cost of products sold. In addition, increases in period expenses, including costs associated with Project Horizon, contributed to a decline in our gross profit percentage for 2006, as compared to 2005. Further, our 2006 gross profit percentage was negatively impacted as compared to 2005 due to shifts in our product sales mix toward lower margin products, including a decrease in sales of our TAXUS drug-eluting stent system and an increase in sales of our CRM products.

### Operating Expenses

The following table provides a summary of our operating expenses, excluding purchased research and development, restructuring charges, litigation-related charges and losses on assets held for sale:

(in millions)	2007		2006		2005	
	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales
Selling, general and administrative expenses	2,909	34.8	2,675	34.2	1,814	28.9
Research and development expenses	1,091	13.1	1,008	12.9	680	10.8
Royalty expense	202	2.4	231	3.0	227	3.6
Amortization expense	641	7.7	530	6.8	152	2.4

### Selling, General and Administrative (SG&A) Expenses

In 2007, our SG&A expenses increased by \$234 million, or nine percent, as compared to 2006. As a percentage of our net sales, SG&A expenses increased slightly to 34.8 percent in 2007 from 34.2 percent in 2006. The increase in our SG&A expenses related primarily to: \$266 million in incremental SG&A expenditures associated with a full year of consolidated CRM and Cardiac Surgery operations, offset partially by decreases in spending attributable to planned expense reductions initiated in the fourth quarter of 2007. Refer to the Strategic Initiatives section for more discussion of these expense reduction initiatives.

In 2006, our SG&A expenses increased by \$861 million, or 47 percent, as compared to 2005. As a percentage of our net sales, SG&A expenses increased to 34.2 percent in 2006 from 28.9 percent in 2005. The increase in our SG&A expenses related primarily to: \$670 million in expenditures associated with CRM and Cardiac Surgery; \$65 million of acquisition-related costs associated primarily with certain Guidant integration and retention programs; \$63 million due primarily to increased head count attributable to the expansion of our sales force within our international regions and Neuromodulation business; and \$55 million in incremental stock-based compensation expense associated with the adoption of Statement No. 123(R), Share-Based Payment. Refer to Note N - Stock Ownership Plans to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for a more detailed discussion of our adoption of Statement No. 123(R).

### Research and Development (R&D) Expenses

Our investment in R&D reflects spending on regulatory compliance and clinical research as well as new product development programs. In 2007, our R&D expenses increased by \$83 million, or 8 percent, as

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compared to 2006. As a percentage of our net sales, R&D expenses increased marginally to 13.1 percent in 2007 from 12.9 percent in 2006. The increase related primarily to \$142 million in incremental R&D expenditures associated with a full year of consolidated CRM and Cardiac Surgery operations, offset partially by lower spending of approximately \$37 million associated with the cancellation of our Endovations single-use endoscope R&D program. During the second quarter of 2007, we determined that our Endovations system would not be a commercially viable product and terminated the program. In addition, our 2006 R&D expenses included approximately \$30 million in costs related to the cancellation of the TriVascular AAA stent-graft program. See the Purchased Research and Development section for further discussion regarding the cancellation of this program. We do not expect these program cancellations to materially impact our future operations or cash flows.

In 2006, our R&D expenses increased by \$328 million, or 48 percent, as compared to 2005. As a percentage of our net sales, R&D expenses increased to 12.9 percent in 2006 from 10.8 percent in 2005. The increase related primarily to: the inclusion of \$270 million in R&D expenditures associated with our CRM and Cardiac Surgery businesses; approximately \$30 million in costs related to the cancellation of the TriVascular AAA program; \$24 million of stock-based compensation expense associated with the adoption of Statement No. 123(R); and \$13 million of acquisition-related costs associated with certain Guidant integration and retention programs.

#### Royalty Expense

In 2007, our royalty expense decreased by \$29 million, or 13 percent, as compared to 2006, due primarily to lower sales of our TAXUS® drug-eluting stent system. As a percentage of our net sales, royalty expense decreased to 2.4 percent from 3.0 percent for 2006, due to shifts in our sales mix toward products with lower royalties. Royalty expense attributable to sales of our TAXUS stent system decreased \$48 million as compared to 2006, due to a decrease in TAXUS stent system sales. Offsetting this decrease was an increase in royalty expense attributable to CRM and Cardiac Surgery products of \$13 million, due to a full year of consolidated results.

In 2006, our royalty expense increased by \$4 million, or two percent, as compared to 2005. The increase was due to \$25 million of royalty expense associated with CRM and Cardiac Surgery products. This increase was offset partially by a decrease in royalty expense attributable to sales of our TAXUS stent system by \$20 million for 2006 as compared to 2005, due primarily to a decrease in TAXUS stent system sales. As a percentage of net sales, royalty expense decreased to 3.0 percent in 2006 from 3.6 percent in 2005, due primarily to the inclusion of net sales from our CRM and Cardiac Surgery products, which on average have a lower royalty cost relative to legacy Boston Scientific products.

#### Amortization Expense

In 2007, our amortization expense increased by \$111 million, or 21 percent, as compared to 2006. As a percentage of our net sales, amortization expense increased to 7.7 percent in 2007 from 6.8 percent in 2006. The increase in our amortization expense related primarily to \$147 million of incremental amortization associated with intangible assets obtained as part of the Guidant acquisition, due to a full year of amortization. In addition, amortization expense included \$21 million attributable to the write-off of intangible assets associated with our acquisition of Advanced Stent Technologies (AST), due to our decision to suspend further significant funding of R&D with respect to the Petal™ bifurcation stent. We do not expect this decision to materially impact our future operations or cash flows. These increases were offset by the inclusion in 2006 of the write-off of intangible assets of: \$23 million attributable to the cancellation of the TriVascular AAA program, \$21 million associated with developed technology obtained as part of our 2005 acquisition of Rubicon Medical Corporation, and \$12 million associated with our Real-time Position Management® System (RPM)™ technology.

In 2006, our amortization expense increased by \$378 million, or 249 percent, as compared to 2005. As a percentage of our net sales, amortization expense increased to 6.8 percent in 2006 from 2.4 percent in 2005.



The increase in our amortization expense related primarily to: \$334 million of amortization of intangible assets obtained as part of the Guidant acquisition; \$23 million for the write-off of intangible assets due to the cancellation of the TriVascular AAA program; \$21 million for the write-off of the intangible assets associated with developed technology obtained as part of our 2005 acquisition of Rubicon; and \$12 million for the write-off of the intangible assets associated with our RPM technology, a discontinued technology platform obtained as part of our acquisition of Cardiac Pathways Corporation. The write-off of the RPM intangible assets resulted from our decision to cease investment in the technology. The write-off of the Rubicon developed technology resulted from our decision to cease development of the first generation of the technology and concentrate resources on the development and commercialization of the next-generation product.

#### Purchased Research and Development

In 2007, we recorded \$85 million of purchased research and development, including \$75 million associated with our acquisition of Remon Medical Technologies, Inc., \$13 million resulting from the application of equity method accounting for one of our strategic investments, and \$12 million associated with payments made for certain early-stage CRM technologies. Additionally, in June 2007, we terminated our product development agreement with Aspect Medical Systems relating to brain monitoring technology that Aspect has been developing to aid the diagnosis and treatment of depression, Alzheimer's disease and other neurological conditions. As a result, we recognized a credit to purchased research and development of approximately \$15 million during 2007, representing future payments that we would have been obligated to make prior to the termination of the agreement. We do not expect the termination of the agreement to impact our future operations or cash flows materially.

The \$75 million of in-process research and development acquired with Remon consists of a pressure-sensing system development project, which will be combined with our existing CRM devices. As of December 31, 2007, we estimate that the total cost to complete the development project is between \$75 million and \$80 million. We expect to launch devices using pressure-sensing technology in 2013 in Europe and certain other international countries, and in the U.S. in 2016, subject to regulatory approval. We expect material net cash inflows from such products to commence in 2016, following the launch of this technology in the U.S.

In 2006, we recorded \$4.119 billion of purchased research and development, including a charge of approximately \$4.169 billion associated with the in-process research and development obtained in conjunction with the Guidant acquisition; a credit of \$67 million resulting primarily from the reversal of accrued contingent payments due to the cancellation of the TriVascular AAA program; and an expense of \$17 million resulting primarily from the application of equity method accounting for our investment in EndoTex Interventional Systems, Inc.

The \$4.169 billion of purchased research and development associated with the Guidant acquisition consists primarily of approximately \$3.26 billion for acquired CRM-related products and \$540 million for drug-eluting stent technology shared with Abbott. The purchased research and development value associated with the Guidant acquisition also includes \$369 million representing the estimated fair value of the potential milestone payments of up to \$500 million that we may receive from Abbott upon its receipt of regulatory approvals for certain products. We recorded the amounts as purchased research and development at the acquisition date because the receipt of the payments is dependent on future research and development activity and regulatory approvals, and the asset had no alternative future use as of the acquisition date. We will recognize the milestone payments, if received, as a gain in our financial statements at the time of receipt.

The most significant purchased research and development projects acquired from Guidant include the next-generation CRM pulse generator platform and rights to the everolimus-eluting stent technology that we share with Abbott. The next-generation pulse generator platform incorporates new components and software while leveraging certain existing intellectual property, technology, manufacturing know-how and institutional knowledge of Guidant. We expect to leverage this platform across all CRM product families, including ICD systems, cardiac resynchronization therapy (CRT) devices and pacemaker systems, to treat electrical dysfunction in the heart. The next-generation products using

this platform include the COGNIS™ CRT-D

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device, the TELIGEN™ ICD device and the INGENIO™ pacemaker system. During the first quarter of 2008, we received CE Mark approval for our COGNIS CRT-D device, which includes defibrillation capability, and the TELIGEN ICD device, and expect a full European launch by the end of the second quarter of 2008. We expect a U.S. launch of the COGNIS and TELIGEN devices in the second half of 2008, following regulatory approval. We expect to launch the INGENIO device in both Europe and the U.S. in the second half of 2010. As of December 31, 2007, we estimate that the total cost to complete the COGNIS and TELIGEN technology is between \$25 million and \$35 million, and the cost to complete the INGENIO technology is between \$30 million and \$35 million. We expect material net cash inflows from the COGNIS and TELIGEN devices to commence in the second half of 2008 and material net cash inflows from the INGENIO device to commence in the second half of 2010.

The \$540 million attributable to everolimus-eluting stent technology represents the estimated fair value of the rights to Guidant's everolimus-based drug-eluting stent technology we share with Abbott. In December 2006, we launched the PROMUS™ everolimus-eluting coronary stent system, which is a private-labeled XIENCE™ V drug-eluting stent system supplied to us by Abbott, in certain European countries. In 2007, we expanded our launch in Europe, as well as in key countries in other regions. In June 2007, Abbott submitted the final module of a pre-market approval (PMA) application to the FDA seeking approval in the U.S. for both the XIENCE V and PROMUS stent systems. In November 2007, the FDA advisory panel reviewing Abbott's PMA submission voted to recommend the stent systems for approval. Following FDA approval, which Abbott is expecting in the first half of 2008, we plan to launch the PROMUS stent system in the U.S. We expect to launch an internally developed and manufactured next-generation everolimus-based stent in Europe in late 2009 or early 2010 and in the U.S. in late 2012 or early 2013. We expect that material net cash inflows from our internally developed and manufactured everolimus-based drug-eluting stent will commence in 2013, following its approval in the U.S. As of December 31, 2007, we estimate that the cost to complete our internally manufactured next-generation everolimus-eluting stent technology project is between \$200 million and \$250 million.

In 2005, we recorded \$276 million of purchased research and development consisting of \$130 million relating to our acquisition of TriVascular, \$73 million relating to our acquisition of AST, \$45 million relating to our acquisition of Rubicon, and \$3 million relating to our acquisition of CryoVascular. In addition, we recorded \$25 million of purchased research and development in conjunction with entering the product development agreement with Aspect.

The most significant 2005 purchased research and development projects included TriVascular's AAA stent-graft and AST's Petal™ bifurcation stent, which collectively represented 73 percent of our 2005 purchased research and development. During 2006, management cancelled the TriVascular AAA stent-graft program. In addition, in connection with our expense and head count reduction plan, in 2007, we decided to suspend further significant funding of research and development associated with the Petal stent project and may or may not decide to pursue its completion. We do not expect these program cancellations and related write-downs to impact our future operations or cash flows materially. In connection with the cancellation of the TriVascular AAA program, we recorded \$67 million credit to purchased research and development in 2006, representing the reversal of our accrual for contingent payments recorded in the initial purchase accounting.

### Restructuring

In 2007, we recorded \$176 million of restructuring charges. In addition, we recorded \$29 million of expenses within other lines of our consolidated statements of operations related to our restructuring initiatives. In October 2007, our Board of Directors approved, and we committed to, an expense and head count reduction plan, which will result in the elimination of approximately 2,300 positions worldwide. We are providing affected employees with severance packages, outplacement services and other appropriate assistance and support. As of December 31, 2007, we had completed more than half of the anticipated head count reductions. The plan is intended to bring expenses in line with revenues as part of our initiatives to enhance short- and long-term shareholder value. Key activities under the plan include the restructuring of several businesses and product franchises in order to leverage resources, strengthen competitive positions, and create a more simplified and efficient business model; the elimination, suspension or

reduction of

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spending on certain R&D projects; and the transfer of certain production lines from one facility to another. We initiated these activities in the fourth quarter of 2007 and expect to be substantially completed worldwide by the end of 2008.

We expect that the execution of this plan will result in total pre-tax expenses of approximately \$425 million to \$450 million. We expect the plan to result in cash outlays of approximately \$400 million to \$425 million. The following table provides a summary of our estimates of total costs associated with the plan by major type of cost:

Type of cost	Total amount expected to be incurred
Termination benefits	\$260 million to \$270 million
Retention incentives	\$60 million to \$65 million
Asset write-offs and accelerated depreciation	\$45 million to \$50 million
Other *	\$60 million to \$65 million

\* Other costs consist primarily of costs to transfer product lines from one facility to another and consultant fees.

In 2007, we incurred total restructuring costs of \$205 million. The following presents these costs by major type and line item within our consolidated statements of operations:

	Termination Benefits	Retention Incentives	Intangible Asset Write-offs	Fixed Asset Write-off	Accelerated Depreciation	Other	Total
Cost of goods sold		\$ 1			\$ 1		\$ 2
Selling, general and administrative expenses		2			2		4
Research and development expenses		2					2
Amortization expense			\$ 21				21
Restructuring charges	\$ 158			\$ 8		\$ 10	176
	\$ 158	\$ 5	\$ 21	\$ 8	\$ 3	\$ 10	\$ 205

The termination benefits recorded during 2007 represent primarily amounts incurred pursuant to our on-going benefit arrangements, and have been recorded in accordance with Financial Accounting Standards Board (FASB) Statement No. 112, Employer's Accounting for Postemployment Benefits. We expect to record the remaining termination benefits in 2008 when we identify with more specificity the job classifications, functions and locations of the remaining head count to be eliminated. The asset write-offs relate to intangible assets and property, plant and equipment that are not recoverable following our decision in October 2007 to (i) commit to the expense and head count reduction plan, including the elimination, suspension or reduction of spending on certain R&D projects, and (ii) restructure several businesses. The retention incentives represent cash incentives, which are being recorded over the future service period during which eligible employees must remain employed with us to retain the award. The other restructuring costs are being recognized and measured at their fair value in the period in which the liability is incurred in accordance with FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

We made approximately \$40 million of cash outlays associated with our restructuring initiatives in 2007, which related to termination benefits, other restructuring charges and retention incentive payments. These payments were made using cash generated from our operations. We expect to make the remaining cash outlays throughout 2008 and into 2009 using cash generated from operations.

As a result of our restructuring initiatives, we expect to reduce R&D and SG&A expenses by \$475 million to \$525 million against a \$4.1 billion baseline, which represents our estimated annual R&D and SG&A expenses



at the time we committed to these initiatives in 2007. This range represented the annualized run rate amount of reductions we expect to achieve as we exit 2008, as the implementation of these initiatives will take place throughout the year; however, we expect to realize the majority of these savings in 2008. In addition, we expect to reduce our R&D and SG&A expenses by an additional \$25 million to \$50 million in 2009.

Refer to Note G – Restructuring Activities to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information on our restructuring plan.

#### Litigation-Related Charges

In 2007, we recorded a \$365 million pre-tax charge associated with on-going patent litigation involving our Interventional Cardiology business. See further discussion of our material legal proceedings in Item 3. Legal Proceedings and Note L — Commitments and Contingencies to our 2007 consolidated financial statements included in Item 8 of this Form 10-K.

In 2005, we recorded a \$780 million pre-tax charge associated with a litigation settlement with Medinol, Ltd. On September 21, 2005, we reached a settlement with Medinol resolving certain contract and patent infringement litigation. In conjunction with the settlement agreement, we paid \$750 million in cash and cancelled our equity investment in Medinol.

#### Loss on Assets Held for Sale

During 2007, we recorded a \$560 million loss attributable primarily to the write-down of goodwill in connection with the sale of certain of our businesses. Refer to the Strategic Initiatives section and Note E – Assets Held for Sale to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information on these transactions.

#### Interest Expense

Our interest expense increased to \$570 million in 2007 as compared to \$435 million in 2006. The increase in our interest expense related primarily to an increase in our average debt levels, as well as an increase in our average borrowing rate. Our average debt levels for 2007 increased compared to 2006 as a result of carrying a full year of incremental debt due to the acquisition of Guidant in April 2006. Higher debt levels in 2007 contributed incremental interest expense of \$109 million. At December 31, 2007, \$5.433 billion of our total debt was at fixed interest rates, representing 66 percent of our total debt or 81 percent of our net debt<sup>4</sup> balance.

Our interest expense increased to \$435 million in 2006 from \$90 million in 2005. The increase in our interest expense related primarily to an increase in our average debt levels used to finance the Guidant acquisition, as well as an increase in our average borrowing rate.

#### Fair Value Adjustment

We recorded net expense of \$8 million in 2007 and \$95 million in 2006 to reflect the change in fair value related to the sharing of proceeds feature of the Abbott stock purchase, which is discussed in further detail in Note C - Acquisitions to our 2007 consolidated financial statements included in Item 8 of this Form 10-K. This sharing of proceeds feature was marked-to-market through earnings based upon changes in our stock price, among other factors. There was no fair value associated with this feature as of December 31, 2007.

#### Other, net

Our other, net reflected income of \$23 million in 2007, expense of \$56 million in 2006, and income of

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4Our net debt balance represents our total debt less our cash, cash equivalents and marketable securities. Refer to the Liquidity and Capital Resources section for more information.

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\$13 million in 2005. Our other, net included investment write-downs of \$124 million in 2007, \$121 million in 2006, and \$17 million in 2005, attributable primarily to other-than-temporary declines in the fair value of our equity investments in, and notes receivable from, certain publicly traded and privately held companies. Our 2007 write-downs related to impairments of multiple investments. Our 2006 write-downs related primarily to a \$34 million write-down associated with an investment in a gene therapy company and a \$27 million write-down associated with one of our vascular sealing portfolio companies; the remainder of our 2006 write-downs related to impairments of multiple investments. These write-downs were offset partially by realized gains on investments of \$65 million in 2007, \$9 million in 2006, and \$4 million in 2005. Refer to Note F – Investments and Notes Receivable to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information regarding our investment portfolio. In addition, our other, net included interest income of \$79 million in 2007, \$67 million in 2006, and \$36 million in 2005. Our interest income increased in 2007, as compared to 2006, due primarily to higher average cash balances, offset by lower average investment rates. Our interest income increased in 2006, as compared to 2005, due primarily to increases in our cash and cash equivalents balances and increases in average market interest rates.

### Tax Rate

The following table provides a summary of our reported tax rate:

	2007	2006	2005	Percentage Point Decrease 2007 vs. 2006	2006 vs. 2005
Reported tax rate	(13.0) %	1.2 %	29.5 %	(14.2) %	(28.3) %
Impact of certain charges	(25.6) %	(20.2) %	5.5 %	(5.4) %	(25.7) %

In 2007, the decrease in our reported tax rate, as compared to 2006, related primarily to additional foreign tax credits, changes in the geographic mix of our revenues, and the impact of certain charges during 2007 that are taxed at different rates than our effective tax rate. These charges included legal and restructuring reserves, purchased research and development and goodwill write-downs not deductible for tax purposes, as well as discrete items associated with resolution of various tax matters and changes in estimates for tax benefits claimed related to prior periods. In 2006, the decrease in our reported tax rate, as compared to 2005, related primarily to the impact of certain charges during 2006 that were taxed at different rates than our effective tax rate. These charges included purchased research and development, asset write-downs, reversal of taxes associated with unremitted earnings and tax gains on the sale of intangible assets.

Management currently estimates that our 2008 effective tax rate, excluding certain charges, will be approximately 21 percent, due primarily to our intention to reinvest offshore substantially all of our offshore earnings, and based upon the anticipated retro-active re-enactment of the U.S. R&D tax credit for all of 2008. However, acquisitions or dispositions in 2008 and geographic changes in the manufacture of our products may positively or negatively impact our effective tax rate.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. As a result of the implementation of Interpretation No. 48, we recognized a \$126 million increase in our liability for unrecognized tax benefits. Approximately \$26 million of this increase was reflected as a reduction to the January 1, 2007 balance of retained earnings. Substantially all of the remaining increase related to pre-acquisition uncertain tax liabilities related to Guidant, which we recorded as an increase to goodwill in accordance with Emerging Issues Task Force (EITF) Issue No. 93-7, Uncertainties Related to Income Taxes in a Purchase Business Combination.

We are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. We have concluded all U.S. federal income tax matters through 1997. Substantially all material state, local, and foreign income

tax matters have been concluded for all years through 2001.

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## Liquidity and Capital Resources

The following provides a summary of key performance indicators that we use to assess our liquidity and operating performance.

Net Debt<sup>5</sup>

(in millions)	As of December 31,	
	2007	2006
Short-term debt	\$ 256	\$ 7
Long-term debt	7,933	8,895
Total debt	8,189	8,902
Less: cash and cash equivalents	1,452	1,668
Net debt	\$ 6,737	\$ 7,234

EBITDA<sup>6</sup>

(in millions)	2007	2006	2005
Net (loss) income	\$ (495)	\$ (3,577)	\$ 628
Interest income	(79)	(67)	(36)
Interest expense	570	435	90
Income tax (benefit) expense	(74)	42	263
Depreciation and amortization	939	781	314
EBITDA	\$ 861	\$ (2,386)	\$ 1,259

## Cash Flow

(in millions)	2007	2006	2005
Cash provided by operating activities	\$ 934	\$ 1,845	\$ 903
Cash used for investing activities	(474)	(9,312)	(551)
Cash (used for) provided by financing activities	(680)	8,439	(954)

## Operating Activities

Cash generated by our operating activities continues to be a major source of funds for servicing our outstanding debt obligations and investing in our growth. The decrease in operating cash flow in 2007, as

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<sup>5</sup> Management uses net debt to monitor and evaluate cash and debt levels and believes it is a measure that provides valuable information regarding our net financial position and interest rate exposure. Users of our financial statements should consider this non-GAAP financial information in addition to, not as a substitute for, nor as superior to, financial information prepared in accordance with GAAP.

<sup>6</sup> Management uses EBITDA to assess operating performance and believes that it may assist users of our financial statements in analyzing the underlying trends in our business over time. In addition, management considers EBITDA

as a component of the financial covenants included in our credit agreements. Users of our financial statements should consider this non-GAAP financial information in addition to, not as a substitute for, nor as superior to, financial information prepared in accordance with GAAP. Our EBITDA included acquisition-, divestiture-, litigation- and restructuring-related charges (pre-tax) of \$1.231 billion in 2007 and \$4.628 billion in 2006; see the Executive Summary section above for a description of these charges. Our 2005 EBITDA included acquisition-, divestiture-, litigation- and restructuring-related charges (pre-tax) of \$1.102 billion, related primarily to a litigation settlement with Medinol and purchased research and development.

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compared to 2006, is attributable primarily to: approximately \$400 million in tax payments made in the first quarter of 2007, associated principally with the gain on Guidant's sale of its vascular intervention and endovascular solutions businesses to Abbott; an increase in interest payments of \$160 million due to higher average debt levels; a decrease in EBITDA, excluding acquisition-, divestiture-, litigation-, and restructuring-related charges, of approximately \$150 million; and an increase in severance and other merger and restructuring-related payments of approximately \$100 million, including severance payments made in the first half of 2007 in conjunction with our acquisition and integration of Guidant. See Note C – Acquisitions to our consolidated financial statements included in Item 8 of this Form 10-K for further details.

#### Investing Activities

We made capital expenditures of \$363 million in 2007, as compared to \$341 million in 2006, including \$110 million associated with our CRM and Cardiac Surgery businesses. We expect to incur capital expenditures of approximately \$450 million during 2008, which includes capital expenditures to upgrade further our quality systems and information systems infrastructure, to enhance our manufacturing capabilities in order to support a second drug-eluting stent platform, and to support continuous growth in our business units.

Our investing activities during 2007 included \$136 million of cash payments for acquisitions of businesses, investments in publicly traded and privately held companies, and acquisitions of certain technology rights; as well as \$248 million in contingent payments, associated primarily with Advanced Bionics; offset partially by \$243 million of gross proceeds from the monetization of several of our investments in, and notes receivable from, certain privately held and publicly traded companies.

In January 2007, we completed our acquisition of 100 percent of the fully diluted equity of EndoTex Interventional Systems, Inc., a developer of stents used in the treatment of stenotic lesions in the carotid arteries. We issued approximately five million shares of our common stock valued at approximately \$90 million and approximately \$10 million in cash, in addition to our previous investments of approximately \$40 million, to acquire the remaining interests of EndoTex, and may be required to pay future consideration that is contingent upon EndoTex achieving certain performance-related milestones.

In August 2007, we completed our acquisition of 100 percent of the fully diluted equity of Remon Medical Technologies, Inc. Remon is a development-stage company focused on creating communication technology for medical device applications. We paid approximately \$70 million in cash, net of cash acquired, to acquire Remon, in addition to our previous investments of \$3 million to acquire the remaining interests of Remon. We may also be required to make future payments contingent upon Remon achieving certain performance-related milestones.

#### Financing Activities

Our cash flows from financing activities reflect issuances and repayments of debt, payments for share repurchases and proceeds from stock issuances related to our equity incentive programs. During 2007, we amended our term loan and revolving credit facility agreement and prepaid \$1.0 billion outstanding under the term loan, using \$750 million of cash on hand and \$250 million in borrowings against a credit facility secured by our U.S. trade receivables. There was \$250 million outstanding under this facility at December 31, 2007 and none outstanding at December 31, 2006. There were no amounts outstanding under our separate \$2.0 billion revolving credit facility as of December 31, 2007 and 2006. In addition, in 2007, cash flows from financing activities included a \$60 million contractual payment made to reimburse Abbott for a portion of its cost of borrowing \$1.4 billion in 2006 to purchase shares of our common stock in connection with our acquisition of Guidant. Refer to Note C – Acquisitions to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information regarding the Abbott transaction.

We had total debt of \$8.189 billion at December 31, 2007 at an average interest rate of 6.36 percent as compared to total debt of \$8.902 billion at December 31, 2006 at an average interest rate of 6.03 percent. The

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debt maturity schedule for the significant components of our debt obligations as of December 31, 2007, is as follows:

(in millions)	Payments Due by Period						Total
	2008	2009	2010	2011	2012	Thereafter	
Term loan		\$ 300	\$ 1,700	\$ 2,000			\$ 4,000
Abbott loan				900			900
Senior notes				850		\$ 2,200	3,050
Credit and security facility	\$ 250						250
	\$ 250	\$ 300	\$ 1,700	\$ 3,750		\$ 2,200	\$ 8,200

In January 2008, following the closing of the sale of, and receipt of proceeds for, three of our businesses, we prepaid an additional \$200 million of our term loan, reducing the scheduled maturity in April 2009. We expect to make a further payment of \$425 million before the end of the first quarter of 2008. These prepayments will satisfy the remaining obligation due in April 2009 and reduce the 2010 maturity by \$325 million. We expect to continue to use a significant portion of our future operating cash flow over the next several years to reduce our debt obligations.

Our term loan and revolving credit facility agreement requires that we maintain certain financial covenants. Among other items, our 2007 amendment extends a step-down in the maximum permitted ratio of debt to consolidated EBITDA, as defined by the agreement, as follows:

From:	To:
4.5 times to 3.5 times on March 31, 2008	4.5 times to 4.0 times on March 31, 2009, and
	4.0 times to 3.5 times on September 30, 2009

The amendment also provides for an exclusion from the calculation of consolidated EBITDA, as defined by the agreement, of up to \$300 million of restructuring charges incurred through June 30, 2009 and up to \$500 million of litigation and settlement expenses incurred (net of any litigation or settlement income received) in any consecutive four fiscal quarters, not to exceed \$1.0 billion in the aggregate, through June 30, 2009. Other than the amended exclusions from the calculation of consolidated EBITDA, there was no change in our minimum required ratio of consolidated EBITDA, as defined by the agreement, to interest expense of greater than or equal to 3.0 to 1.0. As of December 31, 2007, we were in compliance with the required covenants. Exiting 2007, our ratio of debt to consolidated EBITDA was approximately 3.6 to 1.0 and our ratio of consolidated EBITDA to interest expense was approximately 4.0 to 1.0. Our inability to maintain these covenants could require that we seek to further renegotiate the terms of our credit facilities or seek waivers from compliance with these covenants, both of which could result in additional borrowing costs.

During 2007, our credit ratings from Standard & Poor's Rating Services (S&P) and Fitch Ratings were downgraded to BB+, and our credit rating from Moody's Investor Service was downgraded to Ba1. These ratings are below investment grade and the ratings outlook by all three rating agencies is currently negative. Credit rating changes may impact our borrowing cost, but do not require the repayment of borrowings. These credit rating changes have not materially increased the cost of our existing borrowings.

#### Equity

On May 22, 2007, we extended an offer to our non-director and non-executive employees to exchange certain outstanding stock options for deferred stock units (DSUs). Stock options previously granted under our stock plans with an exercise price of \$25 or more per share were exchangeable for a smaller number of DSUs, based on exchange ratios derived from the exercise prices of the surrendered options. On June 20, 2007, following the expiration of the

offer, our employees exchanged approximately 6.6 million options for approximately 1.1 million DSUs, which were subject to additional vesting restrictions. We did not record incremental stock-

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based compensation expense as a result of these exchanges because the fair values of the options exchanged equaled the fair values of the DSUs issued.

During 2007, we received \$132 million in proceeds from stock issuances related to our stock option and employee stock purchase plans, as compared to \$145 million in 2006. Proceeds from the exercise of employee stock options and employee stock purchases vary from period to period based upon, among other factors, fluctuations in the exercise and stock purchase patterns of employees.

We did not repurchase any of our common stock during 2007 or 2006. We repurchased approximately 25 million shares of our common stock at an aggregate cost of \$734 million in 2005. Approximately 37 million shares remain under our previous share repurchase authorizations.

### Contractual Obligations and Commitments

The following table provides a summary of certain information concerning our obligations and commitments to make future payments, which is in addition to our outstanding principal debt obligations as presented in the previous table, and is based on conditions in existence as of December 31, 2007. See Note C - Acquisitions, Note H - Borrowings and Credit Arrangements and Note J - Leases to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for additional information regarding our acquisitions, debt obligations and lease arrangements.

(in millions)	Payments Due by Period						Total
	2008	2009	2010	2011	2012	Thereafter	
Operating leases†	\$ 64	\$ 49	\$ 37	\$ 24	\$ 17	\$ 49	\$ 240
Capital leases	5	4	3	3	3	47	65
Purchase obligations†, ††	105	5	2				112
Minimum royalty obligations†	16	29	26	14	1	6	92
Unrecognized tax benefits	60						60
Interest payments†, †††	462	441	365	213	133	880	2,494
	\$ 712	\$ 528	\$ 433	\$ 254	\$ 154	\$ 982	\$ 3,063

In accordance with U.S. GAAP, these obligations relate to expenses associated with future periods and are not reflected in our consolidated balance sheets.

These obligations relate primarily to inventory commitments and capital expenditures entered in the normal course of business.

Interest payment amounts related to our term loan are projected using market interest rates as of December 31, 2007. Future interest payments may differ from these projections based on changes in the market interest rates.

The table above does not reflect unrecognized tax benefits of \$1.284 billion, the timing of which is uncertain. Refer to Note K – Income Taxes to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information on these unrecognized tax benefits.

Certain of our acquisitions involve the payment of contingent consideration. See Note C - Acquisitions to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for the estimated maximum potential amount of future contingent consideration we could be required to pay associated with our recent acquisitions. Since it is not possible to estimate when, or even if, performance milestones will be reached, or the amount of contingent consideration payable based on future revenues, the maximum contingent consideration has not been included in the table above. Additionally, we may consider satisfying these commitments by issuing our stock or refinancing the commitments with cash, including cash obtained through the sale of our stock. Payments due to the former shareholders of Advanced Bionics in connection



with our amended merger agreement are accrued as of December 31, 2007, and therefore, do not appear in the table above.

Certain of our equity investments give us the option to acquire the company in the future. Since it is not possible to estimate when, or even if, we will exercise our option to acquire these companies, we have not included these future potential payments in the table above.

At December 31, 2007, we had outstanding letters of credit and bank guarantees of approximately \$110 million, as compared to approximately \$90 million at December 31, 2006, which consisted primarily of financial lines of credit provided by banks and collateral for workers' compensation programs. We enter these letters of credit and bank guarantees in the normal course of business. As of December 31, 2007, none of the beneficiaries had drawn upon the letters of credit or guarantees. At this time, we do not believe we will be required to fund any amounts from the guarantees or letters of credit and, accordingly, we have not recognized a related liability in our consolidated balance sheets as of December 31, 2007 or 2006.

#### Critical Accounting Policies and Estimates

Our financial results are affected by the selection and application of accounting policies. We have adopted accounting policies to prepare our consolidated financial statements in conformity with U.S. GAAP. We describe these accounting policies in Note A—Significant Accounting Policies to our 2007 consolidated financial statements included in Item 8 of this Form 10-K.

To prepare our consolidated financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that may affect the reported amounts of our assets and liabilities, the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of our revenue and expenses during the reporting period. Our actual results may differ from these estimates.

We consider estimates to be critical if (i) we are required to make assumptions about material matters that are uncertain at the time of estimation or if (ii) materially different estimates could have been made or it is reasonably likely that the accounting estimate will change from period to period. The following are areas requiring management's judgment that we consider critical:

#### Revenue Recognition

We generate revenue primarily from the sale of single-use medical devices. We consider revenue to be realized or realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectibility is reasonably assured. We generally meet these criteria at the time of shipment, unless a consignment arrangement exists. We recognize revenue from consignment arrangements based on product usage, or implant, which indicates that the sale is complete. For all other transactions, we recognize revenue when title to the goods and risk of loss transfer to the customer, provided there are no substantive remaining performance obligations required of us or any matters requiring customer acceptance. For multiple-element arrangements, whereby the sale of devices is combined with future service obligations, we defer revenue on the undelivered element based on verifiable objective evidence of fair value, and recognize the associated revenue over the related service period.

We generally allow our customers to return defective, damaged and, in certain cases, expired products for credit. We base our estimate for sales returns upon historical trends and record the amount as a reduction to revenue when we sell the initial product. In addition, we may allow customers to return previously purchased products for next-generation product offerings; for these transactions, we defer recognition of revenue based upon an estimate of the amount of product to be returned when the next-generation products are shipped to the customer.

We offer sales rebates and discounts to certain customers. We treat sales rebates and discounts as a reduction

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of revenue and classify the corresponding liability as current. We estimate rebates for products where there is sufficient historical information available to predict the volume of expected future rebates. If we are unable to estimate the expected rebates reasonably, we record a liability for the maximum rebate percentage offered. We have entered certain agreements with group purchasing organizations to sell our products to participating hospitals at negotiated prices. We recognize revenue from these agreements following the same revenue recognition criteria discussed above.

#### Inventory Provisions

We base our provisions for excess, obsolete or expired inventory primarily on our estimates of forecasted net sales and production levels. A significant change in the timing or level of demand for our products as compared to forecasted amounts may result in recording additional provisions for excess, obsolete or expired inventory in the future. The industry in which we participate is characterized by rapid product development and frequent new product introductions. Uncertain timing of next-generation product approvals, variability in product launch strategies, product recalls and variation in product utilization all affect the estimates related to excess and obsolete inventory.

#### Valuation of Business Combinations

We allocate the amounts we pay for each acquisition to the assets we acquire and liabilities we assume based on their fair values at the dates of acquisition in accordance with FASB Statement No. 141, Business Combinations, including identifiable intangible assets and purchased research and development, which either arise from a contractual or legal right or are separable from goodwill. We base the fair value of identifiable intangible assets and purchased research and development on detailed valuations that use information and assumptions provided by management. We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired to goodwill. The use of alternative valuation assumptions, including estimated cash flows and discount rates, and alternative estimated useful life assumptions could result in different purchase price allocations, purchased research and development charges, and intangible asset amortization expense in current and future periods.

#### Purchased Research and Development

The valuation of purchased research and development represents the estimated fair value at the dates of acquisition related to in-process projects. Our purchased research and development represents the value of acquired in-process projects that have not yet reached technological feasibility and have no alternative future uses as of the date of acquisition. The primary basis for determining the technological feasibility of these projects is obtaining regulatory approval to market the underlying products in an applicable geographic region. We expense the value attributable to these in-process projects at the time of the acquisition. If the projects are not successful or completed in a timely manner, we may not realize the financial benefits expected for these projects or for the acquisitions as a whole. In addition, we record certain costs associated with our alliances as purchased research and development.

We use the income approach to determine the fair values of our purchased research and development. This approach calculates fair value by estimating the after-tax cash flows attributable to an in-process project over its useful life and then discounting these after-tax cash flows back to a present value. We base our revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected levels of market share. In arriving at the value of the in-process projects, we consider, among other factors: the in-process projects' 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. We base the discount rate used to arrive at a present value as of the date of acquisition on the time value of money and medical technology investment risk factors. For the in-process

projects acquired in connection with our recent acquisitions, we used the following ranges of risk-adjusted discount rates to discount our projected cash flows: 19 percent in 2007, 13 percent to 17 percent in 2006, and 18 percent to 27 percent in 2005. We believe that the estimated in-process 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.

#### Impairment of Intangible Assets

We review intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in their remaining useful life. In addition, we review our indefinite-lived intangible assets at least annually for impairment and reassess their classification as indefinite-lived assets. To test for impairment, we calculate the fair value of our indefinite-lived intangible assets and compare the calculated fair values to the respective carrying values. If the estimate of an intangible asset's remaining useful life is changed, we amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

#### Goodwill Impairment

Annually we test our goodwill balances during the second quarter of the year as of April 1, the beginning of our second quarter, using financial information available at that time. We test our goodwill balances more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. In performing the test, we utilize the two-step approach prescribed under FASB Statement No. 142, Goodwill and Other Intangible Assets. The first step requires a comparison of the carrying value of the reporting units, as defined, to the fair value of these units. In 2007 and 2006, we identified our ten domestic divisions, which in aggregate make up the U.S. reportable segment, and our three international operating segments as our reporting units for purposes of the goodwill impairment test. To derive the carrying value of our reporting units at the time of acquisition, we assign goodwill to the reporting units that we expect to benefit from the respective business combination. In addition, for purposes of performing our annual goodwill impairment test, assets and liabilities, including corporate assets, which relate to a reporting unit's operations, and would be considered in determining fair value, are allocated to the individual reporting units. We allocate assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, based primarily on the respective revenue contribution of each reporting unit. If the carrying value of a reporting unit exceeds its fair value, we will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill to its carrying value. If we were unable to complete the second step of the test prior to the issuance of our financial statements and an impairment loss was probable and could be reasonably estimated, we would recognize our best estimate of the loss in our June 30 interim financial statements and disclose that the amount is an estimate. We would then recognize any adjustment to that estimate in subsequent reporting periods, once we have finalized the second step of the impairment test.

#### Investments in Publicly Traded and Privately Held Entities

We account for investments in entities over which we have the ability to exercise significant influence under the equity method if we hold 50 percent or less of the voting stock. We account for investments in entities over which we do not have the ability to exercise significant influence under the cost method. Our determination of whether we have the ability to exercise significant influence over an entity requires judgment. We consider the guidance in APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, EITF Issue No. 03-16, Accounting for Investments in Limited Liability Companies, and EITF Topic D-46, Accounting for Limited Partnership Investments, in determining whether we have the ability to exercise significant influence over an entity.

We regularly review our investments for impairment indicators. If we determine that impairment exists and it is other-than-temporary, we recognize an impairment loss equal to the difference between an investment's carrying value

and its fair value.

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See Note A - Significant Accounting Policies and Note F- Investments and Notes Receivable to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for a detailed analysis of our investments and our accounting treatment for our investment portfolio.

#### Income Taxes

We utilize the asset and liability method for accounting for income taxes. Under this method, we determine deferred tax assets and liabilities based on differences between the financial reporting and tax bases of our assets and liabilities. We measure deferred tax assets and liabilities using the enacted tax rates and laws that will be in effect when we expect the differences to reverse.

We recognized net deferred tax liabilities of \$1.605 billion at December 31, 2007 and \$2.201 billion at December 31, 2006. The liabilities relate primarily to deferred taxes associated with our acquisitions. The assets relate primarily to the establishment of inventory and product-related reserves, litigation and product liability reserves, purchased research and development, investment write-downs, net operating loss carryforwards and tax credit carryforwards. In light of our historical financial performance, we believe we will recover substantially all of these assets.

We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years, as well as an evaluation of currently available information about future years.

We do not provide income taxes on unremitted earnings of our foreign subsidiaries where we have indefinitely reinvested such earnings in our foreign operations. It is not practical to estimate the amount of income taxes payable on the earnings that are indefinitely reinvested in foreign operations. Unremitted earnings of our foreign subsidiaries that we have indefinitely reinvested offshore are \$7.804 billion at December 31, 2007 and \$7.186 billion at December 31, 2006.

We provide for potential amounts due in various tax jurisdictions. In the ordinary course of conducting business in multiple countries and tax jurisdictions, there are many transactions and calculations where the ultimate tax outcome is uncertain. Judgment is required in determining our worldwide income tax provision. In our opinion, we have made adequate provisions for income taxes for all years subject to audit. Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results in the period in which we make such determination.

See Note K — Income Taxes to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for a detailed analysis of our income tax accounting.

#### Legal, Product Liability Costs and Securities Claims

We are involved in various legal and regulatory proceedings, including intellectual property, breach of contract, securities litigation and product liability suits. In some cases, the claimants seek damages, as well as other relief, which, if granted, could require significant expenditures or impact our ability to sell our products. We are substantially self-insured with respect to general and product liability claims. We maintain insurance policies providing limited coverage against securities claims. We record losses for claims in excess of purchased insurance in earnings at the time and to the extent they are probable and estimable. In accordance with FASB Statement No. 5, Accounting for Contingencies, we accrue anticipated costs of settlement, damages, losses for general product liability claims and, under certain conditions, costs of



defense, based on historical experience or to the extent specific losses are probable and estimable. Otherwise, we expense these costs as incurred. If the estimate of a probable loss is a range and no amount within the range is more likely, we accrue the minimum amount of the range.

Our accrual for legal matters that are probable and estimable was \$994 million at December 31, 2007 and \$485 million at December 31, 2006. The amounts accrued represent primarily accrued amounts related to assumed Guidant litigation and product liability claims recorded as part of the purchase price, as well as amounts associated with on-going patent litigation involving our Interventional Cardiology business. See further discussion of our material legal proceedings in Item 3. Legal Proceedings and Note L — Commitments and Contingencies to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for further discussion of our individual material legal proceedings.

#### New Accounting Standards

##### Standards Implemented

###### Interpretation No. 48

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, to create a single model to address accounting for uncertainty in tax positions. We adopted Interpretation No. 48 as of the first quarter of 2007. Interpretation No. 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return, as well as enhanced disclosures regarding uncertainties in income tax positions, including a roll forward of tax benefits taken that do not qualify for financial statement recognition. Refer to Note K – Income Taxes to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information regarding our application of Interpretation No. 48 and its impact on our consolidated financial statements.

###### Statement No. 158

In September 2006, the FASB issued Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends Statements Nos. 87, 88, 106 and 132(R). Statement No. 158 requires recognition of the funded status of a benefit plan in the consolidated statements of financial position, as well as the recognition of certain gains and losses that arise during the period, but are deferred under pension accounting rules, in other comprehensive income (loss). We adopted Statement No. 158 in 2006. Refer to Note A – Significant Accounting Policies to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for more information on our pension and other postretirement plans.

###### Issue No. 06-3

In June 2006, the FASB ratified EITF Issue No. 06–3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). The scope of this consensus includes any taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between a seller and a customer and may include, but are not limited to: sales, use, value-added, and some excise taxes. Per Issue No. 06-3, the presentation of these taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed. We present sales net of sales taxes in our consolidated statements of operations. We adopted Issue No. 06–3 as of the first quarter of 2007. No change of presentation has resulted from our adoption.

###### Statement No. 123(R)

In December 2004, the FASB issued statement No. 123(R), Share-Based Payment, which is a revision of Statement No. 123, Accounting for Stock-Based Compensation. Statement No. 123(R) supersedes Accounting



Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. We adopted Statement No. 123(R) as of January 1, 2006. Refer to Note N – Stock Ownership Plans to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for discussion of our adoption of the standard and its impact on our consolidated financial statements.

#### New Standards to be Implemented

##### Statement No. 141(R)

In December 2007, the FASB issued Statement No. 141(R), Business Combinations, a replacement for Statement No. 141. The Statement retains the fundamental requirements of Statement No. 141, but requires the recognition of all assets acquired and liabilities assumed in a business combination at their fair values as of the acquisition date. It also requires the recognition of assets acquired and liabilities assumed arising from contractual contingencies at their acquisition date fair values. Additionally, Statement No. 141(R) supersedes FASB Interpretation No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, which required research and development assets acquired in a business combination that had no alternative future use to be measured at their fair values and expensed at the acquisition date. Statement No. 141(R) now requires that purchased research and development be recognized as an intangible asset. We are required to adopt Statement No. 141(R) prospectively for any acquisitions on or after January 1, 2009.

##### Statement No. 157

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. Statement No. 157 does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. We are required to apply the provisions of Statement No. 157 prospectively as of January 1, 2008, and recognize any transition adjustment as a cumulative-effect adjustment to the opening balance of retained earnings. We are in the process of determining the effect of adoption of Statement No. 157, but we do not believe its adoption will materially impact our future results of operations or financial position.

##### Statement No. 159

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115, which allows an entity to elect to record financial assets and liabilities at fair value upon their initial recognition on a contract-by-contract basis. Subsequent changes in fair value would be recognized in earnings as the changes occur. We will adopt Statement No. 159 beginning in the first quarter of 2008. We are currently evaluating the impact that the adoption of Statement No. 159 will have on our consolidated financial statements, but we do not believe its adoption will materially impact our future results of operations or financial position.

#### Management's Report on Internal Control over Financial Reporting

As the management of Boston Scientific Corporation, we are responsible for establishing and maintaining adequate internal control over financial reporting. We designed our internal control system to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of our financial statements.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework. Based on our assessment, we believe that, as of December 31,

2007, our internal control over financial reporting is effective at a reasonable assurance level based on these criteria.

Ernst & Young LLP, an independent registered public accounting firm, has issued an audit report on the effectiveness of our internal control over financial reporting. This report in which they expressed an unqualified opinion is included below.

/s/ James R. Tobin  
James R. Tobin  
President and Chief Executive Officer

/s/ Sam R. Leno  
Sam R. Leno  
Executive Vice President – Finance &  
Information Systems and Chief Financial  
Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Boston Scientific Corporation:

We have audited Boston Scientific Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Boston Scientific Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Boston Scientific Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Boston Scientific Corporation as of December 31, 2007 and December 31, 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007 of Boston Scientific Corporation and our report dated February 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Boston, Massachusetts  
February 25, 2008



## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We develop, manufacture and sell medical devices globally and our earnings and cash flow are exposed to market risk from changes in currency exchange rates and interest rates. We address these risks through a risk management program that includes the use of derivative financial instruments. We operate the program pursuant to documented corporate risk management policies. We do not enter derivative transactions for speculative purposes. Gains and losses on derivative financial instruments substantially offset losses and gains on underlying hedged exposures. Furthermore, we manage our exposure to counterparty nonperformance on derivative instruments by entering into contracts with a diversified group of major financial institutions and by monitoring outstanding positions.

Our currency risk consists primarily of foreign currency denominated firm commitments, forecasted foreign currency denominated intercompany and third party transactions and net investments in certain subsidiaries. We use both nonderivative (primarily European manufacturing operations) and derivative instruments to manage our earnings and cash flow exposure to changes in currency exchange rates. We had currency derivative instruments outstanding in the contract amount of \$4.135 billion at December 31, 2007 and \$3.413 billion at December 31, 2006. We recorded \$19 million of other assets and \$118 million of other liabilities to recognize the fair value of these derivative instruments at December 31, 2007 as compared to \$71 million of other assets and \$27 million of other liabilities at December 31, 2006. A ten percent appreciation in the U.S. dollar's value relative to the hedged currencies would increase the derivative instruments' fair value by \$293 million at December 31, 2007 and by \$112 million at December 31, 2006. A ten percent depreciation in the U.S. dollar's value relative to the hedged currencies would decrease the derivative instruments' fair value by \$355 million at December 31, 2007 and by \$134 million at December 31, 2006. Any increase or decrease in the fair value of our currency exchange rate sensitive derivative instruments would be substantially offset by a corresponding decrease or increase in the fair value of the hedged underlying asset, liability or forecasted transaction.

Our interest rate risk relates primarily to U.S. dollar borrowings partially offset by U.S. dollar cash investments. We use interest rate derivative instruments to manage the risk of interest rate changes either by converting floating-rate borrowings into fixed-rate borrowings or fixed-rate borrowings into floating-rate borrowings. We had interest rate derivative instruments outstanding in the notional amount of \$1.5 billion at December 31, 2007 and \$2.0 billion at December 31, 2006. The notional amount decrease is due to quarterly hedge reductions of \$250 million beginning in September 2007 and ending in June 2009. We recorded \$17 million of other liabilities to recognize the fair value of our interest rate derivative instruments at December 31, 2007 as compared to \$11 million at December 31, 2006. A one-percentage point increase in interest rates would increase the derivative instruments' fair value by \$9 million at December 31, 2007, as compared to an increase of \$26 million at December 31, 2006. A one-percentage point decrease in interest rates would decrease the derivative instruments' fair value by \$9 million at December 31, 2007 as compared to a decrease of \$26 million at December 31, 2006. Any increase or decrease in the fair value of our interest rate derivative instruments would be substantially offset by a corresponding decrease or increase in the fair value of the hedged interest payments related to the hedged term loan. At December 31, 2007, \$5.433 billion of our outstanding debt obligations was at fixed interest rates, representing 66 percent of our total debt and 81 percent of our net debt balance.

See Note I - Financial Instruments to our 2007 consolidated financial statements included in Item 8 of this Form 10-K for detailed information regarding our derivative financial instruments.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Boston Scientific Corporation:

We have audited the accompanying consolidated balance sheets of Boston Scientific Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in notes K and Q to the accompanying consolidated financial statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes. As discussed in notes N and Q to the accompanying consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Boston Scientific Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
February 25, 2008

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Net sales	\$ 8,357	\$ 7,821	\$ 6,283
Cost of products sold	2,342	2,207	1,386
Gross profit	6,015	5,614	4,897
Operating expenses			
Selling, general and administrative expenses	2,909	2,675	1,814
Research and development expenses	1,091	1,008	680
Royalty expense	202	231	227
Amortization expense	641	530	152
Purchased research and development	85	4,119	276
Restructuring charges	176		
Litigation-related charges	365		780
Loss on assets held for sale	560		
	6,029	8,563	3,929
Operating (loss) income	(14)	(2,949)	968
Other income (expense)			
Interest expense	(570)	(435)	(90)
Fair-value adjustment for the sharing of proceeds feature of the Abbott Laboratories stock purchase	(8)	(95)	
Other, net	23	(56)	13
(Loss) income before income taxes	(569)	(3,535)	891
Income tax (benefit) expense	(74)	42	263
Net (loss) income	\$ (495)	\$ (3,577)	\$ 628
Net (loss) income per common share			
Basic	\$ (0.33)	\$ (2.81)	\$ 0.76
Assuming dilution	\$ (0.33)	\$ (2.81)	\$ 0.75
Weighted-average shares outstanding:			
Basic	1,486.9	1,273.7	825.8
Assuming dilution	1,486.9	1,273.7	837.6

(See notes to the consolidated financial statements)

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## CONSOLIDATED BALANCE SHEETS

(in millions)	As of December 31,	
	2007	2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,452	\$ 1,668
Trade accounts receivable, net	1,502	1,388
Inventories	725	684
Deferred income taxes	679	369
Assets held for sale	1,099	1,447
Prepaid expenses and other current assets	464	474
Total current assets	\$ 5,921	\$ 6,030
Property, plant and equipment, net	1,735	1,644
Investments	317	596
Other assets	157	234
Intangible assets		
Goodwill	15,103	13,996
Core and developed technology, net	6,978	7,330
Patents, net	322	319
Other intangible assets, net	664	733
Total intangible assets	23,067	22,378
Total assets	\$ 31,197	\$ 30,882

(See notes to the consolidated financial statements)

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## CONSOLIDATED BALANCE SHEETS

(in millions, except share data)	As of December 31,	
	2007	2006
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current debt obligations	\$ 256	\$ 7
Accounts payable	139	204
Accrued expenses	2,541	1,816
Income taxes payable	122	413
Liabilities associated with assets held for sale	39	52
Other current liabilities	153	139
Total current liabilities	\$ 3,250	\$ 2,631
Long-term debt	7,933	8,895
Deferred income taxes	2,284	2,570
Other long-term liabilities	2,633	1,488
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 2,000,000,000 shares and issued 1,491,234,911 shares at December 31, 2007 and 1,486,403,445 shares at December 31, 2006	15	15
Additional paid-in capital	15,788	15,792
Deferred cost, ESOP	(22)	(58)
Treasury stock, at cost — 11,728,643 shares at December 31, 2006		(334)
Retained deficit	(693)	(174)
Accumulated other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	54	16
Unrealized gain on available-for-sale securities	16	16
Unrealized (loss) gain on derivative financial instruments	(59)	32
Unrealized costs associated with certain retirement plans	(2)	(7)
Total stockholders' equity	15,097	15,298
	\$ 31,197	\$ 30,882

(See notes to the consolidated financial statements)

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (in millions, except share data)

	Common Stock			Deferred Cost, ESOP		Accumulated Other Comprehensive Income			
	Shares Issued	Par Value	Additional Paid-In Capital	Deferred Compensation	Shares	Treasury Stock Amount	Retained Earnings (Deficit)	Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance at December 31, 2004	844,565,292	\$ 8	\$ 1,633	\$ (2)		\$ (320)	\$ 2,790	\$ (84)	
Comprehensive income									
Net income							628		\$ 628
Other comprehensive income (loss), net of tax									
Foreign currency translation adjustment								(37)	(37)
Net change in equity investments								24	24
Net change in derivative financial instruments								118	118
Issuance of common stock			(113)			207			
Common stock issued for acquisitions			(5)			129			
Issuance of restricted stock, net of cancellations			114	(115)		1			
Repurchases of common stock						(734)			
Excess tax benefit related to stock options			28						
Step-up accounting adjustment for certain investments							(8)		
Amortization of deferred compensation			1	19					
Balance at December 31, 2005	844,565,292	8	1,658	(98)		(717)	3,410	21	\$ 733
Comprehensive income									
Net loss							(3,577)		\$ (3,577)
Other comprehensive income (loss), net of tax									

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Foreign currency translation adjustment								87	87
Net change in equity investments								(10)	(10)
Net change in derivative financial instruments								(35)	(35)
Net change in certain retirement amounts								(6)	(6)
Issuance of shares of common stock for Guidant acquisition	577,206,996	6	12,508						
Conversion of outstanding Guidant stock options			450						
Issuance of shares of common stock to Abbott	64,631,157	1	1,399						
Issuance of common stock			(238)			383			
Excess tax benefit related to stock options			7						
Reversal of deferred compensation in accordance with SFAS 123(R)			(98)	98					
Stock-compensation, including amounts capitalized to inventory			115						
Step-up accounting adjustment for certain investments								(7)	
Acquired 401(k) ESOP for legacy Guidant employees					3,794,965	\$ (86)			
401 (k) ESOP transactions			(9)		(1,237,662)	28			
Balance at December 31, 2006	1,486,403,445	15	15,792		2,557,303	(58)	(334)	(174)	57
Comprehensive income									
Net loss								(495)	\$ (495)
Other comprehensive income (loss), net of tax									
Foreign currency translation								38	38

adjustment										
Net change in equity investments										
Net change in derivative financial instruments								(91)		(91)
Net change in certain retirement amounts								5		5
Cumulative effect adjustment for adoption of Interpretation No. 48									(26)	
Issuance of common stock	4,831,466		(65)				192			
Common stock issued for acquisitions			(52)				142			
Excess tax benefit related to stock options			2							
Stock-compensation, including amounts capitalized to inventory			124							
401 (k) ESOP transactions			(13)		(1,605,737)	36				
Other									2	
Balance at December 31, 2007	1,491,234,911	\$ 15	\$ 15,788		951,566	\$ (22)		\$ (693)	\$ 9	\$ (543)

(See notes to the consolidated financial statements)

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions	Year Ended December 31,		
	2007	2006	2005
Operating Activities			
Net (loss) income	\$ (495)	\$ (3,577)	\$ 628
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Depreciation and amortization	939	781	314
Deferred income taxes	(386)	(420)	4
Stock-compensation expense	122	113	19
Excess tax benefit relating to stock options			28
Net loss on investments and notes receivable	59	112	37
Purchased research and development	85	4,119	276
Loss on assets held for sale	560		
Step-up value of acquired inventory sold		267	
Fair-value adjustment for sharing of proceeds feature of Abbott Laboratories stock purchase	8	95	
Increase (decrease) in cash flows from operating assets and liabilities, excluding the effect of acquisitions and assets held for sale:			
Trade accounts receivable	(72)	64	(24)
Inventories	(30)	(53)	(77)
Prepaid expenses and other assets	(43)	79	(100)
Accounts payable and accrued expenses	45	(1)	(162)
Income taxes payable and other liabilities	125	234	(51)
Other, net	17	32	11
Cash provided by operating activities	934	1,845	903
Investing Activities			
Property, plant and equipment			
Purchases	(363)	(341)	(341)
Proceeds on disposals	30	18	19
Marketable securities			
Purchases			(56)
Proceeds from maturities		159	241
Acquisitions			
Payments for acquisitions of businesses, net of cash acquired	(13)	(8,686)	(178)
Payments relating to prior year acquisitions	(248)	(397)	(33)
Other investing activity			
Purchases of publicly traded equity securities	(2)		(52)
Payments for investments in privately-held companies and acquisitions of certain technologies	(121)	(98)	(156)
Proceeds from sales of investments in, and collections of notes receivable from, investment portfolio companies	243	33	5
Cash used for investing activities	(474)	(9,312)	(551)
Financing Activities			
Debt			
Net payments on commercial paper		(149)	(131)

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Payments on notes payable, capital leases and long-term borrowings	(1,000)	(1,510)	(508)
Proceeds from notes payable and long-term borrowings, net of debt issuance costs		8,544	739
Net proceeds from (payments on) borrowings on credit and security facilities	246	3	(413)
Equity			
Repurchases of common stock			(734)
(Payments) proceeds related to issuance of shares of common stock to Abbott	(60)	1,400	
Proceeds from issuances of shares of common stock	132	145	94
Excess tax benefit relating to stock options	2	7	
Other, net		(1)	(1)
Cash (used for) provided by financing activities	(680)	8,439	(954)
Effect of foreign exchange rates on cash	4	7	(5)
Net (decrease) increase in cash and cash equivalents	(216)	979	(607)
Cash and cash equivalents at beginning of year	1,668	689	1,296
Cash and cash equivalents at end of year	\$ 1,452	\$ 1,668	\$ 689

(See notes to the consolidated financial statements)

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SUPPLEMENTAL INFORMATION:	Year Ended December 31,		
	2007	2006	2005
Cash paid for income taxes	\$ 475	\$ 199	\$ 350
Cash paid for interest	543	383	87
Non-cash investing activities:			
Stock and stock equivalents issued for acquisitions	\$ 90	\$ 12,964	\$ 124
Non-cash financing activities:			
Capital lease arrangements	\$ 31		

(See notes to the consolidated financial statements)

## Note A—Significant Accounting Policies

### Principles of Consolidation

Our consolidated financial statements include the accounts of Boston Scientific Corporation and our subsidiaries, all of which we wholly own. We consider the principles of Financial Accounting Standards Board (FASB) Interpretation No. 46(R), Consolidation of Variable Interest Entities and Accounting Research Bulletin No. 51, Consolidation of Financial Statements, when evaluating whether an entity is subject to consolidation. We assess the terms of our investment interests in entities to determine if any of our investees meet the definition of a variable interest entity (VIE) under Interpretation No. 46(R). We consolidate any VIEs in which we are the primary beneficiary. Our evaluation considers both qualitative and quantitative factors and various assumptions, including expected losses and residual returns. As of December 31, 2007, we did not consolidate any VIEs. We account for investments in companies over which we have the ability to exercise significant influence under the equity method if we hold 50 percent or less of the voting stock.

On April 21, 2006, we consummated our acquisition of Guidant Corporation. We consolidated Guidant's operating results with those of Boston Scientific beginning on the date of the acquisition. See Note C - Acquisitions for further details regarding the transaction.

### Reclassifications

We have reclassified certain prior year amounts to conform to the current year's presentation, including amounts for prior years included in the consolidated balance sheets with respect to assets held for sale and associated liabilities, as well as Note B – Supplemental Balance Sheet Information, Note D – Goodwill and Other Intangible Assets, and Note P – Segment Reporting.

### Accounting Estimates

To prepare our consolidated financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that may affect the reported amounts of our assets and liabilities, the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of our revenues and expenses during the reporting period. Our actual results may differ from these estimates.

### Cash, Cash Equivalents and Marketable Securities

We record cash and cash equivalents in our consolidated balance sheets at cost, which approximates fair value. We consider all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

We invest excess cash in high-quality marketable securities consisting primarily of bank time deposits. We record available-for-sale investments at fair value. We exclude unrealized gains and temporary losses on available-for-sale securities from earnings and report such gains and losses, net of tax, as a separate component of stockholders' equity until realized. We compute realized gains and losses on sales of available-for-sale securities based on the average cost method, adjusted for any other-than-temporary declines in fair value. We record held-to-maturity securities at amortized cost and adjust for amortization of premiums and accretion of discounts to maturity. We classify investments in debt securities or equity securities that have a readily determinable fair value that we purchase and hold principally for selling them in the near term as trading securities. All of our cash investments at December 31, 2007 and 2006 had maturity dates at date of purchase of less than three months and, accordingly, we have classified them as cash and cash equivalents. Interest income earned from cash and cash equivalent investments was \$79 million in 2007, \$67 million in 2006, and \$36 million in 2005.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and

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cash equivalents, marketable securities, derivative financial instrument contracts and accounts and notes receivable. Our investment policy limits exposure to concentrations of credit risk and changes in market conditions. Counterparties to financial instruments expose us to credit-related losses in the event of nonperformance. We transact our financial instruments with a diversified group of major financial institutions and monitor outstanding positions to limit our credit exposure.

We provide credit, in the normal course of business, to hospitals, healthcare agencies, clinics, doctors' offices and other private and governmental institutions. We perform on-going credit evaluations of our customers and maintain allowances for potential credit losses.

#### Revenue Recognition

We generate revenue primarily from the sale of single-use medical devices. We consider revenue to be realized or realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectibility is reasonably assured. We generally meet these criteria at the time of shipment, unless a consignment arrangement exists. We recognize revenue from consignment arrangements based on product usage, or implant, which indicates that the sale is complete. For all other transactions, we recognize revenue when title to the goods and risk of loss transfer to the customer, provided there are no substantive remaining performance obligations required of us or any matters requiring customer acceptance. For multiple-element arrangements, whereby the sale of devices is combined with future service obligations, we defer revenue on the undelivered element based on verifiable objective evidence of fair value, and recognize the associated revenue over the related service period.

We generally allow our customers to return defective, damaged and, in certain cases, expired products for credit. We base our estimate for sales returns upon historical trends and record the amount as a reduction to revenue when we sell the initial product. In addition, we may allow customers to return previously purchased products for next-generation product offerings; for these transactions, we defer recognition of revenue based upon an estimate of the amount of product to be returned when the next-generation products are shipped to the customer.

We offer sales rebates and discounts to certain customers. We treat sales rebates and discounts as a reduction of revenue and classify the corresponding liability as current. We estimate rebates for products where there is sufficient historical information available to predict the volume of expected future rebates. If we are unable to estimate the expected rebates reasonably, we record a liability for the maximum rebate percentage offered. We have entered certain agreements with group purchasing organizations to sell our products to participating hospitals at negotiated prices. We recognize revenue generated from these agreements following the same revenue recognition criteria discussed above.

#### Inventories

We state inventories at the lower of first-in, first-out cost or market. We base our provisions for excess, obsolete or expired inventory primarily on our estimates of forecasted net sales and production levels. A significant change in the timing or level of demand for our products as compared to forecasted amounts may result in recording additional provisions for excess, obsolete or expired inventory in the future. The industry in which we participate is characterized by rapid product development and frequent new product introductions. Uncertain timing of next-generation product approvals, variability in product launch strategies, product recalls and variation in product utilization all affect the estimates related to excess and obsolete inventory. We record provisions for inventory located in our manufacturing and distribution facilities as cost of sales. We charge consignment inventory write-downs to selling, general and administrative expense. These write-downs approximated \$35 million in 2007, \$24 million in 2006, and \$15 million in 2005. Inventories under consignment arrangements were approximately \$78 million at December 31, 2007 and \$47 million at December 31, 2006.



## Property, Plant and Equipment

We state property, plant, equipment, and leasehold improvements at historical cost. We charge expenditures for maintenance and repairs to expense and capitalize additions and improvements. We generally provide for depreciation using the straight-line method at rates that approximate the estimated useful lives of the assets. We depreciate buildings and improvements over a 20 to 40 year life; equipment, furniture and fixtures over a three to seven year life; and leasehold improvements over the shorter of the useful life of the improvement or the term of the lease. We present assets under capital lease arrangements with property, plant and equipment in the accompanying consolidated balance sheets.

## Valuation of Business Combinations

We record intangible assets acquired in business combinations under the purchase method of accounting. We allocate the amounts we pay for each acquisition to the assets we acquire and liabilities we assume based on their fair values at the dates of acquisition in accordance with FASB Statement No. 141, Business Combinations, including identifiable intangible assets and purchased research and development, which either arise from a contractual or legal right or are separable from goodwill. We base the fair value of identifiable intangible assets and purchased research and development on detailed valuations that use information and assumptions provided by management. We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired to goodwill. In circumstances where the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the acquired entity and the purchase agreement does not provide for contingent consideration that might result in an additional element of cost of the acquired entity that equals or exceeds the excess of fair value over cost, the excess is allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets, including purchased research and development, except for a) financial assets, other than investments, accounted for under the equity method, b) assets to be disposed of by sale, c) deferred tax assets, d) prepaid assets relating to pension or other postretirement benefit plans and e) any other current assets. In those circumstances where an acquisition involves contingent consideration, we recognize an amount equal to the lesser of the maximum amount of the contingent payment or the excess of fair value over cost as a liability. As of December 31, 2007, the cost of each of our acquired entities exceeded the fair value amounts assigned to assets acquired and liabilities assumed.

## Purchased Research and Development

Our purchased research and development represents the estimated fair value of acquired in-process projects that have not yet reached technological feasibility and have no alternative future use as of the date of acquisition. The primary basis for determining the technological feasibility of these projects is obtaining regulatory approval to market the underlying products in an applicable geographic region. We expense the value attributable to these in-process projects at the time of the acquisition. If the projects are not successful or completed in a timely manner, we may not realize the financial benefits expected for these projects or for the acquisitions as a whole. In addition, we record certain costs associated with our alliances as purchased research and development.

We use the income approach to determine the fair values of our purchased research and development. This approach calculates fair value by estimating the after-tax cash flows attributable to an in-process project over its useful life and then discounting these after-tax cash flows back to a present value. We base our revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected levels of market share. In arriving at the value of the in-process projects, we consider, among other factors: the in-process projects' 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. We base the discount rate used to arrive at a present value as of the date of acquisition on the time value of money and medical technology investment risk factors. For the in-process projects acquired in connection with our recent acquisitions, we used the following ranges of risk-adjusted



discount rates to discount our projected cash flows: 19 percent in 2007, 13 percent to 17 percent in 2006, and 18 percent to 27 percent in 2005. We believe that the estimated in-process 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.

#### Amortization and Impairment of Intangible Assets

We record intangible assets at historical cost. We amortize our intangible assets using the straight-line method over their estimated useful lives, as follows: patents and licenses, two to 20 years; definite-lived core and developed technology, five to 25 years; customer relationships, five to 25 years; other intangible assets, various. We review intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. Conditions that would indicate impairment and trigger a more frequent 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 an impairment indicator exists, and the carrying value of an asset exceeds its undiscounted cash flows, we write down the carrying value of the intangible asset to its fair value in the period identified. We calculate fair value generally as the present value of estimated future cash flows we expect to generate from the asset using a risk-adjusted discount rate. We record impairments of intangible assets as amortization expense in our consolidated statements of operations. In addition, we review our indefinite-lived intangible assets at least annually for impairment and reassess their classification as indefinite-lived assets. To test for impairment, we calculate the fair value of our indefinite-lived intangible assets and compare the calculated fair values to the respective carrying values. If the estimate of an intangible asset's remaining useful life is changed, we amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

For patents developed internally, we capitalize costs incurred to obtain patents, including attorney fees, registration fees, consulting fees, and other expenditures directly related to securing the patent. We amortize these costs generally over a period of 17 years utilizing the straight-line method, commencing when the related patent is issued. Legal costs incurred in connection with the successful defense of both internally developed patents and those obtained through our acquisitions are capitalized and amortized over the remaining amortizable life of the related patent.

#### Goodwill Impairment

Annually we test our goodwill balances during the second quarter of the year as of April 1, the beginning of our second quarter, using financial information available at that time. We test our goodwill balances more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. In performing the test, we utilize the two-step approach prescribed under FASB Statement No. 142, Goodwill and Other Intangible Assets. The first step requires a comparison of the carrying value of the reporting units, as defined, to the fair value of these units. In 2007 and 2006, we identified our ten domestic divisions, which in aggregate make up the U.S. reportable segment, and our three international operating segments as our reporting units for purposes of the goodwill impairment test. At the time of acquisition, we assign goodwill to the reporting units that we expect to benefit from the respective business combination. In addition, for purposes of performing our annual goodwill impairment test, assets and liabilities, including corporate assets, which relate to a reporting unit's operations, and would be considered in determining fair value, are allocated to the individual reporting units. We allocate assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, based primarily on the respective revenue contribution of each reporting unit. If the carrying value of a reporting unit exceeds its fair value, we will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill to its carrying value. If we were unable to complete the second step of the test prior to the issuance of our financial statements and an impairment loss was probable and could be reasonably estimated, we would recognize our best estimate of the loss in our June 30 interim financial statements and disclose that the



amount is an estimate. We would then recognize any adjustment to that estimate in subsequent reporting periods, once we finalized the second step of the impairment test.

#### Investments in Publicly Traded and Privately Held Entities

We account for our publicly traded investments as available-for-sale securities based on the quoted market price at the end of the reporting period. We compute realized gains and losses on sales of available-for-sale securities based on the average cost method, adjusted for any other-than-temporary declines in fair value. We account for our investments for which fair value is not readily determinable in accordance with Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, Emerging Issues Task Force (EITF) Issue No. 02-14, Whether an Investor Should Apply the Equity Method of Accounting to Investments other than Common Stock and FASB Staff Position Nos. 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.

We account for investments in entities over which we have the ability to exercise significant influence under the equity method if we hold 50 percent or less of the voting stock. We account for investments in entities over which we do not have the ability to exercise significant influence under the cost method. Our determination of whether we have the ability to exercise significant influence over an entity requires judgment. We consider the guidance in Opinion No. 18, EITF Issue No. 03-16, Accounting for Investments in Limited Liability Companies, and EITF Topic D-46, Accounting for Limited Partnership Investments, in determining whether we have the ability to exercise significant influence over an entity.

For investments accounted for under the equity method, we record the investment initially at cost, and adjust the carrying amount to reflect our share of the earnings or losses of the investee, including all adjustments similar to those made in preparing consolidated financial statements.

Each reporting period, we evaluate our investments to determine if there are any events or circumstances that are likely to have a significant adverse effect on the fair value of the investment. Examples of such impairment indicators include, but are not limited to: a significant deterioration in earnings performance; a significant adverse change in the regulatory, economic or technological environment of an investee; or a significant doubt about an investee's ability to continue as a going concern. If we identify an impairment indicator, we will estimate the fair value of the investment and compare it to its carrying value. Our estimation of fair value considers all available financial information related to the investee, including valuations based on recent third-party equity investments in the investee. If the fair value of the investment is less than its carrying value, the investment is impaired and we make a determination as to whether the impairment is other-than-temporary. We deem impairment to be other-than-temporary unless we have the ability and intent to hold an investment for a period sufficient for a market recovery up to the carrying value of the investment. Further, evidence must indicate that the carrying value of the investment is recoverable within a reasonable period. For other-than-temporary impairments, we recognize an impairment loss equal to the difference between an investment's carrying value and its fair value. Impairment losses on these investments are included in other, net in our consolidated statements of operations.

#### Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, we determine deferred tax assets and liabilities based on differences between the financial reporting and tax bases of our assets and liabilities. We measure deferred tax assets and liabilities using the enacted tax rates and laws that will be in effect when we expect the differences to reverse.

We recognized net deferred tax liabilities of \$1.605 billion at December 31, 2007 and \$2.201 billion at December 31, 2006. The liabilities relate primarily to deferred taxes associated with our acquisitions. The assets relate primarily to the establishment of inventory and product-related reserves, litigation and product liability reserves, purchased

research and development, investment write-downs, net operating loss carryforwards and tax credit carryforwards. In light of our historical financial performance, we believe we will recover substantially all of these assets.

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We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years, as well as an evaluation of currently available information about future years.

We do not provide income taxes on unremitted earnings of our foreign subsidiaries where we have indefinitely reinvested such earnings in our foreign operations. It is not practical to estimate the amount of income taxes payable on the earnings that are indefinitely reinvested in foreign operations. Unremitted earnings of our foreign subsidiaries that we have indefinitely reinvested offshore are \$7.804 billion at December 31, 2007 and \$7.186 billion at December 31, 2006.

We provide for potential amounts due in various tax jurisdictions. In the ordinary course of conducting business in multiple countries and tax jurisdictions, there are many transactions and calculations where the ultimate tax outcome is uncertain. Judgment is required in determining our worldwide income tax provision. In our opinion, we have made adequate provisions for income taxes for all years subject to audit. Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results in the period in which we make such determination.

#### Legal, Product Liability Costs and Securities Claims

We are involved in various legal and regulatory proceedings, including intellectual property, breach of contract, securities litigation and product liability suits. In some cases, the claimants seek damages, as well as other relief, which, if granted, could require significant expenditures or impact our ability to sell our products. We are substantially self-insured with respect to general and product liability claims. We maintain insurance policies providing limited coverage against securities claims. We record losses for claims in excess of purchased insurance in earnings at the time and to the extent they are probable and estimable. In accordance with FASB Statement No. 5, Accounting for Contingencies, we accrue anticipated costs of settlement, damages, losses for product liability claims and, under certain conditions, costs of defense, based on historical experience or to the extent specific losses are probable and estimable. Otherwise, we expense these costs as incurred. If the estimate of a probable loss is a range and no amount within the range is more likely, we accrue the minimum amount of the range. See Note L - Commitments and Contingencies for further discussion of our individual material legal proceedings.

#### Warranty Obligations

We estimate the costs that we may incur under our warranty programs based on historical experience and record a liability at the time our products are sold. Factors that affect our warranty liability include the number of units sold, the historical and anticipated rates of warranty claims and the cost per claim. We record a reserve equal to the costs to repair or otherwise satisfy the claim. We regularly assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. Changes in our product warranty obligations during the years ended December 31, 2007 and 2006 consisted of the following (in millions):

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Balance at January 1, 2006	\$	12
Guidant warranty provision assumed		50
Warranty claims provision		28
Settlements made		(30)
Balance at December 31, 2006		60
Warranty claims provision		23
Settlements made		(17)
Balance at December 31, 2007	\$	66

#### Costs Associated with Exit Activities

We record employee termination costs in accordance with FASB Statement No. 112, Employer's Accounting for Postemployment Benefits, if we pay the benefits as part of an on-going benefit arrangement, which includes benefits provided as part of our domestic severance policy or that we provide in accordance with international statutory requirements. We accrue employee termination costs associated with an on-going benefit arrangement if the obligation is attributable to prior services rendered, the rights to the benefits have vested and the payment is probable and we can reasonably estimate the liability. We account for employee termination benefits that represent a one-time benefit in accordance with FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. We record such costs into expense when management approves and commits to a plan of termination, and communicates the termination arrangement to the employees, or over the future service period, if any. In addition, in conjunction with an exit activity, we may offer voluntary termination benefits to employees. These benefits are recorded when the employee accepts the termination benefits and the amount can be reasonably estimated. Other costs associated with exit activities may include contract termination costs, including costs related to leased facilities to be abandoned or subleased, and long-lived asset impairments. In addition, we account for costs to exit an activity of an acquired company and involuntary employee termination benefits and relocation costs associated with acquired businesses in accordance with EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. We include exit costs in the purchase price allocation of the acquired business if a plan to exit an activity of an acquired company exists, in accordance with the Issue No. 95-3 criteria, and those costs have no future economic benefit to us and will be incurred as a direct result of the exit plan; or the exit costs represent amounts to be incurred by us under a contractual obligation of the acquired entity that existed prior to the acquisition date. We recognize involuntary employee termination benefits and relocation costs as liabilities assumed as of the acquisition date when management approves and commits to a plan of termination, and communicates the termination arrangement to the employees.

#### Translation of Foreign Currency

We translate all assets and liabilities of foreign subsidiaries at the year-end exchange rate and translate sales and expenses at the average exchange rates in effect during the year. We show the net effect of these translation adjustments in the accompanying consolidated financial statements as a component of stockholders' equity. Foreign currency transaction gains and losses are included in other, net in our consolidated statements of operations. These gains and losses were not material to our consolidated statements of operations for 2007, 2006, and 2005.

#### Financial Instruments

We recognize all derivative financial instruments in our consolidated financial statements at fair value in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. We record changes in the fair value of derivative instruments in earnings unless we meet deferred hedge accounting criteria. For derivative instruments designated as fair value hedges, we record the changes in fair value of both the derivative instrument and the hedged item in earnings. For derivative instruments



designated as cash flow hedges, we record the effective portions of changes in fair value, net of tax, in other comprehensive income until the related hedged third party transaction occurs. For derivative instruments designated as net investment hedges, we record the effective portion of changes in fair value in other comprehensive income as part of the cumulative translation adjustment. We recognize any ineffective portion of our hedges in earnings.

The carrying amount of credit facility borrowings approximates their fair values at December 31, 2007. We base the fair value of our fixed-rate long-term debt on market prices to the extent we hedge changes in their fair values. Carrying amounts of floating-rate long-term debt approximate their fair value at December 31, 2007 and 2006.

#### Shipping and Handling Costs

We do not generally bill customers for shipping and handling of our products. Shipping and handling costs of \$92 million in 2007, \$108 million in 2006 and \$92 million in 2005 are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

#### Research and Development

We expense research and development costs, including new product development programs, regulatory compliance and clinical research as incurred. Refer to Purchased Research and Development for our policy regarding in-process research and development acquired in connection with our business combinations.

#### Employee Retirement Plans

##### Defined Benefit Plans

In connection with our acquisition of Guidant, we sponsor the Guidant Retirement Plan, a frozen noncontributory defined benefit plan covering a select group of current and former employees. The funding policy for the plan is consistent with U.S. employee benefit and tax-funding regulations. Plan assets, which we maintain in a trust, consist primarily of equity and fixed-income instruments. We also sponsor the Guidant Excess Benefit Plan, a frozen nonqualified plan for certain former officers and employees of Guidant. The Guidant Excess Benefit Plan was funded through a Rabbi Trust that contains segregated company assets used to pay the benefit obligations related to the plan. In addition, certain former U.S. and Puerto Rico employees of Guidant were eligible to receive Company-paid healthcare retirement benefits. As part of the Guidant integration and the effort to develop a more scalable, consistent benefit plan, these benefits were frozen. Former Guidant employees that met certain criteria as of December 31, 2006 and retire within two years thereafter are eligible to receive the benefits under the plan.

We maintain an Executive Retirement Plan, which covers executive officers and division presidents. The plan provides retiring executive officers and division presidents with a lump sum benefit of 2.5 months of salary for each completed year of service, up to a maximum of 36 months' pay. Participants may retire with unreduced benefits once retirement conditions have been satisfied. In order to meet the retirement definition under the Executive Retirement Plan, an employee's age in addition to his or her years of service with Boston Scientific must be at least 65 years, the employee must be at least 55 years old and have been with Boston Scientific for at least five years.

We use a December 31 measurement date for these plans. In accordance with FASB Statement No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, we record the overfunded portion of each plan as an asset in our consolidated balance sheets, the underfunded portion as a liability, and recognize changes in the funded status through other comprehensive income. The outstanding obligation as of December 31, 2007 is as follows:

(in millions)	Executive Retirement Plan	Guidant Retirement Plan (frozen)	Guidant Excess Benefit Plan (frozen)	Healthcare Retirement Benefit Plan (frozen)	Total
Projected benefit obligation (PBO)	\$ 20	\$ 82	\$ 28	\$ 36	\$ 166
Less: Fair value of plan assets		86			86
Underfunded (overfunded) PBO recognized	\$ 20	\$ (4)	\$ 28	\$ 36	\$ 80

The net decrease in the funded status of our plans from December 31, 2006 was \$5 million and is included in accumulated other comprehensive income.

The weighted average assumptions used to determine benefit obligations at December 31, 2007 are as follows:

	Executive Retirement Plan	Guidant Retirement Plan (frozen)	Guidant Excess Benefit Plan (frozen)	Healthcare Retirement Benefit Plan (frozen)
Discount rate	6.50%	6.50%	6.50%	5.50%
Expected return on plan assets		7.75%		
Healthcare cost trend rate				5.00%
Expected rate of compensation increase	4.50%			

#### Defined Contribution Plans

We sponsor a voluntary 401(k) retirement savings plan for eligible employees. Participants may contribute between one percent and ten percent of his or her compensation on an after-tax basis, up to established federal limits. We match employee contributions equal to 200 percent for employee contributions up to two percent of employee compensation, and fifty percent for employee contributions greater than two percent, but not exceeding six percent, of employee compensation. Total expense for our matching contributions to the plan was \$43 million in 2007, \$40 million in 2006 and \$41 million in 2005.

In connection with our acquisition of Guidant, we now sponsor the Guidant Employee Savings and Stock Ownership Plan, which allows for employee contributions of up to 75 percent of pre-tax earnings, up to established federal limits. Our matching contributions to the plan are in the form of shares of stock, allocated from the Employee Stock Ownership Plan (ESOP). Refer to Note N – Stock Ownership Plans for more information on the ESOP. Total expense for our matching contributions to the plan was \$23 million in 2007 and \$19 million in 2006.

#### Net Income (Loss) per Common Share

We base net income (loss) per common share upon the weighted-average number of common shares and common stock equivalents outstanding each year. Potential common stock equivalents are determined using the treasury stock method. We exclude stock options whose effect would be anti-dilutive from the calculation.

#### Note B—Supplemental Balance Sheet Information

Components of selected captions in our consolidated balance sheets are as follows:



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	As of December 31,	
	2007	2006
Trade accounts receivable, net		
Accounts Receivable	\$ 1,639	\$ 1,523
Less: allowances	137	135
	\$ 1,502	\$ 1,388
 Inventories		
Finished goods	\$ 454	\$ 417
Work-in-process	132	132
Raw materials	139	135
	\$ 725	\$ 684
 Property, plant and equipment, net		
Land	\$ 119	\$ 107
Buildings and improvements	822	694
Equipment, furniture and fixtures	1,680	1,486
Capital in progress	304	272
	2,925	2,559
Less: accumulated depreciation	1,190	915
	\$ 1,735	\$