LOEWS CORP
Form 4
October 01, 2013

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
BOWER JOSEPH L

(Last) (First) (Middle)

MORGAN 467, SOLDIERS FIELD

(Street)

BOSTON, MA 02163

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LOEWS CORP [L]

3. Date of Earliest Transaction (Month/Day/Year)
09/30/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount Underlying Securitie (Instr. 3 and 4)

	Derivative Security			(A) or Disposed of (D) (Instr. 3, 4, and 5)							
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Appreciation Right	$ 46.99	09/30/2013		A		2,250		09/30/2013	09/30/2023	Common Stock	2,250

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BOWER JOSEPH L MORGAN 467, SOLDIERS FIELD BOSTON, MA 02163	X			

Signatures

/s/ Gary W. Garson by power of attorney for Joseph L. Bower	10/01/2013
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Reporting Person received the Derivative Security pursuant to a grant of stock appreciation rights at no cost.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. rder-left:1pt none #D9D9D9 ;border-bottom:1pt none #D9D9D9 ;border-right:1pt none #D9D9D9 ;padding:0pt 6.5pt;">

Class A Nonvoting Common Stock, $0.01 par value

NASDAQ

Class B Voting Common Stock, $0.01 par value

NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

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

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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer 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 No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of March 13, 2015, there were 21,806,632 shares of class A non-voting common stock, par value $0.01 per share and 1,495,490 shares of class B voting common stock, par value $0.01 per share, outstanding. The aggregate market value of voting and nonvoting stock held by non-affiliates of the Registrant was $154,288,323 as of December 31, 2014.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K

YEAR ENDED DECEMBER 31, 2014

INDEX

PART I

Item 1 – Our Business

General Description of Our Business

Reading International, Inc., a Nevada corporation ("RDI"), was incorporated in 1999 incident to our reincorporation in Nevada. Our class A non-voting common stock ("Class A Stock") and class B voting common stock ("Class B Stock") are listed for trading on the NASDAQ Capital Market (Nasdaq-CM) under the symbols RDI and RDIB, respectively. Our principal executive offices are located at 6100 Center Drive, Suite 900, Los Angeles, California 90045. Our general telephone number is (213) 235-2240 and our website is www.readingrdi.com. It is our practice to make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with or furnished it to the Securities and Exchange Commission. In this Annual Report, we from time to time use terms such as the "Company," "Reading" and "we," "us," or "our" to refer collectively to RDI and our various consolidated subsidiaries and corporate predecessors.

We are an internationally diversified "hard asset" company principally focused on the development, ownership and operation of entertainment and real property assets in the United States, Australia, and New Zealand. Currently, we have two business segments:

1. Cinema Exhibition, through our 58 cinemas, and
2. Real Estate, including real estate development and the rental of retail, commercial and live theater assets.

We believe that these two business segments complement one another, as the comparatively consistent cash flows generated by our cinema operations allow us to be opportunistic in acquiring and holding real estate assets, and can be used not only to grow and develop our cinema business but also to help fund the front-end cash demands of our real estate development business.

At December 31, 2014, the book value of our assets was $401.6 million, and, as of that same date, we had a consolidated stockholders' book equity of $132.3 million. Calculated based on book value, $107.7 million or 27%, of our assets relate to our cinema exhibition activities and $219.7 million or 55%, of our assets relate to our real estate activities. At December 31, 2014, we had cash and cash equivalents of $50.2 million, which is accounted for as a corporate asset. Our cash included $10.1 million denominated in U.S. dollars, $32.4 million (AUS$39.6 million) in Australian dollars, and $7.7 million (NZ$9.9 million) in New Zealand dollars.

For additional segment financial information, please see Note 22 – Business Segments and Geographic Area Information to our 2014 Consolidated Financial Statements.

We have diversified our assets among three countries: the United States, Australia, and New Zealand. Based on book value, at December 31, 2014, we had approximately 35% of our assets in the United States, 44% in Australia and 21% in New Zealand compared to 29%, 51%, and 20% respectively, at the end of 2013. For 2014, our gross revenue in these jurisdictions was $130.8 million, $97.3 million, and $26.6 million, respectively, compared to $131.5 million, $100.4 million, and $26.3 million for 2013. These changes are due primarily to fluctuations in the value of the US Dollar compared to the relative values of the Australian Dollar and the New

Zealand Dollar. The exchange rate for the Australian Dollar and the New Zealand Dollar compared to the U.S. Dollar on December 31, 2014 and December 31, 2013 were 0.8173 and 0.8929 to US$1.00 and 0.7796 and 0.8229 to US$1.00, respectively.

For additional financial information concerning the geographic distribution of our business, please see Note 22 – Business Segments and Geographic Area Information to our 2014 Consolidated Financial Statements.

While we do not believe the cinema exhibition business to be a growth business, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in recessionary or inflationary environments. This is based on our belief that people will continue to spend some reasonable portion of their entertainment dollar on entertainment outside of the home, and, that when compared to other forms of outside-the-home entertainment, movies continue to be a popular and competitively priced option. As we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see growth in our cinema business coming principally from (i) the enhancement of our current cinemas (for example, by the addition of luxury seating and broadening our food and beverage offerings), (ii) the development in select markets of specialty cinemas, and (iii) the opportunistic acquisition of already existing cinemas, rather than from the development of new conventional cinemas. Our circuit has been completely converted to digital projection and sound systems.

In 2013, we acquired the 50% interest in the Angelika Film Center in New York City that had been previously held by a passive third party investor. In 2014, we took back, remodeled and upgraded to state-of-the-art status, an eight-screen cinema in New Zealand that, at the time we acquired the underlying fee interest, was leased to a competitor in Dunedin, New Zealand, and finalized an agreement to lease a new state-of-the-art eight plex cinema in a shopping center in Auckland scheduled to open in late 2015. In 2014, we completed an upgrade of our Cinemas 1,2,3 in New York City, which included the installation of luxury recliner seats. In 2014, we executed a long-term lease for a luxury, state-of-the-art cinema, which will be operated under our Consolidated Theatres brand, in the new Ka Makana Ali'i Shopping Center, a regional mall under development in Kapolei, Hawaii. It is expected that this cinema will open in 2016. In 2013 and 2014, in the United States, we continued to expand our Angelika Film Center brand: (i) in 2013, we acquired the leasehold interest of the Angelika Film Center in Plano, TX, which was previously operated as a managed cinema, (ii) entered into a long-term lease for a new, state-of-the-art Angelika Film Centerin the Union Market district of Washington D.C., which is anticipated to open in 2016, and (iii) began the process of converting one of our San Diego area cinemas to a state-of-the-art Angelika Film Center. In 2015, we intend to upgrade the food and beverage menu at a number of our U.S. cinemas.

Given the substantial increase in Manhattan commercial real estate values in recent periods, we are currently advancing plans for the redevelopment of our Cinemas 1, 2, 3 property and of our Union Square property. We currently anticipate that these properties will be redeveloped into approximately 94,000 square feet and 70,000 square feet, respectively, of net leasable area over the next 4 years. In 2012, we acquired in a foreclosure auction as a long-term investment in developable land a 202-acre property, then zoned for the development of over 800 single-family residential units, located in the City of Coachella, California, for $5.5 million. Our then Chairman, Chief Executive Officer and controlling stockholder, participated in that transaction, and holds a 50% non-management interest in the subsidiary that holds that investment. Overseas, in 2013, we entered into a lease agreement for a new grocery store anchor tenant in our Courtenay Central property in Wellington, New Zealand and are actively pursuing the development of the next phase of that center. Additionally, we have obtained the necessary land use approvals and are working on plans to add a cinema to our Newmarket shopping center in Brisbane, Australia.

Historically, it has not been our practice to sell assets, except in connection with the repositioning of such assets to a higher and better use. However, in light of market conditions and our desire to free up capital and pay down debt, in 2012, we sold our 24,000 square foot office building in Indooroopilly, Australia for $12.4 million (AUS$12.0 million). In 2013, we entered into a purchase and sale agreement to sell our 3.3-acre properties in Moonee Ponds for $21.4 million (AUS$23.0 million) which is scheduled to close on April 16, 2015 and is currently classified as land held for sale. In 2014, we sold our undeveloped 50.6-acre parcel in Burwood, Victoria, Australia, to an affiliate of Australand Holdings Limited for a purchase price of $59.1 million (AUS$65.0 million). We received $5.9 million (AUS$6.5 million) at the closing. The balance of the purchase price is due on December 31, 2017, subject to mandatory pre-payments in the event that any of the land is sold, equal to the greater of (a) 90% of the net sale price or (b) the balance of the purchase price multiplied by a fraction the numerator of which is the square footage of property being sold by the buyer and the denominator of which is the original square footage of the property being sold to the buyer. Because payment of 90% of the purchase price has not been received, the transaction has not been treated as a sale for U.S. GAAP purposes, and continues to be carried on our balance sheet as a long term asset.

Typically, we have endeavored to match the currency in which we have financed our development with the jurisdiction within which these developments are located. We have followed this approach to reduce our risk to currency fluctuations. This structure however, somewhat limits our ability to move cash from one jurisdiction to another.

In summary, while we do have operating company attributes, we see ourselves principally as a geographically diversified real estate and cinema company and intend to add to stockholder value by building the value of our portfolio of tangible real estate and entertainment-oriented assets. We endeavor to maintain a reasonable asset allocation between our U.S. and international assets and operations, and between our cash generating cinema operations and our cash-consuming real estate development activities. We believe that by blending the cash generating capabilities of a cinema operation with the investment and development opportunities of our real estate operation coupled with our international diversification of assets, our business strategy is unique among public companies. While historically we have retained our properties through development, we continue to evaluate the sale of certain assets to provide capital to develop our remaining properties.

At December 31, 2014, our principal assets included:

- interests in 57 currently operational cinemas comprising some 472 screens, plus interests in two additional leasehold cinemas representing an additional 16 screens, currently under development in the United States, and an additional 8-screen complex being developed in Auckland, New Zealand;
- fee interests in four live theaters (the Union Square, the Orpheum and Minetta Lane in Manhattan and the Royal George in Chicago) and one cinema (the Cinemas 1, 2, 3), in New York City;
- In addition to the domestic fee interests described immediately above, fee ownership of approximately 21.6 million square feet of developed and undeveloped real estate; and
- cash and cash equivalents, aggregating $50.2 million.

Our Cinema Exhibition Activities

General

We conduct our cinema operations on four basic and rather simple premises:

- first, notwithstanding the enormous advances that have been made in home-entertainment technology, humans are essentially social beings and will continue to want to go beyond the home for their entertainment, provided that they are offered clean, comfortable and convenient facilities, with state of the art technology;
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second, cinemas can be used as anchors for larger retail developments and our involvement in the cinema business can give us an advantage over other real estate developers or redevelopers who must identify and negotiate exclusively with third-party anchor tenants;

- third, pure cinema operators can get themselves into financial difficulty as demands upon them to produce cinema-based earnings growth tempt them into reinvesting their cash flow into increasingly marginal cinema sites. While we believe that there will continue to be attractive opportunities to acquire cinema assets and/or to develop upper end specialty type theaters (like our Angelika Film Centers) in the future, we do not feel pressure to build or acquire cinemas for the sake of adding units. We intend to focus our use of cash flow on our real estate development and operating activities, to the extent that attractive cinema opportunities are not available to us; and

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· fourth, we are always open to the idea of converting an entertainment property to another use, if there is a higher and better use for the property, or to sell individual assets, if we are presented with an attractive opportunity. Our fee interests on Union Square and on Third Avenue (near 60th Street) in New York City, each of which is now slated for redevelopment, were initially acquired as, and continue to be used as, entertainment properties.

Our current cinema assets that we own and/or manage are as set forth in the following chart:

	Wholly Owned	Consolidated1	Unconsolidated2	Managed3	Totals
Australia	18 cinemas 138 screens	2 cinemas 11 screens	1 cinema4 16 screens	None None	21 cinemas 165 screens
New Zealand	8 cinemas 46 screens	None None	2 cinemas5 13 screens	None None	10 cinemas 59 screens
United States	25 cinemas 245 screens	1 cinema 3 screens	None None	1 cinema 4 screens	27 cinemas 252 screens
Totals	51 cinemas 429 screens	3 cinemas 14 screens	3 cinemas 29 screens	1 cinemas 4 screens	58 cinemas 476 screens

[1] Cinemas owned and operated through consolidated, but not wholly owned subsidiaries.

[2] Cinemas owned and operated through unconsolidated associates.

[3] Cinemas in which we have no ownership interest, but which are operated by us under management agreements.

[4] 33.3% unincorporated joint venture interest.

[5] 50% unincorporated joint venture interest.

We focus on the ownership and/or operation of three categories of cinemas:

· first, modern stadium seating multiplex cinemas featuring conventional film product;
· second, specialty and art cinemas, such as our Angelika Film Centers in Manhattan, Dallas, Plano, and Fairfax, Virginia and the Rialto cinema chain in New Zealand; and
· third, in certain markets, including New York City and particularly small town markets that will not support the development of a modern stadium design multiplex cinema, conventional sloped floor cinemas.

We also have various premium class offerings, including luxury seating, premium audio, private lounges, cafés and bar service, and other amenities, in certain of our cinemas and are in the process of converting certain of our other

existing cinemas to provide this premium offering as well.

Although we operate cinemas in three jurisdictions, the general nature of our operations and operating strategies does not vary materially from jurisdiction to jurisdiction. In each jurisdiction, our gross receipts are primarily from box office receipts, concession sales, and screen advertising. Our ancillary revenue is created principally from theater rentals (for example, for film festivals and special events), ancillary programming (such as concerts and sporting events), and internet advertising and ticket sales.

Our cinemas generated approximately 66% of their 2014 revenue from box office receipts. Ticket prices vary by location and we offer reduced rates for senior citizens, children and, in certain markets, military and students.

Show times and features are placed in advertisements in local newspapers, internet sites, and on our various websites. In the United States, film distributors may also advertise certain feature films in various print,

radio and television media, as well as on the internet and those costs are generally paid by distributors. In Australia and New Zealand, the exhibitor typically pays the costs of local newspaper film advertisements, while the distributors are responsible for the cost of any national advertising campaign. Additionally, we are increasing our presence in social media and, thereby reducing our dependency on print advertising.

Concession sales accounted for approximately 28% of our total 2014 cinema revenue. Although certain cinemas have licenses for the sale and consumption of alcoholic beverages, concession products are primarily popcorn, candy, and soda.

Screen advertising and other revenue contribute approximately 6% of our total 2014 cinema revenue. With the exception of certain rights that we have retained to sell to local advertisers, generally speaking, we are not in the screen advertising business and nationally recognized screen-advertising companies provide such advertising for us.

In New Zealand, we also own a one-third interest in Rialto Distribution Rialto Distribution, an unincorporated joint venture, is engaged in the business of distributing art film in New Zealand and Australia. The remaining two-thirds interest is owned by the founders of Rialto Distribution, who have been in the art film distribution business since 1993.

Management of Cinemas

With the exception of our three unconsolidated cinemas, we manage all of our cinemas with executives located in Los Angeles, Manhattan, Melbourne, Australia, and Wellington, New Zealand. Approximately 2,378 individuals were employed (on a full time or part time basis) in our cinema operations in 2014. Our two New Zealand Rialto cinemas are owned by a joint venture in which Reading New Zealand is a 50% joint venture partner. While we are principally responsible for the booking of the cinemas, our joint venture partner, Greater Union, manages the day-to-day operations of these New Zealand cinemas. In addition, we have a one-third interest in a 16-screen Brisbane cinema. Greater Union manages that cinema as well.

Licensing/Pricing

Film product is available from a variety of sources, ranging from the major film distributors such as Paramount Pictures, Twentieth Century Fox, Warner Bros, Buena Vista Pictures (Disney), Sony Pictures Releasing, Universal Pictures and Lionsgate to a variety of smaller independent film distributors. In Australia and New Zealand, some of those major distributors distribute through local unaffiliated distributors. The major film distributors dominate the market for mainstream conventional films. Art and specialty film is distributed through the art and specialty divisions of these major distributors, such as Fox Searchlight and Sony Pictures Classics, and through independent distributors such as The Weinstein Company. Generally speaking, film payment terms are based upon an agreed upon percentage of box office receipts that will vary from film-to-film as films are licensed in Australia, New Zealand and the United States on a film-by-film, theater-by-theater basis.

In certain markets in the US, film may be allocated by the distributor among competitive cinemas, and in other U.S. markets we have access to all available film. With respect to art and specialty film, we, from time-to-time, are unable to license every art and specialty film that we may desire to play. Generally, in the Australian and New Zealand markets, we generally have access to all available film product. The fact that our cinemas in certain markets have a film allocation has not in recent periods been a major impediment to our operations.

Competition

In each of the United States, Australia, and New Zealand, film patrons typically select the cinema that they are going to go to first by selecting the film they want to see, and then by selecting the cinema in which they would prefer to see it. Accordingly, the principal factor in the success or failure of a particular cinema is access to popular film products.

If a particular film is only offered at one cinema in a given market, then customers wishing to see that film will, of necessity, go to that cinema. If two or more cinemas in the same market offer the same film, then customers will typically take into account factors such as the relative convenience and quality of the various cinemas. In certain markets, distributors typically take the position that they are free to provide or not provide their films to particular exhibitors, at their complete and absolute discretion, even though the number of “digital prints” is theoretically unlimited. Some competitors, like AMC, are becoming increasing aggressive in their efforts to prevent competitors from access to film product in film zones where they have cinemas.

Competition for films can be intense, depending upon the number of cinemas in a particular market. Our ability to obtain top grossing first run feature films may be adversely impacted by our comparatively small size,

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and the limited number of screens we can supply to distributors. Moreover, in the United States, because of the dramatic consolidation of screens into the hands of a few very large and powerful exhibitors such as Regal and AMC, these mega-exhibition companies are in a position to offer distributors access to many more screens in major markets than we can. Accordingly, distributors may decide to give preference to these mega-exhibitors when it comes to licensing top grossing films, rather than deal with independents such as ourselves. The situation is different in Australia and New Zealand, where typically every major multiplex cinema has access to all of the film currently in distribution, regardless of the ownership of that multiplex cinema. However, we have suffered somewhat in these markets from competition from boutique operators, who are able to book top grossing commercial films for limited runs, thus increasing competition for customers wishing to view such top grossing films.

Once a patron has selected the film, the choice of cinema is typically impacted by the quality of the cinema experience offered, weighed against convenience and cost. For example, most cinema patrons seem to prefer a modern stadium design multiplex to an older sloped floor cinema, and to prefer a cinema that either offers convenient access to free parking (or public transport) over a cinema that does not. However, if the film they desire to see is only available at a limited number of locations, they will typically choose the film over the quality of the cinema and/or the convenience of the cinema. Generally speaking, our cinemas are modern multiplex cinemas with good and convenient parking. As discussed further below, the availability of 3D or digital technology and/or premium class seating can also be a factor in the preference of one cinema over another.

In recent periods, a number of cinemas have been opened or re-opened featuring luxury seating and/or expanded food and beverage service, including the sale of alcoholic beverages and food served to the seat. We have for a number of years offered alcoholic beverages in certain of our Australia and New Zealand cinemas and at certain of our Angelika Film Centers in the U.S. We are currently working to upgrade the seating and food and beverage offerings (including the offering of alcoholic beverages) at a number of our existing locations.

The film exhibition markets in the United States, Australia, and New Zealand are to a certain extent dominated by a limited number of major exhibition companies. The principal exhibitors in the United States are Regal (with 7,367 screens in 574 cinemas), AMC (with 4,968 screens in 342 cinemas), Cinemark (with 5,603 screens in 488 cinemas), and Carmike (with 2,896 screens in 273 cinemas). As of December 31, 2014, we were the 11th largest exhibitor with 1% of the box office in the United States with 252 screens in 27 cinemas.

The principal exhibitors in Australia are Greater Union, which does business under the Event name (a subsidiary of Amalgamated Holdings Limited), Hoyts Cinemas (“Hoyts”), and Village. The major exhibitors control approximately 65% of the total cinema box office: Event 30%, Hoyts 20%, and Village 15%. Event has 434 screens nationally, Hoyts 333 screens, and Village 207 screens. By comparison, our 149 screens (excluding any partnership theaters) represent approximately 7% of the total box office.

The principal exhibitors in New Zealand are Event with 98 screens nationally and Hoyts with 63 screens. Reading has 46 screens (excluding partnerships). The major exhibitors in New Zealand control approximately 57% of the total box office: Event 37% and Hoyts 20%. Reading has 12% of the market (Event and Reading market share figures exclude any partnership theaters).

Greater Union is the owner of the Birch Carroll & Coyle chain in Australia and purchased Sky Cinemas in New Zealand during 2010. In addition, generally speaking, all new multiplex cinema projects announced by Village are being jointly developed by a joint venture comprised of Greater Union and Village. These companies have substantial capital resources. Village had a publicly reported consolidated net worth of approximately $539.3 million (AUS$572.1 million) at June 30, 2014. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately $867.6 million (AUS$920.4 million) at June 30, 2014. Hoyts is privately held and does not publish financial reports. Hoyts was sold in December 2014 by Pacific Equity Partners to a Chinese private equity group, Sun Xishuang.

In Australia, the industry is somewhat vertically integrated in that Roadshow Film Distributors, a subsidiary of Village, serves as a distributor of film in Australia and New Zealand for Warner Brothers. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow Film Distributors. Hoyts is also involved in film production and distribution.

Digital Exhibition

After years of uncertainty as to the future of digital exhibition and the impact of this technology on cinema exhibition, it became clear in 2012 that the industry must go digital. We have now completed the conversion of all of our U.S., Australian, and New Zealand cinema operations to digital projection. We anticipate that the cost of this conversion, over time, will be covered in substantial part by the receipt of "virtual print fees" paid by film distributors for the use of such digital projection equipment.

In-Home Competition

The "in-home" entertainment industry has experienced significant leaps in recent periods in both the quality and affordability of in-home entertainment systems and in the accessibility to and quality of entertainment programming through cable, satellite, internet distribution channels, and DVD. The success of these alternative distribution channels put additional pressure on film distributors to reduce and/or eliminate the time period between theatrical and secondary release dates. These are issues common to both our U.S. and international cinema operations.

Competitive issues are discussed in greater detail above under the caption, Competition, and under the caption, Item 1A - Risk Factors.

Seasonality

Major films are generally released to coincide with holidays. With the exception of Christmas and New Year's Days, this fact provides some balancing of our revenue because there is no material overlap between holidays in the United States and those in Australia and New Zealand. Distributors will delay, in certain cases, releases in Australia and New Zealand to take advantage of Australian and New Zealand holidays that are not celebrated in the United States.

Employees

We have 75 full-time executive and administrative employees and approximately 2,378 cinema employees. Some of our cinema employees in Wellington, Rotorua, and Christchurch, New Zealand are unionized, as are our projectionists in Hawaii. None of our other employees are subject to union contracts. Our union contracts with respect to our New Zealand employees have been renewed through to 2015. None of our Australian-based employees is unionized. Overall, we are of the view that the existence of these contracts does not materially increase our costs of labor or our ability to compete. We believe our relations with our employees to be generally good.

Our Real Estate Activities

Our real estate activities have historically consisted principally of:

- the ownership of fee or long-term leasehold interests in properties used in our cinema exhibition activities or which were acquired for the development of cinemas or cinema based real estate development projects;
- the acquisition of fee interests in land for general real estate development;
- the leasing to production companies of our live theaters; and
- the redevelopment of our existing fee-owned cinema or live theater sites to their highest and best use.

While we report our real estate as a separate segment, it has historically operated as an integral portion of our overall business and, again historically, has principally been in support of that business. In recent periods, however, we have acquired or developed properties that do not have any cinema or other entertainment component. As opportunities for cinema development become more limited, it is likely that our real estate activities will continue to expand beyond the development of entertainment-oriented properties.

Our real estate activities, holdings and developments are described in greater detail in Item 2 – Properties.

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Explanation of Responses:

Item 1A – Risk Factors

Investing in our securities involves risk. Set forth below is a summary of various risk factors that you should consider in connection with your investment in our company. This summary should be considered in the context of our overall Annual Report on Form 10K, as many of the topics addressed below are discussed in significantly greater detail in the context of specific discussions of our business plan, our operating results, and the various competitive forces that we face.

Business Risk Factors

We are currently engaged principally in the cinema exhibition and real estate businesses. Since we operate in two business segments (cinema exhibition and real estate), we discuss separately below the risks we believe to be material to our involvement in each of these segments. We have discussed separately certain risks relating to the international nature of our business activities, our use of leverage, and our status as a controlled corporation. Please note, that while we report the results of our live theater operations as real estate operations – since we are principally in the business of renting space to producers rather than in licensing or producing plays ourselves – the cinema exhibition and live theater businesses share certain risk factors and are, accordingly, discussed together below.

Cinema Exhibition and Live Theater Business Risk Factors

We operate in a highly competitive environment with many competitors who are significantly larger and may have significantly better access to funds than do we.

We are a comparatively small cinema operator and face competition from much larger cinema exhibitors. These larger exhibitors are able to offer distributors more screens in more markets – including markets where they may be the exclusive exhibitor – than can we. In some cases, faced with such competition, we may not be able to get access to all of the films we want, which may adversely affect our revenue and profitability.

These larger competitors may also enjoy (i) greater cash flow, which can be used to develop additional cinemas, including cinemas that may be competitive with our existing cinemas, (ii) better access to equity capital and debt, and (iii) better visibility to landlords and real estate developers, than do we.

In the case of our live theaters, we compete for shows not only with other “for profit” off-Broadway theaters, but also with not-for-profit operators and, increasingly, with Broadway theaters. We believe our live theaters are generally competitive with other off-Broadway venues. However, due to the increased cost of staging live theater productions, we are seeing an increasing tendency for plays that would historically have been staged in an off-Broadway theater, moving directly to larger Broadway venues.

We face competition from other sources of entertainment and other entertainment delivery systems.

Both our cinema and live theater operations face competition from developing “in-home” sources of entertainment. These include competition from cable and satellite television, Video on Demand (“VOD”), DVD, the internet and other sources of entertainment, and video games. The quality of in-house entertainment systems, as well as programming available on an in-home basis has increased, while the cost to consumers of such systems (and such programming) has decreased in recent periods, and some consumers may prefer the security of an ”in-home” entertainment experience to the more public experience offered by our cinemas and live theaters. Film distributors have been responding to these developments by, in some cases, decreasing or eliminating the period of time between cinema release and the date such product is made available to “in-home” forms of distribution.

The narrowing and/or elimination of this so-called “window” for cinema exhibition may be problematic for the cinema exhibition industry. However, to date, indications by the major film distributors to continue to narrow or eliminate the window have been strenuously resisted by the cinema exhibition industry and we view the total elimination of the cinema exhibition window by major film distributors, while theoretically possible, to be unlikely.

However, there is the risk that, over time, distributors may move towards simultaneous release of motion picture product in multiple channels of distribution. Also, some traditional in-home distributors have begun the production of full-length movies, specifically for the purpose of direct or simultaneous release to the in-home market. These factors may adversely affect the competitive advantage enjoyed by cinemas over “in-home” forms of entertainment, as it may be that both the cinema market and the “in-home” market will have simultaneous access to the same motion picture product. In 2014, a number of movies were released on a simultaneous basis to movie

exhibitors and to in-home markets. It is likely that this trend will continue, making it increasingly important for exhibitors to enhance the convenience and quality of the theater-going experience.

We also face competition from various other forms of “beyond-the-home” entertainment, including sporting events, concerts, restaurants, casinos, video game arcades, and nightclubs. Our cinemas also face competition from live theaters and vice versa.

Our cinema operations depend upon access to film that is attractive to our patrons and our live theater operations depend upon the continued attractiveness of our theaters to producers.

Our ability to generate revenue and profits is largely dependent on factors outside of our control, specifically, the continued ability of motion picture and live theater producers to produce films and plays that are attractive to audiences, the amount of money spent by film distributors to promote their motion pictures, and the willingness of these producers to license their films on terms that are financially viable to our cinemas and to rent our theaters for the presentation of their plays. To the extent that popular movies and plays are produced, our cinema and live theater activities are ultimately dependent upon our ability, in the face of competition from other cinema and live theater operators, to book these movies and plays into our facilities, and to provide a superior customer offering.

We rely on film distributors to supply the films shown in our theatres. In the U.S., the film distribution business is highly concentrated, with seven major film distributors accounting for approximately 89.1% of U.S. box office revenues. Numerous antitrust cases and the consent decree resulting from these antitrust cases affect the distribution of films. The consent decree binds major film distributors to license films to exhibitors on a theatre-by-theatre and film-by-film basis. Consequently, we cannot guarantee a supply of films by entering into long-term arrangements with major distributors. We are therefore required to negotiate licenses for each film and for each theatre. A deterioration in our relationship with any of the seven major film distributors could adversely affect our ability to obtain commercially successful films and to negotiate favorable licensing terms for such films, both of which could adversely affect our business and operating results.

Adverse economic conditions could materially affect our business by reducing discretionary income and by limiting or reducing sources of film and live theater funding.

Cinema and live theater attendance is a luxury, not a necessity. Accordingly, a decline in the economy resulting in a decrease in discretionary income, or a perception of such a decline, may result in decreased discretionary spending, which could adversely affect our cinema and live theater businesses. Adverse economic conditions can also affect the supply side of our business, as reduced liquidity can adversely affect the availability of funding for movies and plays. This is particularly true in the case of Off-Broadway plays, which are often times financed by high net worth individuals (or groups of such individuals) and that are very risky due to the absence of any ability to recoup investment in secondary markets like DVD, cable, satellite or internet distribution.

Our screen advertising revenue may decline.

Over the past several years, cinema exhibitors have been looking increasingly to screen advertising as a way to boost income. No assurances can be given that this source of income will be continuing or that the use of such advertising will not ultimately prove to be counterproductive by giving consumers a disincentive to choose going to the movies over “in-home” entertainment alternatives.

We face uncertainty as to the timing and direction of technological innovations in the cinema exhibition business and as to our access to those technologies.

We have converted all of our cinema auditoriums to digital projection. However, no assurances can be given that other technological advances will not require us to make further material investments in our cinemas or face loss of

business. Also, equipment is currently being developed for holographic or laser projection. The future of these technologies in the cinema exhibition industry is uncertain.

We face competition from new competitors offering food and beverage as an integral part of their cinema offerings.

A number of new entrants, such as Alamo Drafthouse, offering an expanded food and beverage menu (including the sale of alcoholic beverages) have emerged in recent periods. In addition, some competitors are converting existing cinemas to provide such expanded menu offerings. The existence of such cinemas may alter

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traditional cinema selection practices of moviegoers, as they seek out cinemas with such expanded offerings as a preferred alternative to traditional cinemas.

Real Estate Development and Ownership Business Risks

We operate in a highly competitive environment, in which we must compete against companies with much greater financial and human resources than we have.

We have limited financial and human resources, compared to our principal real estate competitors. In recent periods, we have relied heavily on outside professionals in connection with our real estate development activities. Many of our competitors have significantly greater resources and may be able to achieve greater economies of scale than we can.

Risks Related to the Real Estate Industry Generally

Our financial performance will be affected by risks associated with the real estate industry generally.

Events and conditions generally applicable to developers, owners, and operators of real property will affect our performance as well. These include (i) changes in the national, regional and local economic climate, (ii) local conditions such as an oversupply of, or a reduction in demand, for commercial space and/or entertainment-oriented properties, (iii) reduced attractiveness of our properties to tenants, (iv) the rental rates and capitalization rates applicable to the markets in which we operate and the quality of properties that we own, (v) competition from other properties, (vi) inability to collect rent from tenants, (vii) increased operating costs, including labor, materials, real estate taxes, insurance premiums, and utilities, (viii) costs of complying with changes in government regulations, (ix) the relative illiquidity of real estate investments, and (x) decreases in sources of both construction and long-term lending as traditional sources of such funding leave or reduce their commitments to real estate-based lending. In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in declining rents or increased lease defaults.

We may incur costs complying with the Americans with Disabilities Act and similar laws.

Under the Americans with Disabilities Act and similar statutory regimes in Australia and New Zealand or under applicable state or local law, all places of public accommodation (including cinemas and theaters) are required to meet certain governmental requirements related to access and use by persons with disabilities. A determination that we are not in compliance with those governmental requirements with respect to any of our properties could result in the imposition of fines or an award of damages to private litigants. The cost of addressing these issues could be substantial.

Illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties.

Real estate investments are relatively illiquid and, therefore, tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. Many of our properties are either (i) “special purpose” properties that could not be readily converted to general residential, retail or office use, or (ii) undeveloped land. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment and competitive factors may prevent the pass-through of such costs to tenants.

Real estate development involves a variety of risks.

Real estate development involves a variety of risks, including the following:

- The identification and acquisition of suitable development properties. Competition for suitable development properties is intense. Our ability to identify and acquire development properties may be limited by our size and resources. Also, as we and our affiliates are considered to be “foreign owned” for purposes of certain Australian and New Zealand statutes, we have been in the past, and may in the future be, subject to regulations that are not applicable to other persons doing business in those countries.
- The procurement of necessary land use entitlements for the project. This process can take many years, particularly if opposed by competing interests. Competitors and community groups (sometimes funded by such competitors) may object based on various factors, including, for example, impacts on density,

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parking, traffic, noise levels and the historic or architectural nature of the building being replaced. If they are unsuccessful at the local governmental level, they may seek recourse to the courts or other tribunals. This can delay projects and increase costs.

- The construction of the project on time and on budget. Construction risks include the availability and cost of finance; the availability and costs of material and labor; the costs of dealing with unknown site conditions (including addressing pollution or environmental wastes deposited upon the property by prior owners); inclement weather conditions; and the ever-present potential for labor-related disruptions.
- The leasing or sell-out of the project. Ultimately, there are risks involved in the leasing of a rental property or the sale of a condominium or built-for-sale property. For our entertainment-themed retail centers ("ETRCs"), the extent to which our cinemas can continue to serve as an anchor tenant will be influenced by the same factors as will influence generally the results of our cinema operations. Leasing or sale can be influenced by economic factors that are neither known nor knowable at the commencement of the development process and by local, national, and even international economic conditions, both real and perceived.
- The refinancing of completed properties. Properties are often developed using relatively short-term loans. Upon completion of the project, it may be necessary to find replacement financing for these loans. This process involves risk as to the availability of such permanent or other take-out financing, the interest rates, and the payment terms applicable to such financing, which may be adversely influenced by local, national, or international factors. To date, we have been successful in negotiating development loans with "roll over" or other provisions mitigating our need to refinance immediately upon completion of construction.

The ownership of properties involves risk.

The ownership of investment properties involves risks, such as: (i) ongoing leasing and re-leasing risks, (ii) ongoing financing and re-financing risks, (iii) market risks as to the multiples offered by buyers of investment properties, (iv) risks related to the ongoing compliance with changing governmental regulation (including, without limitation, environmental laws and requirements to remediate environmental contamination that may exist on a property (such as, by way of example, asbestos), even though not deposited on the property by us), (v) relative illiquidity compared to some other types of assets, and (vi) susceptibility of assets to uninsurable risks, such as biological, chemical or nuclear terrorism, or risks that are subject to caps tied to the concentration of such assets in certain geographic areas, such as earthquakes. Furthermore, as our properties are typically developed around an entertainment use, the attractiveness of these properties to tenants, sources of finance and real estate investors will be influenced by market perceptions of the benefits and detriments of such entertainment type properties.

A number of our assets are in geologically active areas, presenting risk of earthquake and land movement.

We have cinemas in California and New Zealand, areas which present a greater risk of earthquake and/or land movement than other locations. New Zealand has in recent periods had several major earthquakes damaging our facilities in Christchurch and Wellington. The ability to insure for such casualties is limited and may become more difficult and/or more expensive in future periods.

International Business Risks

Our international operations are subject to a variety of risks, including the following:

Risk of currency fluctuations. While we report our earnings and assets in US dollars, substantial portions of our revenue and of our obligations are denominated in either Australian or New Zealand dollars. The value of these currencies can vary significantly compared to the US dollar and compared to each other. We typically have not hedged against these currency fluctuations, but rather have relied upon the natural hedges that exist as a result of the fact that our film costs are typically fixed as a percentage of the box office, and our local operating costs and obligations are likewise typically denominated in local currencies. However, we do have debt at our parent company level that is serviced by our overseas cash flow and our ability to service this debt could be adversely impacted by declines in the relative value of the Australian and New Zealand dollar compared to the US dollar. $32.4 million

(AUS$39.6 million) of our Australian cash and $7.7 million (NZ$9.9 million) of our New Zealand cash is denominated in local currencies and subject to the risk of currency exchange rate fluctuations. Also, our use of local borrowings to mitigate the business risk of currency fluctuations has reduced our flexibility to move cash between jurisdictions. Set forth below is a chart of the exchange ratios between these three currencies over the past twenty years:

- Risk of adverse government regulation. At the present time, we believe that relations between the United States, Australia, and New Zealand are good. However, no assurances can be given that this relationship will continue and that Australia and New Zealand will not in the future seek to regulate more highly the business done by US companies in their countries.
- Risk of adverse labor relations. Any deterioration in labor relations could lead to an increased cost of labor (including future government requirements with respect to pension liabilities, disability insurance and health coverage, and vacations and leave).

Risks Associated with Certain Discontinued Operations

Certain of our subsidiaries were previously in industrial businesses. As a consequence, properties that are currently owned or may have in the past been owned by these subsidiaries may prove to have environmental issues. Where we have knowledge of such environmental issues and are in a position to make an assessment as to our exposure, we have established what we believe to be appropriate reserves, but we are exposed to the risk that currently unknown problems may be discovered. These subsidiaries are also exposed to potential claims related to exposure of former employees to coal dust, asbestos, and other materials now considered to be, or which in the future may be found to be, carcinogenic or otherwise injurious to health.

Operating Results, Financial Structure and Borrowing Risk

From time to time, we may have negative working capital.

In recent years, as we have invested our cash in new acquisitions and the development of our existing properties, we have from time-to-time had negative working capital. This negative working capital is typical in the cinema exhibition industry because our short-term liabilities are in part financing our long-term assets instead of long-term liabilities financing short-term assets as is the case in other industries such as manufacturing and distribution.

We have substantial short to medium term debt.

Generally speaking, we have historically financed our operations through relatively short-term debt. No assurances can be given that we will be able to refinance this debt, or if we can, that the terms will be reasonable.

However, as a counterbalance to this debt, we have significant unencumbered real property assets, which could be sold to pay debt or encumbered to assist in the refinancing of existing debt, if necessary.

In February 2007, we issued $50.0 million in 20-year Trust Preferred Securities ("TPS"), and utilized the net proceeds principally to retire short-term bank debt in New Zealand and Australia. The interest rate on our TPS was only fixed for five years. Additionally, we used US dollar denominated obligations to retire debt denominated in New Zealand and Australian dollars, which has increased our exposure to currency risk. In the first quarter of 2009, we repurchased $22.9 million of our TPS at a 50% discount.

At the present time, corporate borrowers both domestically and internationally are facing greater than normal constraints on liquidity. No assurances can be given that we will be able to refinance these debts as they become due.

We have substantial lease liabilities.

Most of our cinemas operate in leased facilities. These leases typically have "cost of living" or other rent adjustment features and require that we operate the properties as cinemas. A downturn in our cinema exhibition business might, depending on its severity, adversely affect the ability of our cinema operating subsidiaries to meet these rental obligations. Even if our cinema exhibition business remains relatively constant, cinema level cash flow will likely be adversely affected unless we can increase our revenue sufficiently to offset increases in our rental liabilities. Unlike property rental leases, our newly added digital equipment leases do not have "cost of living" or other lease adjustment features.

Our stock is thinly traded.

Our stock is thinly traded, with an average daily volume in 2014 of only approximately 56,000 shares. This can result in significant volatility, as demand by buyers and sellers can easily get out of balance.

Ownership and Management Structure, Corporate Governance, and Change of Control Risks

Pending disputes among the Cotter family raise uncertainty regarding control of our company, and may distract the time and attention of our officers and directors from our business and operations or interfere with the effective management of our company.

As we have previously reported, the Reading Voting Trust established by James J. Cotter, Sr., our deceased former Chairman of the Board and Chief Executive Officer and former controlling stockholder, holds at least 696,080 shares of our Class B Voting Stock ("Voting Stock") constituting approximately 46.5% of the voting power of our outstanding capital stock. The Reading Voting Trust also may hold an additional 327,808 shares of Voting Stock, constituting approximately 21.9% of the voting power of our outstanding capital stock, based upon an assignment of such shares purportedly executed by Mr. Cotter, Sr., prior to this death. We are informed that, in the event these shares were not effectively transferred to the Reading Voting Trust, they would eventually pour over into the Trust. In the meantime, however, they may instead make up part of the Estate of James J. Cotter, Deceased (the "Estate" and collectively with the Reading Voting Trust and the James J. Cotter Living Trust, the "Cotter Estate") that is being administered in the State of Nevada. On December 22, 2014, the District Court of Clark County, Nevada, appointed Ellen Cotter, the Chair of our Board of Directors and our Chief Operating Officer- Domestic Cinemas and Margaret Cotter, Vice Chairman of our Board of Directors, as co-executors of the Estate.

A 2013 amended and restated declaration of trust names Margaret Cotter as the sole trustee of the Reading Voting Trust and names James J. Cotter, Jr., our President and Chief Executive Officer and a director of our company, as the first alternate trustee in the event that Margaret Cotter is unable or unwilling to act as trustee. A 2014 partial amendment to the declaration of trust, however, names Margaret Cotter and James J. Cotter, Jr. as co-trustees of the Reading Voting Trust and provides that, in the event they are unable to agree upon an important trust decision, they shall rotate the trusteeship between them annually on each January 1st. It further directs the trustees of the Reading Voting Trust to, among other things, vote such shares of our Voting Stock held by the Reading Voting Trust in favor of the election of Ellen Cotter, Margaret Cotter and James J. Cotter, Jr. to our board of directors.

On February 6, 2015, Ellen Cotter and Margaret Cotter filed a Petition in the Superior Court of the State of California, County of Los Angeles, captioned In re James J. Cotter Living Trust dated August 1, 2000 (Case No. BP159755). The Petition, among other things, seeks relief that could determine the validity of the 2014 partial amendment and who, as between Margaret Cotter and James J. Cotter Jr., has authority as trustee or co-trustees of the Reading Voting Trust to vote the Reading Voting Trust's shares of our Voting Stock (in whole or in part) and the scope and extent of such authority. James J. Cotter, Jr. has advised us that he intends to file an opposition to the Petition.

Although the company is not a party to this lawsuit and takes no position as to the claims asserted or the relief sought therein, the matters raised in the Petition create uncertainty regarding control of our company. Until these matters can be resolved, it is unclear whether the Reading Voting Trust owns a majority of our outstanding shares of Voting Stock and, as such, can determine the outcome of the election of directors of our company and of any other matters that may be presented for approval by our stockholders. It also is unclear whether Margaret Cotter, or she and James J. Cotter, Jr., together, has authority as trustee or co-trustees of the Reading Voting Trust to vote the shares of our Voting Stock currently held by the Reading Voting Trust or any additional shares of our Voting Stock that may be determined to be held by the Reading Voting Trust instead of the Estate.

These pending matters may distract the Cotter family's time and attention from the business and operations of our Company and thus have an adverse effect on its effective management.

The interests of our controlling stockholder may conflict with your interests.

As of December 31, 2014, the Cotter Estate beneficially owns 70.4% of our outstanding Class B Stock. Our Class A Stock is non-voting, while our Class B Stock represents all of the voting power of our Company. For as long as the Cotter Estate continues to own shares of common stock representing more than 50% of the voting power of our common stock. The Cotter Estate will be able to elect all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our stockholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. The Cotter Estate will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to the Cotter Estate but not to other stockholders. In addition, the Cotter Estate and its affiliates have controlling interests in companies in related and unrelated industries. In the future, we may participate in transactions with these companies (see Note 25 – Related Parties and Transactions to our 2014 Consolidated Financial Statements).

Since we are a Controlled Company, our Directors have determined to take advantage of certain exemptions provide by the NASDAQ from the corporate governance rules adopted by that Exchange.

Generally speaking, the NASDAQ requires listed companies to meet certain minimum corporate governance provisions. However, a "Controlled Corporation", such as we, may elect not to be governed by certain of these provisions. Our board of directors has elected to exempt our Company from requirements that (i) at least a majority of our directors be independent, (ii) nominees to our board of directors be nominated by a committee comprised entirely of independent directors or by a majority of our Company's independent directors, and (iii) the compensation of our chief executive officer be determined or recommended to our board of directors by a compensation committee comprised entirely of independent directors or by a majority of our Company's independent directors. Notwithstanding the determination by our board of directors to opt-out of these NASDAQ requirements, a majority of our board of directors is nevertheless currently comprised of independent directors, and our compensation

committee is nevertheless currently comprised entirely of independent directors.

We depend on key personnel for our current and future performance.

Our current and future performance depends to a significant degree upon the continued contributions of our senior management team and other key personnel. The loss or unavailability to us of any member of our senior management team or a key employee could significantly harm us. We cannot assure you that we would be able to locate or employ qualified replacements for senior management or key employees on acceptable terms.

Item 1B - Unresolved Staff Comments

None.

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Explanation of Responses: 32

Item 2 – Properties

Executive and Administrative Offices

We lease approximately 11,700 square feet of office space in Los Angeles, California to serve as our executive headquarters. We own an 8,100 square foot office building in Melbourne, Australia, approximately 5,200 square feet of which serves as the headquarters for our Australian and New Zealand operations (the remainder being leased to an unrelated third party). We maintain our accounting personnel and certain IT and operational personnel in approximately 5,900 square foot of offices located in our Wellington Courtenay Central ETRC. We occupy approximately 3,500 square feet at our Village East leasehold property for administrative purposes.

Entertainment Properties

Entertainment Use Leasehold Interests

As of December 31, 2014, we lease approximately 1.8 million square feet of completed cinema space in the United States, Australia, and New Zealand as follows:

	Aggregate Square Footage	Approximate Range of Remaining Lease Terms (including renewals)
United States	942,000	2015 – 2049
Australia	724,000	2017 – 2049
New Zealand	150,000	2024 – 2034

On December 31, 2013, we settled a management fee claim that we had with the owner of the lease interest in the Plano, Texas cinema that we had managed since 2003. As part of the settlement, we acquired that entity. Also, in September 2013, we took back a cinema at one of our fee properties in New Zealand and have refurbished that cinema. The cinema was already leased to a competitor at the time we acquired it in May 2007. During the first quarter of 2014, we entered into a lease for a new state-of-the-art Angelika Film Center currently being developed by Edens in the Union Market area of Washington D.C. In December 2014, we entered into a lease for a new luxury cinema, under the Consolidated Theatres brand, at the new Ka Makana Ali'i Shopping Center being developed in Kapolei, Hawaii by an affiliate of DeBartolo Development and finalized terms for a new 8-screen cinema complex in Auckland, New Zealand.

Fee Interests

In Australia, as of December 31, 2014, we own approximately 900,000 square feet of land at seven locations. Most of this land is located in the greater metropolitan areas of Brisbane, Melbourne, Perth, and Sydney. This figure does not include our 50.6-acre Burwood site and our 3.3-acre Moonee Pond site, which in both cases have been sold (but have yet to be recognized as a sale under U.S. GAAP). Of these fee interests, approximately 138,000 square feet are currently improved with cinemas.

In New Zealand, as of December 31, 2014, we own approximately 3.4 million square feet of land at seven locations. This includes the Courtney Central ETRC in Wellington, the 70.3-acre Manukau site, and the fee interests underlying four cinemas in New Zealand, which properties include approximately 21,000 square feet of ancillary retail space.

In the United States, as of December 31, 2014, we own approximately 134,000 square feet of improved real estate comprised of four live theater buildings, which include approximately 58,000 square feet of leasable space, and the fee interest in our Cinemas 1, 2, 3 in Manhattan (held through a limited liability company in which we have a 75% managing member interest). We also own 202 acres of unimproved land in Coachella Valley, California, held through a limited liability company in which the Cotter Estate has a 50% non-managing interest.

Live Theaters (“Liberty Theaters”)

Included among our real estate holdings are four “Off Broadway” style live theaters, operated through our Liberty Theaters subsidiary. We license theater auditoriums to the producers of “Off Broadway” theatrical productions and provide various box office and concession services. The terms of our licenses are, naturally, principally dependent upon the commercial success of our tenants. STOMP has been playing at our Orpheum Theatre in excess of 20 years. While we attempt to choose productions that we believe will be successful, we have no control over the production itself. At the current time, we have three single auditorium theaters in Manhattan:

· the Minetta Lane (399 seats);
· the Orpheum (347 seats); and
· the Union Square (499 seats).

We also own a four-auditorium theater complex, the Royal George in Chicago (main stage 452 seats, cabaret 199 seats, great room 100 seats and gallery 60 seats). Two of the properties, the Union Square and the Royal George, have ancillary retail and office space.

Liberty Theaters is primarily in the business of renting theater space. However, we may from time-to-time participate as an investor in a play, which can help facilitate the production of the play at one of our facilities, and do from time-to-time rent space on a basis that allows us to share in a production’s revenue or profits. Revenue, expense, and profits are reported as a part of the real estate segment of our business.

Joint Venture Cinema Interests

We also hold real estate through several unincorporated joint ventures, two 75%-owned subsidiaries, and one majority-owned subsidiary, as described below:

· in Australia, we own a 75% interest in a subsidiary company that leases two cinemas with eleven screens in two Australian country towns, and a 33% unincorporated joint venture interest in a 16-screen leasehold cinema in a suburb of Brisbane.
· in New Zealand, we own a 50% unincorporated joint venture interest in two cinemas with 13 screens in the New Zealand cities of Auckland and Dunedin.
· In the United States, we own a 75% managing member interest in the limited liability company that owns our Cinemas 1, 2, 3 property and a 50% managing member interest in Shadow View Land & Farming, LLC which owns an approximately 202-acre property in Riverside County, California that is currently zoned for residential and approved for over 800 single-family lots.

Operating Property

As of December 31, 2014, we own fee interests in approximately 1.0 million square feet of income-producing properties (including certain properties principally occupied by our cinemas).

Property6	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Auburn 100 Parramatta Road Auburn, NSW, Australia	60000 / 57000 Plus a 871-space parking structure	100%	$27,998,657
Belmont Knutsford Avenue and Fulham Street Belmont, WA, Australia	15000 / 45000	100%	$12,758,425
Bundaberg 1 Johanna Boulevard Bundaberg, QLD, Australia	0 / 52840	N/A	$1,790,443
Cinemas 1, 2, 37 1003 Third Avenue Manhattan, NY, USA	0 / 21000	N/A	$24,999,953
Courtenay Central 100 Courtenay Place Wellington, New Zealand	33000 / 76000 Plus a 1,086-space parking structure	70%	$36,021,239

Property	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Dunedin Cinema 33 The Octagon Dunedin, New Zealand	0 / 25295	N/A	$8,186,274
Invercargill Cinema 29 Dee Street Invercargill, New Zealand	9000 / 24000	69%	$3,060,830
LA Doheny Condominium8 9255 Doheny Road Los Angeles, CA, USA	0 / 1650	N/A	$552,449
Lake Taupo Motel9 138-140 Lake Terrace Road Taupo, New Zealand	9000 / 0	Short-term rentals	$1,084,539
Maitland Cinema Ken Tubman Drive Maitland, NSW, Australia	0 / 22000	N/A	$1,944,346
Minetta Lane Theatre 18-22 Minetta Lane Manhattan, NY, USA	0 / 9000	N/A	$8,617,669
Napier Cinema 154 Station Street Napier, New Zealand	12000 / 18000	100%	$3,344,521
Newmarket 400 Newmarket Road Newmarket, QLD, Australia	93000 / 0 Plus a 436-space parking structure	100%	$35,681,345
Orpheum Theatre 126 2nd Street Manhattan, NY, USA	1000 / 5000	100%	$3,565,021
Royal George 1633 N. Halsted Street	37000 / 23000 Plus a 55-space	91%	$3,491,119

Explanation of Responses:

Chicago, IL, USA	parking structure		
Rotorua Cinema 1281 Eruera Street Rotorua, New Zealand	0 / 19000	N/A	$2,879,638
Union Square Theatre 100 E. 17th Street Manhattan, NY, USA	21000 / 17000	100%	$9,721,163
York Street Office 98 York Street South Melbourne, VIC, Australia	2906/10271	N/A	$2,411,318

[6] Rental square footage refers to the amount of area available to be rented to third parties and the percentage leased is the amount of such rental square footage currently leased to third parties. A number of our real estate holdings include entertainment components rented to one or more of our subsidiaries at fair market rent. The rental area to such subsidiaries is noted under the entertainment square footage. The gross book value refers to the gross carrying cost of the land and buildings of the property. Book value and rental information are as of December 31, 2014.

[7] This property is owned by a limited liability company in which we hold a 75% managing member interest. The remaining 25% is owned by Sutton Hill Capital, LLC (“SHC”), a company owned in equal parts by the Cotter Estate and a third party.

[8] This property has been sold as of February 25, 2015 for $3.0 million. At December 31, 2014 this asset was classified as an Asset Held for Sale.

[9] On February 21, 2015 this property received an unsolicited purchase offer. The potential purchaser is currently performing due diligence procedures.

Long-Term Leasehold Operating Property

In addition, in certain cases we have long-term leases that we view more akin to real estate investments than cinema leases. As of December 31, 2014, we had approximately 155,000 square footnt>

$
(0.09
)

Non-GAAP adjustments:

Goodwill and other intangible asset impairment charges

476

(8
)

468

0.35

*
Acquisition- and divestiture-related net charges

1

3

4

0.00

*
Restructuring-related charges

124

(36
)

88

0.07

*
Litigation-related charges

221

(72
)

149

0.11

*
Debt extinguishment charges

70

(26
)

44

0.03

*
Discrete tax items

—

(7
)

(7
)

(0.01

)
*
Amortization expense

410

(44
)

366

0.27

*
Adjusted net income

$
1,079

$
(88
)

$
991

$
0.73

* Assumes dilution of 19.5 million shares for the year ended December 31, 2013 for all or a portion of these non-GAAP adjustments.
[1] Sales growth rates that exclude the impact of sales from divested businesses and/or changes in foreign currency exchange rates and net income and net income per share excluding certain items required by GAAP are not prepared in accordance with U.S. GAAP. Refer to Additional Information in this Item 7 for a discussion of management’s use of these non-GAAP financial measures.

	Year Ended December 31, 2012				
in millions, except per share data	Pre-Tax	Tax Impact	After-Tax	Impact per share	
GAAP net income (loss)	$(4,107)	$39	$(4,068)	$(2.89)	
Non-GAAP adjustments:					
Goodwill and other intangible asset impairment charges	4,492	(46)	4,446	3.15	**
Acquisition- and divestiture-related net credits	(50)	14	(36)	(0.02)	**
Restructuring-related charges	160	(38)	122	0.09	**
Litigation-related charges	192	(74)	118	0.08	**
Discrete tax items	—	2	2	0.00	**
Amortization expense	395	(46)	349	0.25	**
Adjusted net income	$1,082	$(149)	$933	$0.66	

** Assumes dilution of 7.7 million shares for the year ended December 31, 2012 for all or a portion of these non-GAAP adjustments.

[1] Sales growth rates that exclude the impact of sales from divested businesses and/or changes in foreign currency exchange rates and net income and net income per share excluding certain items required by GAAP are not prepared in accordance with U.S. GAAP. Refer to Additional Information in this Item 7 for a discussion of management’s use of these non-GAAP financial measures.

Cash generated by operating activities was $1.082 billion in 2013, as compared to $1.260 billion in 2012. Our cash generated from operations continues to be a significant source of funds for investing in our growth and returning value to shareholders by buying back shares of our common stock pursuant to our share repurchase authorizations discussed in Note L - Stockholders' Equity to our 2013 consolidated financial statements contained in Item 8 of this Annual Report. During 2013, we used $500 million of cash generated from operations to repurchase approximately 51 million shares of our common stock, as compared to 2012 in which $600 million of cash generated from operations was used to repurchase approximately 105 million shares of our common stock. As of December 31, 2013, we had total debt of $4.240 billion, cash and cash equivalents of $217 million and working capital of $1.187 billion. We hold investment-grade ratings with all three major credit-rating agencies. We believe our investment grade credit profile reflects the size and diversity of our product portfolio, our leading share position in several of our served markets, our strong cash flow, our solid financial fundamentals and our financial strategy.

Business and Market Overview
Cardiovascular
Interventional Cardiology
Our Interventional Cardiology division develops, manufactures and markets technologies for diagnosing and treating coronary artery disease and other cardiovascular disorders. Product offerings include coronary stents, including drug-eluting and bare metal stent systems, balloon catheters, rotational atherectomy systems, guide wires, guide catheters, embolic protection devices, crossing and re-entry devices for the treatment of chronically occluded coronary vessels, diagnostic catheters used in percutaneous transluminal coronary angioplasty procedures, and intravascular ultrasound (IVUS) imaging systems.
In the first quarter of 2013, we received CE Mark approval and launched our Promus PREMIER™ Everolimus-Eluting Platinum Chromium Coronary Stent System in Europe and other select geographies. In the fourth quarter of 2013, we received FDA approval and launched Promus PREMIER™ in the U.S. The Promus PREMIER™ Stent System is designed to provide physicians improved drug-eluting stent performance in treating patients with coronary artery disease, featuring unique customized platinum chromium alloy stent architecture and an enhanced stent delivery system. We have also received CE Mark approval for our next generation SYNERGY™ Everolimus-Eluting Platinum Chromium Coronary Stent System featuring an ultra-thin abluminal (outer) bioabsorbable polymer coating and have commenced a limited commercial launch. We expect to expand the launch in Europe in the first half of 2014. The SYNERGY Stent is unique in that its proprietary polymer and everolimus drug coating dissipate by three months. This innovation has the potential to improve post-implant vessel healing and eliminate long-term polymer exposure, a possible cause of late adverse events. We have completed patient enrollment in the EVOLVE II clinical trial, which is designed to further assess the safety and effectiveness of the SYNERGY Stent System and support U.S. Food and Drug Administration and Japanese regulatory approvals for this technology.
Our worldwide net sales of Interventional Cardiology products were $1.997 billion for the year ended December 31, 2013, or approximately 28 percent of our consolidated net sales for the year ended December 31, 2013. Our worldwide net sales of Interventional Cardiology products decreased $182 million, or eight percent, in 2013, as compared to 2012. Excluding the impact of changes in foreign currency exchange rates, which had a $58 million negative impact on our Interventional Cardiology net sales in 2013, as compared to 2012, net sales of these products decreased $124 million, or six percent. This decrease was primarily due to lower coronary stent system sales, partially offset by higher sales of our non-stent Interventional Cardiology products.
Our coronary stent system sales represent a significant portion of our Interventional Cardiology net sales. The following are the components of our worldwide coronary stent system sales:

	Year Ended			Year Ended		
(in millions)	December 31, 2013			December 31, 2012		
	U.S.	International	Total	U.S.	International	Total
Drug-eluting	$448	$665	$1,113	$557	$720	$1,277
Bare-metal	19	45	64	24	62	86
	$467	$710	$1,177	$581	$782	$1,363

Worldwide net sales of our coronary stent systems, with the inclusion of bare-metal stent systems, were $1.177 billion or approximately 16 percent of our consolidated net sales in 2013. Our worldwide net sales of these products decreased $186 million, or 14 percent, in 2013, as compared to 2012. Our U.S. net sales of drug-eluting stent systems decreased $109 million, or 20 percent, in 2013, as compared to 2012. This decrease was primarily related to lower market share due to competitive launches in 2012, continued average selling price declines in the U.S. DES market as a result of continued competitive pressures and declines in procedural volumes. Our international drug-eluting stent system net sales decreased $55 million, or eight percent, in 2013, as compared to the previous year, due to continued lower market share related to competitive launches.
Historically, the worldwide coronary stent market has been dynamic and highly competitive with significant market share volatility. We believe that we will continue to maintain a strong position within the worldwide coronary stent market for a variety of reasons, including:

- the performance benefits of our current and future technology;
- the strength of our pipeline of drug-eluting stent products, which has shown favorable results in clinical trials to date;
- the breadth and depth of our interventional cardiology product portfolio;

- the broad and consistent long-term results of our clinical trials;
- our overall position in the interventional medical device market and our experienced interventional cardiology sales force;
- the strength of our clinical, selling, marketing and manufacturing capabilities; and
- our increased presence and investment in rapidly growing emerging markets.

However, a decline in net sales from our drug-eluting stent systems could have a significant adverse impact on our operating results. Significant variables that may impact the size of the drug-eluting stent market and our position within this market include, but are not limited to:

- the impact of competitive pricing pressure on average selling prices of drug-eluting stent systems available in the market;
- the impact and outcomes of on-going and future clinical trials involving our or our competitors' products, including those trials sponsored by our competitors or other third parties, or perceived product performance of our or our competitors' products;
- new product launches by our competitors;
- our ability to timely and successfully launch new or next-generation products and technologies, in line with our commercialization strategies;
- physician and patient confidence in our current and next-generation technology;
- changes in the overall number of percutaneous coronary intervention procedures performed, drug-eluting stent penetration rates and the average number of stents used per procedure;
- delayed or limited regulatory approvals and unfavorable reimbursement policies; and
- the outcome of intellectual property litigation.

In January 2011, we completed the acquisition of Sadra Medical, Inc. Through our acquisition of Sadra, we have developed a fully repositionable and retrievable device for transcatheter aortic valve replacement to treat patients with severe aortic stenosis. The Lotus™ Valve System consists of a stent-mounted tissue valve prosthesis and catheter delivery system for guidance and placement of the valve. The low-profile delivery system and introducer sheath are designed to enable accurate positioning, repositioning and retrieval at any time prior to release of the aortic valve implant. In April 2013, we completed enrollment in the REPRISE II clinical trial to evaluate the safety and performance of the Lotus™ Valve System. In October 2013, we received CE Mark approval and launched the Lotus ™ Valve System in Europe.

In 2013 and 2012, we recorded intangible asset impairment charges related to the Sadra in-process research and development intangible assets. Refer to Results of Operations for further details.

In March 2011, we completed the acquisition of Atritech, Inc. Atritech developed a novel device designed to close the left atrial appendage in patients with atrial fibrillation who are at risk for ischemic stroke. The WATCHMAN® Left Atrial Appendage Closure Technology is the first device proven in a randomized clinical trial to offer an alternative to anticoagulant drugs, and is marketed in CE Mark countries. In the U.S., we completed the PREVAIL trial to evaluate the safety and efficacy of the WATCHMAN® device in patients with nonvalvular atrial fibrillation versus long-term warfarin therapy. In the first half of 2013, we submitted the results of the US IDE trial, PREVAIL, to the FDA. The FDA Circulatory System Device Panel met in December of 2013 and voted favorably by a majority, Yes: 13, No:1, that there is reasonable assurance the device is safe, there is reasonable assurance of efficacy, and the benefits of the WATCHMAN® LAA Closure Device outweigh the risks. We expect FDA approval of the device in the first half of 2014. We are leveraging expertise from both our Electrophysiology and Interventional Cardiology businesses in the commercialization of the WATCHMAN® LAA Closure Device.

Peripheral Interventions

Our PI product offerings include stents, balloon catheters, wires, peripheral embolization devices and other devices used to diagnose and treat peripheral vascular disease. Our worldwide net sales of these products were $789 million in 2013, as compared to $774 million in 2012, an increase of $15 million, or two percent. Excluding the $28 million of negative impact from changes in foreign currency exchange rates, our worldwide PI net sales increased $43 million, or

six percent, in 2013 as compared to 2012. The year-over-year increase in worldwide PI net sales was primarily driven by growth in our core PI franchise as a result of new product launches in stents and balloons, as well as the launch of the Vessix renal denervation system in Europe.

During the fourth quarter of 2012, we completed the acquisition of Vessix, a developer of catheter-based renal denervation systems for the treatment of uncontrolled hypertension. Through the acquisition of Vessix, we added a second generation, highly differentiated technology to our hypertension strategy and launched this technology in Europe in May 2013. We plan to carefully examine the forthcoming available data from a competitor's recently completed U.S. pivotal trial in renal denervation for treatment-resistant hypertension, with respect to which the competitor announced in January 2014 that it failed to meet its primary efficacy endpoint. We plan to work collaboratively with the scientific community to determine the next steps for the design of our Vessix clinical program.

Rhythm Management

Cardiac Rhythm Management

Our CRM division develops, manufactures and markets a variety of implantable devices including implantable cardioverter defibrillator systems and pacemaker systems that monitor the heart and deliver electricity to treat cardiac abnormalities. Worldwide net sales of our CRM products of $1.886 billion represented approximately 27 percent of our consolidated net sales for 2013. Our worldwide CRM net sales decreased $22 million, or one percent, in 2013, as compared to the prior year. Excluding the impact of changes in foreign currency exchange rates our 2013 worldwide CRM net sales decreased $8 million, or less than one percent, as compared to 2012. Our U.S. CRM net sales increased $3 million, or less than one percent, in 2013 as compared to 2012. Our international CRM net sales decreased $25 million, or three percent, in 2013, as compared to 2012, and included a $14 million negative impact from changes in foreign currency exchange rates.

The following are the components of our worldwide CRM net sales:

(in millions)	Year Ended December 31, 2013			Year Ended December 31, 2012		
	U.S.	International	Total	U.S.	International	Total
ICD systems	$850	$505	$1,355	$858	$521	$1,379
Pacemaker systems	267	264	531	256	273	529
CRM products	$1,117	$769	$1,886	$1,114	$794	$1,908

The reduction in our worldwide CRM net sales during 2013 as compared to 2012 was principally the result of a decrease in net sales of our defibrillator systems due to the impact of average selling price pressures driven by governmental, competitive and other pricing pressures partially offset by slight increases in unit volumes. Our pacemaker system net sales increased less than one percent during 2013 as compared to 2012 due to the continued strong performance of our INGENIO family of pacemaker systems.

During the second quarter of 2012, we completed the acquisition of Cameron Health, Inc. Cameron developed the world's first and only commercially available subcutaneous implantable cardioverter defibrillator, the S-ICD® System, which we believe is a differentiated technology that will provide us the opportunity to both increase our market share in the existing ICD market and expand that market over time. The S-ICD® system has received CE Mark and FDA approval. We became supply constrained in early March 2013 and were only able to provide a very limited supply of S-ICD systems during the second and third quarters of 2013. We continued to make progress in our efforts to enhance the S-ICD supply chain; and in the fourth quarter of 2013 we were able to resume our launch of our S-ICD system.

Net sales from our CRM products represent a significant source of our overall net sales. Therefore, increases or decreases in our CRM net sales could have a significant impact on the results of our consolidated operations. Variables that may impact the size of the CRM market and/or our share of that market include, but are not limited to:

- our ability to timely and successfully acquire or develop and launch new or next-generation competitive products and technologies worldwide, in line with our commercialization strategies, including the S-ICD® system;

- new product launches by our competitors;
- the on-going impact of physician alignment to hospitals, government investigations and audits of hospitals, and other market and economic conditions on the overall number of procedures performed and average selling prices;
- our ability to retain and attract key members of our CRM sales force and other key CRM personnel;

- the ability of CRM manufacturers to maintain the trust and confidence of the implanting physician community, the referring physician community and prospective patients in CRM technologies;
- future product field actions or new physician advisories issued by us or our competitors;
- variations in clinical results, reliability or product performance of our and our competitors' products; and
- delayed or limited regulatory approvals and unfavorable reimbursement policies.

During 2013, 2012 and 2011, we have recorded goodwill impairment charges related to our CRM business unit. Refer to Results of Operations for further discussion of these charges.

Electrophysiology

Our Electrophysiology business develops less-invasive medical technologies used in the diagnosis and treatment of rate and rhythm disorders of the heart. Our leading products include the Blazer™ line of ablation catheters, designed to deliver enhanced performance and responsiveness. Our Blazer™ line includes our next generation Blazer™ Prime ablation catheter, and our Blazer™ Open-Irrigated Catheter, launched in select European countries. Worldwide net sales of our Electrophysiology products were $155 million in 2013, as compared to $147 million in 2012, an increase of approximately $8 million, or five percent. Excluding the $2 million negative impact from changes in foreign currency exchange rates, our worldwide Electrophysiology net sales increased $10 million, or seven percent, in 2013, as compared to 2012. The increase in worldwide Electrophysiology net sales was due to the acquisition of the electrophysiology business of C.R. Bard Inc. which produced $15 million of sales during the fourth quarter of 2013.

During the fourth quarter of 2012, we completed the acquisition of Rhythmia Medical, Inc., a developer of next-generation mapping and navigation solutions for use in cardiac catheter ablations and other electrophysiology procedures, including atrial fibrillation and atrial flutter. We received CE Mark approval for the Rhythmia technology during the second quarter of 2013 and received FDA approval during July 2013, and expect to launch the product in 2014.

On November 1, 2013, we completed the acquisition of the electrophysiology business of C.R. Bard Inc. (Bard EP). We believe that this transaction brings a strong commercial team and complementary portfolio of ablation catheters, diagnostic tools, and electrophysiology recording systems, and will allow us to better serve the global Electrophysiology market through a more comprehensive portfolio offering and sales infrastructure.

We believe that the Rhythmia and Bard EP acquisitions, as well as our other expected product launches, will help to position us to participate more competitively in the fast-growing Electrophysiology market.

MedSurg

Endoscopy

Our Endoscopy division develops and manufactures devices to treat a variety of medical conditions including diseases of the digestive and pulmonary systems. Our worldwide net sales of these products were $1.300 billion in 2013, as compared to $1.252 billion in 2012, an increase of $48 million, or four percent. Excluding the $41 million negative impact from changes in foreign currency exchange rates, our worldwide Endoscopy net sales increased $89 million, or seven percent, in 2013, as compared to 2012. This performance was primarily the result of growth across several of our key product franchises, including our hemostasis franchise on the continued adoption and utilization of our Resolution Clip for gastrointestinal bleeding; our biliary device franchise driven by our endoscopic ultrasound platform and recent launches within our biliary access and retrieval product lines; our metal stent franchise driven by our WallFlex® product family; and improved adoption of the Alair® Bronchial Thermoplasty system.

In 2010, we completed our acquisition of Asthmatx, Inc., which added to our Endoscopy portfolio a less-invasive, catheter-based bronchial thermoplasty procedure for the treatment of severe persistent asthma. The Alair® Bronchial Thermoplasty System, developed by Asthmatx, has CE Mark, China Food and Drug Administration and U.S. FDA approval and is the first device-based asthma treatment approved by the FDA. Beginning January 1, 2013, the America Medical Association Current Procedural Terminology editorial panel assigned category I CPT codes specifically for bronchial thermoplasty. The Category I CPT procedure codes are recognized by all public and private

health insurance payers in the United States, which will allow physicians and hospitals to seek reimbursement for bronchial thermoplasty procedures. In addition, during the third quarter of 2013, the five-year data from the AIR2 clinical trial were published in the Journal of Allergy and Clinical Immunology, which showed that the Alair System provided long-term asthma control, demonstrated by a sustained reduction in the rate of severe exacerbations and emergency room visits over a five year period after treatment. We expect that the Alair technology will continue to strengthen our existing offering of pulmonary devices and contribute to future sales growth and diversification of the Endoscopy business.

Urology and Women’s Health

Our Urology and Women’s Health division develops and manufactures devices to treat various urological and gynecological disorders. Our worldwide net sales of these products were $505 million in 2013, as compared to $500 million in 2012, an increase of approximately $5 million, or one percent. Excluding the $12 million negative impact from changes in foreign currency exchange rates, our worldwide Urology and Women's Health net sales increased $17 million, or three percent, in 2013, as compared to 2012. The increase in worldwide Urology and Women's Health net sales was primarily due to new product launches and growth in the international business as a result of our global commercial expansion.

Neuromodulation

Our Neuromodulation business offers the Precision® and Precision Spectra™ Spinal Cord Stimulator systems, used for the management of chronic pain. Our worldwide net sales of Neuromodulation products were $453 million in 2013, as compared to $367 million in 2012, an increase of $86 million, or 23 percent. Excluding the negative impact of changes in foreign currency exchange rates of $1 million, our Neuromodulation worldwide net sales in 2013 grew 24 percent as compared to the prior year. The increase was primarily a result of strong sales of our Precision Spectra System. We received CE Mark approval for the Precision Spectra System during the fourth quarter of 2012 and we commenced our U.S. commercial launch of the device during the first quarter of 2013 following FDA approval. The Precision Spectra System is the world's first and only SCS system with 32 contacts and 32 dedicated power sources and is designed to provide improved pain relief to a wide range of patients who suffer from chronic pain.

During the third quarter of 2012, we received CE Mark approval for use of our Vercise™ Deep Brain Stimulation System for the treatment of Parkinson's disease in Europe, and we began our U.S. pivotal trial for the treatment of Parkinson's disease during the second quarter of 2013. During the fourth quarter of 2013, we received CE Mark approval for use of our Vercise™ DBS System for the treatment of intractable primary and secondary dystonia. We believe we have an exciting opportunity in DBS with the Vercise™ DBS System which is designed to selectively stimulate targeted areas of the brain to customize therapy for patients and minimize side effects of unwanted stimulation.

Emerging Markets

As part of our strategic imperatives to drive global expansion, described in Item 1 of this Annual Report, we are seeking to grow net sales and market share by expanding our global presence, including in Emerging Markets. We define Emerging Markets as including certain developing countries that we believe have strong growth potential based on their economic conditions, healthcare sectors, and our global capabilities, which currently include 20 countries. We are seeking to expand our presence and strengthen relationships in order to grow net sales and market share within our Emerging Markets, and we have increased our investment in infrastructure in these countries in order to maximize opportunities. Our Emerging Markets revenue was approximately eight percent of our consolidated net sales in 2013.

Restructuring Initiatives

On an on-going basis, we monitor the dynamics of the economy, the healthcare industry, and the markets in which we compete; and we assess opportunities for improved operational effectiveness and efficiency and to better align expenses with revenues, while preserving our ability to make the investments in research and development projects, capital and our people that we believe are important 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, and additional information can be found in Results of Operations and Note H – Restructuring-related Activities to our 2013 consolidated financial statements included in Item 8 of this Annual Report.

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 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.

We estimate that the 2014 Restructuring plan will reduce gross annual pre-tax operating expenses by approximately $150 million to $200 million exiting 2015, and we expect a substantial portion of the savings to be reinvested in strategic growth initiatives. We estimate that the implementation of the 2014 Restructuring plan will result in total pre-tax charges of approximately $175 million to $225 million, of which approximately $160 million to $210 million is expected to result in future cash outlays. Refer to Results of Operations for further details on our restructuring charges.

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, thereby increasing shareholder value. 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 divisions at several locations in emerging markets. This action was intended to enable us to grow our global commercial presence in key geographies and take advantage of many cost-reducing and productivity-enhancing opportunities. In addition, we undertook efforts to streamline various corporate functions, eliminate bureaucracy, increase productivity and better align corporate resources to our key business strategies.

On January 25, 2013, our Board of Directors approved, and we committed to, an expansion of our 2011 Restructuring plan. The Expansion was intended to further strengthen our operational effectiveness and efficiencies and support new investments. Key activities under the Expansion included further initiatives to: standardize and automate certain processes and activities; relocate select administrative and functional activities; rationalize organizational reporting structures; expand shared services; and align expenses to revenues within certain divisions and geographic regions. In addition, they included further efforts to streamline various corporate functions, eliminate bureaucracy, increase productivity and better align corporate resources to our key business strategies.

The total 2011 Restructuring plan, including the Expansion (the Total Program), reduced gross annual pre-tax operating expenses by approximately $360 million exiting 2013. A substantial portion of the Total Program savings were reinvested in targeted areas for future growth, including strategic growth initiatives and emerging markets. Key activities under the Total Program were substantially completed by the end of 2013. Refer to Results of Operations for further details on our restructuring charges.

Neurovascular Divestiture

In January 2011, we closed the sale of our Neurovascular business to Stryker Corporation for a purchase price of $1.5 billion in cash. We received $1.450 billion during 2011, $10 million during 2012, $30 million during 2013 and received the final $10 million in January 2014. After the sale of our Neurovascular business to Stryker, we provided transitional services through a transition services agreement, and also manufactured and supplied products to Stryker through a supply agreement. These transition services and supply agreements substantially ended during 2013. We recorded Neurovascular revenue of $58 million during 2013, $122 million during 2012 and $141 million during 2011. Our sales related to our divested Neurovascular business have declined as the various transition services and supply agreements have terminated. We do not expect revenue from our divested Neurovascular business to be significant in 2014. Divestiture-related gains or charges are excluded by management for purposes of evaluating operating performance. See Results of Operations and Note C - Divestitures for additional information.

Healthcare Reform

The Patient Protection and Affordable Care Act and Health Care and Education Affordability Reconciliation Act were enacted into law in the U.S. in 2010. Certain provisions of the law have yet to be implemented and there are many programs and requirements for which the details have not yet been fully established or consequences not yet fully understood; therefore, it is unclear what the full impact will be from the law. The legislation imposes on medical

device manufacturers a 2.3 percent excise tax on U.S. sales of Class I, II and III medical devices beginning in January 2013. In 2013, we recorded $73 million within our selling, general and administrative expenses. Other provisions of this law, including Medicare provisions aimed at improving quality and decreasing costs, comparative effectiveness research, an independent payment advisory board, and pilot programs to evaluate alternative payment methodologies, could meaningfully change the way healthcare is developed and delivered, and will place a significant emphasis on clinical and economic data to demonstrate efficacy and justify the economic benefits of technology purchases.

Any changes in government policies that lower reimbursement for our products or reduce medical procedure volumes in countries in which we conduct business could adversely affect our business and results of operations. We cannot predict the specific healthcare programs and regulations that will be ultimately implemented by regional and national governments globally.

We expect that pricing of medical devices will remain under pressure as alternative payment reform such as prospective payment systems for hospital care, value-based purchasing, and accountable care organizations (ACOs) continue to take shape globally. Some governments also seek to limit the growth of healthcare costs through price regulation. Implementation of cost containment initiatives and healthcare reforms in significant markets such as the U.S., Japan and Europe and other markets may limit the price of, or the level at which reimbursement is provided for our products, which in turn may influence a hospital’s or physician's selection of products used to treat patients. In Japan, the government reviews reimbursement rate benchmarks every two years, which may significantly reduce reimbursement for procedures using our medical devices or deny coverage for those procedures.

Results of Operations

Net Sales

Effective as of January 1, 2013, we reorganized our business from geographic regions to fully operationalized global business units. We have three new global reportable segments comprised of Cardiovascular, Rhythm Management, and MedSurg. We have restated the 2012 and 2011 information to conform to our new segment presentation.

We manage our global businesses on a constant currency basis, and we manage market risk from currency exchange rate changes at the corporate level. Management excludes the impact of changes in foreign currency exchange rates for purposes of reviewing revenue growth rates to facilitate an evaluation of current operating performance and comparison to past operating performance. To calculate revenue growth rates that exclude the impact of changes in foreign currency exchange rates, we convert current period and prior period net sales from local currency to U.S. dollars using standard internal currency exchange rates held constant for each year.

The following table provides our worldwide net sales by global business and the relative change on an as reported and constant currency basis. Net sales that exclude the impact of changes in foreign currency exchange rates and net sales from divested businesses are not financial measures prepared in accordance with U.S. GAAP and should not be considered in isolation from, or as a replacement for, the most directly comparable GAAP financial measure. Refer to Additional Information of this Item 7 for a further discussion of management’s use of this non-GAAP financial measure.

				2013 versus 2012		2012 versus 2011	
	Year Ended December 31,			As Reported Currency Basis	Constant Currency Basis	As Reported Currency Basis	Constant Currency Basis
(in millions)	2013	2012	2011				
Interventional Cardiology	$1,997	$2,179	$2,495	(8)%	(6)%	(13)%	(11)%
Peripheral Interventions	789	774	731	2 %	6 %	6 %	8 %
Cardiovascular	2,786	2,953	3,226	(6)%	(3)%	(8)%	(7)%
Cardiac Rhythm Management	1,886	1,908	2,087	(1)%	— %	(9)%	(7)%
Electrophysiology	155	147	147	5 %	7 %	— %	1 %
Rhythm Management	2,041	2,055	2,234	(1)%	— %	(8)%	(6)%
Endoscopy	1,300	1,252	1,187	4 %	7 %	5 %	7 %
Urology and Women’s Health	505	500	498	1 %	3 %	— %	1 %
Neuromodulation	453	367	336	23 %	24 %	9 %	9 %
MedSurg	2,258	2,119	2,021	7 %	9 %	5 %	6 %
Subtotal Core Businesses	7,085	7,127	7,481	(1)%	2 %	(5)%	(3)%
Divested Businesses	58	122	141	N/A	N/A	N/A	N/A
Worldwide	$7,143	$7,249	$7,622	(1)%	1 %	(5)%	(3)%

The constant currency growth rates in the table above can be recalculated from our net sales by reportable segment as presented in Note O - Segment Reporting to our 2013 consolidated financial statements contained in Item 8 of this Annual Report. Growth rates are based on actual, non-rounded amounts and may not recalculate precisely. Refer to

Executive Summary for further discussion of our net sales and a comparison of our 2013 and 2012 net sales.

Explanation of Responses: 57

In 2012, we generated net sales of $7.249 billion, as compared to $7.622 billion in 2011, a decrease of $373 million, or five percent. Our net sales were unfavorably impacted by $123 million from foreign currency fluctuations in 2012 as compared to 2011 and sales related to our divested Neurovascular business declined $19 million in 2012. Excluding the impact of foreign currency and sales from divested businesses, our net sales decreased $232 million, or three percent, as compared to the prior year. This decrease was due primarily to constant currency declines in net sales from our Interventional Cardiology business of $266 million primarily as a result of lower market share due to competitive launches in 2012, average selling price declines in the DES market as a result of competitive pressures and declines in procedural volumes; and declines in our CRM net sales of $145 million due to lower procedural volumes as a result of a contraction in the ICD market, lower average selling prices, and lower volumes. These decreases were partially offset by constant currency increases in net sales during 2012 from our Endoscopy business of $84 million, from our Peripheral Interventions business of $56 million, and net sales from our Neuromodulation business of $32 million, as compared to 2011.

Gross Profit

Our gross profit was $4.969 billion in 2013, $4.900 billion in 2012, and $4.963 billion in 2011. As a percentage of net sales, our gross profit increased to 69.6 percent in 2013, as compared to 67.6 percent in 2012 and 65.1 percent in 2011. The following is a reconciliation of our gross profit margins and a description of the drivers of the change from period to period:

	Year Ended December 31,	
	2013	2012
Gross profit - prior year	67.6 %	65.1 %
Neurovascular divestiture	0.5 %	— %
Manufacturing cost reductions	1.9 %	1.4 %
Transition-related inventory charges	(0.1)%	0.7 %
All other, including other inventory charges, other period expense and net impact of foreign currency	0.6 %	0.7 %
Sales mix and pricing	(0.9)%	(0.3)%
Gross profit - current year	69.6 %	67.6 %

The increase in our gross profit margin for 2013, as compared to 2012, is primarily the result of cost reductions from our restructuring and process improvement programs. Our gross profit margin was also positively impacted by lower sales related to our divested businesses, as these sales are at significantly lower gross profit margins. In addition, during the second quarter of 2013, we recorded a $16 million credit to cost of products sold related to the final retroactive pricing adjustment pursuant to our PROMUS® supply arrangement with Abbott for historical purchases of PROMUS® stent systems. This credit is included in the "all other" caption in the table above. Partially offsetting these factors was the negative impact of pricing and sales mix related primarily to sales of our drug-eluting stent and CRM products.

The main factor contributing to the increase in our gross profit margin during 2012, as compared to 2011, was the result of cost reductions from our restructuring and process improvement programs. Our gross margin was negatively impacted by declines in average selling prices related primarily to sales of our drug-eluting stent and CRM products; however, these declines were largely offset by the full conversion to our internally-developed and self-manufactured next-generation PROMUS® Element™ stent system during 2012. Our PROMUS® Element™ stent system has significantly higher gross margins than the prior generation PROMUS® stent system, which was supplied to us by Abbott Laboratories. Additionally, affecting our 2012 to 2011 comparison of gross margin was the impact of a one-time $50 million credit to cost of products sold, related to a two-year retroactive pricing adjustment pursuant to our PROMUS® supply arrangement with Abbott and product transition-related inventory charges of $54 million recorded in 2011.

Operating Expenses

The following table provides a summary of certain of our operating expenses:

	Year Ended December 31,					
	2013		2012		2011	
(in millions)	$	% of Net Sales	$	% of Net Sales	$	% of Net Sales
Selling, general and administrative expenses	2,674	37.4	2,535	35.0	2,487	32.6
Research and development expenses	861	12.0	886	12.2	895	11.7
Royalty expense	140	2.0	153	2.1	172	2.3

Selling, General and Administrative (SG&A) Expenses

In 2013, our SG&A expenses increased $139 million, or five percent, as compared to 2012, and were 240 basis points higher as a percentage of net sales. This increase was driven primarily by our increased investment related to acquisitions, strategic growth initiatives, and our expansion efforts in emerging markets, as well as $73 million of expense associated with the new excise tax on U.S. sales of Class I, II and III medical devices that went into effect January 1, 2013. Partially offsetting these increases were declines in spending as a result of our restructuring and other cost reduction initiatives and the impact of changes in foreign currency exchange rates.

In 2012, our SG&A expenses increased $48 million, or two percent, as compared to 2011, and were 240 basis points higher as a percentage of net sales. This increase was driven primarily by continued investments in acquisitions and in commercial resources and infrastructure for global expansion, particularly in emerging markets, and a non-recurring asset impairment charge as a result of a program termination. Also contributing to the year-over-year increase was a benefit recorded in 2011 as a result of a reversal of previously established allowances for doubtful accounts against long-outstanding receivables in Greece. These increases in SG&A were partially offset by declines in spending as a result of our restructuring and other cost reduction initiatives and the impact of changes in foreign currency exchange rates.

Research and Development (R&D) Expenses

In 2013, our R&D expenses decreased $25 million, or approximately three percent, as compared to 2012, and were 20 basis points lower as a percentage of net sales. The decrease was due primarily to our continued focus on cost reduction initiatives associated with our restructuring programs and the benefits from our strategy to transform our research and development efforts to be more effective and cost efficient. Partially offsetting the decrease was R&D funding for our acquisitions. We remain committed to advancing medical technologies and investing in meaningful research and development projects across our businesses in order to maintain a healthy pipeline of new products that we believe will contribute to profitable sales growth.

In 2012, our R&D expenses decreased $9 million, or approximately one percent, as compared to 2011, and were 50 basis points higher as a percentage of net sales. The slight decrease in overall spending in 2012 was due to cost reduction initiatives associated with our restructuring programs, partially offset by increased R&D funding for our acquisitions.

Royalty Expense

In 2013, our royalty expense decreased $13 million, or nine percent, as compared to 2012, and was ten basis points lower as a percentage of net sales. The decrease relates primarily to lower sales of our royalty-bearing products within our Interventional Cardiology business.

In 2012, our royalty expense decreased $19 million, or 11 percent, as compared to 2011, and was 20 basis points lower as a percentage of net sales. The decrease relates primarily to lower sales of our royalty-bearing products within our Interventional Cardiology business.

Amortization Expense

Our amortization expense was $410 million in 2013, as compared to $395 million in 2012, an increase of $15 million or four percent. This increase was due primarily to certain intangible assets associated with our acquisitions of Bridgepoint, Rhythmia, and Vessix, which all took place in the fourth quarter of 2012 and electrophysiology business or C.R. Bard, Inc., which we acquired in the fourth quarter of 2013.

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Explanation of Responses: 61

Amortization expense was $395 million in 2012, as compared to $421 million in 2011, a decrease of $26 million or six percent. This decrease was due primarily to certain intangible assets associated with our acquisition of Guidant Corporation in 2006 reaching the end of their useful lives during the second quarter of 2011.
Amortization expense is excluded by management for purposes of evaluating operating performance and assessing liquidity.
Goodwill Impairment Charges
Effective as of January 1, 2013, we reorganized our business from geographic regions to fully operationalized global business units. Our reorganization changed our reporting structure and changed the composition of our reporting units for goodwill impairment testing purposes. We identified the following new global reporting units effective as of January 1, 2013: Interventional Cardiology, Peripheral Interventions, Cardiac Rhythm Management, Electrophysiology, Endoscopy, Urology and Women's Health, and Neuromodulation. Refer to Critical Accounting Estimates for further discussion of the reorganization and the resulting global reporting units. The discussion below for 2013 relates to our global business reporting units and for 2012 and prior periods, relates to our former regional reporting units. For our 2012 and prior impairment assessments, we identified (i) six reporting units within the U.S., which included our CRM, Neuromodulation, Endoscopy, Urology and Women's Health, Electrophysiology, and Cardiovascular (consisting of Interventional Cardiology and Peripheral Interventions) franchises, which in aggregate made up the U.S. reportable segment and (ii) four international reporting units, including EMEA (consisting of Europe, Middle East and Africa), Japan, Asia Pacific and the Americas.
2013 Charge
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 impairment may exist. Following our reorganization from regions to global business units and our reallocation of goodwill on a relative fair value basis, we conducted the first step of the goodwill impairment test for all new global reporting units as of January 1, 2013. The first step requires a comparison of the carrying value of the reporting units to the fair value of these units. The fair value of each new global reporting unit exceeded its carrying value, with the exception of the global CRM reporting unit. The global CRM reporting unit carrying value exceeded its fair value primarily due to the carrying value of its amortizable intangible assets. The carrying value of amortizable intangible assets allocated to the global CRM reporting unit was $4.636 billion as of January 1, 2013. In accordance with ASC Topic 350, Intangibles—Goodwill and Other (Topic 350), we tested the global CRM amortizable intangible assets for impairment in conjunction with the interim goodwill impairment test of our global CRM reporting unit. We performed the impairment analysis of the amortizable intangible assets on an undiscounted cash flow basis, and concluded that these assets were not impaired.
The second step of the goodwill impairment test compares the estimated fair value of a reporting unit’s goodwill to its carrying value. We performed the second step of the goodwill impairment test on the global CRM reporting unit and recorded a non-cash goodwill impairment charge of $423 million ($421 million after-tax) to write-down the goodwill to its implied fair value as of January 1, 2013. The primary driver of this impairment charge was our reorganization from geographic regions to global business units as of January 1, 2013, which changed the composition of our reporting units. As a result of the reorganization, any goodwill allocated to the global CRM reporting unit was no longer supported by the cash flows of other businesses. Under our former reporting unit structure, the goodwill allocated to our regional reporting units was supported by the cash flows from all businesses in each international region. The hypothetical tax structure of the global CRM business and the global CRM business discount rate applied were also contributing factors to the goodwill impairment charge. We finalized the second step of the global CRM goodwill impairment test during the second quarter of 2013 and determined that no adjustments to the charge were required. After recording the impairment charge in the first quarter of 2013, there was no remaining goodwill allocated to the global CRM reporting unit.

The goodwill impairment charge taken during the first quarter of 2013 was determined on a global CRM basis pursuant to our new organizational structure. We used the income approach, specifically the discounted cash flow (DCF) method, to derive the fair value of the global CRM reporting unit. We completed a DCF model associated with our new global CRM business, including the amount and timing of future expected cash flows, tax attributes, the terminal value growth rate of approximately two percent and the appropriate market-participant risk-adjusted

weighted average cost of capital (WACC) of approximately 12 percent.

In the second quarter of 2013, 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 except CRM, for which no goodwill remains. Therefore, it was deemed not necessary to proceed to the second step of the impairment test. We have identified our global Neuromodulation 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 Neuromodulation reporting unit holds $1.356 billion of allocated goodwill. The level of excess fair value over carrying value for this reporting unit identified during our annual goodwill impairment test was approximately 16 percent. Future 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 including global CRM. Further, the recoverability of our CRM-related amortizable intangibles ($4.374 billion globally as of December 31, 2013) is sensitive to future cash flow assumptions and our global CRM business performance. The $4.374 billion of CRM-related amortizable intangibles are at higher risk of potential failure of the first step of the amortizable intangible recoverability test in future reporting periods. An impairment of a material portion of our CRM-related amortizable intangibles carrying value would occur if the second step of the amortizable intangible test is required in a future reporting period. Refer to Critical Accounting Policies and Estimates of this Item 7 for further discussion of our CRM-related intangible assets.

2012 Charges

During the second quarter of 2012, we performed our annual goodwill impairment test for all of our reporting units and concluded that the goodwill within our former EMEA reporting unit was impaired and recorded a charge of $3.602 billion ($3.579 billion after-tax). As a result of revised estimates developed during our annual strategic planning process and analysis performed in conjunction with our annual goodwill impairment test, we concluded that the revenue growth rates projected for the EMEA reporting unit were slightly lower than our previous estimates primarily driven by macro-economic factors and our performance in the European market. We updated short-term operating projections based on our most recent strategic plan for EMEA prepared by management. We reduced the EMEA long-term growth rates and terminal value growth rate projections and increased the discount rate within our 15-year DCF model for EMEA by approximately 100 basis points due to increased risk associated with our projections in this market primarily as a result of economic uncertainty in Europe. In addition, our expectations for future growth and profitability were lowered as compared to our previous estimates and reflected declines in average selling prices and volume pressures due to austerity measures.

In the third quarter of 2012, we performed an interim goodwill impairment test and recorded a non-cash $748 million (pre- and after-tax) charge associated with our former U.S. CRM reporting unit, primarily driven by a reduction in the estimated size of the U.S. CRM market, related adjustments to our business and other competitive factors, which led to lower projected U.S. CRM results compared to prior forecasts. The U.S. CRM market is dynamic, highly competitive and difficult to forecast; in the third quarter of 2012, we lowered our projections for the U.S. CRM market size and our future revenue levels within this market, primarily to reflect changes in expectations of average selling prices and unit growth, adjustments to our business and other competitive factors. The increased pricing pressure and lower unit volumes were primarily due to physician alignment with hospitals, efforts to reduce health care costs, focus on appropriate device usage, replacement volumes and competition, and were more impactful to the U.S. CRM business than previously estimated. In addition, we adjusted certain elements of our business and shifted investments to focus on areas expected to provide the highest future growth and financial return. As a result of these factors, we reduced the compound annual revenue growth rate of our 15 year DCF model for the U.S. CRM reporting unit by approximately 250 basis points.

2011 Charge

Based on market information that became available to us toward the end of the first quarter of 2011, we concluded that there was a reduction in the estimated size of the U.S. ICD market, which led to lower projected U.S. CRM results compared to prior forecasts and created an indication of potential impairment of the goodwill balance attributable to our former U.S. CRM business unit. Therefore, we performed an interim impairment test in accordance with U.S. GAAP and our accounting policies and recorded a non-deductible goodwill impairment charge of $697 million, on both a pre-tax and after-tax basis, associated with this business unit during the first quarter of 2011.

Refer to Critical Accounting Policies and Estimates for a discussion of key assumptions used in our testing and future events that could have a negative impact on the recoverability of our goodwill and amortizable intangible assets. Goodwill impairment charges do not impact our debt covenants or our cash flows, and are excluded by management for purposes of evaluating operating performance and assessing liquidity.

Explanation of Responses: 65

Intangible Asset Impairment Charges

2013 Charges

During the third quarter of 2013, we performed our annual impairment test of all in-process research and development projects,
and our indefinite lived core technology assets, and recorded no impairments based on the results of our testing. These indefinite-lived intangible assets are tested for impairment on an annual basis, or more frequently if impairment indicators are present, in accordance with U.S. GAAP and our accounting policies described in Note A – Significant Accounting Policies to our 2013 consolidated financial statements contained in Item 8 of this Annual Report.

During the second quarter of 2013 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 associated with certain of our acquisitions. Based on the results of our impairment analyses, we revised our expectations of the market size related to Sadra, and the resulting timing and amount of future revenue and cash flows associated with the technology acquired from Sadra. As a result of these changes, we recorded pre-tax impairment charges of $51 million to write-down the balance of these intangible assets to their fair value during the second quarter of 2013. During the second quarter of 2013, we also recorded an additional $2 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.

2012 Charges

During the third quarter of 2012, we performed our annual impairment test of all in-process research and development projects, and our indefinite lived core technology assets. Based on the results of our annual test, we recorded total impairment charges of $13 million to write-down the balances of certain in-process projects to their fair value. These charges were primarily due to increased expectations in the cost to bring an in-process project to market in a certain geographic region and lower future revenue expectations associated with an in-process project.

During the second quarter of 2012, 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 associated with our acquisition of Sadra Medical, Inc. Based on our impairment analysis, we revised our expectations of the required effort, time and cost involved in completing the in-process projects and bringing the related products to market. As a result of these changes, we recorded an impairment charge of $129 million to write-down the balance of these intangible assets to their fair value during the second quarter of 2012.

2011 Charges

During the third quarter of 2011, we recorded a $9 million intangible asset impairment charge attributable to lower projected cash flows associated with certain technologies. During the second quarter of 2011, we recorded a $12 million intangible asset impairment charge associated with changes in the timing and amount of the expected cash flows related to certain in-process research and development projects.

Intangible asset impairment charges are non-cash charges that are excluded by management for purposes of evaluating operating performance and assessing liquidity.

Contingent Consideration Expense

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 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. Increases or decreases in the fair value of the 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.

We recorded a net expense related to the change in fair value of our contingent consideration liabilities of $4 million in 2013, a net benefit of $6 million in 2012 and a net expense of $7 million in 2011. Contingent consideration expense is excluded by management for purposes of evaluating performance. See Note B – Acquisitions to our 2013 consolidated financial statements contained in Item 8 of this Annual Report for further discussion of our contingent consideration associated with our acquisitions.

Restructuring-related Charges
2014 Restructuring Plan

As of December 31, 2013, we have recorded costs of $30 million under the 2014 Restructuring Plan, of which $29 million has been recorded as restructuring charges and the remaining portion has been recorded through other lines within our consolidated statement of operations. Refer to Business and Market Overview and Note H – Restructuring-related Activities to our 2013 consolidated financial statements included in Item 8 of this Annual Report for additional information on our restructuring initiatives.

2011 Restructuring Plan

As of December 31, 2013, we have recorded costs of $284 million since the inception of the 2011 Restructuring plan (as expanded), and are recording a portion of these expenses as restructuring charges and the remaining portion through other lines within our consolidated statements of operations. Refer to Business and Market Overview and Note H – Restructuring-related Activities to our 2013 consolidated financial statements included in Item 8 of this Annual Report for additional information on our restructuring initiatives.

2010 Restructuring Plan

On February 6, 2010, our Board of Directors approved, and we committed to, a series of management changes and restructuring initiatives (the 2010 Restructuring plan) designed to focus our business, drive innovation, accelerate profitable revenue growth and increase both accountability and shareholder value. Key activities under the 2010 Restructuring plan included the restructuring of certain of our businesses and corporate functions; the re-alignment of our international structure to reduce our administrative costs and invest in expansion opportunities including significant investments in emerging markets; and the re-prioritization and diversification of our product portfolio. Activities under the 2010 Restructuring plan were initiated in the first quarter of 2010 and were complete by the end of 2012, and resulted in gross reductions in pre-tax operating expenses of approximately $250 million. A portion of these savings were reinvested into customer-facing positions and other commercial resources and infrastructure.

The execution of the 2010 Restructuring plan resulted in total pre-tax charges of $160 million, and required cash outlays of $145 million. We have recorded a portion of these expenses as restructuring charges and the remaining portion through other lines within our consolidated statements of operations.

Plant Network Optimization Program

In January 2009, our Board of Directors approved, and we committed to, a plant network optimization initiative (the Plant Network Optimization program), intended to simplify our manufacturing plant structure by transferring certain production lines among facilities and by closing certain other facilities. The Plant Network Optimization program was intended to improve our overall gross profit margins. The Plant Network Optimization program has resulted in annualized run-rate reductions of manufacturing costs of approximately $65 million exiting 2012. Activities under the Plant Network Optimization program were initiated in the first quarter of 2009 and were substantially completed during 2012.

The execution of the Plant Network Optimization program resulted in total pre-tax charges of $126 million and required cash outlays of $103 million. We have recorded a portion of these expenses as restructuring charges and the remaining portion through cost of products sold within our consolidated statements of operations.

In aggregate, we recorded restructuring charges pursuant to our restructuring plans of $101 million during 2013, $136 million during 2012, and $89 million during 2011. In addition, we recorded expenses within other lines of our accompanying consolidated statements of operations related to our restructuring initiatives of $23 million during 2013, $24 million during 2012, and $40 million during 2011. Restructuring and restructuring-related costs are excluded by management for purposes of evaluating operating performance.

We made cash payments of $141 million in 2013, $149 million in 2012, and $114 million in 2011 associated with our restructuring initiatives.

See Note H - Restructuring Related Activities to our 2013 consolidated financial statements included in Item 8 of this Annual Report for additional details related to our restructuring plans.

Litigation-related Charges and Credits

During 2013, 2012 and 2011, we recorded net litigation-related charges in the amount of $221 million, $192 million and $48 million, respectively. These charges are excluded by management for purposes of evaluating operating performance. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could materially adversely impact our operating results, cash flows and/or our ability to comply with our debt covenants. See Note K - Commitments and Contingencies to our 2013 consolidated financial statements contained in Item 8 of this Annual Report for additional discussion of our litigation-related matters.

Gain on Divestiture

In January 2011, we closed the sale of our Neurovascular business to Stryker Corporation for a purchase price of $1.5 billion in cash. We received $1.450 billion during 2011, including an upfront payment of $1.426 billion, and $24 million which was placed into escrow and released throughout 2011 upon the completion of local closings in certain foreign jurisdictions. During 2012, we received an additional $10 million of consideration, which we recorded as a gain in our accompanying consolidated statements of operations. We received $30 million in 2013 and received the remaining $10 million of consideration in January 2014. Due to our continuing involvement in the operations of the Neurovascular business, the divestiture does not meet the criteria for presentation as a discontinued operation. We recorded a pre-tax gain of $778 million during 2011 associated with the transaction, a gain of $15 million during 2012 and a gain of $38 million during 2013. These divestiture-related gains are excluded by management for purposes of evaluating operating performance.

Interest Expense

Our interest expense increased to $324 million in 2013, as compared to $261 million in 2012. The increase was primarily due to $70 million of debt extinguishment charges, representing premiums, accelerated amortization of debt issuance costs and investor discount costs net of accelerated amortization of interest rate hedge gains related to early extinguishment of $1.450 billion of debt during the third quarter of 2013. Debt extinguishment charges are excluded by management for purposes of evaluating operating performance. Including the debt extinguishment charges, our average borrowing rate was 6.9 percent in 2013 and 5.5 percent in 2012. Refer to Liquidity and Capital Resources and Note F – Borrowings and Credit Arrangements to our 2013 consolidated financial statements contained in Item 8 of this Annual Report for information regarding our debt obligations.

Our interest expense decreased to $261 million in 2012, as compared to $281 million in 2011. The decrease in our interest expense was a result of lower average debt levels, due to repayment of $1.250 billion of debt during 2011, and the refinancing of our credit facility in April 2012 at lower average costs. Our average borrowing rate was 5.5 percent in 2012 and 5.4 percent in 2011.

Other, net

Our other, net reflected expense of $19 million in 2013, income of $22 million in 2012, and income of $19 million in 2011. The following are the components of other, net:

	Year Ended December 31,		
(in millions)	2013	2012	2011
Interest income	$6	$5	$7
Foreign currency losses	(11)	(18)	(12)
Net gains (losses) on investments	(9)	37	27
Other expense, net	(5)	(2)	(3)
	$(19)	$22	$19

During 2013, we recognized losses on investments of $9 million due to $7 million in investment impairments and $2 million for equity method adjustments on investments. During 2012, we recognized gains of $39 million associated with 2012 acquisitions in which we held prior equity interests, which were partially offset by net losses of $2 million related to our investment portfolio. During 2011, we recognized gains of $38 million associated with 2011 acquisitions in which we held prior equity interests, which were partially offset by net losses of $11 million on our investment portfolio. The acquisition-related gains from previously held investments are excluded by management for

purposes of evaluating operating performance.

Tax Rate

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

	Year Ended December 31,		
	2013	2012	2011
Reported tax rate	46.0%	(1.0)%	31.3%
Impact of certain receipts/charges*	(35.4)%	12.7%	(12.0)%
	10.6%	11.7%	19.3%

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

The change in our reported tax rate for 2013, as compared to 2012 and 2011, relates primarily to the impact of certain receipts and charges that are taxed at different rates than our effective tax rate. In 2013, these receipts and charges included goodwill and intangible asset impairment charges, acquisition- and divestiture-related net charges, litigation- and restructuring-related charges, and debt extinguishment charges. Our reported tax rate for 2013 was also affected by discrete tax items related primarily to the resolution of various uncertain tax positions resulting from the expiration of the statute of limitations for assessing tax in certain jurisdictions and benefit due to reinstatement of certain tax legislation that has been retroactively applied. In 2012, these receipts and charges included goodwill and intangible asset impairment charges, acquisition- and divestiture-related net credits, and litigation- and restructuring-related charges. Our reported tax rate for 2012 was also affected by discrete tax items related primarily to the resolution of an uncertain tax position resulting from an unfavorable court ruling. Excluding the impact of these receipts and charges in 2013 and 2012, the change in our reported tax rate for 2013, as compared to 2012, is primarily the result of shifts in the geographic mix of our business. In 2011, these receipts and charges included a gain on our divestiture of the Neurovascular business, a non-deductible goodwill impairment charge, other intangible asset impairment charges and restructuring-, litigation- and acquisition-related charges and credits. Our reported tax rate was also affected by discrete tax items, related primarily to a release of valuation allowances resulting from a change in our expected ability to realize certain deferred tax assets, changes in various state tax laws, the resolution of various uncertain tax positions resulting from closing agreements with the Internal Revenue Service (IRS), the resolution of various uncertain tax positions resulting from the expiration of the statute of limitations for assessing tax in certain jurisdictions, and the finalization of our 2010 U.S. Federal tax return.

We have received Notices of Deficiency from the IRS reflecting proposed audit adjustments for Guidant Corporation for its 2001 through 2006 tax years and Boston Scientific Corporation for its 2006 and 2007 tax years. Subsequent to issuing these Notices, the IRS conceded a portion of its original assessment. The total incremental tax liability now asserted by the IRS for the applicable periods is $1.162 billion plus interest. The primary issue in dispute for all years is the transfer pricing in connection with the technology license agreements between domestic and foreign subsidiaries of Guidant. In addition, the IRS has proposed adjustments in connection with the financial terms of our Transaction Agreement with Abbott Laboratories pertaining to the sale of Guidant's vascular intervention business to Abbott in April 2006. We do not agree with the transfer pricing methodologies applied by the IRS or its resulting assessment and we believe that the IRS has exceeded its authority by attempting to adjust the terms of our negotiated third-party agreement with Abbott. In addition, we believe that the IRS positions with regard to these matters are inconsistent with the applicable tax laws and the existing Treasury regulations.

We believe we have meritorious defenses for our tax filings and we have filed, or will timely file, petitions with the U.S. Tax Court contesting the Notices of Deficiency for the tax years in challenge. No payments on the net assessment would be required until the dispute is definitively resolved, which, based on experiences of other companies, could take several years. The IRS is currently examining the 2008 through 2010 tax years of Boston Scientific. During the first quarter of 2014 we were notified by the IRS of their intent to propose significant adjustments to our tax returns for these tax years based upon the same transfer pricing methodologies that are currently being contested in U.S. Tax Court for our tax years prior to 2008. As with the prior years, we disagree with the transfer pricing methodologies being applied by the IRS and we expect to contest any adjustments received through applicable IRS and judicial

procedures, as appropriate. We believe that our income tax reserves associated with these matters are adequate and the final resolution will not have a material impact on our financial condition or results of operations. However, final resolution is uncertain and could have a material impact on our financial condition or results of operations.

Liquidity and Capital Resources

As of December 31, 2013, we had $217 million of cash and cash equivalents on hand, comprised of $38 million invested in money market and government funds and $179 million in interest bearing and non-interest bearing bank accounts. We invest excess cash on hand in short-term financial instruments that earn market interest rates while mitigating principal risk through instrument and counterparty diversification as well as what we believe to be prudent instrument selection. We limit our direct exposure to securities in any one industry or issuer. We also have full access to our $2.000 billion revolving credit facility and $300 million of available borrowings under our credit and security facility secured by our U.S. trade receivables, both described below.

The following provides a summary and description of our net cash inflows (outflows) for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
(in millions)	2013	2012	2011
Cash provided by operating activities	$1,082	$1,260	$1,008
Cash provided by (used for) investing activities	(475)	(579)	776
Cash used for financing activities	(596)	(744)	(1,728)

Operating Activities

During 2013, we generated $1.082 billion from operating activities, as compared to $1.260 billion in 2012, a decrease of $178 million. This reduction was primarily due to the impact of increased levels of accounts receivable of approximately $100 million, payments related to debt extinguishment of approximately $70 million and net payments associated with litigation of approximately $50 million; partially offset by a final cash receipt associated with our Promus® supply agreement with Abbott.

During 2012, we generated $1.260 billion from operating activities, as compared to $1.008 billion in 2011, an increase of $252 million. This increase was driven primarily by accounts receivable and inventory reductions, which generated $103 million; the impact of litigation-related payments of approximately $300 million to the U.S. Department of Justice in 2011; and lower tax-related net cash outflows of approximately $40 million during 2012. Partially offsetting these items was the impact of lower operating profit in 2012 and a $35 million increase in restructuring-related payments as compared to 2011. Our cash provided by operating activities in 2011 also included proceeds of approximately $80 million related to the termination of our outstanding interest rate derivative contracts and the receipt of a $75 million manufacturing cost true-up payment from Abbott in accordance with our supply agreement.

Investing Activities

During 2013, cash used for investing activities was $475 million. Our investing activities included capital expenditures of $245 million and a $274 million payment for the acquisition of C.R. Bard's electrophysiology business. These expenditures were partially offset by $53 million of proceeds received from the sale of our Natick, Massachusetts headquarters in March 2013. We are currently in the process of consolidating our Natick, Massachusetts headquarters into our Marlborough, Massachusetts location, where we are establishing a new global headquarters campus. We expect to incur total capital expenditures of approximately $250 million during 2014.

During 2012, cash used for investing activities was $579 million. Our investing activities included capital expenditures of $226 million and payments for the acquisitions of Cameron Health Inc., Bridgepoint Medical Inc., Rhythmia Medical Inc., and Vessix Vascular Inc., totaling $367 million.

During 2011, cash provided by investing activities was comprised primarily of proceeds from the sale of our Neurovascular business to Stryker. We received $1.440 billion of net cash proceeds during 2011 related to the sale of this business. This cash inflow was partially offset by payments of $370 million for acquisitions consummated during 2011; and capital expenditures of $304 million.

Financing Activities

Our cash flows from financing activities reflect issuances and repayments of debt, proceeds from stock issuances related to our equity incentive programs and repurchases of common stock pursuant to our authorized repurchase programs, discussed in Note L - Stockholders' Equity to our 2013 consolidated financial statements included in Item 8 of this Annual Report. Additionally, our financing activities included $160 million of contingent payments primarily associated with our acquisition of Sadra and clinical milestones achieved by the Vessix™ Renal Denervation System.

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Debt

We had total debt of $4.240 billion as of December 31, 2013 and $4.256 billion as of December 31, 2012. During the third quarter of 2013, we refinanced our public debt obligations maturing in June 2014 and January 2015 (see Senior Notes below). The debt maturity schedule for the significant components of our debt obligations as of December 31, 2013 is as follows:

(in millions)	2014	2015	2016	2017	2018	Thereafter	Total
Senior notes	$—	$400	$600	$250	$600	$1,950	$3,800
Term Loan	—	—	80	80	240	—	400
	$—	$400	$680	$330	$840	$1,950	$4,200

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.

In July 2011, Fitch Ratings upgraded our corporate credit rating to BBB-, an investment-grade rating; and in February 2012, Moody’s Investors Service upgraded our corporate credit rating to Baa3, an investment-grade rating. In addition, Standard & Poor's Ratings Services has maintained an investment-grade corporate credit rating for us since 2009. We believe our investment grade credit profile reflects the size and diversity of our product portfolio, our share position in several of our served markets, our strong cash flow, our solid financial fundamentals and our financial strategy.

Revolving Credit Facility

We maintain a $2.0 billion revolving credit facility, maturing in April 2017, with a global syndicate of commercial banks. Eurodollar and multicurrency loans under this revolving credit facility bear interest at LIBOR plus an interest margin of between 0.875 percent and 1.475 percent, based on our corporate credit ratings and consolidated leverage ratio (1.275 percent, as of December 31, 2013). 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 commitments, regardless of usage, under the agreement (0.225 percent, as of December 31, 2013). There were no amounts borrowed under our revolving credit facility as of December 31, 2013 or December 31, 2012.

Our revolving credit facility agreement in place as of December 31, 2013 requires that we maintain certain financial covenants, as follows:

	Covenant Requirement	Actual as of December 31, 2013
Maximum leverage ratio (1)	3.5 times	2.5 times
Minimum interest coverage ratio (2)	3.0 times	5.2 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 provides for an exclusion from the calculation of consolidated EBITDA, as defined by the agreement, through the credit agreement maturity, of any non-cash charges and up to $500 million in restructuring charges and restructuring-related expenses related to our current or future restructuring plans. As of December 31, 2013, we had $234 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 shall not exceed $2.300 billion in the aggregate. As of December 31, 2013, we had approximately $2.185 billion of the combined legal and debt exclusion remaining. As of and through December 31, 2013, we were in compliance with the required covenants.

Any inability to maintain compliance with these covenants could require us to seek to renegotiate the terms of our credit facilities or seek waivers from compliance with these covenants, both of which could result in additional borrowing costs. Further, there can be no assurance that our lenders would agree to such new terms or grant such

waivers.

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Explanation of Responses: 76

Term Loan

In August 2013, we entered into a new $400 million, unsecured term loan facility. Term loan borrowings under this facility bear interest at LIBOR plus an interest margin of between 1.0 percent and 1.75 percent (currently 1.5 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; the maximum leverage ratio requirement is 3.5 times, our actual leverage ratio as of December 31, 2013 is 2.5 times and the minimum interest coverage ratio requirement is 3.0 times, our actual interest coverage ratio as of December 31, 2013 is 5.2 times. We had $400 million outstanding under this facility as of December 31, 2013 and no borrowings outstanding as of December 31, 2012.

Senior Notes

We had senior notes outstanding of $3.800 billion and $4.200 billion as of December 31, 2013 and December 31, 2012, respectively. In August 2013, we issued $600 million of 2.650% senior notes due in 2018, and $450 million of 4.125% senior notes due in 2023. In September 2013, we used the proceeds, together with borrowings under our new $400 million term loan facility, to prepay $600 million of senior notes maturing in June 2014 and $850 million maturing in January 2015. We recorded a one-time charge of $70 million ($44 million after-tax) for premiums, accelerated amortization of debt issuance costs and investor discount costs net of accelerated amortization of interest rate hedge gains related to the early debt extinguishment. Our senior notes are publicly registered securities, 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 liabilities of our subsidiaries (see Other Arrangements below).

Other Arrangements

We also maintain a credit and security facility secured by our U.S. trade receivables. In June 2013, we extended the maturity of this facility through June 2015, subject to further extension, reduced the size of the facility from $350 million to $300 million and added a maximum leverage covenant consistent with our $2.0 billion revolving credit facility. The maximum leverage ratio requirement is 3.5 times and our actual leverage ratio as of December 31, 2013 is 2.5 times. We had no borrowings outstanding under this facility as of December 31, 2013 and December 31, 2012.

We have accounts receivable factoring programs in certain European countries that we account for as sales under ASC Topic 860, Transfers and Servicing. These agreements provide for the sale of accounts receivable to third parties, without recourse, of up to approximately $312 million as of December 31, 2013. 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 $146 million of receivables as of December 31, 2013 at an average interest rate of 3.3 percent, and $191 million as of December 31, 2012 at an average interest rate of 1.6 percent. Within Italy, Spain, Portugal and Greece the number of days our receivables are outstanding has increased 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 collectibility issues related to our outstanding receivables.

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 21.0 billion Japanese yen (approximately $200 million as of December 31, 2013). We de-recognized $147 million of notes receivable as of December 31, 2013 at an average interest rate of 1.8 percent and $182 million of notes receivable as of December 31, 2012 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 consolidated balance sheets included in Item 8 of this Annual Report.

As of December 31, 2013, we had outstanding letters of credit of $78 million, as compared to $94 million as of December 31, 2012, which consisted primarily of bank guarantees and collateral for workers' compensation insurance arrangements. As of December 31, 2013 and 2012, none of the beneficiaries had drawn upon the letters of credit or guarantees; accordingly, we have not recognized a related liability for our outstanding letters of credit in our consolidated balance sheets as of December 31, 2013 or 2012. We believe we will generate sufficient cash from

operations to fund these payments and intend to fund these payments without drawing on the letters of credit.

Equity

During 2013 we received $74 million in proceeds from stock issuances related to our stock option and employee stock purchase plans, as compared to $21 million in both 2012 and 2011. Proceeds from the exercise of employee stock options and employee stock purchases vary from period to period based upon, among other factors, fluctuations in the trading price of our common stock and in the exercise and stock purchase patterns of employees.

In July 2011, our Board of Directors approved a share repurchase program authorizing the repurchase of up to $1.0 billion in shares of our common stock and re-approved approximately 37 million shares remaining under a previous share repurchase program. On January 25, 2013, our Board of Directors approved a new share repurchase program authorizing the repurchase of up to $1.0 billion in shares of our common stock. Throughout 2013, we repurchased approximately 51 million shares of our common stock for $500 million. During 2012, we repurchased approximately 105 million shares of our common stock for $600 million. During 2011, we repurchased approximately 82 million shares of our common stock for $492 million. Repurchased shares are available for reissuance under our equity incentive plans and for general corporate purposes, including acquisitions. As of December 31, 2013, we had completed our share repurchase program authorized in 2011 and previous share repurchase programs. We had remaining approximately $660 million authorized under our 2013 share repurchase program as of December 31, 2013. There were approximately 238 million shares in treasury as of December 31, 2013 and 187 million shares in treasury as of December 31, 2012.

Stock-based compensation expense related to our stock equity compensation and ownership plans was $105 million in 2013, $108 million in 2012, and $128 million in 2011. Stock-based compensation expense varies from period to period based upon, among other factors: the timing, number and fair value of awards granted during the period; forfeiture levels related to unvested awards; and employee contributions to our employee stock purchase plan.

Contractual Obligations and Commitments

The following table provides a summary of certain information concerning our obligations and commitments to make future payments, and is based on conditions in existence as of December 31, 2013.

(in millions)	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt obligations	$—	$400	$680	$330	$840	$1,950	$4,200
Interest payments (1)	220	217	173	138	131	1,020	1,899
Operating lease obligations (1)	64	51	43	29	25	42	254
Purchase obligations (1)	265	24	8	3	—	6	306
Minimum royalty obligations (1)	2	2	2	1	1	1	9
Unrecognized tax benefits	27	—	—	—	—	—	27
	$578	$694	$906	$501	$997	$3,019	$6,695

(1) In accordance with U.S. GAAP, these obligations relate to expenses associated with future periods and are not reflected in our consolidated balance sheets.

The amounts in the table above with respect to operating lease obligations represent amounts pursuant to contractual arrangements for the lease of property, plant and equipment used in the normal course of business. Purchase obligations relate primarily to non-cancellable inventory commitments and capital expenditures entered in the normal course of business. Royalty obligations reported above represent minimum contractual obligations under our current royalty agreements. The table above does not reflect unrecognized tax benefits of $1.069 billion, the timing of which is uncertain. Refer to Note J – Income Taxes to our 2013 consolidated financial statements included in Item 8 of this Annual Report for more information on these unrecognized tax benefits.

With certain of our acquisitions, we acquired in-process research and development projects that require future funding to complete the projects. The primary basis for determining the technological feasibility or completion of these projects is obtaining regulatory approval to market the underlying products in an applicable geographic region. We estimate that the total remaining cost to complete the in-process research and development projects acquired in 2011-2013 is between $200 million and $250 million and we expect material net cash inflows from the projects in development to commence in 2014 through 2018, following the respective launches of these technologies in the U.S., Europe and Japan regions. Certain of our acquisitions also involve the potential payment of contingent consideration.

The table above does not reflect any such obligations, as the timing and amounts are uncertain. See Note B – Acquisitions to our 2013 consolidated financial statements included in Item 8 of this Annual Report for the estimated maximum potential amount of future contingent consideration we could be required to pay associated with prior acquisitions and the fair value of our contingent consideration liabilities as of December 31, 2013.

Legal Matters

The medical device market in which we primarily participate is largely technology driven. As a result, intellectual property rights, particularly patents and trade secrets, play a significant role in product development and differentiation. Over the years, there has been litigation initiated against us by others, including our competitors, claiming that our current or former product offerings infringe patents owned or licensed by them. Intellectual property litigation is inherently complex and unpredictable. In addition, competing parties frequently file multiple suits to leverage patent portfolios across product lines, technologies and geographies and to balance risk and exposure between the parties. In some cases, several competitors are parties in the same proceeding, or in a series of related proceedings, or litigate multiple features of a single class of devices. These forces frequently drive settlement not only for individual cases, but also for a series of pending and potentially related and unrelated cases. Although monetary and injunctive relief is typically sought, remedies and restitution are generally not determined until the conclusion of the trial court proceedings and can be modified on appeal. Accordingly, the outcomes of individual cases are difficult to time, predict or quantify and are often dependent upon the outcomes of other cases in other geographies.

During recent years, we successfully negotiated closure of several long-standing legal matters and have received favorable legal rulings in several other matters; however, there continues to be outstanding intellectual property litigation. Adverse outcomes in one or more of these matters could have a material adverse effect on our ability to sell certain products and on our operating margins, financial position, results of operations and/or liquidity.

In the normal course of business, product liability, securities and commercial claims are asserted against us. Similar claims may be asserted against us in the future related to events not known to management at the present time. We maintain an insurance policy providing limited coverage against securities claims, and we are substantially self-insured with respect to product liability claims and fully self-insured with respect to intellectual property infringement claims. The absence of significant third-party insurance coverage increases our potential exposure to unanticipated claims or adverse decisions. Product liability claims, securities and commercial litigation, and other legal proceedings in the future, regardless of their outcome, could have a material adverse effect on our financial position, results of operations and/or liquidity.

In addition, like other companies in the medical device industry, we are subject to extensive regulation by national, state and local government agencies in the United States and other countries in which we operate. From time to time we are the subject of qui tam actions and governmental investigations often involving regulatory, marketing and other business practices. These qui tam actions and governmental investigations could result in the commencement of civil and criminal proceedings, substantial fines, penalties and administrative remedies and have a material adverse effect on our financial position, results of operations and/or liquidity.

Our accrual for legal matters that are probable and estimable was $607 million as of December 31, 2013 and $491 million as of December 31, 2012, and includes certain estimated costs of settlement, damages and defense. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could materially adversely impact our operating results, cash flows and/or our ability to comply with our debt covenants.
See further discussion of our material legal proceedings in Note K – Commitments and Contingencies to our 2013 consolidated financial statements included in Item 8 of this Annual Report.

Critical Accounting Estimates
Our financial results are affected by the selection and application of accounting policies. We have adopted accounting policies to prepare our consolidated financial statements in conformity with U.S. GAAP. We describe these accounting policies in Note A–Significant Accounting Policies to our 2013 consolidated financial statements included

in Item 8 of this Annual Report.

To prepare our consolidated financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that may affect the reported amounts of our assets and liabilities, the disclosure of contingent liabilities as of the date of our financial statements and the reported amounts of our revenues and expenses during the reporting period. Our actual results may differ from these estimates. We consider estimates to be critical if (i) we are required to make assumptions about material matters that are uncertain at the time of estimation or if (ii) materially different estimates could have been made or it is reasonably likely that the accounting estimate will change from period to period. The following are areas requiring management’s judgment that we consider critical:

Revenue Recognition
We allow our customers to return defective, damaged and, in certain cases, expired products for credit. We base our estimate for sales returns upon historical trends and record these amounts as a reduction of revenue when we sell the initial product. In addition, we may allow customers to return previously purchased products for next-generation product offerings. For these transactions, we defer recognition of revenue on the sale of the earlier generation product based upon an estimate of the amount to be returned when the next-generation products are shipped to the customer. Uncertain timing of next-generation product approvals, variability in product launch strategies, product recalls and variation in product utilization all affect our estimates related to sales returns and could cause actual returns to differ from these estimates.

Many of our CRM product offerings combine the sale of a device with our LATITUDE® Patient Management System, which represents a future service obligation. For revenue arrangements with multiple deliverables, where the sale of a device is combined with a future service obligation, we defer revenue on the undelivered element and recognize this revenue over the related service period. We do not have vendor specific objective evidence of selling price available related to our future service obligations; therefore, we determine our estimates of selling price using third party evidence when available; otherwise, we use our best estimate of selling price. We allocate arrangement consideration using the relative selling price method. The use of alternative estimates of fair value could result in a different amount of revenue deferral.
Inventory Provisions
We base our provisions for excess, expired and obsolete inventory primarily on our estimates of forecasted net sales. A significant change in the timing or level of demand for our products as compared to forecasted amounts may result in recording additional provisions for excess, expired and obsolete inventory in the future. Further, the industry in which we participate is characterized by rapid product development and frequent new product introductions. Uncertain timing of next-generation product approvals, variability in product launch strategies, product recalls and variation in product utilization all affect our estimates related to excess, expired and obsolete inventory.
Valuation of Intangible Assets and Contingent Consideration Liabilities
We base the fair value of identifiable intangible assets acquired in a business combination, including in-process research and development, on detailed valuations that use information and assumptions provided by management, which consider management’s best estimates of inputs and assumptions that a market participant would use. Further, for those arrangements that involve potential future contingent consideration, we record on the date of acquisition a liability equal to the fair value of the estimated additional consideration we may be obligated to make in the future. 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. Increases or decreases in the fair value of the 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. The use of alternative valuation assumptions, including estimated revenue projections; growth rates; cash flows and discount rates and alternative estimated useful life assumptions, or probabilities surrounding the achievement of clinical, regulatory or revenue-based milestones could result in different purchase price allocations, amortization expense, and contingent consideration expense in current and future periods. We review intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If an impairment indicator exists, we test the intangible asset for recoverability. If the carrying value of the intangible asset is not recoverable, as discussed in Note A - Significant Accounting Policies, we will write the carrying value down to fair value in the period identified. We generally calculate fair value of our intangible assets as the present value of estimated future cash flows we expect to generate from the asset using a risk-adjusted discount rate. In determining our estimated future cash flows associated with our intangible assets, we use estimates and assumptions about future revenue contributions, cost structures and remaining useful lives of the asset (asset group). The use of alternative assumptions, including estimated cash flows, discount rates, and alternative estimated remaining useful lives could result in different calculations of impairment. In addition, we test 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. If the carrying value exceeds the fair value of the indefinite-lived intangible asset, we write the carrying value down to the fair value.

Valuation of CRM-related Amortizable Intangible Assets

Certain of our amortizable intangible assets that relate to our CRM business ($4.374 billion globally as of December 31, 2013) are at higher risk of potential failure of the first step of the amortizable intangible recoverability test in future reporting periods. Key assumptions we have made in determining the recoverability of these assets include how we grouped our assets for purposes of measuring cash flows, the estimated life of those cash flows and our expectations for the amount of cash flows generated by these assets over their remaining useful life.

For purposes of testing the CRM-related amortizable intangible assets, we grouped the intangible assets with the other assets and liabilities of the global CRM reporting unit, as a result of having identified the CRM reporting unit as the lowest level of identifiable cash flows because our CRM core technology, which is the primary asset within the CRM asset group, is utilized by all CRM revenue-generating products. As a result, we include cash flows generated by our CRM products in our recoverability analysis through the core technology useful life, which is estimated to end in 2031. We determined the useful life of the core technology based on our expectation of the period during which the technology is expected to contribute to the cash flows of our business. Our core technology represents know-how, patented and unpatented technology, testing methodologies and hardware that is integral to our current and future CRM product generations. This core technology includes battery and capacitor technology, lead technology, software algorithms and interfacing for shocking and pacing used in each therapy franchise.

The recoverability of our CRM-related amortizable intangible assets is sensitive to future cash flow assumptions and our global CRM business performance. The amount of future cash flows within our recoverability analysis include our future projections of revenue, expenses and capital expenditures, which are based on our most recent operational budgets, long range strategic plans and other estimates. These future cash flow assumptions consider the significant investments we have made to renew the CRM reporting unit's product portfolio within its existing core franchises and to develop what we believe to be unique innovative solutions that utilize our core technology; the increased impact to the CRM reporting unit from emerging markets; and demographic trends toward an aging population. Further, while our CRM revenue has declined over the last three years as a result of factors specific to our CRM business and contraction in the overall CRM market, we believe our CRM revenue will return to low growth over the remaining useful life of our CRM amortizing intangible assets. Events specific to our CRM business included the 2010 product ship hold actions and resulting market share losses, and lower replacement volumes due to historical product recalls. We believe that the contraction in the CRM market was primarily due to lower procedural volumes principally due to a focus on appropriate device usage and increased pressure on selling prices; however, we believe that there has been a recent trend toward stabilization in procedural volumes across the market.

We continue to perform thorough reviews of the CRM market and our recent business results within the market, and consider the impacts on future expectations of performance to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life.

Goodwill Valuation

Effective as of January 1, 2013, we reorganized our business from geographic regions to fully operationalized global business units. Our reorganization changed our reporting structure and changed the composition of our reporting units for goodwill impairment testing purposes. Following the reorganization, based on information regularly reviewed by our chief operating decision maker, we have three new global reportable segments consisting of: Cardiovascular, Rhythm Management, and MedSurg. We determined our new global reporting units by identifying our operating segments and assessing whether any components of these segments constituted a business for which discrete financial information is available and whether segment management regularly reviews the operating results of any components. Through this process, we identified the following new global reporting units as of January 1, 2013: Interventional Cardiology, Peripheral Interventions, Cardiac Rhythm Management, Electrophysiology, Endoscopy, Urology and Women's Health, and Neuromodulation.

To determine the amount of goodwill within our new global reporting units, on a relative fair value basis we reallocated $1.764 billion of goodwill previously allocated to our former Europe, Middle East and Africa (EMEA),

Asia Pacific, Japan, and Americas international reporting units to our new global reporting units. In addition, we reallocated the goodwill previously allocated to the former U.S. divisional reporting units to each respective new global reporting unit, with the exception of the goodwill allocated to the former U.S. Cardiovascular reporting unit. The $2.380 billion of goodwill allocated to the former U.S. Cardiovascular reporting unit was reallocated between the new global Interventional Cardiology and global Peripheral Interventions reporting units on a relative fair value basis.

We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination to goodwill. 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 impairment may exist. In performing the assessment, we utilize the two-step approach prescribed under ASC Topic 350, Intangibles-Goodwill and Other. The first step requires a comparison of the carrying value of the reporting units, as defined, to the fair value of these units. 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. We determine our reporting units by first identifying our operating segments, and then assess 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 aggregate components within an operating segment that have similar economic characteristics. For our 2013 annual impairment assessment, we identified seven reporting units, including Interventional Cardiology, Peripheral Interventions, Cardiac Rhythm Management, Electrophysiology, Endoscopy, Urology and Women's Health and Neuromodulation. For our 2012 and 2011 impairment assessments, we identified six reporting units within the U.S., including our CRM, Neuromodulation, Endoscopy, Urology and Women's Health, Electrophysiology, and Cardiovascular (consisting of Interventional Cardiology and Peripheral Interventions) franchises. In addition, we identified four international reporting units, including EMEA, Japan, Asia Pacific and the Americas.

When allocating goodwill from business combinations to our reporting units, we assign goodwill to the reporting units that we expect to benefit from the respective business combination at the time of acquisition. In addition, for purposes of performing our goodwill impairment tests, assets and liabilities, including corporate assets, which relate to a reporting unit’s operations, and would be considered in determining its fair value, are allocated to the individual reporting units. We allocate assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, based primarily on the respective revenue contribution of each reporting unit.

During 2013, 2012, and 2011, we used only the income approach, specifically the DCF method, to derive the fair value of each of our reporting units in preparing our goodwill impairment assessments. This approach calculates fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting these after-tax cash flows to a present value using a risk-adjusted discount rate. We selected this method as being the most meaningful in preparing our goodwill assessments because we believe the income approach most appropriately measures our income producing assets. We have considered using the market approach and cost approach but concluded they are not appropriate in valuing our reporting units given the lack of relevant market comparisons available for application of the market approach and the inability to replicate the value of the specific technology-based assets within our reporting units for application of the cost approach. Therefore, we believe that the income approach represents the most appropriate valuation technique for which sufficient data are available to determine the fair value of our reporting units.

In applying the income approach to our accounting for goodwill, we make assumptions about the amount and timing of future expected cash flows, terminal value growth rates and appropriate discount rates. The amount and timing of future cash flows within our DCF analysis is based on our most recent operational budgets, long range strategic plans and other estimates. The terminal value growth rate is used to calculate the value of cash flows beyond the last projected period in our DCF analysis and reflects our best estimates for stable, perpetual growth of our reporting units. We use estimates of market-participant risk-adjusted WACC as a basis for determining the discount rates to apply to our reporting units’ future expected cash flows.

If the carrying value of a reporting unit exceeds its fair value, we then perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. If the carrying value of a reporting unit is zero or negative, we evaluate whether it is more likely than not that a goodwill impairment exists. If we determine adverse qualitative factors exist that would indicate it is more likely than not an impairment exists, we then perform the second step of the goodwill test. The second step of the goodwill impairment test compares the estimated fair value of a reporting unit’s goodwill to its carrying value. If we were unable to complete the second step of the test prior to the issuance of our financial statements and an impairment loss was probable and could be reasonably estimated, we would recognize our best estimate of the loss in our current period financial statements and disclose that the amount is an estimate. We would then recognize any adjustment to that estimate in subsequent reporting periods, once we have

finalized the second step of the impairment test.

Although we use consistent methodologies in developing the assumptions and estimates underlying the fair value calculations used in our impairment tests, these estimates are uncertain by nature and can vary from actual results. The use of alternative valuation assumptions, including estimated revenue projections, growth rates, cash flows and discount rates could result in different fair value estimates.

We have identified our global Neuromodulation 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 Neuromodulation reporting unit holds $1.356 billion of allocated goodwill. The level of excess fair value over carrying value for this reporting unit identified during our annual goodwill impairment test was approximately 16 percent. Future 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, including global CRM.

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 and intangible assets. 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 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 asset impairment charges. For example, keeping all other variables constant, an increase in the WACC applied of 80 basis points or a 200 basis point decrease in the terminal value growth rate would require that we perform the second step of the goodwill impairment test for the global Neuromodulation 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 and intangible asset balances.

Future events that could have a negative impact on the levels of excess fair value over carrying value of our reporting units and/or amortizable intangible assets 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 or disruptive 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;
- 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 on-going 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 additional impairment charges.

Income Taxes

We provide for potential amounts due in various tax jurisdictions. In the ordinary course of conducting business in multiple countries and tax jurisdictions, there are many transactions and calculations where the ultimate tax outcome is uncertain. Judgment is required in determining our worldwide income tax provision. In our opinion, we have made adequate provisions for income taxes for all years subject to audit. Although we believe our estimates are reasonable, the final outcome of these matters may be different from that which we have reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results.

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Explanation of Responses: 90

We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years, the availability of deferred tax liabilities and tax carrybacks, as well as an evaluation of currently available information about future years.

New Accounting Pronouncements

Standards Implemented

ASC Update No. 2013-02

In February 2013, the FASB issued ASC Update No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. Update No. 2013-02 requires that entities provide information about amounts reclassified out of accumulated other comprehensive income by component. The amendment also requires entities to present significant amounts by the respective line items of net income, either on the face of the income statement or in the notes to the financial statements for amounts required to be reclassified out of accumulated other comprehensive income in their entirety in the same reporting period. For other amounts that are not required to be reclassified to net income in their entirety, a cross-reference is required to other disclosures that provide additional details about those amounts. We adopted Update No. 2013-02 beginning in our first quarter ended March 31, 2013. Update No. 2013-02 is related to presentation only and its adoption did not impact our results of operations or financial position. See our Consolidated Statements of Comprehensive Income (Loss) and Note P - Changes in Other Comprehensive Income to our 2013 consolidated financial statements included in Item 8 of this Annual Report for the required disclosures under Update No. 2013-02.

ASC Update No. 2013-01

In January 2013, the FASB issued ASC Update No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. Update No. 2013-01 clarifies the FASB's intent about requiring enhanced disclosures about certain financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to enforceable master netting arrangements or similar agreements. We adopted Update No. 2013-01 beginning in our first quarter ended March 31, 2013. See Note E - Fair Value Measurements to our 2013 consolidated financial statements included in Item 8 of this Annual Report for the required disclosures under Update No. 2013-01.

Standards to be Implemented

ASC Update No. 2013-11

In July 2013, the FASB issued ASC Update No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Update No. 2013-11 requires that entities present an unrecognized tax benefit, or portion of an unrecognized tax benefit, as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. We are required to adopt Update No. 2013-11 for our first quarter ending March 31, 2014. Update No. 2013-11 is related to presentation only and its adoption will not impact our results of operations or financial position.

Additional Information

Use of Non-GAAP Financial Measures by Boston Scientific

To supplement our consolidated financial statements presented on a GAAP basis, we disclose certain non-GAAP financial measures, including adjusted net income and adjusted net income per share that exclude certain amounts, and revenue growth rates that exclude the impact of sales from divested businesses and/or changes in foreign currency exchange rates. These non-GAAP financial measures are not in accordance with generally accepted accounting principles in the United States.

The GAAP financial measure most directly comparable to adjusted net income is GAAP net income and the GAAP financial measure most directly comparable to adjusted net income per share is GAAP net income per share. To calculate revenue growth rates that exclude the impact of changes in foreign currency exchange rates, we convert actual net sales from local currency to U.S. dollars using constant foreign currency exchange rates in the current and

prior period. The GAAP financial measure most directly comparable to this non-GAAP financial measure and the non-GAAP financial measure that excludes sales from divested businesses is growth rate percentages using net sales on a GAAP basis. Reconciliations of each of these non-GAAP financial measures to the corresponding GAAP financial measure are included in the accompanying schedules.

Management uses these supplemental non-GAAP financial measures to evaluate performance period over period, to analyze the underlying trends in our business, to assess our performance relative to our competitors, and to establish operational goals and forecasts that are used in allocating resources. In addition, management uses these non-GAAP financial measures to further its understanding of the performance of our operating segments. The adjustments excluded from our non-GAAP financial measures are consistent with those excluded from our operating segments' measures of net sales and profit or loss. These adjustments are excluded from the segment measures that are reported to our chief operating decision maker that are used to make operating decisions and assess performance.

We believe that presenting adjusted net income, adjusted net income per share, and revenue growth rates that exclude certain amounts, such as sales from divested businesses and/or the impact of changes in foreign currency exchange rates, in addition to the corresponding GAAP financial measures, provides investors greater transparency to the information used by management for its financial and operational decision-making and allows investors to see our results "through the eyes" of management. We further believe that providing this information assists our investors in understanding our operating performance and the methodology used by management to evaluate and measure such performance.

The following is an explanation of each of the adjustments that management excluded as part of these non-GAAP financial measures as well as reasons for excluding each of these individual items:

Adjusted Net Income and Adjusted Net Income per Share

- Goodwill and other intangible asset impairment charges - This amount represents (a) a non-cash write-down of our goodwill balance attributable to our global Cardiac Rhythm Management reporting unit in the first quarter of 2013; (b) non-cash write-downs of certain intangible asset balances in the second quarter of 2013; (c) a non-cash write-down of our goodwill balance attributable to our former U.S. Cardiac Rhythm Management reporting unit in the third quarter of 2012; (d) a non-cash write-down of our goodwill balance attributable to our former EMEA reporting unit in the second quarter of 2012; and (e) non-cash write-downs of certain intangible asset balances in the second and third quarters of 2012. We remove the impact of non-cash impairment charges from our operating performance to assist in assessing our cash generated from operations. We believe this is a critical metric for us in measuring our ability to generate cash and invest in our growth. Therefore, these charges are excluded from management's assessment of operating performance and are also excluded for purposes of calculating these non-GAAP financial measures to facilitate an evaluation of our current operating performance and a comparison to our past operating performance, particularly in terms of liquidity.
- Acquisition- and divestiture related net charges (credits) - These adjustments consist of (a) contingent consideration fair value adjustments; (b) due diligence, other fees and exit costs; and (c) separation costs and gains primarily associated with the sale of our Neurovascular business in January 2011. The contingent consideration adjustments represent accounting adjustments to state contingent consideration liabilities at their estimated fair value. These adjustments can be highly variable depending on the assessed likelihood and amount of future contingent consideration payments. Due diligence, other fees and exit costs include legal, tax, severance and other expenses associated with prior and potential future acquisitions and divestitures that can be highly variable and not representative of on-going operations. Separation costs and gains on the sale of a business unit primarily represent those associated with the Neurovascular divestiture and are not representative of on-going operations. Accordingly, management excluded these amounts for purposes of calculating these non-GAAP financial measures to facilitate an evaluation of our current operating performance and a comparison to our past operating performance.
- Restructuring and restructuring-related charges - These adjustments represent primarily severance and other direct costs associated with our 2014 Restructuring program and 2011 Restructuring program. These costs are excluded by management in assessing our operating performance, as well as from our operating segments' measures of profit and loss used for making operating decisions and assessing performance. Accordingly, management excluded these costs for purposes of calculating these non-GAAP financial measures to facilitate an evaluation of our current operating performance and a comparison to our past operating performance.
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Explanation of Responses:

Litigation-related charges - These adjustments include certain significant product liability and other litigation-related charges and credits. These amounts are excluded by management in assessing our operating performance, as well as from our operating segments' measures of profit and loss used for making operating decisions and assessing performance. Accordingly, management excluded these amounts for purposes of calculating these non-GAAP financial measures to facilitate an evaluation of our current operating performance and a comparison to our past operating performance.

- Discrete tax items - These items represent adjustments of certain tax positions, which were initially established in prior periods as a result of intangible asset impairment charges; acquisition-, divestiture-, restructuring- or litigation-related charges or credits. These adjustments do not reflect expected on-going operating results. Accordingly, management excluded these amounts for purposes of calculating these non-GAAP financial measures to facilitate an evaluation of our current operating performance and a comparison to our past operating performance.
- Debt extinguishment charge - This item represents premiums, accelerated amortization of debt issuance costs and investor discount costs net of interest rate hedge gains related to the early extinguishment of $1.450 billion of debt during the third quarter of 2013. These adjustments are not expected to recur and do not reflect expected on-going operating results. Accordingly, management excluded these amounts for purposes of calculating these non-GAAP financial measures to facilitate an evaluation of our current operating performance and a comparison to our past operating performance.
- Amortization expense - Amortization expense is a non-cash expense and does not impact our liquidity or compliance with the covenants included in our credit facility agreement. Management removes the impact of amortization from our operating performance to assist in assessing our cash generated from operations. We believe this is a critical metric for measuring our ability to generate cash and invest in our growth. Therefore, amortization expense is excluded from management's assessment of operating performance and is also excluded from the measures management uses to set employee compensation. Accordingly, management has excluded amortization expense for purposes of calculating these non-GAAP financial measures to facilitate an evaluation of our current operating performance, particularly in terms of liquidity.

Revenue Growth Rates Excluding the Impact of Sales from Divested Businesses and/or Changes in Foreign Currency Exchange Rates

- Sales from divested businesses and/or changes in foreign currency exchange rates - Sales from divested businesses are primarily associated with the Neurovascular divestiture and are not representative of on-going operations. The impact of changes in foreign currency exchange rates is highly variable and difficult to predict. Accordingly, management excludes the impact of sales from divested businesses and/or changes in foreign currency exchange rates for purposes of reviewing revenue growth rates to facilitate an evaluation of our current operating performance and a comparison to our past operating performance.

Adjusted net income, adjusted net income per share and revenue growth rates that exclude certain amounts, such as the sales from divested businesses and/or the impact of changes in foreign currency exchange rates, are not in accordance with U.S. GAAP and should not be considered in isolation from or as a replacement for the most directly comparable GAAP financial measures. Further, other companies may calculate these non-GAAP financial measures differently than we do, which may limit the usefulness of those measures for comparative purposes.

Rule 10b5-1 Trading Plans by Executive Officers

Periodically, certain of our executive officers adopt written stock trading plans in accordance with Rule 10b5-1 under the Exchange Act and our own Stock Trading Policy. A Rule 10b5-1 Trading Plan is a written document that pre-establishes the amount, prices and dates (or formulas for determining the amounts, prices and dates) of future purchases or sales of our stock, including shares issued upon exercise of stock options or vesting of deferred stock units. These plans are entered into at a time when the person is not in possession of material non-public information about the Company.

On November 26, 2013, Michael P. Phalen, our Executive Vice President and President, MedSurg, entered into a Rule 10b5-1 Trading Plan. Mr. Phalen’s plan covers the sale of shares of our stock to be acquired upon (A) exercise of 162,000 stock options and (B) vesting of deferred stock units representing 29,582 shares (the amount to be sold will be net of shares withheld to satisfy applicable tax withholding obligations upon vesting). Transactions under Mr. Phalen’s plan are based upon pre-established dates and stock price thresholds. Mr. Phalen’s plan will terminate on the earlier of (among other things) December 31, 2014 and the date all shares subject to the plan have been sold. Any transaction under Mr. Phalen’s plan will be disclosed publicly through appropriate filings with the Securities and Exchange Commission.

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On November 26, 2013, David A. Pierce, our Senior Vice President and President, Endoscopy, entered into a Rule 10b5-1 Trading Plan. Mr. Pierce’s plan covers the sale of shares of our stock to be acquired upon vesting of deferred stock units representing 23,422 shares (the amount to be sold will be net of shares withheld to satisfy applicable tax withholding obligations upon vesting). Transactions under Mr. Pierce’s plan are based upon pre-established dates and stock price thresholds. Mr. Pierce’s plan will terminate on the earlier of (among other things) December 31, 2014 and the date all shares subject to the plan have been sold. Any transaction under Mr. Pierce’s plan will be disclosed publicly through appropriate filings with the Securities and Exchange Commission.

Management’s Annual Report on Internal Control over Financial Reporting

As the management of Boston Scientific Corporation, we are responsible for establishing and maintaining adequate internal control over financial reporting. We designed our internal control process to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control–Integrated Framework (1992 framework). Based on our assessment, we believe that, as of December 31, 2013, our internal control over financial reporting is effective at a reasonable assurance level based on these criteria.

Ernst & Young LLP, an independent registered public accounting firm, has issued an audit report on the effectiveness of our internal control over financial reporting. This report in which they expressed an unqualified opinion is included below.

/s/ Michael F. Mahoney	/s/ Daniel J. Brennan
Michael F. Mahoney President and Chief Executive Officer	Daniel J. Brennan Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of Boston Scientific Corporation

We have audited Boston Scientific Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), as applicable (the COSO criteria). Boston Scientific Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Boston Scientific Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Boston Scientific Corporation as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Boston Scientific Corporation and our report dated February 26, 2014 expressed an unqualified opinion thereon.
/s/ Ernst & Young LLP
Boston, Massachusetts

February 26, 2014

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We develop, manufacture and sell medical devices globally and our earnings and cash flows are exposed to market risk from changes in currency exchange rates and interest rates. We address these risks through a risk management program that includes the use of derivative financial instruments. We operate the program pursuant to documented corporate risk management policies. We do not enter derivative transactions for speculative purposes. Gains and losses on derivative financial instruments substantially offset losses and gains on underlying hedged exposures. Furthermore, we manage our exposure to counterparty risk on derivative instruments by entering into contracts with a diversified group of major financial institutions and by actively monitoring outstanding positions.

Our currency risk consists primarily of foreign currency denominated firm commitments, forecasted foreign currency denominated intercompany and third-party transactions and net investments in certain subsidiaries. We use both nonderivative (primarily European manufacturing operations) and derivative instruments to manage our earnings and cash flow exposure to changes in currency exchange rates. We had currency derivative instruments outstanding in the contract amount of $4.516 billion as of December 31, 2013 and $4.411 billion as of December 31, 2012. We recorded $264 million of other assets and $55 million of other liabilities to recognize the fair value of these derivative instruments as of December 31, 2013, as compared to $121 million of other assets and $57 million of other liabilities as of December 31, 2012. A ten percent appreciation in the U.S. dollar’s value relative to the hedged currencies would increase the derivative instruments’ fair value by $257 million as of December 31, 2013 and $270 million as of December 31, 2012. A ten percent depreciation in the U.S. dollar’s value relative to the hedged currencies would decrease the derivative instruments’ fair value by $314 million as of December 31, 2013 and by $319 million as of December 31, 2012. Any increase or decrease in the fair value of our currency exchange rate sensitive derivative instruments would be substantially offset by a corresponding decrease or increase in the fair value of the hedged underlying asset, liability or forecasted transaction, resulting in minimal impact on our consolidated statements of operations.

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. We entered into interest rate derivative contracts having a notional amount of $450 million in the fourth quarter of 2013 to convert fixed-rate debt associated with certain of our senior notes into floating-rate debt. We recorded $1 million of other assets and $8 million of other liabilities to recognize the fair value of these derivative instruments as of December 31, 2013. We had no interest rate derivative instruments outstanding as of December 31, 2012. A one-percentage point increase in interest rates would have decreased the derivative instruments’ fair value by $41 million as of December 31, 2013. A one-percentage point decrease in interest rates would have increased the derivative instruments’ fair value by $37 million as of December 31, 2013. As of December 31, 2013, $3.393 billion of our outstanding debt obligations was at fixed interest rates, representing approximately 80 percent of our total debt. See Note E – Fair Value Measurements to our 2013 consolidated financial statements contained in Item 8 of this Annual Report for further information regarding our derivative financial instruments.

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of Boston Scientific Corporation

We have audited the accompanying consolidated balance sheets of Boston Scientific Corporation as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boston Scientific Corporation at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Boston Scientific Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), as applicable and our report dated February 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Boston, Massachusetts

February 26, 2014

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
in millions, except per share data	2013	2012	2011
Net sales	$7,143	$7,249	$7,622
Cost of products sold	2,174	2,349	2,659
Gross profit	4,969	4,900	4,963
Operating expenses:			
Selling, general and administrative expenses	2,674	2,535	2,487
Research and development expenses	861	886	895
Royalty expense	140	153	172
Amortization expense	410	395	421
Goodwill impairment charges	423	4,350	697
Intangible asset impairment charges	53	142	21
Contingent consideration expense (benefit)	4	(6)	7
Restructuring charges	101	136	89
Litigation-related charges	221	192	48
Gain on divestiture	(38)	(15)	(778)
	4,849	8,768	4,059
Operating income (loss)	120	(3,868)	904
Other (expense) income:			
Interest expense	(324)	(261)	(281)
Other, net	(19)	22	19
(Loss) income before income taxes	(223)	(4,107)	642
Income tax (benefit) expense	(102)	(39)	201
Net (loss) income	$(121)	$(4,068)	$441
Net (loss) income per common share — basic	$(0.09)	$(2.89)	$0.29
Net (loss) income per common share — assuming dilution	$(0.09)	$(2.89)	$0.29
Weighted-average shares outstanding			
Basic	1,341.2	1,406.7	1,509.3
Assuming dilution	1,341.2	1,406.7	1,519.0

See notes to the consolidated financial statements.

BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

in millions, except share and per share data	As of December 31, 2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$217	$207
Trade accounts receivable, net	1,307	1,217
Inventories	897	884
Deferred income taxes	288	433
Prepaid expenses and other current assets	302	281
Total current assets	3,011	3,022
Property, plant and equipment, net	1,546	1,564
Goodwill	5,693	5,973
Other intangible assets, net	5,950	6,289
Other long-term assets	371	306
TOTAL ASSETS	$16,571	$17,154
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current debt obligations	$3	$4
Accounts payable	246	232
Accrued expenses	1,348	1,284
Other current liabilities	227	252
Total current liabilities	1,824	1,772
Long-term debt	4,237	4,252
Deferred income taxes	1,402	1,713
Other long-term liabilities	2,569	2,547
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.01 par value - authorized 50,000,000 shares, none issued and outstanding		
Common stock, $0.01 par value - authorized 2,000,000,000 shares; issued 1,560,302,634 shares as of December 31, 2013 and 1,542,347,188 shares as of December 31, 2012	16	15
Treasury stock, at cost - 238,006,570 shares as of December 31, 2013 and 186,635,532 shares as of December 31, 2012	(1,592)	(1,092)
Additional paid-in capital	16,579	16,429
Accumulated deficit	(8,570)	(8,449)
Accumulated other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(16)	(26)
Unrealized gain on derivative financial instruments	141	34
Unrealized costs associated with certain retirement plans	(19)	(41)
Total stockholders’ equity	6,539	6,870
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$16,571	$17,154

See notes to the consolidated financial statements.

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Explanation of Responses: 105

BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

in millions, except share data	Common Stock Shares Issued	Common Stock Par Value	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2010	1,520,780,112	$15		$ 16,232	$ (4,822)	$ (129)
Comprehensive income						
Net income					441	
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment						(8)
Net change in derivative financial instruments						17
Net change in certain retirement plans						(18)
Impact of stock-based compensation plans, net of tax	10,226,278			117		
Acquisition of treasury stock			$(492)			
Balance as of December 31, 2011	1,531,006,390	$15	$(492)	$ 16,349	$ (4,381)	$ (138)
Comprehensive income						
Net loss					(4,068)	
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment						32
Net change in derivative financial instruments						82
Net change in certain retirement plans						(9)
Impact of stock-based compensation plans, net of tax	11,340,798			80		
Acquisition of treasury stock			(600)			
Balance as of December 31, 2012	1,542,347,188	$15	$(1,092)	$ 16,429	$ (8,449)	$ (33)
Comprehensive income						
Net loss					(121)	
Other comprehensive income, net of tax						
Foreign currency translation adjustment						10
Net change in derivative financial instruments						107
Net change in certain retirement plans						22
Impact of stock-based compensation plans, net of tax	17,955,446	1		150		
Acquisition of treasury stock			(500)			
Balance as of December 31, 2013	1,560,302,634	$16	$(1,592)	$ 16,579	$ (8,570)	$ 106

See notes to the consolidated financial statements.

Explanation of Responses: 107

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

	Year Ended December 31,		
(in millions)	2013	2012	2011
Net (loss) income	$(121)	$(4,068)	$441
Other comprehensive income (loss):			
Foreign currency translation adjustment	10	32	(8)
Net change in unrealized gains and losses on derivative financial instruments, net of tax	107	82	17
Net change in certain retirement plans	22	(9)	(18)
Total other comprehensive income (loss)	139	105	(9)
Total comprehensive income (loss)	$18	$(3,963)	$432

See notes to the consolidated financial statements.

BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
in millions	2013	2012	2011
Operating Activities			
Net (loss) income	$(121)	$(4,068)	$441
Adjustments to reconcile net income (loss) to cash provided by operating activities			
Gain on sale of businesses	(38)	(15)	(778)
Depreciation and amortization	689	683	717
Deferred income taxes	(223)	(166)	46
Stock-based compensation expense	105	108	128
Goodwill impairment charges	423	4,350	697
Intangible asset impairment charges	53	142	21
Net losses (gains) on investments and notes receivable	9	(37)	(27)
Contingent consideration expense (income)	4	(6)	7
Payment of contingent consideration in excess of amounts established in purchase accounting	(5)	(8)	—
Other, net	31	(7)	(7)
Increase (decrease) in cash flows from operating assets and liabilities:			
Trade accounts receivable	(101)	37	42
Inventories	(7)	66	(54)
Other assets	91	(68)	(60)
Accounts payable and accrued expenses	(37)	(131)	(271)
Other liabilities	209	380	106
Cash provided by operating activities	1,082	1,260	1,008
Investing Activities			
Property, plant and equipment			
Purchases of property, plant and equipment	(245)	(226)	(304)
Proceeds on disposals	53	16	16
Acquisitions			
Payments for acquisitions of businesses, net of cash acquired	(274)	(366)	(370)
Divestitures			
Proceeds from business divestitures, net of costs	30	10	1,440
Other investing activity			
Payments for investments and acquisitions of certain technologies	(44)	(22)	(11)
Proceeds from investments and collections of notes receivable	5	9	5
Cash (used for) provided by investing activities	(475)	(579)	776
Financing Activities			
Debt			
Payments of contingent consideration amounts previously established in purchase accounting	(160)	(146)	(7)
Proceeds from long-term borrowings, net of debt issuance costs	1,440		
Payments on long-term borrowings	(1,450)	(10)	(1,250)
Proceeds from borrowings on credit facilities	340	371	565
Payments on borrowings from credit facilities	(340)	(380)	(565)
Equity			

Payments for acquisitions of treasury stock	(500)	(600)	(492)
Proceeds from issuances of shares of common stock	74	21	21
Cash used for financing activities	(596)	(744)	(1,728)
Effect of foreign exchange rates on cash	(1)	3	(2)
Net increase (decrease) in cash and cash equivalents	10	(60)	54
Cash and cash equivalents at beginning of period	207	267	213
Cash and cash equivalents at end of period	$217	$207	$267
Supplemental Information			
Cash paid for income taxes, net	$67	$97	$138
Cash paid for interest	329	255	277
Fair value of contingent consideration recorded	—	467	287

See notes to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Our consolidated financial statements include the accounts of Boston Scientific Corporation and our wholly-owned subsidiaries, after the elimination of intercompany transactions. We assess the terms of our investment interests to determine if any of our investees meet the definition of a variable interest entity (VIE). For any VIEs, we perform an analysis to determine whether our variable interests give us a controlling financial interest in a VIE. The analysis identifies the primary beneficiary of a VIE as the enterprise that has both 1) the power to direct activities of a VIE that most significantly impact the entity's economic performance and 2) the obligation to absorb losses of the entity or the right to receive benefits from the entity. Based on our assessments under the applicable guidance, we did not have significant interests in any VIEs and therefore did not consolidate any VIEs during the years ended December 31, 2013, 2012, and 2011.

On January 3, 2011, we closed the sale of our Neurovascular business to Stryker Corporation (Stryker). Due to our continuing involvement in the operations of the Neurovascular business following the divestiture, the divestiture did not meet the criteria for presentation as a discontinued operation and, therefore, the results of the Neurovascular business are included in our results of operations for all periods presented. Refer to Note C – Divestitures for a description of this business divestiture.

Basis of Presentation

The accompanying 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-K and Article 10 of Regulation S-X.

Reclassification

Effective as of January 1, 2013, we reorganized our business from geographic regions to fully operationalized global business units. Our reorganization changed our reporting structure and changed the composition of our reporting units. We have reclassified certain prior year amounts to conform to the current year's presentation. See Note D - Goodwill and Other Intangible Assets and Note O – Segment Reporting for further details.

Subsequent Events

We evaluate events occurring after the date of our accompanying 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 consolidated financial statements (recognized subsequent events). Those items requiring disclosure (unrecognized subsequent events) in the financial statements have been disclosed accordingly. Refer to Note J– Income Taxes and Note K– Commitments and Contingencies for more information.

Accounting Estimates

To prepare our consolidated financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that may affect the reported amounts of our assets and liabilities, the disclosure of contingent liabilities as of the date of our financial statements and the reported amounts of our revenues and expenses during the reporting period. Our actual results may differ from these estimates. Refer to Critical Accounting Estimates included in Item 7 of this Annual Report for further discussion.

Cash and Cash Equivalents

We record cash and cash equivalents in our consolidated balance sheets at cost, which approximates fair value. Our policy is to invest excess cash in short-term marketable securities earning a market rate of interest without assuming undue risk to principal, and we limit our direct exposure to securities in any one industry or issuer. We consider all highly liquid investments purchased with a remaining maturity of three months or less at the time of acquisition to be cash equivalents.

We record available-for-sale investments at fair value and exclude unrealized gains and temporary losses on available-for-sale securities from earnings, reporting such gains and losses, net of tax, as a separate component of stockholders' equity, until realized. We compute realized gains and losses on sales of available-for-sale securities based on the average cost method, adjusted for any other-than-temporary declines in fair value. We held no

available-for-sale securities during 2013, 2012, and 2011.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, derivative financial instrument contracts and accounts and notes receivable. Our investment policy limits exposure to concentrations of credit risk and changes in market conditions. Counterparties to financial instruments expose us to credit-related losses in the event of nonperformance. We transact our financial instruments with a diversified group of major financial institutions with investment grade credit ratings and actively monitor their credit ratings and our outstanding positions to limit our credit exposure. We provide credit, in the normal course of business, to hospitals, healthcare agencies, clinics, doctors' offices and other private and governmental institutions and generally do not require collateral. We record our accounts receivable in our consolidated balance sheets at net realizable value. We perform on-going credit evaluations of our customers and maintain allowances for potential credit losses, based on historical information and management's best estimates. Amounts determined to be uncollectible are written off against this reserve. We recorded write-offs of uncollectible accounts receivable of $12 million in 2013, $7 million in 2012, and $13 million in 2011. We are not dependent on any single institution and no single customer accounted for more than ten percent of our net sales in 2013, 2012, or 2011 or accounts receivable at December 31, 2013 or 2012; however, large group purchasing organizations, hospital networks and other buying groups have become increasingly important to our business and represent a substantial portion of our U.S. net sales.

We closely monitor outstanding receivables for potential collection risks, including those that may arise from economic conditions, in both the U.S. and international economies. Our European sales to government-owned or supported customers in Southern Europe, specifically Greece, Italy, Spain and Portugal are subject to an increased number of days outstanding above historical levels prior to payment. Historically, receivable balances with certain publicly-owned hospitals in these countries accumulate over a period of time and are then subsequently settled as large lump sum payments. While we believe our allowance for doubtful accounts in these countries is adequate as of December 31, 2013, if significant changes were to occur in the payment practices of these European governments or if government funding becomes unavailable, we may not be able to collect on receivables due to us from these customers and our write-offs of uncollectible amounts may increase. As of December 31, 2013, our net receivables in these countries greater than 180 days past due totaled approximately $95 million, of which approximately $50 million were past due greater than 360 days.

Revenue Recognition

We generate revenue primarily from the sale of single-use medical devices, and present revenue net of sales taxes in our consolidated statements of operations. We sell our products primarily through a direct sales force. In certain international markets, we sell our products through independent distributors. We consider revenue to be realized or realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectibility is reasonably assured. Revenue is recognized upon passage of title and risk of loss to customers, unless a consignment arrangement exists or we are required to provide additional services, and provided we can form an estimate for sales returns. We recognize revenue from consignment arrangements based on product usage, or implant, which indicates that the sale is complete. Many of our Cardiac Rhythm Management (CRM) product offerings combine the sale of a device with our LATITUDE® Patient Management System, which represents a future service obligation. For revenue arrangements with multiple deliverables, where the sale of a device is combined with a future service obligation, we defer revenue on the undelivered element and recognize this revenue over the related service period. We do not have vendor specific objective evidence of selling price available related to our future service obligations; therefore, we determine our estimates of selling price using third party evidence when available; otherwise, we use our best estimate of selling price. We allocate arrangement consideration using the relative selling price method.

We generally allow our customers to return defective, damaged and, in certain cases, expired products for credit. We base our estimate for sales returns upon historical trends and record the amount as a reduction to revenue when we sell the initial product. In addition, we may allow customers to return previously purchased products for next-generation product offerings. For these transactions, we defer recognition of revenue on the sale of the earlier generation product based upon an estimate of the amount of product to be returned when the next-generation products are shipped to the customer.

We also offer sales rebates and discounts to certain customers. We treat sales rebates and discounts as a reduction of revenue and classify the corresponding liability as current. We estimate rebates for products where there is sufficient historical information available to predict the volume of expected future rebates. If we are unable to estimate the expected rebates reasonably, we record a liability for the maximum rebate percentage offered. We have entered certain agreements with group purchasing organizations to sell our products to participating hospitals at negotiated prices. We recognize revenue from these agreements following the same revenue recognition criteria discussed above.

Warranty Obligations

We offer warranties on certain of our product offerings. The majority of our warranty liability relates to implantable devices offered by our CRM business, which include defibrillator and pacemaker systems. Our CRM products come with a standard limited warranty covering the replacement of these devices. We offer a full warranty for a portion of the period post-implant, and a partial warranty for a period of time thereafter. We estimate the costs that we may incur under our warranty programs based on the number of units sold, historical and anticipated rates of warranty claims and cost per claim, and record a liability equal to these estimated costs as cost of products sold at the time the product sale occurs. We assess the adequacy of our recorded warranty liabilities on a quarterly basis and adjust these amounts as necessary.

Changes in our product warranty accrual during 2013, 2012, and 2011 consisted of the following (in millions):

	Year Ended December 31,		
	2013	2012	2011
Beginning balance	$26	$30	$43
Provision	12	8	9
Settlements/ reversals	(10)	(12)	(22)
Ending balance	$28	$26	$30

Inventories

We state inventories at the lower of first-in, first-out cost or market. We base our provisions for excess, expired and obsolete inventory primarily on our estimates of forecasted net sales. A significant change in the timing or level of demand for our products as compared to forecasted amounts may result in recording additional provisions for excess, expired and obsolete inventory in the future. Further, the industry in which we participate is characterized by rapid product development and frequent new product introductions. Uncertain timing of next-generation product approvals, variability in product launch strategies, product recalls and variation in product utilization all affect our estimates related to excess, expired and obsolete inventory. Approximately 40 percent of our finished goods inventory as of December 31, 2013 and 2012 was at customer locations pursuant to consignment arrangements or held by sales representatives.

Property, Plant and Equipment

We state property, plant, equipment, and leasehold improvements at historical cost. We charge expenditures for maintenance and repairs to expense and capitalize additions and improvements that extend the life of the underlying asset. We provide for depreciation using the straight-line method at rates that approximate the estimated useful lives of the assets. We depreciate buildings and improvements over a 20 to 40 year life; equipment, furniture and fixtures over a three to ten year life; and leasehold improvements over the shorter of the useful life of the improvement or the term of the related lease. Depreciation expense was $279 million in 2013, $288 million in 2012, and $296 million in 2011.

Valuation of Business Combinations

We allocate the amounts we pay for each acquisition to the assets we acquire and liabilities we assume based on their fair values at the dates of acquisition, including identifiable intangible assets and in-process research and development which either arise from a contractual or legal right or are separable from goodwill. We base the fair value of identifiable intangible assets acquired in a business combination, including in-process research and development, on detailed valuations that use information and assumptions provided by management, which consider management’s best estimates of inputs and assumptions that a market participant would use. We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired to goodwill. Transaction costs associated with these acquisitions are expensed as incurred through selling, general and administrative costs.

In those circumstances where an acquisition involves a contingent consideration arrangement, 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. Increases or decreases in the fair value of the 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.

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Indefinite-lived Intangibles, including In-Process Research and Development

Our indefinite-lived intangible assets that are not subject to amortization primarily include acquired balloon and other technology, which is foundational to our continuing operations within the Cardiovascular market and other markets within interventional medicine, and in-process research and development intangible assets acquired in a business combination. Our in-process research and development represents intangible assets acquired in a business combination that are used in research and development activities but have not yet reached technological feasibility, regardless of whether they have alternative future use. The primary basis for determining the technological feasibility or completion of these projects is obtaining regulatory approval to market the underlying products in an applicable geographic region. We classify in-process research and development acquired in a business combination as an indefinite-lived intangible asset until the completion or abandonment of the associated research and development efforts. Upon completion of the associated research and development efforts, we will determine the useful life of the technology and begin amortizing the assets to reflect their use over their remaining lives. Upon permanent abandonment, we would write-off the remaining carrying amount of the associated in-process research and development intangible asset. We test 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. If the carrying value exceeds the fair value of the indefinite-lived intangible asset, we write the carrying value down to the fair value.

We use the income approach to determine the fair values of our in-process research and development. This approach calculates fair value by estimating the after-tax cash flows attributable to an in-process project over its useful life and then discounting these after-tax cash flows back to a present value. We base our revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected levels of market share. In arriving at the value of the in-process projects, we consider, among other factors: the in-process projects' stage of completion; the complexity of the work completed as of the acquisition date; the costs already incurred; the projected costs to complete; the contribution of other acquired assets; the expected regulatory path and introduction dates by region; and the estimated useful life of the technology. We apply a market-participant risk-adjusted discount rate to arrive at a present value as of the date of acquisition.

We test our in-process research and development intangible assets acquired in a business combination for impairment at least annually during the third quarter, and more frequently if events or changes in circumstances indicate that the assets may be impaired.

For asset purchases outside of business combinations, we expense any purchased research and development assets as of the acquisition date.

Amortization and Impairment of Intangible Assets

We record intangible assets at historical cost and amortize them over their estimated useful lives. We use a straight-line method of amortization, unless a method that better reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up can be reliably determined. The approximate useful lives for amortization of our intangible assets are as follows: patents and licenses, two to 20 years; definite-lived technology-related, five to 25 years; customer relationships, five to 25 years; other intangible assets, various.

We review intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset, a product recall, or an adverse action or assessment by a regulator. If an impairment indicator exists, we test the intangible asset for recoverability. For purposes of the recoverability test, we group our amortizable intangible assets with other assets and liabilities at the lowest level of identifiable cash flows if the intangible asset does not generate cash flows independent of other assets and liabilities. If the carrying value of the intangible asset (asset group) exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the intangible asset (asset group), we will write the carrying value down to the fair value in the period identified.

We generally calculate fair value of our intangible assets as the present value of estimated future cash flows we expect to generate from the asset using a risk-adjusted discount rate. In determining our estimated future cash flows associated with our intangible assets, we use estimates and assumptions about future revenue contributions, cost structures and remaining useful lives of the asset (asset group). See Note D - Goodwill and Other Intangible Assets for more information related to impairments of intangible assets during 2013, 2012, and 2011.

For patents developed internally, we capitalize costs incurred to obtain patents, including attorney fees, registration fees, consulting fees, and other expenditures directly related to securing the patent.

Goodwill Valuation

Effective as of January 1, 2013, we reorganized our business from geographic regions to fully operationalized global business units. Our reorganization changed our reporting structure and changed the composition of our reporting units for goodwill impairment testing purposes. Following the reorganization, based on information regularly reviewed by our chief operating decision maker, we have three new global reportable segments consisting of: Cardiovascular, Rhythm Management, and MedSurg. We determined our new global reporting units by identifying our operating segments and assessing whether any components of these segments constituted a business for which discrete financial information is available and whether segment management regularly reviews the operating results of any components. Through this process, we identified the following new global reporting units as of January 1, 2013: Interventional Cardiology, Peripheral Interventions, Cardiac Rhythm Management, Electrophysiology, Endoscopy, Urology and Women's Health, and Neuromodulation. The discussion below for 2013 relates to our global business reporting units and for 2012 and prior periods relates to our former regional reporting units.

We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination to goodwill. 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 impairment may exist. In performing the assessment, we utilize the two-step approach prescribed under ASC Topic 350, Intangibles-Goodwill and Other (Topic 350). The first step requires a comparison of the carrying value of the reporting units, as defined, to the fair value of these units. 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. We determine our reporting units by first identifying our operating segments, and then assess 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 aggregate components within an operating segment that have similar economic characteristics. For our 2013 annual impairment assessment we identified seven reporting units, including Interventional Cardiology, Peripheral Interventions, Cardiac Rhythm Management, Electrophysiology, Endoscopy, Urology and Women's Health and Neuromodulation. For our 2012 and 2011 impairment assessments, we identified six reporting units within the U.S., including our CRM, Neuromodulation, Endoscopy, Urology and Women's Health, Electrophysiology, and Cardiovascular (consisting of Interventional Cardiology and Peripheral Interventions) franchises, which in aggregate make up the U.S. reportable segment. In addition, we identified four international reporting units, including EMEA, Japan, Asia Pacific and the Americas. When allocating goodwill from business combinations to our reporting units, we assign goodwill to the reporting units that we expect to benefit from the respective business combination at the time of acquisition. In addition, for purposes of performing our goodwill impairment tests, assets and liabilities, including corporate assets, which relate to a reporting unit’s operations, and would be considered in determining its fair value, are allocated to the individual reporting units. We allocate assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, based primarily on the respective revenue contribution of each reporting unit.

During 2013, 2012, and 2011, we used only the income approach, specifically the DCF method, to derive the fair value of each of our reporting units in preparing our goodwill impairment assessments. This approach calculates fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting these after-tax cash flows to a present value using a risk-adjusted discount rate. We selected this method as being the most meaningful in preparing our goodwill assessments because we believe the income approach most appropriately measures our income producing assets. We have considered using the market approach and cost approach but concluded they are not appropriate in valuing our reporting units given the lack of relevant market comparisons available for application of the market approach and the inability to replicate the value of the specific technology-based assets within our reporting units for application of the cost approach. Therefore, we believe that the income approach represents the most appropriate valuation technique for which sufficient data are available to determine the fair value of our reporting units.

In applying the income approach to our accounting for goodwill, we make assumptions about the amount and timing of future expected cash flows, terminal value growth rates and appropriate discount rates. The amount and timing of

future cash flows within our DCF analysis is based on our most recent operational budgets, long range strategic plans and other estimates. The terminal value growth rate is used to calculate the value of cash flows beyond the last projected period in our DCF analysis and reflects our best estimates for stable, perpetual growth of our reporting units. We use estimates of market-participant risk-adjusted WACC as a basis for determining the discount rates to apply to our reporting units' future expected cash flows.

If the carrying value of a reporting unit exceeds its fair value, we then perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. If the carrying value of a reporting unit is zero or negative, we evaluate whether it is more likely than not that a goodwill impairment exists. If we determine adverse qualitative factors exist that would indicate it is more likely than not an impairment exists, we then perform the second step of the goodwill test. The second step of the goodwill impairment test compares the estimated fair value of a reporting unit's goodwill to its carrying value. If we were unable to complete the second step of the test prior to the issuance of our financial statements and an impairment loss was probable and could be reasonably estimated, we would recognize our best estimate of the loss in our current period financial statements and disclose that the amount is an estimate. We would then recognize any adjustment to that estimate in subsequent reporting periods, once we have finalized the second step of the impairment test. See Note D - Goodwill and Other Intangible Assets for discussion of our goodwill impairment charges.

Investments in Publicly Traded and Privately Held Entities

We account for our publicly traded investments as available-for-sale securities based on the quoted market price at the end of the reporting period. We compute realized gains and losses on sales of available-for-sale securities based on the average cost method, adjusted for any other-than-temporary declines in fair value. We account for our investments in privately held entities, for which fair value is not readily determinable, in accordance with ASC Topic 323, Investments – Equity Method and Joint Ventures.

We account for investments in entities over which we have the ability to exercise significant influence under the equity method if we hold 50 percent or less of the voting stock and the entity is not a VIE in which we are the primary beneficiary. We record these investments initially at cost, and adjust the carrying amount to reflect our share of the earnings or losses of the investee, including all adjustments similar to those made in preparing consolidated financial statements. The book value of investments that we accounted for under the equity method of accounting was $18 million as of December 31, 2013 and $16 million as of December 31, 2012. We account for investments in entities in which we have less than a 20 percent ownership interest under the cost method of accounting if we do not have the ability to exercise significant influence over the investee. The aggregate carrying amount of our cost method investments was $20 million as of December 31, 2013 and $13 million as of December 31, 2012. In addition, we had notes receivable from certain companies of $13 million as of December 31, 2013 and $5 million as of December 31, 2012.

Each reporting period, we evaluate our investments to determine if there are any events or circumstances that are likely to have a significant adverse effect on the fair value of the investment. Examples of such impairment indicators include, but are not limited to: a significant deterioration in earnings performance; recent financing rounds at reduced valuations; a significant adverse change in the regulatory, economic or technological environment of an investee; or a significant doubt about an investee's ability to continue as a going concern. If we identify an impairment indicator, we will estimate the fair value of the investment and compare it to its carrying value. Our estimation of fair value considers all available financial information related to the investee, including valuations based on recent third-party equity investments in the investee. If the fair value of the investment is less than its carrying value, the investment is impaired and we make a determination as to whether the impairment is other-than-temporary. We deem an impairment to be other-than-temporary unless we have the ability and intent to hold an investment for a period sufficient for a market recovery up to the carrying value of the investment. Further, evidence must indicate that the carrying value of the investment is recoverable within a reasonable period. For other-than-temporary impairments, we recognize an impairment loss equal to the difference between an investment's carrying value and its fair value. Impairment losses on our investments are included in other, net in our consolidated statements of operations.

Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, we determine deferred tax assets and liabilities based on differences between the financial reporting and tax bases of our assets and liabilities. We measure deferred tax assets and liabilities using the enacted tax rates and laws that will be in effect when we expect the differences to reverse. We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years, the

availability of deferred tax liabilities and tax carrybacks, as well as an evaluation of currently available information about future years.

We do not provide income taxes on unremitted earnings of our foreign subsidiaries where we have indefinitely reinvested such earnings in our foreign operations. It is not practicable to estimate the amount of income taxes payable on the earnings that are indefinitely reinvested in foreign operations. Unremitted earnings of our foreign subsidiaries that we have indefinitely reinvested in foreign operations are $11.902 billion as of December 31, 2013 and $11.041 billion as of December 31, 2012.

We provide for potential amounts due in various tax jurisdictions. In the ordinary course of conducting business in multiple countries and tax jurisdictions, there are many transactions and calculations where the ultimate tax outcome is uncertain. Judgment is required in determining our worldwide income tax provision. In our opinion, we have made adequate provisions for income taxes for all years subject to audit. Although we believe our estimates are reasonable, the final outcome of open tax matters may be different from that which we have reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results. See Note J - Income Taxes for further information and discussion of our income tax provision and balances.

Legal and Product Liability Costs

We are involved in various legal and regulatory proceedings, including intellectual property, breach of contract, securities litigation and product liability suits. In some cases, the claimants seek damages, as well as other relief, which, if granted, could require significant expenditures or impact our ability to sell our products. We are also the subject of certain governmental investigations, which could result in substantial fines, penalties, and administrative remedies. We maintain an insurance policy providing limited coverage against securities claims, and we are substantially self-insured with respect to product liability claims and fully self-insured with respect to intellectual property infringement claims. We generally record losses for claims in excess of the limits of purchased insurance in earnings at the time and to the extent they are probable and estimable. We accrue anticipated costs of settlement, damages, losses for general product liability claims and, under certain conditions, costs of defense, based on historical experience or to the extent specific losses are probable and estimable. Otherwise, we expense these costs as incurred. If the estimate of a probable loss is a range and no amount within the range is more likely, we accrue the minimum amount of the range. We analyze litigation settlements to identify each element of the arrangement. We allocate arrangement consideration to patent licenses received based on estimates of fair value, and capitalize these amounts as assets if the license will provide an on-going future benefit. See Note K - Commitments and Contingencies for discussion of our individual material legal proceedings.

Costs Associated with Exit Activities

We record employee termination costs in accordance with ASC Topic 712, Compensation - Nonretirement and Postemployment Benefits, if we pay the benefits as part of an on-going benefit arrangement, which includes benefits provided as part of our domestic severance policy or that we provide in accordance with international statutory requirements. We accrue employee termination costs associated with an on-going benefit arrangement if the obligation is attributable to prior services rendered, the rights to the benefits have vested, the payment is probable and we can reasonably estimate the liability. We account for employee termination benefits that represent a one-time benefit in accordance with ASC Topic 420, Exit or Disposal Cost Obligations. We record such costs into expense over the employee’s future service period, if any. Other costs associated with exit activities may include contract termination costs, including costs related to leased facilities to be abandoned or subleased, and impairments of long-lived assets, and are expensed in accordance with ASC Topic 420 and ASC Topic 360, Property, Plant, and Equipment.

Translation of Foreign Currency

We translate all assets and liabilities of foreign subsidiaries from local currency into U.S. dollars using the year-end exchange rate, and translate revenues and expenses at the average exchange rates in effect during the year. We show the net effect of these translation adjustments in our consolidated financial statements as a component of accumulated other comprehensive loss. For any significant foreign subsidiaries located in highly inflationary economies, we would re-measure their financial statements as if the functional currency were the U.S. dollar. We did not record any highly inflationary economy translation adjustments in 2013, 2012 or 2011.

Foreign currency transaction gains and losses are included in other, net in our consolidated statements of operations, net of losses and gains from any related derivative financial instruments. We recognized net foreign currency transaction losses of $11 million in 2013, $18 million in 2012, and $12 million in 2011.

Financial Instruments

We recognize all derivative financial instruments in our consolidated financial statements at fair value in accordance with ASC Topic 815, Derivatives and Hedging, and we present assets and liabilities associated with our derivative financial instruments on a gross basis in our financial statements. In accordance with Topic 815, for those derivative instruments that are designated and qualify as hedging instruments, the hedging instrument must be designated, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. 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 Topic 815. Refer to Note E – Fair Value Measurements for more information on our derivative instruments.

Shipping and Handling Costs

We generally do not bill customers for shipping and handling of our products. Shipping and handling costs of $97 million in 2013, $105 million in 2012, and $100 million in 2011 are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Research and Development

We expense research and development costs, including new product development programs, regulatory compliance and clinical research as incurred. Refer to Indefinite-lived Intangibles, including In-Process Research and Development for our policy regarding in-process research and development acquired in connection with our business combinations and asset purchases.

Employee Retirement Plans

In connection with our 2006 acquisition of Guidant Corporation, we sponsor the Guidant Retirement Plan, a frozen noncontributory defined benefit plan covering a select group of current and former employees. The funding policy for the plan is consistent with U.S. employee benefit and tax-funding regulations. Plan assets, which are maintained in a trust, consist primarily of fixed-income instruments. Further, we sponsor the Guidant Supplemental Retirement Plan, a frozen, nonqualified defined benefit plan for certain former officers and employees of Guidant. The Guidant Supplemental Retirement Plan was funded through a Rabbi Trust that contains segregated company assets used to pay the benefit obligations related to the plan. In addition, certain current and former employees of Guidant are eligible to receive a portion of their healthcare retirement benefits under a frozen defined benefit plan.

In addition, we maintain an Executive Retirement Plan, a defined benefit plan covering executive officers and division presidents. Participants may retire with unreduced benefits once retirement conditions have been satisfied. We also maintain retirement plans covering certain international employees.

We use a December 31 measurement date for these plans and record the underfunded portion as a liability, recognizing changes in the funded status through other comprehensive income (OCI). The outstanding obligation as of December 31, 2013 and 2012 is as follows:

	As of December 31, 2013			As of December 31, 2012		
(in millions)	Projected Benefit Obligation (PBO)	Fair value of Plan Assets	Underfunded PBO Recognized	Projected Benefit Obligation (PBO)	Fair value of Plan Assets	Underfunded PBO Recognized
Executive Retirement Plan	$10	$—	$ 10	$13	$—	$ 13
Guidant Retirement Plan (frozen)	120	114	6	131	87	44
Guidant Supplemental Retirement Plan (frozen)	31	—	31	34	—	34
Guidant Healthcare Retirement Benefit Plan (frozen)	3	—	3	5	—	5
International Retirement Plans	84	52	32	85	43	42
	$248	$166	$ 82	$268	$130	$ 138

The value of the Rabbi Trust assets used to pay the Guidant Supplemental Retirement Plan benefits included in our accompanying consolidated financial statements was approximately $17 million as of December 31, 2013 and $21 million as of December 31, 2012.

The critical assumptions associated with our employee retirement plans as of December 31, 2013 are as follows:

	Discount Rate	Expected Return on Plan Assets	Long-Term Healthcare Cost Trend Rate	Rate of Compensation Increase
Executive Retirement Plan	4.50%			3.00%
Guidant Retirement Plan (frozen)	5.00%	5.50%		
Guidant Supplemental Retirement Plan (frozen)	4.75%			
Guidant Healthcare Retirement Benefit Plan (frozen)	1.00% - 2.00%		5.00%	
International Retirement Plans	0.75% - 3.70%	2.75% - 4.10%		3.00%

We base our discount rate on the rates of return available on high-quality bonds with maturities approximating the expected period over which benefits will be paid. The rate of compensation increase is based on historical and expected rate increases. We review external data and historical trends in healthcare costs to determine healthcare cost trend rate assumptions. We base our rate of expected return on plan assets on historical experience, our investment guidelines and expectations for long-term rates of return.

A rollforward of the changes in the fair value of plan assets for our funded retirement plans during 2013 and 2012 is as follows:

	Year Ended December 31,	
(in millions)	2013	2012
Beginning fair value	$130	$115
Actual return on plan assets	25	11
Employer contributions	32	20
Benefits paid	(15)	(13)
Net transfers in (out)	—	—
Foreign currency exchange	(6)	(3)
Ending fair value	$166	$130

We also sponsor a voluntary 401(k) Retirement Savings Plan for eligible employees. We match 200 percent of employee elective deferrals for the first two percent of employee eligible compensation, and 50 percent of employee elective deferrals greater than two percent, but not exceeding six percent, of employee eligible compensation. Total expense for our matching contributions to the plan was $59 million in 2013, $63 million in 2012, and $65 million in 2011.

Net Income (Loss) per Common Share

We base net income (loss) per common share upon the weighted-average number of common shares and common stock equivalents outstanding during each year. Potential common stock equivalents are determined using the treasury stock method. We exclude stock options whose effect would be anti-dilutive from the calculation.

NOTE B – ACQUISITIONS

Over the past three years, we have completed several acquisitions as part of our strategic initiatives, and have acquired technologies in the areas of cardiology, structural heart therapy, atrial fibrillation, peripheral vascular disease, hypertension, cardiac rhythm management, electrophysiology, endoscopic pulmonary intervention, and deep brain stimulation.

Our consolidated financial statements include the operating results for each acquired entity from its respective date of acquisition. We do not present pro forma financial information for these acquisitions given their results are not material to our consolidated financial statements. Transaction costs associated with these acquisitions were expensed as incurred and are not material for the years ended December 31, 2013, 2012 or 2011.

2013 Acquisition

On November 1, 2013, we completed the acquisition of the electrophysiology business of C.R. Bard Inc. (Bard EP), for $274 million in cash. We believe that this transaction adds a strong commercial team and complementary portfolio of ablation catheters, diagnostic tools, and electrophysiology recording systems, which we believe will allow us to

better serve the global Electrophysiology market through a more comprehensive portfolio offering and sales infrastructure.

Purchase Price Allocation

We accounted for this acquisition 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 for the acquisition consummated in 2013 are as follows (in millions):

Cash, net of cash acquired	$274
Fair value of contingent consideration	—
Fair value of prior interests	—
Fair value of debt assumed	—
	$274

Total consideration for the 2013 acquisition included initial $274 million of cash payments, net of cash acquired, at closing of the transaction.

The following summarizes the aggregate preliminary purchase price allocation for the 2013 acquisition as of December 31, 2013 (in millions):

Goodwill	$140
Amortizable intangible assets	112
Indefinite-lived intangible assets	—
Other net assets	19
Deferred income taxes	3
	$274

We allocated a portion of the preliminary purchase price to specific intangible asset categories as of the respective acquisition dates 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	$82	10	11.5%
Customer relationships	30	7	11.5%
	$112		

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.

Customer relationships represent the estimated fair value of the 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 products, both as of the acquisition date. These relationships were valued separately from goodwill as there is a history and pattern of conducting relationships with the customers and distributors on a contractual basis. We used the replacement cost and lost profits methodology to derive the fair value of the customer relationships. The customer relationships intangible assets are being 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 dates 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 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, the majority of which is deductible for tax purposes. Goodwill was established due primarily to synergies expected to be gained from the integration of this business into 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.

2012 Acquisitions

Cameron Health, Inc.

On June 8, 2012, we completed the acquisition of the remaining equity of Cameron Health, Inc. (Cameron). Cameron has developed the world's first and only commercially available subcutaneous implantable cardioverter defibrillator - the S-ICD® system. The S-ICD® system has received CE Mark approval and is sold in CE marked countries. In addition, in late September 2012, we received U.S. Food and Drug Administration (FDA) approval for the S-ICD® system, and commenced a limited commercial launch of this system in the United States during the fourth quarter of 2012. We are integrating the operations of the Cameron business into our CRM business. Total consideration includes an initial $150 million cash payment at closing of the transaction, a payment of $150 million upon FDA approval of the S-ICD® system and up to an additional $1.05 billion of potential payments upon achievement of specified revenue-based milestones over a six-year period following FDA approval. Due to our receipt of FDA approval of Cameron's S-ICD® system, we paid the related $150 million milestone payment to the former shareholders of Cameron during the fourth quarter of 2012.

BridgePoint Medical, Inc.

On October 4, 2012, we completed the acquisition of 100 percent of the fully diluted equity of BridgePoint Medical, Inc. (BridgePoint), a developer of catheter-based systems to treat coronary chronic total occlusions (CTOs). BridgePoint has the only U.S. approved crossing and re-entry system indicated for use in coronary CTOs. The system has also received CE Mark approval and TGA approval in Australia and is currently sold in Europe, Australia and the U.S. We have integrated the operations of the BridgePoint business into our Interventional Cardiology business. Total consideration includes an initial $20 million at closing of the transaction and up to an additional $90 million of revenue-based earnouts and milestones through 2016.

Rhythmia Medical, Inc.

On October 8, 2012, we completed the acquisition of 100 percent of the fully diluted equity of Rhythmia Medical, Inc. (Rhythmia). Rhythmia is a developer of next-generation mapping and navigation solutions for use in cardiac catheter ablations and other electrophysiology procedures, including atrial fibrillation and atrial flutter. We received CE Mark approval for the Rhythmia technology during the second quarter of 2013 and received FDA approval during July 2013. We are integrating the operations of the Rhythmia business into our Electrophysiology business. Total consideration includes an initial $90 million at closing of the transaction and up to an additional $175 million of regulatory and revenue-based milestones and revenue-based earnouts through 2017.

Vessix Vascular, Inc.

On November 19, 2012, we completed the acquisition of 100 percent of the fully diluted equity of Vessix Vascular, Inc. (Vessix). Vessix is a developer of a therapy to treat uncontrolled hypertension, or high blood pressure. The Vessix Vascular V2 Renal Denervation System™ has received CE Mark in Europe and TGA approval in Australia. Vessix has initiated the REDUCE-HTN post-market surveillance study and launched the product in CE Mark countries in 2013. We are integrating the operations of the Vessix business into our Peripheral Interventions business. Total consideration includes an initial $125 million at closing of the transaction and up to an additional $300 million of clinical and revenue-based milestones and revenue-based earnouts through 2016.

Purchase Price Allocation

The components of the aggregate purchase price for acquisitions consummated in 2012 are as follows (in millions):

Cash, net of cash acquired	$367
Fair value of contingent consideration	467
Fair value of prior interests	79
Fair value of debt assumed	9
	$922

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Explanation of Responses: 131

Total consideration for the 2012 acquisitions included initial $367 million cash payments, net of cash acquired, at closing of the transactions, with potential payments of up to an additional $1.615 billion based upon achievement of certain regulatory- and commercialization-related milestones and revenue through 2018. As of the respective acquisition dates, we recorded total contingent consideration liabilities of $467 million, representing the estimated fair value of the contingent consideration we expected to pay to the former shareholders of the acquired companies. The fair value of the contingent consideration liabilities was estimated by discounting, to present value, contingent payments expected to be made. In certain circumstances, we utilized a probability-weighted approach or monte carlo revenue simulation model to determine the fair value of contingent consideration.

Prior to the acquisition of Cameron, we had an equity interest in Cameron and held $40 million of notes receivable. We re-measured our previously held investments to their estimated acquisition-date fair value of $79 million and recorded a gain of $39 million in other, net in the accompanying consolidated statements of operations during the second quarter of 2012. 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. In addition, we prepaid the assumed debt obligation of Cameron for approximately $9 million during the second quarter of 2012.

The following summarizes the aggregate purchase price allocation for the 2012 acquisitions as of December 31, 2012 (in millions):

Goodwill (non-deductible for tax purposes)	$566
Amortizable intangible assets	189
Indefinite-lived intangible assets	132
Other net assets	15
Deferred income taxes	20
	$922

We allocated a portion of the final purchase price to specific intangible asset categories as of the respective acquisition dates 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	$187	8	14% to 28%
Customer relationships	2	5	14%
Indefinite-lived intangible assets:			
In-process research and development	132		14% to 28%
	$321		

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. The technology-related intangible assets are being amortized on a straight-line basis over their assigned estimated useful lives. In-process research and development represents the estimated fair value of acquired in-process research and development projects which have not yet reached technological feasibility.

2011 Acquisitions

Sadra Medical, Inc.

On January 4, 2011, we completed the acquisition of the remaining fully diluted equity of Sadra Medical, Inc. (Sadra). Prior to the acquisition, we held a 14 percent equity ownership in Sadra. Sadra is developing a fully repositionable and retrievable device for transcatheter aortic valve replacement (TAVR) to treat patients with severe aortic stenosis. The

Lotus™ Valve System consists of a stent-mounted tissue valve prosthesis and catheter delivery system for guidance and placement of the valve. The low-profile delivery system and introducer sheath are designed to enable accurate positioning, repositioning and retrieval at any time prior to release of the aortic valve implant. The acquisition was intended to broaden and diversify our product portfolio by expanding into the structural heart market. In October 2013, we received CE Mark approval and launched the Lotus™ Valve System in Europe.

We have integrated the operations of the Sadra business into our Interventional Cardiology business. Total consideration included a net cash payment of $193 million at closing to acquire the remaining 86 percent of Sadra and certain regulatory- and revenue-based milestones.

Intelect Medical, Inc.

On January 5, 2011, we completed the acquisition of the remaining fully diluted equity of Intelect Medical, Inc. (Intelect). Prior to the acquisition, we held a 15 percent equity ownership in Intelect. Intelect is developing advanced visualization and programming technology for deep-brain stimulation. We have integrated the operations of the Intelect business into our Neuromodulation business. The acquisition was intended to leverage the core architecture of the Vercise™ platform and advance our technology in the field of deep-brain stimulation. In May 2013, we received CE Mark approval for the GUIDE™ DBS System. We paid $60 million at the closing of the transaction using cash on hand to acquire the remaining 85 percent of Intelect. There is no contingent consideration related to the Intelect acquisition.

ReVascular Therapeutics, Inc.

On February 15, 2011, we completed the acquisition of 100 percent of the fully diluted equity of ReVascular Therapeutics, Inc. (RVT). RVT has developed the TRUEPATH™ intraluminal chronic total occlusion crossing device enabling endovascular treatment in cases that typically cannot be treated with standard endovascular devices. This acquisition complements our portfolio of devices for lower extremity peripheral artery disease and we have integrated the operations of RVT into our Peripheral Interventions business. Total consideration included a cash payment of $19 million at closing of the transaction and potential payments of up to $16 million through 2014 that are contingent upon the achievement of certain regulatory- and commercialization-based milestones and revenue.

Atritech, Inc.

On March 3, 2011, we completed the acquisition of 100 percent of the fully diluted equity of Atritech, Inc. (Atritech). Atritech has developed a device designed to close the left atrial appendage of the heart. The WATCHMAN® Left Atrial Appendage Closure Technology, developed by Atritech, is the first device proven to offer an alternative to anticoagulant drugs for patients with atrial fibrillation and at high risk for stroke, and is marketed in CE Mark countries. The acquisition was intended to broaden our portfolio of less-invasive devices for cardiovascular care by expanding into the areas of atrial fibrillation and structural heart therapy. We have integrated the operations of the Atritech business and are leveraging expertise from both our Electrophysiology and Interventional Cardiology divisions in the commercialization of the WATCHMAN® device. Total consideration included a net cash payment of $98 million at closing of the transaction and potential payments up to $275 million through 2015 that are contingent upon achievement of certain regulatory-based milestones and revenue.

Purchase Price Allocation

The components of the aggregate purchase price as of the acquisition date for acquisitions consummated in 2011 are as follows (in millions):

Cash, net of cash acquired	$370
Fair value of contingent consideration	287
Prior investments	55
	$712

Prior to our acquisition of the remaining equity ownership in Sadra and Intelect, we held equity interests in these companies of 14 percent and 15 percent, respectively, carried at an aggregate value of $11 million, and a note receivable carried at a value of $6 million. As a result of re-measuring these previously held investments to fair value, estimated at $55 million as of the respective acquisition dates, we recorded a gain of $38 million in other, net in the accompanying consolidated statements of operations during the first quarter of 2011. We measured the fair values of the previously held investments based on a pro-rata allocation of the consideration paid for the controlling interests acquired less an estimated minority interest discount in certain circumstances after considering previous financing rounds and liquidation preferences of the equity interests.

The following summarizes the aggregate purchase price allocation for the 2011 acquisitions (in millions):

Goodwill (non-deductible for tax purposes)	$266
Amortizable intangible assets	97
Indefinite-lived intangible assets	470
Deferred income taxes	(121)
	$712

We allocated the aggregate 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	$97	7	23% - 25%
Indefinite-lived intangible assets			
Purchased research and development	470		23% - 30%
	$567		

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 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.

Changes in our contingent consideration liability were as follows (in millions):

Balance as of December 31, 2011	$(358)
Amounts recorded related to new acquisitions	(467)
Other amounts recorded related to prior acquisitions	2
Net fair value adjustments	6
Payments made	154
Balance as of December 31, 2012	$(663)
Amounts recorded related to new acquisitions	—
Other amounts recorded related to prior acquisitions	1
Net fair value adjustments	(4)
Payments made	165
Balance as of December 31, 2013	$(501)

As of December 31, 2013, the maximum amount of future contingent consideration (undiscounted) that we could be required to make associated with our acquisitions is approximately $2.1 billion.

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. 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 December 31, 2013	Valuation Technique	Unobservable Input	Range
R&D, Regulatory and Commercialization-based Milestones	$84 million	Probability Weighted Discounted Cash Flow	Discount Rate	0.8% - 1.0%
			Probability of Payment	85%
			Projected Year of Payment	2014
Revenue-based Payments	$126 million	Discounted Cash Flow	Discount Rate	12% - 15%
			Probability of Payment	0% - 100%
			Projected Year of Payment	2014 - 2017
	$291 million	Monte Carlo	Revenue Volatility	13% - 26%
			Risk Free Rate	LIBOR Term Structure
			Projected Year of Payment	2014-2018

Contingent consideration liabilities are remeasured to fair value each reporting period using projected revenues, discount rates, probabilities of payment and projected payment dates. Projected contingent payment amounts related to R&D, regulatory- and commercialization-based milestones and certain revenue-based milestones are discounted back to the current period using a discounted cash flow 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 in isolation may result in a significantly lower or higher fair value measurement.

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, including an upfront payment of $1.426 billion, and $24 million which was placed into escrow and released throughout 2011 upon the completion of local closings in certain foreign jurisdictions. We received an additional $10 million during 2012, $30 million during the second quarter of 2013 and we received the final $10 million of consideration in January 2014. Due to our continuing involvement in the operations of the Neurovascular business following the divestiture, the divestiture did not meet the criteria for presentation as a discontinued operation. We recorded a gain of $38 million ($26 million after-tax) during 2013, a gain of $15 million ($12 million after tax) during 2012 and a gain of $778 million ($545 million after-tax) during 2011 associated with the transaction.

We recorded revenue related to the Neurovascular business following its divestiture of $58 million in 2013, $122 million in 2012 and $141 million in 2011. Our sales related to our divested Neurovascular business have declined as the various transition services and supply agreements have terminated.

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 December 31, 2013 and 2012 is as follows:

	As of December 31, 2013		As of December 31, 2012	
(in millions)	Gross Carrying Amount	Accumulated Amortization/ Write-offs	Gross Carrying Amount	Accumulated Amortization/ Write-offs
Amortizable intangible assets				
Technology-related	$8,272	$(3,342)	$8,020	$(3,005)
Patents	513	(326)	559	(352)
Other intangible assets	845	(479)	810	(428)
	$9,630	$(4,147)	$9,389	$(3,785)
Unamortizable intangible assets				
Goodwill	$15,593	$(9,900)	$15,450	$(9,477)
Technology-related	197		242	
	$15,790	$(9,900)	$15,692	$(9,477)

In addition, we had $270 million and $443 million of in-process research and development intangible assets as of December 31, 2013 and December 31, 2012, respectively. During the third quarter of 2013, we reclassified approximately $45 million of core technology not previously subject to amortization to amortizable intangible assets due to projected changes in the market for this technology. We tested the intangible asset for impairment prior to this reclassification and determined that the asset was not impaired.

2013 Reorganization

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. Effective as of January 1, 2013, we reorganized our business from geographic regions to fully operationalized global business units. Our reorganization changed our reporting structure and changed the composition of our reporting units for goodwill impairment testing purposes. Following the reorganization, based on information regularly reviewed by our chief operating decision maker, we have three new global reportable segments consisting of: Cardiovascular, Rhythm Management, and MedSurg. We determined our new global reporting units by identifying our operating segments and assessing whether any components of these segments constituted a business for which discrete financial information is available and whether segment management regularly reviews the operating results of any components. Through this process, we identified the following new global reporting units effective as of January 1, 2013: Interventional Cardiology, Peripheral Interventions, Cardiac Rhythm Management, Electrophysiology, Endoscopy, Urology and Women's Health, and Neuromodulation. The discussion below for 2013 relates to our global business reporting units and for 2012 and prior periods, relates to our former regional reporting units. For our 2012 and 2011 assessments, we identified (i) six reporting units within the U.S., which included our CRM, Neuromodulation, Endoscopy, Urology and Women's Health, Electrophysiology, and Cardiovascular (consisting of Interventional Cardiology and Peripheral Interventions) franchises, and (ii) four international reporting units, including EMEA, Japan, Asia Pacific and the Americas.

To determine the amount of goodwill within our new global reporting units, on a relative fair value basis we reallocated $1.764 billion of goodwill previously allocated to our former Europe, Middle East and Africa (EMEA), Asia Pacific, Japan, and Americas international reporting units to our new global reporting units. In addition, we reallocated the goodwill previously allocated to the former U.S. divisional reporting units to each respective new global reporting unit, with the exception of the goodwill allocated to the former U.S. Cardiovascular reporting unit. The $2.380 billion of goodwill allocated to the former U.S. Cardiovascular reporting unit was reallocated between the new global Interventional Cardiology and global Peripheral Interventions reporting units on a relative fair value basis.

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Explanation of Responses: 138

The following represents our goodwill balance by new global reportable segment. We restated the prior period information to conform to the current presentation:

(in millions)	Cardiovascular	Rhythm Management	MedSurg	Total
Balance as of December 31, 2011	$4,542	$1,661	$3,558	$9,761
Purchase price adjustments	—	(1)	—	(1)
Goodwill acquired	186	327	50	563
Goodwill written off	(1,479)	(1,410)	(1,461)	(4,350)
Balance as of December 31, 2012	$3,249	$577	$2,147	$5,973
Purchase price adjustments	3	—	—	3
Goodwill acquired	—	140	—	140
Goodwill written off	—	(423)	—	(423)
Balance as of December 31, 2013	$3,252	$294	$2,147	$5,693

The 2012 and 2013 purchase price adjustments relate primarily to adjustments in taxes payable and deferred income taxes, including changes in the liability for unrecognized tax benefits.

Goodwill Impairment Testing and Charges

2013 Charges

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 impairment may exist. Following our reorganization from regions to global business units and our reallocation of goodwill on a relative fair value basis, we conducted the first step of the goodwill impairment test for all new global reporting units as of January 1, 2013. The first step requires a comparison of the carrying value of the reporting units to the fair value of these units. The fair value of each new global reporting unit exceeded its carrying value, with the exception of the global CRM reporting unit. The global CRM reporting unit carrying value exceeded its fair value primarily due to the carrying value of its amortizable intangible assets. The carrying value of amortizable intangible assets allocated to the global CRM reporting unit was $4.636 billion as of January 1, 2013. In accordance with ASC Topic 350, Intangibles—Goodwill and Other, we tested the global CRM amortizable intangible assets for impairment in conjunction with the interim goodwill impairment test of our global CRM reporting unit. We performed the impairment analysis of the amortizable intangible assets on an undiscounted cash flow basis, and concluded that these assets were not impaired.

The second step of the goodwill impairment test compares the estimated fair value of a reporting unit’s goodwill to its carrying value. We performed the second step of the goodwill impairment test on the global CRM reporting unit and recorded a non-cash goodwill impairment charge of $423 million ($421 million after-tax) to write-down the goodwill to its implied fair value as of January 1, 2013. The primary driver of this impairment charge was our reorganization from geographic regions to global business units as of January 1, 2013, which changed the composition of our reporting units. As a result of the reorganization, any goodwill allocated to the global CRM reporting unit was no longer supported by the cash flows of other businesses. Under our former reporting unit structure, the goodwill allocated to our regional reporting units was supported by the cash flows from all businesses in each international region. The hypothetical tax structure of the global CRM business and the global CRM business discount rate applied were also contributing factors to the goodwill impairment charge. We finalized the second step of the global CRM goodwill impairment test during the second quarter of 2013, in accordance with ASC Topic 350, Intangibles-Goodwill and Other, and determined that no adjustments to the charge were required. After recording the impairment charge in the first quarter of 2013, there was no remaining goodwill allocated to the global CRM reporting unit.

The goodwill impairment charge taken during the first quarter of 2013 was determined on a global CRM basis pursuant to our new organizational structure. We used the income approach, specifically the DCF method, to derive the fair value of the global CRM reporting unit. We completed a DCF model associated with our new global CRM business, including the amount and timing of future expected cash flows, tax attributes, the terminal value growth rate of approximately two percent and the appropriate market-participant risk-adjusted weighted average cost of capital (WACC) of approximately 12 percent.

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Explanation of Responses: 140

In the second quarter of 2013, 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 except CRM, for which no goodwill remains. Therefore, it was deemed not necessary to proceed to the second step of the impairment test. We have identified our global Neuromodulation 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 Neuromodulation reporting unit holds $1.356 billion of allocated goodwill. The level of excess fair value over carrying value for this reporting unit identified during our annual goodwill impairment test was approximately 16 percent. Future 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 including global CRM. Further, the recoverability of our CRM-related amortizable intangibles ($4.374 billion globally as of December 31, 2013) is sensitive to future cash flow assumptions and our global CRM business performance. The $4.374 billion of CRM-related amortizable intangibles are at higher risk of potential failure of the first step of the amortizable intangible recoverability test in future reporting periods. An impairment of a material portion of our CRM-related amortizable intangibles carrying value would occur if the second step of the amortizable intangible test is required in a future reporting period. Refer to Critical Accounting Policies and Estimates within our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 7 of this Annual Report on Form 10-K 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 and intangible assets. 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 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 asset impairment charges. For example, keeping all other variables constant, an increase in the WACC applied of 80 basis points or a 200 basis point decrease in the terminal value growth rate would require that we perform the second step of the goodwill impairment test for the global Neuromodulation 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 and intangible asset balances.

Future events that could have a negative impact on the levels of excess fair value over carrying value of our reporting units and/or amortizable intangible assets 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 or disruptive 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;
- 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 on-going 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 additional impairment charges.

2012 Charges

In the second quarter of 2012, we performed our annual goodwill impairment test for all of our reporting units and concluded that the goodwill within our former EMEA reporting unit was impaired and recorded a charge of $3.602 billion ($3.579 billion after-tax). As a result of revised estimates developed during our annual strategic planning process and analysis performed in conjunction with our annual goodwill impairment test, we concluded that the revenue growth rates projected for the EMEA reporting unit were slightly lower than our previous estimates primarily driven by macro-economic factors and our performance in the European market. We updated short-term operating projections based on our most recent strategic plan for EMEA prepared by management. We reduced the EMEA long-term growth rates and terminal value growth rate projections and increased the discount rate within our 15-year DCF model for EMEA by approximately 100 basis points due to increased risk associated with our projections in this market primarily as a result of economic uncertainty in Europe. In addition, our expectations for future growth and profitability were lowered as compared to our previous estimates and reflected declines in average selling prices and volume pressures due to austerity measures. We finalized the second step of the EMEA goodwill impairment test during the third quarter of 2012, in accordance with ASC Topic 350, Intangibles-Goodwill and Other, and there were no adjustments to the charge upon finalization.

In the third quarter of 2012, we performed an interim goodwill impairment test and recorded a non-cash $748 million (pre- and after-tax) charge associated with our former U.S. Cardiac Rhythm Management (U.S. CRM) reporting unit, primarily driven by a reduction in the estimated size of the U.S. CRM market, related adjustments to our business and other competitive factors, which led to lower projected U.S. CRM results compared to prior forecasts. The U.S. CRM market is dynamic, highly competitive and difficult to forecast; in the third quarter of 2012, we lowered our projections for the U.S. CRM market size and our future revenue levels within this market, primarily to reflect changes in expectations of average selling prices and unit growth, adjustments to our business and other competitive factors. The increased pricing pressure and lower unit volumes were primarily due to physician alignment with hospitals, efforts to reduce health care costs, focus on appropriate device usage, replacement volumes and competition, and were more impactful to the U.S. CRM business than previously estimated. In addition, we adjusted certain elements of our business and shifted investments to focus on areas expected to provide the highest future growth and financial return. As a result of these factors, we reduced the compound annual revenue growth rate of our 15 year DCF model for the U.S. CRM reporting unit by approximately 250 basis points. We finalized the second step of the U.S. CRM goodwill impairment test during the fourth quarter of 2012, in accordance with ASC Topic 350, Intangibles-Goodwill and Other, and there were no adjustments to the charge upon finalization.

2011 Charge

Based on market information that became available to us toward the end of the first quarter of 2011, we concluded that there was a reduction in the estimated size of the U.S. ICD market, which led to lower projected U.S. CRM results compared to prior forecasts and created an indication of potential impairment of the goodwill balance attributable to our former U.S. CRM business unit. Therefore, we performed an interim impairment test in accordance with U.S. GAAP and our accounting policies and recorded a non-deductible goodwill impairment charge of $697 million, on both a pre-tax and after-tax basis, associated with this business unit during the first quarter of 2011.

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, 2011	$—	$(5,127)	$—	(5,127)
Goodwill written off	(1,479)	(1,410)	(1,461)	(4,350)
Accumulated write-offs as of December 31, 2012	$(1,479)	$(6,537)	(1,461)	$(9,477)
Goodwill written off	—	(423)	—	(423)
Accumulated write-offs as of December 31, 2013	$(1,479)	$(6,960)	$(1,461)	$(9,900)

Intangible Asset Impairment Charges

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. The recoverability of our CRM-related amortizable intangibles ($4.374 billion globally as of December 31, 2013) are sensitive to changes in future cash flow assumptions and our global CRM business performance. The $4.374 billion of CRM-related amortizable intangibles are at higher risk of potential failure of the first step of the amortizable intangible recoverability test in future reporting periods. An impairment of a material portion of our CRM-related amortizable intangibles carrying value would occur if the second step of the amortizable intangible test is required in a future reporting period. See Goodwill Impairment Charges above for discussion of future events that could have a negative impact on the levels of excess fair value over carrying value of our CRM-related amortizable intangible assets.

2013 Charges

During the third quarter of 2013, we performed our annual impairment test of all in-process research and development projects, and our indefinite lived core technology assets, and recorded no impairments based on the results of our testing.

During the second quarter of 2013 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 associated with certain of our acquisitions. Based on the results of our impairment analyses, we revised our expectations of the market size related to Sadra Medical, Inc. (Sadra), and the resulting timing and amount of future revenue and cash flows associated with the technology acquired from Sadra. As a result of these changes, we recorded pre-tax impairment charges of $51 million to write-down the balance of these intangible assets to their fair value during the second quarter of 2013. During the second quarter of 2013, we also recorded an additional $2 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.

In-process research and development fair value is measured using projected revenues, projected expenses, discount rates, and
probability of expected launch. The nonrecurring Level 3 fair value measurements of the impairment analysis performed in the second quarter of 2013 included the following significant unobservable inputs:

Intangible Asset	Fair Value as of Second Quarter 2013	Valuation Technique	Unobservable Input	Rate
In-Process R&D	$178 million	Income Approach - Excess Earnings Method	Discount Rate	16.5%

2012 Charges

During the third quarter of 2012, we performed our annual impairment test of all in-process research and development projects, and our indefinite lived core technology assets. Based on the results of our annual test, we recorded total impairment charges of $13 million ($10 million after-tax) to write-down the balances of certain in-process projects to their fair value. These charges were primarily due to increased expectations in the cost to bring an in-process project to market in a certain geographic region and lower future revenue expectations associated with an in-process project.

In-process research and development fair value is measured using projected revenues, projected expenses, discount rates, and probability of expected launch. The nonrecurring Level 3 fair value measurements of the impairment charges taken in the third quarter of 2012 included the following significant unobservable inputs:

Intangible Asset	Fair Value as of Third Quarter 2012	Valuation Technique	Unobservable Input	Range
In-Process R&D	$26 million	Income Approach - Excess Earnings Method	Discount Rate	20%-25%

During the second quarter of 2012, 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 associated with our acquisition of Sadra Medical, Inc. Based on our impairment analysis, we revised our expectations of the required effort, time and cost involved in completing the in-process projects and bringing the related products to market. As a result of these changes, we recorded an impairment charge of $129 million ($110 million after-tax) to write-down the balance of these intangible assets to their fair value during

the second quarter of 2012.

The nonrecurring Level 3 fair value measurements of the impairment charges taken in the second quarter of 2012 included the following significant unobservable inputs:

Intangible Asset	Fair Value as of Second Quarter 2012	Valuation Technique	Unobservable Input	Range
In-Process R&D	$184 million	Income Approach - Excess Earnings Method	Discount Rate	20%

2011 Charges

During the third quarter of 2011, we recorded a $9 million intangible asset impairment charge attributable to lower projected cash flows associated with certain technologies. During the second quarter of 2011, we recorded a $12 million intangible asset impairment charge associated with changes in the timing and amount of the expected cash flows related to certain in-process research and development projects.

The intangible asset category and associated write downs recorded in 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
(in millions)	2013	2012	2011
Technology-related	$—	$—	$9
Purchased research and development	53	142	12
	$53	142	$21

Estimated amortization expense for each of the five succeeding fiscal years based upon our intangible asset portfolio as of December 31, 2013 is as follows:

Fiscal Year	Estimated Amortization Expense (in millions)
2014	$433
2015	441
2016	441
2017	440
2018	441

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.

NOTE E – FAIR VALUE MEASUREMENTS

Derivative Instruments and Hedging Activities

We develop, manufacture and sell medical devices globally and our earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates and interest rates. We address these risks through a risk management program that includes the use of derivative financial instruments, and operate the program pursuant to documented corporate risk management policies. We recognize all derivative financial instruments in our consolidated financial statements at fair value in accordance with ASC Topic 815, Derivatives and Hedging. In accordance with Topic 815, for those derivative instruments that are designated and qualify as hedging instruments, the hedging instrument must be designated, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. 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 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 both derivative instruments (currency forward and option contracts), and non-derivative transactions (primarily European manufacturing and distribution operations) 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.

Designated Foreign Currency Hedges

All of our designated currency hedge contracts outstanding as of December 31, 2013 and December 31, 2012 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 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 $2.564 billion as of December 31, 2013 and $2.469 billion as of December 31, 2012.

We recognized net gains of $36 million during 2013 on our cash flow hedges, as compared to $39 million of net losses during 2012, and $95 million of net losses during 2011. All currency cash flow hedges outstanding as of December 31, 2013 mature within 36 months. As of December 31, 2013, $139 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 $31 million as of December 31, 2012. As of December 31, 2013, $75 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 $1.952 billion as of December 31, 2013 and $1.942 billion as of December 31, 2012.

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 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, and had $450 million outstanding as of December 31, 2013. We assessed at inception, and re-assess on an ongoing basis, whether the interest rate derivative contracts are highly effective in offsetting changes in the fair value of the hedged fixed rate debt. We recognized in interest expense, a $7 million gain on our hedged debt obligation, and an $8 million loss on the related interest rate derivative contract during 2013, resulting in a $1 million net loss recorded in earnings due to ineffectiveness. We had no interest rate derivative contracts outstanding as of December 31, 2012.

In prior years, we terminated certain interest rate derivative contracts, including fixed-to-floating interest rate contracts, designated as fair value hedges, and floating-to-fixed treasury locks designated as cash flow hedges. We amortize the gains and losses of these derivative instruments upon termination into earnings as a reduction 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 December 31, 2013 and $64 million as of December 31, 2012, and unamortized losses of $2 million as of December 31, 2013 and $3 million as of December 31, 2012, related to the fixed-to-floating interest rate contracts. In addition, we had pre-tax net gains within AOCI related to terminated floating-to-fixed treasury locks of $3 million as of December 31, 2013 and $4 million as of December 31, 2012. The gains that we recognized in earnings related to previously terminated interest rate derivatives were $10 million in 2013, $11 million in 2012, and were not material in 2011. As of December 31, 2013, $9 million of net gains may be reclassified to earnings within the next twelve months from amortization of our previously 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 our 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 by actively monitoring their credit ratings and outstanding fair values on an on-going 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 credit risk by counterparty 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.

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 consolidated statements of operations during 2013, 2012 and 2011 (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
Year Ended December 31, 2013			
Interest rate hedge contracts	$—	$1	Interest expense
Currency hedge contracts	207	36	Cost of products sold
	$207	$37	
Year Ended December 31, 2012			
Interest rate hedge contracts	$—	$2	Interest expense
Currency hedge contracts	95	(39)	Cost of products sold
	$95	$(37)	
Year Ended December 31, 2011			
Interest rate hedge contracts	$—	$1	Interest expense
Currency hedge contracts	(66)	(95)	Cost of products sold
	$(66)	$(94)	

The amount of loss recognized in earnings related to the ineffective portion of our hedging relationships was $1 million in 2013 and de minimus in 2012. In 2011, we recognized a $5 million gain related to the ineffective portion of hedging relationships.

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	Year Ended December 31,			Location in Statement of Operations
	2013	2012	2011	
Gain (loss) on currency hedge contracts	$102	$23	$12	Other, net
Gain (loss) on foreign currency transaction exposures	(113)	(41)	(24)	Other, net
Net foreign currency gain (loss)	$(11)	$(18)	$(12)	

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 ASC Topic 820, Fair Value Measurements and Disclosures, 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 assets, and our creditworthiness for liabilities. In certain instances, we may utilize financial models to measure fair value. 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 December 31, 2013, 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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Explanation of Responses:

The following are the balances of our derivative assets and liabilities as of December 31, 2013 and December 31, 2012:

(in millions)	Location in Balance Sheet (1)	As of December 31, 2013	December 31, 2012
Derivative Assets:			
Designated Hedging Instruments			
Currency hedge contracts	Prepaid and other current assets	$117	$25
Currency hedge contracts	Other long-term assets	120	63
Interest rate contracts	Prepaid and other current assets	1	—
		238	88
Non-Designated Hedging Instruments			
Currency hedge contracts	Prepaid and other current assets	27	33
Total Derivative Assets		$265	$121
Derivative Liabilities:			
Designated Hedging Instruments			
Currency hedge contracts	Other current liabilities	$13	$20
Currency hedge contracts	Other long-term liabilities	19	10
Interest rate contracts	Other long-term liabilities	8	—
		40	30
Non-Designated Hedging Instruments			
Currency hedge contracts	Other current liabilities	23	27
Total Derivative Liabilities		$63	$57

(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.

Assets and liabilities measured at fair value on a recurring basis consist of the following as of December 31, 2013 and December 31, 2012:

	As of December 31, 2013				As of December 31, 2012			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market and government funds	$38	$—	$—	$38	$39	$—	$—	$39
Currency hedge contracts	—	264	—	264	—	121	—	121
Interest rate contracts	—	1	—	1	—	—	—	—
	$38	$265	$—	$303	$39	$121	$—	$160
Liabilities								
Currency hedge contracts	$—	$55	$—	$55	$—	$57	$—	$57
Accrued contingent consideration	—	—	501	501	—	—	663	663
Interest rate contracts	—	8	—	8	—	—	—	—
	$—	$63	$501	$564	—	$57	$663	$720

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 consolidated balance sheets, in accordance with U.S. GAAP and our accounting policies.

In addition to $38 million invested in money market and government funds as of December 31, 2013, we had $31 million in short-term time deposits and $148 million in interest bearing and non-interest bearing bank accounts. In addition to $39 million invested in money market and government funds as of December 31, 2012, we had $168 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 liability. Refer to Note B - Acquisitions for a discussion of the changes in the fair value of our contingent consideration liability.

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 $20 million as of December 31, 2013 and $13 million as of December 31, 2012.

During 2013 and 2012, we recorded losses of $476 million and $4.492 billion, respectively, to adjust our goodwill and certain other intangible asset balances to their fair value. Refer to Note D - Goodwill and Other Intangible Assets, for further detailed information related to these charges and significant unobservable inputs.

The fair value of our outstanding debt obligations was $4.602 billion as of December 31, 2013 and $4.793 billion as of December 31, 2012, 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 for a discussion of our debt obligations.

NOTE F – BORROWINGS AND CREDIT ARRANGEMENTS

We had total debt of $4.240 billion as of December 31, 2013 and $4.256 billion as of December 31, 2012. During the third quarter of 2013, we refinanced our public debt obligations maturing in June 2014 and January 2015 (see Senior Notes below). The debt maturity schedule for the significant components of our debt obligations as of December 31, 2013 is as follows:

(in millions)	2014	2015	2016	2017	2018	Thereafter	Total
Senior notes	$—	$400	$600	$250	$600	$1,950	$3,800
Term loan	—	—	80	80	240	—	400
	$—	$400	$680	$330	$840	$1,950	$4,200

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

We maintain a $2.0 billion revolving credit facility, maturing in April 2017, with a global syndicate of commercial banks. Eurodollar and multicurrency loans under this revolving credit facility bear interest at LIBOR plus an interest margin of between 0.875 percent and 1.475 percent, based on our corporate credit ratings and consolidated leverage ratio (1.275 percent, as of December 31, 2013). 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 commitments, regardless of usage, under the agreement (0.225 percent, as of December 31, 2013). There were no amounts borrowed under our revolving credit facility as of December 31, 2013 or December 31, 2012.

Our revolving credit facility agreement in place as of December 31, 2013 requires that we maintain certain financial covenants, as follows:

	Covenant Requirement	Actual as of December 31, 2013
Maximum leverage ratio (1)	3.5 times	2.5 times
Minimum interest coverage ratio (2)	3.0 times	5.2 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 provides for an exclusion from the calculation of consolidated EBITDA, as defined by the agreement, through the credit agreement maturity, of any non-cash charges and up to $500 million in restructuring charges and restructuring-related expenses related to our current or future restructuring plans. As of December 31, 2013, we had $234 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 shall not exceed $2.300 billion in the aggregate. As of December 31, 2013, we had approximately $2.185 billion of the combined legal and debt exclusion remaining. As of and through December 31, 2013, we were in compliance with the required covenants.

Any inability to maintain compliance with these covenants could require us to seek to renegotiate the terms of our credit facilities or seek waivers from compliance with these covenants, both of which could result in additional borrowing costs. Further, there can be no assurance that our lenders would agree to such new terms or grant such waivers.

Term Loan

In August 2013, we entered into a new $400 million, unsecured term loan facility. Term loan borrowings under this facility bear interest at LIBOR plus an interest margin of between 1.0 percent and 1.75 percent (currently 1.5 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; the maximum leverage ratio requirement is 3.5 times, our actual leverage ratio as of December 31, 2013 is 2.5 times and the minimum interest coverage ratio requirement is 3.0 times, our actual interest coverage ratio as of December 31, 2013 is 5.2 times. We had $400 million outstanding under this facility as of December 31, 2013 and no borrowings outstanding as of December 31, 2012.

Senior Notes

We had senior notes outstanding of $3.800 billion and $4.200 billion as of December 31, 2013 and December 31, 2012, respectively. In August 2013, we issued $600 million of 2.650% senior notes due in 2018, and $450 million of 4.125% senior notes due in 2023. In September 2013, we used the proceeds, together with borrowings under our new $400 million term loan facility, to prepay $600 million of senior notes maturing in June 2014 and $850 million maturing in January 2015. We recorded a one-time charge of $70 million ($44 million after-tax) for premiums, accelerated amortization of debt issuance costs and investor discount costs net of accelerated amortization of interest rate hedge gains related to the early debt extinguishment. Our senior notes are publicly registered securities, 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 liabilities of our subsidiaries (see Other Arrangements below).

Our senior notes consist of the following as of December 31, 2013:

	Amount (in millions)	Issuance Date	Maturity Date	Semi-annual Coupon Rate
November 2015 Notes	$400	November 2005	November 2015	5.500%
June 2016 Notes	600	June 2006	June 2016	6.400%
January 2017 Notes	250	November 2004	January 2017	5.125%
October 2018 Notes	600	August 2013	October 2018	2.650%
January 2020 Notes	850	December 2009	January 2020	6.000%
October 2023 Notes	450	August 2013	October 2023	4.125%
November 2035 Notes	350	November 2005	November 2035	6.250%
January 2040 Notes	300	December 2009	January 2040	7.375%
	$3,800			

Our $2.2 billion of senior notes issued in 2009 and 2013 contain a change-in-control provision, which provides that each holder of the senior notes may require us to repurchase all or a portion of the notes at a price equal to 101 percent of the aggregate repurchased principal, plus accrued and unpaid interest, if a rating event, as defined in the indenture, occurs as a result of a change-in-control, as defined in the indenture. Any other credit rating changes may impact our borrowing cost, but do not require us to repay any borrowings.

The interest rate payable on our November 2015 Notes is currently 6.25 percent and the interest rate payable on our November 2035 Notes is currently 7.00 percent. Corporate credit rating improvements may result in a decrease in the adjusted interest rate on our November 2015 and November 2035 Notes to the extent that our lowest credit rating is above BBB- or Baa3. The interest rates on our November 2015 and November 2035 Notes will be permanently reinstated to the issuance rate if the lowest credit ratings assigned to these senior notes is either A- or A3 or higher.

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Explanation of Responses: 157

Other Arrangements

We also maintain a credit and security facility secured by our U.S. trade receivables. In June 2013, we extended the maturity of this facility through June 2015, subject to further extension, reduced the size of the facility from $350 million to $300 million and added a maximum leverage covenant consistent with our revolving credit facility. The maximum leverage ratio requirement is 3.5 times and our actual leverage ratio as of December 31, 2013 is 2.5 times. We had no borrowings outstanding under this facility as of December 31, 2013 and December 31, 2012.

We have accounts receivable factoring programs in certain European countries that we account for as sales under ASC Topic 860, Transfers and Servicing. These agreements provide for the sale of accounts receivable to third parties, without recourse, of up to approximately $312 million as of December 31, 2013. 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 $146 million of receivables as of December 31, 2013 at an average interest rate of 3.3 percent, and $191 million as of December 31, 2012 at an average interest rate of 1.6 percent. Within Italy, Spain, Portugal and Greece the number of days our receivables are outstanding has increased 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 collectibility issues related to our outstanding receivables.

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 21.0 billion Japanese yen (approximately $200 million as of December 31, 2013). We de-recognized $147 million of notes receivable as of December 31, 2013 at an average interest rate of 1.8 percent and $182 million of notes receivable as of December 31, 2012 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 consolidated balance sheets.

As of December 31, 2013, we had outstanding letters of credit of $78 million, as compared to $94 million as of December 31, 2012, which consisted primarily of bank guarantees and collateral for workers' compensation insurance arrangements. As of December 31, 2013 and 2012, none of the beneficiaries had drawn upon the letters of credit or guarantees; accordingly, we have not recognized a related liability for our outstanding letters of credit in our consolidated balance sheets as of December 31, 2013 or 2012. We believe we will generate sufficient cash from operations to fund these payments and intend to fund these payments without drawing on the letters of credit.

NOTE G – LEASES

Rent expense amounted to $77 million in 2013, $80 million in 2012 and $90 million in 2011.

Our obligations under noncancelable capital leases were not material as of December 31, 2013 and 2012.

Future minimum rental commitments as of December 31, 2013 under other noncancelable lease agreements are as follows (in millions):

2014	$64
2015	51
2016	43
2017	29
2018	25
Thereafter	42
	$254

NOTE H – RESTRUCTURING-RELATED ACTIVITIES

On an on-going basis, we monitor the dynamics of the economy, the healthcare industry, and the markets in which we compete; and 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 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 its 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.

We estimate that the implementation of the 2014 Restructuring plan will result in total pre-tax charges of approximately $175 million to $225 million, of which approximately $160 million to $210 million is expected to result in future cash outlays. We have recorded related costs of $30 million in the fourth quarter of 2013, and are recording a portion of these expenses as restructuring charges and the remaining portion through other lines within our consolidated statement 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	$100 million to $120 million
Other (1)	$5 million to $15 million
Restructuring-related expenses:	
Other (2)	$70 million to $90 million
	$175 million to $225 million

(1) Consists primarily of consultant fees and costs associated with contractual 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, thereby increasing shareholder value. 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 divisions at several locations in emerging markets. This action was intended to enable us to grow our global commercial presence in key geographies and take advantage of many cost-reducing and productivity-enhancing opportunities. In addition, we undertook efforts to streamline various corporate functions, eliminate bureaucracy, increase productivity and better align corporate resources to our key business strategies. 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, is estimated to result in total pre-tax charges of approximately $285 million to $295 million, and approximately $270 million to $280 million of these charges is estimated to result in cash outlays, of which we have made payments of $268 million to date. We have recorded related costs of $284 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.

Explanation of Responses:

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

Type of cost	Total estimated amount expected to be incurred
Restructuring charges:	
Termination benefits	$135 million to $140 million
Other (1)	$110 million to $113 million
Restructuring-related expenses:	
Other (2)	$40 million to $42 million
	$285 million to $295 million

(1) Includes primarily consulting fees, net fixed asset write-offs and costs associated with contractual 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.

2010 Restructuring Plan

On February 6, 2010, our Board of Directors approved, and we committed to, a series of management changes and restructuring initiatives (the 2010 Restructuring plan) designed to focus our business, drive innovation, accelerate profitable revenue growth and increase both accountability and shareholder value. Key activities under the plan included the restructuring of certain of our businesses and corporate functions; the re-alignment of our international structure to reduce our administrative costs and invest in expansion opportunities including significant investments in emerging markets; and the re-prioritization and diversification of our product portfolio. Activities under the 2010 Restructuring plan were initiated in the first quarter of 2010 and were complete by the end of 2012.

The execution of the 2010 Restructuring plan resulted in total pre-tax charges of $160 million, and required cash outlays of $145 million. We have 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 costs associated with the 2010 Restructuring plan by major type of cost:

Type of cost	Total amount incurred
Restructuring charges:	
Termination benefits	$90 million
Fixed asset write-offs	$11 million
Other (1)	$51 million
Restructuring-related expenses:	
Other (2)	$8 million
	$160 million

(1) Includes primarily consulting fees and costs associated with contractual cancellations.

(2) Comprised of other costs directly related to the 2010 Restructuring plan, including accelerated depreciation and infrastructure-related costs.

Plant Network Optimization Program

In January 2009, our Board of Directors approved, and we committed to, a Plant Network Optimization program, intended to simplify our manufacturing plant structure by transferring certain production lines among facilities and by closing certain other facilities. The program was intended to improve our overall gross profit margins. Activities under the Plant Network Optimization program were initiated in the first quarter of 2009 and were substantially completed during 2012.

The Plant Network Optimization program resulted in total pre-tax charges of $126 million, and resulted in cash outlays of $103 million. We have recorded a portion of these expenses as restructuring charges and the remaining portion through cost of products sold within our consolidated statements of operations.

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Explanation of Responses: 163

The following provides a summary of our costs associated with the Plant Network Optimization program by major type of cost:

Type of cost	Total amount incurred
Restructuring charges:	
Termination benefits	$30 million
Restructuring-related expenses:	
Accelerated depreciation	$22 million
Transfer costs (1)	$74 million
	$126 million

(1) Consists primarily of costs to transfer product lines among facilities, including costs of transfer teams, freight, idle facility and product line validations.

In aggregate, we recorded restructuring charges pursuant to our restructuring plans of $101 million during 2013, $136 million during 2012, and $89 million during 2011. In addition, we recorded expenses within other lines of our accompanying consolidated statements of operations related to our restructuring initiatives of $23 million during 2013, $24 million during 2012, and $40 million during 2011.

The following presents these costs by major type and line item within our accompanying consolidated statements of operations, as well as by program:

Year Ended December 31, 2013

(in millions)	Termination Benefits	Accelerated Depreciation	Net (Gain) on Fixed Asset Disposals	Other	Total
Restructuring charges	$60	$—	$(15)	$56	$101
Restructuring-related expenses:					
Selling, general and administrative expenses	—	3	—	20	23
	—	3	—	20	23
	$60	$3	$(15)	$76	$124

(in millions)	Termination Benefits	Accelerated Depreciation	Net (Gain) on Fixed Asset Disposals	Other	Total
2014 Restructuring plan	$29	$—	$—	$1	$30
2011 Restructuring plan	37	3	(15)	75	100
2010 Restructuring plan	—	—	—	—	—
Plant Network Optimization program	(6)	—	—	—	(6)
	$60	$3	$(15)	$76	$124

Year Ended December 31, 2012

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
Restructuring charges	$79	$—	$—	$14	$43	$136
Restructuring-related expenses:						
Cost of products sold	—	—	8	—	—	8
Selling, general and administrative expenses	—	2	—	—	14	16
	—	2	8	—	14	24
	$79	$2	$8	$14	$57	$160

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
2011 Restructuring plan	$78	$2	$—	$14	$55	$149
2010 Restructuring plan	1	—	—	—	2	3
Plant Network Optimization program	—	—	8	—	—	8
	$79	$2	$8	$14	$57	$160

Year Ended December 31, 2011

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
Restructuring charges	$55	$—	$—	$—	$34	$89
Restructuring-related expenses:						
Cost of products sold	—	9	27	—	—	36
Selling, general and administrative expenses	—	—	—	—	4	4
	—	9	27	—	4	40
	$55	$9	$27	$—	$38	$129

(in millions)	Termination Benefits	Accelerated Depreciation	Transfer Costs	Fixed Asset Write-offs	Other	Total
2011 Restructuring plan	$21	$—	$—	$—	$14	$35
2010 Restructuring plan	24	1	—	—	24	49
Plant Network Optimization program	10	8	27	—	—	45
	$55	$9	$27	$—	$38	$129

Termination benefits represent amounts incurred pursuant to our on-going benefit arrangements and amounts for “one-time” involuntary termination benefits, and have been recorded in accordance with ASC Topic 712, Compensation – Non-retirement Postemployment Benefits and ASC Topic 420, Exit or Disposal Cost Obligations. We expect to record additional termination benefits related to our restructuring initiatives in 2014 when we identify with more specificity the job classifications, functions and locations of the remaining head count to be eliminated. Other restructuring costs, which represent primarily contractual cancellations and consulting fees, are being recorded as incurred in accordance with ASC Topic 420. Accelerated depreciation is being recorded over the adjusted remaining useful life of the related assets, and production line transfer costs are being recorded as incurred.

We have incurred cumulative restructuring charges related to our 2014 Restructuring plan, 2011 Restructuring plan, 2010 Restructuring plan and Plant Network Optimization program of $456 million and restructuring-related costs of $144 million since we committed to each plan. The following presents these costs by major type and by plan:

(in millions)	2014 Restructuring plan	2011 Restructuring plan	2010 Restructuring plan	Plant Network Optimization	Total
Termination benefits	$29	$136	$90	$30	$285
Fixed asset write-offs	—	(1)	11	—	10
Other	—	110	51	—	161
Total restructuring charges	29	245	152	30	456
Accelerated depreciation	—	5	—	22	27
Transfer costs	—	—	—	74	74
Other	1	34	8	—	43
Restructuring-related expenses	1	39	8	96	144
	$30	$284	$160	$126	$600

We made cash payments of $141 million in 2013 associated with restructuring initiatives pursuant to these plans, and have made total cash payments of $516 million related to our 2014 Restructuring plan, 2011 Restructuring plan, 2010 Restructuring plan and Plant Network Optimization program since committing to each plan. Each of these payments was made using cash generated from operations, and are comprised of the following:

(in millions)	2014 Restructuring plan	2011 Restructuring plan	2010 Restructuring plan	Plant Network Optimization	Total
Year Ended December 31, 2013					
Termination benefits	$—	$61	$—	$1	$62
Transfer costs	—	—	—	—	—
Other	—	79	—	—	79
	$—	$140	$—	$1	$141
Program to Date					
Termination benefits	$—	$124	$90	$30	$244
Transfer costs	—	—	—	73	73
Other	—	144	55	—	199
	$—	$268	$145	$103	$516

Our restructuring liability is primarily comprised of accruals for termination benefits. The following is a rollforward of the termination benefit liability associated with our 2014 Restructuring plan, 2011 Restructuring plan, 2010 Restructuring plan and Plant Network Optimization program, since the inception of the respective plan, which is reported as a component of accrued expenses included in our accompanying consolidated balance sheets:

	Restructuring Plan Termination Benefits				
(in millions)	2014	2011	2010	Plant Network Optimization	Total
Accrued as of December 31, 2010	$—	$—	$21	$26	$47
Charges	—	21	24	10	55
Cash payments	—	(3)	(39)	(3)	(45)
Accrued as of December 31, 2011	—	18	6	33	57
Charges	—	78	1	—	79
Cash payments	—	(60)	(4)	(24)	(88)
Accrued as of December 31, 2012	—	36	3	9	48
Charges	29	37	—	(6)	60
Cash payments	—	(61)	—	(1)	(62)
Other	—	—	(3)	(2)	(5)
Accrued as of December 31, 2013	$29	$12	$—	$—	$41

In addition to our accrual for termination benefits, we had an $8 million liability as of December 31, 2013 and a $5 million liability as of December 31, 2012 for other restructuring-related items.

NOTE I – SUPPLEMENTAL BALANCE SHEET INFORMATION

Components of selected captions in our accompanying consolidated balance sheets are as follows:

Trade accounts receivable, net

(in millions)	As of December 31, 2013	December 31, 2012
Accounts receivable	$1,419	$1,336
Less: allowance for doubtful accounts	(81)	(88)
Less: allowance for sales returns	(31)	(31)
	$1,307	$1,217

The following is a rollforward of our allowance for doubtful accounts for 2013, 2012 and 2011:

	Year Ended December 31,		
(in millions)	2013	2012	2011
Beginning balance	$88	$81	$83
Net charges to expenses	5	14	11
Utilization of allowances	(12)	(7)	(13)
Ending balance	$81	$88	$81

During the first quarter of 2011, we reversed $20 million of previously established allowances for doubtful accounts against long-outstanding receivables in Greece. These receivables had previously been fully reserved as we had determined that they had a high risk of being uncollectible due to the economic situation in Greece. During the first quarter of 2011, the Greek government converted these receivables into bonds, which we were able to monetize, reducing our allowance for doubtful accounts as a credit to selling, general and administrative expenses.

Inventories

(in millions)	As of December 31, 2013	December 31, 2012
Finished goods	$598	$598
Work-in-process	90	70
Raw materials	209	216
	$897	$884

Property, plant and equipment, net

(in millions)	As of December 31, 2013	December 31, 2012
Land	$81	$81
Buildings and improvements	917	873
Equipment, furniture and fixtures	2,461	2,348
Capital in progress	211	218
	3,670	3,520
Less: accumulated depreciation	2,124	1,956
	$1,546	$1,564

Accrued expenses

(in millions)	As of December 31, 2013	December 31, 2012
Legal reserves	$84	$100
Payroll and related liabilities	488	452
Accrued contingent consideration	148	120
Other	628	612
	$1,348	$1,284

Other long-term liabilities

(in millions)	As of December 31, 2013	December 31, 2012
Legal reserves	$523	$391
Accrued income taxes	1,283	1,215
Accrued contingent consideration	353	543
Other long-term liabilities	410	398
	$2,569	$2,547

NOTE J – INCOME TAXES

Our income (loss) before income taxes consisted of the following:

	Year Ended December 31,		
(in millions)	2013	2012	2011
Domestic	$(774)	$(1,265)	$(437)
Foreign	551	(2,842)	1,079
	$(223)	$(4,107)	$642

The related provision (benefit) for income taxes consisted of the following:

	Year Ended December 31,		
(in millions)	2013	2012	2011
Current			
Federal	$46	$33	$45
State	(9)	—	8
Foreign	105	139	91
	142	172	144
Deferred			
Federal	(212)	(204)	86
State	(17)	(7)	(8)
Foreign	(15)	—	(21)
	(244)	(211)	57
	$(102)	$(39)	$201

The reconciliation of income taxes at the federal statutory rate to the actual provision (benefit) for income taxes is as follows:

	Year Ended December 31,		
	2013	2012	2011
U.S. federal statutory income tax rate	(35.0)%	(35.0)%	35.0 %
State income taxes, net of federal benefit	(7.9)%	(0.2)%	0.5 %
State law changes on deferred tax	— %	— %	(1.2)%
Effect of foreign taxes	(63.4)%	(3.7)%	(63.7)%
Non-deductible acquisition expenses	3.5 %	— %	(1.9)%
Research credit	(12.2)%	— %	(3.4)%
Valuation allowance	(12.0)%	0.3 %	(2.9)%
Divestitures	— %	— %	25.4 %
Goodwill impairment charges	65.2 %	36.4 %	38.0 %
Non-deductible expenses	10.7 %	0.1 %	5.7 %
Uncertain domestic tax positions	7.0 %	0.8 %	5.6 %
Other, net	(1.9)%	0.3 %	(5.8)%
	(46.0)%	(1.0)%	31.3 %

We had net deferred tax liabilities of $1.074 billion as of December 31, 2013 and $1.237 billion as of December 31, 2012. Gross deferred tax liabilities of $2.203 billion as of December 31, 2013 and $2.310 billion as of December 31, 2012 relate primarily to intangible assets acquired in connection with our prior acquisitions. Gross deferred tax assets of $1.129 billion as of December 31, 2013 and $1.073 billion as of December 31, 2012 relate primarily to the establishment of inventory and product-related reserves; litigation, product liability and other reserves and accruals; stock-based compensation; net operating loss carryforwards and tax credit carryforwards; and the federal benefit of uncertain tax positions.

We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years, the availability of deferred tax liabilities and tax carrybacks, as well as an evaluation of currently available information about future years.

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Explanation of Responses: 170

Significant components of our deferred tax assets and liabilities are as follows:

	As of December 31,	
(in millions)	2013	2012
Deferred Tax Assets:		
Inventory costs, intercompany profit and related reserves	$116	$136
Tax benefit of net operating loss and credits	513	497
Reserves and accruals	221	300
Restructuring-related charges and purchased research and development	17	13
Litigation and product liability reserves	198	48
Unrealized gains and losses on derivative financial instruments	—	—
Investment write-down	15	13
Compensation related	143	171
Federal benefit of uncertain tax positions	166	157
Other	39	54
	1,428	1,389
Less valuation allowance	(299)	(316)
	1,129	1,073
Deferred Tax Liabilities:		
Property, plant and equipment	78	101
Unrealized gains and losses on derivative financial instruments	80	21
Intangible assets	2,045	2,187
Other	—	1
	2,203	2,310
Net Deferred Tax Liabilities	$1,074	$1,237

Our deferred tax assets and liabilities are included in the following locations within our accompanying consolidated balance sheets (in millions):

	Location in	As of December 31,	
Component	Balance Sheet	2013	2012
Current deferred tax asset	Deferred income taxes	$288	$433
Non-current deferred tax asset	Other long-term assets	42	54
Deferred Tax Assets		330	487
Current deferred tax liability	Other current liabilities	2	11
Non-current deferred tax liability	Deferred income taxes	1,402	1,713
Deferred Tax Liabilities		1,404	1,724
Net Deferred Tax Liabilities		$1,074	$1,237

As of December 31, 2013, we had U.S. tax net operating loss carryforwards and tax credits, the tax effect of which was $216 million, as compared to $184 million as of December 31, 2012. In addition, we had foreign tax net operating loss carryforwards and tax credits, the tax effect of which was $313 million as of December 31, 2013, as compared to $341 million as of December 31, 2012. These tax attributes will expire periodically beginning in 2014. After consideration of all positive and negative evidence, we believe that it is more likely than not that a portion of the deferred tax assets will not be realized. As a result, we established a valuation allowance of $299 million as of December 31, 2013 and $316 million as of December 31, 2012. The decrease in the valuation allowance as of December 31, 2013, as compared to December 31, 2012, is attributable primarily due to greater than expected net operating loss utilization as well as a change in judgment related to expected ability to realize certain deferred tax assets. The income tax impact of the unrealized gain or loss component of other comprehensive income was a charge of $72 million in 2013, a charge of $43 million in 2012, and a benefit of $1 million in 2011.

We do not provide income taxes on unremitted earnings of our foreign subsidiaries where we have indefinitely reinvested such earnings in our foreign operations. We do not believe it is practicable to estimate the amount of income taxes payable on the earnings that are indefinitely reinvested in foreign operations due to the complexities of this calculation. Unremitted earnings of our foreign subsidiaries that we have indefinitely reinvested in foreign operations were $11.902 billion as of December 31, 2013 and $11.041 billion as of December 31, 2012.
We obtain tax incentives through Free Trade Zone Regime offered in Costa Rica which allows 100% exemption from income tax in the first eight years of operations and 50% exemption in the following four years. This tax incentive resulted in income tax savings of $6 million, $7 million, and $2 million for the years 2013, 2012 and 2011, respectively. The tax incentive for 100% exemption from income tax is expected to expire in 2015. The impact of per share earnings is immaterial for 2013, 2012, and 2011.
As of December 31, 2013, we had $1.069 billion of gross unrecognized tax benefits, of which a net $939 million, if recognized, would affect our effective tax rate. As of December 31, 2012, we had $1.052 billion of gross unrecognized tax benefits, of which a net $902 million, if recognized, would affect our effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	Year Ended December 31,		
	2013	2012	2011
Beginning Balance	$1,052	$987	$965
Additions based on positions related to the current year	58	54	104
Additions based on positions related to prior years	45	43	8
Reductions for tax positions of prior years	(40)	(27)	(72)
Settlements with taxing authorities	(15)	(1)	(3)
Statute of limitation expirations	(31)	(4)	(15)
Ending Balance	$1,069	$1,052	$987

We are subject to U.S. Federal income tax as well as income tax of multiple state and foreign jurisdictions. We have concluded all U.S. federal income tax matters through 2000 and substantially all material state, local and foreign income tax matters through 2003.

We have received Notices of Deficiency from the IRS reflecting proposed audit adjustments for Guidant Corporation for its 2001 through 2006 tax years and Boston Scientific Corporation for its 2006 and 2007 tax years. Subsequent to issuing these Notices, the IRS conceded a portion of its original assessment. The total incremental tax liability now asserted by the IRS for the applicable periods is $1.162 billion plus interest. The primary issue in dispute for all years is the transfer pricing in connection with the technology license agreements between domestic and foreign subsidiaries of Guidant. In addition, the IRS has proposed adjustments in connection with the financial terms of our Transaction Agreement with Abbott Laboratories pertaining to the sale of Guidant's vascular intervention business to Abbott in April 2006. We do not agree with the transfer pricing methodologies applied by the IRS or its resulting assessment and we believe that the IRS has exceeded its authority by attempting to adjust the terms of our negotiated third-party agreement with Abbott. In addition, we believe that the IRS positions with regard to these matters are inconsistent with the applicable tax laws and the existing Treasury regulations.

We believe we have meritorious defenses for our tax filings and we have filed, or will timely file, petitions with the U.S. Tax Court contesting the Notices of Deficiency for the tax years in challenge. No payments on the net assessment would be required until the dispute is definitively resolved, which, based on experiences of other companies, could take several years. The IRS is currently examining the 2008 through 2010 tax years of Boston Scientific. During the first quarter of 2014 we were notified by the IRS of their intent to propose significant adjustments to our tax returns for these tax years based upon the same transfer pricing methodologies that are currently being contested in U.S. Tax Court for our tax years prior to 2008. As with the prior years, we disagree with the transfer pricing methodologies being applied by the IRS and we expect to contest any adjustments received through applicable IRS and judicial procedures, as appropriate. We believe that our income tax reserves associated with these matters are adequate and the

final resolution will not have a material impact on our financial condition or results of operations. However, final resolution is uncertain and could have a material impact on our financial condition or results of operations.

We recognize interest and penalties related to income taxes as a component of income tax expense. We had $402 million accrued for gross interest and penalties as of December 31, 2013 and $364 million as of December 31, 2012. The increase in gross interest and penalties was the result of $38 million recognized in our consolidated statements of operations. We recognized $22 million of interest and penalties related to income taxes in 2013, recognized $34 million in 2012 and released $18 million in 2011.
It is reasonably possible that within the next 12 months we will resolve multiple issues including transfer pricing and transactional related issues with foreign, federal and state taxing authorities, in which case we could record a reduction in our balance of unrecognized tax benefits of up to $27 million.

In September 2013, Treasury and the Internal Revenue Service issued final regulations regarding the deduction and capitalization of expenditures related to tangible property under Internal Revenue Code Sections (“IRC”) 162, 167 and 263(a). These regulations apply to amounts paid to acquire, produce, or improve tangible property as well as dispositions of such property. The general effective date is tax years beginning on or after January 1, 2014. We have evaluated these regulations and determined that they will not have a material impact on our results of operations.

NOTE K – COMMITMENTS AND CONTINGENCIES

The medical device market in which we primarily participate is largely technology driven. As a result, intellectual property rights, particularly patents and trade secrets, play a significant role in product development and differentiation. Over the years, there has been litigation initiated against us by others, including our competitors, claiming that our current or former product offerings infringe patents owned or licensed by them. Intellectual property litigation is inherently complex and unpredictable. In addition, competing parties frequently file multiple suits to leverage patent portfolios across product lines, technologies and geographies and to balance risk and exposure between the parties. In some cases, several competitors are parties in the same proceeding, or in a series of related proceedings, or litigate multiple features of a single class of devices. These forces frequently drive settlement not only for individual cases, but also for a series of pending and potentially related and unrelated cases. Although monetary and injunctive relief is typically sought, remedies and restitution are generally not determined until the conclusion of the trial court proceedings and can be modified on appeal. Accordingly, the outcomes of individual cases are difficult to time, predict or quantify and are often dependent upon the outcomes of other cases in other geographies.

During recent years, we successfully negotiated closure of several long-standing legal matters and have received favorable legal rulings in several other matters; however, there continues to be outstanding intellectual property litigation. Adverse outcomes in one or more of these matters could have a material adverse effect on our ability to sell certain products and on our operating margins, financial position, results of operations and/or liquidity.

In the normal course of business, product liability, securities and commercial claims are asserted against us. Similar claims may be asserted against us in the future related to events not known to management at the present time. We maintain an insurance policy providing limited coverage against securities claims, and we are substantially self-insured with respect to product liability claims and fully self-insured with respect to intellectual property infringement claims. The absence of significant third-party insurance coverage increases our potential exposure to unanticipated claims or adverse decisions. Product liability claims, securities and commercial litigation, and other legal proceedings in the future, regardless of their outcome, could have a material adverse effect on our financial position, results of operations and/or liquidity.

In addition, like other companies in the medical device industry, we are subject to extensive regulation by national, state and local government agencies in the United States and other countries in which we operate. From time to time we are the subject of qui tam actions and governmental investigations often involving regulatory, marketing and other business practices. These qui tam actions and governmental investigations could result in the commencement of civil and criminal proceedings, substantial fines, penalties and administrative remedies and have a material adverse effect on our financial position, results of operations and/or liquidity.

We record losses for claims in excess of the limits of purchased insurance in earnings at the time and to the extent they are probable and estimable. In accordance with ASC Topic 450, Contingencies, we accrue anticipated costs of settlement, damages, losses for general product liability claims and, under certain conditions, costs of defense, based on historical experience or to the extent specific losses are probable and estimable. Otherwise, we expense these costs as incurred. If the estimate of a probable loss is a range and no amount within the range is more likely, we accrue the minimum amount of the range.

Our accrual for legal matters that are probable and estimable was $607 million as of December 31, 2013 and $491 million as of December 31, 2012, and includes certain estimated costs of settlement, damages and defense. The increase in our legal accrual was primarily due to litigation-related charges recorded during the year. During 2013, 2012 and 2011, we recorded litigation-related charges in the amount of $221 million, $192 million, and $48 million, respectively. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could materially adversely impact our operating results, cash flows and/or our ability to comply with our debt covenants.

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

Patent Litigation

On September 22, 2009, Cordis Corporation, Cordis LLC and Wyeth Corporation filed a complaint for patent infringement against Abbott Laboratories, Abbott Cardiovascular Systems, Inc., Boston Scientific Scimed, Inc. and us alleging that the PROMUS® coronary stent system, supplied to us by Abbott, infringes a patent (the Llanos patent) owned by Cordis and Wyeth. The suit was filed in the U.S. District Court for the District of New Jersey seeking monetary and injunctive relief. In August 2010, Cordis filed an amended complaint to add an additional patent and in September 2010, we filed counterclaims of invalidity and non-infringement. On October 26, 2011, the District Court granted Cordis' motion to add the Promus Element stent system to the case. On February 6, 2012, the District Court granted our motion to stay the action until the conclusion of the reexaminations against the Llanos patents that are pending in the U.S. Patent and Trademark Office.

On May 19, 2005, G. David Jang, M.D. filed suit against us alleging breach of contract relating to certain patent rights covering stent technology. The suit was filed in the U.S. District Court for the Central District of California seeking monetary damages and rescission of contract. After a Markman ruling relating to the Jang patent rights, Dr. Jang stipulated to the dismissal of certain claims alleged in the complaint with a right to appeal and the parties subsequently agreed to settle the other claims. In May 2007, Dr. Jang filed an appeal with respect to the remaining patent claims and in July 2008, the Court of Appeals vacated the District Court's consent judgment and remanded the case back to the District Court for further clarification. In August 2011, the District Court entered a stipulated judgment that we did not infringe the Jang patent. Dr. Jang filed an appeal on September 21, 2011 and on August 22, 2012, the Court of Appeals vacated the District Court's judgment and remanded the case to the District Court for further proceedings.

On May 25, 2010, Dr. Jang filed suit against Boston Scientific Scimed, Inc. and us alleging breach of contract relating to certain patent rights covering stent technology. In October 2011, the U.S. District Court for the District of Delaware entered judgment in favor of us on the pleadings. Dr. Jang filed an appeal on August 28, 2012. On September 5, 2013, the Court of Appeals for the Third Circuit vacated the ruling and remanded the case to the District Court.

On September 27, 2010, Boston Scientific Scimed, Inc., Boston Scientific Ltd., Endovascular Technologies, Inc. and we filed suit against Taewoong Medical, Co., Ltd., Standard Sci-Tech, Inc., EndoChoice, Inc. and Sewoon Medical Co., Ltd for infringement of three patents on stents for use in the GI system (the Pulnev and Hankh patents) and against Cook Medical Inc. (and related entities) for infringement of the same three patents and an additional patent (the Thompson patent). The suit was filed in the U.S. District Court for the District of Massachusetts seeking monetary damages and injunctive relief. In December 2010, we amended our complaint to add infringement of six additional Pulnev patents. In January 2011, the defendants filed a counterclaim of invalidity and unenforceability. In December 2011, we amended the complaint to add Chek-Med Systems d/b/a GI Supply as a defendant.

On May 17, 2010, Dr. Luigi Tellini filed suit against us and certain of our subsidiaries, Guidant Italia S.r.l. and Boston Scientific S.p.A., in the Civil Tribunal in Milan, Italy alleging certain of our Cardiac Rhythm Management products infringe an Italian patent (the Tellini patent) owned by Dr. Tellini and seeking monetary damages. In January 2011, Dr. Tellini refiled amended claims after his initial claims were dismissed without prejudice to refile.

On May 16, 2013, Vascular Solutions, Inc. filed suit against us, alleging that its Guidezilla™ guide extension catheter infringes three U.S. patents owned by Vascular Solutions. The suit was filed in the U.S. District Court for the District of Minnesota seeking monetary and injunctive relief. On May 28, 2013 Vascular Solutions filed an amended complaint adding an allegation of copyright infringement. On June 10, 2013, Vascular Solutions filed a motion requesting a preliminary injunction. On July 11, 2013 we answered the amended complaint and filed a counterclaim against Vascular Solutions, alleging that its Guideliner™ guide extension catheter infringes a U.S. patent owned by us. On December 12, 2013, the District Court granted the motion for a preliminary injunction and on December 26, 2013, we filed an appeal.

On August 2, 2013, Medtronic Ardian Luxembourg S.a.r.l. filed a complaint against Boston Scientific Corporation and Boston Scientific Medizintechnik, GmbH in the Düsseldorf District Court in Germany alleging that the sale of our Vessix renal denervation product infringes a German patent owned by Medtronic Ardian. A hearing is scheduled for August 12, 2014.

On September 23, 2013, Kardiametrics, LLC filed a complaint in the United States District Court for the District of Delaware alleging that the sale of our FilterWire EZ Embolic Protection System, Sterling balloon catheters, Carotid NexStent and Carotid Wallstent products infringe two patents (the Azizi patents) owned by Kardiametrics. On January 24, 2014, we filed a motion to dismiss the case or in the alternative to stay the case pending an arbitration.

On February 18, 2014, Atlas IP, LLC filed a complaint in the United States District Court for the Southern District of Florida alleging that the sale of our LATITUDE® Patient Management System and implantable devices that communicate with the LATITUDE® device infringe a patent (the Fischer patent) owned by Atlas.

Product Liability Litigation

Fewer than ten individual lawsuits remain pending in various state and federal jurisdictions against Guidant alleging personal injuries associated with defibrillators or pacemakers involved in certain 2005 and 2006 product communications. Further, we are aware of approximately 30 Guidant product liability lawsuits pending in international jurisdictions associated with defibrillators or pacemakers, including devices involved in the 2005 and 2006 product communications. Six of these suits are pending in Canada and were filed as class actions, four of which are stayed pending the outcome of two lead class actions. On April 10, 2008, the Justice of Ontario Court certified a class of persons in whom defibrillators were implanted in Canada and a class of family members with derivative claims. On May 8, 2009, the Justice of Ontario Court certified a class of persons in whom pacemakers were implanted in Canada and a class of family members with derivative claims. In each case, these matters generally seek monetary damages from us. The parties in the defibrillator class action have reached an agreement in principle to settle the matter for approximately $3 million. The presiding judge has set an approval hearing for this settlement for March 24, 2014.

As of February 25, 2014, there were over 18,000 product liability cases or claims related to transvaginal surgical mesh products designed to treat stress urinary incontinence and pelvic organ prolapse pending against us. The cases are pending in various federal and state courts in the United States and include eight putative class actions. There were also over ten cases in Canada, inclusive of three putative class actions. Generally, the plaintiffs allege personal injury associated with use of our transvaginal surgical mesh products. The plaintiffs assert design and manufacturing claims, failure to warn, breach of warranty, fraud, violations of state consumer protection laws and loss of consortium claims. Over 1,700 of the cases have been specially assigned to one judge in state court in Massachusetts. On February 7, 2012, the Judicial Panel on Multi-District Litigation (MDL) established MDL-2326 in the U.S. District Court for the Southern District of West Virginia and transferred the federal court transvaginal surgical mesh cases to MDL-2326 for coordinated pretrial proceedings. In addition, in October 2012, the Attorney General for the State of California informed us that their office and certain other state attorneys general offices intended to initiate a civil investigation into our sale of transvaginal surgical mesh products. During the fourth quarter of 2013, we received written discovery requests from certain state attorneys general offices. We are responding to those requests. We have established a product liability accrual for known and estimated future cases and claims asserted against us as well as costs of defense thereof associated with our transvaginal surgical mesh products. While we believe that our accrual associated with this matter is adequate, changes to this accrual may be required in the future as additional information becomes available. We intend to vigorously contest the cases and claims asserted against us; however, the final resolution is uncertain and could have a material impact on our results of operations, financial condition and/or liquidity.

Governmental Investigations and Qui Tam Matters

On June 27, 2008, the Republic of Iraq filed a complaint against our wholly-owned subsidiary, BSSA France, and 92 other defendants in the U.S. District Court of the Southern District of New York. The complaint alleges that the defendants acted improperly in connection with the sale of products under the United Nations Oil for Food Program. The complaint also alleges Racketeer Influenced and Corrupt Organizations Act (RICO) violations, conspiracy to commit fraud and the making of false statements and improper payments, and it seeks monetary and punitive damages. A hearing on the pending motion to dismiss was held on October 26, 2012, and on February 6, 2013, the District Court dismissed the complaint with prejudice on standing and jurisdictional grounds. The plaintiff filed an appeal, which is pending.

On March 12, 2010, we received a Civil Investigative Demand (CID) from the Civil Division of the U.S. Department of Justice (DOJ) requesting documents and information relating to reimbursement advice offered by us relating to certain CRM devices. We are cooperating with the request.

On August 3, 2012, we were served with a qui tam complaint that had previously been filed under seal against Boston Scientific Neuromodulation Corp. in the U.S. District Court for the District of New Jersey on March 2, 2011. On August 8, 2012, we learned that the federal government had previously declined to intervene in this matter. The relators' complaint, now unsealed, alleges that Boston Scientific Neuromodulation Corp. violated the federal and various states' false claims acts through submission of fraudulent bills for implanted devices, under-reporting of certain adverse events, and promotion of off-label uses. On September 10, 2012, the relators filed an amended complaint revising and restating certain of the claims in the original complaint. Our motion to dismiss, filed subsequently, was denied on May 31, 2013, and on June 28, 2013, we answered the amended complaint and brought certain counterclaims arising from relators' unauthorized removal of documents from the business during their employments, which the relators moved to dismiss on July 22, 2013.

Other Proceedings

On September 25, 2006, Johnson & Johnson filed a lawsuit against us, Guidant and Abbott Laboratories in the U.S. District Court for the Southern District of New York. The complaint alleges that Guidant breached certain provisions of the amended merger agreement between Johnson & Johnson and Guidant (Merger Agreement) as well as the implied duty of good faith and fair dealing. The complaint further alleges that Abbott and we tortiously interfered with the Merger Agreement by inducing Guidant's breach. The complaint seeks certain factual findings, damages in an amount no less than $5.5 billion and attorneys' fees and costs. In August 2007, the judge dismissed the tortious interference claims against us and Abbott and the implied duty of good faith and fair dealing claim against Guidant. On June 20, 2011, Guidant filed a motion for summary judgment, and the hearing on this motion was held on July 25, 2012.

On October 5, 2007, Dr. Tassilo Bonzel filed a complaint against Pfizer, Inc. and our Schneider subsidiaries and us in the District Court in Kassel, Germany alleging that a 1995 license agreement related to a catheter patent is invalid under German law and seeking monetary damages. In June 2009, the District Court dismissed all but one of Dr. Bonzel's claims and in October 2009, he added new claims. We opposed the addition of the new claims. The District Court ordered Dr. Bonzel to select the claims he would pursue and in January 2011, he made that selection. A hearing is scheduled for March 28, 2014.

On September 28, 2011, we served a complaint against Mirowski Family Ventures LLC in the U.S. District Court for the Southern District of Indiana for a declaratory judgment that we have paid all royalties owed and did not breach any contractual or fiduciary obligations arising out of a license agreement. Mirowski answered and filed counterclaims requesting damages. On May 13, 2013, Mirowski Family Ventures served us with a complaint alleging breach of contract in Montgomery County Circuit Court, Maryland, and they amended this complaint on August 1, 2013. On July 29, 2013, the Indiana case was dismissed. On September 10, 2013, we removed the case to the United States District Court for the District of Maryland. A motion to remand the case back to the Montgomery County Circuit Court, Maryland is pending.

Refer to Note J - Income Taxes for information regarding our tax litigation.

Matters Concluded Since December 31, 2012

On February 1, 2008, Wyeth Corporation and Cordis Corporation filed an amended complaint for patent infringement against Abbott Laboratories, adding us and Boston Scientific Scimed, Inc. as additional defendants to the complaint. The suit alleged that the PROMUS® coronary stent system, supplied to us by Abbott, infringes three U.S. patents (the Morris patents) owned by Wyeth and licensed to Cordis. The suit was filed in the U.S. District Court for the District of New Jersey seeking monetary and injunctive relief. Wyeth and Cordis subsequently withdrew their infringement claim as to one of the patents, and the District Court found the remaining two patents invalid. Wyeth and Cordis filed an appeal and on June 26, 2013, the Court of Appeals for the Federal Circuit affirmed the District Court's judgment in

favor of Boston Scientific. On October 13, 2013, Wyeth’s motion for rehearing or rehearing en banc was denied. The deadline for further appeals lapsed on January 13, 2014.

On December 4, 2009, we, along with Boston Scientific Scimed, Inc., filed a complaint for patent infringement against Cordis Corporation alleging that its Cypher Mini™ stent product infringes a U.S. patent (the Jang patent) owned by us. In April 2011, the U.S. District Court for the District of Delaware granted summary judgment that Cordis willfully infringed the Jang patent. After a trial on damages in May 2011, the jury found in favor of Boston Scientific for lost profits of approximately $18.5 million and royalties of approximately $1 million. On March 13, 2012, the District Court granted our motion for enhanced damages, resulting in a total damages award of approximately $41 million. On February 12, 2013, the Court of Appeals affirmed the District Court's judgment in favor of Boston Scientific.

On November 17, 2009, Boston Scientific Scimed, Inc. filed suit against OrbusNeich Medical, Inc. and certain of its subsidiaries in the Hague District Court in the Netherlands alleging that OrbusNeich's sale of the Genous stent infringes a patent owned by us (the Keith patent) and seeking monetary damages and injunctive relief. On March 13, 2012, the Hague Court of Appeals denied our request for preliminary relief. On April 2, 2013, the Hague Court of Appeals found the Keith patent invalid.

In December 2007, we were informed by the U.S. Attorney's Office for the Northern District of Texas that it was conducting an investigation of allegations related to improper promotion of biliary stents for off-label uses. The allegations were set forth in a qui tam complaint, which named us and certain of our competitors. Following the federal government's decision not to intervene in the case, the U.S. District Court for the Northern District of Texas unsealed the complaint. In March 2012, the District Court issued its opinion ordering that all claims against us be dismissed, some of which were dismissed with prejudice and some of which were dismissed without prejudice to the relator's right to amend those claims. On September 14, 2012, the relator filed and served an amended complaint restating the claims that the District Court dismissed without prejudice. On January 17, 2013, the District Court granted our motion to dismiss with prejudice all of the relator's remaining claims against us, and on May 13, 2013, the deadline for further appeals lapsed.

On October 17, 2008, we received a subpoena from the U.S. Department of Health and Human Services, Office of the Inspector General, requesting information related to the alleged use of a skin adhesive in certain of our CRM products. In early 2010, we learned that this subpoena was related to a qui tam action filed in the U.S. District Court for the Western District of New York. The Department of Justice intervened in the case in 2010. In October 2013 we entered into a settlement agreement with the parties pursuant to which we agreed to pay $30 million to the DOJ and $1 million in legal fees to Mr. Allen’s counsel, and we filed a joint motion with the parties to dismiss the case. The judge dismissed the case on October 31, 2013.

On January 15, 2010, Cordis Corporation filed a complaint against us and Boston Scientific Scimed, Inc. alleging that the PROMUS® coronary stent system, supplied to us by Abbott Laboratories, infringes three patents (the Fischell patents) owned by Cordis. The suit was filed in the U.S. District Court for the District of Delaware and sought monetary and injunctive relief. We filed counterclaims of invalidity and non-infringement. The District Court found that the PROMUS stent system does not infringe the Fischell patents and that our sales of this product were authorized. On May 13, 2013, the Court of Appeals for the Federal Circuit affirmed the District Court’s judgment in favor of Boston Scientific. The deadline for further appeals lapsed on August 12, 2013.

On October 21, 2011, the U.S. District Court for the District of Massachusetts unsealed a qui tam complaint that related to the subject matter of a U.S. Attorney for the District of Massachusetts investigation, which investigation has been discontinued and is described below, after the federal government declined to intervene in the matter. Subsequently, on January 30, 2012, the relator filed an amended complaint. On July 5, 2012, the District Court issued an opinion and order dismissing the amended complaint for lack of subject matter jurisdiction. On July 12, 2012, the relator appealed the judgment of dismissal to the U.S. Court of Appeals for the First Circuit. On May 31, 2013, the Court of Appeals rejected the relator's appeal and affirmed the dismissal of the amended complaint. The deadline for further appeals lapsed on August 29, 2013.

On March 16, 2009, OrbusNeich Medical, Inc. filed suit against us in the U.S. District Court for the District of Massachusetts, alleging that our VeriFLEX™ (Liberté®) bare-metal coronary stent system infringes two U.S. patents (the Addonizio and Pazienza patents) owned by it. The complaint also alleged breach of contract and misappropriation of trade secrets and sought monetary and injunctive relief. In September 2009, OrbusNeich filed an amended complaint against us alleging additional state law claims. In March 2010, the District Court dismissed OrbusNeich's unjust enrichment and fraud claims, but denied our motion to dismiss the remaining state law claims. OrbusNeich amended its complaint in April 2010 to add another patent (another Addonizio patent). In January 2011, OrbusNeich amended its complaint to drop its misappropriation of trade secret, statutory and unfair competition claims and in July

2011, it further amended its complaint to include allegations that our ION™ coronary stent system infringes two additional patents. On February 24, 2012, the District Court granted our motion to stay the patent claims, and on June 4, 2012, the District Court stayed the breach of contract claim, in each case, pending re-examination of the patents in suit. In addition, in February 2013, Orbus International B.V. filed suits against us and two Dutch subsidiaries in the Hague District Court in the Netherlands and Orbus Medical GmbH filed suit against us and one of our subsidiaries in the Dusseldorf District Court in Germany. In March 2013, Orbus Medical Inc. and Orbus International B.V. filed suit against us and two of our Irish subsidiaries in the Irish Commercial Court in Dublin, Ireland. Each of these matters alleges that our sale of stent systems using the Element design infringe European patents owned by Orbus Medical Inc. and licensed to other Orbus entities. In one Dutch matter, Orbus sought cross-border, preliminary injunctive relief, which the court denied on July 9, 2013. In the other Dutch matter, Orbus sought damages and injunctive relief. In one German matter, Orbus sought preliminary injunctive relief, which the Dusseldorf District Court granted on April 30, 2013. On that same date, we appealed the injunction to the Court of Appeals of Dusseldorf. In the other German matter, Orbus sought damages and injunctive relief. In the Irish matter, Orbus sought damages and injunctive relief. In March 2013, two of our subsidiaries filed suit against Orbus Medical Inc. in the English High Court seeking a declaration that the sale of the stent systems with the Element design does not infringe two Orbus patents and seeking to have the two patents found

invalid. On June 5, 2013, Orbus cancelled one of the two UK patents. On September 15, 2013, the parties entered into a settlement agreement that resolves all stent-related cases brought by the parties in Germany, the Netherlands, Ireland, the United Kingdom and the United States. The agreement includes a one-time payment from us to OrbusNeich, with no future financial obligations.

On March 22, 2010, we received a subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking documents relating to the former Market Development Sales Organization that operated within our CRM business. On October 21, 2011, the U.S. District Court for the District of Massachusetts unsealed a qui tam complaint that related to the subject matter of the U.S. Attorney's investigation, after the federal government declined to intervene in the matter. Subsequently, on January 30, 2012, the relator filed an amended complaint. The District Court case has been concluded and is described above. On October 30, 2013, the U.S. Attorney’s office informed us that the government was discontinuing its investigation.

NOTE L – STOCKHOLDERS' EQUITY

Preferred Stock

We are authorized to issue 50 million shares of preferred stock in one or more series and to fix the powers, designations, preferences and relative participating, option or other rights thereof, including dividend rights, conversion rights, voting rights, redemption terms, liquidation preferences and the number of shares constituting any series, without any further vote or action by our stockholders. As of December 31, 2013 and 2012, we had no shares of preferred stock issued or outstanding.

Common Stock

We are authorized to issue 2.0 billion shares of common stock, $0.01 par value per share. Holders of common stock are entitled to one vote per share. Holders of common stock are entitled to receive dividends, if and when declared by the Board of Directors, and to share ratably in our assets legally available for distribution to our stockholders in the event of liquidation. Holders of common stock have no preemptive, subscription, redemption, or conversion rights. The holders of common stock do not have cumulative voting rights. The holders of a majority of the shares of common stock can elect all of the directors and can control our management and affairs.

In July 2011, our Board of Directors approved a share repurchase program authorizing the repurchase of up to $1.0 billion in shares of our common stock and re-approved approximately 37 million shares remaining under a previous share repurchase program. On January 25, 2013, our Board of Directors approved a new stock repurchase program authorizing the repurchase of up to $1.0 billion of our common stock. Throughout 2013, we repurchased approximately 51 million shares of our common stock for $500 million. During 2012, we repurchased approximately 105 million shares of our common stock for $600 million. During 2011, we repurchased approximately 82 million shares of our common stock for $492 million. Repurchased shares are available for reissuance under our equity incentive plans and for general corporate purposes, including acquisitions. As of December 31, 2013, we had completed our share repurchase program authorized in 2011 and previous share repurchase programs. We had remaining $660 million authorized under our 2013 share repurchase program as of December 31, 2013. There were approximately 238 million shares in treasury as of December 31, 2013 and 187 million shares in treasury as of December 31, 2012.

NOTE M – STOCK OWNERSHIP PLANS

Employee and Director Stock Incentive Plans

In March and May 2011, our Board of Directors and stockholders, respectively, approved our 2011 Long-Term Incentive Plan (the 2011 LTIP), authorizing up to 146 million shares of our common stock. The 2011 LTIP provides for the grant of restricted or unrestricted common stock, deferred stock units (DSU), options to acquire our common stock, stock appreciation rights, performance awards (market-based and performance-based DSUs) and other stock and non-stock awards. Shares reserved under our current and former stock incentive plans totaled approximately 242 million as of December 31, 2013, which includes 50 million shares that are reserved, but are not issuable, under frozen equity long-term incentive plans. The 2011 LTIP covers officers, directors, employees and consultants and provide for the grant of various incentives, including qualified and nonqualified stock options, deferred stock units, stock grants,

share appreciation rights, performance-based awards and market-based awards. The Executive Compensation and Human Resources Committee of the Board of Directors, consisting of independent, non-employee directors, may authorize the issuance of common stock and authorize cash awards under the 2011 LTIP in recognition of the achievement of long-term performance objectives established by the Committee.

Nonqualified options issued to employees are generally granted with an exercise price equal to the market price of our stock on the grant date, vest over a four-year service period, and have a ten-year contractual life. In the case of qualified options, if the recipient owns more than ten percent of the voting power of all classes of stock, the option granted will be at an exercise price of 110 percent of the fair market value of our common stock on the date of grant and will expire over a period not to exceed five years. Non-vested stock awards (including restricted stock awards and deferred stock units issued to employees are generally granted with an exercise price of zero and typically vest in five equal annual installments. These awards represent our commitment to issue shares to recipients after the vesting period. Upon each vesting date, such awards are no longer subject to risk of forfeiture and we issue shares of our common stock to the recipient.

The following presents the impact of stock-based compensation on our consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
(in millions, except per share data)	2013	2012	2011
Cost of products sold	$8	$15	$25
Selling, general and administrative expenses	79	69	74
Research and development expenses	18	24	29
	105	108	128
Less: income tax benefit	(29)	(32)	(34)
	$76	$76	$94
Net impact per common share - basic	$0.06	$0.05	$0.06
Net impact per common share - assuming dilution	$0.06	$0.05	$0.06

Stock Options

We generally use the Black-Scholes option-pricing model to calculate the grant-date fair value of stock options granted to employees under our stock incentive plans. We calculated the fair value for options granted during 2013, 2012 and 2011 using the following estimated weighted-average assumptions:

	Year Ended December 31,		
	2013	2012	2011
Options granted (in thousands)	1,992	4,726	16,311
Weighted-average exercise price	$7.44	$6.23	$7.11
Weighted-average grant-date fair value	$2.84	$2.60	$3.07
Black-Scholes Assumptions			
Expected volatility	36%	43%	42%
Expected term (in years, weighted)	5.9	5.9	6.1
Risk-free interest rate	0.89% - 1.72%	0.95% - 1.15%	1.16% - 2.61%

Expected Volatility

We use our historical volatility and implied volatility as a basis to estimate expected volatility in our valuation of stock options.

Expected Term

We estimate the expected term of options using historical exercise and forfeiture data. We believe that this historical data are the best estimate of the expected term of new option grants.

Risk-Free Interest Rate

We use yield rates on U.S. Treasury securities for a period approximating the expected term of the award to estimate the risk-free interest rate in our grant-date fair value assessment.

Expected Dividend Yield

We have not historically paid cash dividends to our shareholders and currently do not intend to pay cash dividends. Therefore, we have assumed an expected dividend yield of zero in our grant-date fair value assessment.

Information related to stock options for 2013, 2012 and 2011 under stock incentive plans is as follows:

	Stock Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2010	60,374	$14		
Granted	16,311	7		
Exercised	(18)	7		
Cancelled/forfeited	(15,746)	12		
Outstanding as of December 31, 2011	60,921	$13		
Granted	4,726	6		
Exercised	—	—		
Cancelled/forfeited	(10,766)	15		
Outstanding as of December 31, 2012	54,881	$12		
Granted	1,992	7		
Exercised	(7,221)	8		
Cancelled/forfeited	(4,760)	21		
Outstanding as of December 31, 2013	44,892	$12	5.2	$137
Exercisable as of December 31, 2013	32,927	$13	4.3	77
Expected to vest as of December 31, 2013	11,433	7	7.6	58
Total vested and expected to vest as of December 31, 2013	44,360	$12	5.1	$135

The total intrinsic value of stock options exercised was $24 million in 2013 and less than $1 million in 2012 and 2011.

Non-Vested Stock

We value restricted stock awards and DSUs based on the closing trading value of our shares on the date of grant. Information related to non-vested stock awards during 2013, 2012, and 2011 is as follows:

	Non-Vested Stock Award Units (in thousands)	Weighted Average Grant-Date Fair Value
Balance as of December 31, 2010	33,284	$9
Granted	14,640	7
Vested (1)	(10,344)	10
Forfeited	(4,004)	6
Balance as of December 31, 2011	33,576	$8
Granted	17,073	6
Vested (1)	(10,158)	9
Forfeited	(3,898)	7
Balance as of December 31, 2012	36,593	$7
Granted	13,913	8
Vested (1)	(10,307)	8
Forfeited	(2,860)	7
Balance as of December 31, 2013	37,339	$7

(1) The number of restricted stock units vested includes shares withheld on behalf of employees to satisfy statutory tax withholding requirements.

The total vesting date fair value of stock award units that vested was approximately $80 million in 2013, $60 million in 2012 and $71 million in 2011.

Market-based DSU Awards

During 2013, 2012 and 2011, we granted target market-based DSU awards to certain members of our senior management team. The attainment of market-based DSUs is based on the total shareholder return (TSR) of our common stock as compared to the TSR of the common stock of the other companies in the S&P 500 Health Care Index over a three-year performance period and measured in three annual performance cycles. In addition, award recipients must remain employed by us throughout the three-year performance period to attain the full amount of market-based DSUs that satisfied the market performance criteria.

We determined the fair value of the 2013 target market-based awards to be approximately $8 million and the fair values of the 2012 and 2011 market-based awards to be approximately $8 million. We determined these fair values based on Monte Carlo simulations as of the date of grant, utilizing the following assumptions:

	2013 Awards	2012 Awards	2011 Awards
Stock price on date of grant	$7.39	$6.28	$7.16
Measurement period (in years)	3.0	3.0	3.0
Risk-free rate	0.34%	0.38%	1.10%

We recognize the expense on these awards in our consolidated statements of operations on a straight-line basis over the three-year measurement period.

Free Cash Flow Performance-based DSU Awards

During 2013 and 2012, we granted target free cash flow performance-based DSU awards to certain members of our senior management team. The attainment of these performance-based DSUs is based on our 2013 and 2012 adjusted free cash flow (FCF) measured against our internal 2013 and 2012 annual financial plan performance for FCF, respectively. FCF is measured over a one-year performance period beginning January 1, 2013 and ending December 31, 2013 for the 2013 awards and January 1, 2012 and ending December 31, 2012 for the 2012 awards. The number of performance-based DSUs as to which the performance criteria under this program shall be determined to have been satisfied will be in a range of 0% to 150% of the target number of performance-based DSUs awarded to the participant. In addition, award recipients must remain employed by us throughout a three-year service period (inclusive of the performance period) to attain the full amount of performance-based DSUs that satisfied the performance criteria.

We determined the fair value of the 2013 FCF awards to be approximately $9 million, based on the closing stock price at December 31, 2013 and an achievement of approximately 100% of the target payout, which is subject to approval by the Executive Compensation and Human Resources Committee of our Board of Directors. The per unit fair value is $12.02, which is the closing stock price on December 31, 2013. We determined the fair value of the 2012 FCF awards to be approximately $7 million and the per unit fair value was $5.73.

We recognize the expense on these awards in our consolidated statements of operations over the vesting period which is three years after the date of grant.

Expense Attribution

We recognize compensation expense for our stock using a straight-line method over the substantive vesting period. Most of our stock awards provide for immediate vesting upon death or disability of the participant. In addition, our stock grants to employees provide for accelerated vesting of our stock-based awards, other than market-based awards, upon retirement. In accordance with the terms of our stock grants, for employees who will become retirement eligible prior to the vest date we expense stock-based awards, other than market-based awards, over the greater of one year or the period between grant date and retirement-eligibility. The market-based awards discussed above do not contain provisions that would accelerate the full vesting of the awards upon retirement-eligibility.

We recognize stock-based compensation expense for the value of the portion of awards that are ultimately expected to vest. ASC Topic 718, Compensation – Stock Compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinct from “cancellations” or “expirations” and represents only the unvested portion of the surrendered stock-based award. We have applied, based on an analysis of our historical forfeitures, a weighted-average annual forfeiture rate of approximately nine percent to all unvested stock-based awards as of December 31, 2013, which represents the portion that we expect will be forfeited each year over the vesting period. We re-evaluate this analysis annually, or more frequently if there are significant changes in circumstances, and adjust the forfeiture rate as necessary. Ultimately, we will only recognize expense for those shares that vest.

Unrecognized Compensation Cost

We expect to recognize the following future expense for awards outstanding as of December 31, 2013:

	Unrecognized Compensation Cost (in millions)(1)	Weighted Average Remaining Vesting Period (in years)
Stock options	$17	
Non-vested stock awards	166	
	$183	1.4

(1) Amounts presented represent compensation cost, net of estimated forfeitures.

Employee Stock Purchase Plans

Our global employee stock purchase plan provides for the granting of options to purchase up to 35 million shares of our common stock to all eligible employees. Under the global employee stock purchase plan, we grant each eligible employee, at the beginning of each six-month offering period, an option to purchase shares of our common stock equal to not more than ten percent of the employee's eligible compensation or the statutory limit under the U.S. Internal Revenue Code. Such options may be exercised generally only to the extent of accumulated payroll deductions at the end of the offering period, at a purchase price equal to 85 percent of the fair market value of our common stock at the beginning or end of each offering period, whichever is less. As of December 31, 2013, there were approximately 8 million shares available for future issuance under the employee stock purchase plan.

Information related to shares issued or to be issued in connection with the employee stock purchase plan based on employee contributions and the range of purchase prices is as follows:

(shares in thousands)	2013	2012	2011
Shares issued or to be issued	3,833	3,979	3,830
Range of purchase prices	$5.01 - $7.96	$4.82 - $5.16	$4.81 - $6.22

We use the Black-Scholes option-pricing model to calculate the grant-date fair value of shares issued under the employee stock purchase plan. We recognize expense related to shares purchased through the employee stock purchase plan ratably over the offering period. We recognized $7 million in expense associated with our employee stock purchase plan in 2013, $4 million in 2012 and $5 million in 2011.

NOTE N – WEIGHTED AVERAGE SHARES OUTSTANDING

	Year Ended December 31,		
(in millions)	2013	2012	2011
Weighted average shares outstanding - basic	1,341.2	1,406.7	1,509.3
Net effect of common stock equivalents	—	—	9.7
Weighted average shares outstanding - assuming dilution	1,341.2	1,406.7	1,519.0

We generated net losses in 2013 and 2012. Our weighted-average shares outstanding for earnings per share calculations excluded common stock equivalents of 19 million and 8 million due to our net loss positions in 2013 and 2012, respectively.

Weighted-average shares outstanding, assuming dilution, also excludes the impact of 16 million stock options for 2013, 59 million for 2012, and 62 million for 2011, due to the exercise prices of these stock options being greater than the average fair market value of our common stock during the year.

NOTE O – SEGMENT REPORTING

Effective January 1, 2013, we reorganized our business from geographic regions to fully operationalized global business units. Following the reorganization, based on information regularly reviewed by our chief operating decision maker, we have three new reportable segments comprised of: Cardiovascular, Rhythm Management, and MedSurg. Our reportable segments represent an aggregate of operating segments. We have restated the 2012 and 2011 information to conform to our new global reportable segment presentation.

Each of our reportable segments generates revenues from the sale of medical devices. We measure and evaluate our reportable segments based on segment net sales and operating income, excluding the impact of changes in foreign currency and sales from divested businesses. Sales generated from reportable segments and divested businesses, as well as operating results of reportable segments, are based on internally-derived standard currency exchange rates, which may differ from year to year, and do not include intersegment profits. We restated segment information for prior periods based on standard currency exchange rates used for the current period in order to remove the impact of foreign currency exchange fluctuations. Based on information regularly reviewed by our chief operating decision maker following our reorganization, we also restated certain expenses associated with our manufacturing and corporate operations. We exclude from segment operating income certain corporate-related expenses and certain transactions or adjustments that our chief operating decision maker considers to be non-recurring and/or non-operational, such as amounts related to goodwill and other intangible asset impairment charges; acquisition-, divestiture-, restructuring- and litigation-related charges and credits; and amortization expense. Although we exclude these amounts from segment operating income, they are included in reported consolidated operating income (loss) and are included in the reconciliation below.

A reconciliation of the totals reported for the reportable segments to the applicable line items in our accompanying consolidated statements of operations is as follows:

	Year Ended December 31,		
(in millions)	2013	2012	2011
Net sales		(restated)	(restated)
Interventional Cardiology	$2,055	$2,179	$2,444
Peripheral Interventions	812	769	713
Cardiovascular	2,867	2,948	3,157
Cardiac Rhythm Management	1,919	1,927	2,072
Electrophysiology	157	147	145
Rhythm Management	2,076	2,074	2,217
Endoscopy	1,331	1,242	1,158
Urology and Women's Health	513	496	491
Neuromodulation	454	367	336
MedSurg	2,298	2,105	1,985
Net sales allocated to reportable segments	7,241	7,127	7,359
Sales generated from business divestitures	58	122	140
Impact of foreign currency fluctuations	(156)	—	123
	$7,143	$7,249	$7,622

	Year Ended December 31,		
(in millions)	2013	2012	2011
Depreciation expense		(restated)	(restated)
Cardiovascular	$111	$106	$116
Rhythm Management	99	108	105
MedSurg	73	74	73
Depreciation expense allocated to reportable segments	283	288	294
Impact of foreign currency fluctuations	(4)	—	2
	$279	$288	$296

(in millions)	Year Ended December 31, 2013	2012	2011
Income (loss) before income taxes		(restated)	(restated)
Cardiovascular	$710	$739	$829
Rhythm Management	232	242	320
MedSurg	724	637	565
Operating income allocated to reportable segments	1,666	1,618	1,714
Corporate expenses and currency exchange	(314)	(258)	(254)
Goodwill and intangible asset impairment charges and acquisition-, divestiture-, litigation-, and restructuring-related net charges	(822)	(4,833)	(135)
Amortization expense	(410)	(395)	(421)
Operating income (loss)	120	(3,868)	904
Other expense, net	(343)	(239)	(262)
	$(223)	$(4,107)	$642

(in millions)	As of December 31, 2013	2012
Total assets		(restated)
Cardiovascular	$1,545	$1,535
Rhythm Management	1,343	1,350
MedSurg	1,026	967
Total assets allocated to reportable segments	3,914	3,852
Goodwill	5,693	5,973
Other intangible assets, net	5,950	6,289
All other corporate assets	1,014	1,040
	$16,571	$17,154

Enterprise-Wide Information (based on actual currency exchange rates)

(in millions)	Year Ended December 31, 2013	2012	2011
Net sales			
Interventional Cardiology	$1,997	$2,179	$2,495
Cardiac Rhythm Management	1,886	1,908	2,087
Endoscopy	1,300	1,252	1,187
Peripheral Interventions	789	774	731
Urology and Women’s Health	505	500	498
Neuromodulation	453	367	336
Electrophysiology	155	147	147
	7,085	7,127	7,481
Sales generated from divested businesses	58	122	141
	$7,143	$7,249	$7,622
United States	$3,743	$3,756	$4,010
Japan	744	931	951
Other countries	2,598	2,440	2,520
	7,085	7,127	7,481
Sales generated from divested businesses	58	122	141
	$7,143	$7,249	$7,622

(in millions)	As of December 31, 2013	2012	2011
Long-lived assets			
United States	$998	$1,065	$1,141
Ireland	240	252	231
Other foreign countries	308	247	298
Property, plant and equipment, net	1,546	1,564	1,670
Goodwill	5,693	5,973	9,761
Other intangible assets, net	5,950	6,289	6,473
	$13,189	$13,826	$17,904

NOTE P – CHANGES IN OTHER COMPREHENSIVE INCOME

The following table provides the reclassifications out of other comprehensive income for the years ended December 31, 2013 and December 31, 2012. Amounts in the chart below are presented net of tax.

Year Ended December 31, 2013

(in millions)	Foreign currency translation adjustments	Unrealized gains/losses on derivative financial instruments	Defined benefit pension items / Other	Total
Beginning Balance	$(26)	$34	$(41)	$(33)
Other comprehensive income (loss) before reclassifications	10	130	31	171
(Gain)/Loss reclassified from accumulated other comprehensive income	—	(23)	(9)	(32)
Net current-period other comprehensive income	10	107	22	139
Ending Balance	$(16)	$141	$(19)	$106

Year Ended December 31, 2012

(in millions)	Foreign currency translation adjustments	Unrealized gains/losses on derivative financial instruments	Defined benefit pension items / Other	Total
Beginning Balance	$(58)	$(48)	$(32)	$(138)
Other comprehensive income (loss) before reclassifications	32	59	1	92
(Gain)/Loss reclassified from accumulated other comprehensive income	—	23	(10)	13
Net current-period other comprehensive income	32	82	(9)	105
Ending Balance	$(26)	$34	$(41)	$(33)

The income tax impact of the amounts in other comprehensive income for unrealized gains/losses on derivative financial instruments before reclassifications was an expense of $77 million in the year ended December 31, 2013 and an expense of $36 million in the year ended December 31, 2012. The gains and losses on derivative financial instruments reclassified from accumulated other comprehensive income were reduced by income tax impacts of $14 million in the year ended December 31, 2013 and $14 million in the year ended December 31, 2012. Refer to Note E – Fair Value Measurements for further detail on the reclassifications related to derivatives.

The income tax impact of the amounts in other comprehensive income for defined benefit and pension items before reclassifications was an expense of $15 million in the year ended December 31, 2013 and an expense of $1 million in the year ended December 31, 2012. The gains and losses on defined benefit and pension items reclassified from accumulated other comprehensive income were reduced by income tax impacts of $6 million in the year ended December 31, 2013 and $8 million in the year ended December 31, 2012.

NOTE Q – NEW ACCOUNTING PRONOUNCEMENTS

Standards Implemented

ASC Update No. 2013-02

In February 2013, the FASB issued ASC Update No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. Update No. 2013-02 requires that entities provide information about amounts reclassified out of accumulated other comprehensive income by component. The amendment also requires entities to present significant amounts by the respective line items of net income, either on the face of the income statement or in the notes to the financial statements for amounts required to be reclassified out of accumulated other comprehensive income in their entirety in the same reporting period. For other amounts that are not required to be reclassified to net income in their entirety, a cross-reference is required to other disclosures that provide additional details about those amounts. We adopted Update No. 2013-02 beginning in our first quarter ended March 31, 2013. Update No. 2013-02 is related to presentation only and its adoption did not impact our results of operations or financial position. See our Consolidated Statements of Comprehensive Income (Loss) and Note M - Changes in Other Comprehensive Income to our 2013 consolidated financial statements for the required disclosures under Update No. 2013-02.

ASC Update No. 2013-01

In January 2013, the FASB issued ASC Update No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. Update No. 2013-01 clarifies the FASB's intent about requiring enhanced disclosures about certain financial instruments and derivative instruments that are offset in the statement of financial position or that are subject to enforceable master netting arrangements or similar agreements. We adopted Update No. 2013-01 beginning in our first quarter ended March 31, 2013. See Note E - Fair Value Measurements to our 2013 consolidated financial statements for the required disclosures under Update No. 2013-01.

Standards to be Implemented

ASC Update No. 2013-11

In July 2013, the FASB issued ASC Update No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Update No. 2013-11 requires that entities present an unrecognized tax benefit, or portion of an unrecognized tax benefit, as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. We are required to adopt Update No. 2013-11 for our first quarter ending March 31, 2014. Update No. 2013-11 is related to presentation only and its adoption will not impact our results of operations or financial position.

QUARTERLY RESULTS OF OPERATIONS
(in millions, except per share data)

(unaudited)

	Three Months Ended			
	March 31,	June 30,	Sept 30,	Dec 31,
2013				
Net sales	$1,761	$1,809	$1,735	$1,838
Gross profit	1,183	1,279	1,225	1,283
Operating income (loss)	(330)	220	103	127
Net income (loss)	(354)	130	(5)	108
Net income (loss) per common share - basic	$(0.26)	$0.10	$0.00	$0.08
Net income (loss) per common share - assuming dilution	$(0.26)	$0.10	$0.00	$0.08
2012				
Net sales	$1,866	$1,828	$1,735	$1,821
Gross profit	1,235	1,250	1,177	1,238
Operating income	196	(3,587)	(594)	115
Net income	113	(3,578)	(664)	60
Net income per common share - basic	$0.08	$(2.51)	$(0.48)	$0.04
Net income per common share - assuming dilution	$0.08	$(2.51)	$(0.48)	$0.04

Our reported results for 2013 included goodwill and intangible asset impairment charges; acquisition-, divestiture-, litigation- and restructuring-related charges; debt extinguishment charges; discrete tax items and amortization expense (after tax) of: $578 million in the first quarter, $117 million in the second quarter, $235 million in the third quarter and $182 million in the fourth quarter. These charges consisted primarily of: goodwill impairment charges attributable to our reorganization from geographic regions to global business units as of January 1, 2013, which changed the composition of our reporting units; amortization expense; and litigation-related charges.

Our reported results for 2012 included goodwill and intangible asset impairment charges; acquisition and divestiture-related net credits, litigation- and restructuring-related charges; discrete tax items and amortization expense (after tax) of: $107 million in the first quarter, $3.817 billion in the second quarter, $885 million in the third quarter and $192 million in the fourth quarter. These charges consisted primarily of: goodwill impairment charges attributable to our former Europe, Middle East, and Africa (EMEA) and former U.S. Cardiac Rhythm Management (U.S. CRM) reporting units and write-downs of certain intangible asset balances; net acquisition-related gains primarily associated with previously-held equity interests and contingent consideration fair value adjustments; gains associated with the divestiture of the Neurovascular business; restructuring and restructuring-related costs attributable to our 2011 Restructuring plan, 2010 Restructuring plan and Plant Network Optimization program; litigation-related charges; and discrete tax benefits related to certain tax positions taken in a prior period.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (CEO) and Executive Vice President and Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013 pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended. Disclosure controls and procedures are designed to ensure that material information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and ensure that such material information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, our CEO and CFO concluded that as of December 31, 2013, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Management's annual report on our internal control over financial reporting is contained in Item 7 of this Annual Report.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The report of Ernst & Young LLP on our internal control over financial reporting is contained in Item 7 of this Annual Report.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION
None.

Explanation of Responses: 200

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
The information required by this Item is set forth in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2013, and is incorporated into this Annual Report on Form 10-K by reference.

ITEM 11. EXECUTIVE COMPENSATION
The information required by this Item is set forth in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2013, and is incorporated into this Annual Report on Form 10-K by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
The information required by this Item is set forth in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2013, and is incorporated into this Annual Report on Form 10-K by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
The information required by this Item is set forth in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2013, and is incorporated into this Annual Report on Form 10-K by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES
The information required by this Item is set forth in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2013, and is incorporated into this Annual Report on Form 10-K by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements.

The response to this portion of Item 15 is set forth under Item 8.

(a)(2) Financial Statement Schedules.

The response to this portion of Item 15 (Schedule II) follows the signature page to this report. All other financial statement schedules are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits (* documents filed or furnished with this report, # compensatory plans or arrangements)

EXHIBIT NO.	TITLE
3.1	Restated By-laws of the Company (incorporated herein by reference to Exhibit 3.1, Current Report on Form 8-K dated September 19, 2011, File No. 1-11083)
3.2	Third Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.2, Annual Report on Form 10-K for the year ended December 31, 2007, File No. 1-11083).
4.1	Specimen Certificate for shares of the Company's Common Stock (incorporated herein by reference to Exhibit 4.1, Registration No. 33-46980).
4.2	Description of Capital Stock contained in Exhibits 3.1 and 3.2.
4.3	Indenture dated as of June 25, 2004 between the Company and JPMorgan Chase Bank (formerly The Chase Manhattan Bank) (incorporated herein by reference to Exhibit 4.1, Current Report on Form 8-K dated June 25, 2004, File No. 1-11083).
4.4	Indenture dated as of November 18, 2004 between the Company and J.P. Morgan Trust Company, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1, Current Report on Form 8-K dated November 18, 2004, File No. 1-11083).
4.5	Form of First Supplemental Indenture dated as of April 21, 2006 (incorporated herein by reference to Exhibit 99.4, Current Report on Form 8-K dated April 21, 2006, File No. 1-11083).
4.6	Form of Second Supplemental Indenture dated as of April 21, 2006 (incorporated herein by reference to Exhibit 99.6, Current Report on Form 8-K dated April 21, 2006, File No. 1-11083).
4.7	

	Form of Global Security for the 5.125% Notes due 2017 in the aggregate principal amount of $250,000,000 (incorporated herein by reference to Exhibit 4.3, Current Report on Form 8-K dated November 18, 2004, File No. 1-11083).
4.8	Form of Global Security for the 5.50% Notes due 2015 in the aggregate principal amount of $400,000,000, and form of Notice to the holders thereof (incorporated herein by reference to Exhibit 4.1, Current Report on Form 8-K dated November 17, 2005 and Exhibit 99.5, Current Report on Form 8-K dated April 21, 2006, File No. 1-11083).

4.9	Form of Global Security for the 6.25% Notes due 2035 in the aggregate principal amount of $350,000,000, and form of Notice to holders thereof (incorporated herein by reference to Exhibit 4.2, Current Report on Form 8-K dated November 17, 2005 and Exhibit 99.7, Current Report on Form 8-K dated April 21, 2006, File No. 1-11083).
4.10	Indenture dated as of June 1, 2006 between the Company and JPMorgan Chase Bank, N.A., as Trustee (incorporated herein by reference to Exhibit 4.1, Current Report on Form 8-K dated June 9, 2006, File No. 1-11083).
4.11	Form of Global Security for the 6.40% Notes due 2016 in the aggregate principal amount of $600,000,000 (incorporated herein by reference to Exhibit 4.3, Current Report on Form 8-K dated June 9, 2006, File No. 1-11083).
4.12	6.000% Senior Note due January 15, 2020 in the aggregate principal amount of $850,000,000 (incorporated herein by reference to Exhibit 4.3, Current Report on Form 8-K dated December 10, 2009, File No. 1-11083).
4.13	7.375% Senior Note due January 15, 2040 in the aggregate principal amount of $300,000,000 (incorporated herein by reference to Exhibit 4.4, Current Report on Form 8-K dated December 10, 2009, File No. 1-11083).
4.14	2.650% Senior Note due October 1, 2018 in the aggregate principal amount of $500,000,000 (incorporated herein by reference to Exhibit 4.2, Current Report on Form 8-K dated August 8, 2013, File No. 1-11083).
4.15	4.125% Senior Note Due October 1, 2023 in the aggregate principle amount of $450,000,000 (incorporated herein by reference to Exhibit 4.3, Current Report on Form 8-K dated August 8, 2013, File No. 1-11083).
10.1	Form of Amended and Restated Credit and Security Agreement dated as of November 7, 2007 by and among Boston Scientific Funding LLC, the Company, Old Line Funding, LLC, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated November 7, 2007, File No. 1-11083).
10.2	Form of Amendment No. 1 to Amended and Restated Credit and Security Agreement and Restatement of Amended Fee Letters dated as of August 6, 2008 by and among Boston Scientific Funding LLC, the Company, Old Line Funding, LLC, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.1, Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, File No. 1-11083).

10.3	Form of Amendment No. 2 to Amended and Restated Credit and Security Agreement and Restatement of Amended Fee Letters dated as of August 5, 2009 by and among Boston Scientific Funding LLC, the Company, Old Line Funding, LLC, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.2, Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, File No. 1-11083).
10.4	Form of Amendment No. 3 to Amended and Restated Credit and Security Agreement and Restatement of Amended Fee Letters dated as of August 4, 2010 by and among Boston Scientific Funding LLC, the Company, Old Line Funding, LLC, Victory Receivables Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and Royal Bank of Canada. (incorporated herein by reference to Exhibit 10.4, Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 1-11083).
10.5	Form of Amendment No. 4 to Amended and Restated Credit and Security Agreement and Restatement of Amended Fee Letters dated as of October 29, 2010 by and among Boston Scientific Funding LLC, the Company, Old Line Funding, LLC, Victory Receivables Corporation, Liberty Street Funding LLC, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, The Bank of Nova Scotia and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.7, Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, File No. 1-11083).

10.6	Form of Amendment No. 5 to Amended and Restated Credit and Security Agreement and Restatement of Amended Fee Letters dated as of August 3, 2011 by and among Boston Scientific Funding LLC, the Company, Old Line Funding, LLC, Victory Receivables Corporation, Liberty Street Funding LLC, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch; The Bank of Nova Scotia and Royal Bank of Canada (incorporated herein by reference to Exhibit 10.3, Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, File No. 1-11083).
10.7	Form of Amendment No. 6 to Amended and Restated Credit and Security Agreement, Amendment #2 to Amended and Restated Receivables Sale Agreement and Restatement of Amended Fee Letter, dated as of June 29, 2012, by and among Boston Scientific Funding LLC; the Company; Old Line Funding, LLC; Royal Bank of Canada; Liberty Street Funding LLC; and The Bank of Nova Scotia (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated June 29, 2012, File No. 1-11083).
10.8	Form of Amendment No. 7 to Amended and Restated Credit and Security Agreement, Amendment #3 to Amended and Restated Receivables Sale Agreement, dated as of June 28, 2013, by and among Boston Scientific Funding LLC, the Company, Old Line Funding, LLC, Royal Bank of Canada, Liberty Street Funding LLC, and The Bank of Nova Scotia (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated June 28, 2013, File No. 1-11083).
10.9	Form of Omnibus Amendment dated as of December 21, 2006 among the Company, Boston Scientific Funding Corporation, Variable Funding Capital Company LLC, Victory Receivables Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (Amendment No. 1 to Receivables Sale Agreement and Amendment No. 9 to Credit and Security Agreement) (incorporated herein by reference to Exhibit 10.2, Annual Report on 10-K for the year ended December 31, 2006, File No. 1-11083).
10.10	Form of Amended and Restated Receivables Sale Agreement dated as of November 7, 2007 between the Company and each of its Direct or Indirect Wholly-Owned Subsidiaries that Hereafter Becomes a Seller Hereunder, as the Sellers, and Boston Scientific Funding LLC, as the Buyer (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated November 7, 2007, File No. 1-11083).
10.11	Credit Agreement dated as of April 18, 2012 by and among the Company, the several lenders parties thereto, and Bank of America, N.A., as Syndication Agent, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated April 18, 2012, File No. 1-11083).
10.12	License Agreement among Angiotech Pharmaceuticals, Inc., Cook Incorporated and the Company dated July 9, 1997, and related Agreement dated December 13, 1999 (incorporated herein by reference to Exhibit 10.6, Annual Report on Form 10-K for the year ended December 31, 2002, File No. 1-11083).
10.13	Amendment between Angiotech Pharmaceuticals, Inc. and the Company dated November 23, 2004 modifying July 9, 1997 License Agreement among Angiotech Pharmaceuticals, Inc., Cook Incorporated and the Company (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated November 23, 2004, File No. 1-11083).

10.14	Sale and Purchase Agreement dated October 28, 2010, as amended, between the Company and Stryker Corporation (incorporated herein by reference to Exhibit 10.11, Annual Report on Form 10-K for year ended December 31, 2010 and Exhibit 10.6, Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, File No.1-11083).
10.15	Amendment No. 3 to Sale and Purchase Agreement dated November 1, 2011, between the Company and Stryker Corporation (incorporated herein by reference to Exhibit 10.13, Annual Report on Form 10-K for year ended December 31, 2011, File No. 1-11083).
10.16	Amendment No. 4 to Sale and Purchase Agreement dated December 1, 2011, between the Company and Stryker Corporation (incorporated herein by reference to Exhibit 10.14, Annual Report on Form 10-K for year ended December 31, 2011, File No. 1-11083).

10.17	Transaction Agreement, dated as of January 8, 2006, as amended, between the Company and Abbott Laboratories (incorporated herein by reference to Exhibit 10.47, Exhibit 10.48, Exhibit 10.49 and Exhibit 10.50, Annual Report on Form 10-K for year ended December 31, 2005 and Exhibit 10.1, Current Report on Form 8-K dated April 7, 2006, File No. 1-11083).
10.18	Form of Settlement Agreement and Non-Exclusive Patent Cross-License dated January 29, 2010 by and between the Company and Boston Scientific Scimed, Inc., and Johnson & Johnson (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated January 29, 2010, File No.1-11083).
10.19	Form of Plea Agreement and Sentencing Stipulations executed as of February 24, 2010 (incorporated herein by reference to Exhibit 10.66, Annual Report on Form 10-K for year ended December 31, 2009, File No. 1-11083).
10.20	Form of Corporate Integrity Agreement between the Office of Inspector General of the Department of Health and Human Services and the Company (incorporated herein by reference to Exhibit 10.67, Annual Report on Form 10-K for year ended December 31, 2009, File No. 1-11083).
10.21	Decision and Order of the Federal Trade Commission in the matter of Boston Scientific Corporation and Guidant Corporation finalized August 3, 2006 (incorporated herein by reference to Exhibit 10.5, Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, File No. 1-11083).
10.22	Guidant Corporation 1994 Stock Plan, as amended (incorporated herein by reference to Exhibit 10.46, Annual Report on Form 10-K for the year ended December 31, 2006, File No. 1-11083).#
10.23	Guidant Corporation 1996 Nonemployee Directors Stock Plan, as amended (incorporated herein by reference to Exhibit 10.47, Annual Report on Form 10-K for the year ended December 31, 2006, File No. 1-11083).#
10.24	Guidant Corporation 1998 Stock Plan, as amended (incorporated herein by reference to Exhibit 10.48, Annual Report on Form 10-K for the year ended December 31, 2006, File No. 1-11083).#
10.25	Form of Guidant Corporation Option Grant (incorporated herein by reference to Exhibit 10.49, Annual Report on Form 10-K for the year ended December 31, 2006, File No. 1-11083).#
10.26	Boston Scientific Corporation 2006 Global Employee Stock Ownership Plan, as amended and restated, effective July 1, 2011 (incorporated herein by reference to Exhibit 10.27, Annual Report on Form 10-K for year ended December 31, 2011, File No. 1-11083).#
10.27	Form of Amendment of the Boston Scientific Corporation Amended and Restated 2006 Global Employee Stock Ownership Plan (incorporated herein by reference to Exhibit 10.2, Quarterly Report on

	Form 10-Q for the quarter ended September 30, 2012, File No. 1-11083).#
10.28	Form of Non-Qualified Stock Option Agreement (Non-Employee Directors) (incorporated herein by reference to Exhibit 10.5, Current Report on Form 8-K dated December 10, 2004, File No. 1-11083).#
10.29	Form of Restricted Stock Award Agreement (Non-Employee Directors) (incorporated herein by reference to Exhibit 10.6, Current Report on Form 8-K dated December 10, 2004, File No. 1-11083).#
10.30	Form of Restricted Stock Award Agreement (Non-Employee Directors) under the 2011 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1, Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, File No. 1-11083).#
10.31	Form of Boston Scientific Corporation Excess Benefit Plan, as amended (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated June 29, 2005 and Exhibit 10.4, Current Report on Form 8-K dated December 16, 2008, File No. 1-11083).#

10.32	Form of Trust under the Boston Scientific Corporation Excess Benefit Plan (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated June 29, 2005, File No. 1-11083).#
10.33	Boston Scientific Corporation Deferred Bonus Plan (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated May 11, 2010, File No. 1-11083).#
10.34	Boston Scientific Corporation Executive Retirement Plan as Amended and Restated, effective August 1, 2012 (incorporated herein by reference to Exhibit 10.3, Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, File No. 1-11083).#
10.35	Form of 2010 Performance Share Plan (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated December 15, 2009, File No. 1-11083).#
10.36	Form of 2011 Performance Share Program (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated December 14, 2010, File No. 1-11083).#
10.37	Form of 2012 Total Shareholder Return Performance Share Program (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated December 16, 2011, File No. 1-11083).#
10.38	Boston Scientific Corporation 2013 Annual Bonus Plan, effective as of January 1, 2013 (incorporated herein by reference to Exhibit 10.4, Current Report on Form 8-K dated October 30, 2012, File No. 1-11083).#
10.39	Boston Scientific Corporation 2013 Total Shareholder Return Performance Share Program (incorporated herein by reference to Exhibit 10.5, Current Report on Form 8-K dated October 30, 2012, File No. 1-11083).#
10.40	Boston Scientific Corporation 2013 Free Cash Flow Performance Share Program (incorporated herein by reference to Exhibit 10.6, Current Report on Form 8-K dated October 30, 2012, File No. 1-11083).#
10.41	Boston Scientific Corporation 401(k) Retirement Savings Plan, Amended and Restated, effective as of January 1, 2011 (incorporated herein by reference to Exhibit 10.39, Annual Report on Form 10-K for year ended December 31, 2010, File No. 1-11083).#
10.42	Amendment to Boston Scientific Corporation 401(k) Retirement Savings Plan, Amended and Restated, effective as of January 1, 2011 (incorporated herein by reference to Exhibit 10.44, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.43	Form of Second Amendment of Boston Scientific Corporation 401(k) Retirement Savings Plan, Amended and Restated (incorporated herein by reference to Exhibit 10.2, Quarterly Report on

	Form 10-Q for the quarter ended June 30, 2012, File No. 1-11083).#
10.44	Form of Third Amendment of the Boston Scientific Corporation 401(k) Retirement Savings Plan, Amended and Restated (incorporated herein by reference to Exhibit 10.1, Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, File No. 1-11083).#
10.45	Boston Scientific Corporation 2000 Long-Term Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.20, Annual Report on Form 10-K for the year ended December 31, 1999, Exhibit 10.18, Annual Report on Form 10-K for the year ended December 31, 2001, Exhibit 10.1, Current Report on Form 8-K dated December 22, 2004, Exhibit 10.3, Current Report on Form 8-K dated May 9, 2005, and Exhibit 10.3, Current Report on Form 8-K dated December 16, 2008, File No. 1-11083).#
10.46	Boston Scientific Corporation 2003 Long-Term Incentive Plan, as Amended and Restated, Effective June 1, 2008 (incorporated herein by reference to Exhibit 10.1, Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, File No. 1-11083).#

10.47	Boston Scientific Corporation 2011 Long-Term Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.49, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.48	Form of Non-Qualified Stock Option Agreement (vesting over three years) (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated December 10, 2004, File No. 1-11083).#
10.49	Form of Non-Qualified Stock Option Agreement (vesting over four years) (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated December 10, 2004, File No. 1-11083).#
10.50	Form of Non-Qualified Stock Option Agreement (vesting over two years) (incorporated herein by reference to Exhibit 10.20, Annual Report on Form 10-K for the year ended December 31, 2007, File No. 1-11083).#
10.51	Form of Non-Qualified Stock Option Agreement (Executive) (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated May 12, 2006, File No. 1-11083).#
10.52	Form of Deferred Stock Unit Award Agreement (Executive) (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated May 12, 2006, File No. 1-11083).#
10.53	Form of Non-Qualified Stock Option Agreement (Special) (incorporated herein by reference to Exhibit 10.3, Current Report on Form 8-K dated May 12, 2006, File No. 1-11083).#
10.54	Form of Non-Qualified Stock Option Agreement dated July 1, 2005 (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated July 1, 2005, File No. 1-11083).#
10.55	Form of Stock Option Agreement (with one year service requirement for vesting upon Retirement) (incorporated herein by reference to Exhibit 10.6, Quarterly Report on Form 10-K dated September 30, 2010, File No. 1-11083).#
10.56	Form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.3, Current Report on Form 8-K dated December 10, 2004, File No. 1-11083).#
10.57	Form of Deferred Stock Unit Award Agreement (Special) (incorporated herein by reference to Exhibit 10.4, Current Report on Form 8-K dated May 12, 2006, File No. 1-11083).#
10.58	Form of Deferred Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.4, Current Report on Form 8-K dated December 10, 2004, File No. 1-11083).#

10.59	Form of Deferred Stock Unit Award Agreement (vesting over five years) (incorporated herein by reference to Exhibit 10.16, Annual Report on 10-K for the year ended December 31, 2006, File No. 1-11083).#
10.60	Form of Deferred Stock Unit Award Agreement (vesting over two years) (incorporated herein by reference to Exhibit 10.24, Annual Report on Form 10-K for the year ended December 31, 2007, File No. 1-11083).#
10.61	Form of Deferred Stock Unit Award Agreement (Non-Employee Directors) (incorporated herein by reference to Exhibit 10.7, Current Report on Form 8-K dated December 10, 2004, File No. 1-11083).#
10.62	Form of Deferred Stock Unit Award Agreement dated July 1, 2005 (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated July 1, 2005, File No. 1-11083).#
10.63	Form of Deferred Stock Unit Award Agreement (with one year service requirement for vesting upon Retirement) (incorporated herein by reference to Exhibit 10.5, Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, File No. 1-11083).#

10.64	Form of Performance Share Unit Award Agreement (incorporated herein by reference to Exhibit 10.41, Annual Report on Form 10-K for year ended December 31, 2009, File No 1-11083).#
10.65	Form of Restricted Stock Award Agreement (Non-Employee Directors) under the 2003 and 2011 Long-Term Incentive Plans (incorporated herein by reference to Exhibit 10.4, Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, File No. 1-11083).#
10.66	Form of Non-Qualified Stock Option Agreement under the 2011 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.5, Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, File No. 1-11083).#
10.67	Form of Performance Share Unit Award Agreement under the 2011 Long-Term Incentive Plan (Total Shareholder Return) (incorporated herein by reference to Exhibit 10.70, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.68	Form of Performance Share Unit Award Agreement under the 2011 Long-Term Incentive Plan (Free Cash Flow) (incorporated herein by reference to Exhibit 10.71, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.69	Form of Deferred Stock Unit Award Agreement under the 2011 Long-Term Incentive Plan (Special) (incorporated herein by reference to Exhibit 10.72, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.70	Form of Non-Qualified Stock Option Agreement under the 2011 Long-Term Incentive Plan (Kucheman) (incorporated herein by reference to Exhibit 10.73, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.71	Form of Deferred Stock Unit Award Agreement under the 2011 Long-Term Incentive Plan (Kucheman) (incorporated herein by reference to Exhibit 10.74, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.72	Form of Performance Share Unit Award Agreement under the 2011 Long-Term Incentive Plan (Kucheman - Total Shareholder Return) (incorporated herein by reference to Exhibit 10.75, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.73	Form of Performance Share Unit Award Agreement under the 2011 Long-Term Incentive Plan (Kucheman - Free Cash Flow) (incorporated herein by reference to Exhibit 10.76, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#

10.74	Form of Deferred Stock Unit Award Agreement under the 2011 Long-Term Incentive Plan (Kucheman - Special) (incorporated herein by reference to Exhibit 10.77, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.75	Form of Indemnification Agreement between the Company and certain Directors and Officers (incorporated herein by reference to Exhibit 10.61, Annual Report on Form 10-K for year ended December 31, 2010, File No. 1-11083).#
10.76	Form of Change in Control Agreement between the Company and certain Executive Officers (incorporated herein by reference to Exhibit 10.3, Current Report on Form 8-K dated December 15, 2009, File No. 1-11083).#
10.77	Form of Offer Letter between the Company and Timothy A. Pratt dated April 9, 2008 (incorporated herein by reference to Exhibit 10.1, Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, File No. 1-11083).#

10.78	Form of Offer Letter dated September 6, 2011 between the Company and Michael F. Mahoney, as supplemented September 13, 2011 (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated September 19, 2011, File No. 1-11083).#
10.79	Form of Amendment, dated February 14, 2012, to Offer Letter dated September 6, 2011 between the Company and Michael F. Mahoney, as supplemented September 13, 2011 (incorporated herein by reference to Exhibit 10.100, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.80	Form of Offer Letter dated September 6, 2011 between the Company and William H. Kucheman (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated September 19, 2011, File No. 1-11083).#
10.81	Form of Amendment, dated February 14, 2012, to Offer Letter dated September 6, 2011 between the Company and William H. Kucheman (incorporated herein by reference to Exhibit 10.102, Annual Report on Form 10-K for the year ended December 31, 2011, File No. 1-11083).#
10.82	Letter Agreement, dated October 30, 2012, between William H. Kucheman and the Company (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated October 30, 2012, File No. 1-11083).#
10.83	Form of Consulting Agreement between William H. Kucheman and the Company (incorporated herein by reference to Exhibit 10.3, Current Report on Form 8-K dated October 30, 2012, File No. 1-11083).#
10.84	Form of Offer Letter dated November 30, 2011 between the Company and Supratim Bose (incorporated herein by reference to Exhibit 10.113, Annual Report on Form 10-K for the year ended December 3, 2012, File No. 1-11083).#
10.85	The Boston Scientific Deferred Compensation Option Program (incorporated herein by reference to Exhibit 4.1, Registration No. 333-98755).#
10.86	Boston Scientific Corporation Domestic Relocation Policy Tier 5 Executive Officer Homeowner, effective January 2007 (incorporated herein by reference to Exhibit 10.118, Annual Report on Form 10-K for the year ended December 31, 2012, File No. 1-11083).#
10.87	Form of Letter to Key Management Personnel re: Change in Control Agreement (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated February 28, 2013, File No. 1-11083).
10.88	Transition and Separation Agreement effective December 31, 2013 between the Company and Jeffrey D. Capello (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated

	October 22, 2013 File No. 1-11083). #
10.89	Form of Offer Letter by and between the Company and Daniel J. Brennan, dated October 22, 2013 (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated October 24, 2013 File No. 1-11083). #
10.90	Boston Scientific Corporation Annual Bonus Plan Performance Period January 1 - December 31, effective October 2013 (incorporated herein by reference to Exhibit 10.1, Current Report on Form 8-K dated October 22, 2013 File No. 1-11083).#
10.91	Boston Scientific Corporation Total Shareholder Return Performance Share Program, Performance Period January 1, 2014 - December 31, 2016 (incorporated herein by reference to Exhibit 10.2, Current Report on Form 8-K dated October 22, 2013 File No. 1-11083).#
10.92	Boston Scientific Corporation Free Cash Flow Performance Share Program, Performance Period January 1, 2014 - December 31, 2014 (incorporated herein by reference to Exhibit 10.3, Current Report on Form 8-K dated October 22, 2013 File No. 1-11083).#

10.93	Boston Scientific Corporation 2013 Annual Bonus Plan Performance Period January 1 - December 31, effective July 2013 (incorporated herein by reference to Exhibit 10.2, Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 File No. 1-11083).#
10.94	Form of 2011 Long-Term Incentive Plan Global Deferred Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.3, Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 File No. 1-11083).#
10.95	Form of 2011 Long-Term Incentive Plan Global Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.4, Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 File No. 1-11083).#
10.96	Boston Scientific Corporation Severance Pay and Layoff Notification Plan, as amended and restated (Bridge Plan), effective August 1, 2013 (incorporated herein by reference to Exhibit 10.5, Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 File No. 1-11083).#
10.97	Boston Scientific Corporation U.S. Severance Plan for Exempt Employees, as amended and restated, effective August 1, 2013 (incorporated herein by reference to Exhibit 10.6, Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 File No. 1-11083).#
10.98	Boston Scientific Corporation Non-Employee Director Deferred Compensation Plan, as amended and restated, effective January 1, 2014 (incorporated herein by reference to Exhibit 10.6, Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 File No. 1-11083).#
10.99*	Form of Performance Share Unit Award Agreement under the 2011 Long-Term Incentive Plan (2014 Total Shareholder Return).#
10.100*	Form of Performance Share Unit Award Agreement under the 2011 Long-Term Incentive Plan (2014 Free Cash Flow).#
11*	Statement regarding computation of per share earnings (included in Note N - Weighted Average Shares Outstanding to the Company's 2013 consolidated financial statements for the year ended December 31, 2013 included in Item 8).
12*	Statement regarding computation of ratios of earnings to fixed charges.
21*	List of the Company's subsidiaries as of February 14, 2014.
23*	Consent of Independent Registered Public Accounting Firm, Ernst & Young LLP.

31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Explanation of Responses:

101*	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011; (ii) the Consolidated Balance Sheets as of December 31, 2013 and 2012; (iii) the Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011; (iv) the Consolidated Statements of Comprehensive Income (Loss) as of December 31, 2013, 2012 and 2011; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; (vi) the notes to the Consolidated Financial Statements; and (vii) Schedule II - Valuation and Qualifying Accounts

Explanation of Responses:

SIGNATURES

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

Dated: February 26, 2014 Boston Scientific Corporation

By: /s/ Daniel J. Brennan

Daniel J. Brennan
Executive Vice President and Chief Financial Officer
(duly authorized officer and principal financial and accounting officer)

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

Dated: February 26, 2014 By: /s/ Katharine T. Bartlett

Katharine T. Bartlett
Director

Dated: February 26, 2014 By: /s/ Daniel J. Brennan

Daniel J. Brennan
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: February 26, 2014 By: /s/ Bruce L. Byrnes

Bruce L. Byrnes
Director

Dated: February 26, 2014 By: /s/ Nelda J. Connors

Nelda J. Connors
Director

Dated: February 26, 2014 By: /s/ Kristina M. Johnson, Ph.D.

Kristina M. Johnson, Ph.D.
Director

Dated: February 26, 2014 By: /s/ Ernest Mario, Ph.D.

Ernest Mario, Ph. D.
Director

Dated: February 26, 2014 By: /s/ Michael F. Mahoney

Michael F. Mahoney
Director, President and Chief Executive Officer
(Principal Executive Officer)

Dated: February 26, 2014 By: /s/ N.J. Nicholas, Jr.

N.J. Nicholas, Jr.
Director

Explanation of Responses: 222

Dated: February 26, 2014 By: /s/ Pete M. Nicholas

Pete M. Nicholas
Director, Founder, Chairman of the Board

Dated: February 26, 2014 By: /s/ Uwe E. Reinhardt, Ph.D.