BOSTON SCIENTIFIC CORP
Form 10-Q
August 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010
Commission File No. 1-11083
BOSTON SCIENTIFIC CORPORATION
(Exact Name of Registrant As Specified in Its Charter)

DELAWARE	**04-2695240**
(State of Incorporation)	(I.R.S. Employer Identification No.)

ONE BOSTON SCIENTIFIC PLACE, NATICK, MASSACHUSETTS 01760-1537
(Address of Principal Executive Offices)
(508) 650-8000
(Registrant s Telephone Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)
Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Shares outstanding as of June 30, 2010**
Common Stock, $.01 par value	1,516,901,783

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PART I
FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
in millions, except per share data	**2010**	**2009**	**2010**	**2009**
Net sales	$ 1,928	$ 2,074	$ 3,888	$ 4,084
Cost of products sold	654	630	1,316	1,237
Gross profit	1,274	1,444	2,572	2,847
Operating expenses:				
Selling, general and administrative expenses	634	671	1,262	1,321
Research and development expenses	232	263	485	520
Royalty expense	57	53	108	98
Loss on program termination		16		16
Amortization expense	124	126	252	255
Goodwill impairment (credits) charges	(31)		1,817	
Intangible asset impairment charges		10	60	10
Purchased research and development		17		17
Acquisition-related milestone			(250)	
Restructuring charges	27	13	93	36
Litigation-related charges				287
	1,043	1,169	3,827	2,560
Operating income (loss)	231	275	(1,255)	287
Other income (expense):				
Interest expense	(103)	(92)	(195)	(194)
Other, net	(9)	(3)	(5)	(10)
Income (loss) before income taxes	119	180	(1,455)	83
Income tax expense (benefit)	21	22	36	(62)
Net income (loss)	**$ 98**	**$ 158**	**$ (1,491)**	**$ 145**
Net income (loss) per common share basic	**$ 0.06**	**$ 0.10**	**$ (0.98)**	**$ 0.10**
Net income (loss) per common share assuming dilution	**$ 0.06**	**$ 0.10**	**$ (0.98)**	**$ 0.10**
Weighted-average shares outstanding				
Basic	1,516.6	1,506.8	1,515.6	1,505.8
Assuming dilution	1,525.3	1,514.5	1,515.6	1,511.6

See notes to the unaudited condensed consolidated financial statements.

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BOSTON SCIENTIFIC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

in millions, except share data	**June 30, 2010** (Unaudited)	**December 31, 2009**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 811	$ 864
Trade accounts receivable, net	1,315	1,375
Inventories	885	920
Deferred income taxes	550	572
Prepaid expenses and other current assets	426	330
Total current assets	3,987	4,061
Property, plant and equipment, net	1,708	1,728
Goodwill	10,582	12,404
Other intangible assets, net	6,416	6,731
Other long-term assets	326	253
	$ 23,019	**$ 25,177**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current debt obligations	$ 850	$ 3
Accounts payable	180	212
Accrued expenses	2,325	2,609
Other current liabilities	368	198
Total current liabilities	3,723	3,022
Long-term debt	5,183	5,915
Deferred income taxes	1,982	1,875
Other long-term liabilities	1,238	2,064
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $ .01 par value authorized 50,000,000 shares, none issued and outstanding		
Common stock, $ .01 par value authorized 2,000,000,000 shares, issued 1,516,901,783 shares as of June 30, 2010 and 1,510,753,934 shares as of December 31, 2009	15	15
Additional paid-in capital	16,163	16,086
Accumulated deficit	(5,248)	(3,757)
Other stockholders deficit	(37)	(43)

Total stockholders equity	10,893	12,301
	$ 23,019	**$ 25,177**

See notes to the unaudited condensed consolidated financial statements.

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

(in millions)	Six Months Ended June 30, 2010	2009
Cash provided by operating activities	**$ 2**	**$ 680**
Investing activities:		
Purchases of property, plant and equipment	(131)	(134)
Proceeds from sales of publicly traded and privately held equity securities and collections of notes receivable	1	50
Payments for acquisitions of businesses, net of cash acquired		(4)
Payments relating to prior period acquisitions	(4)	(517)
Payments for investments in companies and acquisitions of certain technologies	(4)	(35)
Cash used for investing activities	**(138)**	**(640)**
Financing activities:		
Proceeds from borrowings on revolving credit facility	200	
Payments on revolving credit facility borrowings	(200)	
Proceeds from long-term borrowings, net of debt issuance costs	973	
Payments on long-term borrowings	(900)	(500)
Proceeds from issuances of shares of common stock	14	13
Cash provided by (used for) financing activities	**87**	**(487)**
Effect of foreign exchange rates on cash	(4)	
Net decrease in cash and cash equivalents	(53)	(447)
Cash and cash equivalents at beginning of period	864	1,641
Cash and cash equivalents at end of period	**$ 811**	**$1,194**
Supplemental Information		
Non-cash financing activities:		
Stock-based compensation expense	$ 92	$ 78

See notes to the unaudited condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Boston Scientific Corporation have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in our 2009 Annual Report filed on Form 10-K.

We have reclassified certain prior year amounts to conform to the current year s presentation. See *Note L Segment Reporting* for further details.

Subsequent Events

We evaluate events occurring after the date of our accompanying unaudited condensed consolidated balance sheets for potential recognition or disclosure in our financial statements. We did not identify any material subsequent events requiring adjustment to our accompanying unaudited condensed consolidated financial statements (recognized subsequent events). Those items requiring disclosure (unrecognized subsequent events) in the financial statements have been disclosed accordingly. Refer to *Note E Borrowings and Credit Arrangements* and *Note K Commitments and Contingencies* for more information.

NOTE B GOODWILL AND OTHER INTANGIBLE ASSETS

We test our April 1 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. The ship hold and product removal actions associated with our U.S. implantable cardioverter defibrillator (ICD) and cardiac resynchronization therapy defibrillator (CRT-D) products announced on March 15, 2010, described in Item 2 of this Quarterly Report, and the expected corresponding financial impact on our operations created an indication of potential impairment of the goodwill balance attributable to our U.S. Cardiac Rhythm Management (CRM) reporting unit in the first quarter of 2010. Therefore, we performed an interim impairment test in accordance with our accounting policies and recorded a $1.848 billion, on both a pre-tax and after-tax basis, goodwill impairment charge associated with our U.S. CRM reporting unit in the first quarter of 2010. Due to the timing of the product actions and the procedures required to complete the two step goodwill impairment test, the goodwill impairment charge was an estimate, which we finalized in the second quarter of 2010. During the second quarter of 2010, we recorded a $31 million reduction of the charge, resulting in a final goodwill impairment charge of $1.817 billion for the first half of 2010. This charge does not impact our compliance with our debt covenants or our cash flows.

As a result of the ship hold and product removal actions, we estimated that our U.S. defibrillator market share would decrease approximately 400 basis points exiting 2010, as compared to our market share exiting 2009, and would negatively impact our 2010 U.S. CRM revenues by approximately $300 million. We are working with our physician and patient customers to recapture lost market share; however, our on-going net sales and profitability will likely continue to be adversely impacted as a result of the ship hold and product removal actions. Therefore, as a result of these product actions, as well as lower expectations of market growth in new areas and increased competitive and pricing pressures, we lowered our estimated average U.S. CRM net sales growth rates within our 15-year discounted cash flow (DCF) model, as well as our terminal value growth rate, by approximately a couple of hundred basis points to derive the fair value of the U.S. CRM reporting unit.. The reduction in our forecasted 2010 U.S. CRM net sales, the change in our expected sales growth rates thereafter and the reduction in profitability as a result of the recently enacted excise tax on medical device manufacturers were several key factors contributing to the impairment charge. Partially offsetting these factors was a 50 basis point reduction in our estimated market participant risk-adjusted weighted-average cost of capital (WACC), used in determining our discount rate.

In the second quarter of 2010, we performed our annual goodwill impairment test for all of our reporting units. We updated our U.S. CRM assumptions to reflect our current market share position and our most recent operational budgets and long range strategic plans. In conjunction with our annual test, the fair value of each reporting unit

exceeded its carrying value, with the exception of our U.S. CRM reporting unit. Based on the remaining book value of our U.S. CRM reporting unit following the goodwill impairment charge, the carrying value of our U.S. CRM reporting unit currently exceeds its fair value, due primarily to the value of amortizable intangible assets allocated to this reporting unit. The remaining book value of our amortizable intangible assets which have been allocated to our U.S. CRM reporting unit is approximately $3.8 billion as of June 30, 2010. We tested these amortizable intangible assets for impairment on an undiscounted cash flow basis as of March 31, 2010, and determined that these assets were not impaired. The assumptions used in our annual goodwill impairment test related to our U.S. CRM reporting unit were substantially consistent with those used in our first quarter interim impairment test; therefore, it was not deemed necessary to proceed to step two of the impairment test in the second quarter of 2010.

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We have identified a total of four reporting units with a material amount of goodwill that are at higher risk of potential failure of the first step of the impairment test in future reporting periods. These reporting units include our U.S. CRM unit, which holds $1.5 billion of allocated goodwill, our U.S. Cardiovascular unit, which holds $2.2 billion of allocated goodwill, our U.S. Neuromodulation unit, which holds $1.2 billion of allocated goodwill, and our Europe/Middle East/Africa (EMEA) region, which holds $4.1 billion of allocated goodwill. The level of excess fair value over carrying value for these reporting units (with the exception of the U.S. CRM reporting unit, whose carrying value continues to exceed its fair value) ranged from 14 percent to 23 percent. Future events that could have a negative impact on the fair value of the reporting units include, but are not limited to:

- an inability to regain the trust of the implanting physician community and minimize loss of market share following the ship hold and product removal of our ICD and CRT-D systems in the U.S.;
- declines in revenue as a result of loss of key members of our sales force and other key personnel;
- decreases in estimated market sizes or market growth rates due to pricing pressures, product actions, disruptive technology developments, and/or other economic conditions;
- declines in our market share and penetration assumptions due to increased competition, an inability to launch new products, and market and/or regulatory conditions that may cause significant launch delays or product recalls;
- negative developments in intellectual property litigation that may impact our ability to market certain products;
- adverse legal decisions resulting in significant cash outflows;
- increases in the research and development costs necessary to obtain regulatory approvals and launch new products, and the level of success of on-going and future research and development efforts; and
- increases in our risk-adjusted WACC due to further instability or deterioration of the equity and credit markets.

Negative changes in one or more of these factors could result in additional impairment charges.

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The following is a summary of our other intangible asset balances as of June 30, 2010 and December 31, 2009:

(in millions)	**June 30, 2010**	**December 31, 2009**
Core technology	$ 6,854	$ 6,854
Other intangible assets	2,358	2,384
	9,212	9,238
Less: accumulated amortization	(2,796)	(2,507)
	$ 6,416	**$ 6,731**

During the first quarter of 2010, due to lower than anticipated net sales of one of our Peripheral Interventions technology offerings, as well as changes in our expectations of future market acceptance of this technology, we lowered our sales forecasts associated with the product. As a result, we tested the related intangible assets for impairment in accordance with our accounting policies and recorded a $60 million charge to write down the balance of these intangible assets to their fair value. We have recorded these amounts in the intangible asset impairment charges caption in our accompanying unaudited condensed consolidated statements of operations.

NOTE C FINANCIAL INSTRUMENTS

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 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging* (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*). 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 on a consolidated basis to take advantage of offsetting transactions and balances. We use both derivative instruments (currency forward and option contracts), and non-derivatives (primarily European manufacturing 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 currency exchange rate changes.

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Designated Foreign Currency Hedges

All of our designated currency hedge contracts outstanding as of June 30, 2010 and December 31, 2009 were cash flow hedges under Topic 815 intended to protect the U.S. dollar value of our forecasted foreign currency denominated transactions. We record the effective portion of any change in the fair value of foreign currency cash flow hedges in other comprehensive income (OCI) until the related third-party transaction occurs. Once the related third-party transaction occurs, we reclassify the effective portion of any related gain or loss on the foreign currency cash flow hedge to earnings. In the event the hedged forecasted transaction does not occur, or it becomes probable that it will not occur, we would 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 $2.588 billion as of June 30, 2010 and $2.760 billion as of December 31, 2009.

We recognized net losses of $7 million in earnings on our cash flow hedges during the second quarter of 2010 and $27 million for the first half of 2010, as compared to net gains of $8 million during the second quarter of 2009 and $24 million for the first half of 2009. All currency cash flow hedges outstanding as of June 30, 2010 mature within 36 months. As of June 30, 2010, $47 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 losses of $44 million as of December 31, 2009. As of June 30, 2010, $20 million of net losses, 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 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 and certain short-term earnings and cash flow exposures related to our Japanese operations that do not qualify for hedge accounting under Topic 815. 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 one to six months. We had currency derivative instruments not designated as hedges under Topic 815 outstanding in the contract amount of $1.655 billion as of June 30, 2010 and $1.982 billion as of December 31, 2009.

Interest Rate Hedging

Our interest rate risk relates primarily to U.S. dollar borrowings, partially offset by U.S. dollar cash investments. We use 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 probable that it will not occur, we would reclassify the

amount of any gain or loss on the related cash flow hedge to interest expense at that time. We had no interest rate derivative instruments outstanding as of June 30, 2010 or December 31, 2009.

In prior years we terminated certain interest rate derivative instruments, including fixed-to-floating interest rate contracts, designated as fair value hedges, and floating-to-fixed treasury locks, designated as cash flow hedges. In accordance with Topic 815, we are amortizing the gains and losses of these derivative instruments upon termination into earnings over the term of the hedged debt. The carrying amount of certain of our senior notes included unamortized gains of $2 million as of June 30, 2010 and $3 million as of December 31, 2009, and unamortized losses of $6 million as of June, 2010 and $8 million as of December 31, 2009, 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 $10 million as of June 30, 2010 and $11 million as of December 31, 2009.

During the second quarter and first half of 2010, we recognized in earnings an immaterial amount of net gains related to our previously terminated interest rate derivative contracts. As of June 30, 2010, $6 million of net gains, net of tax, are recorded in AOCI to recognize the effective portion of these instruments, as compared to $7 million of net gains as of December 31, 2009. As of June 30, 2010, an immaterial amount of net gains, net of tax, may be reclassified to earnings within the next twelve months from amortization of our previously terminated interest rate derivative instruments.

Counterparty Credit Risk

We do not have significant concentrations of credit risk arising from our derivative financial instruments, whether from an individual counterparty or 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 positions on an on-going basis. Furthermore, none of our derivative transactions are subject to collateral or other security arrangements and do not 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, 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 unaudited condensed consolidated statements of operations during the second quarter and first half of 2010 and 2009 (in millions):

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Cash Flow Hedges	Amount of Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Location in Statement of Operations	Amount of Gain (Loss) Recognized in Earnings on Ineffective Portion and Amount Excluded from Effectiveness Testing*	Location in Statement of Operations
Three Months Ended June 30, 2010					
Interest rate contracts		$ 1	Interest expense		
Currency hedge contracts	$ 48	(7)	Cost of products sold		
	$ 48	**$ (6)**			
Three Months Ended June 30, 2009					
Interest rate contracts	$ (6)	$ (10)	Interest expense		
Currency hedge contracts	(101)	8	Cost of products sold		
	$ (107)	**$ (2)**			
Six Months Ended June 30, 2010					
Interest rate contracts		$ 1	Interest expense		
Currency hedge contracts	$ 117	(27)	Cost of products sold		
	$ 117	**$ (26)**			

Six Months Ended June 30, 2009					
Interest rate contracts	$ (8)	$ (20)	Interest expense	$ (2)	Interest expense **
Currency hedge contracts	27	24	Cost of products sold		
	$ 19	**$ 4**		**$ (2)**	

* Other than described in **, the amount of gain (loss) recognized in earnings related to the ineffective portion of hedging relationships was de minimis during the second quarter and first half of 2010 and 2009.

** During the first quarter of 2009, we prepaid $500 million of our term loan, and recognized $2 million of ineffectiveness in accordance with Topic 815 on interest rate swaps for which there was no longer an underlying exposure.

		Amount of Gain (Loss) Recognized in Earnings (in millions)			
	Location in Statement of Operations	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
Derivatives Not Designated as Hedging Instruments		**2010**	**2009**	**2010**	**2009**
Currency hedge contracts	Other, net	$ (20)	$ (20)	$ (28)	$ 33

Currency hedge contracts	Cost of products sold		(1)		(1)
		$(20)	**$(21)**	**$ (28)**	**$ 32**

Losses and gains on currency hedge contracts not designated as hedged instruments were substantially offset by $13 million in net gains from foreign currency transaction exposures during the second quarter of 2010, $22 million during the second quarter of 2009, $16 million for the first half of 2010, and $37 million in net losses for the first half of 2009. As a result, we recorded a net foreign currency loss of $7 million during the second quarter of 2010, a $2 million gain during the second quarter of 2009, a $12 million loss for the first half of 2010, and a $4 million loss for the first half of 2009, within other, net in our accompanying unaudited condensed consolidated financial statements.

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 Topic 820, *Fair Value Measurements and Disclosures* (formerly FASB Statement No. 157, *Fair Value Measurements*), by considering the estimated amount we would receive to sell or transfer these instruments at the reporting date and by taking into account current interest rates, 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 June 30, 2010, 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.

The following are the balances of our derivative assets and liabilities as of June 30, 2010 and December 31, 2009:

		As of	
(in millions)	**Location in Balance Sheet (1)**	**June 30, 2010**	**December 31, 2009**
Derivative Assets:			
Designated Hedging Instruments			
Currency hedge contracts	Prepaid and other current assets	$89	$ 20
Currency hedge contracts	Other l		