

BOSTON SCIENTIFIC CORP  
Form 10-Q  
August 08, 2007

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

**FORM 10-Q**

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the quarterly period ended: June 30, 2007

Commission file number: 1-11083

**BOSTON SCIENTIFIC CORPORATION**  
(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction  
of incorporation or organization)

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

**One Boston Scientific Place, Natick,**  
**Massachusetts**  
(Address of principal executive offices)

**01760-1537**  
(Zip Code)

Registrant's telephone number, including area code: (508) 650-8000

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Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Yes x No o

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable

date.

<u>Class</u>	<u>Shares Outstanding as of July 31, 2007</u>
Common Stock, \$.01 Par Value	1,489,553,431

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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<i>(in millions, except per share data)</i>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales	\$ 2,071	\$ 2,110	\$ 4,157	\$ 3,730
Cost of products sold	563	677	1,131	1,051
Gross profit	1,508	1,433	3,026	2,679
Selling, general and administrative expenses	752	728	1,487	1,198
Research and development expenses	275	283	564	469
Royalty expense	51	65	103	120
Amortization expense	158	165	312	203
Purchased research and development	(8)	4,117	(3)	4,117
Total operating expenses	1,228	5,358	2,463	6,107
Operating income (loss)	280	(3,925)	563	(3,428)
Other income (expense):				
Interest expense	(146)	(111)	(287)	(148)
Fair-value adjustment for the sharing of proceeds feature of the Abbott Laboratories stock purchase		(87)	(8)	(87)
Other, net	(8)	(63)	18	(92)
Income (loss) before income taxes	126	(4,186)	286	(3,755)
Income taxes	11	76	51	175
<b>Net income (loss)</b>	<b>\$ 115</b>	<b>\$ (4,262)</b>	<b>\$ 235</b>	<b>\$ (3,930)</b>
<b>Net income (loss) per common share — basic</b>	<b>\$ 0.08</b>	<b>\$ (3.21)</b>	<b>\$ 0.16</b>	<b>\$ (3.66)</b>
<b>Net income (loss) per common share — assuming dilution</b>	<b>\$ 0.08</b>	<b>\$ (3.21)</b>	<b>\$ 0.16</b>	<b>\$ (3.66)</b>
<b><u>Weighted average shares outstanding:</u></b>				
Basic	1,485.4	1,326.8	1,483.4	1,074.0
Assuming dilution		1,499.9	1,326.8	1,498.9

See notes to the unaudited condensed consolidated financial statements.



BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(in millions, except share data)</i>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,514	\$ 1,668
Trade accounts receivable, net	1,508	1,424
Inventories	837	749
Deferred income taxes	607	583
Prepaid expenses and other current assets	470	477
Total current assets	\$ 4,936	\$ 4,901
Property, plant and equipment, net	1,779	1,726
Investments	535	596
Other assets	199	237
Intangible assets, net	23,816	23,636
	<b>\$ 31,265</b>	<b>\$ 31,096</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current debt obligations	\$ 654	\$ 7
Accounts payable and accrued expenses	1,888	2,067
Other current liabilities	427	556
Total current liabilities	\$ 2,969	\$ 2,630
Long-term debt	8,250	8,895
Deferred income taxes	2,683	2,784
Other long-term liabilities	1,561	1,489
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, 1,487,355,782 shares issued at June 30, 2007 and 1,486,403,445 shares issued at December 31, 2006	15	15
Treasury stock, at cost - 11,728,643 shares at December 31, 2006		(334)
Additional paid-in capital	15,667	15,734
Retained earnings (deficit)	33	(174)
Other stockholders' equity	87	57
Total stockholders' equity	15,802	15,298
	<b>\$ 31,265</b>	<b>\$ 31,096</b>

See notes to the unaudited condensed consolidated financial statements.

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BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(in millions)</i>	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash provided by operating activities</b>	<b>\$ 152</b>	<b>\$ 999</b>
<b><u>Investing activities:</u></b>		
Net purchases of property, plant and equipment	(186)	(129)
Proceeds from maturities of marketable securities		159
<b><u>Acquisitions</u></b>		
Payments for the Guidant acquisition		(15,393)
Cash acquired from the Guidant acquisition, including proceeds from Guidant's sale of its vascular intervention and endovascular solutions businesses		6,740
Payments for acquisitions of other businesses, net of cash acquired	(11)	
Payments relating to prior period acquisitions	(213)	(275)
<b><u>Strategic Alliances</u></b>		
Proceeds from sales of privately held and publicly traded equity securities	49	
Payments for investments in and acquisitions of certain technologies	(41)	(36)
<b>Cash used for investing activities</b>	<b>(402)</b>	<b>(8,934)</b>
<b><u>Financing activities:</u></b>		
<b><u>Debt</u></b>		
Net payments on commercial paper		(149)
Net (payments on) proceeds from revolving borrowings, notes payable, capital leases and long-term borrowings	(4)	7,041
<b><u>Equity</u></b>		
Proceeds from issuances of shares of common stock to Abbott Laboratories		1,400
Proceeds from issuances of shares of common stock to option holders	98	108
<b>Cash provided by financing activities</b>	<b>94</b>	<b>8,400</b>
Effect of foreign exchange rates on cash	2	3
Net (decrease) increase in cash and cash equivalents	(154)	468
Cash and cash equivalents at beginning of period	1,668	689
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,514</b>	<b>\$ 1,157</b>
<b><u>Supplemental Information:</u></b>		
Stock and stock equivalents issued for acquisitions	\$ 91	\$ 12,964

See notes to the unaudited condensed consolidated financial statements.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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**NOTE A – BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Boston Scientific Corporation have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto incorporated by reference in our Annual Report on Form 10-K for the year ended December 31, 2006.

On April 21, 2006, we consummated our acquisition of Guidant Corporation. Prior to our acquisition of Guidant, Abbott Laboratories acquired Guidant's vascular intervention and endovascular solutions businesses and agreed to share the drug-eluting technology it acquired from Guidant with us. See our 2006 Annual Report filed on Form 10-K for further details regarding these transactions.

**NOTE B – BUSINESS COMBINATIONS**

In June 2007, we signed a definitive agreement to acquire 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 expect the acquisition to close during the third quarter of 2007, subject to customary closing conditions and due diligence. The acquisition is intended to expand our sensor and wireless communication technology portfolio, which will complement our existing Cardiac Rhythm Management (CRM) product line.

In June 2007, we executed an asset purchase agreement with Celsion Corporation for the purchase of its Prolieve® Thermodilatation System, used to treat benign prostatic hyperplasia (BPH). The purchase was intended to expand our technology portfolio used to treat urologic conditions.

In January 2007, we acquired 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. In conjunction with the acquisition of EndoTex, we paid \$102 million, which included five million shares of our common stock valued at \$91 million and cash of \$11 million, in addition to our previous investments and notes issued of approximately \$40 million, plus future

consideration that is contingent upon EndoTex achieving certain performance-related milestones. The acquisition was intended to expand our carotid artery disease technology portfolio.

In addition, during the first half of 2007, we paid \$213 million of contingent consideration, primarily payments to the former shareholders of Advanced Bionics Corporation, which was accrued for at December 31, 2006. Certain of our business combinations involve the payment of contingent consideration, some of which are based on multiples of the acquired company's revenue during the earn-out period. Consequently, we cannot currently determine the total payments; however, we have developed an estimate of the maximum potential contingent consideration for each of our acquisitions with an outstanding earn-out obligation. At June 30, 2007, the estimated maximum potential amount of future contingent consideration (undiscounted) that we could be required to make associated with our business combinations is approximately \$3 billion, some of which may be payable in common stock, and which includes approximately \$2 billion of estimated payments to Advanced Bionics. At June 30, 2007, our total expected payments of future contingent consideration (undiscounted) is approximately \$2 billion. The milestones associated with the contingent consideration must be reached in certain future periods ranging from 2007 through 2016. The estimated cumulative specified revenue level associated with these maximum future contingent payments is approximately \$9 billion, which includes approximately \$6 billion for Advanced Bionics.

During 2006, we paid \$28.4 billion to acquire Guidant through a combination of cash, common stock, and fully vested stock options. The purchase price was based upon estimates of the fair value of assets acquired and liabilities assumed.

The following summarizes the Guidant purchase price allocation at June 30, 2007:

*(in millions)*

Cash	\$	6,708
Intangible assets subject to amortization		7,719
Goodwill		12,522
Other assets		2,271
Purchased research and development		4,169
Current liabilities		(1,964)
Net deferred income taxes		(2,475)
Other long-term liabilities		(592)
	\$	<b>28,358</b>

Adjustments to the Guidant purchase price allocation during the first half of 2007 consisted primarily of changes in our estimates for the costs associated with product liability claims and litigation, changes in the liability for unrecognized tax benefits resulting from the adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, as well as changes in our estimate for Guidant-related exit costs, as described below.

**Costs Associated with Exit Activities**

Included in the Guidant purchase price allocation at June 30, 2007 is an accrual for \$70 million in acquisition-related costs that includes approximately \$54 million for involuntary terminations, change-in-control payments, relocation and related costs, and approximately \$16 million of estimated costs to cancel contractual commitments.

As of the acquisition date, management began to assess and formulate plans to exit certain Guidant activities. As a result of these exit plans, we continue to make severance, relocation and change-in-control payments. The majority of the exit cost accrual relates to our first quarter 2007 reduction of the acquired CRM workforce by approximately 400 employees. The affected workforce included primarily research and development employees, although employees within sales and marketing and certain other functions were also impacted. We also made smaller workforce reductions internationally across multiple functions in order to eliminate duplicate facilities and rationalize our distribution network in certain countries. During the first half of 2007, we reduced our estimate for Guidant-related exit costs in conjunction with finalizing the purchase price allocation and recorded an adjustment to goodwill to reflect the change in estimate. We expect that substantially all of the amounts accrued at June 30, 2007 will be paid prior to December 31, 2008.

The components of our accrual for Guidant-related exit and other costs are as follows:

<i>(in millions)</i>	<b>Balance at December 31, 2006</b>	<b>Purchase Price Adjustments</b>	<b>Charges Utilized</b>	<b>Balance at June 30, 2007</b>
Workforce reductions	\$ 163	\$ (46)	\$ (68)	\$ 49
Relocation costs	10		(5)	5
Contractual commitments	25	(6)	(3)	16
	<b>\$ 198</b>	<b>\$ (52)</b>	<b>\$ (76)</b>	<b>\$ 70</b>

**Pro Forma Results of Operations**

The following unaudited pro forma information presents a summary of consolidated results of our operations and Guidant, as if the acquisition, the Abbott transaction and the financing for the acquisition had occurred at the beginning of each of the periods presented. We have adjusted the historical consolidated financial information to give effect to pro forma events that are (i) directly attributable to the acquisition and (ii) factually supportable. We present the pro forma unaudited condensed consolidated financial information for informational purposes only. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition, the sale of the Guidant vascular intervention and endovascular solutions businesses to Abbott and the financing transactions with Abbott and other lenders been completed at the beginning of each of the periods presented. Pro forma adjustments are tax-effected at our effective tax rate.

<i>(in millions, except per share data)</i>	<b>Three Months Ended</b>	<b>June 30, 2006</b>	<b>Six Months Ended</b>
Net sales	\$	2,213	\$ 4,442
Net loss		(4,410)	(4,334)
Net loss per share - basic	\$	(2.99)	\$ (2.94)
Net loss per share - assuming dilution	\$	(2.99)	\$ (2.94)

The unaudited pro forma net loss for second quarter of 2006 includes \$120 million for the amortization of purchased intangible assets. The unaudited pro forma net loss for the first half of 2006 includes \$240 million for the amortization of purchased intangible assets. The unaudited pro forma financial information for each period presented also includes the following non-recurring charges: purchased research and development of \$4.169 billion obtained as part of the Guidant acquisition; a charge to step-up the value of acquired inventory sold of \$224 million for the second quarter of 2006 and \$267 million for the first half of 2006; a tax charge for the drug-eluting stent license right obtained from Abbott; and an \$87 million fair value adjustment related to the sharing of proceeds feature of the Abbott stock purchase.

#### **NOTE C – INVESTMENTS**

We account for our publicly traded investments as available-for-sale securities and record unrealized gains and losses as a separate component of stockholders' equity. During the second quarter of 2007, we decided to monetize the majority of our \$535 million investment portfolio. According to Emerging Issues Task Force (EITF) Topic No. D-44, *Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*, once a company decides to sell an available-for-sale security whose fair value is less than its cost basis and the company does not expect the fair value of the security to recover prior to the expected time of sale, it must write down the value of the investment. This reduced value becomes the new cost basis for the investment and any unrealized gains are not recognized in earnings until realized. As a result of the application of Topic No. D-44, we recognized a \$20 million impairment loss in the second quarter of 2007 associated with our publicly held investments for which an other-than-temporary loss was determined to exist. Certain other publicly held investments at June 30, 2007 had unrealized gains totaling \$40 million as of that date.

We recorded other-than-temporary impairments of \$11 million in the second quarter of 2007 associated with the decline in value of certain of our privately held investments. We recorded other-than-temporary impairments of \$67 million for the second quarter of 2006 and \$105 million for the first half of 2006 related to technological delays and financial deterioration of certain of our vascular sealing and gene therapy portfolio companies.

In June 2007, we terminated our Product Development Agreement with Aspect Medical Systems relating to brain monitoring technology that Aspect had 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 the second quarter of 2007, representing future payments that we would have previously been obligated to make prior to the termination of the agreement. In June 2007, Aspect repurchased two million shares of its stock from us for \$32 million and, as a result, we recognized a gain of \$8 million during the second quarter of 2007. In July 2007, Aspect exercised its option to purchase an additional 2.5 million shares from us for \$38 million. Aspect may exercise its option to repurchase our remaining holdings of 1.5 million shares through December 2007.

#### NOTE D – COMPREHENSIVE INCOME

The following table provides a summary of our comprehensive income (loss):

<i>(in millions)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income (loss)	\$ 115	\$ (4,262)	\$ 235	\$ (3,930)
Foreign currency translation adjustment	26	32	25	46
Net change in derivative financial instruments	(4)	(18)	(4)	(20)
Net change in equity investments	14	(6)	9	(20)
<b>Comprehensive income (loss)</b>	<b>\$ 151</b>	<b>\$ (4,254)</b>	<b>\$ 265</b>	<b>\$ (3,924)</b>

#### NOTE E – WEIGHTED AVERAGE SHARES OUTSTANDING

The following is a reconciliation of weighted average shares for basic and diluted income (loss) per share computations:

<i>(in millions)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Basic weighted average shares outstanding	1,485.4	1,326.8	1,483.4	1,074.0
Net effect of common stock equivalents	14.5		15.5	
Weighted average shares outstanding, assuming dilution	1,499.9	1,326.8	1,498.9	1,074.0

The net effect of common stock equivalents excludes the impact of 40.8 million stock options for the second quarter of 2007, 24.8 million for the second quarter of 2006, 39.2 million for the first half of 2007, and 21.2 million for the first half of 2006 due to the exercise prices of these stock options being greater than the average market price of our common stock during those periods.

Additionally, weighted average shares outstanding, assuming dilution excludes the net effect of common stock equivalents of 19.8 million for the second quarter of 2006 and 14.5 million for the first half of 2006 due to our net loss position in those periods.

#### NOTE F – STOCK-BASED COMPENSATION

The following presents the impact of stock-based compensation expense on our unaudited condensed consolidated statements of operations:

<i>(in millions)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Cost of products sold	\$ 4	\$ 2	\$ 8	\$ 8
Selling, general and administrative expenses	21	23	44	43
Research and development expenses	7	6	14	12
	32	31	66	63
Income tax benefit	9	8	19	18
	\$ 23	\$ 23	\$ 47	\$ 45

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 compensation expense because the fair values of the options exchanged equaled the fair values of the DSUs issued.

#### NOTE G – SUPPLEMENTAL BALANCE SHEET INFORMATION

The components of inventory consist of the following:

<i>(in millions)</i>	<b>June 30,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
Finished goods	\$ 486	\$ 447
Work-in-process	180	145
Raw materials	171	157
	\$ <b>837</b>	\$ <b>749</b>

The components of property, plant and equipment consist of the following:

<i>(in millions)</i>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Property, plant and equipment	\$ 2,910	\$ 2,717
Less: accumulated depreciation	1,131	991
	<b>\$ 1,779</b>	<b>\$ 1,726</b>

The components of intangible assets consist of the following:

<i>(in millions)</i>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Goodwill	\$ 14,959	\$ 14,628
Technology - core	7,351	7,265
Other intangible assets	2,940	2,900
	\$ 25,250	\$ 24,793
Less: accumulated amortization	1,434	1,157
	<b>\$ 23,816</b>	<b>\$ 23,636</b>

Our accrual for warranty liabilities was \$63 million at June 30, 2007 and \$53 million at December 31, 2006.

## **NOTE H – BORROWINGS AND CREDIT ARRANGEMENTS**

We had outstanding borrowings of \$8.904 billion at June 30, 2007 at a weighted average interest rate of 6.50 percent, as compared to outstanding borrowings of \$8.902 billion at December 31, 2006 at a weighted average interest rate of 6.03 percent. Our borrowings at June 30, 2007 consist of unsecured subsidiary indebtedness including our senior \$5.0 billion term loan and our subordinated \$900 million loan from Abbott, and unsecured senior corporate notes of \$3.05 billion.

Our revolving credit facility and term loan agreement requires that we maintain a ratio of debt to pro forma EBITDA, as defined by the agreement, of less than or equal to 4.5 to 1.0 through December 31, 2007, and 3.5 to 1.0 thereafter. The agreement also requires that we maintain a ratio of pro forma EBITDA, as defined by the agreement, to interest expense of greater than or equal to 3.0 to 1.0. As of June 30, 2007, we were in compliance with both of these debt covenants. Exiting the quarter, our ratio of debt to pro forma EBITDA was 4.0 to 1.0 and our ratio of pro forma EBITDA to interest expense was 3.9 to 1.0. Our inability to maintain these covenants could require us to seek to renegotiate the terms of our credit facilities or seek waivers from compliance with these covenants, both of which could result in additional borrowing costs.

We continue to review our cost structure and operations in order to identify sustainable cost improvement measures that will better align operating expenses with expected revenue levels and reallocate resources to better support our growth initiatives and meet the financial covenants required by our credit facilities. These cost improvement measures include an expense and headcount restructuring plan that is currently in development. Our goal is to reduce expenses while preserving needed investments in critical research and development

projects to help ensure that we achieve our longer-term sales goals. In addition, we have the flexibility to sell certain non-strategic assets and implement other strategic initiatives, including our intention to monetize the majority of our investment portfolio, which should increase cash available for debt repayment. In July 2007, we announced our intent to explore the sale of our fluid management business, formerly North American Medical Instruments Corp. We are in the early stages of discussions with several potential acquirers and expect the exploration process to take a number of months. These and other strategic initiatives should increase cash available for debt repayment or reduce future contingent payments. Additionally, these initiatives may result in significant one-time charges and initial cash expenditures in order to obtain the benefit of these actions.

At June 30, 2007 and December 31, 2006, our revolving credit facility totaled \$2.0 billion. In addition, we maintain a \$350 million credit and security facility secured by our U.S. trade receivables. During the third quarter of 2007, we extended the maturity of our credit and security facility to August 2008. There were no amounts outstanding under our \$2.350 billion of available credit lines at June 30, 2007 and December 31, 2006.

In August 2007, our credit ratings from Standard & Poor's Rating Services (S&P) and Fitch Ratings were downgraded to BB+, a non-investment grade rating, and in July 2007, our credit rating from Moody's Investor Service was downgraded to Ba1, a non-investment grade rating. Additionally, S&P put our credit ratings on credit watch with negative implications. The ratings outlook by Moody's and Fitch is currently negative. Credit rating changes may impact our borrowing cost, but do not require the repayment of borrowings. We do not expect that these credit rating changes will materially increase our cost of borrowing.

#### **NOTE I – COMMITMENTS AND CONTINGENCIES**

The medical device market in which we primarily participate is largely 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 infringe patents owned or licensed by them. We have similarly asserted that stent systems or other products sold by these companies infringe patents owned or licensed by us. Adverse outcomes in one or more of the 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 and could have a material adverse effect on our financial position, results of operations or liquidity.

We are substantially self-insured with respect to general, product liability and securities claims. In the normal course of business, product liability and securities claims are asserted against us. Product liability and securities claims against us may be asserted in the future related to events not known to management at the present time. 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 financial position, results of operations or liquidity.

We accrue anticipated costs of settlement and damages and, under certain conditions, costs of defense, based on historical experience or to the extent specific losses are probable and estimable. We record losses for claims in excess of the limits of purchased insurance in earnings at the time and to the extent they are probable and estimable. 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.

In connection with our acquisition of Guidant, the number of legal claims against us, including product liability, private securities and shareholder derivative claims, significantly increased. Our accrual for legal matters that are probable and estimable was \$706 million at June 30, 2007 and \$485 million at December 31, 2006, and includes costs of settlement, damages and defense. The amounts accrued relate primarily to Guidant litigation and claims recorded as part of the purchase price. We continue to assess certain litigation and claims to determine the amounts that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued in the future, which could adversely impact our operating results, cash flows and our ability to comply with our debt covenants.

In management's opinion, we are not currently involved in any legal proceedings other than those specifically identified below, which, individually or in the aggregate, could have a material effect on our financial condition, operations and/or cash flows. Unless included in our legal accrual or otherwise indicated below, a range of loss associated with any individual material legal proceeding can not be estimated.

Except as disclosed below, there have been no material developments with regards to any matters of litigation or other proceedings disclosed in our 2006 Annual Report on Form 10-K.

#### ***Litigation with Johnson & Johnson***

On October 22, 1997, Cordis Corporation, a subsidiary of Johnson & Johnson, filed a suit for patent infringement against us and SCIMED Life Systems, Inc., our wholly owned subsidiary, alleging that the importation and use of the NIR® stent infringes two patents owned by Cordis. On April 13, 1998, Cordis filed a suit for patent infringement against us and SCIMED alleging that our NIR® stent infringes two additional patents owned by Cordis. The suits were filed in

the U.S. District Court for the District of Delaware seeking monetary damages, injunctive relief and that the patents be adjudged valid, enforceable and infringed. A trial on both actions was held in late 2000. A jury found that the NIR® stent does not infringe three Cordis patents, but does infringe one claim of one Cordis patent and awarded damages of approximately \$324 million to Cordis. On March 28, 2002, the Court set aside the damage award, but upheld the remainder of the verdict, and held that two of the four patents had been obtained through inequitable conduct in the U.S. Patent and Trademark Office. On May 27, 2005, Cordis filed an appeal on those two patents and an appeal hearing was held on May 3, 2006. The Court of Appeals remanded the case back to the trial court for further briefing and fact-finding by the Court. On May 16, 2002, the Court also set aside the verdict of infringement, requiring a new trial. On March 24, 2005, in a second trial, a jury found that a single claim of the Cordis patent was valid and infringed. The jury determined liability only; any monetary damages will be determined at a later trial. On March 27, 2006, the judge entered judgment in favor of Cordis, and on April 26, 2006, we filed an appeal. A hearing on the appeal has not yet been scheduled. Even though it is reasonably possible that we may incur a liability associated with this case, we do not believe that a loss is probable or estimable. Therefore, we have not accrued for any losses associated with this case.

On April 2, 1997, Ethicon and other Johnson & Johnson subsidiaries filed a cross-border proceeding in The Netherlands alleging that the NIR® stent infringes a European patent licensed to Ethicon. In this action, the Johnson & Johnson entities requested relief, including provisional relief (a preliminary injunction). In October 1997, Johnson & Johnson's request for provisional cross-border relief on the patent was denied by the Dutch Court, on the ground that it is "very likely" that the NIR® stent will be found not to infringe the patent. Johnson & Johnson's appeal of this decision was denied. In January 1999, Johnson & Johnson amended the claims of the patent and changed the action from a cross-border case to a Dutch national action. On June 23, 1999, the Dutch Court affirmed that there were no remaining infringement claims with respect to the patent and also asked the Dutch Patent Office for technical advice about the validity of the amended patent. In late 1999, Johnson & Johnson appealed this decision. On March 11, 2004, the Court of Appeals nullified the Dutch Court's June 23, 1999 decision and the proceedings have been returned to the Dutch Court. In accordance with its 1999 decision, the Dutch Court asked the Dutch Patent Office for technical advice on the validity of the amended patent. On August 31, 2005, the Dutch Patent Office issued its technical advice that the amended patent was valid but left certain legal issues for the Dutch Court to resolve. A hearing has been scheduled for December 21, 2007.

On August 22, 1997, Johnson & Johnson filed a suit for patent infringement against us alleging that the sale of the NIR® stent infringes certain Canadian patents owned by Johnson & Johnson. Suit was filed in the federal court of Canada seeking a declaration of infringement, monetary damages and injunctive relief. On December 2, 2004, the Court dismissed the case, finding all patents to be invalid. On December 6, 2004, Johnson & Johnson appealed the Court's decision, and in May 2006, the Court reinstated the patent. In August 2006, we appealed the Court's decision to the Supreme Court. On January 18, 2007, the Supreme Court denied review. A trial has been scheduled for January 21, 2008.

On March 26, 2002, we and Target Therapeutics, Inc., our wholly owned subsidiary, filed suit for patent infringement against Cordis alleging that certain detachable coil delivery systems

and/or pushable coil vascular occlusion systems (coil delivery systems) infringe three U.S. patents, owned by or exclusively licensed to Target. The complaint was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. In 2004, the Court granted summary judgment in our favor finding infringement of one of the patents. On November 14, 2005, the Court denied Cordis' summary judgment motions with respect to the validity of the patent. Cordis filed a motion for reconsideration and a hearing was held on October 26, 2006. The Court ruled on Cordis' motion for reconsideration by modifying its claim construction order. On February 9, 2007, Cordis filed a motion for summary judgment of non-infringement with respect to one of the patents and a hearing on Cordis' motion was held on May 4, 2007. A trial has not yet been scheduled.

On January 13, 2003, Cordis filed suit for patent infringement against us and SCIMED alleging that our Express<sup>2</sup>™ coronary stent infringes a U.S. patent owned by Cordis. The suit was filed in the U.S. District Court for the District of Delaware seeking monetary and injunctive relief. We answered the complaint, denying the allegations and filed a counterclaim alleging that certain Cordis products infringe a patent owned by us. On August 4, 2004, the Court granted a Cordis motion to add our Liberté™ coronary stent and two additional patents to the complaint. On June 21, 2005, a jury found that our TAXUS® Express<sup>2</sup>™, ExpressExpress™ Biliary, and Liberté stents infringe a Johnson & Johnson patent and that the Liberté stent infringes a second Johnson & Johnson patent. The juries only determined liability; monetary damages will be determined at a later trial. We filed a motion to set aside the verdict and enter judgment in its favor as a matter of law. On May 11, 2006, our motion was denied. With respect to our counterclaim, a jury found on July 1, 2005 that Johnson & Johnson's Cypher®, Bx Velocity®, Bx Sonic™ and Genesis™ stents infringe our patent. Johnson & Johnson filed a motion to set aside the verdict and enter judgment in its favor as a matter of law. On May 11, 2006, the Court denied Johnson & Johnson's motion. Johnson & Johnson's motion for reconsideration was denied on March 27, 2007. On April 17, 2007, Johnson & Johnson filed a second motion to set aside the verdict and enter judgment as a matter of law or, in the alternative, a new trial on infringement. Even though it is reasonably possible that we will incur a liability associated with this case, we do not believe that a loss is probable or estimable. Therefore, we have not accrued for any losses associated with this case.

On March 13, 2003, we and Boston Scientific Scimed, Inc., filed suit for patent infringement against Johnson & Johnson and Cordis, alleging that its Cypher drug-eluting stent infringes one of our patents. The suit was filed in the U.S. District Court for the District of Delaware seeking monetary and injunctive relief. Cordis answered the complaint, denying the allegations, and filed a counterclaim against us alleging that the patent is not valid and is unenforceable. We subsequently filed amended and new complaints in the U.S. District Court for the District of Delaware alleging that the Cypher drug-eluting stent infringes four of our additional patents (Additional Patents). Following the announcement on February 23, 2004 by Guidant Corporation of an agreement with Johnson & Johnson and Cordis to sell the Cypher drug-eluting stent, we amended our complaint to include Guidant and certain of its subsidiaries as co-defendants as to certain patents in suit. We may replace Abbott Laboratories for Guidant as a party in the suit as a result of Abbott's purchase of Guidant's vascular intervention and endovascular solutions businesses. In March 2005, we filed a stipulated dismissal as to three of the four Additional Patents. On July 1, 2005, a jury found that Johnson & Johnson's Cypher drug-eluting stent infringes one of our patents and upheld the validity of the patent. The jury

determined liability only; any monetary damages will be determined at a later trial. Johnson & Johnson filed a motion to set aside the verdict and enter judgment in its favor as a matter of law. On June 15, 2006, the Court denied Johnson & Johnson's motion. Johnson & Johnson has moved for reconsideration of the Court's decision. A summary judgment hearing as to the remaining patent was held on June 14, 2006. On April 4, 2007, the Court granted summary judgment of non-infringement of the remaining patent and the parties entered a stipulated dismissal as to the claim of that patent on May 11, 2007. An oral hearing on the reconsideration motion is set for August 10, 2007.

On December 24, 2003, we (through our subsidiary Schneider Europe GmbH) filed suit against the Belgian subsidiaries of Johnson & Johnson, Cordis and Janssen Pharmaceutica alleging that Cordis' Bx Velocity stent, Bx Sonic stent, Cypher stent, Cypher Select stent, Aqua T3™ balloon and U-Pass balloon infringe one of our European patents. The suit was filed in the District Court of Brussels, Belgium seeking preliminary cross-border, injunctive and monetary relief and sought an expedited review of the claims by the Court. A separate suit was filed in the District Court of Brussels, Belgium against nine additional Johnson & Johnson subsidiaries. The Belgium Court linked all Johnson & Johnson entities into a single action but dismissed the case for failure to satisfy the requirements for expedited review without commenting on the merits of the claims. On August 5, 2004, we refiled the suit on the merits against the same Johnson & Johnson subsidiaries in the District Court of Brussels, Belgium seeking injunctive and monetary relief for infringement of the same European patent. A hearing is scheduled for September 20, 2007. In December 2005, the Johnson & Johnson subsidiaries filed a nullity action in France and, in January 2006, the same Johnson & Johnson subsidiaries filed nullity actions in Italy and Germany. We have filed a counterclaim infringement action in Italy.

On May 12, 2004, we filed suit against two of Johnson & Johnson's Dutch subsidiaries, alleging that Cordis' Bx Velocity stent, Bx Sonic stent, Cypher stent, Cypher Select stent, and Aqua T3 balloon delivery systems for those stents, and U-Pass angioplasty balloon catheters infringe one of our European patents. The suit was filed in the District Court of The Hague in The Netherlands seeking injunctive and monetary relief. On June 8, 2005, the Court found the Johnson & Johnson products infringe our patent and granted injunctive relief. On June 23, 2005, the District Court in Assen, The Netherlands stayed enforcement of the injunction. On October 12, 2005, a Dutch Court of Appeals overturned the Assen court's ruling and reinstated the injunction against the manufacture, use and sale of the Cordis products in The Netherlands. Damages for Cordis' infringing acts in The Netherlands will be determined at a later date. Cordis appealed the validity and infringement ruling by The Hague Court. A hearing on this appeal was held on November 2, 2006 and a decision was received on March 15, 2007 finding the patent valid but not infringed. We have filed an appeal. A hearing is expected during the fourth quarter of 2008.

On September 27, 2004, our wholly owned subsidiary, Boston Scientific Scimed, Inc., filed suit against a German subsidiary of Johnson & Johnson alleging the Cypher drug-eluting stent infringes one of our European patents. The suit was filed in Mannheim, Germany seeking monetary and injunctive relief. A hearing was held on April 1, 2005 and on July 15, 2005, the Court indicated that it would appoint a technical expert. The expert's opinion was submitted to the Court on September 19, 2006. A hearing has been scheduled for September 21, 2007 in Mannheim, Germany.

On October 15, 2004, our wholly owned subsidiary, Boston Scientific Scimed, Inc., filed suit against a German subsidiary of Johnson & Johnson alleging the Cypher drug-eluting stent infringes one of our German utility models. The suit was filed in Mannheim, Germany seeking monetary and injunctive relief. A hearing was held on April 1, 2005 and on July 15, 2005, the Court indicated that it would appoint a technical expert. The expert's opinion was submitted to the Court on September 19, 2006. A hearing has been scheduled for September 21, 2007 in Mannheim, Germany.

On September 25, 2006, Johnson & Johnson filed a lawsuit against us, Guidant and Abbott in the U.S. District Court for the Southern District of New York. The complaint alleges that Guidant breached certain provisions of the amended merger agreement between Johnson & Johnson and Guidant (Merger Agreement) as well as the implied duty of good faith and fair dealing. The complaint further alleges that we and Abbott tortiously interfered with the Merger Agreement by inducing Guidant's breach. The complaint seeks certain factual findings, damages in an amount no less than \$5.5 billion and attorneys' fees and costs. We and Guidant filed a motion to dismiss the complaint on November 15, 2006. Johnson & Johnson filed its opposition to the motion on January 9, 2007, and defendants filed their reply on January 31, 2007. A hearing on the motion to dismiss was held on February 28, 2007. The judge took the matter under advisement, and stayed discovery pending his decision on the motion.

On February 1, 2005, we and Angiotech Pharmaceuticals, Inc. filed suit against Conor Medsystems, Inc., a subsidiary of Johnson and Johnson, in The Hague, The Netherlands seeking a declaration that Conor's drug-eluting stent products infringe patents owned by Angiotech and licensed to us. A hearing was held on October 27, 2006, and a decision was rendered on January 17, 2007 in favor of Angiotech and us. The Court granted an injunction against Conor, prohibiting it from selling its paclitaxel-eluting stent in The Netherlands, and also ordered Conor to pay damages. On April 17, 2007, Conor appealed this decision and on July 19, 2007, we filed our defense to Conor's appeal.

On November 8, 2005, we and Scimed filed suit against Conor alleging that certain of Conor's stent and drug-coated stent products infringe a patent owned by us. The complaint was filed in the U.S. District Court for the District of Delaware seeking monetary and injunctive relief. On December 30, 2005, Conor answered the complaint, denying the allegations. A Joint Stipulation to dismiss without prejudice was filed on June 7, 2007.

On May 25, 2007, we and Boston Scientific Scimed, Inc. filed suit against Johnson & Johnson and Cordis in the U.S. District Court for the District of Delaware seeking a declaratory judgment of invalidity of a U.S. patent owned by them and of non-infringement by our PROMUS™ coronary stent system of the patent.

On June 1, 2007, we and Boston Scientific Scimed, Inc. filed a suit against Johnson & Johnson and Cordis in the U.S. District Court for the District of Delaware seeking a declaratory judgment of invalidity of a U.S. patent owned by them and of non-infringement by our PROMUS coronary stent system of the patent.

On June 22, 2007, we and Boston Scientific Scimed, Inc. filed a suit against Johnson & Johnson and Cordis in the U.S. District Court for the District of Delaware seeking a declaratory judgment of invalidity of a U.S. patent owned by them and of non-infringement by our PROMUS coronary stent system of the patent.

***Litigation with Medtronic, Inc.***

On July 25, 2007, the U.S. District Court for the Northern District of California granted our motion to intervene in an action filed February 15, 2006 by Medtronic Vascular, Inc. and certain of its affiliates against Advanced Cardiovascular Systems, Inc. and Abbott Laboratories. As a counterclaim plaintiff in this litigation, we are seeking a declaratory judgment of patent invalidity and of non-infringement by the PROMUS coronary stent system relating to two U.S. patents owned by Medtronic.

***Litigation Relating to St. Jude Medical, Inc.***

On February 2, 2004, Guidant, Guidant Sales Corp. (GSC), Cardiac Pacemakers, Inc. (CPI) and Mirowski Family Ventures LLC filed a declaratory judgment action in the District Court for Delaware against St. Jude Medical and Pacesetter Inc., a subsidiary of St. Jude Medical, alleging that their Epic HF, Atlas HF and Frontier 3x2 devices infringe a patent exclusively licensed to Guidant. Pursuant to a Settlement Agreement dated July 29, 2006 between us and St. Jude Medical, the parties have agreed to limit the scope and available remedies of this case. On June 26, 2007, the parties reached an agreement to settle this litigation and the case has been dismissed.

Guidant Sales Corp., Cardiac Pacemakers, Inc. (CPI) and Mirowski Family Ventures LLC are plaintiffs in a patent infringement suit originally filed against St. Jude Medical and its affiliates in November 1996 in the District Court in Indianapolis. In July 2001, a jury found that a patent licensed to CPI and expired in December 2003, was valid but not infringed by certain of St. Jude Medical's defibrillator products. In February 2002, the District Court reversed the jury's finding of validity. In August 2004, the Federal Circuit Court of Appeals, among other things, reinstated the jury verdict of validity and remanded the matter for a new trial on infringement and damages. The case was sent back to the District Court for further proceedings. Pursuant to a Settlement Agreement dated July 29, 2006 between us and St. Jude Medical, the parties agreed to limit the scope and available remedies of this case. On March 26, 2007, the District Court issued a ruling invalidating the patent. We have appealed the Court's ruling.

***Litigation with Medinol Ltd.***

On September 25, 2002, we filed suit against Medinol alleging Medinol's NIRFlex™ and NIRFlex™ Royal products infringe a patent owned by us. The suit was filed in the District Court of The Hague, The Netherlands seeking cross-border, monetary and injunctive relief. On September 10, 2003, the Dutch Court ruled that the patent was invalid. We appealed the Court's decision in December 2003. A hearing on the appeal was held on August 17, 2006. On December 14, 2006, a decision was rendered upholding the trial court ruling. We appealed the Court's decision on March 14, 2007. On May 25, 2007, Medinol moved to dismiss our appeal.

On January 26, 2007, Medinol filed a Vindication Action against us in the German District Court of Munich, Germany. The complaint alleges, and seeks a ruling, that Medinol be deemed the owner of one of our European patents covering coronary stent designs. On May 31, 2007, we responded to the action, denying Medinol's allegations that it is owner of the patent.

On August 3, 2007, Medinol submitted a request for arbitration against us, and our wholly owned subsidiaries Boston Scientific Ltd. and Boston Scientific Scimed, Inc., under the Arbitration Rules of the World Intellectual Property Organization pursuant to a settlement agreement between Medinol and us dated September 21, 2005. The request for arbitration alleges that our PROMUS coronary stent system infringes five U.S. patents, three European patents and two German Patents owned by Medinol. Medinol is seeking to have the patents declared valid and enforceable and a reasonable royalty. The September 2005 settlement agreement provides, among other things, that Medinol may only seek reasonable royalties and is specifically precluded from seeking injunctive relief. As a result, we do not expect the outcome of this proceeding to have a material impact on the continued sale of the PROMUS stent system internationally or the launch of the PROMUS stent system in the United States. We plan to defend against Medinol's claims vigorously.



***Other Patent Litigation***

On September 12, 2002, ev3 Inc. filed suit against The Regents of the University of California and a subsidiary of ours in the District Court of The Hague, The Netherlands, seeking a declaration that ev3's EDC II and VDS embolic coil products do not infringe three patents licensed to us from The Regents. On October 22, 2003, the Court ruled that the ev3 products infringe three patents licensed to us. On December 18, 2003, ev3 appealed the Court's ruling. A hearing on the appeal has not yet been scheduled. A damages hearing originally scheduled for June 15, 2007 has been postponed and not yet rescheduled.

On July 28, 2000, Dr. Tassilo Bonzel filed a complaint naming certain of our Schneider Worldwide subsidiaries and Pfizer Inc. and certain of its affiliates as defendants, alleging that Pfizer failed to pay Dr. Bonzel amounts owed under a license agreement involving Dr. Bonzel's patented Monorail® balloon catheter technology. The suit was filed in the U.S. District Court for the District of Minnesota seeking monetary relief. On September 26, 2001, we reached a contingent settlement with Dr. Bonzel involving all but one claim asserted in the complaint. The contingency was satisfied and the settlement is final. On December 17, 2001, the remaining claim was dismissed without prejudice with leave to refile the suit in Germany. Dr. Bonzel filed an appeal of the dismissal of the remaining claim. On July 29, 2003, the Appellate Court affirmed the lower court's dismissal, and on October 24, 2003, the Minnesota Supreme Court denied Dr. Bonzel's petition for further review. On March 26, 2004, Dr. Bonzel filed a similar complaint against us, certain of our subsidiaries and Pfizer in the Federal District Court for the District of Minnesota. We answered, denying the allegations of the complaint. We filed a motion to dismiss the case, and the case was dismissed with prejudice on November 2, 2004. On February 7, 2005, Dr. Bonzel appealed the Court's decision. On March 2, 2006, the Federal District Court dismissed the appeal and affirmed the lower court's decision. On April 24, 2007, we received a letter from Dr. Bonzel's counsel alleging that the 1995 license agreement with Dr. Bonzel may have been invalid under German law. On May 11, 2007, we responded to Dr. Bonzel's counsel's letter asserting the validity of the 1995 license agreement.

On December 16, 2003, The Regents of the University of California filed suit against Micro Therapeutics, Inc., a subsidiary of ev3, and Dendron GmbH alleging that Micro Therapeutics' Sapphire™ detachable coil delivery systems infringe twelve patents licensed to us and owned by The Regents. The complaint was filed in the U.S. District Court for the Northern District of California seeking monetary and injunctive relief. On January 8, 2004, Micro Therapeutics and Dendron filed a third-party complaint to include us and Target as third-party defendants seeking a declaratory judgment of invalidity and noninfringement with respect to the patents and antitrust violations. On February 17, 2004, we, as a third-party defendant, filed a motion to dismiss us from the case. On July 9, 2004, the Court granted our motion in part and dismissed us and Target from the claims relating only to patent infringement, while denying dismissal of an antitrust claim. On April 7, 2006, the Court denied Micro Therapeutics' motion seeking unenforceability of The Regents' patent and denied The Regents' cross-motion for summary judgment of unenforceability. A summary judgment hearing was held on July 31, 2007 relating to the antitrust claim. The Court took the motions under advisement. A trial is scheduled for October 16, 2007.

On May 19, 2005, G. David Jang, M.D. filed suit against us alleging breach of contract relating to certain patent rights covering stent technology. The suit was filed in the U.S. District Court, Central District of California seeking monetary damages and rescission of the contract. On



June 24, 2005, we answered, denying the allegations, and filed a counterclaim. After a Markman ruling relating to the Jang patent rights, Dr. Jang stipulated to the dismissal of certain claims alleged in the complaint with a right to appeal. In February 2007, the parties agreed to settle the other claims of the case. On May 23, 2007, Jang filed an appeal with respect to the remaining patent claims.

On April 4, 2007, SciCo Tec GmbH filed suit against us alleging certain of our balloon catheters infringe a U.S. patent owned by SciCo Tec GmbH. The suit was filed in the U. S. District Court for the Eastern District of Texas seeking monetary and injunctive relief. On May 10, 2007, SciCo Tec filed an amended complaint based on similar allegations as those pled in the original complaint and alleging certain additional balloon catheters and stent delivery systems infringe the same patent. On May 14, 2007 we answered, denying the allegations of the first complaint. On May 29, 2007, we responded to the amended complaint and filed a counterclaim seeking declaratory judgment of invalidity and non-infringement with respect to the patent at issue. A trial has been scheduled for November 10, 2008.

On April 19, 2007, SciCo Tec GmbH, filed suit against us and our subsidiary, Boston Scientific Nedizintechnik GmbH, alleging certain balloon catheters infringe a German patent owned by SciCo Tec GmbH. The suit was filed in Mannheim, Germany. We will answer the complaint, denying the allegations.

In February 2003, Boston Scientific completed its acquisition of Inflow Dynamics, Inc. pursuant to an Agreement and Plan of Merger dated December 2, 2002, among Boston Scientific, Inflow Dynamics, the stockholders of Inflow Dynamics and Eckard Alt, Donald Green and Jerry Griffin, acting in each case solely as members of the Stockholder Representative Committee (the "Merger Agreement"). On September 21, 2006, the Stockholder Representative Committee made a demand for arbitration pursuant to the terms of the Merger Agreement seeking contingent payments with respect to the sales of our Liberté™ stent system and TAXUS Liberté stent system. A hearing was held July 11 and 12, 2007, and a decision is expected September 13, 2007.

#### ***Other Proceedings***

On January 10, 2002 and January 15, 2002, Alan Schuster and Antoinette Loeffler, respectively, putatively initiated shareholder derivative lawsuits for and on our behalf in the U.S. District Court for the Southern District of New York against our then current directors and us as nominal defendant. Both complaints allege, among other things, that with regard to our relationship with Medinol, the defendants breached their fiduciary duties to us and our shareholders in our management and affairs, and in the use and preservation of our assets. The suits seek a declaration of the directors' alleged breach, damages sustained by us as a result of the alleged breach and monetary and injunctive relief. On October 18, 2002, the plaintiffs filed a consolidated amended complaint naming two senior officials as defendants and us as nominal defendant. The action was stayed in February 2003 pending resolution of a separate lawsuit brought by Medinol against us. After the resolution of the Medinol lawsuit, plaintiffs, on May 1, 2006, were permitted to file an amended complaint to supplement the allegations in the prior consolidated amended complaint based mainly on events that occurred subsequent to the parties' agreement to stay the action. The defendants filed a motion to dismiss the amended

complaint on or about June 30, 2006. The motion was denied without prejudice on October 18, 2006, and the Court ordered that the amended complaint be deemed a demand for our Board of Directors to consider taking action in connection with the allegations of the amended complaint. On February 20, 2007, the Board of Directors responded, rejecting plaintiffs' demand. Defendants filed a renewed motion to dismiss the amended complaint on March 13, 2007. The Court granted Defendants' renewed motion and dismissed the amended complaint on June 13, 2007.

On September 8, 2005, the Laborers Local 100 and 397 Pension Fund initiated a putative shareholder derivative lawsuit on our behalf in the Commonwealth of Massachusetts Superior Court Department for Middlesex County against our directors, certain of our current and former officers, and us as nominal defendant. The complaint alleged, among other things, that with regard to certain matters of regulatory compliance, the defendants breached their fiduciary duties to us and our shareholders in the management and affairs of our business and in the use and preservation of our assets. The complaint also alleged that as a result of the alleged misconduct and the purported failure to publicly disclose material information, certain directors and officers sold our stock at inflated prices in violation of their fiduciary duties and were unjustly enriched. The suits sought a declaration of the directors' and officers' alleged breaches, unspecified damages sustained by us as a result of the alleged breaches and other unspecified equitable and injunctive relief. On September 15, 2005, Benjamin Roussey also initiated a putative shareholder derivative lawsuit in the same Court alleging similar misconduct and seeking similar relief. Following consolidation of the cases, the defendants filed a motion to dismiss the consolidated derivative complaint. Our motion to dismiss was granted without leave to amend on September 11, 2006. On September 21, 2006, plaintiff Laborers Local 100 and 397 Pension Fund filed a motion to alter or amend judgment and for leave to file an amended complaint which was denied on October 19, 2006. The Board of Directors thereafter received two letters from the Laborers Local 100 and 397 Pension Fund dated February 21, 2007. One letter demanded that the Board of Directors investigate and commence action against the defendants named in the original complaint in connection with the matters alleged in the original complaint. The second letter (as well as subsequent letters from the Pension Fund) made a demand for an inspection of certain books and records for the purpose of, among other things, the investigation of possible breaches of fiduciary duty, misappropriation of information, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. On March 21, 2007, we rejected the request to inspect books and records on the ground that Laborers Local 100 and 397 Pension Fund had not established a proper purpose for the request.

On September 23, 2005, Srinivasan Shankar, on behalf of himself and all others similarly situated, filed a purported securities class action suit in the U.S. District Court for the District of Massachusetts on behalf of those who purchased or otherwise acquired our securities during the period March 31, 2003 through August 23, 2005, alleging that we and certain of our officers violated certain sections of the Securities Exchange Act of 1934. On September 28, 2005, October 27, 2005, November 2, 2005 and November 3, 2005, Jack Yopp, Robert L. Garber, Betty C. Meyer and John Ryan, respectively, on behalf of themselves and all others similarly situated, filed additional purported securities class action suits in the same Court on behalf of the same purported class. On February 15, 2006, the Court ordered that the five class actions be consolidated and appointed the Mississippi Public Employee Retirement System Group as lead

plaintiff. A consolidated amended complaint was filed on April 17, 2006. The consolidated amended complaint alleges that we made material misstatements and omissions by failing to disclose the supposed merit of the Medinol litigation and DOJ investigation relating to the 1998 NIR ON® Ranger with Sox stent recall, problems with the TAXUS® drug-eluting coronary stent systems that led to product recalls, and our ability to satisfy FDA regulations concerning medical device quality. The consolidated amended complaint seeks unspecified damages, interest, and attorneys' fees. The defendants filed a motion to dismiss the consolidated amended complaint on June 8, 2006 which was granted by the Court on March 30, 2007. On April 27, 2007, plaintiffs appealed the Court's decision.

On January 19, 2006, George Larson, on behalf of himself and all others similarly situated, filed a purported class action complaint in the U.S. District Court for the District of Massachusetts on behalf of participants and beneficiaries of our 401(k) Retirement Savings Plan (401(k) Plan) and GESOP (together the Plans) alleging that we and certain of our officers and employees violated certain provisions under the Employee Retirement Income Security Act of 1974, as amended (ERISA) and Department of Labor Regulations. On January 26, 2006, February 8, 2006, February 14, 2006, February 23, 2006 and March 3, 2006, Robert Hochstadt, Jeff Klunke, Kirk Harvey, Michael Lowe and Douglas Fletcher, respectively, on behalf of themselves and others similarly situated, filed purported class action complaints in the same Court on behalf of the participants and beneficiaries in our Plans alleging similar misconduct and seeking similar relief as in the Larson lawsuit. On April 3, 2006, the Court issued an order consolidating the actions and appointing Jeffrey Klunke and Michael Lowe as interim lead plaintiffs. On August 23, 2006, plaintiffs filed a consolidated complaint that purports to bring a class action on behalf of all participants and beneficiaries of our 401(k) Plan during the period May 7, 2004 through January 26, 2006 alleging that we, our 401(k) Administrative and Investment Committee (the Committee), members of the Committee, and certain directors violated certain provisions of ERISA. The complaint alleges, among other things, that the defendants breached their fiduciary duties to the 401(k) Plan's participants. The complaint seeks equitable and monetary relief. Defendants filed a motion to dismiss on October 10, 2006. Plaintiffs filed their opposition memorandum on December 15, 2006, and defendants filed their reply on January 16, 2007. A hearing on the motion to dismiss was held on August 8, 2007.

We have been a defendant in two lawsuits involving the TAXUS Express<sup>2</sup> paclitaxel-eluting coronary stent system in which the plaintiffs are seeking class certification. On November 16, 2006, Michael Seaburn and Beatriz Seaburn filed suit in the U.S. District Court for the Southern District of Florida on behalf of themselves and a purported class of plaintiffs resident in the United States. This suit was voluntarily dismissed by Plaintiffs on June 6, 2007. On January 23, 2007, Ronald E. and Tammy Coterill filed suit in the U.S. District Court for the District of Idaho on behalf of themselves and a purported class of plaintiffs resident in the state of Idaho or any contiguous state. The complaint seeks certification of class status and also compensatory damages for personal injury, restitution of the purchase price, disgorgement of our profits associated with the sale of TAXUS stent systems, and injunctive relief in the form of medical monitoring. We have answered the complaint and intend to vigorously defend against each of the allegations.

On June 12, 2003, Guidant announced that its subsidiary, EndoVascular Technologies, Inc. (EVT), had entered into a plea agreement with the U.S. Department of Justice relating to a

previously disclosed investigation regarding the ANCURE ENDOGRAFT System for the treatment of abdominal aortic aneurysms. At the time of the EVT plea, Guidant had outstanding fourteen suits alleging product liability related causes of action relating to the ANCURE System. Subsequent to the EVT plea, Guidant was notified of additional claims and served with additional complaints. From time to time, Guidant has settled certain of the individual claims and suits for amounts that were not material to Guidant. Currently, Guidant has 16 filed lawsuits outstanding, and more suits may be filed. Additionally, Guidant has been notified of more than 130 unfiled claims that are pending. The cases generally allege the plaintiffs suffered injuries, and in certain cases died, as a result of purported defects in the device or the accompanying warnings and labeling. The complaints seek damages, including punitive damages.

Although insurance may reduce Guidant's exposure with respect to ANCURE System claims, one of Guidant's carriers, Allianz Insurance Company (Allianz), filed suit in the Circuit Court, State of Illinois, County of DuPage, seeking to rescind or otherwise deny coverage and alleging fraud. Additional carriers have intervened in the case and Guidant affiliates, including EVT, are also named as defendants. Guidant and its affiliates also initiated suit against certain of their insurers, including Allianz, in the Superior Court, State of Indiana, County of Marion, in order to preserve Guidant's rights to coverage. The lawsuits are virtually identical and proceeding in both state courts. A trial has not yet been scheduled in either case. On March 23, 2007, the Court in the Indiana lawsuit granted Guidant and its affiliates' motion for partial summary judgment regarding Allianz's duty to defend, finding that Allianz breached its duty to defend 41 ANCURE lawsuits. On April 19, 2007, Allianz filed a notice of appeal of that ruling. On July 11, 2007, the Illinois court entered a partial summary judgment ruling in favor of Allianz.

Shareholder derivative suits relating to the ANCURE System are currently pending in the Southern District of Indiana and in the Superior Court of the State of Indiana, County of Marion. The suits, purportedly filed on behalf of Guidant, initially alleged that Guidant's directors breached their fiduciary duties by taking improper steps or failing to take steps to prevent the ANCURE and EVT related matters described above. The complaints seek damages and other equitable relief. The state court derivative suits have been stayed in favor of the federal derivative action. On March 9, 2007, the Superior Court granted the parties' joint motion to dismiss the complaint with prejudice for lack of standing in one of the pending state derivative actions. The plaintiff in the federal derivative case filed an amended complaint in December 2005, adding allegations regarding defibrillator and pacemaker products and Guidant's proposed merger with Johnson & Johnson. On January 23, 2006, Guidant and its directors moved to dismiss the amended complaint. On March 17, 2006, a second amended complaint in the federal derivative case was filed. On May 1, 2006, the defendants moved to dismiss the second amended complaint. This motion remains pending.

In July 2005, a purported class action complaint was filed on behalf of participants in Guidant's employee pension benefit plans. This action was filed in the U.S. District Court for the Southern District of Indiana against Guidant and its directors. The complaint alleges breaches of fiduciary duty under the Employee Retirement Income Security Act (ERISA), 29 U.S.C. § 1132. Specifically, the complaint alleges that Guidant fiduciaries concealed adverse information about Guidant's defibrillators and imprudently made contributions to Guidant's 401(k) plan and

employee stock ownership plan in the form of Guidant stock. The complaint seeks class certification, declaratory and injunctive relief, monetary damages, the imposition of a constructive trust, and costs and attorneys' fees. A second, similar complaint was filed and consolidated with the initial complaint. A consolidated, amended complaint was filed on February 8, 2006. The defendants moved to dismiss the consolidated complaint, and on September 15, 2006, the Court dismissed the complaint for lack of jurisdiction. In October 2006, the Plaintiffs appealed the Court's decision to the United States Court of Appeals for the Seventh Circuit. A hearing was held on April 10, 2007. In June 2007, the Seventh Circuit vacated the dismissal and remanded the case to the District Court. The Seventh Circuit specifically instructed the District Court to consider potential problems with the Plaintiffs' ability to prove damages or a breach of fiduciary duty.

Approximately 75 product liability class action lawsuits and more than 2,000 individual lawsuits involving approximately 5,320 individual plaintiffs are pending in various state and federal jurisdictions against Guidant alleging personal injuries associated with defibrillators or pacemakers involved in the 2005 and 2006 product communications. The majority of the cases in the United States are pending in federal court but 198 cases are currently pending in state courts. On November 7, 2005, the Judicial Panel on Multi-District Litigation established MDL-1708 (MDL) in the United States District Court for the District of Minnesota and appointed a single judge to preside over all the cases in the MDL. In April 2006, the personal injury plaintiffs and certain third-party payors served a Master Complaint in the MDL asserting claims for class action certification, alleging claims of strict liability, negligence, fraud, breach of warranty and other common law and/or statutory claims and seeking punitive damages. The majority of claimants allege no physical injury, but are suing for medical monitoring and anxiety. On July 13, 2007, we reached an agreement to settle certain claims associated with the 2005 and 2006 product communications. Subject to certain conditions, we will pay a total of \$195 million. The agreement includes approximately 4,000 claims of individuals that have been consolidated in the MDL, as well as an undetermined number, but not all, of additional similar claims throughout the country. To date, Guidant has also been informed of over 3,100 other claims of individuals that may or may not mature into filed suits.

An additional seventeen lawsuits are pending internationally. Nine suits are pending in Canada, six of which are putative class actions and three are individual lawsuits. On June 13, 2006, the Minnesota Supreme Court appointed a single judge to preside over all Minnesota state court lawsuits involving cases arising from the recent product communications. The first state court trial has been scheduled in Minnesota for January 28, 2008.

Guidant has received requests for information in the form of Civil Investigative Demands (CID) from the attorneys general of Arizona, California, Oregon, Illinois, Vermont and Louisiana. These attorneys general advise that approximately twenty-nine other states and the District of Columbia are cooperating in these CID demands. The CIDs pertain to whether Guidant violated any applicable state laws, primarily state consumer protection laws, in connection with the sale and promotion of certain of its implantable defibrillators. Guidant is cooperating with these investigations.

On November 2, 2005, the Attorney General of the State of New York filed a civil complaint against Guidant pursuant to the New York's Consumer Protection Law (N.Y. Executive Law §

63(12)). In the complaint, the Attorney General alleges that Guidant concealed from physicians and patients a design flaw in its PRIZM 1861 defibrillator from approximately February of 2002 until May 23, 2005. The complaint further alleges that due to Guidant's concealment of this information, Guidant has engaged in repeated and persistent fraudulent conduct in violation of N.Y. Executive Law § 63(12). The Attorney General is seeking permanent injunctive relief, restitution for patients in whom a PRIZM 1861 defibrillator manufactured before April 2002 was implanted, disgorgement of profits, and all other proper relief. This case is currently pending in the MDL in the United States District Court for the District of Minnesota.

Sixty-nine former employees filed charges against Guidant with the U.S. Equal Employment Opportunity Commission (EEOC) alleging that Guidant discriminated against the former employees on the basis of their age when Guidant terminated their employment in the fall of 2004 as part of a reduction in force. In September 2006, the EEOC found probable cause to support the allegations in the charges pending before it. Separately, in April 2006, sixty-one of these former employees also sued Guidant in federal district court for the District of Minnesota, again alleging that Guidant discriminated against the former employees on the basis of their age when it terminated their employment in the Fall of 2004 as part of a reduction in force. All but one of the plaintiffs in the federal court action signed a full and complete release of claims that included any claim based on age discrimination, shortly after their employments ended in 2004. The parties conducted discovery in the Fall of 2006 regarding the issue of the validity of those releases and have since filed cross motions for summary judgment on this issue. A hearing on the summary judgment motions was held on February 21, 2007, and on April 4, 2007, the Court issued a decision in which it held that the releases did not bar the plaintiffs from pursuing their claims of age discrimination against Guidant. On April 30, 2007, Guidant moved the District Court for permission to appeal this decision to the United States Court of Appeals for the Eighth Circuit but on July 18, 2007, the Eighth Circuit Court of Appeals declined to accept our appeal. Counsel for the plaintiffs voluntarily dismissed two of their clients from the case, leaving a total of fifty-nine individual plaintiffs, and have moved the District Court for preliminary certification of the matter as a class action. A hearing on the preliminary class certification motion is scheduled for August 30, 2007.

Guidant is a defendant in two separate complaints in which plaintiffs allege a right of recovery under the Medicare secondary payer (or MSP) private right of action, as well as related claims. Plaintiffs claim as damages double the amount paid by Medicare in connection with devices that were the subject of recent voluntary field actions. Both of these cases were pending in the MDL in the United States District Court for the District of Minnesota. We moved to dismiss one of the suits and the plaintiff filed an opposition to this motion. The Court held a hearing on the motion to dismiss the MSP claim on March 6, 2007 which was granted on April 16, 2007. Plaintiffs appealed this dismissal to the Eighth Circuit Court of Appeals. Guidant moved to dismiss the appeal for lack of appellate jurisdiction. The Eighth Circuit granted Guidant's motion, and dismissed the MSP appeal, which the MSP plaintiffs now seek to have certified by the District Court for interlocutory appeal. The District Court, however, has stayed this motion and others like it due to the recent announcement of the MDL settlement. Guidant expects to oppose plaintiffs' motion for interlocutory certification if, and when, the court lifts the stay. Guidant expects to file a motion to dismiss the second MSP claim based on the Court's recent ruling relating to the first MSP claim once the District Court indicates a willingness to hear these motions.

Guidant or its affiliates are defendants in four separate actions brought by private third-party providers of health benefits or health insurance (TPPs). In these cases, plaintiffs allege various theories of recovery, including derivative tort claims, subrogation, violation of consumer protection statutes and unjust enrichment, for the cost of healthcare benefits they allegedly paid for in connection with the devices that have been the subject of Guidant's voluntary field actions.

Two of these actions were pending in the multi-district litigation in the federal district court in Minnesota (MDL) as part of a single 'master complaint,' filed on April 24, 2006, which also includes other types of claims by other plaintiffs. The two named TPP plaintiffs in the master complaint claim to represent a putative nationwide class of TPPs. These two TPP plaintiffs had previously filed separate complaints against Guidant. Guidant moved to dismiss the MDL TPP claims in the master complaint for lack of standing and for failure to state a claim. A hearing was held on March 6, 2007, and on April 16, 2007, the MDL Court granted Guidant's motion to dismiss, dismissing the claims of both TPP plaintiffs in the MDL. While most of the claims were dismissed with prejudice, the subrogation claims brought by the TPP plaintiffs were dismissed without prejudice and may later be reasserted. The TPP plaintiffs have filed an appeal of that ruling in the Eighth Circuit and have moved the District Court for certification of that ruling for interlocutory appeal. Guidant has filed a motion to dismiss plaintiffs appeal.

The other two TPP actions are pending in state court in Minnesota, and are part of the coordinated state court proceeding ordered by the Minnesota Supreme Court. The plaintiffs in one of these cases are a number of Blue Cross & Blue Shield plans, while the plaintiffs in the other case are a national health insurer and its affiliates. The complaints in these cases were served on Guidant on May 18 and June 25, 2006, respectively. Guidant has moved to dismiss both cases. A hearing was held on June 18, 2007.

In January 2006, Guidant was served with a civil False Claims Act qui tam lawsuit filed in the U.S. District Court for the Middle District of Tennessee in September 2003 by Robert Fry, a former employee alleged to have worked for Guidant from 1981 to 1997. The lawsuit claims that Guidant violated federal law and the laws of the States of Tennessee, Florida and California, by allegedly concealing limited warranty and other credits for upgraded or replacement medical devices, thereby allegedly causing hospitals to file reimbursement claims with federal and state healthcare programs for amounts that did not reflect the providers' true costs for the devices. On April 25, 2006, the Court denied Guidant's motion to dismiss the complaint, but ordered the relator to file a second amended complaint. On May 4, 2006, the relator filed a second amended complaint. On May 24, 2006, Guidant moved to dismiss that complaint, which motion was denied by the Court on September 13, 2006. On October 16, 2006, the United States filed a motion to intervene in this action, which was approved by the Court on November 2, 2006. To date, no state has intervened in this case.

In 2005, the Securities and Exchange Commission began a formal inquiry into issues related to certain of Guidant's product disclosures and trading in Guidant stock. Guidant has cooperated with the inquiry.

On November 3, 2005, a securities class action complaint was filed on behalf of purchasers of Guidant stock between December 1, 2004 and October 18, 2005 in the U.S. District Court for the

Southern District of Indiana, against Guidant and several of its officers and directors. The complaint alleges that the defendants concealed adverse information about Guidant's defibrillators and pacemakers and sold stock in violation of federal securities laws. The complaint seeks a declaration that the lawsuit can be maintained as a class action, monetary damages, and injunctive relief. Several additional, related securities class actions were filed in November 2005 and January 2006, and were consolidated with the initial complaint filed on November 3, 2005. The Court issued an order consolidating the complaints and appointed the Iron Workers of Western Pennsylvania Pension Plan and David Fannon as lead plaintiffs. Lead plaintiffs filed a consolidated amended complaint. In August 2006, the defendants moved to dismiss the complaint. That motion remains pending.

In October 2005, Guidant received administrative subpoenas from the U.S. Department of Justice U.S. Attorney's offices in Boston and Minneapolis, issued under the Health Insurance Portability & Accountability Act of 1996. The subpoena from the U.S. Attorney's office in Boston requests documents concerning marketing practices for pacemakers, implantable cardioverter defibrillators, leads and related products. The subpoena from the U.S. Attorney's office in Minneapolis requests documents relating to Guidant's VENTAK PRIZM 2 and CONTAK RENEWAL and CONTAK RENEWAL 2 devices. Guidant is cooperating in these matters.

On May 3, 2006, Emergency Care Research Institute (ECRI) filed a complaint against Guidant in the U.S. District Court for the Eastern District of Pennsylvania generally seeking a declaration that ECRI may publish confidential pricing information about Guidant's medical devices. The complaint seeks, on constitutional and other grounds, a declaration that confidentiality clauses contained in contracts between Guidant and its customers are not binding and that ECRI does not tortiously interfere with Guidant's contractual relations by obtaining and publishing Guidant pricing information. Guidant's motion to transfer the matter to Minnesota was denied and discovery is proceeding in the Eastern District of Pennsylvania. A trial is expected to be scheduled in late 2007 or early 2008.

On July 17, 2006, Carla Woods and Jeffrey Goldberg, as Trustees of the Bionics Trust and Stockholders' Representative, filed a lawsuit against us in the U.S. District Court for the Southern District of New York. The complaint alleges that we breached the Agreement and Plan of Merger among us, Advanced Bionics Corporation, the Bionics Trust, Alfred E. Mann, Jeffrey H. Greiner, and David MacCallum, collectively in their capacity as Stockholders' Representative, and others dated May 28, 2004 (the Merger Agreement) or, alternatively, the covenant of good faith and fair dealing. The complaint seeks injunctive and other relief. On February 20, 2007, the district court entered a preliminary injunction prohibiting us from taking certain actions until we complete specific actions described in the Merger Agreement. We appealed the preliminary injunction order on March 16, 2007. On April 17, 2007, the district court issued a permanent injunction. On May 7, 2007, we appealed the permanent injunction order. A hearing on the appeal was held on July 13, 2007.

On January 16, 2007, the French Conseil de la Concurrence (one of the bodies responsible for the enforcement of antitrust/competition law in France) issued a Statement of Objections alleging that Guidant had agreed with the four other main suppliers of ICDs in France to collectively refrain from responding to a 2001 tender for ICDs conducted by a group of seventeen University Hospital Centers in France. This alleged collusion is said to be contrary to the French



Commercial Code and Article 81 of the European Community Treaty. Guidant France filed a response to the Statement of Objections on March 29, 2007. On June 25, 2007, a further report was issued addressing the defendants' response and recommending that the Conseil pursue the alleged violation of competition law. Guidant France will file its full defense with the Conseil on or before August 28, 2007.

On February 28, 2007, we received a letter from the Congressional Committee on Oversight and Government Reform requesting information relating to our TAXUS stent systems. The Committee's request expressly related to concerns about the safety and off-label use of drug-eluting stents raised by a recent FDA panel. We are one of two device companies asked to provide information about research and marketing activities relating to drug-eluting stents. We are cooperating with the Committee regarding its request.

### ***FDA Warning Letters***

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 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 facilities and advising us that our corrective action plan relating to three site-specific warning letters issued to us in 2005 was inadequate. As also stated in this FDA warning letter, the FDA may not grant our requests for exportation certificates to foreign governments or approve pre-market approval 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.

### **NOTE J – INCOME TAXES**

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

	<b>Three Months Ended June 30,</b>		<b>Percentage Point</b>
	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease)</b>
Reported tax rate	8.7%	(1.8%)	10.5%
Impact of certain charges*	12.3%	24.8%	(12.5%)
	<b>Six Months Ended June 30,</b>		<b>Percentage Point</b>
	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease)</b>
Reported tax rate	17.8%	(4.7%)	22.5%
Impact of certain charges*	3.2%	27.7%	(24.5%)

\*These charges are taxed at different rates than our effective tax rate.

The increase in our reported tax rate for the second quarter of 2007 and the first half of 2007 as compared to the same periods in the prior year related primarily to the impact of certain charges that are taxed at different rates than our effective tax rate. In 2007, these charges included certain investment portfolio activity and discrete tax items associated with the resolution of various tax matters related to prior periods. In 2006, these charges included purchased research and development associated with the acquisition of Guidant; a charge to step-up the value of acquired inventory sold during the quarter; a tax charge for the drug-eluting stent license right obtained from Abbott; the fair value adjustment related to the sharing of proceeds feature of the Abbott stock purchase; and the net reserve increase resulting from tax audit settlements and new tax reserve items that originated in the quarter. In addition, our effective tax rate for 2007 decreased by approximately two percentage points as compared to the prior year due primarily to our decision at the end of 2006 to indefinitely reinvest earnings in foreign operations in order to repay debt obligations associated with the Guidant acquisition.

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 an approximately \$128 million increase in our liability for unrecognized tax benefits. Approximately \$28 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 and was recorded as an increase to goodwill in accordance with EITF Issue No. 93-7, *Uncertainties Related to Income Taxes in a Purchase Business Combination*. At the adoption date of January 1, 2007, we had \$1.155 billion of gross unrecognized tax benefits, \$360 million of which, if recognized, would affect our effective tax rate. At June 30, 2007, we had \$1.132 billion of gross unrecognized tax benefits, \$394 million of which, if recognized, would affect our effective tax rate.

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.

During the second quarter of 2007, we settled several audits, obtained an Advance Pricing Agreement between the U.S. and Japan, and received a favorable appellate court decision on a previously outstanding Japan matter with respect to the 1995 to 1998 tax periods. As a result of settlement of these matters, net of payments, we decreased our reserve for uncertain tax positions by \$67 million, inclusive of \$16 million of interest and penalties. Of this amount, we treated \$53 million as a reduction in goodwill in accordance with Issue No. 93-7, and we reversed the remaining \$14 million to earnings. It is reasonably possible that within the next 12 months we will resolve multiple issues with taxing authorities, including matters presently under consideration at Appeals related to Guidant's acquisition of Intermedics, in which case we could record a reduction in our balance of unrecognized tax benefits of up to approximately \$140 million.

Our historical practice was and continues to be to recognize interest and penalties related to income tax matters in income tax expense. We had \$221 million accrued for interest and penalties at adoption of Interpretation No. 48 and \$237 million at June 30, 2007. The total amount of interest and penalties recognized in the unaudited condensed consolidated statements of earnings was \$11 million for the second quarter of 2007 and \$32 million for the first half of 2007.

**NOTE K – SEGMENT REPORTING**

We have four reportable operating segments based on geographic regions: the United States, Europe, Japan and Inter-Continental. Each of our reportable segments generates revenues from the sale of medical devices. The reportable segments represent an aggregate of all operating divisions within each segment. We measure and evaluate our reportable segments based on segment income. This segment income excludes certain corporate and manufacturing expenses associated with divisions that do not meet the definition of a segment, as defined by FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*. In addition, certain transactions or adjustments that our chief operating decision maker considers to be non-recurring and/or non-operational, as well as stock-based compensation and amortization expense, are excluded from segment income. Although we exclude these amounts from segment income, they are included in reported consolidated net income (loss) and are included in the reconciliation below.

Sales and operating results of reportable segments are based on internally derived standard foreign exchange rates, which may differ from year to year and do not include intersegment profits. We have restated the segment information for 2006 net sales and operating results based on our standard foreign exchange rates used for 2007. Because of the interdependence of the reportable segments, the operating profit as presented may not be representative of the geographic distribution that would occur if the segments were not interdependent. We base enterprise-wide information on actual foreign exchange rates used in our unaudited condensed consolidated financial statements. A reconciliation of the totals reported for the reportable segments to the applicable line items in our consolidated financial statements is as follows:

<i>(in millions)</i>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Net sales</b>				
United States	\$ 1,220	\$ 1,315	\$ 2,490	\$ 2,306
Europe	411	419	843	739
Japan	209	155	379	297
Inter-Continental	190	208	375	384
Net sales allocated to reportable segments	<b>\$ 2,030</b>	<b>\$ 2,097</b>	<b>\$ 4,087</b>	<b>\$ 3,726</b>
Foreign exchange	41	13	70	4
	<b>\$ 2,071</b>	<b>\$ 2,110</b>	<b>\$ 4,157</b>	<b>\$ 3,730</b>
<b>Income (loss) before income taxes</b>				
United States	\$ 378	\$ 508	\$ 768	\$ 971
Europe	193	208	417	388
Japan	123	81	219	161
Inter-Continental	92	101	179	189
Operating income allocated to reportable segments	<b>\$ 786</b>	<b>\$ 898</b>	<b>\$ 1,583</b>	<b>\$ 1,709</b>
Manufacturing operations	(159)	(115)	(320)	(241)
Corporate expenses and foreign exchange	(153)	(146)	(301)	(264)
Acquisition-related and other costs	(4)	(4,366)	(21)	(4,366)
Amortization and stock-based compensation expense	(190)	(196)	(378)	(266)
	280	(3,925)	563	(3,428)
Other income (expense)	(154)	(261)	(277)	(327)
	<b>\$ 126</b>	<b>\$ (4,186)</b>	<b>\$ 286</b>	<b>\$ (3,755)</b>

**NOTE L – NEW ACCOUNTING PRONOUNCEMENTS***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. Statement No. 159 also establishes additional disclosure requirements for these items stated at fair value. Statement No. 159 is effective for our 2008 fiscal year, with early adoption permitted, provided that we also adopt Statement No. 157, *Fair Value Measurements*. We are currently evaluating the impact that the adoption of Statement No. 159 will have on our consolidated financial statements.

*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 the consensus, 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 unaudited condensed consolidated statements of operations. Issue No. 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. No change of presentation has resulted from our adoption of Issue No. 06-3.

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
2. 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 strategic acquisitions and alliances. Our quality policy, applicable to all employees, is "I improve the quality of patient care and all things Boston Scientific."

Our operating results for the three and six months ended June 30, 2007 include the full three and six month results of our Cardiac Rhythm Management (CRM) and Cardiac Surgery businesses that we acquired as part of Guidant Corporation on April 21, 2006. Our operating results for the three and six months ended June 30, 2006 include the results of CRM and Cardiac Surgery beginning on the date of acquisition.

**Financial Summary**

***Three Months Ended June 30, 2007***

Our net sales for the second quarter of 2007 decreased to \$2.071 billion from \$2.110 billion for the second quarter of 2006, a decrease of 2 percent. Our reported net income for the second quarter of 2007 was \$115 million, or \$0.08 per diluted share, as compared to a net loss of \$4.262 billion, or \$3.21 per diluted share, for the second quarter of 2006. Our reported results for the second quarter of 2007 included net charges (after-tax) of \$9 million, or less than \$0.01 per share, which consisted primarily of \$14 million in net writedowns attributable to our investment portfolio, \$9 million in charges related to the Guidant acquisition and \$14 million in credits for discrete tax items. Our reported results for the second quarter of 2006 included charges (after-tax) of \$4.541 billion, or \$3.42 per share, which consisted primarily of: \$4.424 billion in purchase accounting adjustments associated primarily with purchased research and development obtained as part of the Guidant acquisition and the step-up value of acquired Guidant inventory sold during the quarter; \$96 million in acquisition-related costs associated primarily with integration costs and a fair value adjustment related to the sharing of proceeds feature of Abbott Laboratories' purchase of \$1.4 billion of our stock; a \$31 million credit resulting primarily from the reversal of accrued contingent payments due to the cancellation of the abdominal aortic aneurysm (AAA) stent-graft program that we obtained as part of the TriVascular, Inc. acquisition; and \$52 million in writedowns attributable to our investment portfolio.

**Six Months Ended June 30, 2007**

Our net sales for the first half of 2007 increased to \$4.157 billion from \$3.730 billion for the first half of 2006, an increase of 11 percent. The increase in net sales is attributable primarily to the inclusion of net sales from our CRM and Cardiac Surgery divisions for the entire period. Our reported net income for the first half of 2007 was \$235 million, or \$0.16 per diluted share, as compared to a net loss of \$3.930 billion, or \$3.66 per diluted share, for the first half of 2006. Our reported results for the first half of 2007 included net charges (after-tax) of \$35 million, or \$0.02 per share, which consisted primarily of \$19 million in net writedowns attributable to our investment portfolio, \$24 million in charges related to the Guidant acquisition and \$8 million in credits for discrete tax items. Our reported results for the first half of 2006 included charges (after-tax) of \$4.570 billion, or \$4.26 per share, which consisted primarily of: \$4.424 billion in purchase accounting adjustments related to the Guidant acquisition; \$96 million in acquisition-related costs associated primarily with integration costs and a fair value adjustment related to the sharing of proceeds feature of the Abbott stock purchase; a \$31 million credit due to the cancellation of the TriVascular AAA program; and \$81 million in writedowns attributable to our investment portfolio.

**Outlook****Coronary Stent Business**

Coronary stent revenue represented approximately 24 percent of our consolidated net sales during the second quarter of 2007. We estimate that the worldwide coronary stent market will approximate \$5.0 billion in 2007 as compared to approximately \$6.0 billion in 2006 and estimate that drug-eluting stents will represent approximately 80 percent of the dollar value of coronary stent market sales in 2007 as compared to 90 percent for 2006. Market size is driven primarily by the number of percutaneous coronary intervention (PCI) procedures performed; the number of devices used per procedure; the drug-eluting stent penetration rate, or mix between bare metal and drug-eluting stents across procedures; and average drug-eluting stent selling prices. Uncertainty regarding the perceived risk of late stent thrombosis following the use of drug-eluting stents has contributed to a decline in the U.S. coronary stent market size. Late stent thrombosis is the formation of a clot, or thrombus, within the stented area one year or more after implantation of the stent.

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

<i>(in millions)</i>	<b>Three Months Ended</b>			<b>Three Months Ended</b>		
		<b>June 30, 2007</b>		<b>June 30, 2006</b>		
	<b>U.S.</b>	<b>International</b>	<b>Total</b>	<b>U.S.</b>	<b>International</b>	<b>Total</b>
Drug-eluting	\$ 249	\$ 188	\$ 437	\$ 429	\$ 218	\$ 647
Bare metal	26	35	61	11	23	34