BOSTON SCIENTIFIC CORP
Form 10-Q
August 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

Commission File No. 1-11083

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

DELAWARE	04-2695240
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

300 BOSTON SCIENTIFIC WAY, MARLBOROUGH, MASSACHUSETTS 01752-1234
(Address of principal executive offices) (zip code)
(508) 683-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-Accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

Class	Shares outstanding as of July 31, 2015
Common Stock, $.01 par value	1,343,956,583

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PART I
FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

in millions, except per share data	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Net sales	$1,843	$1,873	$3,611	$3,647
Cost of products sold	540	563	1,060	1,100
Gross profit	1,303	1,310	2,551	2,547
Operating expenses:				
Selling, general and administrative expenses	700	743	1,367	1,409
Research and development expenses	220	206	412	397
Royalty expense	18	25	36	65
Amortization expense	116	109	229	218
Intangible asset impairment charges	9	110	9	165
Contingent consideration expense (benefit)	19	(96)	46	(118)
Restructuring charges	3	15	9	35
Litigation-related charges (credits)	(1)	267	192	260
Pension termination charges	—	—	8	—
Gain on divestiture	—	—	—	(12)
	1,084	1,379	2,308	2,419
Operating income (loss)	219	(69)	243	128
Other income (expense):				
Interest expense	(106)	(53)	(167)	(108)
Other, net	(8)	18	(22)	22
Income (loss) before income taxes	105	(104)	54	42
Income tax expense (benefit)	3	(108)	(47)	(95)
Net income (loss)	$102	$4	$101	$137
Net income (loss) per common share — basic	$0.08	$0.00	$0.08	$0.10
Net income (loss) per common share — assuming dilution	$0.08	$0.00	$0.07	$0.10
Weighted-average shares outstanding				
Basic	1,341.3	1,323.2	1,337.5	1,322.4
Assuming dilution	1,361.8	1,345.0	1,359.7	1,347.1

See notes to the unaudited condensed consolidated financial statements.

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BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income (loss)	$102	$4	$101	$137
Other comprehensive income (loss):				
Foreign currency translation adjustment	5	(2)	(30)	(8)
Net change in unrealized gains and losses on derivative financial instruments, net of tax	(43)	(28)	(15)	(55)
Net change in certain retirement plans	—	—	5	(1)
Total other comprehensive income (loss)	(38)	(30)	(40)	(64)
Total comprehensive income (loss)	$64	$(26)	$61	$73

See notes to the unaudited condensed consolidated financial statements.

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BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

in millions, except share and per share data	As of June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$903	$587
Trade accounts receivable, net	1,195	1,183
Inventories	968	946
Deferred and prepaid income taxes	316	447
Other current assets	391	443
Total current assets	3,773	3,606
Property, plant and equipment, net	1,451	1,507
Goodwill	5,930	5,898
Other intangible assets, net	5,442	5,606
Other long-term assets	527	425
TOTAL ASSETS	$17,123	$17,042
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current debt obligations	$43	$403
Accounts payable	191	262
Accrued expenses	1,401	1,950
Other current liabilities	302	231
Total current liabilities	1,937	2,846
Long-term debt	5,069	3,859
Deferred income taxes	899	1,214
Other long-term liabilities	2,638	2,666
Commitments and contingencies		
Stockholders’ equity		
Preferred stock, $.01 par value - authorized 50,000,000 shares, none issued and outstanding		
Common stock, $.01 par value - authorized 2,000,000,000 shares and issued 1,589,722,340 shares as of June 30, 2015 and 1,575,018,236 shares as of December 31, 2014	16	16
Treasury stock, at cost - 247,566,270 shares as of June 30, 2015 and 247,566,270 shares as of December 31, 2014	(1,717)	(1,717)
Additional paid-in capital	16,764	16,703
Accumulated deficit	(8,587)	(8,689)
Accumulated other comprehensive income (loss), net of tax	104	144
Total stockholders’ equity	6,580	6,457
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$17,123	$17,042

See notes to the unaudited condensed consolidated financial statements.

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

in millions	Six Months Ended June 30, 2015	2014
Cash provided by (used for) operating activities	$(137)	$483
Investing activities:		
Purchases of property, plant and equipment	(92)	(124)
Purchases of privately held securities	(140)	(6)
Purchases of notes receivable	—	(10)
Proceeds from sales of publicly traded and privately held equity securities and collections of notes receivable	—	12
Payments for acquisitions of businesses, net of cash acquired	(63)	(72)
Payments for investments and acquisitions of certain technologies	(2)	(1)
Proceeds from business divestitures, net of costs	—	12
Cash provided by (used for) investing activities	(297)	(189)
Financing activities:		
Payments on long-term borrowings	(1,000)	—
Proceeds from long-term borrowings, net of debt issuance costs	1,831	—
Payment of contingent consideration	(87)	(15)
Proceeds from borrowings on credit facilities	395	650
Payments on borrowings from credit facilities	(395)	(650)
Payments for acquisitions of treasury stock	—	(125)
Cash used to net share settle employee equity awards	(62)	(47)
Proceeds from issuances of shares of common stock	70	33
Cash provided by (used for) financing activities	752	(154)
Effect of foreign exchange rates on cash	(2)	—
Net increase (decrease) in cash and cash equivalents	316	140
Cash and cash equivalents at beginning of period	587	217
Cash and cash equivalents at end of period	$903	$357
Supplemental Information		
Stock-based compensation expense	$53	$53
Fair value of contingent consideration recorded in purchase accounting	31	3

See notes to the unaudited condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Boston Scientific Corporation have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in Item 8 of our 2014 Annual Report on Form 10-K.

Subsequent Events

We evaluate events occurring after the date of our most recent accompanying unaudited condensed consolidated balance sheets for potential recognition or disclosure in our financial statements. We did not identify any material subsequent events requiring adjustment to our accompanying unaudited condensed consolidated financial statements (recognized subsequent events) for the three and six month periods ended June 30, 2015. Those items requiring disclosure (unrecognized subsequent events) in the financial statements have been disclosed accordingly. Refer to Note B - Acquisitions and Strategic Investments, Note F - Borrowings and Credit Arrangements, as well as Note J - Commitments and Contingencies for more information.

NOTE B – ACQUISITIONS AND STRATEGIC INVESTMENTS

2015 Acquisitions

On August 3, 2015, we completed the acquisition of the American Medical Systems male urology portfolio (AMS Portfolio Acquisition), which includes the Men's Health and Prostate Health businesses, from Endo International plc. Total consideration was comprised of $1.600 billion in up-front cash plus related fees and expenses, and a potential additional $50 million payment in consideration based on 2016 sales.

On April 2, 2015, we acquired Xlumena, Inc. (Xlumena), a venture-backed medical device company that develops, manufactures and sells minimally invasive devices for Endoscopic Ultrasound (EUS) guided transluminal drainage of targeted areas within the gastrointestinal tract. The purchase agreement calls for an upfront payment of approximately $63 million, an additional payment of $13 million upon FDA clearance of the HOT AXIOS™ product, and further sales-based milestones based on sales achieved through 2018. We are in the process of integrating Xlumena into our Endoscopy business, and expect the integration to be substantially complete by the end of 2016.

Purchase Price Allocation

We accounted for the acquisition of Xlumena as a business combination and, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) Topic 805, Business Combinations, we have recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The components of the aggregate preliminary purchase price are as follows (in millions):

Cash, net of cash acquired	$ 63
Fair value of contingent consideration	31
	$ 94

The following summarizes the aggregate purchase price allocation for the 2015 acquisition as of June 30, 2015 (in millions):

Goodwill	$ 30
Amortizable intangible assets	68
Other net assets	3
Deferred income taxes	(7)
	$ 94

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We allocated a portion of the purchase price to specific intangible asset categories as follows:

	Amount Assigned (in millions)	Weighted Average Amortization Period (in years)	Range of Risk-Adjusted Discount Rates used in Purchase Price Allocation
Amortizable intangible assets:			
Technology-related	$ 68	11	15 %
	$ 68		

2014 Acquisition

On May 7, 2014, we completed the acquisition of the remaining fully diluted equity of IoGyn, Inc. (IoGyn). Prior to the acquisition, we held approximately 28 percent minority interest in IoGyn in addition to notes receivable of approximately $8 million. Total consideration was comprised of a net cash payment of $65 million at closing to acquire the remaining 72 percent of IoGyn equity and repay outstanding debt. IoGyn developed the Symphion™ System, a next generation system for hysteroscopic intrauterine tissue removal including fibroids (myomas) and polyps. In March 2014, IoGyn received U.S. FDA approval for the system, and in the fourth quarter of 2014, we completed the first U.S. procedure. We are in the process of integrating the operations of the IoGyn business with our gynecological surgery business, which is part of our Urology and Women's Health business, and expect the integration to be substantially complete by the end of 2015.

Purchase Price Allocation

We accounted for the acquisition of IoGyn as a business combination and, in accordance with FASB ASC Topic 805, Business Combinations, we have recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The components of the aggregate purchase price are as follows (in millions):

Cash, net of cash acquired	$ 65
Fair value of prior interests	31
	$ 96

We re-measured our previously held investments to their estimated acquisition-date fair value of $31 million and recorded a gain of $19 million in other, net, in the accompanying condensed consolidated statements of operations during the second quarter of 2014. We measured the fair values of the previously held investments based on the liquidation preferences and priority of the equity interests and debt, including accrued interest.

The following summarizes the aggregate purchase price allocation for the 2014 acquisition as of June 30, 2014 (in millions):

Goodwill	$ 39
Amortizable intangible assets	72
Other net assets	(1)
Deferred income taxes	(14)
	$ 96

We allocated a portion of the purchase price to specific intangible asset categories as follows:

	Amount Assigned (in millions)	Weighted Average Amortization Period	Range of Risk-Adjusted Discount Rates used in

		(in years)	Purchase Price Allocation	
Amortizable intangible assets:				
Technology-related	$ 71	14	14	%
Other intangible assets	1	2	14	%
	$ 72			

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Our technology-related intangible assets consist of technical processes, intellectual property, and institutional understanding with respect to products and processes that we will leverage in future products or processes and will carry forward from one product generation to the next. We used the income approach to derive the fair value of the technology-related intangible assets, and are amortizing them on a straight-line basis over their assigned estimated useful lives.

We believe that the estimated intangible asset values represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the assets. These fair value measurements are based on significant unobservable inputs, including management estimates and assumptions and, accordingly, are classified as Level 3 within the fair value hierarchy prescribed by FASB ASC Topic 820, Fair Value Measurements and Disclosures.
We recorded the excess of the aggregate purchase price over the estimated fair values of the identifiable assets acquired as goodwill, which is not deductible for tax purposes. Goodwill was established due primarily to synergies expected to be gained from leveraging our existing operations as well as revenue and cash flow projections associated with future technologies, and has been allocated to our reportable segments based on the relative expected benefit. See Note D - Goodwill and Other Intangible Assets for more information related to goodwill allocated to our reportable segments.

Contingent Consideration
Certain of our acquisitions involve contingent consideration arrangements. Payment of additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels, achieving product development targets and/or obtaining regulatory approvals. In accordance with U.S. GAAP, we recognize a liability equal to the fair value of the contingent payments we expect to make as of the acquisition date. We re-measure this liability each reporting period and record changes in the fair value through a separate line item within our consolidated statements of operations.
We recorded a net expense related to the change in fair value of our contingent consideration liabilities of $19 million during the second quarter of 2015 and $46 million during the first half of 2015. We recorded net benefits of $96 million during the second quarter of 2014 and $118 million during the first half of 2014. We paid contingent consideration of $11 million during the second quarter of 2015, $110 million during the first half of 2015, $3 million during the second quarter of 2014 and $15 million during the first half of 2014.
Changes in the fair value of our contingent consideration liability were as follows (in millions):

Balance as of December 31, 2014	$274	
Amounts recorded related to new acquisitions	31	
Other amounts recorded related to prior acquisitions	—	
Net fair value adjustments	46	
Payments made	(110	)
Balance as of June 30, 2015	$241	

As of June 30, 2015, the maximum amount of future contingent consideration (undiscounted) that we could be required to pay was approximately $1.868 billion.

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Contingent consideration liabilities are re-measured to fair value each reporting period using projected revenues, discount rates, probabilities of payment and projected payment dates. The recurring Level 3 fair value measurements of our contingent consideration liability include the following significant unobservable inputs:

Contingent Consideration Liability	Fair Value as of June 30, 2015	Valuation Technique	Unobservable Input	Range
R&D, Regulatory and Commercialization-based Milestones	$14 million	Probability Weighted Discounted Cash Flow	Discount Rate	0.9% - 1.2%
			Probability of Payment	95% - 100%
			Projected Year of Payment	2015
Revenue-based Payments	$70 million	Probability Weighted Discounted Cash Flow	Discount Rate	11.5% - 15%
			Projected Year of Payment	2015 - 2018
	$157 million	Monte Carlo	Revenue Volatility	11% - 20%
			Risk Free Rate	LIBOR Term Structure
			Projected Year of Payment	2015-2018

Increases or decreases in the fair value of our contingent consideration liability can result from changes in discount periods and rates, as well as changes in the timing and amount of revenue estimates or in the timing or likelihood of achieving regulatory-, revenue- or commercialization-based milestones. Projected contingent payment amounts related to research and development, regulatory- and commercialization-based milestones and certain revenue-based milestones are discounted back to the current period using a discounted cash flow (DCF) model. Other revenue-based payments are valued using a Monte Carlo valuation model, which simulates future revenues during the earn-out period using management's best estimates. Projected revenues are based on our most recent internal operational budgets and long-range strategic plans. Increases in projected revenues and probabilities of payment may result in higher fair value measurements. Increases in discount rates and the time to payment may result in lower fair value measurements. Increases or decreases in any of those inputs together, or in isolation, may result in a significantly lower or higher fair value measurement.

2015 Strategic Investments

On April 30, 2015, we acquired a 27 percent ownership interest in Preventice, Inc. (Preventice), which includes 18.5 percent of Preventice's common stock. Preventice is a privately-held company headquartered in Minneapolis, MN, and a leading developer of mobile health solutions and services. Preventice offers a full portfolio of wearable cardiac monitors, including Holter monitors, cardiac event monitors and mobile cardiac telemetry. In addition to the equity agreement, we entered into a commercial agreement with Preventice, under which we will become Preventice’s exclusive, worldwide sales and marketing representative. We believe this partnership strengthens our portfolio of cardiac monitoring and broader disease management capabilities.

On April 13, 2015, we acquired 25 percent of the common stock of Frankenman Medical Equipment Company (Frankenman). Frankenman is a private company headquartered in Suzhou, China, and is a local market leader in surgical staplers. Additionally, we entered into co-promotional and co-selling agreements with Frankenman to jointly commercialize selected products in China. We believe this alliance will enable us to reach more clinicians and treat more patients in China by providing access to training on less invasive endoscopic technologies with clinical and economic benefits.

We are accounting for our investments in Preventice and Frankenman as equity method investments, in accordance with FASB ASC Topic 323, Investments - Equity Method and Joint Ventures. As of June 30, 2015, the book value of our equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately $40 million, which represents amortizable intangible assets and corresponding deferred tax liabilities, and goodwill.

NOTE C – DIVESTITURES

In January 2011, we closed the sale of our Neurovascular business to Stryker Corporation for a purchase price of $1.500 billion in cash. We received $1.450 billion during 2011, an additional $10 million during 2012, $30 million during 2013 and the final amount due to us in 2014. At the time of divestiture, due to our continuing involvement in the operations of the Neurovascular business following the transaction, the divestiture did not meet the criteria for presentation as a discontinued operation. We recorded a gain of $12 million during the first half of 2014 associated with the Neurovascular divestiture.

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NOTE D – GOODWILL AND OTHER INTANGIBLE ASSETS

The gross carrying amount of goodwill and other intangible assets and the related accumulated amortization for intangible assets subject to amortization and accumulated write-offs of goodwill as of June 30, 2015 and December 31, 2014 are as follows:

	As of June 30, 2015		December 31, 2014	
(in millions)	Gross Carrying Amount	Accumulated Amortization/ Write-offs	Gross Carrying Amount	Accumulated Amortization/ Write-offs
Amortizable intangible assets				
Technology-related	$8,546	$(3,883)	$8,406	$(3,697)
Patents	521	(351)	519	(342)
Other intangible assets	878	(561)	875	(533)
	$9,945	$(4,795)	$9,800	$(4,572)
Unamortizable intangible assets				
Goodwill	$15,830	$(9,900)	$15,798	$(9,900)
Technology-related	197	—	197	—
	$16,027	$(9,900)	$15,995	$(9,900)

In addition, we had $95 million and $181 million of in-process research and development intangible assets as of June 30, 2015 and December 31, 2014, respectively. During the first half of 2015, we reclassified approximately $76 million of in-process research and development not previously subject to amortization to amortizable intangible assets due to the receipt of FDA approval of the WATCHMAN® device.

The following represents our goodwill balance by global reportable segment:

(in millions)	Cardiovascular	Rhythm Management	MedSurg	Total
Balance as of December 31, 2014	$3,426	$290	$2,182	$5,898
Purchase price adjustments	—	2	—	2
Goodwill acquired	—	—	30	30
Balance as of June 30, 2015	$3,426	$292	$2,212	$5,930

Goodwill Impairment Testing

We test our goodwill balances during the second quarter of each year for impairment, or more frequently if indicators are present or changes in circumstances suggest that an impairment may exist.

In the second quarter of 2015, we performed our annual goodwill impairment test for all of our reporting units. In conjunction with our annual test, the fair value of each reporting unit exceeded its carrying value. As a result of the 2015 annual goodwill impairment test, we have identified our global Electrophysiology reporting unit as being at higher risk of potential failure of the first step of the goodwill impairment test in future reporting periods. Our global Electrophysiology reporting unit had excess fair value over carrying value of approximately 28 percent as of our annual test date and held $292 million of allocated goodwill as of June 30, 2015. Our global Cardiac Rhythm Management (CRM) reporting unit had excess fair value over carrying value of approximately 26 percent; however, due to goodwill impairment charges in prior years, no goodwill remains within our CRM reporting unit. Changes in our reporting units or in the structure of our business as a result of future reorganizations, acquisitions or divestitures of assets or businesses could result in future impairments of goodwill within our reporting units. Refer to Critical Accounting Policies and Estimates within our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 2 of this Quarterly Report on Form 10-Q for a discussion of key assumptions used in our testing.

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On a quarterly basis, we monitor the key drivers of fair value to detect events or other changes that would warrant an interim impairment test of our goodwill. The key variables that drive the cash flows of our reporting units and amortizable intangibles are estimated revenue growth rates and levels of profitability. Terminal value growth rate assumptions, as well as the Weighted Average Cost of Capital (WACC) rate applied are additional key variables for reporting unit cash flows. These assumptions are subject to uncertainty, including our ability to grow revenue and improve profitability levels. Relatively small declines in the future performance and cash flows of a reporting unit or asset group or small changes in other key assumptions may result in the recognition of significant goodwill. For example, keeping all other variables constant, a combined increase of 50 basis points in the WACC along with a simultaneous decrease of 150 basis points in the long term growth rate applied would require that we perform the second step of the goodwill impairment test for our global Electrophysiology reporting unit. The estimates used for our future cash flows and discount rates represent management's best estimates, which we believe to be reasonable, but future declines in business performance may impair the recoverability of our goodwill.

Future events that could have a negative impact on the levels of excess fair value over carrying value of our reporting units include, but are not limited to:

- decreases in estimated market sizes or market growth rates due to greater-than-expected declines in procedural volumes, pricing pressures, reductions in reimbursement levels, product actions, and/or competitive technology developments;
- declines in our market share and penetration assumptions due to increased competition, an inability to develop or launch new and next-generation products and technology features in line with our commercialization strategies, and market and/or regulatory conditions that may cause significant launch delays or product recalls;
- decreases in our forecasted profitability due to an inability to successfully implement and achieve timely and sustainable cost improvement measures consistent with our expectations, increases in our market-participant tax rate, and/or changes in tax laws or macroeconomic conditions;
- negative developments in intellectual property litigation that may impact our ability to market certain products or increase our costs to sell certain products;
- the level of success of ongoing and future research and development efforts, including those related to recent acquisitions, and increases in the research and development costs necessary to obtain regulatory approvals and launch new products;
- the level of success in managing the growth of acquired companies, achieving sustained profitability consistent with our expectations, establishing government and third-party payer reimbursement, supplying the market, and increases in the costs and time necessary to integrate acquired businesses into our operations successfully;
- changes in our reporting units or in the structure of our business as a result of future reorganizations, acquisitions or divestitures of assets or businesses; and
- increases in our market-participant risk-adjusted WACC.

Negative changes in one or more of these factors, among others, could result in impairment charges.
The following is a rollforward of accumulated goodwill write-offs by global reportable segment:

(in millions)	Cardiovascular	Rhythm Management	MedSurg	Total
Accumulated write-offs as of December 31, 2014	$(1,479)	$(6,960)	$(1,461)	$(9,900)
Goodwill written off	—	—	—	—

Accumulated write-offs as of June 30, 2015	$(1,479)	$(6,960)	$(1,461)	$(9,900)

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Intangible Asset Impairment Testing

2015 Charge

During the second quarter of 2015, in conjunction with our annual strategic planning process and annual goodwill impairment test, we performed an interim impairment test on certain of our in-process research and development projects and core technology assets. Based on our impairment assessment, we recorded an impairment charge of $9 million in the second quarter of 2015.

2014 Charges

During the second quarter of 2014, as a result of revised estimates developed in conjunction with our annual strategic planning process and annual goodwill impairment test, we performed an interim impairment test of our in-process research and development projects and core technology associated with certain of our acquisitions. Based on our impairment assessment, and lower expected future cash flows associated with our intangible assets, we recorded pre-tax impairment charges of $110 million in the second quarter of 2014. As a result of changes in our clinical strategy and lower estimates of the European and global hypertension markets, and the resulting amount of future revenue and cash flows associated with the technology acquired from Vessix Vascular Inc. (Vessix), we recorded impairment charges of $67 million related to technology intangible assets during the second quarter of 2014. In addition, in the second quarter of 2014, due to revised expectations and timing as a result of the announcement of a third FDA Circulatory System Devices Panel, we recorded impairment charges of $35 million related to the in-process research and development intangible assets acquired from Atritech, Inc. (Atritech). We also recorded an additional $8 million intangible asset impairment charge associated with changes in the amount of the expected cash flows related to certain other acquired in-process research and development projects.

During the first quarter of 2014, as a result of lower estimates of the resistant hypertension market following the announcement of data from a competitor's clinical trial, we performed an interim impairment test of our in-process research and development projects and core technology associated with our acquisition of Vessix Vascular Inc. (Vessix). The impairment assessments were based upon probability-weighted cash flows of potential future scenarios. Based on our impairment assessment, and lower expected future cash flows associated with our Vessix-related intangible assets, we recorded pre-tax impairment charges of $55 million in the first quarter of 2014 to write-down the balance of these intangible assets to their calculated fair value.

The nonrecurring Level 3 fair value measurements of our intangible asset impairment analysis included the following significant unobservable inputs:

Intangible Asset	Valuation Date	Fair Value	Valuation Technique	Unobservable Input	Rate
In-Process R&D	June 30, 2015	$6 million	Income Approach - Excess Earnings Method	Discount Rate	16.5 - 20%
In-Process R&D	June 30, 2014	$83 million	Income Approach - Excess Earnings Method	Discount Rate	16.5 - 20%
Core Technology	June 30, 2014	$8 million	Income Approach - Excess Earnings Method	Discount Rate	15%

In-Process R&D	March 31, 2014	$6 million	Income Approach - Excess Earnings Method	Discount Rate	20%
Core Technology	March 31, 2014	$64 million	Income Approach - Excess Earnings Method	Discount Rate	15%

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NOTE E – FAIR VALUE MEASUREMENTS

Derivative Instruments and Hedging Activities

We address market risk from changes in foreign currency exchange rates and interest rates through a risk management program that includes the use of derivative financial instruments, and we operate the program pursuant to documented corporate risk management policies. Our derivative instruments do not subject our earnings or cash flows to material risk, as gains and losses on these derivatives generally offset losses and gains on the item being hedged. We do not enter into derivative transactions for speculative purposes, and we do not have any non-derivative instruments that are designated as hedging instruments pursuant to FASB ASC Topic 815, Derivatives and Hedging (Topic 815).

Currency Hedging

We are exposed to currency risk consisting primarily of foreign currency denominated monetary assets and liabilities, forecasted foreign currency denominated intercompany and third-party transactions and net investments in certain subsidiaries. We manage our exposure to changes in foreign currency exchange rates on a consolidated basis to take advantage of offsetting transactions. We use derivative instruments, and non-derivative transactions to reduce the risk that our earnings and cash flows associated with these foreign currency denominated balances and transactions will be adversely affected by foreign currency exchange rate changes.

Currently or Previously Designated Foreign Currency Hedges

All of our designated currency hedge contracts outstanding as of June 30, 2015 and December 31, 2014 were cash flow hedges under Topic 815 intended to protect the U.S. dollar value of our forecasted foreign currency denominated transactions. We record the effective portion of any change in the fair value of foreign currency cash flow hedges in other comprehensive income (OCI) until the related third-party transaction occurs. Once the related third-party transaction occurs, we reclassify the effective portion of any related gain or loss on the foreign currency cash flow hedge to earnings. In the event the hedged forecasted transaction does not occur, or it becomes no longer probable that it will occur, we reclassify the amount of any gain or loss on the related cash flow hedge to earnings at that time. We had currency derivative instruments currently or previously designated as cash flow hedges outstanding in the contract amount of $1.738 billion as of June 30, 2015 and $2.178 billion as of December 31, 2014.

We recognized net gains of $53 million in earnings on our cash flow hedges during the second quarter of 2015 and $102 million for the first half of 2015, as compared to net gains of $22 million during the second quarter of 2014 and $43 million for the first half of 2014. All currency cash flow hedges outstanding as of June 30, 2015 mature within 36 months. As of June 30, 2015, $197 million of net gains, net of tax, were recorded in accumulated other comprehensive income (AOCI) to recognize the effective portion of the fair value of any currency derivative instruments that are, or previously were, designated as foreign currency cash flow hedges, as compared to net gains of $217 million as of December 31, 2014. As of June 30, 2015, $125 million of net gains, net of tax, may be reclassified to earnings within the next twelve months.

The success of our hedging program depends, in part, on forecasts of transaction activity in various currencies (primarily Japanese yen, Euro, British pound sterling, Australian dollar and Canadian dollar). We may experience unanticipated currency exchange gains or losses to the extent that there are differences between forecasted and actual activity during periods of currency volatility. In addition, changes in foreign currency exchange rates related to any unhedged transactions may impact our earnings and cash flows.

Non-designated Foreign Currency Contracts

We use currency forward contracts as a part of our strategy to manage exposure related to foreign currency denominated monetary assets and liabilities. These currency forward contracts are not designated as cash flow, fair value or net investment hedges under Topic 815; are marked-to-market with changes in fair value recorded to earnings; and are entered into for periods consistent with currency transaction exposures, generally less than one year. We had currency derivative instruments not designated as hedges under Topic 815 outstanding in the contract amount of $2.375 billion as of June 30, 2015 and $2.470 billion as of December 31, 2014.

Interest Rate Hedging

Our interest rate risk relates primarily to U.S. dollar borrowings, partially offset by U.S. dollar cash investments. We have historically used interest rate derivative instruments to manage our earnings and cash flow exposure to changes in interest rates by converting floating-rate debt into fixed-rate debt or fixed-rate debt into floating-rate debt.

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We designate these derivative instruments either as fair value or cash flow hedges under Topic 815. We record changes in the value of fair value hedges in interest expense, which is generally offset by changes in the fair value of the hedged debt obligation. Interest payments made or received related to our interest rate derivative instruments are included in interest expense. We record the effective portion of any change in the fair value of derivative instruments designated as cash flow hedges as unrealized gains or losses in OCI, net of tax, until the hedged cash flow occurs, at which point the effective portion of any gain or loss is reclassified to earnings. We record the ineffective portion of our cash flow hedges in interest expense. In the event the hedged cash flow does not occur, or it becomes no longer probable that it will occur, we reclassify the amount of any gain or loss on the related cash flow hedge to interest expense at that time.

In the fourth quarter of 2013, we entered into interest rate derivative contracts having a notional amount of $450 million to convert fixed-rate debt into floating-rate debt, which we designated as fair value hedges. During the first quarter of 2015, we terminated these hedges and we received total proceeds of approximately $35 million, which included approximately $7 million of net accrued interest receivable. We assessed at inception, and re-assessed on an ongoing basis, whether the interest rate derivative contracts were highly effective in offsetting changes in the fair value of the hedged fixed-rate debt. We recognized no gains or losses in interest expense, related to fair value hedges, during the second quarter of 2015. During the first half of 2015, we recognized, in interest expense, an $8 million loss on our hedged debt and an $8 million gain on the related interest rate derivative contract. During the second quarter of 2014, we recognized, in interest expense, an $8 million loss on our hedged debt and an $8 million gain on the related interest rate derivative contract. During the first half of 2014, we recognized, in interest expense, an $18 million loss on our hedged debt and an $18 million gain on the related interest rate derivative contract.

During the second quarter of 2015, we entered into forward starting interest rate derivative contracts having a notional amount of $450 million to hedge interest rate risk associated with a planned issuance of fixed-rate senior notes, which we designated as cash flow hedges. These hedges were terminated during the quarter at the time we issued the fixed-rate senior notes and we received total proceeds of approximately $11 million. We had no amounts outstanding under these hedges as of June 30, 2015. We assessed, at inception, and re-assessed, on an ongoing basis, whether the cash flow derivative contracts were highly effective in offsetting changes in interest rates.

We are amortizing the gains and losses on previously terminated interest rate derivative instruments, including fixed-to-floating interest rate contracts, designated as fair value hedges, and floating-to-fixed interest rate derivatives and treasury locks designated as cash flow hedges upon termination into earnings as a component of interest expense over the remaining term of the hedged debt, in accordance with Topic 815. The carrying amount of certain of our senior notes included unamortized gains of $69 million as of June 30, 2015 and $45 million as of December 31, 2014, and unamortized losses of $1 million as of June 30, 2015 and $2 million as of December 31, 2014, related to the fixed-to-floating interest rate contracts that we terminated in prior periods. In addition, we had pre-tax net gains within AOCI related to terminated floating-to-fixed interest rate derivatives and treasury locks of $10 million as of June 30, 2015 and $2 million as of December 31, 2014. We recorded approximately $5 million during the second quarter of 2015 and $7 million during the first half of 2015 as a reduction to interest expense, resulting from the amortization of terminated interest rate derivative contracts. As of June 30, 2015, $13 million of pre-tax net gains may be reclassified to earnings within the next twelve months as a reduction to interest expense from amortization of our terminated interest rate derivative contracts.

Counterparty Credit Risk

We do not have significant concentrations of credit risk arising from our derivative financial instruments, whether from an individual counterparty or a related group of counterparties. We manage the concentration of counterparty credit risk on our derivative instruments by limiting acceptable counterparties to a diversified group of major financial institutions with investment grade credit ratings, limiting the amount of credit exposure to each counterparty, and actively monitoring their credit ratings and outstanding fair values on an ongoing basis. Furthermore, none of our derivative transactions are subject to collateral or other security arrangements and none contain provisions that are dependent on our credit ratings from any credit rating agency.

We also employ master netting arrangements that reduce our counterparty payment settlement risk on any given maturity date to the net amount of any receipts or payments due between us and the counterparty financial institution. Thus, the maximum loss due to counterparty credit risk is limited to the unrealized gains in such contracts net of any unrealized losses should any of these counterparties fail to perform as contracted. Although these protections do not eliminate concentrations of credit risk, as a result of the above considerations, we do not consider the risk of counterparty default to be significant.

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Fair Value of Derivative Instruments

The following presents the effect of our derivative instruments designated as cash flow hedges under Topic 815 on our accompanying unaudited condensed consolidated statements of operations during the second quarter and first half of 2015 and 2014 (in millions):

	Amount of Pre-tax Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Pre-tax Gain (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Location in Statement of Operations
Three Months Ended June 30, 2015			
Currency hedge contracts	$(25)	$53	Cost of products sold
Interest rate derivative contracts	$10	$1	Interest Expense
	$(15)	$54	
Three Months Ended June 30, 2014			
Currency hedge contracts	$(20)	$22	Cost of products sold
	$(20)	$22	
Six Months Ended June 30, 2015			
Currency hedge contracts	$68	$102	Cost of products sold
Interest rate derivative contracts	$11	$2	Interest Expense
	$79	$104	
Six Months Ended June 30, 2014			
Currency hedge contracts	$(40)	$43	Cost of products sold
	$(40)	$43	

The amount of gain (loss) recognized in earnings related to the ineffective portion of hedging relationships was de minimis for all periods presented.

Net gains and losses on currency hedge contracts not designated as hedging instruments were offset by net losses and gains from foreign currency transaction exposures, as shown in the following table:

in millions	Location in Statement of Operations	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Gain (loss) on currency hedge contracts	Other, net	$(9)	$(17)	$14	$(20)
Gain (loss) on foreign currency transaction exposures	Other, net	4	14	(28)	14
Net foreign currency gain (loss)	Other, net	$(5)	$(3)	$(14)	$(6)

Topic 815 requires all derivative instruments to be recognized at their fair values as either assets or liabilities on the balance sheet. Generally, we use inputs that include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; other observable inputs for the asset or liability; and inputs derived principally from, or corroborated by, observable market data by correlation or other means. As of June 30, 2015, we have classified all of our derivative assets and liabilities within Level 2 of the fair value hierarchy prescribed by FASB ASC Topic 820, Fair Value Measurements and Disclosures (Topic 820), as discussed below, because these observable inputs are available for substantially the full term of our derivative instruments.

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The following are the balances of our derivative assets and liabilities as of June 30, 2015 and December 31, 2014:

(in millions)	Location in Balance Sheet (1)	As of June 30, 2015	December 31, 2014
Derivative Assets:			
Currently or Previously Designated Hedging Instruments			
Currency hedge contracts	Other current assets	$171	$178
Currency hedge contracts	Other long-term assets	114	141
Interest rate contracts	Other current assets	—	3
Interest rate contracts	Other long-term assets	—	22
		285	344
Non-Designated Hedging Instruments			
Currency hedge contracts	Other current assets	44	100
Total Derivative Assets		$329	$444
Derivative Liabilities:			
Currently or Previously Designated Hedging Instruments			
Currency hedge contracts	Other current liabilities	$1	$1
		1	1
Non-Designated Hedging Instruments			
Currency hedge contracts	Other current liabilities	26	35
Total Derivative Liabilities		$27	$36

(1) We classify derivative assets and liabilities as current when the remaining term of the derivative contract is one year or less.

Other Fair Value Measurements

Recurring Fair Value Measurements

On a recurring basis, we measure certain financial assets and financial liabilities at fair value based upon quoted market prices, where available. Where quoted market prices or other observable inputs are not available, we apply valuation techniques to estimate fair value. Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted market prices for identical assets or liabilities.
- Level 2 – Inputs to the valuation methodology are other observable inputs, including quoted market prices for similar assets or liabilities and market-corroborated inputs.
- Level 3 – Inputs to the valuation methodology are unobservable inputs based on management’s best estimate of inputs market participants would use in pricing the asset or liability at the measurement date, including assumptions about risk.

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Assets and liabilities measured at fair value on a recurring basis consist of the following as of June 30, 2015 and December 31, 2014:

	June 30, 2015				As of December 31, 2014			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market and government funds	$371	$—	$—	$371	$151	$—	$—	$151
Currency hedge contracts	—	329	—	329	—	419	—	419
Interest rate contracts	—	—	—	—	—	25	—	25
	$371	$329	$—	$700	$151	$444	$—	$595
Liabilities								
Currency hedge contracts	$—	$27	$—	$27	$—	$36	$—	$36
Accrued contingent consideration	—	—	241	241	—	—	274	274
	$—	$27	$241	$268	$—	$36	$274	$310

Our investments in money market and government funds are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. These investments are classified as cash and cash equivalents within our accompanying unaudited condensed consolidated balance sheets, in accordance with U.S. GAAP and our accounting policies.

In addition to $371 million invested in money market and government funds as of June 30, 2015, we had $348 million in short-term time deposits and $184 million in interest bearing and non-interest bearing bank accounts. In addition to $151 million invested in money market and government funds as of December 31, 2014, we had $255 million in short-term deposits and $181 million in interest bearing and non-interest bearing bank accounts.

Our recurring fair value measurements using significant unobservable inputs (Level 3) relate solely to our contingent consideration liabilities. Refer to Note B - Acquisitions and Strategic Investments in this Quarterly Report on Form 10-Q, for a discussion of the changes in the fair value of our contingent consideration liabilities.

Non-Recurring Fair Value Measurements

We hold certain assets and liabilities that are measured at fair value on a non-recurring basis in periods subsequent to initial recognition. The fair value of a cost method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. The aggregate carrying amount of our cost method investments was $47 million as of June 30, 2015 and $27 million as of December 31, 2014.

We recorded $110 million of losses to adjust our intangible asset balance to their fair value during the second quarter of 2014 and $165 million for the first half of 2014. We recorded $9 million of losses to adjust our intangible assets balance to its fair value during the second quarter and first half of 2015. Refer to Note D - Goodwill and Other Intangible Assets in this Quarterly Report on Form 10-Q, for further information related to these charges and significant unobservable inputs (Level 3).

The fair value of our outstanding debt obligations was $5.300 billion as of June 30, 2015 and $4.613 billion as of December 31, 2014, which was determined by using primarily quoted market prices for our publicly registered senior notes, classified as Level 1 within the fair value hierarchy. Refer to Note F – Borrowings and Credit Arrangements in this Quarterly Report on Form 10-Q, for a discussion of our debt obligations.

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NOTE F – BORROWINGS AND CREDIT ARRANGEMENTS

We had total debt of $5.112 billion as of June 30, 2015 and $4.262 billion as of December 31, 2014. The debt maturity schedule for the significant components of our debt obligations as of June 30, 2015 is as follows:

(in millions)	2015	2016	2017	2018	2019	Thereafter	Total
Senior notes	$—	$—	$250	$600	$—	$3,800	$4,650
Term loan	—	80	80	240	—	—	400
	$—	$80	$330	$840	$—	$3,800	$5,050

Note: The table above does not include unamortized discounts associated with our senior notes, or amounts related to interest rate contracts used to hedge the fair value of certain of our senior notes.

Revolving Credit Facility

On April 10, 2015, we entered into a new $2.000 billion revolving credit facility (the 2015 Facility) with a global syndicate of commercial banks and terminated the $2.000 billion revolving credit facility which was scheduled to mature in April 2017. The 2015 Facility matures on April 10, 2020. Eurodollar and multicurrency loans under the 2015 Facility bear interest at LIBOR plus an interest margin of between 0.900 percent and 1.500 percent, based on our corporate credit ratings and consolidated leverage ratio (1.300 percent as of June 30, 2015). In addition, we are required to pay a facility fee based on our credit ratings, consolidated leverage ratio and the total amount of revolving credit commitment, regardless of usage, under the credit agreement (0.200 percent per year as of June 30, 2015). The 2015 Facility contains covenants which, among other things, require that we maintain a minimum interest coverage ratio of 3.0 times consolidated EBITDA and a maximum leverage ratio of 3.5 times consolidated EBITDA for the periods prior to the closing of the AMS Portfolio Acquisition, followed by 4.5 times consolidated EBITDA for the first four fiscal quarter-ends following the closing of the AMS Portfolio Acquisition, and decreasing to 4.25 times, 4.0 times, and 3.75 times consolidated EBITDA for the next three fiscal quarter-ends after such four fiscal quarter-ends, respectively, and then to 3.5 times for each fiscal quarter-end thereafter. There were no amounts borrowed under our current and prior revolving credit facilities as of June 30, 2015 or December 31, 2014.

	Covenant Requirement as of June 30, 2015	Actual as of June 30, 2015
Maximum leverage ratio (1)	3.5 times	2.3 times
Minimum interest coverage ratio (2)	3.0 times	6.6 times

(1) Ratio of total debt to consolidated EBITDA, as defined by the credit agreement, for the preceding four consecutive fiscal quarters.

(2) Ratio of consolidated EBITDA, as defined by the credit agreement, to interest expense for the preceding four consecutive fiscal quarters.

The credit agreement for the 2015 Facility provides for an exclusion from the calculation of consolidated EBITDA, as defined by the credit agreement, through the credit agreement maturity, of any non-cash charges and up to $620 million in restructuring charges and restructuring-related expenses related to our current or future restructuring plans. As of June 30, 2015, we had $605 million of the restructuring charge exclusion remaining. In addition, any cash litigation payments (net of any cash litigation receipts), as defined by the agreement, are excluded from the calculation of consolidated EBITDA and any new debt issued to fund any tax deficiency payments is excluded from consolidated total debt, as defined in the agreement, provided that the sum of any excluded net cash litigation payments and any new debt issued to fund any tax deficiency payments not exceed $2.000 billion in the aggregate. As of June 30, 2015, we had $1.668 billion of the combined legal and debt exclusion remaining.

In addition, the credit agreement provides that until the AMS Portfolio Acquisition is consummated, up to $1.000 billion of new indebtedness issued or incurred on or prior to the consummation of the acquisition to fund the acquisition will be excluded from the calculation of consolidated total debt. As of and through June 30, 2015, we were in compliance with the required covenants.

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Term Loans

We had $400 million outstanding under an unsecured term loan facility (2013 Term Loan) as of June 30, 2015 and December 31, 2014. Term loan borrowings under this facility bear interest at LIBOR plus an interest margin of between 1.00 percent and 1.75 percent (currently 1.50 percent), based on our corporate credit ratings and consolidated leverage ratio. The term loan borrowings are payable over a five-year period, with quarterly principal payments of $20 million commencing in the first quarter of 2016 and the remaining principal amount due at the final maturity date in August 2018, and are repayable at any time without premium or penalty. Our term loan facility requires that we comply with certain covenants, including financial covenants with respect to maximum leverage and minimum interest coverage, consistent with the 2012 Facility up to its date of termination, and the 2015 Facility when in place on April 10, 2015. The maximum leverage ratio requirement is 3.5 times and our actual leverage ratio as of June 30, 2015 is 2.3 times. The minimum interest coverage ratio requirement is 3.0 times and our actual interest coverage ratio as of June 30, 2015 is 6.6 times. On April 10, 2015, the 2013 Term Loan credit agreement was amended to conform to similar financial covenants under the 2015 Facility.

On April 10, 2015, we entered into a new $750 million unsecured term loan credit facility (2015 Term Loan) which matures on August 3, 2020. The 2015 Term Loan was funded on August 3, 2015 and was used to partially fund the AMS Portfolio Acquisition, including the payment of fees and expenses. Term loan borrowings under this facility bear interest at LIBOR plus an interest margin of between 1.00 percent and 1.75 percent (currently 1.50 percent), based on our corporate credit ratings and consolidated leverage ratio. In addition, we are required to pay a facility fee based on our credit ratings, consolidated leverage ratio, and the total amount of revolving credit commitment, regardless of usage, under the agreement (0.200 percent per year as of April 10, 2015). Such fee accrues from 60 days after April 10, 2015 through the date of funding of the term loan. The 2015 Term Loan requires quarterly principal payments of $38 million commencing on the first fiscal quarter ended after the date which is the second anniversary of the closing date of the AMS Portfolio Acquisition, and the remaining principal amount is due at the final maturity date of August 3, 2020. The 2015 Term Loan agreement contains covenants which, among other things, require that we maintain a minimum interest coverage ratio and a maximum leverage ratio substantially similar to the ratios in the 2015 Facility.

Interim Revolving Credit Facility

On April 10, 2015, we entered into a $250 million unsecured revolving credit facility (2015 Interim Facility). The availability of the 2015 Interim Facility was conditioned on the closing of the AMS Portfolio Acquisition. Eurodollar and multicurrency loans under the 2015 Interim Facility had interest at LIBOR plus an interest margin of between 0.90 percent and 1.525 percent based on our corporate credit ratings and consolidated leverage ratio. In addition, we were required to pay a facility fee based on our credit ratings, consolidated leverage ratio, and the total amount of revolving credit commitment, regardless of usage, under the agreement (0.175 percent per year as of April 10, 2015). In accordance with the credit agreement, we terminated this facility on May 12, 2015 upon the completion of the offering of the new senior notes.

Senior Notes

We had senior notes outstanding of $4.650 billion as of June 30, 2015 and $3.800 billion as of December 31, 2014. In May 2015, we completed the offering of $1.850 billion in aggregate principal amount of senior notes consisting of $600 million in aggregate principal amount of 2.850% notes due 2020, $500 million in aggregate principal amount of 3.375% notes due 2022 and $750 million in aggregate principal amount of 3.850% notes due 2025. The net proceeds from the offering of the notes, after deducting underwriting discounts and estimated offering expenses, were approximately $1.831 billion. We used a portion of the net proceeds from the senior notes offering to redeem $400 million aggregate principal amount of our 5.500% notes due November 2015 and $600 million aggregate principal amount of our 6.400% notes due June 2016. The remaining senior notes offering proceeds, together with the 2015 Term Loan, were used to fund the AMS Portfolio Acquisition. We recorded a charge of $45 million in interest expense for premiums, accelerated amortization of debt issuance costs, and investor discount costs net of interest rate hedge gains related to the early debt extinguishment.

Our senior notes were issued in public offerings, are redeemable prior to maturity and are not subject to any sinking fund requirements. Our senior notes are unsecured, unsubordinated obligations and rank on parity with each other. These notes are effectively junior to borrowings under our credit and security facility and to liabilities of our subsidiaries (see Other Arrangements below).

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Other Arrangements

In June 2015, we amended and extended our $300 million credit and security facility secured by our U.S. trade receivables to June 2017. The credit and security facility requires that we maintain a maximum leverage covenant consistent with the 2015 Facility. The maximum leverage ratio requirement is 3.5 times and our actual leverage ratio as of June 30, 2015 is 2.3 times. We had no borrowings outstanding under this facility as of June 30, 2015 and December 31, 2014.

We have accounts receivable factoring programs in certain European countries that we account for as sales under FASB ASC Topic 860, Transfers and Servicing. These agreements provide for the sale of accounts receivable to third parties, without recourse, of up to approximately $389 million as of June 30, 2015. We have no retained interests in the transferred receivables, other than collection and administrative responsibilities and, once sold, the accounts receivable are no longer available to satisfy creditors in the event of bankruptcy. We de-recognized $177 million of receivables as of June 30, 2015 at an average interest rate of 3.2 percent, and $167 million as of December 31, 2014 at an average interest rate of 3.2 percent. Within Italy, Spain, Portugal and Greece, the number of days our receivables are outstanding has remained above historical levels. We believe we have adequate allowances for doubtful accounts related to our Italy, Spain, Portugal and Greece accounts receivable; however, we continue to monitor the European economic environment for any collectability issues related to our outstanding receivables. As of June 30, 2015, our net receivables in these countries greater than 180 days past due totaled $25 million, of which $12 million were past due greater than 365 days.

In addition, we have uncommitted credit facilities with a commercial Japanese bank that provide for borrowings, promissory notes discounting and receivables factoring of up to 21.000 billion Japanese yen (approximately $172 million as of June 30, 2015). We de-recognized $128 million of notes receivable as of June 30, 2015 at an average interest rate of 1.7 percent and $134 million of notes receivable as of December 31, 2014 at an average interest rate of 1.8 percent. De-recognized accounts and notes receivable are excluded from trade accounts receivable, net in the accompanying unaudited condensed consolidated balance sheets.

As of June 30, 2015 we had outstanding letters of credit of $58 million, as compared to $59 million as of December 31, 2014, which consisted primarily of bank guarantees and collateral for workers' compensation insurance arrangements. As of June 30, 2015 and December 31, 2014, none of the beneficiaries had drawn upon the letters of credit or guarantees; accordingly, we did not recognize a related liability for our outstanding letters of credit in our consolidated balance sheets as of June 30, 2015 or December 31, 2014. We believe we will generate sufficient cash from operations to fund these arrangements and intend to fund these arrangements without drawing on the letters of credit.

NOTE G – RESTRUCTURING-RELATED ACTIVITIES

On an ongoing basis, we monitor the dynamics of the economy, the healthcare industry, and the markets in which we compete. We continue to assess opportunities for improved operational effectiveness and efficiency, and better alignment of expenses with revenues, while preserving our ability to make the investments in research and development projects, capital and our people that we believe are essential to our long-term success. As a result of these assessments, we have undertaken various restructuring initiatives in order to enhance our growth potential and position us for long-term success. These initiatives are described below.

2014 Restructuring Plan

On October 22, 2013, our Board of Directors approved, and we committed to, a restructuring initiative (the 2014 Restructuring plan). The 2014 Restructuring plan is intended to build on the progress we have made to address financial pressures in a changing global marketplace, further strengthen our operational effectiveness and efficiency and support new growth investments. Key activities under the plan include continued implementation of our ongoing

Plant Network Optimization (PNO) strategy, continued focus on driving operational efficiencies and ongoing business and commercial model changes. The PNO strategy is intended to simplify our manufacturing plant structure by transferring certain production lines among facilities. Other activities involve rationalizing organizational reporting structures to streamline various functions, eliminate bureaucracy, increase productivity and better align resources to business strategies and marketplace dynamics. These activities were initiated in the fourth quarter of 2013 and are expected to be substantially completed by the end of 2015, with the exception of certain ongoing actions associated with our PNO strategy. These ongoing actions associated with our PNO strategy will be substantially completed by the end of 2016.

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We estimate that the implementation of the 2014 Restructuring plan will result in total pre-tax charges of approximately $250 million to $300 million, and approximately $235 million to $285 million of these charges are estimated to result in cash outlays, of which we have made payments of $139 million through June 30, 2015. We have recorded related costs of $183 million since the inception of the plan, and recorded a portion of these expenses as restructuring charges and the remaining portion through other lines within our consolidated statements of operations.

The following table provides a summary of our estimates of costs associated with the 2014 Restructuring plan by major type of cost:

Type of cost	Total estimated amount expected to be incurred
Restructuring charges:	
Termination benefits	$115 million to $135 million
Other (1)	$25 million to $35 million
Restructuring-related expenses:	
Other (2)	$110 million to $130 million
	$250 million to $300 million

(1) Consists primarily of consulting fees and costs associated with contract cancellations.
(2) Comprised of other costs directly related to the 2014 Restructuring plan, including program management, accelerated depreciation, and costs to transfer product lines among facilities.

2011 Restructuring Plan

On July 26, 2011, our Board of Directors approved, and we committed to, a restructuring initiative (the 2011 Restructuring plan) designed to strengthen operational effectiveness and efficiencies, increase competitiveness and support new investments. Key activities under the 2011 Restructuring plan included standardizing and automating certain processes and activities; relocating select administrative and functional activities; rationalizing organizational reporting structures; leveraging preferred vendors; and other efforts to eliminate inefficiency. Among these efforts, we expanded our ability to deliver best-in-class global shared services for certain functions and businesses at several locations in emerging markets. On January 25, 2013, our Board of Directors approved, and we committed to, an expansion of the 2011 Restructuring plan (the Expansion). The Expansion was intended to further strengthen our operational effectiveness and efficiencies and support new investments. Activities under the 2011 Restructuring plan were initiated in the third quarter of 2011 and all activities, including those related to the Expansion, were substantially completed by the end of 2013.

The 2011 Restructuring plan, including the Expansion, resulted in net pre-tax charges of $286 million, and $287 million of cash outlays. In addition, we received $53 million of cash proceeds on facility and fixed asset sales. We recorded a portion of these expenses as restructuring charges and the remaining portion through other lines within our consolidated statements of operations.

The following provides a summary of our total costs associated with the 2011 Restructuring plan, including the Expansion, by major type of cost:

Type of cost	Total amounts incurred
Restructuring charges:	
Termination benefits	$135 million
Other (1)	$112 million
Restructuring-related expenses:	
Other (2)	$39 million
	$286 million

(1) Includes primarily consulting fees, gains and losses on disposals of fixed assets and costs associated with contract cancellations.

(2) Comprised of other costs directly related to the 2011 Restructuring plan, including the Expansion, such as program management, accelerated depreciation, retention and infrastructure-related costs.

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We recorded net restructuring charges pursuant to our restructuring plans of $3 million in the second quarter of 2015, $15 million in the second quarter of 2014, $9 million in the first half of 2015 and $35 million in the first half of 2014. In addition, we recorded expenses within other lines of our accompanying unaudited condensed consolidated statements of operations related to our restructuring initiatives of $12 million in the second quarter of 2015, $10 million in the second quarter of 2014, $28 million in the first half of 2015 and $18 million in the first half of 2014. The following presents these costs (credits) by major type and line item within our accompanying unaudited condensed consolidated statements of operations, as well as by program:

Three Months Ended June 30, 2015

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
Restructuring charges	$3	$—	$—	$—	$—	$3
Restructuring-related expenses:						
Cost of products sold	—	—	8	—	—	8
Selling, general and administrative expenses	—	1	—	—	3	4
	—	1	8	—	3	12
	$3	$1	$8	$—	$3	$15

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
2014 Restructuring plan	$3	$1	$8	$—	$3	$15
2011 Restructuring plan (including the Expansion)	—	—	—	—	—	—
	$3	$1	$8	$—	$3	$15

Three Months Ended June 30, 2014

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
Restructuring charges	$8	$—	$—	$—	$7	$15
Restructuring-related expenses:						
Cost of products sold	—	—	4	—	—	4
Selling, general and administrative expenses	—	1	—	—	5	6
	—	1	4	—	5	10
	$8	$1	$4	$—	$12	$25

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
2014 Restructuring plan	$10	$1	$4	$—	$12	$27
2011 Restructuring plan (including the Expansion)	(2)	—	—	—	—	(2)
	$8	$1	$4	$—	$12	$25

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Six Months Ended June 30, 2015

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
Restructuring charges	$8	$—	$—	$—	$1	$9
Restructuring-related expenses:						
Cost of products sold	—	—	16	—	—	16
Selling, general and administrative expenses	—	2	—	—	10	12
	—	2	16	—	10	28
	$8	$2	$16	$—	$11	$37

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
2014 Restructuring plan	$11	$2	$16	$—	$11	$40
2011 Restructuring plan (including the Expansion)	(3)	—	—	—	—	(3)
	$8	$2	$16	$—	$11	$37

Six Months Ended June 30, 2014

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
Restructuring charges	$19	$—	$—	$—	$16	$35
Restructuring-related expenses:						
Cost of products sold	—	—	6	—	—	6
Selling, general and administrative expenses	—	2	—	—	10	12
	—	2	6	—	10	18
	$19	$2	$6	$—	$26	