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**United States of America**
**Healthcare**
**Medical Supplies & Devices**

## Boston Scientific (BSX - US\$ 15.91) 1-Overweight

Company Update

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**BSX Analyst Day: Any Surprises?**
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### Investment Conclusion

Overall, while the near term outlook for BSX's numbers remain weak, we expect Tobin will make progress with the FDA ICD warning letters which should keep the stock in the \$15-\$16 area despite the tough stent and ICD results that we expect in Q4. In 2007, because we expect a pick up in the ICD market, resolution of the ICD warning letters, Japanese Taxus approval, and Carotid approval (through Endotex), we expect the stock can climb slightly higher.

### Summary

On Monday November 6th BSX will host its analyst day in Boston. In our note today please find a number of tables that may be useful during the analyst day. We include a detailed BSX catalyst table, our complete DES and ICD growth assumption tables, and our cash flow and valuation tables.

### EPS (US\$) (FY Dec)

	2005		2006		2007		% Change		
	Actual	Old	New	St. Est.	Old	New	St. Est.	2006	2007
1Q	0.51A	0.43A	0.43A	0.43A	N/A	N/A	0.17E	-16%	N/A
2Q	0.48A	0.21A	0.21A	0.21A	N/A	N/A	0.18E	-56%	N/A
3Q	0.42A	0.10A	0.10A	0.10A	N/A	N/A	0.18E	-76%	N/A
4Q	0.41A	0.10E	0.10E	0.12E	N/A	N/A	0.21E	-76%	N/A
Year	1.82A	0.85E	0.85E	0.79E	0.77E	0.77E	0.77E	-53%	-9%
P/E			18.7			20.7			

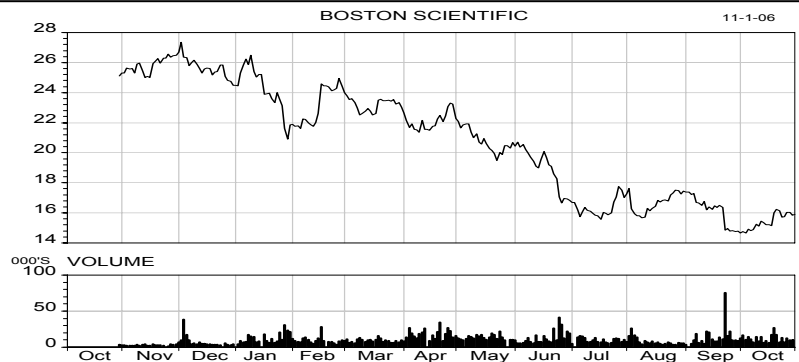
### Market Data

Market Cap (Mil.)	13072
Shares Outstanding (Mil.)	821.60
Float (%)	574
Dividend Yield	0.00
Convertible	No
52 Week Range	27.82 - 14.43

### Financial Summary

Revenue FY06 (Mil.)	N/A
Five-Year EPS CAGR	16.0
Return on Equity	29.80
Current BVPS	4.75
Debt To Capital (%)	30.62

### Stock Overview



### Stock Rating

### Target Price

New: 1-Overweight	New: US\$ 21.00
Old: 1-Overweight	Old: US\$ 21.00

**Sector View:** 1-Positive

- On Monday November 6th BSX will host its analyst day in Boston. The scope of the meeting will be narrow. As announced earlier, there will be no specific guidance provided below the revenue line as final cost cutting decisions have not yet been made. The only financial guidance provided will be for 2007 revenues across all major businesses. We have been told that there will be no guidance provided for 2008 or beyond. We are not sure if this means management is backing away from its previous long term revenue growth guidance of 12% through 2011, but that is something of a moot point given that consensus estimates have always been much more conservative. Long term product pipelines and launch dates will be discussed.
- Within the last month, BSX has hosted two earnings calls (the Q3 pre-release & the Q3 release) and an analyst day at TCT, which makes it unlikely that there will be any major surprises at next week's meeting, but we offer the following quick thoughts:

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- 1) The Numbers: We expect 2007 revenue guidance will be roughly within \$100mm of the consensus revenue estimate of \$9,067 mm. While the difference is more likely to be lower than higher in our view, we do not feel that it will be different enough to have a significant impact on the stock.
- 2) The Outlook: We expect Jim Tobin to remain optimistic on his outlook for the timing of resolution of the FDA warning letters on the ICD side of the house. While we doubt his previous guidance of resolution by year-end will be hit, we believe the ICD letters can be lifted by early 07. The lifting of these warning letters is one of the most important issues facing BSX and resolution will surely be a positive for the stock if it happens within or even close to the guidance of year-end.
- 3) Overall, while the near term outlook for BSX's numbers remains weak, we expect Tobin will make progress with the FDA ICD warning letters which should keep the stock in the \$15-\$16 area despite the tough stent and ICD results that we expect in Q4. In 2007, because we expect a pick up in the ICD market, resolution of the ICD warning letters, Japanese Taxus approval, and Carotid approval (through Endotex), we expect the stock can climb slightly higher.
- 4) It is interesting to note that stents and ICDs represent less than 50% of BSX's revenues and that BSX's endosurgery business is bigger than their ICD business. Nonetheless we expect most of the focus on Monday to be on those two areas. In our note today please find a number of tables that may be useful during the analyst day on Monday. We include a detailed BSX catalyst table, our complete DES and ICD growth assumption tables, and our cash flow and valuation tables.

**Figure 1: BSX Potential Upcoming Catalysts**

BSX POTENTIAL CATALYST TIMELINE			
Event	Timing	Comments/Expectations	Details
BSX Analyst Day	Nov 6, 2007	Company will offer top line guidance only for 2007. Timeline for resolution of ICD warning letters not likely to be pushed back further than early 07.	Expect conservative ICD guidance and not so conservative stent guidance. All in should not be too much lower than 2007 consensus of \$9,067 bln. Within \$100mm of consensus. Minor positive.
FDA DES Panel	Dec 7-8, 2006	BSX along with all other DES manufacturers is expected to present re-adjudicated standardized LST data.	We do not expect any meaningful increase in LST rates for BSX. Neutral for stents business and market.
FDA Re-inspection of GDT Facilities	4Q 2006	Expected reinspection of St.Paul, Ireland and Puerto Rico facilities. BSX thinks year-end resolution possible but not guaranteed.	Will be a positive if inspections happen and no 483s. Resolution of ICD warning letters likely by early Spring, which will be a significant plus for stock if in \$15 area.
PROMUS Launch in EU	Dec 2006-1H07	Initial European launch is planned for December with full commercialization through 1H07.	Minor positive. Already in the stock.
Q406 Numbers for the ICD Players	Jan 2007	Q4 revenues from the major ICD players will be critical.	Major positive if trend in the ICD market reversed, however we expect the best case scenario will be stabilization.
COSTAR II 9-Mo Results	ACC 2007, New Orleans	COSTAR stent with biodegradable polymer randomized 3:2 against TAXUS.	If not inferior to TAXUS in efficacy, COSTAR can be seen as a safer paclitaxel-eluting DES with bioabsorbable polymer.
ENDEAVOR IV 9-Mo Results	H12007	Prospective randomized trial of ENDEAVOR vs. TAXUS.	Confirmatory trial as per FDA requirements.
TAXUS Launch in Japan	2Q07	Timelines for Japanese commercialiation have been pushed back several times.	Minor positive. BSX will become second DES available in Japan after Cypher.
FDA Re-inspection of BSX Manufacturing Facilities	2Q 2007	BSX now expects to present FDA with data at the end of 1Q07, allowing for re-inspection and the warning resolution by late 2Q/early 3Q07 followed by TAXUS Liberte' launch.	Most recent timeline suggest TAXUS Liberte' launch will likely be 2H07.
SPIRIT II 12-Month Data	May 22-25, 2007 Barcelona	12-Month results from SPIRIT-II (EU trial on Xience DES) will give an insight on long-term outcomes.	Minor positive.
TAXUS Liberte' US Launch	4Q2007	US launch is contingent upon resolution of BSX Corporate Warning Letter.	Minor positive for DES franchise.
OUS Launch of the new ICD Product Line	3Q2007	Contingent upon GDT Warning Letter resolution.	
IDE for Everolimus on ELEMENT	2H07	Fully staffed clinical program is on track for Everolimus on ELEMENT (former Barracuda stent) IDE filing.	Contingent upon BSX FDA letter resolution.
US Launch of the new ICD product line	4Q07-1Q08	US Launch of new ICD product line is likely to happen a year after GDT FDA letter has been resolved.	Major positive for BSX ICD business.

Source: Company data, Lehman estimates

Figure 2: BSX % of Revenues by Business

BSX: % of Revenues from Key Business Lines			
	2007E	2008E	2009E
<b>Drug Eluting Stents</b>	<b>27.4%</b>	<b>20.8%</b>	<b>18.8%</b>
Other SciMed	14.3%	15.0%	14.7%
ICDs	15.5%	15.5%	15.0%
Pacers	6.9%	6.9%	6.5%
<b>Total CRM</b>	<b>22.3%</b>	<b>22.4%</b>	<b>21.5%</b>
<b>Total Endosurgery</b>	<b>16.8%</b>	<b>19.2%</b>	<b>20.9%</b>
<b>EP/Target</b>	<b>5.8%</b>	<b>6.4%</b>	<b>6.6%</b>
<b>Advanced Bionics</b>	<b>2.5%</b>	<b>3.4%</b>	<b>4.2%</b>

Source: Lehman Estimates

Figure 3: Lehman BSX Summary Revenue Model – Growth Rates by Key Businesses

BSX: Revenue Model Summary (\$ in MMs)	WW Revenues				% Growth			
	2006E	2007E	2008E	2009E	2006E	2007E	2008E	2009E
Bare Metal Stent	103	73	69	60	-22%	-29%	-5%	-13%
Taxus	2,373	2,074	811	594	0%	-13%	-61%	-27%
Xience V	0	395	1,095	1,270	0%	NA	177%	16%
<b>Drug-eluting Stent</b>	<b>2,373</b>	<b>2,469</b>	<b>1,906</b>	<b>1,864</b>	<b>-7%</b>	<b>4%</b>	<b>-23%</b>	<b>-2%</b>
Coronary Stents	2,476	2,542	1,975	1,924	-8%	3%	-22%	-3%
Peripheral	577	685	823	932	-2%	19%	20%	13%
Other SciMed	1,209	1,290	1,374	1,456	-1%	7%	7%	6%
<b>Total SciMed Unit</b>	<b>4,261</b>	<b>4,517</b>	<b>4,172</b>	<b>4,311</b>	<b>-5%</b>	<b>6%</b>	<b>-8%</b>	<b>3%</b>
Pacemakers	402	617	632	646	NM	NM	2%	2%
ICDs	952	1,394	1,415	1,485	NM	NM	2%	5%
<b>Total GDT CRM Unit</b>	<b>1,354</b>	<b>2,011</b>	<b>2,047</b>	<b>2,131</b>	<b>NM</b>	<b>NM</b>	<b>2%</b>	<b>4%</b>
<b>EP/Target</b>	<b>465</b>	<b>523</b>	<b>585</b>	<b>654</b>	<b>13%</b>	<b>13%</b>	<b>12%</b>	<b>12%</b>
Oncology Unit	226	253	283	314	9%	12%	12%	11%
Endoscopy Unit	747	831	972	1,171	7%	11%	17%	20%
Urology Unit	368	428	497	579	14%	16%	16%	16%
<b>Total Endosurgery Unit</b>	<b>1,341</b>	<b>1,512</b>	<b>1,752</b>	<b>2,064</b>	<b>9%</b>	<b>13%</b>	<b>16%</b>	<b>18%</b>
<b>Advanced Bionics</b>	<b>174</b>	<b>224</b>	<b>314</b>	<b>420</b>	<b>18%</b>	<b>29%</b>	<b>40%</b>	<b>34%</b>
<b>TOTAL REVENUE</b>	<b>\$7,767</b>	<b>\$9,004</b>	<b>\$9,142</b>	<b>\$9,896</b>	<b>24%</b>	<b>16%</b>	<b>2%</b>	<b>8%</b>

Source: Lehman estimates

Figure 4: Lehman BSX ICD Key Assumptions (2006E-2009E)

LEH BSX: Key ICD Market Assumptions				
(\$ in MMs)	2006E	2007E	2008E	2009E
WW ICD Market Estimate	\$5,349	\$5,614	\$5,894	\$6,185
% Growth	-3%	5%	5%	5%
BSX Mkt Share Estimate	27%	25%	24%	24%
BSX WW ICD Revenues	952	1,394	1,415	1,485
% Growth	NR	46.4%	1.5%	5.0%

Source: Lehman estimates

**Figure 5: Lehman BSX Drug Eluting Stent Key Assumptions (2005A-2009E)**

US	2005A	2006E	2007E	2008E	2009E
US Pricing	\$2,330	\$2,250	\$2,138	\$2,031	\$1,929
US Stents per Procedure	1.5	1.5	1.5	1.5	1.6
US DES Penetration	87%	84%	80%	80%	80%
<b>US DES Market Size</b>	<b>\$3,086</b>	<b>\$2,956</b>	<b>\$2,820</b>	<b>\$2,639</b>	<b>\$2,788</b>
<b>% Growth</b>	<b>11%</b>	<b>-4%</b>	<b>-5%</b>	<b>-6%</b>	<b>6%</b>
BSX US Market Share	57%	54%	52%	35%	32%
BSX Taxus Share	57%	54%	52%	12%	9%
BSX Xience Share	0%	0%	0%	23%	23%
<b>BSX US Sales</b>	<b>\$1,762</b>	<b>\$1,593</b>	<b>\$1,455</b>	<b>\$914</b>	<b>\$884</b>
<b>% Growth</b>	<b>12%</b>	<b>-10%</b>	<b>-9%</b>	<b>-37%</b>	<b>-3%</b>

Europe	2005A	2006E	2007E	2008E	2009E
Europe Pricing	\$1,685	\$1,530	\$1,454	\$1,395	\$1,340
Europe Stents per Procedure	1.6	1.7	1.7	1.7	1.7
Europe DES Penetration	55%	55%	55%	54%	54%
<b>Europe DES Market Size</b>	<b>\$958</b>	<b>\$1,106</b>	<b>\$1,139</b>	<b>\$1,205</b>	<b>\$1,239</b>
<b>% Growth</b>	<b>56%</b>	<b>15%</b>	<b>3%</b>	<b>6%</b>	<b>3%</b>
BSX Europe Market Share	47%	38%	36%	31%	28%
BSX Taxus Share	47%	36%	22%	15%	11%
BSX Xience Share	0%	2%	14%	16%	17%
<b>BSX European Sales</b>	<b>\$454</b>	<b>\$420</b>	<b>\$415</b>	<b>\$375</b>	<b>\$350</b>
<b>% Growth</b>	<b>42%</b>	<b>-7%</b>	<b>-1%</b>	<b>-10%</b>	<b>-7%</b>

ROW	2005A	2006E	2007E	2008E	2009E
ROW Pricing	\$1,750	\$1,725	\$1,570	\$1,470	\$1,420
ROW Stents per Procedure	1.7	1.7	1.7	1.8	1.8
ROW DES Penetration	66%	69%	71%	73%	74%
<b>ROW DES Market Size</b>	<b>\$723</b>	<b>\$863</b>	<b>\$886</b>	<b>\$919</b>	<b>\$952</b>
<b>% Growth</b>	<b>55%</b>	<b>19%</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>
BSX ROW Market Share	47%	42%	36%	31%	29%
BSX Taxus Share	47%	40%	21%	15%	13%
BSX Xience Share	0%	2%	15%	16%	16%
<b>BSX ROW Sales</b>	<b>\$340</b>	<b>\$360</b>	<b>\$315</b>	<b>\$285</b>	<b>\$280</b>
<b>% Growth</b>	<b>34%</b>	<b>6%</b>	<b>-13%</b>	<b>-10%</b>	<b>-2%</b>

Japan	2005A	2006E	2007E	2008E	2009E
Japan Pricing	\$2,500	\$2,300	\$2,250	\$2,100	\$2,050
Japan Stents per Procedure	1.6	1.6	1.6	1.6	1.6
Japan DES Penetration	60%	65%	68%	68%	69%
<b>Japan DES Market Size</b>	<b>\$490</b>	<b>\$512</b>	<b>\$658</b>	<b>\$679</b>	<b>\$684</b>
<b>% Growth</b>	<b>251%</b>	<b>4%</b>	<b>29%</b>	<b>3%</b>	<b>1%</b>
BSX Japan Market Share	0%	0%	43%	49%	51%
BSX Taxus Share	0%	0%	43%	49%	41%
BSX Xience Share	0%	0%	0%	0%	10%
<b>BSX Japan Sales</b>	<b>\$0</b>	<b>\$0</b>	<b>\$284</b>	<b>\$332</b>	<b>\$350</b>
<b>% Growth</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>17%</b>	<b>5%</b>

WORLDWIDE	2005A	2006E	2007E	2008E	2009E
WW Pricing	\$2,101	\$1,970	\$1,859	\$1,749	\$1,678
WW Stents per Procedure	1.6	1.6	1.6	1.6	1.6
WW DES Penetration	74%	75%	74%	75%	75%
<b>WW DES Market Size</b>	<b>\$5,257</b>	<b>\$5,437</b>	<b>\$5,503</b>	<b>\$5,442</b>	<b>\$5,662</b>
<b>% Growth</b>	<b>31%</b>	<b>3%</b>	<b>1%</b>	<b>-1%</b>	<b>4%</b>
BSX WW Market Share	49%	44%	45%	35%	33%
BSX WW Taxus Share	49%	43%	40%	17%	13%
BSX WW Xience Share	0%	1%	5%	18%	20%
<b>BSX WW Sales</b>	<b>\$2,556</b>	<b>\$2,373</b>	<b>\$2,469</b>	<b>\$1,906</b>	<b>\$1,864</b>
<b>% Growth</b>	<b>19%</b>	<b>-7%</b>	<b>4%</b>	<b>-23%</b>	<b>-2%</b>

Source: Company data, Lehman estimates

**Figure 6: Lehman BSX Summary Model (2006E-2009E)**

BSX Model Summary				
(\$s in MMs)	2006E	2007E	2008E	2009E
<b>WW Revenues</b>	<b>\$7,767</b>	<b>\$9,004</b>	<b>\$9,142</b>	<b>\$9,896</b>
WW Revenue Growth in %	24%	16%	2%	8%
<b>EBIT</b>	<b>\$1,673</b>	<b>\$1,927</b>	<b>\$2,178</b>	<b>\$2,503</b>
EBIT Margin	22%	21%	24%	25%
(+) Depreciation	250	245	243	238
GDT-related Amortization	135	129	111	104
BSX pre-deal amortization	500	500	500	500
(+) Amortization	635	629	611	604
<b>EBITDA</b>	<b>\$2,558</b>	<b>\$2,801</b>	<b>\$3,032</b>	<b>\$3,344</b>
Net Debt	8,439	7,185	5,758	4,240
<b>EPS (incl options &amp; amortiz)</b>	<b>\$0.85</b>	<b>\$0.77</b>	<b>\$0.95</b>	<b>\$1.15</b>
EPS Growth in %	NR	-8.7%	22.3%	21.4%
P/E (as of 11/01/06)	18.9x	20.7x	16.9x	13.9x
<b>EPS (incl options, but ex amortiz)</b>	<b>\$1.06</b>	<b>\$1.10</b>	<b>\$1.26</b>	<b>\$1.46</b>
EPS Growth in %	NR	3.9%	14.5%	15.5%
P/E (as of 11/01/06)	15.1x	14.5x	12.7x	11.0x
EV/EBITDA	12.2x	11.2x	10.3x	9.4x

Source: Company data, Lehman estimates

**Figures 7 and 8: BSX Cash Flow and Contingent Liabilities Analysis**

BSX Cash Flow Analysis				
(\$ in mm)	2006E	2007E	2008E	2009E
Beg of Year Cash on Hand	\$689	\$513	\$561	\$688
EBIT	1,673	1,927	2,178	2,503
Net Debt	8,439	7,185	5,758	4,240
(-) Debt Paydown Assumption		(1,300)	(1,300)	(1,400)
Blended Interest Rate Assumption	5.6%	5.6%	5.6%	5.6%
Annual Interest Expense	507	434	333	232
(+) Depreciation	250	250	250	250
(+) Amortization	635	629	611	604
<b>EBITDA</b>	<b>\$2,558</b>	<b>\$2,806</b>	<b>\$3,039</b>	<b>\$3,357</b>
Cash Flow from Operations (CFO)	\$833	\$2,001	\$2,154	\$2,262
(+) Cap Ex	(400)	(420)	(400)	(380)
<b>Free Cash Flow (FCF)</b>	<b>\$433</b>	<b>\$1,581</b>	<b>\$1,754</b>	<b>\$1,882</b>
FCF Yield	1.8%	6.7%	7.5%	8.0%
<u>Contingent Liabilities:</u>				
Advanced Bionics Earnouts	(110)	(113)	(203)	(239)
Other BSX Contingent Earnouts	(30)	(65)	(50)	(30)
GDT Earnouts	(60)	(25)	(25)	(25)
<b>Total Contingent Liabilities</b>	<b>(\$200)</b>	<b>(\$203)</b>	<b>(\$278)</b>	<b>(\$294)</b>
Net Change in Cash	(176)	48	126	118
<b>End of Year Cash on Hand</b>	<b>\$513</b>	<b>\$561</b>	<b>\$688</b>	<b>\$806</b>

Source: Lehman estimates

Contingent Liabilities Model (\$ in mm)	
<u>Advanced Bionics</u>	
Total Earnouts	\$2,100
Total Earnout Milestone: Cumulative Rev.	5,600
LEH Cumulative Rev. Est. (06-09E)	1,200
<u>Annual Earnout Calculation*</u>	
2006E	\$110
2007E	\$113
2008E	\$203
2009E	\$239
<u>GDT Earnouts</u>	
Total Earnouts	\$190
2006 Earnout Estimate	\$60
Avg Annual Earnout	\$25

\* Adv Bionics annual payout equal to 2.25x incremental annual revenue

Source: Lehman estimates, Company data

### Financial Model

<b>BOSTON SCIENTIFIC CORP</b>											
Quarterly Sales (in \$ millions)	2003A	2004A	2005A	Q1 06A	Q2 06A	Q3 06A	Q4 06E	2006E	2007E	2008E	2009E
PTCA	\$566	\$611	\$622	\$160	\$165	\$135	\$158	\$618	\$649	\$677	\$704
Bare Metal Stent	338	208	131	25	27	35	16	103	73	69	60
Taxus				633	647	572	521	2,373	2,074	811	594
Xience V				NA	0	0	0	0	395	1,095	1,270
Drug-eluting Stent	189	2,144	2,556	633	647	572	521	2,373	2,469	1,906	1,864
Coronary Stents	527	2,352	2,687	658	671	607	537	2,476	2,542	1,975	1,924
Peripheral	488	547	591	155	149	135	138	577	685	823	932
Vascular Surgery (1)	91	96	113	25	19	22	28	94	99	106	114
IVT	178	147	133	36	35	35	32	138	141	145	149
Other	318	353	353	96	94	88	81	359	401	445	489
SciMed Unit (1)	\$2,168	\$4,105	\$4,499	1,130	\$1,133	\$1,022	\$974	\$4,261	\$4,517	\$4,172	\$4,311
EP Technologies Unit	113	130	131	34	33	32	37	136	151	169	187
Target Neurosurgery Unit	223	253	279	80	82	81	86	329	372	417	467
Pacemaker					103	110	133	346	547	558	570
CRT					16	21	19	56	70	74	76
Low Power					119	131	152	402	617	632	646
ICD					191	193	200	584	876	886	930
CRT-D					126	122	120	368	518	529	555
High Power					317	315	320	952	1,394	1,415	1,485
GDT Cardiac Rhythm Management					436	446	472	1,354	2,011	2,047	2,131
GDT M.I.S. Cardiac Surgery					38	45	31	114	207	231	256
<b>Cardiovascular Business</b>	<b>\$2,504</b>	<b>\$4,488</b>	<b>\$4,909</b>	<b>\$1,244</b>	<b>\$1,722</b>	<b>\$1,626</b>	<b>\$1,599</b>	<b>\$6,191</b>	<b>\$7,268</b>	<b>\$7,076</b>	<b>\$7,413</b>
Oncology Unit (1)	\$165	\$186	\$207	\$54	\$52	\$60	\$60	\$226	\$253	\$283	\$314
Endoscopy Unit	580	639	697	180	189	187	191	747	831	972	1,171
Urology Unit	226	262	324	90	90	93	95	368	428	497	579
<b>Endosurgery Business</b>	<b>\$971</b>	<b>\$1,087</b>	<b>\$1,228</b>	<b>\$324</b>	<b>\$331</b>	<b>\$340</b>	<b>\$346</b>	<b>\$1,341</b>	<b>\$1,512</b>	<b>\$1,752</b>	<b>\$2,064</b>
<b>Advanced Bionics</b>		<b>\$49</b>	<b>\$148</b>	<b>\$49</b>	<b>\$58</b>	<b>\$60</b>	<b>\$65</b>	<b>\$174</b>	<b>\$224</b>	<b>\$314</b>	<b>\$420</b>
<b>TOTAL REVENUE</b>	<b>\$3,475</b>	<b>\$5,625</b>	<b>\$6,286</b>	<b>\$1,620</b>	<b>\$2,111</b>	<b>\$2,026</b>	<b>\$2,010</b>	<b>\$7,767</b>	<b>\$9,004</b>	<b>\$9,142</b>	<b>\$9,896</b>

Source: Company data, Lehman estimates



<b>BOSTON SCIENTIFIC CORP</b>											
Quarterly Sales (in \$ millions)	2003A	2004A	2005A	Q1 06A	Q2 06A	Q3 06A	Q4 06E	2006E	2007E	2008E	2009E
<b>Year-over-Year Growth Rates</b>											
PTCA	10%	8%	2%	3%	3%	-10%	2%	-1%	5%	4%	4%
Bare Metal Stent	6%	-38%	-37%	-29%	-27%	9%	-43%	-22%	-29%	-5%	-13%
Taxus									-13%	-61%	-27%
Xience V									NA	177%	16%
Drug-eluting Stent	NA	1034%	19%	-8%	-2%	-5%	-14%	-7%	4%	-23%	-2%
Coronary Stents	66%	346%	14%	-9%	-4%	-4%	-15%	-8%	3%	-22%	-3%
Peripheral	7%	12%	8%	9%	3%	-10%	-11%	-2%	19%	20%	13%
Peripheral ex. carotid									8%	8%	9%
Vascular Surgery (1)	2%	6%	17%	-22%	-42%	-8%	19%	-16%	5%	7%	7%
IVT	13%	-18%	-9%	3%	0%	9%	4%	4%	2%	2%	2%
Other	22%	11%	0%	-10%	-2%	11%	12%	2%	12%	11%	10%
SciMed Unit (1)	21%	89%	10%	-5%	-3%	-4%	-9%	-5%	6%	-8%	3%
EP Technologies Unit	12%	15%	1%	6%	0%	0%	7%	3%	11%	11%	11%
Target Neurosurgery Unit	32%	14%	10%	16%	17%	21%	17%	18%	13%	12%	12%
Pacemaker									NA	2%	2%
CRT									NA	6%	3%
Low Power									NA	2%	2%
ICD									NA	1%	5%
CRT-D									NA	2%	5%
High Power									NA	2%	5%
GDT Cardiac Rhythm Management									NA	2%	4%
GDT M.I.S. Cardiac Surgery									NA	12%	11%
<b>Cardiovascular Business</b>	<b>21%</b>	<b>79%</b>	<b>9%</b>	<b>-4%</b>	<b>35%</b>	<b>39%</b>	<b>36%</b>	<b>26%</b>	<b>17%</b>	<b>-3%</b>	<b>5%</b>
Oncology Unit (1)	17%	13%	11%	8%	0%	15%	12%	9%	12%	12%	11%
Endoscopy Unit	13%	10%	9%	8%	5%	9%	7%	7%	11%	17%	20%
Endoscopy excl. Endovations											
Urology Unit	15%	16%	24%	25%	11%	9%	10%	14%	16%	16%	16%
<b>Endosurgery Business</b>	<b>14%</b>	<b>12%</b>	<b>13%</b>	<b>12%</b>	<b>6%</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>	<b>13%</b>	<b>16%</b>	<b>18%</b>
<b>Advanced Bionics</b>		<b>NA</b>	<b>201%</b>	<b>48%</b>	<b>76%</b>	<b>71%</b>	<b>38%</b>	<b>18%</b>	<b>29%</b>	<b>40%</b>	<b>34%</b>
<b>TOTAL REVENUE</b>	<b>19%</b>	<b>62%</b>	<b>12%</b>	<b>0%</b>	<b>31%</b>	<b>34%</b>	<b>30%</b>	<b>24%</b>	<b>16%</b>	<b>2%</b>	<b>8%</b>

Source: Company data, Lehman estimates

BOSTON SCIENTIFIC CORP											
Income Statement (in \$ millions)	2003A	2004A	2005A	Q1 06A	Q2 06A	Q3 06A	Q4 06E	2006E	2007E	2008E	2009E
<b>Net Revenue</b>	<b>\$3,475</b>	<b>\$5,625</b>	<b>\$6,286</b>	<b>\$1,620</b>	<b>\$2,111</b>	<b>\$2,026</b>	<b>\$2,010</b>	<b>\$7,767</b>	<b>\$9,004</b>	<b>\$9,142</b>	<b>\$9,896</b>
Cost of Revenue	961	1,292	1,385	374	492	505	492	1,863	2,071	2,084	2,227
<b>Gross Profit</b>	<b>\$2,514</b>	<b>\$4,333</b>	<b>\$4,901</b>	<b>\$1,246</b>	<b>\$1,619</b>	<b>\$1,521</b>	<b>\$1,517</b>	<b>\$5,903</b>	<b>\$6,933</b>	<b>\$7,057</b>	<b>\$7,670</b>
SG&A	1,171	1,542	1,776	470	696	701	722	2,589	3,151	3,090	3,305
R&D	452	569	673	186	251	263	245	945	1,028	1,006	1,089
Amortization Expense	89	112	157	38	142	153	140	473	629	611	604
Royalties	54	195	212	55	65	57	47	224	198	172	169
<b>Operating Income</b>	<b>\$748</b>	<b>\$1,915</b>	<b>\$2,083</b>	<b>\$497</b>	<b>\$465</b>	<b>\$347</b>	<b>\$364</b>	<b>\$1,673</b>	<b>\$1,927</b>	<b>\$2,178</b>	<b>\$2,503</b>
Op. Income ex. Amortization				\$459	\$323	\$194	\$224	\$1,200	\$1,298	\$1,567	\$1,899
Interest and Other Expense, net	54	80	77	31	102	131	165	507	434	333	232
Pretax Income	694	1,835	2,006	466	363	216	199	1,166	1,493	1,845	2,271
Provision for Income Taxes	174	440	481	107	83	63	46	299	339	415	511
<b>Net Income</b>	<b>\$520</b>	<b>\$1,395</b>	<b>\$1,525</b>	<b>\$359</b>	<b>\$280</b>	<b>\$153</b>	<b>\$153</b>	<b>\$945</b>	<b>\$1,154</b>	<b>\$1,430</b>	<b>\$1,760</b>
Average Shares Out - fully diluted	845	858	838	830	1,327	1,487	1,494	1,284	1,490	1,510	1,530
<b>EPS - fully diluted (cash ex amortization &amp; options)</b>	<b>\$0.62</b>	<b>\$1.63</b>	<b>\$1.82</b>	<b>\$0.46</b>	<b>\$0.31</b>	<b>\$0.20</b>	<b>\$0.19</b>	<b>\$1.16</b>	<b>\$1.16</b>	<b>\$1.32</b>	<b>\$1.51</b>
<b>EPS - fully diluted (ex amortization but incl. options)</b>			<b>\$1.72</b>	<b>\$0.42</b>	<b>\$0.29</b>	<b>\$0.18</b>	<b>\$0.17</b>	<b>\$1.06</b>	<b>\$1.10</b>	<b>\$1.26</b>	<b>\$1.46</b>
<b>EPS - fully diluted (incl. amortization &amp; options)</b>				<b>\$0.43</b>	<b>\$0.21</b>	<b>\$0.10</b>	<b>\$0.10</b>	<b>\$0.85</b>	<b>\$0.77</b>	<b>\$0.95</b>	<b>\$1.15</b>
<b>Margin Analysis</b>											
SG&A	33.7%	27.4%	28.3%	29.0%	33.0%	34.6%	35.9%	33.3%	35.0%	33.8%	33.4%
R&D	13.0%	10.1%	10.7%	11.5%	11.9%	13.0%	12.2%	12.2%	11.4%	11.0%	11.0%
Amortization Expense	2.6%	2.0%	2.5%	2.3%	6.7%	7.6%	7.0%	6.1%	7.0%	6.7%	6.1%
Royalties	1.6%	3.5%	3.4%	3.4%	3.1%	2.8%	2.3%	2.9%	2.2%	0.8%	0.5%
Gross Profit	72.3%	77.0%	78.0%	76.9%	76.7%	75.1%	75.5%	76.0%	77.0%	77.2%	77.5%
Operating Income	21.5%	34.0%	33.1%	30.7%	22.0%	17.1%	18.1%	21.5%	21.4%	23.8%	25.3%
Pretax Income	20.0%	32.6%	31.9%	28.8%	17.2%	10.7%	9.9%	15.0%	16.6%	20.2%	22.9%
Net Income	15.0%	24.8%	24.3%	22.2%	13.3%	7.6%	7.6%	12.2%	12.8%	15.6%	17.8%
Tax Rate	25.1%	24.0%	24.0%	23.0%	22.9%	29.2%	23.0%	25.6%	22.7%	22.5%	22.5%

Source: Company data, Lehman estimates

### Analyst Certification:

I, Bob Hopkins, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

### Other Team Members:

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### Company Description:

Boston Scientific is a global medical technology company focused on less invasive medicine, specifically interventional cardiology, radiology, neurology, and urology products.

Important Disclosures:

**Boston Scientific (BSX)**

**US\$ 15.91 (31-Oct-2006)**

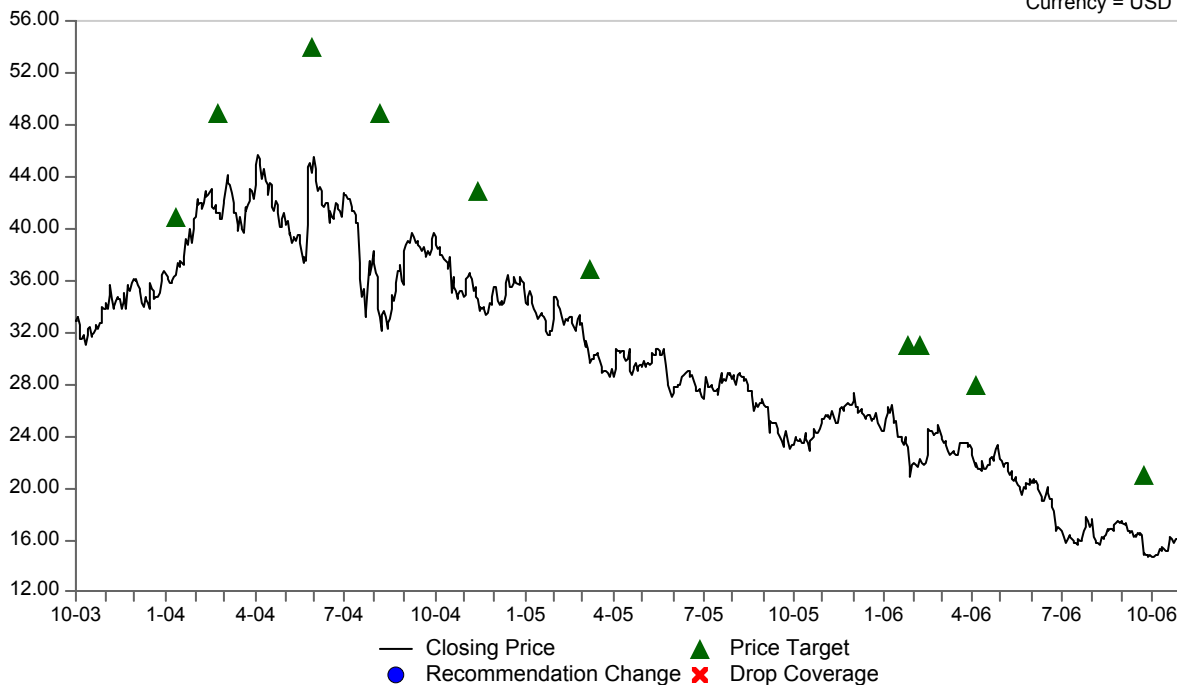
**1-Overweight / 1-Positive**

Rating and Price Target Chart:

### BOSTON SCIENTIFIC

As of 30-Oct-2006

Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
22-Sep-06	14.85		21.00
05-Apr-06	21.69		28.00
08-Feb-06	22.23		31.00
26-Jan-06	23.15		31.00
09-Mar-05	29.75		37.00
15-Nov-04	34.60		43.00

Date	Closing Price	Rating	Price Target
06-Aug-04	33.21		49.00
28-May-04	44.30		54.00
24-Feb-04	41.27		49.00
12-Jan-04	36.40		41.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or its affiliates beneficially owns 1% or more of any class of common equity securities of Boston Scientific as of the end of last month.

One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of Boston Scientific.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Boston Scientific.

Lehman Brothers Inc. has received non-investment banking related compensation from Boston Scientific within the last 12 months.

Boston Scientific is or during the last 12 months has been a non-investment banking client (securities related services) of Lehman Brothers Inc.

**Valuation Methodology:** Our \$21 price target is derived from a 16.5x multiple off our 2008 EPS estimate of \$1.26, which excludes amortization expense, but includes options.

**Risks Which May Impede the Achievement of the Price Target:** Exposure to emerging drug-eluting stent market. Exposure to interventional cardiology market. Competition from other drug-eluting stent players. Acquisition integration. Risk from pending litigation.

**Other Material Conflicts:** One of the analysts on the coverage team (or a member of his or her household) owns common stock and options in the common stock of Boston Scientific.

Important Disclosures Continued:

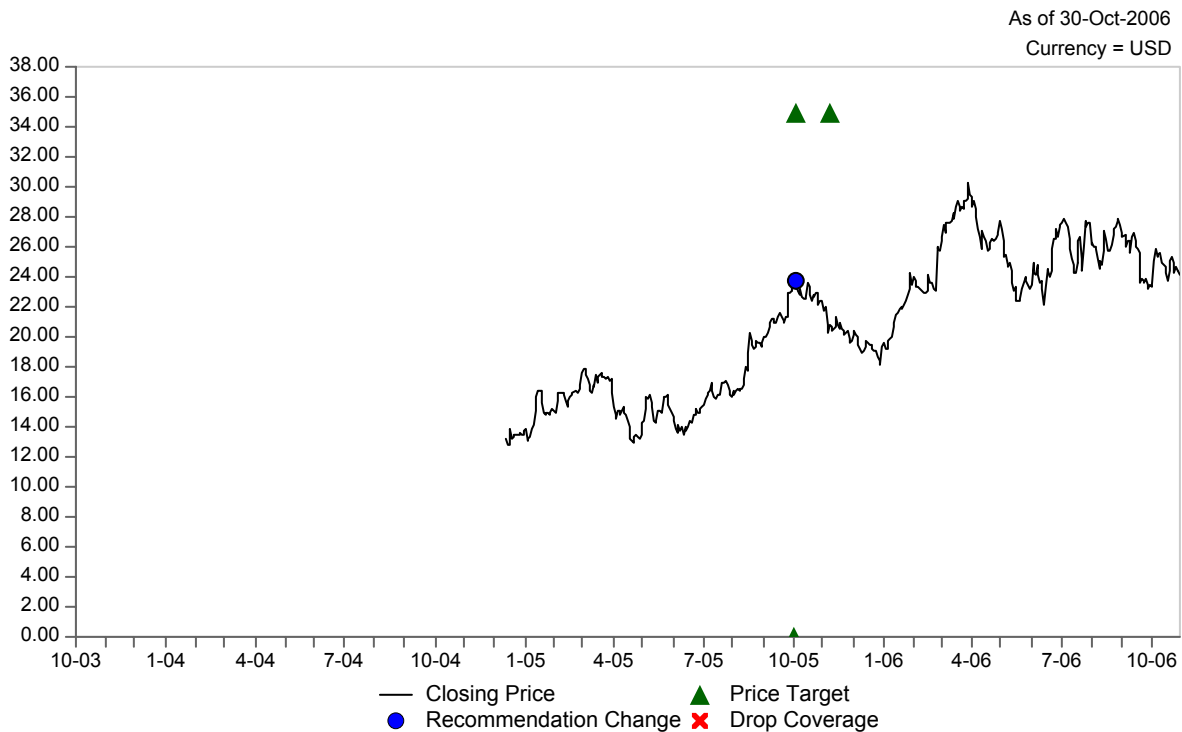
**Conor Medsystems (CONR)**

**US\$ 24.56 (31-Oct-2006)**

**1-Overweight / 1-Positive**

Rating and Price Target Chart:

### CONOR MEDSYSTEMS



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
08-Nov-05	20.89		35.00
05-Oct-05	23.81		35.00

Date	Closing Price	Rating	Price Target
05-Oct-05	23.81	1-Overweight	
03-Oct-05	23.56		0.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or an affiliate has managed or co-managed within the past 12 months a 144A and/or public offering of securities for Conor Medsystems.

Lehman Brothers Inc. and/or an affiliate makes a market in the securities of Conor Medsystems.

Lehman Brothers Inc. and/or an affiliate has received compensation for investment banking services from Conor Medsystems in the past 12 months.

Lehman Brothers Inc. and/or its affiliates beneficially owns 1% or more of any class of common equity securities of Conor Medsystems as of the end of last month.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Conor Medsystems.

Conor Medsystems is or during the past 12 months has been an investment banking client of Lehman Brothers Inc. and/or an affiliate.

**Risks Which May Impede the Achievement of the Price Target:** The key risks to our investment thesis on CONR include: 1) an unfavorable ruling in the patent litigation with BSX/ANPI; 2) the inability of the company to use paclitaxel in its DES program, 3) poor clinical data from ongoing DES trials, including the US pivotal trial; and 4) a delay in the European or US DES launch.

Important Disclosures Continued:

**Johnson & Johnson (JNJ)**

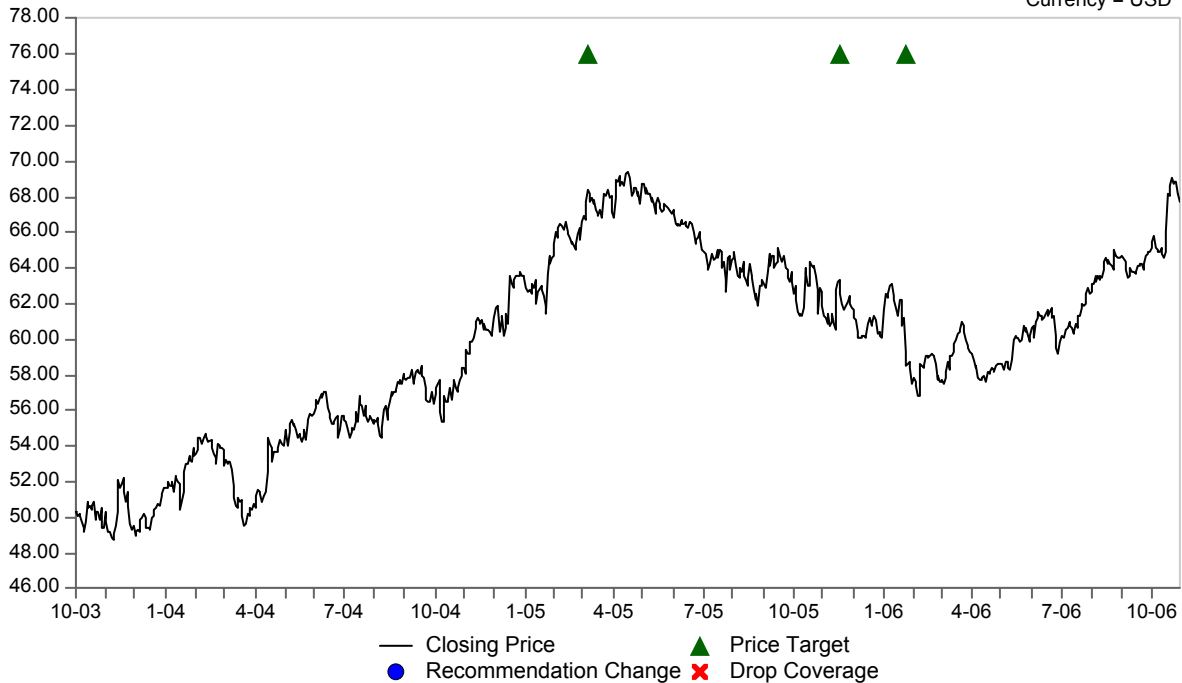
**US\$ 67.40 (31-Oct-2006)**

**1-Overweight / 1-Positive**

Rating and Price Target Chart:

### JOHNSON & JOHNSON

As of 30-Oct-2006  
Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
25-Jan-06	58.50		76.00
17-Nov-05	63.34		76.00

Date	Closing Price	Rating	Price Target
07-Mar-05	68.44		76.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Johnson & Johnson.

**Risks Which May Impede the Achievement of the Price Target:** Risks to the JNJ story include possible rotation back into large-cap pharma, delays and/or failure in the late-stage pharma pipeline, regulatory and integration risks associated with the GDT acquisition, and a marked slowdown in the consumer business, which has been growing well above historical rates for the past two years.

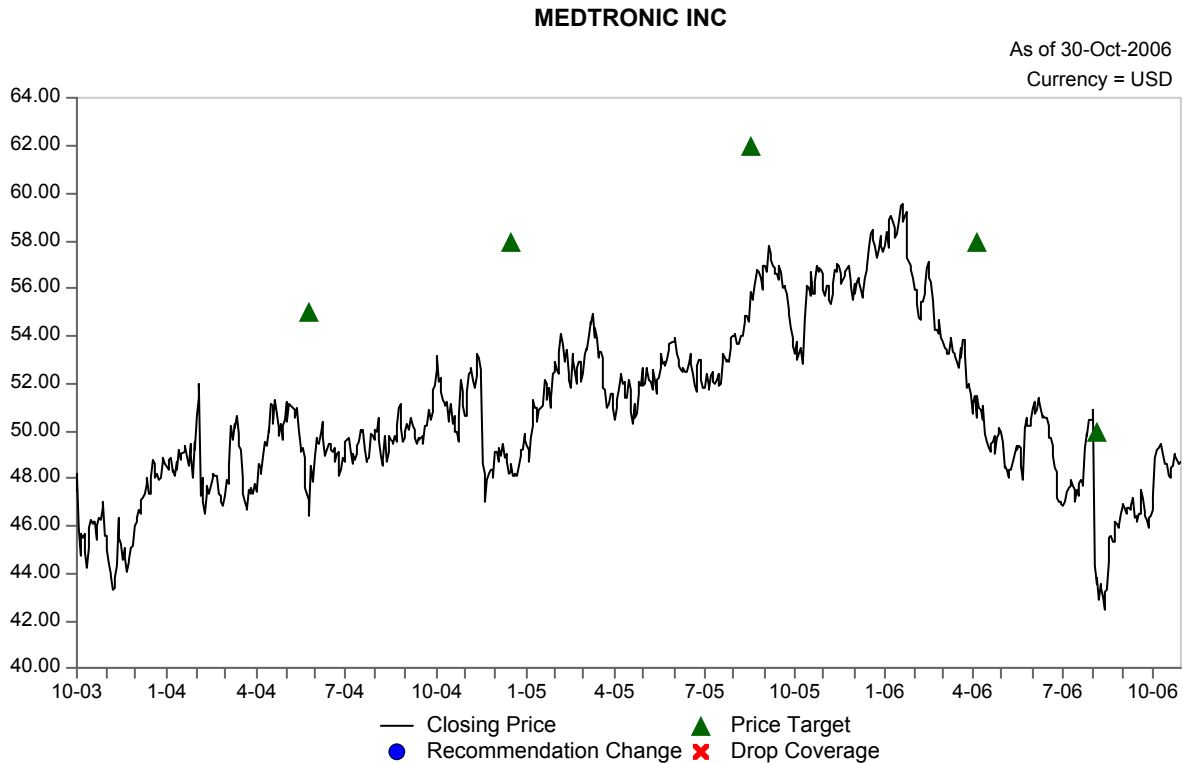
Important Disclosures Continued:

**Medtronic Inc (MDT)**

**US\$ 48.68 (31-Oct-2006)**

**1-Overweight / 1-Positive**

**Rating and Price Target Chart:**



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
04-Aug-06	43.62		50.00
05-Apr-06	50.58		58.00
18-Aug-05	55.84		62.00

Date	Closing Price	Rating	Price Target
17-Dec-04	48.65		58.00
26-May-04	46.40		55.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Medtronic Inc.

Lehman Brothers Inc. has received non-investment banking related compensation from Medtronic Inc within the last 12 months.

Medtronic Inc is or during the last 12 months has been a non-investment banking client (securities related services) of Lehman Brothers Inc.

**Risks Which May Impede the Achievement of the Price Target:** While we see very little risk to the numbers in the near term and expect MDT to meet or exceed expectations, there are three risks, in our view: 1) Vascular franchise growth may never reemerge. 2) BMP sales may not offset slower sales in spine hardware business. 3) MiniMed may not deliver on its mid-20% growth rate expectations.

Important Disclosures Continued:

**St. Jude Medical (STJ)**

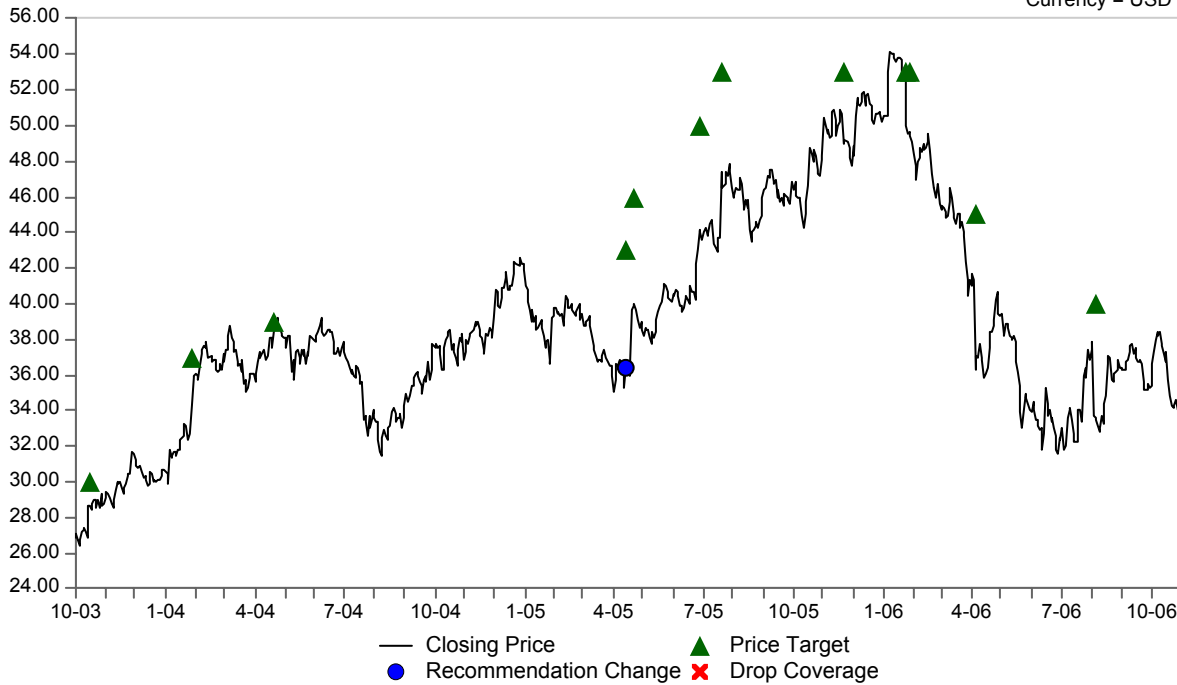
**US\$ 34.35 (31-Oct-2006)**

**1-Overweight / 1-Positive**

Rating and Price Target Chart:

**ST. JUDE MEDICAL**

As of 30-Oct-2006  
Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
04-Aug-06	33.63		40.00
05-Apr-06	36.25		45.00
27-Jan-06	49.66		53.00
24-Jan-06	53.30		53.00
22-Nov-05	49.02		53.00
20-Jul-05	47.36		53.00
29-Jun-05	44.05		50.00

Date	Closing Price	Rating	Price Target
21-Apr-05	39.85		46.00
14-Apr-05	36.42		43.00
14-Apr-05	36.42	1-Overweight	
21-Apr-04	38.45		39.00
28-Jan-04	34.27		37.00
16-Oct-03	28.63		30.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of St. Jude Medical.

**Risks Which May Impede the Achievement of the Price Target:** STJ has exposure to several different markets: the heart valve market, cardiac surgery market, interventional cardiology market, and cardiac rhythm management market.

**Important Disclosures Continued:**

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (31-Oct-2006)	Stock / Sector Rating
Boston Scientific	BSX	US\$ 15.91	1-Overweight / 1-Positive

Related Stocks	Ticker	Price (31-Oct-2006)	Stock / Sector Rating
Conor Medsystems	CONR	US\$ 24.56	1-Overweight / 1-Positive
Johnson & Johnson	JNJ	US\$ 67.40	1-Overweight / 1-Positive
Medtronic Inc	MDT	US\$ 48.68	1-Overweight / 1-Positive
St. Jude Medical	STJ	US\$ 34.35	1-Overweight / 1-Positive

**Sector Coverage Universe**

Below is the list of companies that constitute the sector coverage universe against which the primary stock, Boston Scientific, is rated:

Advanced Medical Optics (EYE)	Alcon, Inc (ACL)
Angiotech Pharmaceuticals (ANPI)	Bausch & Lomb (BOL)
Biomet, Inc (BMET)	Boston Scientific (BSX)
C.R. Bard Inc. (BCR)	Conor Medsystems (CONR)
DJ Orthopedics (DJO)	Greatbatch Inc. (GB)
Johnson & Johnson (JNJ)	Medtronic Inc (MDT)
Nuvasive Inc. (NUVA)	St. Jude Medical (STJ)
Stryker Corp (SYK)	Syneron Medical (ELOS)
Thoratec Corp (THOR)	Wright Medical Group (WMGI)
Zimmer Holdings (ZMH)	

**Guide to Lehman Brothers Equity Research Rating System:**

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). To see a list of the companies that comprise a particular sector coverage universe, please go to [www.lehman.com/disclosures](http://www.lehman.com/disclosures)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

**Stock Rating**

**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**RS-Rating Suspended** - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

**Sector View**

**1-Positive** - sector coverage universe fundamentals/valuations are improving.

**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating.

**Distribution of Ratings:**

Lehman Brothers Equity Research has 1952 companies under coverage.

44% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as Buy rating, 33% of companies with this rating are investment banking clients of the Firm.

41% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 6% of companies with this rating are investment banking clients of the Firm.

15% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as Sell rating, 64% of companies with this rating are investment banking clients of the Firm.

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