FORM 10-K

Annual report pursuant to section 13 and 15(d)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K ANNUAL REPORT

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

COMMISSION FILE NO. 0-8672

ST. JUDE MEDICAL, INC.
(Exact name of Registrant as specified in its charter)

MINNESOTA	41-1276891
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ONE LILLEHEI PLAZA
ST. PAUL, MINNESOTA 55117
(Address of principal executive office)

(651) 483-2000
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

COMMON STOCK ($.10 PAR VALUE)	PREFERRED STOCK PURCHASE RIGHTS
(Title of class)	(Title of Class)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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

Indicate by check mark whether the Registrant: (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; and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No _____

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $2.0 billion at March 11, 1999, when the closing sale price of such stock, as reported on the New York Stock Exchange, was $24.06.

The number of shares outstanding of the Registrant's Common Stock, $.10 par value, as of March 11, 1999, was 84,246,363 shares.

Portions of the Annual Report to Shareholders for the year ended December 31, 1998, are incorporated by reference in Parts I, II and IV. Portions of the Proxy Statement dated March 26, 1999, are incorporated by reference in Part III.

The exhibit index is set forth on pages 13 and 14. This Form 10-K consists of 69 pages, consecutively numbered 1 through 69.

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ST. JUDE MEDICAL, INC.

1998 10-K

PART I

ITEM 1. BUSINESS

GENERAL

St. Jude Medical, Inc. ("St. Jude" or the "Company") designs, manufactures and markets medical devices and provides services for the cardiovascular segment of the medical device industry. The Company's products are distributed in more than 100 countries worldwide through a combination of direct sales personnel, independent manufacturers' representatives and distribution organizations. The main markets for the Company's products are the United States and Western Europe.

Effective May 15, 1997, St. Jude acquired Ventritex, Inc., ("Ventritex") a California-based manufacturer of implantable cardioverter defibrillators (ICDs) and related products. ICDs are used to treat hearts that beat inappropriately fast.

Effective November 29, 1996, St. Jude Medical's Pacesetter subsidiary acquired substantially all of the assets of Telectronics Pacing Systems, Inc. ("Telectronics"), a pacemaker company, and Medtel, a distribution company in the Asia-Pacific region. In addition to state-of-the-art pacing technologies, Telectronics enhanced the Company's cardiac rhythm management division operations by adding important intellectual property assets.

Effective September 23, 1996, the Company acquired Newcor Industrial S.A. which owned most of the assets of Biocor(R) Industria E Pesquisas Ltd., a Brazilian manufacturer of tissue heart valves.

Effective May 31, 1996, the Company acquired Daig Corporation ("Daig"), a Minnesota based manufacturer of specialized cardiovascular catheters and related products for the electrophysiology and interventional cardiology markets.

St. Jude provides products and services for two industry segments: cardiac rhythm management and heart valve disease management. Substantially all of its operations and assets are attributable to cardiovascular medical devices. The Cardiac Rhythm Management Division (CRMD) is responsible for the Company's cardiac rhythm management products including bradycardia pulse generators (pacemakers), leads (insulated wires) and programmers and tachycardia implantable cardioverter defibrillators, leads and programmers. CRMD also provides a broad array of catheter product offerings for interventional cardiology, and electrophysiology catheters for diagnostic mapping of the heart, ablation of malfunctioning heart tissue and temporary cardiac pacing catheters. The Heart Valve Division is responsible for the Company's heart valve disease management products including mechanical and tissue heart valves and annuloplasty rings. In addition, the Company maintains geographically based sales and marketing organizations which are responsible for marketing, sales and distribution of the Company's and third party products in Europe, Africa, the Middle East, Japan, Canada, Latin America and the Asia-Pacific region.

Typically, the Company's net sales are somewhat higher in the first and second quarters and lower in the third and fourth quarters. This results from patient tendency to defer, if possible, cardiac procedures during the summer months and from the seasonality of the domestic and Western European markets where

summer vacation schedules normally result in fewer surgical procedures. Manufacturers' representatives randomly place large orders which can distort the net sales pattern noted above. In addition, new product introductions, acquisitions, and regulatory approvals can modify the expected net sales pattern.

In 1998, approximately 72% of net sales were derived from cardiac rhythm management products, and approximately 28% from heart valve disease management products. Approximately 59% of the Company's 1998 net sales were in the U.S. market, which was consistent with 1997 results.

CARDIAC RHYTHM MANAGEMENT

The Cardiac Rhythm Management Division is headquartered in Sylmar, California and has manufacturing facilities in California, Arizona, Minnesota, South Carolina and Sweden. Pacesetter(R) pacemakers and related systems treat patients with hearts that beat inappropriately slow, a condition known as bradycardia. Ventritex(R) ICDs and related systems treat patients with hearts that beat inappropriately fast, a condition known as tachycardia. Daig(R) specialized disposable cardiovascular catheters and related devices are used in the electrophysiology and interventional cardiology markets.

Typically implanted pectorally, just below the collarbone, pacemakers monitor the heart's rate and, when necessary, deliver low-level electrical impulses that stimulate an appropriate heartbeat. The pacemaker is connected to the heart by one or two leads that carry the electrical impulses to the heart and information from the heart back to the pacemaker. An external programmer enables the physician to retrieve diagnostic information from the pacemaker and reprogram the device in accordance with the patient's changing needs. Single-chamber pacemakers stimulate only one chamber of the heart (atrium or ventricle), while dual-chamber devices can sense and pace in both the upper and lower chambers.

CRMD's current Pacesetter(R) pacing products include the January 1999 FDA approved Affinity(R) and the Trilogy(R) family of pacemakers, containing the proven Omnisense(TM) activity-based sensor, and the Tempo(TM) pacemaker family, which uses fifth-generation Minute Ventilation sensor technology. These pacemaker families are highly automatic and contain many advanced features and diagnostic capabilities to optimize cardiac therapy. All are small and physiologic in shape to enhance patient comfort.

Outside the United States, CRMD also offers the world's smallest single-chamber pacemaker, the Microny(TM) SR+, and the Regency(TM) pacemaker families, which are in clinical trials in the United States. The Affinity(R) and Regency(TM) families of pacemakers, as well as the Microny(TM) SR+, all offer the unique feature of AutoCapture(TM) pacing system. The AutoCapture(TM) pacing system is a proprietary technology that enables the pacemaker to monitor every paced beat for heart capture, deliver a back-up pulse in the event of noncapture, continuously measure threshold, and make adjustments in energy output to match changing patient needs.

CRMD's current pacing leads include the active-fixation Tendril(R) DX family and the passive-fixation Passive Plus(R) DX family which are available worldwide, and the passive-fixation Membrane(TM) EX family which is currently available outside the United States. All three lead families feature steroid elution, which helps suppress the body's inflammatory response to a foreign object, are designed to maximize energy efficiency and promote pacing system longevity.

CRMD offers two pacemaker programmers, the APS(TM) III patient management system, and the highly portable APS(TM)(mu) (micro), which allow the physician to efficiently utilize the extensive diagnostic and therapeutic capabilities of CRMD's pacemakers.

CRMD's Ventritex(R) ICDs monitor the heartbeat and deliver higher energy electrical impulses, or "shocks," to terminate ventricular tachycardia (VT) and ventricular fibrillation (VF). In ventricular tachycardia, the lower chambers of the heart contract at an abnormally rapid rate and typically deliver less blood to the body's tissues and organs. VT can progress to VF, in which the heart beats so rapidly and erratically that it can no longer pump blood. Like pacemakers, defibrillators are typically implanted pectorally, connected to the heart by leads, and programmed non-invasively. The current Ventritex offerings include the Angstrom(TM) MD, Contour(R) MD and Profile(TM) MD ICDs.

These ICDs are used with the dual electrode Ventritex(R) SPL(R) and single electrode Ventritex(R) TVL(R) transvenous leads, which have superior handling characteristics and performance. Ventritex ICDs are currently programmed with the recently introduced PR-3500 and PR-1500 programmers.

Specialized disposable cardiovascular devices, sold under the Daig name, include percutaneous (through the skin) catheter introducers, diagnostic guidewires, electrophysiology catheters and bipolar temporary pacing catheters (used with external pacemakers). Percutaneous catheter introducers are used to create passageways for cardiovascular catheters from outside the human body through the skin into a vein, artery or other location inside the body. Daig's percutaneous catheter introducer products consist primarily of peel-away sheaths, sheaths with and without hemostasis valves, dilators, guidewires, repositioning sleeves, obturators and needles. All of these products are offered in a variety of sizes and packaging configurations. Diagnostic guidewires are used in conjunction with percutaneous catheter introducers to aid in the introduction of intravascular catheters. Daig's diagnostic guidewires are available in multiple lengths and incorporate a surface finish for lasting lubricity.

Electrophysiology catheters are placed into the human body percutaneously to aid in the diagnosis and treatment of cardiac arrhythmias (abnormal heart rhythms). Between two and five electrophysiology catheters are generally used in each electrophysiology procedure. Daig's electrophysiology catheters are available in multiple configurations. Bipolar temporary pacing catheters are inserted percutaneously for temporary use (less than one hour to a maximum of one week) with external pacemakers to provide patient stabilization prior to implantation of a permanent pacemaker, following a heart attack, or during surgical procedures. Daig produces and markets several designs of bipolar temporary pacing catheters.

HEART VALVE DISEASE MANAGEMENT

The Heart Valve Division (HVD) is headquartered in St. Paul, Minnesota and has manufacturing facilities in St. Paul, Puerto Rico, Canada and Brazil. Heart valve replacement or repair may be necessary because the natural heart valve has deteriorated due to congenital defects or disease. Heart valves facilitate the one-way flow of blood in the heart and prevent significant backflow of blood into the heart and between the heart's chambers.

HVD offers both mechanical and tissue replacement heart valves and valve repair products. The St. Jude Medical(R) mechanical heart valve has been implanted in over 900,000 patients to date. The Company markets the Toronto SPV(R) stentless tissue valve, the world's leading stentless tissue valve and the SJM(R) Biocor(TM) tissue valves. The Company received FDA approval for the U.S. market release of the Toronto SPV(R) in November 1997 at which time the product was launched and physician training commenced. The SJM Epic(TM) tissue heart valve received European regulatory approval in late 1998 and is expected to be launched in Europe in 1999.

Annuloplasty rings are prosthetic devices used to repair diseased or damaged mitral heart valves. The Company has executed a license agreement with Professor Jacques Seguin to manufacture and market an advanced semi-rigid annuloplasty ring. The SJM(R) Seguin annuloplasty ring was cleared by the FDA for

U.S. release during first quarter 1997. The SJM Tailor(TM) annuloplasty ring received worldwide regulatory approvals in late 1998 and is expected to be launched worldwide in early 1999.

HVD has also entered into other relationships to provide additional products and services for heart valve disease management, including:

1) An agreement with LifeNet Transplant Services which enables HVD to assist in the marketing of human donated allograft heart valves.
2) An alliance with Boehringer Mannheim Corporation which provides valve patients the opportunity to use a home test kit for measuring anticoagulation levels.
3) A worldwide license agreement with Spire Corporation to utilize their proprietary anti-bacterial silver coating (Silzone(TM)) on the sewing cuffs of heart valves and related products.

SUPPLIERS

The Company purchases raw materials and other items from numerous suppliers for use in its products. The Company maintains sizable inventories of up to three years of its projected requirements for certain materials, some of which are available only from a single vendor. The Company has been advised from time to time that certain of these vendors may terminate sales of products to customers that manufacture implantable medical devices in an effort to reduce their potential products liability exposure. Some of these vendors have modified their positions and have indicated a willingness to either temporarily continue to provide product until such time as an alternative vendor or product can be qualified or to reconsider the supply relationship. While the Company believes that alternative sources of raw materials are available and that there is sufficient lead time in which to qualify such other sources, any supply interruption could have a material adverse effect on the Company's ability to manufacture its products.

COMPETITION

Within the medical device industry, competitors range from small start-up companies to companies with significant resources. The Company's customers consider many factors when choosing supplier partners including product reliability, clinical outcomes, product availability, inventory consignment, price and product services provided by the manufacturer. Market share can shift as a result of technological innovation, product recalls and product safety alerts. This emphasizes the need to provide the highest quality products and services. St. Jude expects the competition to continue to increase by using tactics such as consigned inventory, bundled product sales and reduced pricing.

CRMD has traditionally been a technological leader in the bradycardia pacemaker market. Two other companies and CRMD account for well over eighty percent of the worldwide bradycardia pacemaker net sales. The Company has strong market share positions in all major developed markets.

There are three principal manufacturers and suppliers of ICDs. This is a rapidly growing and highly competitive market. Two of the competitors account for more than 80% of the worldwide ICD sales. These two competitors are larger than the Company and have invested substantial amounts in ICD research and development. The market areas Daig focuses on are the cardiac catherization laboratories and the electrophysiology laboratories throughout the world. These are growing markets with numerous competitors.

The Company is the world's leading manufacturer and supplier of mechanical heart valves. There are two other principal and several other smaller mechanical heart valve manufacturers. The Company competes against two principal and a large number of other smaller tissue heart valve manufacturers.

The cardiovascular segment of the medical device market is a dynamic market currently undergoing significant change due to cost of care considerations, regulatory reform, industry consolidation and customer consolidation. The ability to provide cost effective clinical outcomes is becoming increasingly more important for medical device manufacturers.

MARKETING

The Company's products are sold in over 100 countries throughout the world. No distributor organization or single customer accounted for more than

10% of 1998 net sales.

In the United States, St. Jude sells directly to hospitals through a combination of independent manufacturers' representatives and an employee based sales organization for its pacemaker products and through employee based sales organizations for its heart valve and catheter products. In Western Europe, the Company has an employee based sales organization selling in 14 countries. Throughout the rest of the world the Company uses a combination of independent distributor and direct sales organizations.

Payment terms worldwide are consistent with local practice. Orders are shipped as they are received and, therefore, no material back orders exist.

RESEARCH AND DEVELOPMENT

The Company is focused on the development of new products and improvements to existing products. In addition, research and development expense reflects the Company's efforts to obtain FDA approval of certain products and processes and to maintain the highest quality standards of existing products. The Company's research and development expenses, exclusive of purchased research and development, were $99,756,000 (9.8% of net sales), $104,693,000 (10.5%) and $107,644,000 (12.3%) in 1998, 1997 and 1996, respectively.

GOVERNMENT REGULATION

The medical devices manufactured and marketed by the Company are subject to regulation by the FDA and, in some instances, by state and foreign governmental authorities. Under the Federal Food, Drug and Cosmetic Act (the "Act"), and regulations thereunder, manufacturers of medical devices must comply with certain policies and procedures that regulate the composition, labeling, testing, manufacturing, packaging and distribution of medical devices. Medical devices are subject to different levels of government approval requirements, the most comprehensive of which requires the completion of an FDA approved clinical evaluation program and submission and approval of a pre-market approval ("PMA") application before a device may be commercially marketed. The Company's mechanical and tissue heart valves, implantable cardioverter defibrillators, certain pacemakers and leads and certain electrophysiology catheter applications are subject to this level of approval or as a supplement to a PMA approval. Other pacemakers and leads, annuloplasty ring products and other electrophysiology and interventional cardiology products are currently marketed under the 510(k) pre-market notification procedure of the Act.

In addition, the FDA may require testing and surveillance programs to monitor the effect of approved products which have been commercialized and it has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs. The FDA also conducts inspections prior to approval of a PMA to determine compliance with the quality system regulations which covers manufacturing and design and may, at any time after approval of a PMA or granting of a 510(K), conduct periodic inspections to determine compliance with both good manufacturing practice regulations and/or current medical device reporting regulations. If the FDA were to conclude that St. Jude was not in

compliance with applicable laws or regulations, it could institute proceedings to detain or seize products, issue a recall, impose operating restrictions, assess civil penalties and recommend criminal prosecution to the Department of Justice. Furthermore, the FDA could proceed to ban, or request recall, repair, replacement or refund of the cost of, any device manufactured or distributed.

The FDA also regulates record keeping for medical devices and reviews hospital and manufacturers' required reports of adverse experiences to identify potential problems with FDA authorized devices. Aggressive regulatory action may be taken due to adverse experience reports.

Diagnostic-related groups ("DRG") reimbursement schedules regulate the amount the United States government, through the Health Care Financing Administration ("HCFA"), will reimburse hospitals and doctors for the inpatient care of persons covered by Medicare. In response to rising Medicare and Medicaid costs, several legislative proposals have been advanced which would restrict future funding increases for these programs. While the Company has been unaware

of significant domestic price resistance directly as a result of DRG reimbursement policies, changes in current DRG reimbursement levels could have an adverse effect on its domestic pricing flexibility.

St. Jude Medical's business outside the United States is subject to medical device laws in individual foreign countries. These laws range from extensive device approval requirements in some countries for all or some of the Company's products to requests for data or certifications in other countries. Generally, regulatory requirements are increasing in these countries. In the European Economic Community ("EEC"), the regulatory systems have been harmonized and approval to market in EEC countries (the CE Mark) can be obtained through one agency. In addition, government funding of medical procedures is limited and in certain instances being reduced.

The Office of the Inspector General (the "OIG") of the United States Department of Health and Human Services ("HHS") is currently conducting an investigation regarding possible hospital submissions of improper claims to Medicare/Medicaid programs for reimbursement for procedures using cardiovascular medical devices that were not approved for marketing by the FDA at the time of use. Beginning in June 1994, approximately 130 hospitals received subpoenas from HHS seeking information with respect to reimbursement for procedures using cardiovascular medical devices (including certain products manufactured by the Company) that were subject to investigational exemptions or that may not have been approved for marketing by the FDA at the time of use. The subpoenas also sought information regarding various types of remuneration, including payments, gifts, stock and stock options, received by the hospital or its employees from manufacturers of medical devices. Civil and criminal sanctions may be imposed against any person participating in an improper claim for reimbursement under Medicare/Medicaid. The OIG's investigation and any related change in reimbursement practices may discourage hospitals from participating in clinical trials or from including Medicare and Medicaid patients in clinical trials, which could lead to increased costs in the development of new products. St. Jude believes it is too early to predict the possible outcome of this matter or when it will be resolved. There can be no assurance that the OIG's investigation or any changes in third-party payors' reimbursement practices will not materially adversely affect the medical device industry in general or the Company in particular. In 1995, HCFA, part of HHS, issued a regulation clarifying that certain medical devices subject to investigational requirements under the Act may qualify for reimbursement. In April 1996, a Federal District Court in California declared the HCFA's governmental guidelines, denying reimbursement for investigational devices, to be invalid. After an appeal, the district court has again found the regulation invalid and the government has appealed again. There can be no assurance that the OIG's investigation or any resulting or related changes in third-party payors' reimbursement practices will not materially adversely affect the medical device industry in general

or St. Jude Medical in particular.

In 1994 the predecessor organization to Pacesetter entered a consent decree which settled a lawsuit brought by the United States in U.S. District Court for the District of New Jersey. The consent decree which remains in effect indefinitely requires that Pacesetter comply with the FDA's good manufacturing practice regulations and identifies several specific provisions of those regulations. The consent decree provides for FDA inspections and that Pacesetter is obligated to pay certain costs of the inspections.

In May 1995 Telectronics and its President entered into a consent decree with the FDA. The consent decree provided that Telectronics would not manufacture or ship products for distribution in the United States until Telectronics established to the satisfaction of the FDA that its manufacturing facility in Florida operates in conformity with the FDA's good manufacturing practice regulations. Telectronics has satisfied its obligations in this regard and was released from these restrictions of the consent decree in June 1996. The consent decree which remains in effect indefinitely requires that Telectronics comply with the FDA's good manufacturing practice regulations and identifies several specific provisions of those regulations. The consent decree provides for FDA inspections and that Telectronics is obligated to pay certain costs of the inspections.

In 1994 a state prosecutor in Germany began an investigation of allegations of corruption in connection with the sale of heart valves. As part of that investigation, the prosecutor seized documents from St. Jude's offices in Germany as well as documents from certain competitors' offices. The investigation is continuing and has been broadened to include other medical devices. Subsequently, the United States Securities and Exchange Commission issued a formal order of private investigation covering sales practices in Europe of St. Jude and other manufacturers.

PATENTS AND LICENSES

The Company's policy is to protect the intellectual property rights in its work on medical devices. Where appropriate, St. Jude applies for United States and foreign patents. In those instances where the Company has acquired technology from third parties, it has sought to obtain rights of ownership to the technology through the acquisition of underlying patents or licenses.

While the Company believes design, development, regulatory and marketing aspects of the medical device business represent the principal barriers to entry into such business, it also recognizes that its patents and license rights may make it more difficult for its competitors to market products similar to those produced by the Company. St. Jude can give no assurance that any of its patent rights, whether issued, subject to license or in process, will not be circumvented or invalidated. Further, there are numerous existing and pending patents on medical products and biomaterials. There can be no assurance that the Company's existing or planned products do not or will not infringe such rights or that others will not claim such infringement. The Company's principal patent covering its mechanical heart valve expired in the United States in July 1998. No assurance can be given that the Company will be able to prevent competitors from challenging the Company's patents or entering markets currently served by the Company.

INSURANCE

The medical device industry has historically been subject to significant products liability claims. Such claims could be asserted against the Company in the future for events not known to management at this time. Management has adopted risk management practices, including products liability insurance coverage, which management believes are prudent.

California earthquake insurance is currently difficult to procure, extremely costly, and restrictive in terms of coverage. The Company's earthquake and related business interruption insurance for its operations located in Sylmar and Sunnyvale, California does provide for limited coverage above a significant self-insured retention. There are several factors that preclude the Company from determining the effect an earthquake may have on its business. These factors include, but are not limited to, the severity and location of the earthquake, the extent of any damage to the Company's manufacturing facilities, the impact of such an earthquake on the Company's California workforce and the infrastructure of the surrounding communities, and the extent, if any, of damage to the Company's inventory and work in process. While the Company's exposure to significant losses occasioned by a California earthquake would be partially mitigated by its ability to manufacture certain of the Pacesetter products at its Swedish manufacturing facility, any such losses could have a material adverse effect on the Company, the duration of which cannot be reasonably predicted. The Company has expanded the manufacturing capabilities at its Swedish facility and has constructed a pacemaker component manufacturing facility in Arizona. In addition, the Company has moved significant finished goods inventory to locations outside California. These facilities and inventory transfers would further mitigate the adverse impact of a California earthquake.

EMPLOYEES

As of December 31, 1998, the Company had 3,984 full-time employees. It has never experienced a work stoppage as a result of labor disputes and none of its employees are represented by a labor organization, with the exception of the Company's Swedish employees and certain employees in France.

INDUSTRY SEGMENT AND INTERNATIONAL OPERATIONS

St. Jude Medical provides products and services for two industry

segments: cardiac rhythm management and heart valve disease management. The Company's domestic and foreign net sales, operating profit and identifiable assets are described in Note 9 to the Consolidated Financial Statements on pages 44 and 45 of the 1998 Annual Report to Shareholders and are incorporated herein by reference.

The Company's foreign business is subject to such special risks as exchange controls, currency devaluation, the imposition or increase of import or export duties and surtaxes, and international credit or financial problems. Since its international operations require the Company to hold assets in foreign countries denominated in local currencies, many assets are dependent for their U.S. dollar valuation on the values of a number of foreign currencies in relation to the U.S. dollar. The Company may from time to time enter into purchase and sales contracts in the forward markets for various foreign currencies with the objective of protecting U.S. dollar values of assets and commitments denominated in foreign currencies.

ITEM 2. PROPERTIES

St. Jude Medical's principal executive offices are owned and are located in St. Paul, Minnesota. Manufacturing facilities are located in California, Minnesota, Arizona, South Carolina, Canada, Brazil, Puerto Rico and Sweden. Approximately 69%, or 352,000 square feet, of the total manufacturing space is owned by the Company and the balance is leased.

The Company also maintains sales and administrative offices inside the United States at 14 locations in 6 states and outside the United States at 40 locations in 22 countries. With the exception of one location, all of these locations are leased.

In management's opinion, all building and machinery and equipment are in good condition and suitable for their purposes and are maintained on a basis consistent with sound operations.

ITEM 3. LEGAL PROCEEDINGS

GUIDANT LITIGATION

On November 26, 1996, Guidant Corporation ("Guidant"), a competitor of Pacesetter and Ventritex, CPI (a wholly owned subsidiary of Guidant), Guidant Sales Corporation (a wholly owned subsidiary of CPI) ("GSC"), and Eli Lilly and Company (the former owner of CPI) ("Lilly") (collectively, the "Guidant Parties"), filed a lawsuit against St. Jude Medical, Inc., Pacesetter Inc. ("Pacesetter"), Ventritex Inc. ("Ventritex") and certain members of the Telectronics Group in State Superior Court in Marion County, Indiana (the "Telectronics Action"). The lawsuit alleges, among other things, that, pursuant to an agreement entered into in 1993, CPI and Lilly granted Ventritex certain intellectual property licenses relating to cardiac stimulation devices, and that such licenses would terminate upon the consummation of the merger of Ventritex into Pacesetter (the "Merger"). The lawsuit further alleges that, pursuant to an agreement entered into in 1994 (the "Telectronics Agreement"), CPI and Lilly granted the Telectronics Group certain intellectual property licenses relating to cardiac stimulation devices (the "CPI/Telectronics License"). The lawsuit seeks declaratory and injunctive relief, among other things, to prevent and invalidate the transfer of the Telectronics Agreement to Pacesetter in connection with Pacesetter's acquisition of Telectronic's assets (the "Telectronics Acquisition") and the application of license rights granted under the Telectronics Agreement to the manufacture and sale by Pacesetter of Ventritex's products following the consummation of the Merger.

On December 17, 1996, St. Jude Medical, Pacesetter, Ventritex and the Telectronics Group removed the lawsuit to the United States District Court for the Southern District of Indiana, and filed a motion to dismiss the complaint or, in the alternative, to stay proceedings pending arbitration of the dispute pursuant to the arbitration provisions of the Telectronics Agreement. On January 16, 1997, the Guidant Parties filed a motion to remand the lawsuit to Indiana state court which was granted in May 1997. St. Jude Medical, Pacesetter and Ventritex then filed a motion in Indiana state court to dismiss the complaint or, in the alternative, to stay the proceedings pending arbitration. This motion

was denied by the Indiana state court on July 21, 1997.

CPI, GSC and Lilly (collectively the "Federal Court Guidant Parties") also filed suit against St. Jude Medical, Pacesetter and Ventritex on November 26, 1996 in the United States District Court for the Southern District of Indiana seeking (i) a declaratory judgment that Pacesetter's manufacture, use or sale of cardiac stimulation devices of the type or similar to the type which Ventritex manufactured and sold at the time the Federal Court Guidant Parties filed their complaint would upon consummation of the Merger, be unlicensed and constitute an infringement of patent rights owned by CPI and Lilly, (ii) to enjoin the manufacture, use or sale by St. Jude Medical, Pacesetter or Ventritex of cardiac stimulation devices of the type which Ventritex manufactured at the time the Federal Court Guidant Parties filed their complaint and (iii) certain damages and costs. On December 19, 1996, St. Jude Medical, Pacesetter and Ventritex filed a motion to dismiss the complaint or, in the alternative, to stay proceedings pending resolution of the Telectronics Action or arbitration. The court denied this motion.

St. Jude Medical and Pacesetter believe that the foregoing state and federal court complaints contain a number of significant factual inaccuracies concerning the Telectronics Acquisition and the terms and effects of the various intellectual property license agreements referred to in such complaints. For these

reasons and others, St. Jude Medical and Pacesetter believe that the allegations set forth in the complaints are without merit, and they have vigorously defended their interests, and will continue to do so.

On December 24, 1996, the Telectronics Group and Pacesetter filed a lawsuit and a motion against the Guidant Parties in the United States District Court for the District of Minnesota seeking (i) a declaratory judgment that the Guidant Parties' claims, as reflected in the Telectronics Action, are subject to arbitration pursuant to the arbitration provisions of the Telectronics Agreement, (ii) an order that the Defendants arbitrate their claims against the Telectronics Group and Pacesetter in accordance with the arbitration provisions of the Telectronics Agreement, (iii) to enjoin the Defendants preliminarily and permanently from litigating their dispute with the Telectronics Group and Pacesetter in any other forum and (iv) certain costs. On February 27, 1997, the court entered an order denying the motion brought by the Telectronics Group and Pacesetter and dismissing their complaint. On March 27, 1997, the Telectronics Group and Pacesetter filed a Notice of Appeal from the court's February 27, 1997 order.

In response to the appeal by the Telectronics Group and Pacesetter, the Court of Appeals issued a decision on May 4, 1998 reversing the district court and vacating the district court's dismissal of the Minnesota federal district court lawsuit which the Telectronics Group and Pacesetter brought against the Guidant Parties. As part of this decision, the Court of Appeals remanded the case to the district court in Minnesota and instructed the district court to permit the arbitration requested by the Telectronics Group and Pacesetter to proceed. The Court of Appeals also asked the district court in Minnesota to reconsider the motion for an injunction previously brought by the Telectronics Group and Pacesetter which sought to preliminarily and permanently enjoin the Guidant Parties from litigating their dispute with the Telectronics Group and Pacesetter in any forum outside the arbitration proceeding.

The Guidant Parties filed a request for re-hearing of the Eighth Circuit Court of Appeals' May 4, 1998 decision and a suggestion that the matter be considered by the court en banc. The Court of Appeals denied Guidant's requests in this regard by order dated June 9, 1998.

As a result of Eighth Circuit Court of Appeals' decision in favor of Pacesetter and the Telectronics Group, the United States District Court for the Southern District of Indiana issued an order on June 8, 1998 staying the case which the Federal Court Guidant Parties had brought against St. Jude Medical and Pacesetter. In addition, the State Superior Court in Marion County, Indiana also issued an order on June 18, 1998 staying the Telectronics Action. Finally, the United States District Court for the District of Minnesota issued an order on

July 8, 1998 directing the arbitration requested by the Telectronics Group and Pacesetter to proceed. That court's order also requires Guidant to provide the Telectronics Group and Pacesetter with advance notice if it seeks to lift either of the stays that have been granted in the above cases.

An arbitrator for the arbitration has been selected by the parties. The arbitrator has issued some interim rulings and the parties are presently waiting for the arbitrator's further instructions to proceed with the arbitration.

On December 23, 1998, the Guidant Parties gave the Telectronics Group and Pacesetter notice of their intent to seek to lift the stay of proceedings which had been issued in the federal court action in Indiana. On January 11, 1999, the Federal Court Guidant Parties served a copy of their motion to lift stay upon the Telectronics Group and Pacesetter. All parties have provided written briefs on this matter to the federal court in Indiana and are awaiting a ruling from the court.

St. Jude Medical and Pacesetter will continue to vigorously defend their interests against the claims asserted by Guidant and associated entities in the arbitration.

IRS LITIGATION

The Internal Revenue Service ("IRS") completed an audit examination of the Company's 1990-1991 corporate income tax returns and issued deficiency notices in early 1997 for taxes of $16.4 million. In addition, the IRS completed an audit examination of the Company's 1992-1994 income tax returns in early 1998 and has proposed an adjustment of $41.8 million in taxes. Both adjustments relate primarily to the Company's Puerto Rican operations. The deficiency amounts do not include interest, state taxes, or offsetting Puerto Rico tax refunds, the net effect of which is not material. It is likely that a similar additional adjustment will be proposed for 1995. The Company is vigorously contesting this adjustment. The Company is refuting the IRS deficiency for 1990-1991 and asserting the Company is in fact owed a refund in a petition filed in Tax Court on June 24, 1997. The Company expects that the ultimate resolution will not have material adverse effect on its financial position or liquidity, but could potentially be material to the net income of a particular future period if resolved unfavorably.

OTHER LITIGATION AND PROCEEDINGS

On December 16, 1998, the Company began a lawsuit in federal court in Los Angeles seeking a declaration that it was permitted to hire certain sales representatives who previously had worked for Intermedics, which was acquired by Guidant. The Company's CRMD unit has hired 14 such representatives as of March 16, 1999, six of whom had no written agreement with Intermedics or Guidant. Guidant has filed a counterclaim in the lawsuit seeking damages from the Company for the hiring of these representatives and for their activities as sales representatives of CRMD. The Company intends to vigorously assert its position in this litigation.

The Company is unaware of any other pending legal proceedings which it regards as likely to have a material adverse effect on its business.

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

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

<TABLE>
<CAPTION>

Name	Age	Position*
<S>	<C>	<C>

Ronald A. Matricaria	56	Chairman (1995) and Chief Executive Officer (1993)
Fred B. Parks	51	President and Chief Operating Officer (1998)
Daniel J. Starks	44	Chief Executive Officer, Cardiac Rhythm Management Division (1997) and Daig (1996)
Terry L. Shepherd	46	President, Heart Valve Division (1994)
Patrick P. Fourteau	51	President, International (1998)
Michael J. Coyle	36	President Daig (1997)
John P. Berdusco	62	Vice President, Administration (1993)
Peter L. Gove	51	Vice President, Corporate Relations (1994)
John C. Heinmiller	44	Vice President, Finance and Chief Financial Officer (1998)
Kevin T. O'Malley, Esq.	47	Vice President and General Counsel (1994)
Robert Cohen	41	Vice President Business and Technology Development (1998)

</TABLE>

---

*Dates in brackets indicate period during which the named executive officers began serving in such capacity.

Executive officers serve at the pleasure of the Board of Directors.

Mr. Matricaria's business experience is set forth in the Company's definitive Proxy Statement dated March 25, 1999 under the Section "Election of Directors." The information is incorporated herein by reference.

Dr. Parks' resigned from the Company effective March 31, 1999.

Mr. Stark's business experience is set forth in the Company's definitive Proxy Statement dated March 25, 1999 under the section "Election of Directors." The information is incorporated herein by reference.

Mr. Shepherd joined the Company in 1994 as President of the St. Jude Medical Division. Prior to joining St. Jude, Mr. Shepherd was President and CEO of Hybritech, Inc. where he had been employed for 3 years. Prior to that, Mr. Shepherd held various management positions at Cardiac Pacemakers, Inc. (CPI) and Eli Lilly & Company where he worked for 15 years. Hybritech and CPI were both wholly owned subsidiaries of Eli Lilly & Company. Effective May 5, 1999, Mr. Shepherd has been appointed as the President and Chief Executive Officer of St. Jude Medical, Inc.

Mr. Fourteau joined the Company in 1995 as President of St. Jude Medical Europe. He was appointed President of the Pacesetter Division in May 1996. Mr. Fourteau was appointed as President of the International Division in 1998. Prior to joining the Company, he was employed by Eli Lilly & Company for 19 years in various positions including his last position of vice president of pharmaceutical operations for Lilly International.

Mr. Coyle joined St. Jude Medical in 1994 as Director, Business Development and was appointed as the President and Chief Operating Officer of Daig in 1997. Prior to joining St. Jude, he spent nine years with Eli Lilly & Company in a variety of technical and business management roles in both its Pharmaceutical and Medical Device Divisions.

Mr. Berdusco joined the Company in 1993 as Vice President, Administration. Prior to joining the Company, he was Executive Director Corporate Facilities Planning, Manufacturing Strategy Development and Sourcing for Eli Lilly & Company. From 1962 to 1993, Mr. Berdusco held various management positions with Eli Lilly & Company in both domestic and international operations.

Mr. Gove joined the Company in 1994 as Vice President, Corporate Relations. Prior to joining the Company, Mr. Gove was Vice President, Marketing and Communications of Control Data Systems, Inc., a computer services company, from 1991 to 1994. From 1981 to 1990, Mr. Gove held various executive positions with Control Data Corporation. From 1970 to 1981, Mr. Gove held various management positions with the State of Minnesota and the U.S. Government.

Mr. O'Malley joined the Company in 1994 as Vice President and General Counsel. Prior to joining St. Jude, Mr. O'Malley was employed by Eli Lilly & Company for 15 years in various positions including his last position of General

Counsel of the Medical Device and Diagnostics Division.

Mr. Heinmiller joined the Company in 1998 as Vice President of Corporate Business Development. In September 1998 he was appointed Vice President, Finance and Chief Financial Officer. Prior to joining the Company, Mr. Heinmiller was president of F3 Corporation, a privately held asset management company, and was vice president of finance and administration for Daig Corporation. Mr. Heinmiller is also a former audit partner in the Minneapolis office of Grant Thornton, a national public accounting firm, where he managed the firm's relationship with a number of clients. Mr. Heinmiller is a director of Lifecore Biomedical, Inc., Arctic Cat, Inc. and former director of Daig Corporation.

Mr. Cohen joined the Company in 1998 as Vice President, Business and Technology Development. Prior to joining the Company, he was employed by Sulzer Medica. During his 16-year career in the medical device industry, Mr. Cohen has been associated with Pfizer Inc. and GCI Medical, an investment firm focused on the medical technology industry.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The information set forth under the captions "Dividends" and "Stock Exchange Listing" on pages 30 and 48 of the Company's 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Five Year Summary of Selected Financial Data" on page 47 of the Company's 1998 Annual Report to Shareholders is incorporated herein by reference.

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

The information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 25 through 32 of the Company's 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing under the caption "Market Risk Sensitive Instruments" one page 29 of the Company's 1998 Annual Report to shareholders is incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements of the Company and Report of Independent Auditors set forth on pages 33 through 46 of the Company's 1998 Annual Report to Shareholders are incorporated herein by reference:

Consolidated Statements of Income - Years ended December 31, 1998, 1997 and 1996

Consolidated Balance Sheets - December 31, 1998 and 1997

Consolidated Statements of Shareholders' Equity - Years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Cash Flows - Years ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement dated March 26, 1999, is incorporated herein by reference. Information on executive officers is set forth in Part I, Item 4A hereto.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Executive Compensation and Other Information" and "Election of Directors" in the Company's definitive Proxy Statement dated March 26, 1999, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Election of Directors" in the Company's definitive Proxy Statement dated March 26, 1999, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement dated March 26, 1999, is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(1) FINANCIAL STATEMENTS

The following Consolidated Financial Statements of the Company and Report of Independent Auditors as set forth on pages 33 through 46 of the Company's 1998 Annual Report to Shareholders are incorporated herein by reference:

Consolidated Statements of Income - Years ended December 31, 1998, 1997 and 1996

Consolidated Balance Sheets - December 31, 1998 and 1997

Consolidated Statements of Shareholders' Equity - Years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Cash Flows - Years ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULE

The following financial statement schedule is filed as part of this Form 10-K Annual Report:

<TABLE>
<CAPTION>

SCHEDULE NUMBER	DESCRIPTION	PAGE NUMBER

<S> <C>

II	Valuation and Qualifying Accounts	16

</TABLE>

The report of the Company's Independent Auditors with respect to the above-listed financial statements is set forth in the Company's 1998 Annual Report to Shareholders and is incorporated herein by reference and with respect to the financial statement schedule is incorporated by reference to Exhibit 23 attached hereto.

All other financial statements and schedules not listed have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable.

(3) EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT	EXHIBIT INDEX	PAGE NUMBER
<S>	<C>	<C>
3.1	Articles of Incorporation as amended on September 5, 1996, are incorporated by reference to Exhibit 3.2 of the Company's Form 10-K filed on March 27, 1997.	---
3.2	Bylaws are incorporated by reference to Exhibit 3(ii) of the Company's Form 10-Q filed on November 10, 1997.	---
4.1	Rights Agreement dated as of June 16, 1997, between the Company and American Stock Transfer and Trust Company, as Rights Agent including the Certificate of Designation, Preferences and Rights of Series B Junior Preferred Stock is incorporated by reference to Exhibit 4 of the Company's Form 10-Q dated August 12, 1997.	---
4.2	Indenture dated as of August 21, 1996, between the Company and State Street Bank and Trust Company, as Trustee is incorporated by reference to Ventritex's Form S-3/A (no. 333-07651) filed on August 2, 1996.	---
10.1	Employment letter dated as of March 9, 1993, between the Company and Ronald A. Matricaria is incorporated by reference to Exhibit 10.1 of the Company's Form 10-K Annual Report for the year ended December 31, 1993.*	---
10.2	Employment letter dated as of November 8, 1996, between the Company to Ronald A. Matricaria.*	17

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT	EXHIBIT INDEX	PAGE NUMBER
<S>	<C>	<C>
10.3	Form of Indemnification Agreement that the Company has entered into with officers and directors. Such agreement recites the provisions of Minnesota Statutes Section 302A.521 and the Company's Bylaw provisions (which are substantially identical to the Statute) and is incorporated by reference to Exhibit 10(d) of the Company's Form 10-K Annual Report for the year ended December 31, 1986.*	---
10.4	Form of Employment Agreement that the Company has entered into with officers relating to severance matters in connection with a change in control.*	21
10.5	Retirement Plan for members of the Board of Directors as amended on March 15, 1995, is incorporated by reference to Exhibit 10.6 of the Company's Form 10-K Annual Report for the year ended	---

	December 31, 1994.*	
10.6	Management Savings Plan dated February 1, 1995, is incorporated by reference to Exhibit 10.7 of the Company's Form 10-K Annual Report for the year ended December 31, 1994.*	---
10.7	The St. Jude Medical, Inc. 1992 Employee Stock Purchase Savings Plan is incorporated by reference to the Company's Form S-8 Registration Statement dated June 10, 1992, (Commission File No. 33-48502).	---
10.8	1989 Restricted Stock Plan is incorporated by reference to the Company's Form S-8 Registration Statement dated June 6, 1989 (Commission File No. 33-29085).*	---
10.9	The St. Jude Medical, Inc. 1991 Stock Plan is incorporated by reference to the Company's Form S-8 Registration Statement dated June 28, 1991 (Commission File No. 33-41459).*	---
10.10	The St. Jude Medical, Inc. 1994 Stock Option Plan is incorporated by reference to the Company's Form S-8 Registration Statement dated July 1, 1994 (Commission File No. 33-54435).*	---

EXHIBIT	EXHIBIT INDEX	PAGE NUMBER
10.11	The St. Jude Medical Inc. 1997 Stock Option Plan is incorporated by reference to the Company's Form S-8 Registration Statement dated December 22, 1997 (Commission File No. 333-42945).*	---
10.12	The Management Incentive Compensation Plan is incorporated by reference to Appendix A of the Company's definitive Proxy Statement dated March 27, 1995.*	---
10.13	Employment letter dated as of February 23, 1999, between the Company and Ronald A. Matricaria.*	31
10.14	Letter of understanding dated as of March 1, 1999, between the Company and Fred B. Parks.*	34
10.15	Employment Agreement effective as of May 5, 1999 between the Company and Terry L. Shepherd.*	38
13	Portions of the 1998 Annual Report to Shareholders are incorporated by reference in this Form 10-K Annual Report.	43
21	Subsidiaries of the Company	67
23	Consent of Independent Auditors	68
27	Financial Data Schedule	69

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* Management contract or compensatory plan or arrangement.

(b) REPORTS ON FORM 8-K DURING THE QUARTER ENDED DECEMBER 31, 1998 No reports on Form 8-K were filed by the Company during the fourth quarter 1998.

(c) EXHIBITS: Reference is made to Item 14(a)(3).

(d) SCHEDULES: Reference is made to Item 14(a)(2).

For the purposes of complying with the amendments to the rules governing Form S-8 under the Securities Act of 1933, the undersigned Company hereby undertakes as follows, which undertaking shall be incorporated by reference into the Company's Registration Statements of Form S-8 Nos. 33-9262 (filed October 3, 1986), 33-29085 (filed June 6, 1989), 33-41459 (filed June 28, 1991), 33-48502 (filed June 10, 1992), 33-54435 (filed July 1, 1994) and 333-42945 (filed December 22, 1997):

> Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ST. JUDE MEDICAL, INC.

Date: March 26, 1999

By /s/ RONALD A. MATRICARIA

Ronald A. Matricaria
CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

By /s/ JOHN C. HEINMILLER

John C. Heinmiller
VICE PRESIDENT, FINANCE AND
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>
/s/ RONALD A. MATRICARIA --- Ronald A. Matricaria	Director	3/26/99	/s/ WALTER L. SEMBROWICH --- Walter L. Sembrowich	Director	3/26/99
/s/ LOWELL C. ANDERSON ---	Director	3/26/99	/s/ DANIEL J. STARKS ---	Director	3/26/99

Lowell C. Anderson			Daniel J. Starks		
/s/ PAUL J. CHIAPPARONE	Director	3/26/99		Director	3/26/99
Paul J. Chiapparone			Roger G. Stoll		
	Director	3/26/99	/s/ DAVID A. THOMPSON	Director	3/26/99
Stuart M. Essig			David A. Thompson		
/s/ THOMAS H. GARRETT III	Director	3/26/99	/s/ GAIL R. WILENSKY	Director	3/26/99
Thomas H. Garrett III			Gail R. Wilensky		
/s/ WALTER F. MONDALE	Director	3/26/99			
Walter F. Mondale					

ST. JUDE MEDICAL, INC. AND SUBSIDIARIES
YEAR ENDED DECEMBER 31, 1998

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN THOUSANDS)

COL. A	COL. B	COL. C		COL. D	COL. E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EXPENSE	ADDITIONS CHARGED TO OTHER	DEDUCTIONS	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1998					
Allowance for doubtful accounts(3)	$ 12,712	$ 14	$	$ 374(1)	$ 12,352
Products liability claims reserve(4)	6,205	--	--	1,814(2)	4,391
Year ended December 31, 1997					
Allowance for doubtful accounts(3)	8,160	678	4,037(5)	163(1)	12,712
Products liability claims reserve(4)	8,304	--	--	2,099(2)	6,205
Year ended December 31, 1996					
Allowance for doubtful accounts(3)	9,845	650	13(5)	2,348(1)	8,160
Products liability claims reserve(4)	8,558	--	--	254(2)	8,304

(1) Uncollectible accounts written off, net of recoveries.
(2) Claims settled, including settlements paid.
(3) Deducted from accounts receivable on the balance sheet.
(4) Included in other accrued expenses on the balance sheet.
(5) Balance assumed through acquisitions.

EXHIBIT 10.2

November 8, 1996

Mr. Ronald A. Matricaria
[ADDRESS OMITTED]

Re: RONALD A. MATRICARIA - SUCCESSION PLANNING

Dear Ron:

I am pleased to outline for you the recommendations made by the Compensation Committee, and subsequently approved by the Board, in connection with a revised compensation program offered to you in exchange for extending your existing employment agreement with the Company for a period of five years.

The Board approved the following changes in your compensation:

1) BASE SALARY. Effective January 1, 1997, you shall receive a base salary at the rate of Seven Hundred Fifty Thousand Dollars ($750,000) per annum, payable in bi-weekly installments.

2) BONUS. Bonus compensation payable to you will remain the same, that is, the opportunity to earn 100% of base salary each fiscal year upon achievement of established targets to be mutually agreed upon by yourself and the Board of Directors.

3) STOCK OPTIONS.

(a) You will be granted a non-qualified option to purchase 236,000 shares of the Company's common stock under the 1991 Stock Plan. These shares will be exercisable at the rate of 25% per year on the next four anniversary dates from July 16, 1996. The purchase price of the shares of common stock covered by this option shall be the fair market value on July 16, 1996. [Note: The July 16, 1996, fair market value was $31.375 as determined by the average of the high and low trades on July 16, 1996].

(b) You will be granted a non-qualified option to purchase 260,000 shares of the Company's common stock under the 1994 Stock Option Plan. These shares will be exercisable at the rate of 25% per year on the next four anniversary dates from July 16, 1996. The purchase price of the shares of common stock covered

by this option shall be the fair market value on July 16, 1996. [Note: The July 16, 1996, fair market value was $31.375 as determined by the average of the high and low trades on July 16, 1996].

(c) You will be granted a non-qualified option to purchase 500,000 shares of the Company's common stock subject to shareholder approval. These shares will be exercisable at the rate of 25% per year on the next four anniversary dates from July 16, 1996. The purchase price of the shares of common stock covered by this option shall be $31.375, the fair market value on July 16, 1996. [Note: The July 16, 1996, fair market value was $31.375 as determined by the average of the high and low trades on July 16, 1996].

(d) You will be granted a non-qualified option to purchase 500,000 shares of the Company's common stock subject to shareholder approval. The purchase price of the shares of common stock covered by this option shall be the fair market value on July 16, 1996. [Note: The July 16, 1996, fair market value was $31.375 as determined by the average of the high and low trades on July 16, 1996].

The right to exercise the option shall occur in accordance with the following schedule:

PERFORMANCE STOCK OPTIONS
ACCELERATED VESTING SCHEDULING
(BASE WILL BE THE FAIR MARKET VALUE ON JULY 16, 1996)

FINAL TRADING DAYS FOR YEARS*	STOCK PRICE TARGET	OPTIONS VESTING PERCENTAGE
1997	$37.65	20%
1998	$45.18	20%
1999	$54.22	20%

2000	$62.35	20%
2001	$71.70	20%

Note: The "stock price target" section of the grid was completed by using the fair market value on July 16, 1996 and applying the formula for share increases set by the Committee (20% increases during the first three periods and 15% in years 4 and 5).

*Exercise of Option. This Option shall become exercisable if the arithmetic mean closing prices of the Common Stock as reported on NASDAQ-NMS for all the trading days of December of the calendar year noted above meets or exceeds the Stock Price Target set forth above.

If the Stock Price Target for a calendar year is not met or exceeded in that year, the Shares which would have been exercisable will carry forward to the next subsequent calendar year and will become exercisable if subsequent year Stock Price Targets are achieved..

The number of Shares which may be exercisable will be accelerated if the arithmetic mean of the stock price in December of a year meets or exceeds the Stock Price Target for a subsequent year(s).

In the event the above performance levels are not achieved, this Option will become fully exercisable on the 16th day of July, 2006, if you remain as an employee or as a board member of the Company.

4) RESTRICTED STOCK. You will be granted a total of 50,000 shares of the Company's $0.10 par value common stock (shares) under the St. Jude Medical 1989 Restricted Stock Plan. The shares will be subject to certain restrictions during the restriction period enumerated in the Restricted Stock Agreement. Restrictions will lapse on twenty-five percent of the shares on each annual anniversary date from July 16, 1996.

5) SPLIT DOLLAR LIFE INSURANCE. The Committee hereby approves the adoption of a $3,000,000 split dollar life or similar life insurance policy for you.

6) CHANGE OF CONTROL AGREEMENT. Your original change of control agreement will be renewed. In addition, a new change of control agreement will be entered

providing you with a payment of $10,000,000 upon a change of control as defined in your existing change of control agreement and regardless of whether he remains employed by the Company or is terminated subsequent to a change in control.

7) USE OF COMPANY PLANE. The Company finds that it is in the best interest of the Company, for both security reasons and time management reasons, that you and your immediate family from time-to-time use the Company plane for personal, as well as business use. The Company will be responsible for payment of any tax due for such personal use.

8) ST. JUDE MEDICAL, INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN AND TRUST (SERP). In 1993, the Company established a nonqualified supplemental retirement plan which is subject to a substantial risk of forfeiture in the event you leave the Company prior to October 1, 1996. As further consideration for the amended terms of your employment agreement and to tie the value and security of your retirement income to your continued commitment to the financial success of the Company, St. Jude shall before October 1, 1996, terminate and liquidate the SERP and in lieu thereof make a discretionary contribution under the St. Jude Medical, Inc. Management Savings Plan (MSP), in the amount of $3,460,000 to be held and distributed in accordance with the terms of the MSP.

9) STOCK OPTION AMENDMENTS. If you cease to be an employee, but remain as a director, your outstanding stock options will be amended to permit the exercise of any vested shares for the original option term.

If you retire from the Company or from the Board (with consent by the Committee) any stock options held may thereafter be exercised to the extent they were exercisable at the time of retirement, up to one year from the date of such retirement, or the expiration of the stated terms of the options, whichever period is shorter.

Congratulations Ron on the success you have achieved through your outstanding leadership for the Company during your short tenure. You have significantly reduced the risk profile through diversification and improved the growth profile of St. Jude Medical thereby significantly enhancing shareholder value.

Onward and upward!

Best Regards,

/s/ WILLIAM R. MILLER

William R. Miller
Chairman, Compensation Committee

WRM:kj

EXHIBIT 10.4

EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made and entered into by and between St. Jude Medical, Inc., a Minnesota corporation with its principal offices at St. Paul, Minnesota ("St. Jude") and _____ _, residing at (the "Executive"), and shall be effective as of this ____ day of _____, 199___.

WHEREAS, St. Jude considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of St. Jude and its shareholders; and

WHEREAS, the Executive is expected to make, due to Executive's intimate knowledge of the business and affairs of St. Jude, its policies, methods, personnel, and problems, a significant contribution to the profitability, growth, and financial strength of St. Jude; and

WHEREAS, St. Jude, as a publicly held corporation, recognizes that the possibility of a Change in Control may exist, and that such possibility and the uncertainty and questions which it may raise among management may result in the departure or distraction of the Executive in the performance of the Executive's duties, to the detriment of St. Jude and its shareholders; and

WHEREAS, it is in the best interests of St. Jude and its stockholders to reinforce and encourage the continued attention and dedication of management personnel, including Executive, to their assigned duties without distraction and to ensure the continued availability to St. Jude of the Executive in the event of a Change in Control.

THEREFORE, in consideration of the foregoing and other respective covenants and agreements of the parties herein contained, the parties hereto agree as follows:

1. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect until such time as St. Jude notifies the Executive of the termination of this Agreement. Notwithstanding the preceding sentence, if a Change in Control occurs, this Agreement shall continue in effect for a period of 36 months from the date of the occurrence of a Change in Control.

2. Change in Control. No benefits shall be payable

hereunder unless there shall have been Change in Control, as set forth below.

(a) shall mean a change in control which would be required to be reported in response to Item 1 of Form 8-K promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not St. Jude is then subject to such reporting requirement including, without limitation, if:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of St. Jude representing 40% or more of the combined voting power of St. Jude's then outstanding securities; or

(ii) there ceases to be a majority of the Board of Directors comprised of: (A) individuals who on the date hereof constituted the Board of St. Jude; and (B) any new director who subsequently was elected or nominated for election by a majority of the directors who held such office immediately prior to a Change in Control.

(b) Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Change in Control of St. Jude occurring after the date hereof, Executive will remain in the employ of St. Jude for a period of 90 days from the occurrence of such Change in Control.

3. Termination Following Change in Control. If a Change in Control shall have occurred during the term of this Agreement, Executive shall be entitled to the benefits provided in subsection 4(d) unless such termination is (A) because of Executive's death or Retirement, (B) by St. Jude for Cause or Disability, or (C) by Executive other than for Good Reason.

(a) Disability; Retirement. If, as a result of incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of Executive's duties with St. Jude for six consecutive months, and within 30 days after written Notice of Termination is given the Executive shall not have returned to the full-time performance of the Executive's duties, St. Jude may terminate Executive's employment for "Disability". Any question as to the existence of Executive's Disability upon which Executive and St. Jude cannot agree shall be determined by a qualified independent physician selected by Executive (or, if the

Executive is unable to make such selection, it shall be made by any adult member of the Executive's immediate family), and approved by St. Jude. The determination of such physician made in writing to St. Jude and to Executive

shall be final and conclusive for all purposes of this Agreement. Termination by St. Jude or Executive of Executive's employment based on "Retirement" shall mean termination on or after attaining Normal Retirement Age in accordance with the St. Jude Medical, Inc. Profit Sharing Employee Savings Plan and Trust.

(b) Cause. Termination by St. Jude of Executive's employment for "Cause" shall mean termination upon the conviction of the Executive by a court of competent jurisdiction for felony criminal conduct.

(c) Good Reason. Executive shall be entitled to terminate his employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without Executive's express written consent, any of the following:

(i) The assignment to Executive of any duties inconsistent with Executive's status or position with St. Jude, or a substantial alteration in the nature or status of Executive's responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction by St. Jude in Executive's annual compensation in effect immediately prior to a Change in Control;

(iii) location more than fifty miles from St. Paul, Minnesota or St. Jude requiring Executive to be based anywhere other than St. Jude's principal executive offices except for required travel on St. Jude's business to an extent substantially consistent with Executive's business travel obligations immediately prior to the Change in Control;

(iv) the failure by St. Jude to continue to provide Executive with benefits at least as favorable to those enjoyed by Executive under any of St. Jude's pension, life insurance, medical, health and accident, disability, deferred compensation, incentive awards, incentive stock options, or savings plans in which Executive was participating

immediately prior to the Change in Control, the taking of any action by St. Jude which would directly or indirectly materially reduce any of such benefits or deprive Executive of any material fringe benefit enjoyed immediately prior to the Change in Control, or the failure by St. Jude to provide Executive with the number of paid vacation days to which Executive is entitled immediately prior to the Change in Control, provided, however, that St. Jude may amend any such plan or programs as long as such amendments do not reduce any benefits to which Executive would be entitled upon termination;

(v) The failure of St. Jude to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 6; or

(vi) Any purported termination of Executive's employment which is not made pursuant to a Notice of Termination satisfying the requirements of subsection (e) below; for purposes of this Agreement, no such purported termination shall be effective.

(d) Voluntary Termination Deemed Good Reason. Notwithstanding anything herein to the contrary, if the Change in Control arises from a transaction or series of transactions which are not authorized, recommended or approved by formal action taken by the Board of Directors as defined in Section 2(a)(ii) of this Agreement, Executive may voluntarily terminate his employment for any reason during the period commencing on the 91st day following a Change in Control and ending on the 180th day following the Change in Control, and such termination shall be deemed "Good Reason" for all purposes of this Agreement.

(e) Notice of Termination. Any purported termination of Executive's employment by St. Jude or by Executive shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 7. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth the facts and circumstances claimed to provide a basis for termination of Executive's employment.

(f) Date of Termination. For purposes of this

Agreement, "Date of Termination" shall mean:

(i) If Executive's employment is terminated for Disability, 30 days after Notice of Termination is given (provided that the Executive shall not have returned to the full-time performance of the Executive's duties during such 30 day period); and

(ii) If Executive's employment is terminated pursuant to subsections (b), (c) or (d) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to subsection (b) above shall not be less than 10 days, and in the case of a termination pursuant to subsection (c) or (d) above shall not be less than 10 nor more than 30 days, respectively, from the date such Notice of Termination is given).

(g) Dispute of Termination. If, within 10 days after any Notice of Termination is given, the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or the time for appeal therefrom having expired and no appeal having been perfected); provided, that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, St. Jude shall continue to pay Executive full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this subsection. Amounts paid under this subsection are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts under this Agreement.

4. Compensation Upon Termination or During Disability. Following a Change in Control of St. Jude, as defined in subsection 2(a), upon termination of Executive's employment or during a period of Disability, Executive shall be entitled to

the following benefits:

(a) During any period that Executive fails to perform full-time duties with St. Jude as a result of a Disability, St. Jude shall pay Executive, the Executive's base salary as in effect at the commencement of any such period and the amount of any other form or type of compensation otherwise payable for such period if the Executive were not so disabled, until such time as the Executive is determined to be eligible for long term disability benefits in accordance with St. Jude's insurance programs then in effect.

(b) If Executive's employment shall be terminated by St. Jude for Cause or by Executive other than for Good Reason, Disability or Retirement, St. Jude shall pay to Executive his full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and St. Jude shall have no further obligation to Executive under this Agreement.

(c) If Executive's employment shall be terminated by St. Jude or by Executive for Disability or Retirement, or by reason of death, St. Jude shall immediately commence payment to the Executive (or Executive's designated beneficiaries or estate, if no beneficiary is designated) of any and all benefits to which the Executive is entitled under St. Jude's retirement and insurance programs then in effect.

(d) If Executive's employment shall be terminated (A) by St. Jude other than for Cause, Retirement, or Disability or (B) by Executive for Good Reason, then Executive shall be entitled to the benefits provided below:

(i) St. Jude shall pay Executive, through the Date of Termination, the Executive's base salary as in effect at the time the Notice of Termination is given and any other form or type of compensation otherwise payable for such period;

(ii) In lieu of any further salary payments for periods subsequent to the Date of Termination, St. Jude shall pay a severance payment (the "Severance Payment") equal to the amount described in either (A) or (B) below, whichever is applicable: (A) if the Executive has been an employee in any capacity of St. Jude or any Affiliate as defined below for an uninterrupted period of 3 or more years of elapsed time on the Date of Termination, two (2) times the

Executive's Annual Compensation as defined below; or (B) if the Executive has been an employee in any capacity of St. Jude or any Affiliate as defined below for an uninterrupted period of less than 3 years of elapsed time on the Date of Termination, one (1) times the Executive's Annual Compensation as defined below. For purposes of this Section 4, "Annual Compensation" shall mean the Executive's annual salary (regardless of whether all or any portion of such salary has been contributed to a deferred compensation plan), the annual amount of the Executive's Perk Package, the target bonus for which the Executive is eligible upon attainment of 100% of the target (regardless of whether such target bonus has been achieved or whether conditions of such target bonus are actually fulfilled), and any other type or form of compensation paid to Executive by St. Jude (or any corporation ("Affiliate") affiliated with St. Jude within the meaning of Section 1504 of the Internal Revenue Code of 1986 as may be amended from time to time (the "Code")) and included in Executive's gross income for federal tax purposes during the 12-month period ending immediately prior to the Date of Termination but excluding: a) any amount actually paid to the Executive as a cash payment of the target bonus (regardless of whether all or any portion of such target bonus was contributed to a deferred compensation plan); b) compensation income recognized as a result of the exercise of

stock options or sale of the stock so acquired; and c) any payments actually or constructively received from a plan or arrangement of deferred compensation between St. Jude and the Executive. All of the factors included in Annual Compensation shall be those in effect on the Date of Termination and shall be calculated without giving effect to any reduction in such compensation which would constitute a breach of this Agreement. The Severance Payment shall be made in a single lump sum within 60 days after the Date of Termination.

(iii) For the period of time after the Date of Termination on which the Severance Payment is determined in accordance with paragraph (ii) above, St. Jude shall arrange to provide, at its sole expense, Executive with life, disability, accident

and health insurance benefits substantially similar to those which the Executive is receiving or entitled to receive immediately prior to the Notice of Termination. The cost of providing such benefits shall be in addition to (and shall not reduce) the Severance Payment. Benefits otherwise receivable by Executive pursuant to this paragraph (iii) shall be reduced to the extent comparable benefits are actually received by Executive during such period, and any such benefits actually received by Executive shall be reported to St. Jude.

(iv) St. Jude shall also pay to Executive all legal fees and expenses incurred by Executive as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement).

(v) The Severance Payment shall be reduced and offset by the amount of any payment received or to be received by Executive in connection with the termination of employment pursuant to the provisions of the St. Jude policy HR-1.02.25 entitled "Severance Pay," effective January 1, 1994, as amended from time to time, or any successor to such policy. Except as provided in the preceding sentence, no other offset or reduction in the amount payable under this section shall be made, regardless of whether or not such payments are tax deductible by St. Jude.

(e) Executive shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by Executive as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise.

(f) Executive shall be entitled to receive all benefits payable to the Executive under the St. Jude Medical, Inc. Profit Sharing Employee Savings Plan or any successor of such Plan and any other plan or agreement relating to retirement benefits which shall be in addition to, and not reduced by, any other amounts payable to Executive under this Section 4.

(g) Executive shall be entitled to exercise all rights and to receive all benefits accruing to Executive under any and all St. Jude stock purchase and stock option plans or programs, or any successor to any such plans or programs, which shall be in addition to, and not reduced by, any other amounts payable to Executive under this Section 4.

5. Funding of Payments. In order to assure the performance of St. Jude or its successor of its obligations under this Agreement, St. Jude may deposit in trust an amount equal to the maximum payment that will be due the Executive under the terms hereof. Under a written trust instrument, the Trustee shall be instructed to pay to the Executive (or the Executive's legal representative, as the case may be) the amount to which the Executive shall be entitled under the terms hereof, and the balance, if any, of the trust not so paid or reserved for payment shall be repaid to St. Jude. If St. Jude deposits funds in trust, payment shall be made no later than the occurrence of a Change in Control. If and to the extent there are not amounts in trust sufficient to pay Executive under this Agreement, St. Jude shall remain liable for any and all payments due to Executive. In accordance with the terms of such trust, at all times during the term of this Agreement, Executive shall have no rights, other than as an unsecured general creditor of St. Jude, to any amounts held in trust and all trust assets shall be general assets of St. Jude and subject to the claims of creditors of St. Jude. Failure of St. Jude to establish or fully fund such trust shall not be deemed a revocation or termination of this Agreement by St. Jude.

6. Successors; Binding Agreement. St. Jude will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of St. Jude to expressly assume and agree to perform this Agreement in the same manner and to the same extent that St. Jude would be required to perform it if no such succession had taken place. Failure of St. Jude to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to the Compensation and benefits from St. Jude in the same amount and on the same terms as he would be entitled hereunder if he terminated his employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

(a) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, successors, heirs, and designated beneficiaries. If Executive should die while any amount would still be payable to Executive hereunder if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's designated beneficiaries, or, if there is no such designated beneficiary, to the Executive's estate.

7. Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the last known residence address of the Executive or in the case of St. Jude, to its principal office to the attention of each of the then directors of St. Jude with a copy to its Secretary, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

8. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the parties. No waiver by either party hereto at any time of any breach by the other party to this Agreement of, or compliance with, any condition or provision of this Agreement to be performed by such other-party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or similar time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Minnesota.

9. Validity. The invalidity or unenforceability or any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned officer, on behalf of St. Jude Medical, Inc., and the Executive have hereunto set their hands as of the date first above written.

ST. JUDE MEDICAL, INC.

By

Its

EXECUTIVE:

EXHIBIT 10.13

February 23, 1999

Mr. Ronald A. Matricaria
[ADDRESS OMITTED]

Dear Ron:

This letter will set forth our agreement with respect to our mutual rights and responsibilities from and after May 5, 1999, in connection with your transition to the position and duties of Chairman of the Board of St. Jude Medical, Inc. (the Company). You and the Company entered into a letter agreement dated November 8, 1996, governing your employment as President, Chief Executive Officer and Chairman for the period through July 16, 2001. That Agreement shall continue in full force and effect, except as modified herein, until July 16, 2001. You have also entered into the 1998 Restated Employment Agreement dated September 4, 1998 and a Supplemental Employment Agreement dated July 16, 1996, both of which apply in the event of a change in control of the Company (as defined in those agreements) and those agreements shall continue in full force and effect through July 16, 2001. A copy of those agreements is appended to this letter for your reference.

During the period May 5, 1999 through August 1, 2000, you shall continue to be employed by the Company in accordance with your employment letter dated November 8, 1996, modified as follows:

1. EMPLOYMENT: Your sole duties and responsibilities will be that of Chairman of the Board of Directors of St. Jude Medical, Inc. As such, you shall no longer be President or Chief Executive Officer nor responsible for directing the management and operations of the Company. Rather, you shall continue to perform the duties of Board Chairman and Director, which shall include regular interaction with your successor as President and Chief Executive Officer, maintaining relationships with customers in the medical community, serving as the Company's representative on the HIMA Board, and providing interaction with the Cardiac Rhythm Management Division as appropriate.

2. SALARY: As full compensation for your services as Chairman, the Company will pay you, effective May 5, 1999, a salary at a rate of Three Hundred Seventy Five Thousand Dollars ($375,000) per annum, payable in bi-weekly installments.

3. BONUS: As of May 5, 1999, you shall no longer be eligible to earn a bonus on your compensation under the Company's annual bonus plans. However, you will continue to be entitled to earn a bonus for the period prior to May 5,

1999, as provided in the November 8, 1996 agreement equal to 4/12 of the annual bonus amount based on your annual base salary in effect prior to May 5, 1999. For the period May 5, 1999 to August 1, 2000, you shall earn each quarter a guaranteed bonus equal to 100% of your base salary each quarter, which shall be payable on the last day of the calendar quarter.

4. FRINGE BENEFITS: In addition to fringe benefits currently provided, the Company shall pay up to Two Thousand Dollars ($2,000) per month to provide you with office space at a suitable off-site location.

By executing this letter, you consent to the change in your principal duties, responsibilities and to the other modifications described in this letter and agree that such changes will not constitute "good reason" as defined under the terms of your November 8, 1996 agreement. However, this definition shall continue to apply in the event that the Company, without your written consent, takes any action not provided in this letter subsequent to the date hereof, which would constitute "good reason."

Effective August 1, 2000, you shall cease to be an employee of the Company, and your base salary, perquisites and all pension, welfare and fringe benefits (including your use of the Company airplane), other than the split dollar agreement, provided to you as an employee shall thereupon cease. Thereafter, you agree to continue to serve as Chairman of the Board at the pleasure of the Board (but for a period of not less than 12 months until August 1, 2001) and for such services the Company shall pay you an annual fee of Three Hundred Seventy Five Thousand Dollars ($375,000) payable in monthly installments. During that time, you shall be entitled to any and all benefits provided to Directors of the Company, or as otherwise required by law. You shall be responsible for all taxes on such fees.

We trust that this Agreement sets forth your understanding of your duties and benefits in your transition to Chairman. This agreement is executed on behalf of St. Jude by an Executive Officer who has the authority and approval of the Board as set forth below. Please sign this letter where indicated below and return a copy to me.

Sincerely,

ST. JUDE MEDICAL, INC.

/s/ JOHN P. BERDUSCO

By: John P. Berdusco

Its: Vice President, Administration

On behalf of the Board of Directors

By: /s/ THG
Thomas H. Garrett, III, Director

Accepted and agreed to by:

/s/ RONALD A. MATRICARIA
Ronald A. Matricaria

EXHIBIT 10.14

March 1, 1999

CONFIDENTIAL

Fred B. Parks
[ADDRESS OMITTED]

Dear Fred:

The purpose of this letter is to set forth an agreement between St. Jude Medical, Inc. (the "Company") and you with respect to your voluntary resignation. You will resign as a member of the Board of Directors of St. Jude Medical, Inc., effective March 1, 1999 and you will resign as an employee and officer of St. Jude Medical, as well as any other position you hold with the Company or its affiliates, effective March 31, 1999, (hereinafter "Resignation Date"). You will be eligible for all employee benefits, consistent with employee status until your Resignation Date. The following is our proposal for compensation for you after March 31, 1999:

COMPENSATION/BENEFITS:

1) In exchange for signing the attached Release, which must be executed effective on the day after your Resignation Date, the Company will provide you continuation of base pay plus perquisite allowance for an additional twelve (12) months (including the employer portion of FICA) until March 31, 2000, to be paid on each regularly scheduled pay day. By signing the Release and accepting the payments described above, you release the Company from all claims you may have against the Company relating to your employment with the Company. You acknowledge and agree that the Company is under no obligation to provide you with the payments described above, prior to execution of this Agreement. If you elect not to sign the Release, the payments described in this letter will not be provided to you.

   a) Your participation in all employee fringe benefit programs will terminate as of your Resignation Date. Any accrued and unused vacation will be paid to you following the Resignation Date.

   b) The Company agrees to pay its portion of the medical and dental insurance premiums for your COBRA coverage through March 31, 2000, (you will be responsible for the employee portion) or until you obtain alternative employment, whichever occurs first. You have the right under federal law (COBRA) to

continue medical and dental insurance for eighteen (18) months from the Resignation Date.

c) Your life insurance coverage will terminate as of the Resignation Date. Payment for continued coverage after that date will be your sole responsibility. Please contact Paula Hutton, Manager, Corporate Benefits to coordinate your continued coverage.

d) Your interest in the St. Jude Medical, Inc. Employee Profit Sharing & Savings Plan will be valued in accordance with the provisions of the plan. St. Jude Medical will continue to match your 401(k) contributions until the Resignation Date, however, you will not be eligible for a profit sharing contribution in 1999.

e) You will be entitled to a pro rata portion of your bonus for 1999, (i.e. until March 31, 1999), should one become due under the terms of the 1999 Management Incentive Compensation Program.

f) Your vested interest in the St. Jude Medical, Inc. Management Savings Plan will be distributed within thirty (30) days from the close of the quarter in which the termination occurs.

g) The Company agrees to reimburse you for expenses associated with outplacement services through an outplacement group to be selected by you in an amount not to exceed $22,500.

h) If you are a participant in the Employee Stock Purchase Plan your contribution will be paid out to you with interest.

i) Per your request, the Company has offered to sell you, upon your Resignation Date, your laptop computer and office chair at their current book value as of March 31, 1999.

2) You understand that you are bound by the terms and conditions of the Non-Competition Agreement you signed on December 12, 1997. A copy is attached for your reference.

3) If you have been unable to secure employment by year end December 31, 1999, and you so wish, the Company will reimburse you for the actual cost of moving your household goods and automobiles from

Minneapolis/St. Paul to any contiguous 48 states, but not to exceed the cost of the move to Boston provided such move occurs within twelve (12) months of your Resignation Date. Other expenses of relocation such as realtor's fees, closing costs, attorney's fees, new auto licenses and other miscellaneous expenses will not be reimbursed. The sale of any residence will be your responsibility.

4) The Company's records indicate that you hold options covering the purchase of St. Jude Medical, Inc. Common stock. Under the terms of the option agreements, you are entitled to exercise any vested options within ninety (90) days from your Termination Date. Stock options that have not vested as of your Termination Date will terminate effective upon your termination of employment per their terms.

UNITS	VESTED	REMAINING	GRANT DATE	EXERCISE PRICE
100,000 (TIME VESTING)	25,000	75,000	01/02/98	$31.625
100,000 (PERFORMANCE VESTING)	0	100,000	01/02/98	$31.625

5) You will continue to be covered as former officer and director and for all positions and functions which you have held at St. Jude Medical by your indemnification agreement.

6) You agree that you will keep the terms, amount and facts of this Agreement confidential and that, unless required to do so by law or court order, or if necessary to enforce this Agreement or defend yourself against claims by the company or its affiliates, you will not disclose any information about this Agreement to anyone other than your spouse, attorneys, tax advisors, and applicable governmental authorities, if any. Similarly, the Company agrees that it will keep the terms, amount and facts of this Agreement confidential and that unless required to do so by law or court order, or if necessary to enforce this Agreement or defend itself against claims by you, it will not disclose any information about this Agreement to anyone other than

those within the Company or its affiliates with a need to know, and the attorneys, tax advisors, and applicable governmental authorities, if any, of the Company and its affiliates.

7) You agree that you will not disparage or otherwise make any unfavorable statements, oral or written, or perform any act or omission, which is detrimental to the reputation or goodwill of the Company. For purpose of the prior sentence, the Company shall mean the Company, its successors and affiliates and their officers, directors, employees. Similarly, the Company agrees that it will not disparage or otherwise make any unfavorable statements, oral or written, or perform any act or omission, which is detrimental to your reputation or goodwill.

8) In further consideration of the benefits provided to you under this Agreement, you acknowledge your obligation to maintain in confidence and not to use for any purpose other than the benefit of the company, all confidential information of the Company you received during your employment.

9) This agreement and the accompanying Release set forth the entire agreement between you, on the one hand, and the Company and its affiliates, on the other hand, concerning the subject matters addressed here, and supersedes any prior oral and/or written agreements or communications between you and the Company and/or any of its affiliates concerning these subjects. This Agreement and the accompanying Release shall be construed and interpreted in accordance with the laws of Minnesota without regard to its conflict of law principles.

DUTIES:

(1) You agree to not solicit St. Jude Medical employees for employment elsewhere for a period of two (2) years from your Resignation Date, without receiving prior written consent from me.

(2) Any communications released by the Company or you regarding your resignation will be mutually agreed upon prior to release or will be required to be made by the Company under law, as determined by the Company's counsel.

Please sign both originals of this Letter Agreement and Release where indicated, thereby signifying your acceptance of the terms and return one set of originals to me.

Fred, I sincerely appreciate the very professional and thoughtful manner in which you have conducted yourself in this matter. I trust these terms are consistent with our discussion and they strike me as fair to both you and St. Jude. I wish you and Alison the best in the future.

Sincerely,

/S/ R. A. MATRICARIA
Ronald A. Matricaria

AGREED AND ACCEPTED BY:

/S/ FRED B. PARKS

Fred B. Parks

RAM/kmj

EXHIBIT 10.15

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made effective as of the 5th day of May, 1999, by and between St. Jude Medical, Inc., a Minnesota corporation with its principal place of business at Lillihei Plaza, Little Canada, Minnesota (the "Company"), and Terry L. Shepherd, an individual residing at [ADDRESS OMITTED] (the "Executive").

RECITALS

Executive is presently employed by the Company in the capacity of President, Heart Valve Division. The Company desires to continue the employ the Executive, due to his certain unique skills, talents, contacts, judgment and knowledge of the Company's business, strategies, ethics and objectives and the Executive desires to be employed by the Company. In consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

1. Term of Employment. The Term of this Agreement shall commence on the date hereof and, subject to the further provisions of this Agreement, shall end on the 4th day of May, 2004.

2. Title; Capacity. The Executive shall serve as President and Chief Executive Officer of the Company or in such other position as the Company's Board of Directors (the "Board") may determine from time to time. The Executive shall be subject to the supervision of, shall report directly to, and shall have such authority as is delegated to him by, the Board of Directors.

The Executive shall be responsible for all operations of the Company and all administrative functions, including strategic planning, annual profit planning, diversification (M&A), public relations and investor relations. The following functions and units shall report to the Executive: CRMD, Heart Valve Division, International, Administration, Legal, Finance, Corporate Communications, Business Development and Information Systems. Executive shall, if appointed or elected to the Company's Board of Directors, serve as a member at no additional compensation.

The Executive hereby accepts such employment and agrees to undertake the duties and responsibilities inherent in such position and such other duties and responsibilities as the Board or its designee shall from time to time reasonably assign to him. The Executive agrees to devote his entire business time, attention and energies to the business and interests of the Company (and its affiliates as required by the Company's investments and the

Executive's positions therein) during the Employment Period. The Executive agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein which may be adopted from time to time. The Executive acknowledges receipt of copies of all such rules and policies committed to writing as of the date of this Agreement.

3. Compensation and Benefits.

a. Salary. The Company shall pay the Executive an annual base salary of $500,000.00 for the one-year period commencing on the Commencement Date in the same intervals as other exempt employers. Such salary shall be subject to annual increases thereafter as determined by the Board, in its sole discretion.

b. Bonus. The Executive's target bonus under the MICP shall be 100% of base salary (and shall be prorated for 1999).

c. Perk Package. The Executive shall be eligible for the Company's executive perk package at the level of $26,000.

d. Fringe Benefits. The Executive shall be entitled to participate in all bonus and benefit programs that the Company establishes and makes available to its Executives, if any, to the extent that Executive's position, tenure, salary, age, health and other qualifications make him eligible to participate.

e. Reimbursement of Expenses. The Company shall reimburse the Executive for all reasonable travel, entertainment and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Executive of documentation, expense statements, vouchers and/or such other supporting information in accordance with standard company policies.

f. Stock Options. Under separate agreement, the Executive is being granted a non-qualified stock option to purchase 200,000 shares of stock, vesting at the rate of 20% per year for five years and another non-qualified stock option to purchase 200,000 shares which will vest based upon performance criteria.

4. Employment Termination. The employment of the Executive by the Company pursuant to this Agreement shall terminate upon the occurrence of any of the following:

a. Expiration of the Employment Period in accordance with Section 1;

b. At the election of the Company, for "Cause", immediately upon written notice by the Company to the Executive. "Cause" for such

termination shall include, but not limited to, the following:

i. Dishonesty of the Executive with respect to the Company;

ii. Willful misfeasance or nonfeasance of duty intended to injure or having the effect of injuring the reputation, business or business relationships of the Company or its respective officers, directors or Executives;

iii. Upon a charge by a governmental entity against the Executive of any crime involving moral turpitude which is demonstrably and materially injurious to the Company or upon the filing of any civil action involving a charge of embezzlement, theft, fraud or other similar act which is demonstrably and materially injurious to the Company;

iv. Willful or prolonged absence from work by the Executive (other than by reason of disability due to physical or mental illness) or failure, neglect or refusal by the Executive to perform his duties and responsibilities without the same being corrected upon ten (10) days prior written notice; or

v. Breach by the Executive of any of the covenants contained in this Agreement.

c. Immediately upon the death or disability of the Executive. As used in this Agreement, the term "disability" shall mean the inability of the Executive, due to a physical or mental disability, for a period of 90 days, whether or not consecutive, during any 360 day period to perform the services contemplated under this Agreement. A determination of disability shall be made by a physician to the Company.

d. At the election of the Company or the Executive, with or without cause upon 90 days written notice by one party to the other.

5. Effect of Termination.

a. Termination for Cause or at Election of Either Party. In the event the Executive's employment is terminated at the election of the Company pursuant to Section 4(d), the Company shall immediately pay to the Executive an amount equal to the two times the Executive's then current salary and two times the Executive's then current target bonus.

b. Termination for Death or Disability. If the Executive's employment is terminated by death or because of disability pursuant to Section 4(c), the Company shall pay to the estate of the Executive or to the Executive, as the case may be, the compensation which would otherwise be payable to the Executive up to the end of the month in which the termination of his employment

because of death or disability occurs.

c. Terminate for Cause or Voluntary. In the event a termination for cause pursuant to Section 4(b) or by the voluntary resignation of Executive pursuant to Section 4(d), then no further compensation other than that already accrued shall be due to Executive under this Agreement.

6. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown above, or at such other address or addresses as either party shall designate to the other in accordance with this Section 9.

7. Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

8. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

9. Other Agreements. This Agreement is intended to supplement and not replace the following other agreements between the Executive and the Company: Non-Disclosure and Non-Competition Agreement, Indemnification Agreement and 1998 Restated Employment Agreement (Change of Control).

10. Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Executive.

11. Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Minnesota, without giving effect to that State's conflict of laws provisions.

12. Choice of Venue. All actions or proceedings with respect to this Agreement shall be instituted only in any state or federal court sitting in Ramsey County, Minnesota, and by execution and delivery of this Agreement, the parties irrevocably and unconditionally subject to the jurisdiction (both subject matter and personal) of each such court and irrevocably and unconditionally waive: (a) any objection that the parties might now or hereafter have to the venue of any of such court; and (b) any claim that any action or proceeding brought in any such court has been brought in an inconvenient forum.

13. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Company may be merged or which may succeed to its assets or business, provided, however, that the obligations of the Executive are personal and shall not be assigned by him.

14. Waiver. No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any once occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

15. Captions and Headings. The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

16. Severability. In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

17. Counterparts. This Agreement may be executed in a number of counterparts and all of such counterparts executed by the Company or the Executive, shall constitute one and the same agreement, and it shall not be necessary for all parties to execute the same counterpart hereof.

18. Facsimile Signatures. The parties hereby agree that, for purposes of the execution of this Agreement, facsimile signatures shall constitute original signatures.

19. Incorporation by Reference. The preamble and recitals to this Agreement are hereby incorporated by reference and made a part hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year set forth above.

ST. JUDE MEDICAL, INC.,
A MINNESOTA CORPORATION

/s/ R. A. MATRICARIA

NAME: RONALD A. MATRICARIA
TITLE: CHAIRMAN/CEO

EXECUTIVE:

/s/ T. L. SHEPHERD

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

RESULTS OF OPERATIONS
INTRODUCTION: The Company designs, manufactures and markets medical devices and provides services primarily for the cardiovascular segment of the medical device market. Principal products include mechanical heart valves, tissue heart valves, bradycardia pacemakers, pacemaker leads, implantable cardioverter defibrillators (ICDs) and specialty catheters.

A principal objective for management is to increase shareholder value by continuing to focus on maximizing and expanding the core competencies and technology platforms associated with its heart valve disease management and cardiac rhythm management businesses.

Effective May 15, 1997, the Company acquired Ventritex, Inc. ("Ventritex"), a manufacturer of implantable cardioverter defibrillators and related products. Each share of Ventritex common stock was converted into .5 shares of Company common stock. The Company issued 10,437,800 shares to Ventritex shareholders. The transaction qualified as a tax-free reorganization and was accounted for as a pooling of interests, and, accordingly, the accompanying financial statements for 1997 and 1996 have been restated to include the results of Ventritex.

Effective November 29, 1996, St. Jude Medical acquired substantially all of the assets of Telectronics Pacing Systems, Inc. ("Telectronics"), a pacemaker company, and Medtel, a distribution company in the Asia-Pacific region, both of which were wholly owned subsidiaries of Pacific Dunlop, Ltd. The acquisition, which was accounted for as a purchase, included cash payments totaling approximately $139,000 and an earnout provision tied to future pacing sales which could result in additional payments of up to $40,000 over six years if certain revenue milestones are achieved. No payments to-date have been made under this earnout provision.

The Company's reported results for 1996 include Telectronics and Medtel subsequent to November 29, 1996. On August 29, 1997, the Company sold Medtel. The gain on the sale of this business was recorded as an adjustment of previously recorded goodwill.

Effective September 23, 1996, the Company acquired Newcor Industrial S.A. ("Newcor") which held most of the assets of Biocor Industria E Pesquisas Ltd., a Brazilian manufacturer of tissue heart valves, for $4,000 in cash and an earn-out which could result in additional cash payments of up to $4,000 over the subsequent three years. In 1998 and 1997, such additional cash payments totaled $2,400.

Effective May 31, 1996, the Company acquired Daig Corporation ("Daig"), a Minnesota-based manufacturer of specialized cardiovascular devices for the electrophysiology and interventional cardiology markets. Each share of Daig common stock was converted into .651733 shares of Company common stock and the Company issued 10,013,319 shares to Daig shareholders. The transaction qualified as a tax-free reorganization and was accounted for as a pooling of interests and, accordingly, the accompanying financial statements for 1996 have been restated to include the results of Daig.

Effective January 19, 1996, the Company sold its cardiac assist operations to C.R. Bard for approximately $24,000. Also in 1996, the Company acquired the remaining 50% of The Heart Valve Company for $1,000 in cash and 149,153 shares of its common stock.

The commentary that follows should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements. The Company's fiscal year is the 52 or 53 week period ending the Saturday nearest December 31. Fiscal years 1998 and 1996 consisted of 52 weeks and fiscal year 1997 consisted of 53 weeks.

Shown in the following table for the periods indicated are the net sales by segment and the percentage relationships of certain items in the consolidated statements of income to consolidated net sales and the percentage change of the dollar amounts of such items as compared with the prior period. Due primarily to the impact of the

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Telectronics, Medtel and Newcor acquisitions, and the cardiac assist business divestiture, amounts are not directly comparable between years.

<TABLE>
<CAPTION>

	PERCENT OF NET SALES			YEAR-TO-YEAR CHANGE	
	YEAR ENDED DECEMBER 31			1998 COMPARED TO 1997	1997 COMPARED TO 1996
	1998	1997	1996		
<S>	<C>	<C>	<C>	<C>	<C>
Net sales					
Heart valve	27.6%	28.0%	30.7%	1%	3%
Cardiac rhythm management	72.4%	72.0%	69.3%	3%	18%
Net sales	100.0%	100.0%	100.0%	2%	13%
Cost of sales	36.7%	36.8%	33.6%	2%	24%
Gross profit	63.3%	63.2%	66.4%	2%	8%
Selling, general and administrative	34.4%	38.1%	35.5%	(8%)	22%
Research and development	9.8%	10.5%	12.3%	(5%)	(3%)
Purchased research and development	--	--	4.6%	--	--
Special charges	--	5.9%	6.0%	--	11%
Operating profit	19.1%	8.7%	8.0%	123%	25%
Other income (expense), net	(.8%)	.2%	2.3%	--	(93%)
Income before tax	18.3%	8.9%	10.3%	110%	(3%)
Income tax provision	5.6%	3.4%	3.4%	69%	12%
Net income before the cumulative effect of an accounting change	12.7%	5.5%	6.9%	136%	(10%)
Cumulative effect of an accounting change	--	.2%	--	--	--
Net income	12.7%	5.3%	6.9%	143%	(12%)

</TABLE>

NET SALES
(IN MILLIONS)

[BAR GRAPH]

NET SALES: Net sales totaled $1,015,994 in 1998, a $21,598, or 2%, increase over 1997 net sales of $994,396.

As a percentage of total sales, sales outside the U.S. in 1998 were 41% of total net sales. This reflects an increasing percentage of net sales in higher growth, developing foreign markets which were partially offset by the foreign currency effect of the stronger U.S. dollar. Unfavorable foreign currency effects due to the stronger U.S. dollar reduced 1998 net sales compared to 1997 by approximately $5,200. This negative impact on sales was partially offset by a favorable foreign currency impact on operating expenses.

Heart valve net sales of approximately $281,000 increased 1% in 1998. One less selling week in 1998 effectively reduced net sales by approximately $5,000. Based on a comparable number of selling days, heart valve sales increased at approximately the rate of market growth.

Domestic heart valve net sales increased in 1998 due to the introduction of the Toronto SPV(R) valve and price increases associated with product enhancements that were partially offset by fewer selling days. International heart valve net sales in 1998 were lower than 1997 due to the effects of the stronger U.S. dollar, the timing of distributor orders and curtailed marketing in certain markets.

Cardiac rhythm management net sales increased 3% from 1997 levels. The increase over 1997 was attributable to higher ICD sales due to the commercial release of the Angstrom(R) II and the Angstrom(R) MD ICDs. Bradycardia sales were less than 1997 due to the effects of the stronger U.S. dollar, fewer domestic sales representatives and the timing of distributor orders. One less selling week in 1998 effectively reduced net sales by $11,000.

NET SALES
(IN MILLIONS)

[BAR GRAPH]

Net sales in 1997 of $994,396 were $117,649 or 13% higher than 1996 net sales of $876,747. The increase resulted from higher mechanical and tissue heart valve sales due to new mechanical and tissue valve product introductions and expanded

marketing programs in the developing markets. In addition, ICD net sales increased due to the market release of the Contour(R) ICD, the Contour(R) MD ICD and the Ventritex SPL(R) transvenous lead. Also, bradycardia sales increased over 1996 due to reporting a full year of Telectronics net sales and higher unit sales in all major geographical markets that were partially offset by the impact of the stronger U.S. dollar.

COST OF SALES: As a percentage of net sales, cost of sales in 1998 decreased to 36.7% from 36.8% in 1997 primarily due to heart valve manufacturing efficiencies, the elimination of Telectronics facilities costs and increased ICD net sales that were offset by the impact of the stronger U.S. dollar and lower mechanical heart valve and bradycardia unit sales.

As a percentage of net sales, cost of sales in 1997 increased to 36.8% from 33.6% in 1996 primarily as a result of higher manufacturing costs associated with the Telectronics facilities and the impact of the stronger U.S. dollar that were partially offset by an increase in the percentage of internally produced mechanical heart valve components.

SELLING, GENERAL AND ADMINISTRATIVE: Selling, general and administrative (SG&A) expense decreased in 1998 to $349,346 from $378,500 in 1997, a decrease of 7.7%. As a percentage of net sales, SG&A decreased to 34.4% in 1998 from 38.1% in 1997. The decrease was attributable to the full year effect of the Company's 1997 consolidation activities. During 1997, the Company integrated Telectronics operations into its existing operations and merged its cardiac rhythm management operations with Ventritex. In addition, during the fourth quarter of 1997, the Company's cardiac rhythm management operations further consolidated its own activities and reduced its administrative support levels.

Selling, general and administrative expense increased in 1997 to $378,500 from $311,470 in 1996. As a percentage of net sales, SG&A increased to 38.1% in 1997 from 35.5% in 1996. The higher dollar amount and percentage of net sales increases were mainly due to the continued shift to direct sales particularly in Canada, Latin America and the Asia-Pacific region, as well as increased expenditures for European and information systems infrastructure. SG&A in 1997 also included a full-year of Telectronics-related expenses.

RESEARCH & DEVELOPMENT
(IN MILLIONS)

[BAR GRAPH]

RESEARCH AND DEVELOPMENT: Research and development (R&D) in 1998 decreased to $99,756 from $104,693 recorded in 1997, and as a percentage of net sales decreased to 9.8% from 10.5%. The decrease resulted mainly from further consolidation and leveraging of ICD and bradycardia research efforts within the cardiac rhythm management division. The Ventritex and Pacesetter ICD-related research organizations were combined. Within Pacesetter, bradycardia research related to Telectronics was fully integrated into the existing organization.

Research and development expense in 1997 decreased to $104,693 from $107,644 recorded in 1996, and as a percentage of net sales decreased to 10.5% from 12.3%. The decrease was attributable primarily to the conclusion of several Telectronics related projects and the conclusion of other Pacesetter projects. There was, however, increased R&D spending associated with ongoing ICD programs. R&D spending for the heart valve business increased due to tissue valve research.

PURCHASED RESEARCH AND DEVELOPMENT: In 1996, the Company incurred $40,350 of purchased research and development charges, representing the appraised value of in-process R&D which must be expensed under generally accepted accounting principles for purchase accounting. The purchased R&D related to the acquisitions of The Heart Valve Company ($5,000), Telectronics ($32,200) and Newcor ($3,150).

SPECIAL CHARGES: In 1997, the Company recorded $58,669 of special charges which consisted of $8,227 in Ventritex transaction costs, $18,139 and $19,378 associated with repositioning Pacesetter and Ventritex manufacturing operations, respectively, and $12,925 related to distributor termination charges. In 1996, the Company recorded $52,926 of special charges which consisted of a $25,000 payment to Intermedics, Inc. to resolve various patent and legal disputes, Daig transaction charges of $5,118, repositioning charges of $11,100 related to its tissue heart valve business, distributor termination charges of $7,700 in support of the Company's continued transition to direct sales, integration charges of $2,200 incurred by Pacesetter as a result of the Telectronics acquisition, and non-recurring special charges of $1,808.

OTHER INCOME (EXPENSE): Other income (expense), net consisted of the following:

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1998	1997	1996
Interest income	$ 4,125	$ 6,365	$ 9,463
Interest expense	(23,667)	(14,374)	(4,725)
Foreign exchange gains (losses)	(3,304)	2,078	2,165
Net gain on the sale of equities	15,624	6,768	1,195
Net gain on the sale of a business	--	--	10,486
Other	(1,000)	582	2,556
Other income (expense), net	$ (8,222)	$ 1,419	$ 21,140

Interest expense increased in 1998 primarily as a result of debt associated with the March 1998 repurchase of eight million shares of common stock. In 1997, interest expense increased mainly due to the full year effect of the debt financed November 1996 acquisition of Telectronics and Medtel. Also, Ventritex issued $57,500 of convertible subordinated notes in the third quarter of 1996. The Company periodically directly invests in the equities of emerging technologies that may complement the

Company's technologies. In 1998, 1997 and 1996, the Company realized gains on the sales of certain of these equity investments. In 1996, the Company sold its cardiac assist device business.

INCOME TAX PROVISION: The Company's 1998 effective income tax rate was 30.5% compared to 38.0% in 1997. The decrease was principally due to a greater proportion of income derived from lower tax countries and the elimination of the non-deductible Ventritex related transaction costs that occurred in 1997. Deferred income taxes are not provided on the undistributed earnings of non-U.S. subsidiaries because such earnings are intended to be indefinitely reinvested.

The Company's 1997 effective income tax rate was 38.0% compared to 33.1% in 1996. The increase was primarily attributable to non-deductible expenses associated with the Ventritex acquisition and to separate, previously legislated changes relating to taxation of Puerto Rican operations.

NET INCOME: Reported net income for 1998 was $129,082, or $1.50 per diluted share. Reported net income for 1997, including the effect of pre-tax special charges of $58,669 and the after-tax cumulative effect of an accounting change of $1,566, was $53,140, or $.58 per diluted share.

OUTLOOK: The Company expects that market demands, government regulation and societal pressures will continue to change the health care industry worldwide resulting in further business consolidations and alliances. To meet customer needs, the Company intends to continue to pursue diversification opportunities in the form of acquisitions, joint ventures, partnerships and strategic business alliances. In addition, the Company will participate with industry groups to promote the introduction and use of advanced medical device technology within a cost conscious environment. Finally, customer service in the form of cost-effective clinical outcomes will continue to be a primary focus for the Company.

The Company's heart valve business is in a highly competitive market. In 1998, the Company estimates it maintained its share of the worldwide heart valve market. The market is segmented between mechanical heart valves, tissue heart valves and repair products. During 1998, the market continued its shift slightly to tissue valve and repair products. Competition is anticipated to place pressure on pricing and terms and health care reform is expected to result in further hospital consolidations over time.

The Company's cardiac rhythm management business is also in a highly competitive market. During 1998, the Company essentially completed the integration of the Telectronics and Ventritex acquisitions into its own operations. The cardiac rhythm management industry is undergoing consolidation. The number of principal competitors has decreased from four to three. The Company's two principal competitors each have substantially more assets, sales and sales personnel than the Company. In addition, several new implantable cardioverter defibrillators were introduced to the market. The Company's two principal competitors in the ICD segment of the cardiac rhythm management market have introduced dual-chamber ICDs that represent an increasing percentage of the ICD market. The Company has a dual-chamber ICD in development. Until the Company introduces a dual-chamber ICD, the growth of dual-chamber ICDs at the expense of single-chamber ICDs could adversely affect the Company. Rapid technological change is expected to continue, requiring the Company to invest heavily in R&D and to effectively market its products.

The medical device market is highly competitive. Competitors, in the past and

may in the future, employ litigation to gain a competitive advantage. In addition, the Company's products must continually improve technologically due to the competitive nature of the industry.

Group purchasing organizations (GPOs) in the U.S. have emerged to consolidate the purchasing of Company products for some of the Company's customers. One such GPO, Premier, recently executed exclusive contracts with the Company's two principal cardiac rhythm management competitors. This contract, if enforced, may adversely affect the Company's sales of cardiac rhythm management products to members of this GPO.

As provided for in the Private Securities Litigation Reform Act of 1995, the Company cautions investors that a number of factors could cause actual future results of operations to vary from those anticipated in previously made forward-looking statements and any other forward-looking statements made in this document and elsewhere by or on behalf of the Company. Net sales could be materially affected by legislative or administrative reforms to the U.S. Medicare and Medicaid systems or other non-U.S. reimbursement systems in a manner that would significantly reduce reimbursement for procedures using the Company's medical devices, the acquisition of key patents by competitors that would have the effect of excluding the Company from new

market segments, health care industry consolidation resulting in customer demands for price concessions, products introduced by competitors with advanced technology and better features and benefits or lower prices, fewer procedures performed in a cost-conscious environment, and the lengthy approval time by the FDA or other government authorities to clear implantable medical devices for commercial release. Cost of sales could be materially affected by unfavorable developments in the area of products liability and price increases from the Company's suppliers of critical components, a number of which are sole sourced. Operations could be affected by the Company's ability to execute its diversification strategy or to integrate acquired companies, a serious earthquake affecting the Company's facilities in Sylmar or Sunnyvale, California, adverse developments in the litigation arising from the acquisitions of Telectronics and Ventritex, unanticipated product failures and attempts by competitors to gain market share through aggressive marketing programs.

The Company anticipates that its 1999 effective income tax rate may decrease due to the full year effect of converting its Puerto Rican operations to a controlled foreign corporation. The IRS has proposed adjustments of approximately $58,200 in additional taxes relating primarily to the Company's Puerto Rican operations in years 1990 through 1994. (See Note 4) It is likely that similar adjustments may be proposed for 1995.

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS: The analysis below presents the sensitivity of the fair value of the Company's financial instruments and positions to selected changes in market rates and prices. The range of changes selected reflects the Company's estimate of changes that are reasonably possible over a one-year period. The equity investments, debt instruments and foreign exchange contracts were not entered into for trading purposes.

Equity securities at December 31, 1998, which are recorded at a fair market value of approximately $20,300 and include net unrealized gains of $12,015, have exposure to price changes. This risk is estimated as the potential loss in fair market value resulting from a hypothetical 10% decline in prices quoted by stock exchanges and amounts to $2,030.

At December 31, 1998, the estimated fair value of the Company's fixed rate long-term debt was $32,000. Market risk is estimated as the potential increase in fair value resulting from a hypothetical decrease in interest rates. A decrease of one-half percentage point to interest rates results in an immaterial change to the fair value of this debt.

In order to reduce the risk of foreign currency exchange rate fluctuations, the Company follows a policy of hedging a substantial portion of its expected foreign currency denominated cash flow from operations. The instruments used for hedging are readily marketable traded forward contracts and options with banks. The changes in fair value of such contracts have a high correlation to the price changes in the related hedged cash flow. The risk of transaction gains and losses from changes in the fair value of the Company's foreign exchange position is not material because most transactions occur in either the functional currency or in a currency that has a high correlation to the functional currency. At December 31, 1998, the foreign currency denominated net asset position translated into dollars was approximately $125,000. A 10% adverse change, assuming all currencies move in the same direction, to the foreign exchange rates amounts to a potential fair value loss of $12,500. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency

prices.

On January 1, 1999, eleven of the fifteen member countries of the European Economic Community (EEC) established fixed conversion rates between their existing sovereign currencies and the Euro. The Euro was adopted as the legal common currency for these nations on that date. The Euro will trade on currency exchanges and will be available for non-cash transactions. These nations will issue sovereign debt exclusively in the Euro and will redenominate outstanding sovereign debt. The legacy currencies of these countries will remain legal tender as denominations of the Euro between January 1, 1999 and January 1, 2002. During this transition period, public and private parties may pay for goods and services using either the Euro or the legacy currency. Beginning January 1, 2002, these countries will issue new Euro-denominated bills and coins for use in cash transactions. The Company does not expect the Euro conversion to have a short-term material affect on the Company's operations. The Company modified certain computer programs to accommodate the Euro. Subsequent to the Year 2001, cross-country pricing in the EEC may become more transparent and may affect the Company's sales activities.

The Company has manufacturing and sales operations in Brazil. In early 1999, Brazil devalued its currency, the Real. The local currency manufacturing expenses effectively hedge the local currency sales. As a result of this devaluation, the Brazilian government is currently reviewing its reimbursement policy with respect to medical devices. Failure to increase substantially the reimbursement level for the Company's products could adversely affect the Company's Brazilian results.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The Company will adopt Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133) in 2000. FAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. The Company's policies do not permit derivative transactions unless they are hedges. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of FAS 133 will be on the consolidated earnings and financial position of the Company.

FINANCIAL CONDITION
SUMMARY: The financial condition of the Company remained strong during 1998. Cash and marketable securities decreased to $87,990 at December 31, 1998, from $184,536 at December 31, 1997. Working capital, the difference between current assets and current liabilities, was $479,067 at December 31, 1998, an $18,121 decrease from the prior year end level. Eight million shares of common stock were repurchased in March 1998 for approximately $300,000 financed by debt. As a result of the stock repurchase, debt peaked in the second quarter at $490,500. Since that date, cash flow from operations, working capital management and matured investments reduced debt by $115,505.

LIQUIDITY: Company operations provide a strong, positive cash flow which is sufficient to meet the Company's operational requirements. Cash provided by operations in 1998 amounted to $108,469 compared to a use of $31,624 in 1997. The current ratio was 3.4 to 1 at December 31, 1998.

The Company has a $150,000 revolving line of credit through March 1999 with a twenty-one member banking syndicate comprised of banks in the United States and other countries where it conducts its business. At December 31, 1998, the Company had $150,000 available under this line. The revolving credit line was increased to $200,000 in March 1999 with a seventeen member banking syndicate. The Company also maintains other non-committed credit facilities which it utilizes to supplement the revolving line of credit.

Accounts receivable increased $38,760 in 1998 principally due to increased sales and a shift in sales to emerging markets with longer payment cycles. Inventories increased $4,540 primarily as a result of expanded product offerings in both the heart valve and cardiac rhythm management businesses. Net property, plant and equipment increased $26,114 due to the pacemaker programmer investments and investments in information systems.

Cash flow from operations and access to additional capital will enable the Company to pursue further diversification opportunities and to fund expected capital expenditures.

CAPITAL STRUCTURE

(IN MILLIONS)

[BAR GRAPH]

CAPITAL: The Company's capital structure consists of equity and interest bearing debt. Interest bearing debt as a percent of total capital was 32% at December 31, 1998, an increase from 18% at December 31, 1997. The increase was attributable to the debt financed repurchase of eight million shares of common stock.

DIVIDENDS: The Company did not pay cash dividends in 1998, 1997 or 1996.

OUTLOOK: Management is unaware of any adverse business trends that would materially affect the Company's strong financial position. Should suitable investment opportunities arise that would require additional financing, management believes that the Company's excellent earnings, strong cash flow and solid balance sheet provide a substantial basis to obtain additional financing at competitive rates and terms.

YEAR 2000 READINESS DISCLOSURE
The Company is preparing for the impact of the arrival of the Year 2000 on its business, as well as on the businesses of its customers, suppliers and business partners. The "Year 2000 Issue" is a term used to describe the problems created by systems that are unable to accurately interpret dates after December 31, 1999. These problems are derived predominantly from the fact that many software programs have historically categorized the "year" in a two-digit format. The Year 2000 Issue creates potential risks for the Company because the Company relies heavily on Information Technology ("IT") systems and other systems, facilities and suppliers to conduct its business. The Company may also be exposed to risks from third parties with whom the Company interacts who fail to adequately address their own Year 2000 Issues.

THE COMPANY'S STATE OF READINESS
While the Company's Year 2000 efforts have been underway for several years, the Company centralized its focus on addressing the Year 2000 Issue in 1998 by forming a Year 2000 project team, chaired by the Company's Chief Information Officer. The Board of Directors receives a monthly status report on the Company's Year 2000 readiness program.

The Year 2000 project team developed a phased approach to identifying the remediating Year 2000 Issues, with many of these phases overlapping with one another or conducted simultaneously.

The first phase was to develop a corporate-wide, uniform strategy for addressing the Year 2000 Issue and to assess the Company's current state of Year 2000 readiness. This included a review of all IT and non-IT systems, including Company products and internal operating systems for potential Year 2000 Issues. The Company completed this phase during the first quarter of 1999.

The second phase of the Company's Year 2000 readiness program (begun simultaneously with the first phase) was to define a Year 2000 "Readiness" standard and to begin remediation of those systems requiring correction, building on work done by the Company's Year 2000 external consulting partner. This phase is scheduled for completion in the first quarter of 1999.

The Company has completed an assessment of its Year 2000 compliance for its products. With the exception of certain pacemaker and ICD programmers, all the Company's products are Year 2000 compliant. The programmers require a simple corrective action by the user the first time they are used after December 31, 1999, and with one model programmer must also be reset by the user again at two later dates. The Company's implantable pacemakers and ICDs do not have internal clocks and are not susceptible to Year 2000 Issues. The Year 2000 Issue affecting certain programmers would not affect potential health or safety but could result in an erroneous date on a printout.

The Company has also undertaken a review of its internal IT and non-IT systems to identify potential Year 2000 Issues. In 1995, the Company began the process of implementing a uniform worldwide business and accounting information system to improve internal reporting processes. The internal IT systems replaced included order entry systems, distribution, purchasing and inventory management systems, and the Company's general financial systems. Based upon representations from the manufacturer, this uniform information system is Year 2000 compliant. Replacement of older legacy business systems with this new system has significantly reduced the effort required to remediate business systems. The Company expects to replace its Human Resource Information System by the end of the second quarter 1999. With respect to non-IT systems, the Company is actively analyzing its manufacturing equipment in order to assess any Year 2000 Issues. To date, no material problems have been discovered, and the Company will

continue to review, test and remediate (if necessary) such equipment. The Company is also evaluating its other critical non-IT facility and internal systems with date sensitive operating controls for Year 2000 Issues. While the Company believes that most of these systems will function without substantial Year 2000 readiness problems, the Company will continue to review, test and remediate (if necessary) such systems. Based on the testing results, the Company expects to complete the remediation of identified problems by the end of the third quarter of 1999. At this stage of assessment, no non-compliant high cost, high business risk systems have been identified which might cause business interruption or product failure.

The Company is presently evaluating each of its principal suppliers, service providers and other business partners to determine each of such party's Year 2000 status. The Company has developed a questionnaire and a Year 2000 certification for use with such third parties, and, as of December 31, 1998, the Company had contacted key suppliers and service providers about their Year 2000 readiness. This includes many of the suppliers that the Company has identified as critical suppliers. The Company anticipates that this evaluation will be on-going through the remainder of 1999.

The Company is working jointly with customers, strategic vendors and business partners to identify and resolve any Year 2000 issues that may impact the Company. However, there can be no assurance that the companies with which the Company does business will achieve a Year 2000 conversion in a timely fashion, or that such failure to convert by another company will not have a material adverse effect on the Company.

THE COSTS TO ADDRESS THE COMPANY'S YEAR 2000 ISSUES
The total cost associated with the Company's Year 2000 remediation is not expected to be material to the Company's financial condition or results of operations. The estimated total cost of the Company's Year 2000 remediation is not expected to exceed $10 million. Through December 31, 1998, the Company has spent approximately $1 million in connection with Year 2000 Issues. The cost of implementing the uniform worldwide business and accounting information system (approximately $45 million) has not been included in this figure since the replacement of the previous systems was not accelerated due to Year 2000 Issues.

THE RISKS OF THE COMPANY'S YEAR 2000 ISSUES
There can be no assurance that the Company will be completely successful in its efforts to address Year 2000 Issues. If some of the Company's products or systems are not Year 2000 compliant, the Company could suffer manufacturing delays, lost sales or other negative consequences, including, but not limited to, diversion of resources, damage to the Company's reputation, increased service and warranty costs and litigation, any of which could materially adversely affect the Company's business operations or financial statements.

The Company cannot predict the consequences of failure of its customers or government health payers and providers, such as the U.S. Health Care Financing Administration, to adopt Year 2000 compliant software in a timely manner. The Company is also dependent on third parties such as its suppliers, service providers and other business partners. If these or other third parties fail to adequately address Year 2000 Issues, the Company could experience a negative impact on its business operations or financial statements. For example, the failure of certain of the Company's principal suppliers to have Year 2000 compliant internal systems could impact the Company's ability to manufacture and/or ship its products or to maintain adequate inventory levels for production.

THE COMPANY'S CONTINGENCY PLANS
The Company has identified 786 business systems which may require a written contingency plan. Twenty such plans have now been written. The Company's goal is to have the balance of these systems evaluated and, in those cases where it decides a written contingency plan is prudent, to have such a written plan completed by the end of the third quarter of 1999.

YEAR 2000 FORWARD-LOOKING STATEMENTS
The foregoing Year 2000 discussion contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, including without limitation, anticipated costs and the dates by which the Company expects to complete certain actions, are based on management's best current estimates, which were derived utilizing numerous assumptions about future events, including the continued availability of certain resources, representations received from third parties and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the ability to identify and remediate all product and relevant IT and non-IT systems, results of Year 2000 testing, adequate resolution of Year 2000 Issues by businesses and

other third parties who are service providers, suppliers or customers of the Company, unanticipated system costs, the adequacy of and ability to develop and implement contingency plans and similar uncertainties. The "forward-looking statement" made in the foregoing Year 2000 discussion speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

REPORT OF MANAGEMENT

The management of St. Jude Medical, Inc. is responsible for the preparation, integrity and objectivity of the accompanying financial statements. The financial statements were prepared in accordance with generally accepted accounting principles and include amounts which reflect management's best estimates based on its informed judgement and consideration given to materiality. Management is also responsible for the accuracy of the related data in the annual report and its consistency with the financial statements.

In the opinion of management, the Company's accounting systems and procedures, and related internal controls, provide reasonable assurance that transactions are executed in accordance with management's intention and authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal control, and that the cost of such systems should not exceed the benefits to be derived therefrom. Management reviews and modifies the system of internal controls to improve its effectiveness. The effectiveness of the controls system is supported by the selection, retention and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility and a strong budgeting system of control.

St. Jude Medical, Inc. also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and business conduct. This responsibility is reflected in the Company's business ethics policy.

The adequacy of the Company's internal accounting controls, the accounting principles employed in its financial reporting and the scope of independent and internal audits are reviewed by the Audit Committee of the Board of Directors, consisting solely of outside directors. The independent auditors and internal auditor meet with, and have confidential access to, the Audit Committee to discuss the results of their audit work.

/s/ Ronald A. Matricaria	/s/ John C. Heinmiller
RONALD A. MATRICARIA CHAIRMAN AND CHIEF EXECUTIVE OFFICER	JOHN C. HEINMILLER VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

REPORT OF INDEPENDENT AUDITORS

Board of Directors
St. Jude Medical, Inc.
St. Paul, Minnesota

We have audited the accompanying consolidated balance sheets of St. Jude Medical, Inc. and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Jude Medical, Inc. and subsidiaries at December 31, 1998 and 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting

principles.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 8, 1999

CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31		1998	1997	1996
<S>		<C>	<C>	<C>
	Net sales	$ 1,015,994	$ 994,396	$ 876,747
	Cost of sales	372,940	365,717	294,888
	Gross profit	643,054	628,679	581,859
	Selling, general and administrative expense	349,346	378,500	311,470
	Research and development expense	99,756	104,693	107,644
	Purchased research and development charges	--	--	40,350
	Special charges	--	58,669	52,926
	Operating profit	193,952	86,817	69,469
	Other income (expense), net	(8,222)	1,419	21,140
	Income before taxes	185,730	88,236	90,609
	Income tax provision	56,648	33,530	29,972
	Net income before the cumulative effect of an accounting change for business process reengineering	129,082	54,706	60,637
	Cumulative effect of an accounting change, net of taxes	--	1,566	--
	Net income	$ 129,082	$ 53,140	$ 60,637
BASIC EARNINGS (LOSS) PER COMMON SHARE:	Income before accounting change	$ 1.51	$ 0.60	$ 0.67
	Cumulative effect of accounting change	--	(0.02)	--
	Net income per common share	$ 1.51	$ 0.58	$ 0.67
DILUTED EARNINGS (LOSS) PER COMMON SHARE:	Income before accounting change	$ 1.50	$ 0.59	$ 0.66
	Cumulative effect of accounting change	--	(0.01)	--
	Net income per common share	$ 1.50	$ 0.58	$ 0.66
AVERAGE SHARES OUTSTANDING:	Basic	85,714,000	91,426,000	90,989,000
	Diluted	86,145,000	92,052,000	92,372,000

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

DECEMBER 31		1998	1997
<S>		<C>	<C>
ASSETS	Cash and cash equivalents	$ 3,775	$ 28,530
CURRENT ASSETS	Marketable securities	84,215	156,006
	Accounts receivable, less allowance	282,071	243,311
	Inventories:		
	Finished goods	126,927	137,651
	Work in process	35,130	39,079

	Raw materials	83,522	64,309
	Total inventories	245,579	241,039
	Prepaid income taxes	34,187	36,279
	Other current assets	32,637	38,117
	Total current assets	682,464	743,282
PROPERTY, PLANT AND EQUIPMENT	Land	16,635	17,040
	Buildings and improvements	94,381	74,392
	Machinery and equipment	321,308	261,428
	Construction in progress	80,066	103,828
	Gross property, plant and equipment	512,390	456,688
	Less accumulated depreciation	(184,131)	(154,543)
	Net property, plant and equipment	328,259	302,145
OTHER ASSETS	Other Assets	373,889	407,689
	TOTAL ASSETS	$ 1,384,612	$ 1,453,116
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES	Accounts payable	$ 94,076	$ 111,065
	Accrued income taxes	2,461	19,182
	Accrued employee compensation and related taxes	45,370	50,711
	Other accrued expenses	61,490	65,136
	Total current liabilities	203,397	246,094
LONG-TERM LIABILITIES	Long-term debt	374,995	220,000
CONTINGENCIES	Contingencies		
SHAREHOLDERS' EQUITY	Preferred stock, par value $1.00 per share--25,000,000 shares authorized; no shares issued		
	Common stock, par value $.10 per share--250,000,000 shares authorized; issued and outstanding 1998-84,174,699; 1997-91,911,496 shares	8,417	9,191
	Additional paid-in capital	6,656	244,347
	Retained earnings	816,940	746,032
	Accumulated other comprehensive income:		
	Cumulative translation adjustment	(33,242)	(24,150)
	Unrealized gain on available-for-sale securities	7,449	11,602
	Total shareholders' equity	806,220	987,022
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,384,612	$ 1,453,116

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL		ACCUMULATED OTHER	RECEIVABLE	TOTAL SHARE-
	NUMBER OF SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	COMPREHENSIVE INCOME	FOR STOCK ISSUED	HOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1995	90,281,312	$ 9,028	$ 200,535	$632,255	$ 14,010	$ (440)	$ 855,388
Comprehensive income:							
Net income				60,637			60,637
Other comprehensive income (loss)							
Unrealized gain (loss) on investments, net of taxes ($10,860)					(17,719)		(17,719)
Foreign currency translation adjustment					(3,933)		(3,933)
Other comprehensive income							(21,652)
Comprehensive income							38,985
Issuance of common stock, including exercise of stock options, net of taxes withheld	1,161,191	116	20,701				20,817
Tax benefit realized upon exercise							

of stock options			7,597				7,597
Purchase and retirement of common shares	(145,000)	(14)	(6,712)				(6,726)
Issuance of common stock for business acquired	149,153	15	5,985				6,000
Balance December 31, 1996	91,446,656	9,145	228,106	692,892	(7,642)	(440)	922,061
Comprehensive income:							
Net income				53,140			53,140
Other comprehensive income (loss)							
Unrealized gain (loss) on investments, net of taxes ($12,031) and net of reclassification adjustment (see below)					19,630		19,630
Foreign currency translation adjustment					(24,536)		(24,536)
Other comprehensive income							(4,906)
Comprehensive income							48,234
Issuance of common stock, including exercise of stock options, net of taxes withheld	400,651	40	12,112				12,152
Tax benefit realized upon exercise of stock options			2,006				2,006
Issuance of common stock for business acquired	64,189	6	2,123				2,129
Proceeds for stock issued						440	440
Balance December 31, 1997	91,911,496	9,191	244,347	746,032	(12,548)	--	987,022
Comprehensive income:							
Net income				129,082			129,082
Other comprehensive income (loss)							
Unrealized gain (loss) on investments, net of taxes ($2,545)and net of reclassification adjustment (see below)					(4,153)		(4,153)
Foreign currency translation adjustment					(9,092)		(9,092)
Other comprehensive income							(13,245)
Comprehensive income							115,837
Issuance of common stock, including exercise of stock options, net of taxes withheld	263,203	26	7,054				7,080
Tax benefit realized upon exercise of stock options			1,070				1,070
Purchase and retirement of common shares	(8,000,000)	(800)	(245,815)	(58,174)			(304,789)
Balance December 31, 1998	84,174,699	$ 8,417	$ 6,656	$ 816,940	$ (25,793)	$ --	$ 806,220
Other Comprehensive Income Reclassification Adjustments for net gains realized in net income on investments sold							
1997							$ 1,285
1998							9,282

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31	1998	1997	1996
<S>		<C>	<C>	<C>
OPERATING ACTIVITIES	Net income	$129,082	$ 53,140	$ 60,637
	Adjustments to reconcile net income to net cash provided by operating activities:			

	Depreciation	45,959	45,277	38,533
	Amortization	22,894	20,784	19,649
	Purchased research and development charges	--	--	40,350
	Special charges	--	44,687	20,586
	Gain on sale of business	--	--	(10,486)
	Net investment gain	(10,156)	(4,399)	(777)
	Changes in operating assets and liabilities net of acquisitions:			
	Increase in accounts receivable	(35,236)	(41,731)	(27,267)
	Increase in inventories	(7,458)	(36,929)	(9,331)
	Decrease (increase) in other current assets	4,897	(1,892)	(14,411)
	Increase (decrease) in accounts payable and accrued expenses	(35,853)	(110,757)	13,613
	Increase (decrease) in accrued income taxes	(21,119)	(5,448)	(12,151)
	Decrease (increase) in prepaid and deferred income taxes	15,459	5,644	(32,855)
	NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	108,469	(31,624)	86,090
INVESTING ACTIVITIES	Purchase of property, plant and equipment	(78,227)	(90,962)	(100,501)
	Proceeds from the sale of property, plant and equipment	4,030	6,324	--
	Purchase of marketable securities	--	(7,000)	(90,018)
	Proceeds from sale or maturity of marketable securities	82,879	80,363	67,064
	Investments in companies, joint ventures and partnerships	(1,955)	(260)	(155)
	Acquisitions, net of cash acquired	--	--	(117,800)
	Proceeds from sale of business, net of cash disposed	--	24,626	24,204
	Other investing activities	2,516	(3,607)	(5,393)
	NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	9,243	9,484	(222,599)
FINANCING ACTIVITIES	Proceeds from exercise of stock options and stock issued	7,080	12,592	20,817
	Common stock repurchased	(304,789)	--	(6,726)
	Net payments under lines of credit	(602,536)	(508,000)	(249,853)
	Net borrowings under lines of credit	785,036	498,500	301,853
	Issuance (repurchase) of convertible subordinated notes	(27,505)	--	57,500
	NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(142,714)	3,092	123,591
	Effect of currency exchange rate changes on cash	247	(1,810)	(332)
	DECREASE IN CASH AND CASH EQUIVALENTS	(24,755)	(20,858)	(13,250)
	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	28,530	49,388	62,638
	CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,775	$ 28,530	$ 49,388

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS: St. Jude Medical, Inc. develops, manufactures and distributes medical devices with an emphasis on cardiovascular products and services. The Company's products are sold in more than 100 countries. Principal products include prosthetic heart valves, pacemakers, implantable cardioverter defibrillators (ICDs) and electrophysiology and interventional cardiology catheters. The main markets for these products are the United States, Western Europe and Japan. In the United States, the Company uses a direct employee-based sales organization for its heart valve and catheter products and a combination of independent contractors and an employee-based sales organization for its pacemaker and ICD products. In Western Europe, the Company has a direct sales presence in 14 countries. Throughout the rest of the world, the Company principally uses distributor-based sales organizations.

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant intercompany transactions and balances have been eliminated in consolidation. Certain reclassifications of previously reported amounts have been made to conform with the current year presentation.

USE OF ESTIMATES: The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

ACCOUNTING PERIOD: The Company's fiscal year is the 52 or 53 week period ending the Saturday nearest December 31. Fiscal years 1998 and 1996 consisted of 52

weeks and fiscal year 1997 consisted of 53 weeks.

TRANSLATION OF FOREIGN CURRENCIES: Assets and liabilities of the Company's foreign subsidiaries are translated at exchange rates in effect on reporting dates and differences due to changing exchange rates are recorded as "cumulative translation adjustment" in accumulated other comprehensive income. Income and expenses are translated at average monthly rates of exchange. Gains and losses from foreign currency transactions are included in other income (expense), net.

CASH EQUIVALENTS: Cash equivalents, consisting of liquid investments with a maturity of three months or less when purchased, are stated at cost which approximates market.

INVENTORIES: Inventories are stated at the lower of cost or market. Cost is determined under the first-in, first-out method. Allowances are made for slow-moving, obsolete, unsalable or unusable inventories.

STOCK-BASED COMPENSATION: Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages but does not require companies to record compensation cost for stock-based compensation plans at fair value. The Company elected to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. See Note 5.

SEGMENTS: Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (Statement 131). Statement 131 superseded FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." Statement 131 establishes standards for the way that public businesses report information about operating segments in annual financial statements and requires that those companies report selected information about operating segments in interim financial reports. Statement 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. The adoption of Statement 131 did not affect results of operations or financial position, but did affect the disclosure of segment information. See Note 9.

COMPREHENSIVE INCOME: Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (Statement 130). Statement 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or shareholders' equity. Statement 130 requires unrealized gains or losses on the Company's available-for-sale securities and the foreign currency translation adjustments, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of Statement 130.

HEDGING ACTIVITIES: In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133), which is required to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company has not yet adopted Statement 133. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of Statement 133 will be on the earnings and financial position of the Company.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION: Property, plant and equipment are stated at cost and are depreciated using the straight line method based on useful lives of 31.5 to 39 years for buildings and improvements and three-to-seven years for machinery and equipment. Leasehold improvements are amortized over the shorter of the life of the related asset or the term of the lease. Accelerated depreciation is used by the Company for tax accounting purposes only.

GOODWILL: The excess of the purchase price over the value of the net assets acquired is included in other assets and is amortized generally on a straight line basis over 20 years. The Company periodically reviews its goodwill for indicators of impairment.

LONG-LIVED ASSETS: Statement of Financial Accounting Standards No. 121,

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Company's financial statements reflect no such losses.

REVENUE RECOGNITION: The Company's general practice is to recognize revenues from product sales as shipped and for services as performed. For certain products, the Company maintains consigned inventory at customer locations. For these products, revenue is recognized at the time the Company is notified that the inventory has been used by the customer. The accumulated provision for doubtful accounts at December 31, 1998 and December 31, 1997, was $12,352 and $12,712, respectively.

RESEARCH AND DEVELOPMENT: Research and development expense includes all expenditures for general research into scientific phenomena, development of useful ideas into merchantable products, and continuing support and upgrading of various products. All such expense is charged to operations as incurred.

EARNINGS PER SHARE: Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income available to common shareholders by the common shares outstanding during the period adjusted by the number of additional shares that would have been outstanding had the dilutive potential common shares been issued.

The table below sets forth the computation of basic and diluted earnings per common share before the cumulative effect of an accounting change. There were no adjustments to the numerator.

	1998	1997	1996
Numerator:			
Net income before accounting change	$129,082	$54,706	$60,637
Denominator:			
Basic-weighted average shares outstanding	85,714,000	91,426,000	90,989,000
Effect of dilutive securities:			
Employee stock options	401,000	574,000	1,316,000
Restricted shares	30,000	52,000	67,000
Diluted-weighted shares outstanding	86,145,000	92,052,000	92,372,000
Basic earnings per share	$ 1.51	$ .60	$ .67
Diluted earnings per share	$ 1.50	$ .59	$ .66

Net income and shares outstanding have not been adjusted for the Company's convertible debentures for diluted earnings per share purposes because the result would have been anti-dilutive.

NOTE 2 ACQUISITIONS

On May 15, 1997, the Company acquired Ventritex, Inc. ("Ventritex"), a manufacturer of implantable cardioverter defibrillators and related products. Each share of Ventritex common stock was converted into .5 shares of Company common stock. The Company issued 10,437,800 shares to Ventritex shareholders. The transaction qualified as a tax-free reorganization and was accounted for as a pooling of interests. The accompanying financial statements for 1997 and 1996 have been restated to

include the results of Ventritex. Net sales, net income and other changes in shareholder equity for the separate companies preceding the acquisition were as follows:

	1997*	1996
Net Sales:		
St. Jude Medical	$229,678	$808,780
Ventritex	20,712	67,967
Combined	$250,390	$876,747
Net Income:		
St. Jude Medical	$ 27,791	$ 92,181
Ventritex	(7,977)	(51,208)
Adjustments**	3,063	19,664

Combined	$ 22,877	$ 60,637
Other Changes in Shareholders' Equity:		
St. Jude Medical	$ (14,550)	$ 7,471
Ventritex	997	(3,331)
Adjustments**	--	1,896
Combined	$ (13,553)	$ 6,036

* AS OF MARCH 31, 1997

** TO REFLECT THE COMBINED TAX POSITION AS IF THE ACQUISITION HAD OCCURRED AT THE BEGINNING OF 1995.

On November 29, 1996, the Company acquired substantially all of the worldwide cardiac rhythm management assets of Telectronics Pacing Systems, Inc. ("Telectronics") and Medtel, an Asia-Pacific distribution company for approximately $139,000 and an earnout provision tied to future pacing sales which could result in additional payments of up to $40,000 over six years if certain revenue milestones are achieved. No payments to-date have been made under this earnout provision. The acquisition was accounted for under the purchase accounting method. The results of Telectronics operations have been included in the consolidated results of operations from the date of acquisition. In conjunction with the Telectronics acquisition, the Company in 1996 recorded a pre-tax charge of $32,200 relating to that portion of the purchase price attributable to purchased research and development. In August 1997, the Company sold Medtel. The gain on the sale was recorded as an adjustment to previously recorded goodwill.

Unaudited pro forma information has been prepared assuming that the acquisition of Telectronics had occurred at the beginning of 1995 and including the results of Ventritex on the above restated basis. For 1996, the pro forma net sales, net loss and diluted loss per share were $973,262, $8,400 and $.09, respectively. Pro forma adjustments to reported results include amortization of goodwill, increased interest expense, decreased interest income and the related income tax effects. Pro forma results are not necessarily indicative of the results that would have occurred had the acquisitions actually taken place at the beginning of the specified periods, or the expected results of future operations.

On September 23, 1996, the Company acquired Newcor Industrial S.A. (Newcor) which held most of the assets of Biocor Industria E Pesquisas Ltd., a Brazilian tissue heart valve manufacturer, for $4,000 in cash and an earn-out which could result in additional cash payments of up to $4,000 over the subsequent three years. In 1997 and 1998, additional payments for the purchase totaled $2,400. On January 5, 1996, the Company acquired the remaining shares of The Heart Valve Company it did not previously own for $1,000 in cash and 149,153 shares of its common stock. In connection with the acquisitions of Newcor and The Heart Valve Company, the Company recorded pre-tax charges of $3,150 and $5,000, respectively, relating to purchased research and development. The results of Newcor and The Heart Valve Company have been included in the Company's results of operations since the dates of acquisition and were not material to 1996 results of operations.

On May 31, 1996, the Company acquired Daig Corporation ("Daig"), a manufacturer of specialized cardiovascular devices for the electrophysiology and interventional cardiology markets. Each share of Daig common stock was converted into .651733 shares of Company common stock. The Company issued 9,929,897 shares to Daig shareholders. Additionally, one outstanding option to acquire 128,000 shares of Daig common stock was converted to an option to acquire 83,422 shares of Company common stock. The transaction qualified as a tax-free reorganization and was accounted for as a pooling of interests. The accompanying financial statements for 1996 have been restated to include the results of Daig, which were not material.

NOTE 3 SPECIAL CHARGES

Results of operations for 1997 include pre-tax charges of $58,669 recorded in the second and fourth quarters of $30,645 and $28,024, respectively. These special charges related to Ventritex merger transaction charges ($8,227), the termination of various distributor agreements ($12,925), repositioning of Pacesetter manufacturing operations in connection with the Ventritex integration ($18,139), and repositioning of Ventritex operations ($19,378). The special charge accruals decreased by $47,045 since the dates recorded as a result of cash payments or asset impairments.

Results of operations for 1996 include pre-tax charges of $52,926 for costs relating to patent and litigation settlements and repositioning several of the Company's operations. Patent and other legal disputes between Pacesetter and a third party were settled for $25,000. Daig transaction costs totaled $5,118. The repositioning charges of $22,808 related to the planned consolidation of tissue heart valve

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

manufacturing operations ($11,100), the termination of various distributor agreements in conjunction with the conversion to direct sales ($7,700), the realignment of Pacesetter manufacturing operations in connection with the Telectronics integration ($2,200), and other non-recurring expenses ($1,808). The 1996 special charge accruals decreased $50,067, since the date recorded as a result of cash payments or asset impairments.

NOTE 4 INCOME TAXES

The components of income before taxes were as follows:

	1998	1997	1996
Domestic	$132,574	$81,311	$89,305
Foreign	53,156	6,925	1,304
Income before taxes	$185,730	$88,236	$90,609

The components of the income tax provision were as follows:

	1998	1997	1996
Current:			
Federal	$28,409	$20,957	$52,129
State and Puerto Rico Section 936	5,771	3,754	9,676
Foreign	7,009	2,195	1,022
Total current	41,189	26,906	62,827
Deferred:			
Federal	15,459	6,624	(32,855)
Total deferred	15,459	6,624	(32,855)
Income tax provision	$56,648	$33,530	$29,972

Deferred income tax assets (liabilities) were comprised of the following at December 31:

	1998	1997
Deferred income tax assets:		
Net operating loss carryforwards	$45,258	$45,236
Tax credit carryforwards	3,837	3,837
Inventory (intercompany profit in inventory and excess of tax over book valuation)	23,302	19,377
Intangibles	17,034	22,200
Accruals not currently deductible	6,456	17,229
Deferred income tax assets	95,887	107,879
Deferred income tax liabilities:		
Unrealized gain on investments	(4,566)	(7,112)
Accumulated depreciation	(12,467)	(9,000)
Deferred income tax liabilities	(17,033)	(16,112)
Net deferred income tax assets	$78,854	$91,767

The reconciliation of the Company's effective income tax rate to the statutory U.S. federal income tax rate of 35% is as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Income tax provision at U.S. statutory rate	$65,006	$30,883	$31,713
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax benefit	4,091	2,613	4,309
Tax benefits from foreign sales corporation	(5,662)	(4,600)	(3,878)
Tax benefits from Puerto Rican Section 936 operations	(63)	(1,152)	(3,128)
Non-deductible acquisition costs	--	6,280	1,960
Foreign taxes at higher (lower) rates	(6,212)	1,023	1,849
Other	(512)	(1,517)	(2,853)
Income tax provision	$56,648	$33,530	$29,972

Effective income tax rate	30.5%	38.0%	33.1%

</TABLE>

At December 31, 1998, the Company has net operating loss and research and development tax credit carryforwards for federal income tax purposes of approximately $139,862 and $3,682, respectively, that will expire from 2002 through 2011 if not utilized, and are subject to annual limitations.

The Company is in Tax Court with the Internal Revenue Service ("IRS") over deficiency notices for $16,400 in taxes for the period 1990-1991. The Company is refuting the IRS deficiency and has asserted that the Company is in fact owed a refund. The trial is expected to begin in 1999. In addition, the IRS completed an audit examination of the Company's 1992-1994 income tax returns in early 1998 and proposed an adjustment of $41,800 in taxes. The Company filed a protest for the 1992-1994 audit cycle, which is currently held in suspense pending the resolution of the 1990-1991 litigation. The adjustments relate primarily to the Company's Puerto Rican operations. The deficiency amounts do not include interest, state taxes, or offsetting Puerto Rico tax refunds. The net effect of these items is not material. It is likely that a similar additional adjustment will be proposed for 1995. The Company is vigorously contesting this adjustment. The Company expects that the ultimate resolution will not have material adverse effect on its financial position or liquidity, but could potentially be material to the net income of a particular future period if resolved unfavorably.

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries ($56,945 at December 31, 1998) because such earnings are intended to be indefinitely reinvested.

The Company made income tax payments of $48,031, $33,755 and $68,525 in 1998, 1997 and 1996, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 5 STOCK PURCHASE AND OPTION PLANS

STOCK PURCHASE: The Company's employee stock purchase savings plan allows participating employees to purchase, through payroll deductions, shares of common stock at 85% of the fair market value at specified dates. Under the terms of the plan, 750,000 shares of common stock have been reserved for purchase by plan participants. Employees purchased 107,545, 112,469 and 108,795 shares in 1998, 1997 and 1996, respectively. At December 31, 1998, 274,428 shares were available for purchase under the plan.

STOCK-BASED COMPENSATION: Under the terms of the Company's various stock plans, 13,551,137 shares of common stock have been reserved for issuance to directors, officers and employees upon the grant of restricted stock or the exercise of stock options. Stock options are exercisable over periods up to 10 years from date of grant and may be "incentive stock options" or "non-qualified stock options" and may have stock appreciation rights attached. At December 31, 1998, there were a maximum of 3,781,856 shares available for grant and 9,769,281 options outstanding. At December 31, 1998, 1997 and 1996, there were options exercisable of 3,961,943, 3,362,361 and 2,578,387, respectively. Stock option transactions were:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE PRICE PER SHARE	RANGE OF OPTION EXERCISE PRICES
Balance at December 31, 1995	4,350,007	$26.27	$ 3.06-87.74
Granted	2,288,998	36.36	25.00-46.76
Cancelled	(302,785)	39.78	18.58-57.50
Exercised	(917,204)	20.84	3.06-43.00
Balance at December 31, 1996	5,419,016	31.27	3.56-87.74
Granted	5,049,875	34.03	29.75-42.19
Cancelled	(615,140)	38.39	18.58-87.74
Exercised	(296,893)	23.56	3.56-43.00
Balance at December 31, 1997	9,556,858	32.60	5.44-87.74
Granted	1,350,300	30.21	20.63-38.47
Cancelled	(979,284)	36.09	18.58-87.74
Exercised	(158,593)	20.36	5.44-35.33
Balance at December 31, 1998	9,769,281	32.12	6.46-87.74

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The weighted-average fair value of options granted during 1998 was $10.91 per share. The following table summarizes the information about fixed-price options outstanding at December 31, 1998.

<TABLE>
<CAPTION>

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OUTSTANDING	WEIGHTED-AVERAGE REMAINING YEARS CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$ 6.46 - 8.77	40,977	0.1	$ 7.17	40,977	$ 7.17
8.77 - 17.55	76,801	1.2	14.61	76,801	14.61
17.55 - 26.32	1,475,442	5.0	21.84	1,344,148	21.60
26.32 - 35.10	4,991,280	8.1	30.57	1,704,363	30.07
35.10 - 43.87	2,897,817	8.3	38.71	517,979	39.22
43.87 - 52.64	220,756	5.0	49.50	211,467	49.62
52.64 - 87.74	66,208	4.5	66.54	66,208	66.54
	9,769,281	7.5	32.12	3,961,943	29.51

</TABLE>

Pursuant to the terms of the Company's various stock plans, optionees can use cash, previously owned shares or a combination of cash and previously owned shares to reimburse the Company for the cost of the option and the related tax liabilities. Any such shares are acquired from the optionee at the fair market value of the stock on the transaction date.

All options have been granted at not less than fair market value at dates of grant. When stock options are exercised, the par value of the shares issued is credited to common stock and the excess of the proceeds over the par value is credited to additional paid-in capital. When non-qualified options are exercised, the Company realizes income tax benefits based on the difference between the fair value of the stock on the date of exercise and the stock option exercise price. These tax benefits do not affect the income tax provision, but rather are credited directly to additional paid-in capital.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for its stock option awards. Had compensation expense for the Company's stock option awards been determined based upon their grant date fair value consistent with the methodology prescribed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced by $11,822, or $.14 per share, $12,911, or $.14 per share, and $4,985, or $.05 per share for 1998, 1997 and 1996, respectively. These amounts are not necessarily indicative of the amounts that

will be reported in the future. The fair value of the options at the grant date was estimated using a variation of the Black-Scholes model with the following weighted average assumptions:

	1998	1997	1996
Expected life (years)	5	6	6
Interest rate	4.5%	6.0%	6.3%
Volatility	33.4%	34.2%	40.5%
Dividend yield	0%	0%	0%

Under the terms of the Company's Shareholder Rights Plan, upon the occurrence of certain events which result in a change in control as defined by the Plan, registered holders of common shares are entitled to purchase one-hundredth of a share of Series B Junior Preferred Stock at a stated price, or to purchase either the Company's shares or shares of the acquiring entity at half their market value.

NOTE 6 LONG-TERM DEBT

Long-term debt at December 31, 1998 and 1997, consisted of the following instruments:

<TABLE>
<CAPTION>

	1998	1997

<S>	<C>	<C>
Revolving Credit Facility due March, 2003 at weighted average interest of 5.49%	$330,000	$ --
Revolving Credit Facility due July, 2001 at weighted average interest of 5.95%	--	116,000
Uncommitted lines of credit at weighted average interest of 5.33% and 5.95% in 1998 and 1997, respectively.	15,000	46,500
Convertible Subordinated Debenture due August 15, 2001 with a 5.75% interest rate	29,995	57,500
	$374,995	$220,000

</TABLE>

The Company has a $350,000 committed revolving credit facility that expires on March 16, 2003 with a group of twenty-one banks. In addition, the Company has a $150,000 committed revolving credit facility that expires on March 15, 1999, with a group of twenty-one banks and was renewed in March 1999 with a group of seventeen banks and increased to $200,000. The rate of interest payable under these borrowing facilities is a floating rate and is a function of the London Interbank Offered Rate. A facility fee of .11% of the $350,000 revolving credit facility is paid quarterly and a .09% facility fee is paid quarterly on the $150,000 revolving credit facility.

These credit agreements contain various covenants that require the Company to maintain specified financial ratios, limit liens, regulate asset dispositions and subsidiary indebtedness and limits certain acquisitions and investments. At December 31, 1998, the Company was in compliance with these covenants.

In August 1996, the Company issued $57,500 aggregate principal amount of 5.75% convertible subordinated debentures due August 15, 2001. At the option of the holder, the notes are convertible at any time prior to maturity, unless previously redeemed or repurchased, into shares of common stock at a conversion rate of 29.0909 shares per thousand dollars principal amount of notes (equivalent to a conversion price of $34.375 per share). Subsequent to August 15, 1999, the Company may notify holders of the debentures that they must either convert to common stock or redeem the debentures for cash. During 1998, the Company repurchased $27,505 principal amount of these debentures. Gains (losses) related to the repurchase of such debentures were insignificant. The fair value of the outstanding debentures at December 31, 1998, was estimated to be approximately $32,000.

NOTE 7 FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET RISK

Foreign Currency Hedging Activities: The Company enters into foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. The instruments used for hedging are readily marketable range forward options and forward contracts with banks. The changes in market value of such contracts have a high correlation to price changes in the currency of the hedged activity. Maturities of these instruments are typically one year or less from the transaction date.

The Company had foreign currency contracts totaling $38,353 and $85,213 at December 31, 1998 and December 31, 1997, respectively. The 1998 contracts are related to the exchange of German Marks, Canadian Dollars, British Pounds, Swedish Kroner and U.S. Dollars. These instruments were recorded at their fair market value at each balance sheet date and any resulting gains or losses are included in other income (expense), net.

OTHER FINANCIAL INSTRUMENTS: Marketable securities consist of equity instruments, bank certificates of deposit, U.S. government obligations, commercial paper, and Puerto Rico industrial development bonds. Under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity

Securities," debt securities that the Company does not have the positive intent to hold to maturity and all marketable equity securities are classified as available-for-sale and are carried at fair value. A net realized gain of $15,624, $6,768 and $1,195 was recorded in other income on sales of available-for-sale securities in 1998, 1997 and 1996, respectively. The net unrealized holding gain on available-for-sale securities included in accumulated other comprehensive income was $7,449 (net of $4,566 of current deferred income taxes) at December 31, 1998.

The cost and estimated fair market value of financial instruments at December 31, 1998 and December 31, 1997, consisted of the following:

1998 1997

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	COST	ESTIMATED FAIR VALUE	COST	ESTIMATED FAIR VALUE
Assets:				
Cash and Cash Equivalents	$ 3,775	$ 3,775	$ 28,530	$ 28,530
Marketable Securities	$72,200	$84,215	$137,292	$156,006

CONCENTRATION OF CREDIT RISK: Trade accounts receivables, certain marketable securities and foreign exchange contracts may subject the Company to concentration of credit risk.

Within the European Economic Union and in many emerging markets, payment of certain accounts receivable is made by the national health care system within several countries. Although the Company does not anticipate collection problems with these receivables, payment is dependent to a certain extent upon the economic situation within these countries. The credit risk associated with the balance of the trade receivables is mitigated due to dispersion of the receivables over a large number of customers in many geographic areas. The Company monitors the credit worthiness of its customers to which it grants credit terms in the normal course of business.

Marketable securities are placed with high credit qualified financial institutions and Company policy limits the credit exposure to any one financial institution. Counterparties to foreign exchange contracts are major financial institutions; therefore, credit loss from counterparty nonperformance is unlikely.

NOTE 8 RETIREMENT PLANS

DEFINED CONTRIBUTION PLAN: The Company has a defined contribution profit sharing plan, including features under section 401(k) of the Internal Revenue Code, which provides retirement benefits to substantially all full-time U.S. employees. Under the 401(k) portion of the plan, eligible employees may contribute a percentage of their annual compensation, subject to IRS limitations, with the Company matching certain eligible contributions. The Company's level of contribution to the profit sharing portion of the plan is subject to Board of Directors approval and is based on Company performance. In addition, the Company has defined contribution programs for employees outside the United States. The benefits under these plans are based primarily on compensation levels. Total retirement plan expense was $9,858, $8,859 and $5,783 in 1998, 1997 and 1996, respectively.

DEFINED BENEFIT PLANS: In certain countries outside the United States, the Company maintains defined benefit plans. An accrual of $6,179 was recorded as of December 31, 1998, which is approximately equal to the actuarially calculated unfunded liability and the related pension expense was not material.

NOTE 9 SEGMENT AND GEOGRAPHIC INFORMATION

SEGMENT INFORMATION: The Company has two reportable segments: Cardiac Rhythm Management (CRM) and Heart Valve Disease Management (HVDM). The Company's Cardiac Rhythm Management Division and its Daig Division have been aggregated for CRM. The CRM segment develops, manufactures and distributes bradycardia pulse generators and leads, tachycardia implantable cardioverter defibrillators, electrophysiology catheters and cardiology catheters. The HVDM segment develops, manufactures and distributes mechanical and tissue heart valves and valve repair products. Both segments sell their products through a combination of direct sales representatives and independent sales representatives.

Segment performance is evaluated based on worldwide operating results. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. There were no inter-segment sales or transfers.

The Company's reportable segments are business units that offer different products to distinct customers. These segments are each managed separately because they manufacture different products with discrete manufacturing processes.

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31, 1998	CRM	HVDM	ALL OTHER(1)	TOTAL
<S>	<C>	<C>	<C>	<C>
Net sales to external customers	$735,123	$280,871	$ --	$1,015,994
Depreciation and amortization expense	55,297	6,106	7,450	68,853
Operating profit (3)	70,024	147,832	(23,904)	193,952

Assets (4)	952,921	185,135	246,556	1,384,612
Expenditures for long-lived assets	45,866	5,828	26,533	78,227
Year Ended December 31, 1997				
Net sales to external customers	$716,347	$278,049	$ --	$ 994,396
Depreciation and amortization expense	52,560	6,724	6,777	66,061
Operating profit (2), (3)	23,673	142,707	(79,563)	86,817
Assets (4)	968,249	155,899	328,968	1,453,116
Expenditures for long-lived assets	60,513	4,359	26,090	90,962
Year Ended December 31, 1996				
Net sales to external customers	$607,277	$269,470	$ --	$ 876,747
Depreciation and amortization expense	45,599	6,800	5,783	58,182
Operating profit (2), (3)	45,482	135,417	(111,430)	69,469
Assets (4)	977,796	123,541	368,657	1,469,994
Expenditures for long-lived assets	81,372	5,280	13,849	100,501

</TABLE>

(1) AMOUNTS INCLUDED IN ALL OTHER RELATE PRIMARILY TO CORPORATE, SPECIAL CHARGES AND PURCHASED R&D.

(2) ALL OTHER INCLUDES SPECIAL CHARGES TOTALING $58,669 AND $52,926 FOR 1997 AND 1996, RESPECTIVELY. IN ADDITION, ALL OTHER INCLUDES PURCHASED RESEARCH AND DEVELOPMENT CHARGES OF $40,350 FOR 1996.

(3) OTHER INCOME (EXPENSE), NET WAS EXCLUDED FROM THIS TABLE BECAUSE THIS FINANCIAL INFORMATION IS NOT USED BY THE CHIEF OPERATING DECISION MAKER TO EVALUATE SEGMENT PERFORMANCE AND MUST BE ADDED TO OPERATING PROFIT TO RECONCILE TO INCOME BEFORE TAXES.

(4) ASSETS ASSOCIATED WITH INCOME PRODUCING SEGMENTS ARE INCLUDED IN THE SEGMENT'S ASSETS WITH THE EXCEPTION OF THE HVDM HEADQUARTERS FACILITY THAT IS INCLUDED IN THE CORPORATE HEADQUARTERS ASSETS. HVDM IS ALLOCATED ITS PROPORTIONATE SHARE OF DEPRECIATION. CORPORATE ASSETS CONSIST PRINCIPALLY OF CASH AND CASH EQUIVALENTS, MARKETABLE SECURITIES AND PROPERTY AND EQUIPMENT.

Geographic Information:

YEAR ENDED DECEMBER 31, 1998	NET SALES	LONG-LIVED ASSETS
United States	$ 604,524	$538,403
Europe	248,070	44,860
Other foreign countries	163,400	67,430
Consolidated	$ 1,015,994	$650,693
Year Ended December 31, 1997		
United States	$ 581,514	$532,381
Europe	227,871	40,697
Other foreign countries	185,011	74,370
Consolidated	$ 994,396	$647,448
Year Ended December 31, 1996		
United States	$ 519,240	$528,066
Europe	220,017	42,456
Other foreign countries	137,490	75,404
Consolidated	$ 876,747	$645,926

CRM and HVDM do not have any single customer that represents more than 10% of applicable consolidated net sales. Net sales are allocated to specific geographies based on the location of the customer. Long-lived assets consist of net property, plant and equipment, net goodwill and other net intangibles.

NOTE 10 OTHER INCOME (EXPENSE), NET

Other income (expense), net consisted of the following:

	1998	1997	1996
Interest income	$ 4,125	$ 6,365	$ 9,463
Interest expense	(23,667)	(14,374)	(4,725)
Foreign exchange gains	(3,304)	2,078	2,165
Net gain on the sale of equities	15,624	6,768	1,195

Gain on the sale of a business	--	--	10,486
Other	(1,000)	582	2,556
Other income (expense), net	$ (8,222)	$ 1,419	$ 21,140

The Company periodically directly invests in the equities of emerging technologies that may complement the Company's technologies. In 1998, 1997 and 1996, the Company realized a gain on the sale of certain of these equity investments. In 1996, the Company sold its cardiac assist operations for approximately $24,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 11 OTHER ASSETS

Other assets as of December 31, 1998 and 1997, net of accumulated amortization of $86,415 and $65,009, respectively, consisted of the following:

	1998	1997
Investments in companies, joint ventures and partnerships	$ 3,735	$ 4,717
Goodwill and other intangibles	322,434	345,303
Deferred tax assets	44,667	55,488
Other	3,053	2,181
Other assets, net	$373,889	$407,689

Investments in companies, joint ventures, and partnerships are stated at cost which approximates market. Goodwill and other intangible assets consist principally of the excess of cost over net assets of certain acquired businesses and technology and are being amortized over periods ranging from 10 to 20 years.

NOTE 12 LEASE COMMITMENTS

The Company leases various facilities under noncancelable operating lease arrangements. The major facility leases are for terms of three to ten years and generally provide renewal options. In most cases, management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Rent expense under all operating leases was approximately $7,341, $7,081 and $6,596 in 1998, 1997 and 1996, respectively.

Future minimum lease payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of December 31, 1998, are as follows:

YEAR ENDING DECEMBER 31	
1999	$ 7,465
2000	6,724
2001	6,268
2002	5,185
2003	4,535
After 2003	372
Total minimum lease payments	$30,549

NOTE 13 CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE

Pursuant to Emerging Issues Task Force (EITF) No. 97-13, the Company changed its accounting policy in the fourth quarter of 1997, regarding a project it began in 1995, to install a new software system and to reengineer certain related processes. Previously, substantially all the system costs relating to the project were capitalized, including the portion related to business process reengineering. The Company expensed the unamortized balance of these costs as of September 30, 1997, of $1,566 (net of income taxes of $980) and recorded the charge as a cumulative effect of an accounting change during the fourth quarter of 1997.

NOTE 14 CONTINGENCIES

The Company is involved in various products liability lawsuits, claims and proceedings of a nature considered normal to its business. Subject to self-insured retentions, the Company has products liability insurance sufficient to cover such claims and suits. The Company's product liability insurance policies exclude coverage for two discontinued Pacesetter lead models. These discontinued lead models were the subject of class action product liability suits that have been settled. Management believes losses that might be sustained from such actions would not have a material adverse effect on the Company's

liquidity or consolidated financial condition, but could potentially be material to the net income of a particular future period if resolved unfavorably.

NOTE 15 SUBSEQUENT EVENT

On February 5, 1999, the Company executed a definitive purchase and sale agreement to acquire the Angio-Seal business of Tyco International Ltd. for $167,000. The transaction is subject to government review under the Hart-Scott-Rodino Act, but is expected to be completed by the end of the first quarter of 1999. This transaction will be accounted for under the purchase accounting method.

NOTE 16 QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly data for 1998 and 1997 was as follows:

	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
Year Ended December 31, 1998:				
Net sales	$257,488	$261,232	$248,822	$248,452
Gross profit	159,262	165,207	158,118	160,467
Net income	29,175	40,034	29,450	30,423
Diluted earnings per share	.32	.47	.35	.36
Year Ended December 31, 1997:				
Net sales	$250,390	$261,456	$233,189	$249,361
Gross profit	158,674	169,824	144,423	155,758
Net income	22,877	8,765*	18,552	2,946*
Diluted earnings per share	.25	.09	.20	.03

THE FULL YEAR 1997 DILUTED EARNINGS PER SHARE WERE $.01 HIGHER THAN THE SUM OF THE QUARTERS DUE TO ROUNDING.

* INCLUDES THE EFFECT OF PRE-TAX SPECIAL CHARGES ASSOCIATED WITH THE VENTRITEX MERGER AND THE CONSOLIDATION OF CARDIAC RHYTHM MANAGEMENT OPERATIONS OF $30,645 AND $28,024 IN THE SECOND AND FOURTH QUARTERS, RESPECTIVELY.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

		1998	1997*	1996**	1995	1994***
<S>		<C>	<C>	<C>	<C>	<C>
SUMMARY OF OPERATIONS FOR THE YEAR ENDED:	Net sales	$1,015,994	$ 994,396	$ 876,747	$ 848,078	$ 517,433
	Gross profit	$ 643,054	$ 628,679	$ 581,859	$ 555,290	$ 353,623
	Percent of sales	63.3%	63.2%	66.4%	65.5%	68.3%
	Operating profit	$ 193,952	$ 86,817	$ 69,469	$ 169,086	$ 123,516
	Percent of sales	19.1%	8.7%	8.0%	19.9%	23.9%
	Net income	$ 129,082	$ 53,140	$ 60,637	$ 117,116	$ 95,749
	Percent of sales	12.7%	5.3%	6.9%	13.8%	18.5%
	Diluted earnings per share	$ 1.50	$ 0.58	$ 0.66	$ 1.28	$ 1.06
FINANCIAL POSITION AT YEAR END:	Cash and marketable securities	$ 87,990	$ 184,536	$ 235,395	$ 239,621	$ 209,099
	Working capital	$ 479,067	$ 497,188	$ 429,451	$ 405,060	$ 426,297
	Total assets	$1,384,612	$1,453,116	$1,469,994	$1,192,235	$1,101,283
	Long-term debt	$ 374,995	$ 220,000	$ 229,500	$ 120,000	$ 255,000
	Total shareholders' equity	$ 806,220	$ 987,022	$ 922,061	$ 855,388	$ 772,629
OTHER DATA:	Dividend declared per share	$ --	$ --	$ --	$ --	$ 0.20

Diluted weighted average shares outstanding	86,145,000	92,052,000	92,372,000	91,335,000	90,558,000
Total employees	3,984	3,772	4,168	3,090	2,980

</TABLE>

NOTE: THE FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA INCLUDES THE RESULTS OF VENTRITEX, INC. AND DAIG CORPORATION ON A POOLING OF INTERESTS BASIS FOR ALL PERIODS PRESENTED.

* RESULTS FOR 1997 INCLUDE $58,669 PRE-TAX CHARGE FOR SPECIAL CHARGES.

** RESULTS FOR 1996 INCLUDE $88,158 PRE-TAX CHARGE FOR PURCHASED RESEARCH AND DEVELOPMENT AND SPECIAL CHARGES.

*** RESULTS FOR 1994 INCLUDE $40,800 PRE-TAX CHARGE FOR PURCHASED RESEARCH AND DEVELOPMENT.

INVESTOR INFORMATION

TRANSFER AGENT
Requests concerning the transfer or exchange of shares, lost stock certificates, duplicate mailings or change of address should be directed to the Company's Transfer Agent at:

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500
800-317-4445

ANNUAL MEETING OF SHAREHOLDERS
The annual meeting of shareholders will be held at 9:30 a.m. on Wednesday, May 5, 1999, at the Lutheran Brotherhood Building, 625 Fourth Avenue South, Minneapolis, Minnesota.

INVESTOR INFORMATION
A copy of the Company's annual report on Form 10-K or other financial results will be provided free of charge to any shareholder upon written request to Investor Relations, St. Jude Medical, Inc., One Lillehei Plaza, St. Paul, Minnesota 55117-9983.

To obtain information about the Company call 1-800-552-7664, or write to: Laura Merriam, Director, Investor Relations, St. Jude Medical, Inc., One Lillehei Plaza, St. Paul, Minnesota 55117-9983.

COMPANY STOCK SPLITS
2:1 on 4/27/79, 1/25/80, 9/30/86, 3/15/89 and 4/30/90
3:2 on 11/16/95

STOCK EXCHANGE LISTINGS
New York Stock Exchange
Chicago Board Options Exchange (CB)
Symbol: STJ

The range of high and low prices per share for the Company's common stock for fiscal 1998 and 1997 is set forth below. As of February 10, 1999, the Company had 4,443 shareholders of record.

YEAR ENDED DECEMBER 31	1998		1997	
QUARTER	HIGH	LOW	HIGH	LOW
First	$38.00	$29.06	$42.38	$33.25
Second	$39.69	$33.06	$39.75	$29.13
Third	$36.63	$19.19	$42.88	$33.50
Fourth	$31.88	$19.19	$35.06	$27.06

TRADEMARKS
Affinity(R), Angstrom(R), APS(R) III, AutoCapture(TM), Contour(R), EnCap(TM), Flatcap(TM), Genisis(R), Lynx(TM), Livewire(TM), Locator(TM), Microny(TM), Passive Plus(R) DX, Phoenix(R), Profile(TM), Silzone(TM), SJM(R), SJM Epic(TM), SJM Quattro(TM), SJM Regent(TM), SJM Tailor(TM), Spyglass(TM), Toronto SPV(R), Trilogy(R).

EXHIBIT 21

ST. JUDE MEDICAL, INC. AND SUBSIDIARIES

SUBSIDIARIES OF THE REGISTRANT

St. Jude Medical, Inc. Wholly Owned Subsidiaries:

* Pacesetter, Inc. - Sylmar, California, Scottsdale, Arizona, and Maven, South Carolina (Delaware corporation)
* St. Jude Medical S.C., Inc. - St. Paul, Minnesota (Minnesota corporation)
* St. Jude Medical Sales Corp. - St. Paul, Minnesota (Barbados corporation)
* St. Jude Medical Europe, Inc. - St. Paul, Minnesota (Delaware corporation)
    - Brussels, Belgium branch
* St. Jude Medical Canada, Inc. - Mississauga, Ontario and St. Hyacinthe, Quebec (Ontario, Canada corporation) (former name: St. Jude Medical, Ltd.)
* 151703 Canada, Inc. - St. Paul, Minnesota (Ontario, Canada corporation)
* St. Jude Medical Hong Kong Ltd. - Kowloon, Hong Kong (Hong Kong corporation)
    - Shanghai and Beijing, China branches
    - India liaison office
* St. Jude Medical Tissue Corporation, Inc. - St. Paul, Minnesota (Delaware corporation) (formerly known as St. Jude Medical, Inc., Cardiac Assist Division; Assets of St. Jude Medical, Inc., Cardiac Assist Division sold to Bard 1/19/96)
* Glory Telectronics, Ltd. - Hong Kong (Hong Kong corporation)
    - Glory EME China, Ltd. - Hong Kong (Hong Kong corporation) (wholly-owned subsidiary of Glory Telectronics, Ltd. - Hong Kong)
    - Glory EME, Ltd. - Hong Kong (Hong Kong corporation) (wholly-owned subsidiary of Glory Telectronics, Ltd. Hong Kong)
* St. Jude Medical Australia Pty., Ltd. - Sydney Australia (Australian corporation)
* St. Jude Medical Brasil, Ltda. - Sao Paulo, Brazil (Brazilian corporation)
    - Telectronics Medica, Ltda. - Sao Paulo, Brazil (Brazilian corporation)
* Medical Telectronics, Ltd. - Auckland, New Zealand (New Zealand corporation)
* Daig Corporation - Minnetonka, Minnesota (Minnesota corporation)

SJM Europe Inc.'s Wholly Owned Subsidiaries

* St. Jude Medical Puerto Rico, Inc. - Caguas, Puerto Rico (Delaware corporation)
    - St. Jude Medical Puerto Rico Holding, B.V. (Netherlands corporation) (wholly-owned subsidiary of St. Jude Medical Puerto Rico, Inc.)
        - St. Jude Medical B.V. (Netherlands corporation) (wholly-owned subsidiary of St. Jude Medical Puerto Rico Holding, B.V.)
            - Telectronics B.V. (Netherlands corporation) (wholly-owned subsidiary of St. Jude Medical B.V.)
        - St. Jude Medical Netherlands Distribution AB (Swedish corporation headquartered in the Netherlands) (wholly-owned subsidiary of St. Jude Medical Puerto Rico Holding, B.V.)
            - St. Jude Medical Puerto Rico B.V. (Netherlands) (wholly-owned subsidiary of St. Jude Medical Netherlands Distribution AB)
                - Puerto Rico branch of St. Jude Medical Puerto Rico B.V.
    - St. Jude Medical Coordination Center (Belgium branch of St. Jude Medical Netherlands

Distribution AB)
* Pacesetter AB (Swedish corporation)
* St. Jude Medical Sweden AB (Swedish corporation)
* St. Jude Medical Denmark A/S (Danish corporation)
    - Telectronics Scandinavia Aps (Danish corporation) (wholly-owned subsidiary of St. Jude Medical Denmark A/S)
* St. Jude Medical Pacesetter Sales AB (Swedish corporation)
* St. Jude Medical (Portugal) - Distribuicao de Produtos Medicos, Lda.
* St. Jude Medical Export Ges.m.b.H. (Austrian corporation)
* St. Jude Medical Medizintechnik Ges.m.b.H. (Austrian corporation)
* St. Jude Medical Italia S.p.A (Italian corporation)
* N.V. St. Jude Medical Belgium, S.A. (Belgian corporation)
    - Portugal branch
* St. Jude Medical Espagna S.A. (Spanish corporation)
* St. Jude Medical France S.A. (French corporation) (former name: Pacesetter France S.A.)
* St. Jude Medical Finland O/y (Finnish corporation)
* St. Jude Medical Sp.zo.o. (Polish corporation)
* St. Jude Medical GmbH (German corporation)
* St. Jude Medical UK Limited (United Kingdom corporation)
* St. Jude Medical AG (Swiss corporation)

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report on Form 10-K of St. Jude Medical, Inc. of our report dated February 8, 1999, included in the 1998 Annual Report to Shareholders of St. Jude Medical, Inc.

Our audits also included the financial statement schedule of St. Jude Medical, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement No. 33-9262, Registration Statement No. 33-29085, Registration Statement No. 33-41459, Registration Statement No. 33-48502, Registration Statement No. 33-54435, and Registration Statement No. 333-42495 on Form S-8 of our report dated February 8, 1999, with respect to the consolidated financial statements and schedule of St. Jude Medical, Inc. included and/or incorporated by reference in the Annual Report on Form 10-K for the year ended December 31, 1998.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota
March 23, 1999

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