BOSTON SCIENTIFIC CORP
Form 10-Q
November 03, 2016
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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 September 30, 2016
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	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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 October 31, 2016
Common Stock, $.01 par value	1,361,677,050

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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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
in millions, except per share data	2016	2015	2016	2015
Net sales	$2,105	$1,888	$6,195	$5,499
Cost of products sold	594	539	1,805	1,600
Gross profit	1,511	1,349	4,390	3,899
Operating expenses:				
Selling, general and administrative expenses	772	729	2,268	2,095
Research and development expenses	232	221	664	632
Royalty expense	20	17	59	53
Amortization expense	136	131	408	361
Intangible asset impairment charges	7	10	7	19
Contingent consideration expense (benefit)	(13)	40	23	86
Restructuring charges	5	7	22	16
Litigation-related charges (credits)	4	457	632	649
Pension termination charges	—	36	—	44
	1,163	1,648	4,083	3,955
Operating income (loss)	348	(299)	307	(56)
Other income (expense):				
Interest expense	(58)	(58)	(175)	(225)
Other, net	(33)	(10)	(44)	(31)
Income (loss) before income taxes	257	(367)	88	(312)
Income tax expense (benefit)	29	(169)	(135)	(215)
Net income (loss)	$228	$(198)	$223	$(97)
Net income (loss) per common share — basic	$0.17	$(0.15)	$0.16	$(0.07)
Net income (loss) per common share — assuming dilution	$0.17	$(0.15)	$0.16	$(0.07)
Weighted-average shares outstanding				
Basic	1,360.6	1,344.0	1,356.1	1,339.7
Assuming dilution	1,379.7	1,344.0	1,374.9	1,339.7

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Net income (loss)	$228	$(198)	$223	$(97)
Other comprehensive income (loss):				
Foreign currency translation adjustment	2	(12)	(3)	(42)
Net change in unrealized gains and losses on derivative financial instruments, net of tax	(31)	(27)	(184)	(42)
Net change in certain retirement plans, net of tax	—	16	—	21
Total other comprehensive income (loss)	(29)	(23)	(187)	(63)
Total comprehensive income (loss)	$199	$(221)	$36	$(160)

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 September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$237	$319
Trade accounts receivable, net	1,385	1,275
Inventories	998	1,016
Deferred and prepaid income taxes	84	496
Other current assets	477	365
Total current assets	3,181	3,471
Property, plant and equipment, net	1,500	1,490
Goodwill	6,498	6,473
Other intangible assets, net	5,838	6,194
Other long-term assets	680	505
TOTAL ASSETS	$17,697	$18,133
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current debt obligations	$254	$3
Accounts payable	298	209
Accrued expenses	2,099	1,970
Other current liabilities	365	248
Total current liabilities	3,016	2,430
Long-term debt	5,171	5,674
Deferred income taxes	26	735
Other long-term liabilities	3,002	2,974
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 - issued 1,609,010,333 shares as of September 30, 2016 and 1,594,213,786 shares as of December 31, 2015	19	16
Treasury stock, at cost - 247,566,270 shares as of September 30, 2016 and December 31, 2015	(1,717)	(1,717)
Additional paid-in capital	16,985	16,860
Accumulated deficit	(8,706)	(8,927)
Accumulated other comprehensive income (loss), net of tax	(99)	88
Total stockholders' equity	6,482	6,320
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$17,697	$18,133

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	Nine Months Ended September 30, 2016	2015
Cash provided by (used for) operating activities	$506	$271
Investing activities:		
Purchases of property, plant and equipment	(209)	(162)
Proceeds from disposal of property, plant and equipment	29	—
Purchases of privately-held securities	(90)	(209)
Purchases of notes receivable	(15)	(1)
Payments for acquisitions of businesses, net of cash acquired	(70)	(1,642)
Payments for investments and acquisitions of certain technologies	—	(2)
Cash provided by (used for) investing activities	(355)	(2,016)
Financing activities:		
Payments on long-term borrowings	(250)	(1,000)
Proceeds from long-term borrowings, net of debt issuance costs	—	2,580
Payment of contingent consideration	(35)	(102)
Proceeds from borrowings on credit facilities	330	565
Payments on borrowings from credit facilities	(330)	(565)
Cash used to net share settle employee equity awards	(57)	(62)
Proceeds from issuances of shares of common stock	108	97
Cash provided by (used for) financing activities	(234)	1,513
Effect of foreign exchange rates on cash	1	(5)
Net increase (decrease) in cash and cash equivalents	(82)	(237)
Cash and cash equivalents at beginning of period	319	587
Cash and cash equivalents at end of period	$237	$350
Supplemental Information		
Stock-based compensation expense	$87	$79
Fair value of contingent consideration recorded in purchase accounting	4	31

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 nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the consolidated financial statements and footnotes thereto included in Item 8 of our most recent 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 nine month periods ended September 30, 2016. Those items requiring disclosure (unrecognized subsequent events) in the financial statements have been disclosed accordingly. Refer to Note B - Acquisitions and Strategic Investments and Note I - Commitments and Contingencies for more information.

Pension Termination Charges

Following our 2006 acquisition of Guidant Corporation, we sponsored the Guidant Retirement Plan, a noncontributory defined benefit plan covering a select group of current and former employees. The plan was partially frozen as of September 25, 1995 and completely frozen as of May 31, 2007. The plan was subsequently terminated effective December 1, 2014. During 2015, we finalized the termination process and settled the plan’s obligations, and as a result, we recorded pension termination charges of $36 million during the third quarter of 2015 and a total of $44 million during the first nine months of 2015. No additional pension termination charges were recorded in the year ended December 31, 2015 and we do not expect to record any additional pension termination charges in 2016 related to the termination of the Guidant Retirement Plan.

NOTE B – ACQUISITIONS AND STRATEGIC INVESTMENTS

2016 Acquisitions

LumenR™ Tissue Retractor System

On November 1, 2016, we acquired LumenR™ Tissue Retractor System from LumenR LLC, a privately held Newark, California based company. The LumenR Tissue Retractor System is currently in development for use during endoscopic resection of lesions in the colon, esophagus or stomach. We plan to begin the process of integrating the LumenR Tissue Retractor System into our Endoscopy business during the fourth quarter of 2016.

EndoChoice Holdings, Inc.

On September 27, 2016, we entered into a definitive agreement to acquire EndoChoice Holdings, Inc. (EndoChoice) for approximately $210 million. The transaction is expected to close in the fourth quarter of 2016, subject to customary closing conditions. EndoChoice develops and commercializes innovative products and services for specialists treating a wide range of gastrointestinal conditions. Upon completion of the transaction, EndoChoice will be integrated into our Endoscopy business.

Cosman Medical, Inc.

On July 27, 2016, we acquired Cosman Medical, Inc. (Cosman), a privately held manufacturer of radiofrequency ablation systems, expanding our Neuromodulation portfolio and offering physicians treating patients with chronic pain a wider choice of non-opioid therapeutic options. Total consideration was comprised of $71 million in up-front cash plus related fees and expenses, and a potential additional $20 million in consideration based on future sales through June 30, 2019. We are in the process of integrating Cosman into our Neuromodulation business, and expect the integration to be substantially complete by the end of 2017.

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Purchase Price Allocation

We accounted for the acquisition of Cosman as a business combination and, in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) Topic 805, Business Combinations, we 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	$70
Fair value of contingent consideration	4
	$74

The following summarizes the preliminary purchase price allocation for the Cosman acquisition as of September 30, 2016 (in millions):

Goodwill	$23
Amortizable intangible assets	46
Inventory	4
Other net assets	1
	$74

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

	Amount Assigned (in millions)	Amortization Period (in years)	Risk-Adjusted Discount Rates used in Purchase Price Allocation
Amortizable intangible assets:			
Technology-related	$ 43	13	12%
Customer relationships	$ 3	13	12%
	$ 46		

2015 Acquisitions

AMS Portfolio Acquisition

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 $1.616 billion in up-front cash plus related fees and expenses, and a potential additional $50 million in consideration based on 2016 sales. The AMS male urology portfolio is being integrated with our formerly named Urology and Women's Health business, and the joint businesses have become Urology and Pelvic Health. The integration is expected to be substantially completed by the end of 2016. In addition, as part of the acquisition agreement, we made a $60 million Series B non-voting preferred stock investment in the Women's Health business of Endo Health Solutions, a wholly owned subsidiary of Endo International, plc., representing the remaining Women's Health business of the American Medical Systems' Portfolio. This investment was subsequently repaid in the fourth quarter of 2015.

Xlumena, Inc.

On April 2, 2015, we acquired Xlumena, Inc. (Xlumena), a medical device company that developed minimally invasive devices for Endoscopic Ultrasound (EUS) guided transluminal drainage of targeted areas within the gastrointestinal tract. The purchase agreement called for an up-front payment of $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 substantially completed the integration of Xlumena into our Endoscopy business during the third quarter of 2016.

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Purchase Price Allocation

We accounted for these acquisitions as business combinations 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 dates. The components of the aggregate purchase price are as follows (in millions):

Cash, net of cash acquired	$1,659
Fair value of contingent consideration	31
	$1,690

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

Goodwill	$547
Amortizable intangible assets	992
Inventory	102
Property, plant and equipment	42
Other net assets	42
Deferred income taxes	(35)
	$1,690

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

	Amount Assigned (in millions)	Amortization Period (in years)	Range of Risk- Adjusted Discount Rates used in Purchase Price Allocation
Amortizable intangible assets:			
Technology-related	$ 358	11-12	13.5% - 15%
Customer relationships	616	12	13.5%
Other intangible assets	18	13	13.5%
	$ 992		

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 and relief from royalty 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.

Customer relationships represent the estimated fair value of non-contractual customer and distributor relationships. Customer relationships are direct relationships with physicians and hospitals performing procedures with the acquired products, and distributor relationships are relationships with third parties used to sell the acquired products, both as of the acquisition date. These relationships were valued separately from goodwill because there is a history and pattern of conducting business with customers and distributors. We used the income approach or the replacement cost and lost profits methodology to derive the fair value of the customer relationships. The customer relationships intangible assets are amortized on a straight-line basis over their assigned estimated useful lives.

Other intangible assets primarily include acquired tradenames. These tradenames include brand names that we expect to continue using in our product portfolio and related marketing materials. The tradenames are valued using a relief from royalty methodology and are amortized 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.

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We recorded the excess of the aggregate purchase price over the estimated fair values of the identifiable assets acquired as goodwill. 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. Of the goodwill recorded, approximately $19 million, based on preliminary estimates, related to our 2016 acquisitions and approximately $453 million related to our 2015 acquisitions is deductible for tax purposes. See Note C - 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 condensed consolidated statements of operations.

We recorded a net benefit related to the changes in fair value of our contingent consideration liabilities of $13 million during the third quarter of 2016. We recorded net expenses related to the changes in fair value of our contingent consideration liabilities of $23 million during the first nine months of 2016, $40 million during the third quarter of 2015 and $86 million during the first nine months of 2015. We paid contingent consideration of $77 million during the first nine months of 2016, $15 million during the third quarter of 2015 and $125 million during the first nine months of 2015. We did not make any contingent consideration payments during the third quarter of 2016.

Changes in the fair value of our contingent consideration liabilities were as follows (in millions):

Balance as of December 31, 2015	$246
Amounts recorded related to new acquisitions	4
Other amounts recorded related to prior acquisitions	2
Fair value adjustments	23
Contingent payments related to prior period acquisitions	(77)
Balance as of September 30, 2016	$198

As of September 30, 2016, the maximum amount of future contingent consideration (undiscounted) that we could be required to pay was approximately $1.587 billion.

Contingent consideration liabilities are remeasured 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 liabilities include the following significant unobservable inputs:

Contingent Consideration Liabilities	Fair Value as of September 30, 2016	Valuation Technique	Unobservable Input	Range
R&D, regulatory and commercialization-based Milestones	$15 million	Discounted Cash Flow	Discount Rate	1.8% - 2.3%
			Probability of Payment	0% - 59%
			Projected Year of Payment	2018 - 2021
	$40 million	Discounted Cash Flow	Discount Rate	14% - 15%
			Projected Year of Payment	2017 - 2020

Revenue-based Payments

		Revenue Volatility	15% - 20%
$143 million	Monte Carlo	Risk Free Rate	LIBOR Term & Cost of Debt Structure
		Projected Year of Payment	2016 - 2022

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Increases or decreases in the fair value of our contingent consideration liabilities 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 R&D, regulatory and commercialization-based and revenue-based milestones. Projected contingent payment amounts related to some of our R&D, regulatory and commercialization-based and 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.

Strategic Investments

We did not close any material strategic investments during the first nine months of 2016.

On April 30, 2015, we acquired a 27 percent ownership interest in Preventice Solutions, 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. In addition to the equity agreement, we entered into a commercial agreement with Preventice, under which we became Preventice's exclusive, worldwide sales and marketing representative. In October 2016, management notified Preventice of our intent to terminate the commercial agreement and will transition the sales force back to Preventice within the next twelve months under the terms of the agreement.

On April 13, 2015, we acquired 25 percent of the common stock of Frankenman Medical Equipment Company (Frankenman). Frankenman is a privately-held 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 commercialize selected products jointly 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 account for certain of our strategic investments as equity method investments, in accordance with FASB ASC Topic 323, Investments - Equity Method and Joint Ventures. The book value of investments that we accounted for under the equity method of accounting was $255 million as of September 30, 2016 and $173 million as of December 31, 2015. The aggregate value of our cost method investments was $20 million as of September 30, 2016 and $45 million as of December 31, 2015. In addition, we had notes receivable from certain companies, which we account for under the cost method, of $42 million as of September 30, 2016 and $30 million as of December 31, 2015.

As of September 30, 2016, the book value of our equity method investments exceeded our share of the book value of the investees' underlying net assets by approximately $184 million, which represents amortizable intangible assets and in-process research and development, corresponding deferred tax liabilities, and goodwill. During the three and nine months ended September 30, 2016, the net losses from our equity method adjustments, presented within the Other, net caption of our condensed consolidated statement of operations were $4 million and $11 million, respectively. During the three and nine months ended September 30, 2015, the net losses from our equity method adjustments were immaterial.

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NOTE C – 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 September 30, 2016 and December 31, 2015 are as follows:

	As of			
	September 30, 2016		December 31, 2015	
(in millions)	Gross Carrying Amount	Accumulated Amortization/ Write-offs	Gross Carrying Amount	Accumulated Amortization/ Write-offs
Amortizable intangible assets				
Technology-related	$8,991	$ (4,360)	$8,948	$ (4,054)
Patents	525	(371)	520	(358)
Other intangible assets	1,535	(694)	1,529	(610)
	$11,051	$ (5,425)	$10,997	$ (5,022)
Unamortizable intangible assets				
Goodwill	$16,398	$ (9,900)	$16,373	$ (9,900)
In-process research and development (IPR&D)	92	—	99	—
Technology-related	120	—	120	—
	$16,610	$ (9,900)	$16,592	$ (9,900)

Our technology-related intangible assets that are not subject to amortization represent technical processes, intellectual property and/or institutional understanding acquired through business combinations that are fundamental to the on-going operations of our business and have no limit to their useful life. Our technology-related intangible assets that are not subject to amortization are comprised primarily of certain acquired balloon and other technology, which is foundational to our continuing operations within the Cardiovascular market and other markets within interventional medicine. We assess our indefinite-lived intangible assets at least annually for impairment and reassess their classification as indefinite-lived assets. We assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that our indefinite-lived intangible assets are impaired. If we conclude that it is more likely than not that the asset is impaired, we then determine the fair value of the intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying value in accordance with ASC Topic 350, Intangibles - Goodwill and Other.

The following represents our goodwill balance by global reportable segment:

(in millions)	Cardiovascular	Rhythm Management	MedSurg	Total
Balance as of December 31, 2015	$ 3,451	$ 292	$ 2,730	$6,473
Purchase price adjustments	1	(1)	2	2
Goodwill acquired	—	—	23	23
Balance as of September 30, 2016	$ 3,452	$ 291	$ 2,755	$6,498

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 an impairment may exist.

In the second quarter of 2016, we performed our annual goodwill impairment test for all of our reporting units and concluded the fair value of each reporting unit exceeded its carrying value. Based on the criteria prescribed in FASB ASC Topic 350, Intangibles - Goodwill and Other, we assess goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a component. In 2016 and 2015, we identified six operating segments including Interventional Cardiology, Peripheral Interventions, Rhythm Management, Endoscopy, Urology and Pelvic Health, and Neuromodulation. For purposes of identifying our reporting units, we then assessed whether any components of these segments constitute a business for which discrete financial information is available and where segment management regularly reviews the operating results of that component. We identified Rhythm Management as having two components: Cardiac Rhythm Management and Electrophysiology.

For our 2016 and 2015 annual impairment assessment, we identified seven reporting units, which align to our seven core businesses: Interventional Cardiology, Peripheral Interventions, Cardiac Rhythm Management, Electrophysiology, Endoscopy, Urology and

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Pelvic Health, and Neuromodulation. For our 2016 annual impairment assessment, the Cardiac Rhythm Management and Electrophysiology reporting units, components of the Rhythm Management operating segment, were aggregated due to a reorganization commencing in 2015 which resulted in integrated leadership, shared resources and consolidation of certain sites in 2016. Because our global Electrophysiology reporting unit was identified as being at higher risk of potential goodwill impairment during our 2015 annual test, it was tested for impairment on a stand-alone basis in the second quarter of 2016, immediately prior to aggregating it with our global Cardiac Rhythm Management reporting unit. The fair value of the stand-alone global Electrophysiology reporting unit exceeded the carrying value by approximately 36 percent. In comparison, the global Electrophysiology reporting unit had excess fair value of approximately 28 percent as of our 2015 annual test.

As of the date of our 2016 annual goodwill impairment test, the aggregated global Electrophysiology and Cardiac Rhythm Management reporting unit (Rhythm Management) had excess fair value over carrying value of approximately 70 percent and held $292 million of allocated goodwill. As such, it was not deemed at higher risk of future impairment. 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 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.

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. 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 implement successfully and achieve timely and sustainable cost improvement measures consistent with our expectations;

- 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, and increases in our market-participant tax rate, and/or changes in tax laws or macroeconomic conditions.

Negative changes in one or more of these factors, among others, could result in impairment charges.

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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, 2015	$ (1,479)	$ (6,960)	$(1,461)	$(9,900)
Goodwill written off	—	—	—	—
Accumulated write-offs as of September 30, 2016	$ (1,479)	$ (6,960)	$(1,461)	$(9,900)

Intangible Asset Impairment Testing

2016 Charges

During the third quarter of 2016, we performed our annual impairment test of all IPR&D projects and our indefinite-lived core technology assets. Indefinite-lived intangible assets are tested for impairment on an annual basis during the third quarter of each year, or more frequently if impairment indicators are present, in accordance with U.S. GAAP and our accounting policies described in our most recent Annual Report on Form 10-K. On a quarterly basis, we monitor for events or other potential indicators of impairment that would warrant an interim impairment test of our intangible assets. Based on the results of our annual testing, we recorded an IPR&D impairment charge of $7 million in the third quarter of 2016.

2015 Charges

During the third quarter of 2015, we performed our annual impairment test of all IPR&D projects and our indefinite-lived core technology assets. In addition, as a result of revised estimates in conjunction with our annual operating plan, we performed an interim impairment test of certain definite-lived core technology associated with certain of our acquisitions. Based on the results of our testing, we recorded impairment charges of $10 million in the third quarter of 2015.

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 IPR&D projects and core technology assets. Based on our impairment assessment, we recorded an impairment charge of $9 million in the second quarter of 2015.

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
Technology-related (amortizable)	September 30, 2015	$8 million	Income Approach -Excess Earnings Method	Discount Rate	10%
In-Process R&D	June 30, 2015	$6 million	Income Approach - Excess Earnings Method	Discount Rate	16.5% - 20%

NOTE D – 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).

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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 September 30, 2016 and December 31, 2015 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 designated as cash flow hedges outstanding in the contract amount of $2.403 billion as of September 30, 2016 and $1.458 billion as of December 31, 2015.

We recognized net gains of $27 million in earnings on our cash flow hedges during the third quarter of 2016 and net gains of $107 million for the first nine months of 2016, as compared to net gains of $54 million and $156 million during the third quarter and first nine months of 2015, respectively. All currency cash flow hedges outstanding as of September 30, 2016 mature within 60 months. As of September 30, 2016, $38 million of net loss, net of tax, was 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, net of tax, of $145 million as of December 31, 2015. As of September 30, 2016, $29 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 British pound sterling, Euro and Japanese yen). 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 $2.296 billion as of September 30, 2016 and $2.090 billion as of December 31, 2015.

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. We had no interest rate derivative instruments outstanding as of September 30, 2016.

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 third quarter of 2015. During the first nine months 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.

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 forward starting interest rate derivative contracts 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 $54 million as of September 30, 2016 and $63 million as of December 31, 2015. The carrying amount of certain of our senior notes included immaterial unamortized losses as of September 30, 2016 and December 31, 2015. In addition, we had pre-tax net gains within AOCI related to terminated forward starting interest rate derivative contracts and treasury locks of $9 million as of September 30, 2016 and $10 million as of December 31, 2015. The net gains that we recognized as a reduction of interest expense in earnings related to previously terminated interest rate derivatives were approximately $3 million during the third quarter of 2016 and $10 million during the first nine months of 2016, as compared to $3 million during the third quarter of 2015 and $10 million during the first nine months of 2015. As of September 30, 2016, $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 third quarter and first nine months of 2016 and 2015 (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 September 30, 2016			
Currency hedge contracts	$ (22)	$ 27	Cost of products sold
	$ (22)	$ 27	
Three Months Ended September 30, 2015			
Currency hedge contracts	$ 13	$ 54	Cost of products sold
	$ 13	$ 54	
Nine Months Ended September 30, 2016			
Currency hedge contracts	$ (180)	$ 107	Cost of products sold
	$ (180)	$ 107	
Nine Months Ended September 30, 2015			
Currency hedge contracts	$ 81	$ 156	Cost of products sold
Interest rate derivative contracts	$ 11	$ 2	Interest Expense
	$ 92	$ 158	

The amount of gain (loss) recognized in earnings related to the ineffective portion of hedging relationships was immaterial 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 September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Gain (loss) on currency hedge contracts	Other, net	$(7)	$32	$(74)	$46
Gain (loss) on foreign currency transaction exposures	Other, net	1	(36)	64	(64)
Net foreign currency gain (loss)	Other, net	$(6)	$(4)	$(10)	$(18)

Topic 815 requires all derivative instruments to be recognized at their fair values as either assets or liabilities on the balance sheet. We determine the fair value of our derivative instruments using the framework prescribed by FASB ASC Topic 820, Fair Value Measurements and Disclosures (Topic 820), by considering the estimated amount we would receive or pay to transfer these instruments at the reporting date and by taking into account current interest rates, foreign currency exchange rates, the creditworthiness of the counterparty for the assets and our creditworthiness for liabilities. In certain instances, we may utilize financial models to measure fair value. In doing so, 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 September 30, 2016, we have classified all of our derivative assets and liabilities within Level 2 of the fair value hierarchy prescribed by 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 September 30, 2016 and December 31, 2015:

(in millions)	Location in Balance Sheet (1)	As of September 30, 2016	December 31, 2015
Derivative Assets:			
Currently or Previously Designated Hedging Instruments			
Currency hedge contracts	Other current assets	$72	$ 138
Currency hedge contracts	Other long-term assets	2	66
		74	204
Non-Designated Hedging Instruments			
Currency hedge contracts	Other current assets	20	33
Total Derivative Assets		$94	$ 237
Derivative Liabilities:			
Currently or Previously Designated Hedging Instruments			
Currency hedge contracts	Other current liabilities	$31	$ 1
Currency hedge contracts	Other long-term liabilities	106	—
		137	1
Non-Designated Hedging Instruments			
Currency hedge contracts	Other current liabilities	40	22
Total Derivative Liabilities		$177	$ 23

(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 September 30, 2016 and December 31, 2015:

	As of							
	September 30, 2016				December 31, 2015			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market and government funds	$27	$—	$—	$27	$118	$—	$—	$118
Currency hedge contracts	—	94	—	94	—	237	—	237
	$27	$94	$—	$121	$118	$237	$—	$355
Liabilities								
Currency hedge contracts	$—	$177	$—	$177	$—	$23	$—	$23
Accrued contingent consideration	—	—	198	198	—	—	246	246
	$—	$177	$198	$375	$—	$23	$246	$269

Our investments in money market and government funds are 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 $27 million invested in money market and government funds as of September 30, 2016, we had $19 million in short-term time deposits and $191 million in interest bearing and non-interest bearing bank accounts. In addition to $118 million invested in money market and government funds as of December 31, 2015, we had $31 million in short-term deposits and $170 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 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. Refer to Note B – Acquisitions and Strategic Investments for a discussion of our strategic investments.

We recorded $7 million of losses to adjust our intangible assets to their fair value during the third quarter and first nine months of 2016. We recorded $10 million of losses to adjust our intangible assets to their fair value during the third quarter and $19 million of losses during the first nine months of 2015. Refer to Note C – Goodwill and Other Intangible Assets for more information on our intangibles asset impairment charges.

The fair value of our outstanding debt obligations was $5.892 billion as of September 30, 2016 and $5.887 billion as of December 31, 2015, 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 E – Borrowings and Credit Arrangements for a discussion of our debt obligations.

NOTE E – BORROWINGS AND CREDIT ARRANGEMENTS

We had total debt of $5.425 billion as of September 30, 2016 and $5.677 billion as of December 31, 2015. The debt maturity schedule for the significant components of our debt obligations as of September 30, 2016 is as follows:

(in millions)	2016	2017	2018	2019	2020	Thereafter	Total
Senior Notes	$—	$250	$600	$—	$1,450	$ 2,350	$4,650
Term Loans	—	—	225	150	375	—	750
	$—	$250	$825	$150	$1,825	$ 2,350	$5,400

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.

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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 our previous $2.000 billion revolving credit facility. 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 September 30, 2016). 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 September 30, 2016). The 2015 Facility contains covenants which, among other things, required that we maintained a minimum interest coverage ratio of 3.0 times consolidated EBITDA and a maximum leverage ratio of 4.5 times consolidated EBITDA for the first four fiscal quarter-ends following the closing of the acquisition of the American Medical Systems male urology portfolio (AMS Portfolio Acquisition) on August 3, 2015, 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 3.50 times for each fiscal quarter-end thereafter. There were no amounts borrowed under our current and prior revolving credit facilities as of September 30, 2016 or December 31, 2015.

	Covenant Requirement as of September 30, 2016	Actual as of September 30, 2016
Maximum leverage ratio (1)	4.25 times	2.5 times
Minimum interest coverage ratio (2)	3.0 times	9.3 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 September 30, 2016, we had $506 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 September 30, 2016, we had $1.011 billion of the combined legal and debt exclusion remaining.

As of and through September 30, 2016, we were in compliance with the required covenants.

Term Loans

As of September 30, 2016, we had an aggregate of $750 million outstanding under our unsecured term loan facilities and $1.000 billion outstanding as of December 31, 2015. These facilities include an unsecured term loan facility entered into in August 2013 (2013 Term Loan) which had $150 million outstanding as of September 30, 2016 and $250 million outstanding as of December 31, 2015, along with an unsecured term loan credit facility entered into in April 2015 (2015 Term Loan) which had $600 million outstanding as of September 30, 2016 and $750 million outstanding as of December 31, 2015.

Borrowings under the 2013 Term Loan bear interest at LIBOR plus an interest margin between 1.00 percent and 1.75 percent (currently 1.50 percent) based on our corporate credit ratings and consolidated leverage ratio. We repaid $150 million of our 2013 Term Loan facility in the fourth quarter of 2015 and repaid an additional $100 million during the second quarter of 2016. As a result and in accordance with the credit agreement, the outstanding balance of $150 million is the remaining principal amount due at the final maturity date in August 2018. The 2013 Term Loan borrowings 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 2015 Term Loan facility. The maximum leverage ratio requirement is 4.25 times, and our actual leverage ratio as of September 30, 2016 is 2.5 times. The minimum interest coverage ratio requirement is 3.0 times, and our actual interest coverage ratio as of September 30, 2016 is 9.3 times.

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. We repaid $150 million of our 2015 Term Loan during the second quarter of 2016. The remaining 2015 Term Loan requires quarterly principal payments of $38 million commencing in the third quarter of 2018, and the remaining principal amount is due at the final maturity date of August 3, 2020. The 2015 Term Loan agreement requires that we comply with certain covenants, including financial covenants with respect to maximum leverage and minimum interest coverage, consistent with our revolving credit facility. The maximum leverage ratio requirement is 4.25 times, and our actual leverage ratio as of September 30, 2016 is 2.5 times. The minimum interest coverage ratio requirement is 3.0 times, and our actual interest coverage ratio as of September 30, 2016 is 9.3 times.

Senior Notes

We had senior notes outstanding of $4.650 billion as of September 30, 2016 and December 31, 2015. 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, during the second quarter of 2015, 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, to the extent if borrowed by our subsidiaries and to liabilities of our subsidiaries (see Other Arrangements below).

Other Arrangements

We maintain a $300 million credit and security facility secured by our U.S. trade receivables maturing on June 9, 2017. The credit and security facility requires that we maintain a maximum leverage covenant consistent with our revolving credit facility. The maximum leverage ratio requirement is 4.25 times, and our actual leverage ratio as of September 30, 2016 is 2.5 times. We had no borrowings outstanding under this facility as of September 30, 2016 and December 31, 2015.

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 $415 million as of September 30, 2016. 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 $175 million of receivables as of September 30, 2016 at an average interest rate of 1.7 percent, and $151 million as of December 31, 2015 at an average interest rate of 2.4 percent.

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 $207 million as of September 30, 2016). We de-recognized $170 million of notes receivable and factored receivables as of September 30, 2016 at an average interest rate of 1.6 percent and $132 million of notes receivable as of December 31, 2015 at an average interest rate of 1.6 percent. De-recognized accounts and notes receivable are excluded from trade accounts receivable, net in the accompanying unaudited condensed consolidated balance sheets.

As of September 30, 2016 we had outstanding letters of credit of $39 million, as compared to $44 million as of December 31, 2015, which consisted primarily of bank guarantees and collateral for workers' compensation insurance arrangements. As of September 30, 2016 and December 31, 2015, 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 September 30, 2016 or December 31, 2015. 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.

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NOTE F – 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.

2016 Restructuring Plan

On June 6, 2016, our Board of Directors approved, and we committed to, a restructuring initiative (the 2016 Restructuring Plan). The 2016 Restructuring Plan is intended to develop global commercialization, technology and manufacturing capabilities in key growth markets, build on our Plant Network Optimization (PNO) strategy which is intended to simplify our manufacturing plant structure by transferring certain production lines among facilities, and expand operational efficiencies in support of our operating income margin goals. Key activities under the 2016 Restructuring Plan include strengthening global infrastructure through evolving global real estate and workplaces, developing global commercial and technical competencies, enhancing manufacturing and distribution expertise in certain regions, and continuing implementation of our ongoing PNO strategy. These activities initiated in the second quarter of 2016 and are expected to be substantially completed by the end of 2018.

The implementation of the 2016 Restructuring Plan is expected to result in total pre-tax charges of approximately $175 million to $225 million, and approximately $160 million to $210 million of these charges are estimated to result in cash outlays, of which we have made payments of $11 million through September 30, 2016. We have recorded related costs of $26 million since the inception of the plan through September 30, 2016, 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 2016 Restructuring Plan through the end of 2018 by major type of cost:

Type of cost	Total estimated amount expected to be incurred
Restructuring charges:	
Termination benefits	$65 million to $80 million
Other (1)	$15 million to $25 million
Restructuring-related expenses:	
Other (2)	$95 million to $120 million
	$175 million to $225 million

(1) Consists primarily of consulting fees and costs associated with contract cancellations.
(2) Comprised of other costs directly related to the 2016 Restructuring Plan, including program management, accelerated depreciation, and costs to transfer product lines among facilities.

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 builds on the progress we have made to address financial pressures in a changing global marketplace, further strengthened our operational effectiveness and efficiency and supported new growth investments. Key activities under the plan included continued implementation of our ongoing PNO strategy, continued focus on driving operational efficiencies and ongoing business and commercial model changes. The PNO strategy simplified our manufacturing plant structure by transferring certain production lines among facilities. Other activities involved 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 were substantially completed by the end of 2015, except for certain ongoing actions associated with our PNO strategy, which we expect to be substantially completed by the end of 2016.

The implementation of the 2014 Restructuring Plan is expected to result in total pre-tax charges of approximately $255 million to $270 million, and approximately $240 million to $255 million of these charges are estimated to result in cash outlays, of which we have made payments of $235 million through September 30, 2016. We have recorded related costs of $259 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.

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The following table provides a summary of our estimates of costs associated with the 2014 Restructuring Plan through the end of 2016 by major type of cost:

Type of cost	Total estimated amount expected to be incurred
Restructuring charges:	
Termination benefits	$90 million to $95 million
Other (1)	$30 million to $35 million
Restructuring-related expenses:	
Other (2)	$135 million to $140 million
	$255 million to $270 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.

We recorded net restructuring charges pursuant to our restructuring plans of $5 million in the third quarter of 2016, $7 million in the third quarter of 2015, $22 million in the first nine months of 2016 and $16 million in the first nine months of 2015. 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 third quarter of 2016, $14 million in the third quarter of 2015, $33 million in the first nine months of 2016 and $42 million in the first nine months of 2015.

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 September 30, 2016

(in millions)	Termination Benefits	Transfer Costs	Fixed Asset Write-offs	Other	Total
Restructuring charges	$ 1	$ —	$ 2	$ 2	$ 5
Restructuring-related expenses:					
Cost of products sold	—	8	—	—	8
Selling, general and administrative expenses	—	—	—	4	4
	—	8	—	4	12
	$ 1	$ 8	$ 2	$ 6	$ 17

(in millions)	Termination Benefits	Transfer Costs	Fixed Asset Write-offs	Other	Total
2016 Restructuring Plan	$ 1	$ 3	$ —	$ 3	$ 7
2014 Restructuring Plan	—	5	2	3	10
	$ 1	$ 8	$ 2	$ 6	$ 17

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Three Months Ended September 30, 2015

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Other	Total
Restructuring charges	$ 5	$ —	$ —	$ 2	$ 7
Restructuring-related expenses:					
Cost of products sold	—	—	5	—	5
Selling, general and administrative expenses	—	1	—	8	9
	—	1	5	8	14
	$ 5	$ 1	$ 5	$ 10	$ 21

All charges incurred in the third quarter of 2015 were related to the 2014 Restructuring Plan.