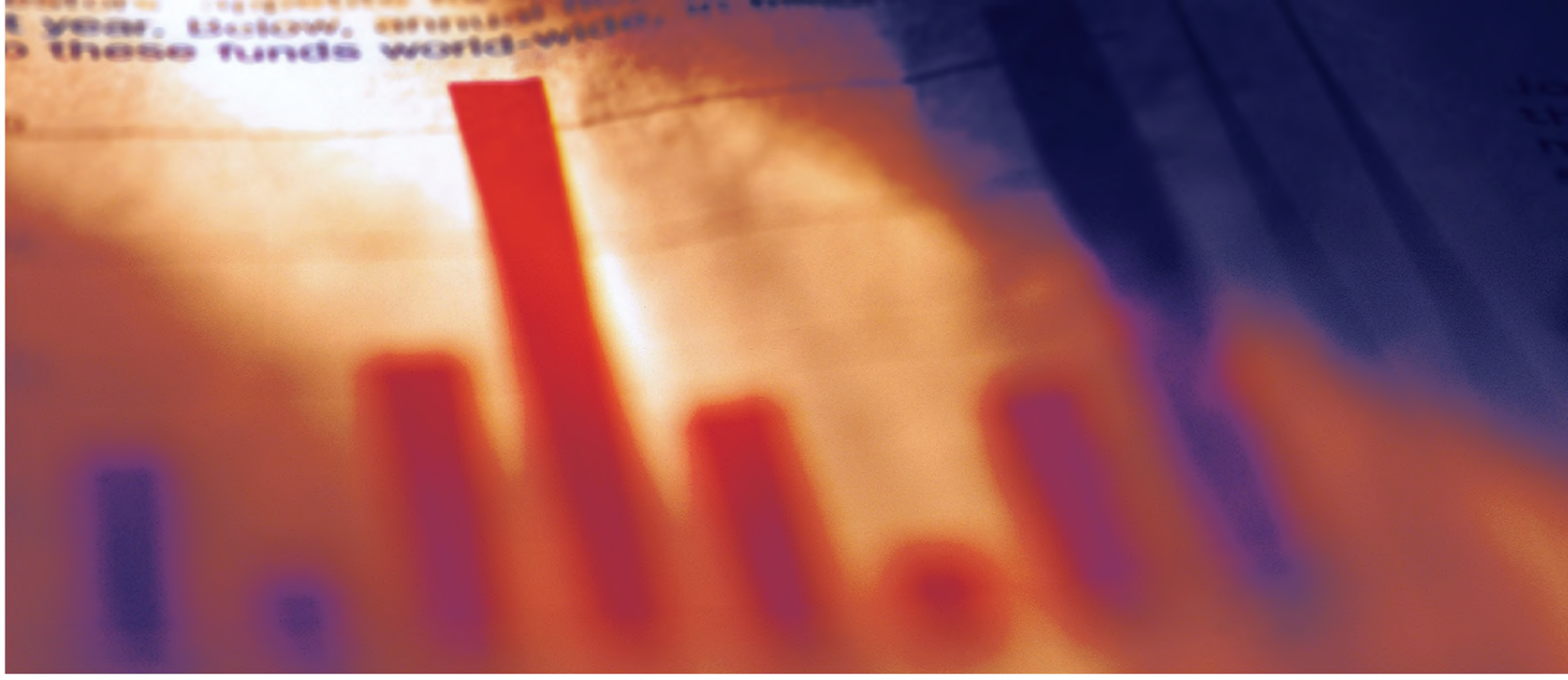

ACCOUNTING TRENDS & TECHNIQUES

U.S. GAAP Financial Statements

Best Practices in Presentation and Disclosure

AICPA

SIXTY-NINTH EDITION

ACCOUNTING TRENDS & TECHNIQUES

U.S. GAAP Financial Statements

Best Practices in Presentation and Disclosure

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Director, Content Development: Linda Cohen
Senior Technical Manager: Doug Bowman
Technical Manager: Liese Faircloth
Developmental Editor: David Cohen
Project Manager: Charlotte Ingles

Recognition

The 2015 edition of *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure* was developed by

RAYMOND J. PETRINO, CPA
CONTENT MATTER EXPERT

DAVID J. COHEN
DEVELOPMENTAL EDITOR
AICPA CONTENT
DEVELOPMENT

LIESE FAIRCLOTH, CPA
TECHNICAL MANAGER
AICPA ACCOUNTING AND AUDITING CONTENT
DEVELOPMENT

Preface

About This Edition of *U.S. GAAP Financial Statements — Best Practices in Presentation and Disclosure*

This book remains the best source for reporting and disclosure examples from real world financial statements, providing accounting professionals with an invaluable resource for incorporating new and existing accounting and reporting guidance into financial statements using presentation techniques adopted by companies across numerous industries, all of which are headquartered in the United States.

Organization and Content

This 2015 edition surveyed annual reports of 350 entities of various sizes representing over 100 industries with fiscal periods ending between January and December 2014. The industry classifications of survey entities (as shown in the "Appendix of Survey Entity Industries") were obtained from Morningstar, Inc.

To provide you with the most useful and comprehensive look at current financial reporting presentation and disclosure, this book is topically organized and offers the following:

- Examples taken from the surveyed annual reports illustrating financial statement presentation and virtually every required U.S. GAAP disclosure.
- Descriptive guidance that includes current reporting requirements under U.S. generally accepted accounting principles (GAAP). U.S. GAAP is generally considered to be the requirements of the FASB *Accounting Standards Codification*® (ASC). Select SEC guidance is also included.
- Detailed indexes.

ILLUSTRATIVE REPORTING EXAMPLES

AICPA leverages its decades of experience as the CPA national membership organization to select the most useful, comprehensive presentation and disclosure examples, which comprise the majority of this book. Every edition of *Best Practices in Presentation and Disclosure* includes all new annual report excerpts that were chosen to be particularly relevant and useful to financial statement preparers in illustrating current reporting practices.

Because survey entities may present disclosures on specific topics within different footnotes in their annual filings, including those ostensibly about a separate accounting topic, the excerpts presented herein to illustrate a given topic may have been taken from footnotes about other topics. The full text of the financial statements from which the excerpts in this publication have been obtained can be found on the SEC's web site at www.sec.gov/edgar/searchedgar/companysearch.html.

GUIDANCE

Discerning, plain English guidance covers the significant U.S. GAAP accounting and financial statement reporting requirements in narrative form. These narratives use common headings (recognition and measurement, presentation, and disclosure) to achieve a consistent presentation throughout all the sections. Although not a substitute for the authoritative accounting and reporting standards, the reporting guidance herein encapsulates the complex requirements to facilitate your understanding of the content. The related authoritative sources for each requirement are cited within the narratives (for example, FASB ASC 310, *Receivables*, or Regulation S-K).

SEC rules and interpretative releases may expand, modify, or decrease accounting and disclosure requirements for foreign private issuers, regardless of whether they file their annual financial statements with the SEC in Forms 10-K, 20-F, or 40-F (Canadian issuers). Therefore, it is critical to consider SEC requirements, as well as those of FASB ASC, when reviewing the financial statements of SEC registrants. A general reference to FASB ASC in this publication does not include the SEC materials. When requirements are taken from an SEC rule or regulation, that rule or regulation will be cited directly.

INDEXES

Indexes in this edition include the "Appendix of 350 Entities," which alphabetically lists each of the 350 survey entities included in the current edition and notes where in the text excerpts from their annual reports can be found; the "Appendix of Survey Entity Industries," which lists the industries represented by the 350 survey entities and lists the entities within each industry classification; the "Index of Authoritative Accounting & Auditing Guidance," which provides for easy cross-referencing of pronouncements to the applicable descriptive narratives; and a detailed "Subject Index," which is fully cross-referenced to all significant topics included throughout the narratives.

FASB ASC

Because FASB ASC is the source of authoritative U.S. GAAP for nongovernmental entities, in addition to guidance issued by the SEC, the guidance herein refers only to the appropriate FASB ASC reference for all standards.

Note that the effective dates of recently released guidance affect the timing of its inclusion in the financial statements of the survey entities, thereby affecting the availability of illustrative excerpts for potential inclusion in each edition of *Best Practices in Presentation and Disclosure*. This 2015 edition includes survey entities having fiscal years ending within calendar year 2014. Technical guidance for which this edition supplies illustrative annual report excerpts includes the following, among other recently issued guidance:

- ASU No. 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a Consensus of the FASB Emerging Issues Task Force)*
- ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*
- ASU No. 2014-17, *Business Combinations (Topic 805): Pushdown Accounting (a Consensus of the FASB Emerging Issues Task Force)*

Related Products

U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure is the flagship product in the AICPA's *Best Practices in Presentation and Disclosure* series; it is also available in an interactive, online format. Other titles in the *Best Practices in Presentation and Disclosure* series include

- *Employee Benefit Plans Financial Statements—Best Practices in Presentation and Disclosure*
- *Not-for-Profit Entities Financial Statements—Best Practices in Presentation and Disclosure*

Notice

This book is a nonauthoritative practice aid and is not designed to provide a comprehensive understanding of all the requirements contained in U.S. GAAP. The guidance provided herein may not discuss all relevant accounting guidance on a given topic and should not be relied upon for its completeness. Users are encouraged to consult FASB ASC for complete, authoritative discussion of U.S. GAAP. Users are also encouraged to consult the complete body of SEC rules and regulations for regulatory requirements. In addition, this book does not include reporting requirements relating to other matters such as internal control or agreed-upon procedures.

Authoritative guidance on accounting treatments in accordance with U.S. GAAP can be made only by reference to the FASB ASC, which is copyright of the FAF and can be acquired directly from FASB.

This book has not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and does not represent official positions or pronouncements of the AICPA.

The use of this publication requires the exercise of individual professional judgment. It is not a substitute for the original authoritative accounting and auditing guidance. Users are urged to refer directly to applicable authoritative pronouncements, when appropriate. As an additional resource, users may call the AICPA Technical Hotline at 1.877.242.7212.

Feedback

We hope that you find this edition to be informative and useful. Please let us know! What features do you like? What do you think can be improved or added? We encourage you to submit your comments and questions to Liese Faircloth, using the following contact information. All feedback is greatly appreciated and kept strictly confidential.

Liese Faircloth— Accounting and Auditing Content Development
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
220 Leigh Farm Road
Durham, NC 27707-8110
Telephone: 919.402.4819
E-mail: lfaircloth@aicpa.org

You can also contact the Accounting and Auditing Content Development team of the AICPA directly via e-mail at A&Apublications@aicpa.org.

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Section 1: General Topics

Survey Entities

1.01 All 350 entities included in the survey are registered with the SEC. All of the survey entities have securities traded on one of the major stock exchanges: 84 percent on the New York Stock Exchange and 16 percent on NASDAQ.

1.02 Each year, entities are selected across various industry classifications with the purpose of highlighting those entities that exhibit the best practices.

General Financial Statement Considerations

RECOGNITION AND MEASUREMENT

1.03 FASB *Accounting Standards Codification*® (ASC) 105-10-05-2 explains that if the necessary guidance for a transaction or event is not specified within a source of authoritative generally accepted accounting principles (GAAP), an entity should first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. When those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy, an entity should not follow those accounting principles.

1.04 FASB ASC 105-10-05-3 explains that accounting and financial reporting practices not included in FASB ASC are nonauthoritative. FASB Concepts Statements are not considered authoritative sources of GAAP, and no preference is given to the FASB Concepts Statements over other nonauthoritative sources. FASB ASC does not state that consistency with the FASB Concept Statements in connection with an entity's application of an accounting treatment is necessary. Sources of nonauthoritative accounting guidance include the following:

- Practices that are widely recognized and prevalent, either generally or in the industry
- FASB Concepts Statements
- AICPA Issues Papers
- International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB)
- Pronouncements of professional associations or regulatory agencies
- Technical Questions and Answers included in AICPA *Technical Practice Aids*
- Accounting textbooks, handbooks, and articles

The appropriateness of other sources of accounting guidance depends on its relevance to particular circumstances, the specificity of the guidance, the general recognition of the issuer or author as an authority, and the extent of its use in practice.

1.05 As discussed in FASB ASC 105-10-05-1, GAAP, as codified in FASB ASC, includes the rules and interpretive releases of the SEC as sources of authoritative GAAP as a convenience only to SEC registrants. In addition to the SEC's rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices that the staff follows when administering SEC disclosure requirements. SEC staff announcements and observer comments made at meetings of the Emerging Issues Task Force announce the staff's views on certain accounting issues for SEC registrants.

1.06 In June 2009, FASB issued the last FASB statement referenced in that form: FASB Statement No. 168, *The FASB* Accounting Standards Codification®*and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. This standard established FASB ASC as the source of authoritative U.S. accounting and reporting standards for nongovernmental companies, in addition to guidance issued by the SEC, and was effective for financial statements issued for interim and annual periods ending after September 15, 2009.

1.07 In FASB ASC's Notice to Constituents (NTC), FASB suggests the use of plain English references to describe broad FASB ASC topics going forward in financial statements and related footnote disclosures. FASB provides the following example of plain English references in the NTC when referring to the requirements of FASB ASC 815, *Derivatives and Hedging*: "as required by the Derivatives and Hedging Topic of the FASB Accounting Standards Codification."

1.08 A natural business year is the period of 12 consecutive months that ends when the business activities of an entity have reached the lowest point in their annual cycle. In many instances, the natural business year of an entity ends December 31.

PRESENTATION

1.09 Rule 14 a-3 of the Securities Exchange Act of 1934 states that annual reports furnished to stockholders in connection with the annual meetings of stockholders should include audited financial statements: balance sheets as of the end of the two most recent fiscal years and statements of income and cash flows for each of the three most recent fiscal years. Rule 14 a-3 also states that the following information, as specified in SEC Regulation S-K should be included in the annual report to stockholders:

- Selected quarterly financial data
- Changes in, and disagreements with, accountants on accounting and financial disclosure
- Summary of selected financial data for the last five years
- Description of business activities
- Segment information
- Listing of company directors and executive officers
- Market price of, and dividends on, the company's common stock for each quarterly period within the two most recent fiscal years
- Management's discussion and analysis (MD&A) of financial condition and results of operations
- Quantitative and qualitative disclosures about market risk

1.10 FASB ASC 205-10-45-2 states that it is ordinarily desirable for an entity to present the statement of financial position; the income statement; and the statement of changes in equity for one or more preceding years, in addition to those of the current year.

1.11 Paragraphs 3–4 of FASB ASC 205-10-45 require these statements to be comparable, and any exceptions to comparability should be described as required by FASB ASC 250, *Accounting Changes and Error Corrections*. An entity is required to repeat, or at least refer to, any notes to financial statements, other explanations, or accountants' reports that contain qualifications for prior years that appeared in the comparative statements when originally issued, to the extent this information remains significant. Multiple rules set forth in SEC Regulation S-X provide guidance to SEC registrants on the form and ordering of financial statements, the presentation of amounts, the omission of certain items, and requirements for supplemental schedules. Rule 14 a-3 requires that annual reports to stockholders should include comparative balance sheets and statements of income and cash flows for each of the three most recent fiscal years. All the survey entities are SEC registrants and conformed to the aforementioned requirements of Rule 14 a-3.

1.12 FASB ASC permits an entity to offset a liability with an asset only when the following certain conditions discussed in FASB ASC 210-20-45-1 are met:

- Each of two parties owes the other determinable amounts
- The reporting party has the right to set off the amount owed with the amount owed by the other party
- The reporting party intends to set off
- The right of setoff is enforceable at law

1.13 FASB ASC 210-20-50 requires an entity to disclose in tabular format the following:

a. The gross amounts of those recognized assets and those recognized liabilities
b. The amounts offset in accordance with the guidance in FASB ASC 210-20-45 and 815-10-45 to determine the net amounts presented in the statement of financial position
c. The net amounts presented in the statement of financial position
d. The amounts subject to an enforceable master netting arrangement or similar agreement not otherwise included in (b):
    1. The amounts related to recognized financial instruments and other derivative instruments that either:
        i. Management makes an accounting policy election not to offset.
        ii. Do not meet some or all of the guidance in either FASB ASC 210-20-45 or 815-10-45
    2. The amounts related to financial collateral (including cash collateral).
e. The net amount after deducting the amounts in (d) from the amounts in (c).

Author's Note

In April 2014, FASB issued Accounting Standards Update (ASU) No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* This ASU changes the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in GAAP. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Entities are required to apply the amendments in this ASU for annual reporting periods beginning on or after December 15, 2014. Early adoption is allowed for disposals only or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance.

In June 2014, FASB issued ASU No. 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation.* The amendments in this ASU remove the definition of a *development stage entity* from the Master Glossary of the ASC, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. The elimination of the exception to the sufficiency-of-equity-at-risk criterion in FASB ASC 810-10-15-16 for development stage entities will require all reporting entities that have an interest in a development stage entity to apply consistent guidance for transactions that are economically the same or similar. Therefore, the same guidance will be applied for determining whether an entity is a variable interest entity and whether the variable interest entity should be consolidated, regardless of whether that entity has commenced planned principal operations or has significant revenue from its principal operations. The amendments related to the elimination of inception-to-date information and the other remaining disclosure requirements of FASB ASC 915, *Development Stage Entities*, should be applied retrospectively, except for the clarification to FASB ASC 275, *Risks and Uncertainties*, which shall be applied prospectively. For public business entities, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. For other entities, the amendments are effective for annual reporting periods beginning after December 15, 2014, and interim reporting periods beginning after December 15, 2015. For public business entities, the amendment eliminating the exception to the sufficiency-of-equity-at-risk criterion for development stage entities in FASB ASC 810-10-15-16 should be applied retrospectively for annual reporting periods beginning after December 15, 2015, and interim periods therein. For all other entities, the amendments to FASB ASC 810, *Consolidation*, should be applied retrospectively for annual reporting periods beginning after December 15, 2016, and interim reporting periods beginning after December 15, 2017. Early application of each of the amendments is permitted for any annual reporting period or interim period for which the entity's financial statements have not yet been issued (public business entities) or made available for issuance (other entities). Upon adoption, entities will no longer present or disclose any information required by FASB ASC 915. None of the examples that follow contain an example of these disclosures due to the effective date.

DISCLOSURE

1.14 SEC Regulations S-X and S-K and paragraphs .19–.20 and .A22–.A23 of AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AICPA, *Professional Standards*), state the need for adequate disclosure in financial statements. Normally, the financial statements alone cannot present all information necessary for adequate disclosure without considering appended notes that disclose information. All surveyed entities provided footnote disclosures to their financial statements.

1.15 FASB ASC 235, *Notes to Financial Statements*, sets forth guidelines about the content and format of disclosures of accounting policies. FASB ASC 235-10-50-1 requires that the significant accounting policies of an entity be presented as an integral part of the financial statements of the entity. FASB ASC 235-10-50-6 states that the preferable format is to present a summary of significant accounting policies preceding notes to financial statements, or as the initial note, under the same or a similar title.

1.16 FASB ASC 205-10-50-1 requires an entity to provide information explaining changes due to reclassifications or other reasons that affect the manner of, or basis for, presenting corresponding items for two or more periods. FASB ASC 250-10 does not require an entity to present an opening balance sheet of the earliest period presented when an entity retrospectively applies a change in accounting policy or restates to correct an error.

1.17 FASB ASC 275, *Risks and Uncertainties*, requires reporting entities to disclose information about the risks and uncertainties resulting from the nature of their operations, the use of estimates in preparing financial statements, and significant concentrations in certain aspects of the entity's operations.

1.18 FASB ASC 205-30-50-2 identifies the disclosures required when a company determines that the liquidation basis of accounting is required. The requirements include disclosing the facts and circumstances surrounding the adoption of the liquidation basis of accounting and the entity's determination that liquidation is imminent. Also required is a description of the entity's plan for liquidation, including how the entity will dispose of its assets, how liabilities will be settled, and an expected date for the completion of the liquidation. Entities should also disclose the methods and significant assumptions used to measure the assets and liabilities and the type and amount of costs and income accrued in the statement of net assets in liquidation and the period over which those costs are expected to be paid or income earned.

PRESENTATION AND DISCLOSURE EXCERPTS

QUARTERLY FINANCIAL DATA

1.19 INTERNATIONAL PAPER COMPANY (DEC)

INTERIM FINANCIAL RESULTS (unaudited)

	1st	2nd	3rd	4th	
In millions, except per share amounts and stock prices	Quarter	Quarter	Quarter	Quarter	Year
2014					
Net sales	$ 5,724	$ 5,899	$ 6,051	$ 5,943	$23,617
Gross margin[a]	1,690	1,839	1,996	1,838	7,363
Earnings (loss) from continuing operations before income taxes and equity earnings	(139)[b]	152[e]	552[g]	307[i]	872[b,e,g,i]
Gain (loss) from discontinued operations	(7)[c]	(13)[f]	16[h]	(9)[j]	(13)[c,f,h,j]
Net earnings (loss) attributable to International Paper Company	(95)[b,c,d]	161[e,f]	355[g,h]	134[i,j,k]	555[b–k]
Basic earnings (loss) per share attributable to International Paper Company common shareholders:					
Earnings (loss) from continuing operations	$ (0.20)[b]	$ 0.40[e]	$ 0.80[g]	$ 0.34[i]	$ 1.33[b,e,g,i]
Gain (loss) from discontinued operations	(0.01)[c]	(0.03)[f]	0.04[h]	(0.02)[j]	(0.03)[c,f,h,j]
Net earnings (loss)	(0.21)[b,c,d]	0.37[e,f]	0.84[g,h]	0.32[i,j,k]	1.30[b–k]
Diluted earnings (loss) per share attributable to International Paper Company common shareholders:					
Earnings (loss) from continuing operations	(0.20)[b]	0.40[e]	0.79[g]	0.34[i]	1.31[b,e,g,i]
Gain (loss) from discontinued operations	(0.01)[c]	(0.03)[f]	0.04[h]	(0.02)[j]	(0.02)[c,f,h,j]
Net earnings (loss)	(0.21)[b,c,d]	0.37[e,f]	0.83[g,h]	0.32[i,j,k]	1.29[b–k]
Dividends per share of common stock	0.3500	0.3500	0.3500	0.4000	1.4500
Common stock prices					
High	$ 49.71	$ 50.65	$ 51.98	$ 55.73	$ 55.73
Low	44.43	44.24	46.77	44.50	44.24
2013					
Net sales	$ 5,716	$ 5,944	$ 5,975	$ 5,848	$23,483
Gross margin[a]	1,709	1,757	1,927	1,808	7,201
Earnings (loss) from continuing operations before income taxes and equity earnings	227[l]	359[o]	403[q]	239[t]	1,228[l,o,q,t]
Gain (loss) from discontinued operations	28[m]	27[p]	(5)[r]	(359)[u]	(309)[m,p,r,u]
Net earnings (loss) attributable to International Paper Company	318[l,m,n]	259[o,p]	382[q,r,s]	436[t,u,v,w]	1,395[l–w]
Basic earnings (loss) per share attributable to International Paper Company common shareholders:					
Earnings (loss) from continuing operations	$ 0.66[l]	$ 0.52[o]	$ 0.87[q]	$ 1.80[t]	$ 3.85[l,o,q,t]
Gain (loss) from discontinued operations	0.06[m]	0.06[p]	(0.01)[r]	(0.81)[u]	(0.70)[m,p,r,u]
Net earnings (loss)	0.72[l,m,n]	0.58[o,p]	0.86[q,r,s]	0.99[t,u,v,w]	3.15[l–w]
Diluted earnings (loss) per share attributable to International Paper Company common shareholders:					
Earnings (loss) from continuing operations	0.65[l]	0.52[o]	0.86[q]	1.78[t]	3.80[l,o,q,t]
Gain (loss) from discontinued operations	0.06[m]	0.05[p]	(0.01)[r]	(0.80)[u]	(0.69)[m,p,r,u]
Net earnings (loss)	0.71[l,m,n]	0.57[o,p]	0.85[q,r,s]	0.98[t,u,v,w]	3.11[l–w]
Dividends per share of common stock	0.3000	0.3000	0.3000	0.3500	1.2500

(continued)

In millions, except per share amounts and stock prices	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Common stock prices					
High	$47.25	$49.10	$50.33	$49.52	$50.33
Low	39.47	42.36	43.95	42.92	39.47

Note: Since basic and diluted earnings per share are computed independently for each period and category, full year per share amounts may not equal the sum of the four quarters. In addition, the unaudited selected consolidated financial data are derived from our audited consolidated financial statements and have been revised to reflect discontinued operations.

Footnotes to Interim Financial Results

[a] Gross margin represents net sales less cost of products sold, excluding depreciation, amortization and cost of timber harvested.

[b] Includes a pre-tax charge of $12 million ($7 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $495 million ($302 million after taxes) for costs associated with the shutdown of our Courtland mill, and a pre-tax charge of $4 million ($3 million after taxes) for other items.

[c] Includes the operating earnings of the xpedx business, a pre-tax charge of $16 million ($10 million after taxes) for costs associated with the spin-off of the xpedx operations, a pre-tax charge of $2 million ($0 million after taxes) for costs associated with the restructuring of our xpedx operations and a charge of $2 million (before and after taxes) for costs associated with the Building Products divestiture.

[d] Includes a tax expense of $10 million associated with a state legislative change and a tax benefit of $1 million for other items.

[e] Includes a pre-tax charge of $2 million ($1 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $262 million ($160 million after taxes) for debt extinguishment costs, a pre-tax charge of $49 million ($30 million after taxes) for costs associated with the shutdown of our Courtland mill, a pre-tax gain of $7 million ($5 million after taxes) associated with our Brazil Packaging business and net charges of $3 million (before and after taxes) for other items.

[f] Includes the operating earnings of the xpedx business, a pre-tax charge of $18 million ($20 million after taxes) for costs associated with the spin-off of our xpedx operations, and a gain of $1 million (before and after taxes) related to the xpedx restructuring.

[g] Includes a pre-tax charge of $5 million ($3 million after taxes) for a refund of previously claimed state tax credits, a gain of $20 million (before and after taxes) for the resolution of a legal contingency in India, a pre-tax charge of $35 million ($21 million after taxes) for costs associated with a multi-employer pension plan withdrawal liability, a pre-tax charge of $32 million ($17 million after taxes) for costs associated with a foreign tax amnesty program, a pre-tax charge of $13 million ($8 million after taxes) for debt extinguishment costs, a pre-tax charge of $3 million ($2 million after taxes) for costs associated with the shutdown of our Courtland mill, a charge of $1 million (before and after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $5 million ($3 million after taxes) for costs associated with the restructuring of the Company's Packaging business in Europe, and a net pre-tax loss of $3 million ($2 million after taxes) for other items.

[h] Includes a net pre-tax gain of $11 million ($14 million after taxes) for the recovery of costs related to the spin-off of the xpedx business and a $2 million tax benefit associated with the Building Products divestiture.

[i] Includes a charge of $100 million (before and after taxes) for a goodwill impairment charge related to our Asian Industrial Packaging business, a charge of $1 million (before and after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $7 million ($4 million after taxes) for costs associated with the shutdown of our Courtland mill, a pre-tax charge of $4 million ($3 million after taxes) for integration costs associated with our Brazil Packaging business, a pre-tax charge of $47 million ($36 million after taxes) for a loss on the sale of a business by ASG in which we hold an investment, and the resulting impairment of our ASG investment, a pre-tax gain of $9 million ($5 million after taxes) related to the sale of an investment, and a net pre-tax charge of $5 million ($3 million after taxes) for other items.

[j] Includes a pre-tax loss of $14 million ($9 million after taxes) related to the Building Products divestiture.

[k] Includes a tax benefit of $90 million associated with internal restructuring.

[l] Includes a pre-tax charge of $12 million ($8 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $44 million ($27 million after taxes) for costs associated with the permanent shutdown of a paper machine at our Augusta mill, a pre-tax charge of $6 million ($4 million after taxes) for debt extinguishment costs, interest income of $6 million ($4 million after taxes) related to the closing of a U.S. federal income tax audit, and pre-tax charges of $2 million ($1 million after taxes) for other items.

[m] Includes the operating earnings of the xpedx and Building Products businesses, a pre-tax charge of $7 million ($4 million after taxes) for costs associated with the restructuring of our xpedx operations, and a pretax charge of $4 million ($3 million after taxes) for costs associated with the Building Products divestiture.

[n] Includes a tax benefit of $93 million associated with the closing of a U.S. federal income tax audit and a net tax expense of $2 million related to internal restructurings. In addition, the first quarter tax rate includes a benefit of approximately $35 million related to the enactment into law of The American Taxpayer Relief Act of 2012 in January 2013.

[o] Includes a pre-tax charge of $6 million ($4 million after taxes) for an environmental reserve related to the Company's property in Cass Lake, Minnesota, a pre-tax charge of $14 million ($8 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $9 million ($5 million after taxes) to adjust the value of two Company airplanes to market value, a pre-tax gain of $30 million ($19 million after taxes) for insurance reimbursements related to the 2012 Guaranty Bank legal settlement, a pre-tax charge of $3 million ($2 million after taxes) for debt extinguishment costs, a gain of $13 million (before and after taxes) related to a bargain purchase adjustment on the first-quarter 2013 acquisition of a majority share of our operations in Turkey, and charges of $3 million (before and after taxes) for other items.

[p] Includes the operating earnings of the xpedx and Building Products businesses, a pre-tax charge of $17 million ($10 million after taxes) for costs associated with the restructuring of our xpedx operations, a pre-tax charge of $3 million ($2 million after taxes) for costs associated with the spin-off of the xpedx operations, and a pre-tax charge of $13 million ($8 million after taxes) for costs associated with the divestiture of Building Products.

[q] Includes a pre-tax charge of $24 million ($15 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $51 million ($31 million after taxes) for costs associated with the shutdown of our Courtland mill, a pre-tax charge of $15 million ($9 million after taxes) for debt extinguishment costs, a pre-tax gain of $9 million ($6 million after taxes) associated with the sale of the Bellevue box plant facility which was closed in 2010, a pre-tax charge of $1 million ($0 million after taxes) for costs associated with the divestiture of three containerboard mills in 2012 and charges of $2 million (before and after taxes) for other items.

[r] Includes the operating earnings of the xpedx business, a pre-tax charge of $6 million ($4 million after taxes) for costs associated with the restructuring of our xpedx operations, a pre-tax charge of $11 million ($7 million after taxes) for costs associated with the spin-off of the xpedx operations, and a pre-tax charge of $24 million ($15 million after taxes) for costs associated with the Building Products divestiture.

[s] Includes a tax benefit of $31 million for an income tax reserve release. In addition, the third quarter tax rate includes a $30 million benefit related to the adjustment of the tax basis in certain of the Company's fixed assets.

[t] Includes a pre-tax charge of $12 million ($7 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of $67 million ($41 million after taxes) for costs associated with the shutdown of our Courtland mill, a pre-tax charge of $4 million ($3 million after taxes) for costs associated with the restructuring of the Asia Box operations, a pre-tax charge of $127 million ($122 million after taxes) for the impairment of goodwill and a trade name intangible asset of the Company's India Papers business, a pre- tax charge of $2 million ($1 million after taxes) for an adjustment associated with the Company's divestiture of the Shorewood operations, and a net pre-tax gain of $2 million ($0 million after taxes) for other items.

[u] Includes the operating earnings of the xpedx business, a pre-tax charge of $8 million ($5 million after taxes) for costs associated with the spin-off of the xpedx operations, a pre-tax charge of $400 million ($366 million after taxes) for the impairment of goodwill in the Company's xpedx business, a net pre-tax loss of $2 million ($1 million after taxes) for costs associated with the restructuring of the xpedx operations, and a pre-tax gain of $18 million ($6 million after taxes) related to the Building Products divestiture.

[v] Includes a tax benefit of $651 million associated with the closing of a U.S. federal tax audit and a net tax benefit of $3 million for other items.

[w] Includes pre-tax noncontrolling interest income of $4 million ($3 million after taxes) associated with the write-off of a trade name intangible asset in our India Papers business.

1.20 EXPRESS SCRIPTS HOLDING COMPANY (DEC)

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our consolidated financial statements, including the related notes, and "Part II—Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations." Results for the years ended December 31, 2013 and 2012 reflect the discontinued operations of our acute infusion therapies line of business, various portions of our United BioSource ("UBC") line of business, Europa Apotheek Venlo B.V. ("EAV") and our European operations. Discontinued operations as of December 31, 2010 include Phoenix Marketing Group ("PMG").

(In millions, except per share data)	2014	2013	2012[1]	2011	2010
Statement of Operations Data (for the Year Ended December 31):					
Revenues[2]	$100,887.1	$104,098.8	$93,714.3	$46,128.3	$44,973.2
Cost of revenues[2]	92,962.0	95,966.4	86,402.4	42,918.4	42,015.0
Gross profit	7,925.1	8,132.4	7,311.9	3,209.9	2,958.2
Selling, general and administrative	4,322.7	4,580.7	4,518.0	895.5	887.3
Operating income	3,602.4	3,551.7	2,793.9	2,314.4	2,070.9
Other expense, net	(536.2)	(521.4)	(593.5)	(287.3)	(162.2)
Income before income taxes	3,066.2	3,030.3	2,200.4	2,027.1	1,908.7
Provision for income taxes	1,031.2	1,104.0	838.0	748.6	704.1
Net income from continuing operations	2,035.0	1,926.3	1,362.4	1,278.5	1,204.6
Net loss from discontinued operations, net of tax[3]	—	(53.6)	(32.3)	—	(23.4)
Net income	2,035.0	1,872.7	1,330.1	1,278.5	1,181.2
Less: Net income attributable to non-controlling interest	27.4	28.1	17.2	2.7	—
Net income attributable to Express Scripts	$ 2,007.6	$ 1,844.6	$ 1,312.9	$ 1,275.8	$ 1,181.2
Weighted-average shares outstanding:[4]					
Basic:	750.3	808.6	731.3	500.9	538.5
Diluted:	759.1	821.6	747.3	505.0	544.0
Basic earnings (loss) per share:[4]					
Continuing operations attributable to Express Scripts	$ 2.68	$ 2.35	$ 1.84	$ 2.55	$ 2.24
Discontinued operations attributable to Express Scripts[3]	—	(0.07)	(0.04)	—	(0.04)
Net earnings attributable to Express Scripts	2.68	2.28	1.80	2.55	2.19
Diluted earnings (loss) per share:[4]					
Continuing operations attributable to Express Scripts	$ 2.64	$ 2.31	$ 1.80	$ 2.53	$ 2.21
Discontinued operations attributable to Express Scripts[3]	—	(0.07)	(0.04)	—	(0.04)
Net earnings attributable to Express Scripts	2.64	2.25	1.76	2.53	2.17
Amounts attributable to Express Scripts:					
Income from continuing operations, net of tax	$ 2,007.6	$ 1,898.2	$ 1,345.2	$ 1,275.8	$ 1,204.6
Net loss from discontinued operations, net of tax[3]	—	(53.6)	(32.3)	—	(23.4)
Net income attributable to Express Scripts	$ 2,007.6	$ 1,844.6	$ 1,312.9	$ 1,275.8	$ 1,181.2

(In millions, except per share data)	2014	2013	2012[1]	2011	2010
Balance Sheet Data (as of December 31):					
Cash and cash equivalents	$ 1,832.6	$ 1,991.4	$ 2,793.1	$ 5,620.1	$ 523.7
Working capital (deficit)	(6,448.8)	(4,743.9)	(2,300.5)	2,599.9	(975.9)
Total assets	53,798.9	53,548.2	58,111.2	15,607.0	10,557.8
Debt:					
Short-term debt	2,555.3	1,584.0	934.9	999.9	0.1
Long-term debt	11,012.7	12,363.0	14,980.1	7,076.4	2,493.7
Capital lease obligation	28.4	42.0	—	—	—
Stockholders' equity	20,064.0	21,844.8	23,395.7	2,475.3	3,606.6
Network claims—continuing operations[5][6]	933.6	1,065.3	1,020.7	600.4	602.0
Home delivery, specialty and other claims—continuing operations[5][7]	128.5	141.2	128.7	53.4	54.1
Total claims—continuing operations[5]	1,062.1	1,206.5	1,149.4	653.8	656.1
Total adjusted claims—continuing operations[5][8]	1,309.8	1,478.0	1,395.3	751.5	753.9
Cash flows provided by operating activities—continuing operations	$ 4,549.0	$ 4,768.9	$ 4,751.1	$ 2,193.1	$ 2,105.1
Cash flows used in investing activities—continuing operations	(411.9)	(70.0)	(10,428.7)	(123.9)	(145.1)

(continued)

(In millions, except per share data)	2014	2013	2012 [1]	2011	2010
Cash flows (used in) provided by financing activities—continuing operations	(4,289.7)	(5,494.8)	2,850.4	3,029.4	(2,523.0)
EBITDA from continuing operations attributable to Express Scripts[9]	5,817.9	5,970.6	4,648.1	2,565.1	2,315.6

[1] Includes the acquisition of Medco effective April 2, 2012.

[2] Includes retail pharmacy co-payments of $10,272.7, $12,620.3, $11,668.6, $5,786.6 and $6,181.4 for the years ended December 31, 2014, 2013, 2012, 2011 and 2010, respectively.

[3] Primarily consists of the results of operations from the discontinued operations of our acute infusion therapies line of business, portions of UBC, EAV, our European operations and PMG. Our acute infusion therapies line of business was classified as a discontinued operation in 2013. Portions of UBC, EAV and our European operations were classified as discontinued operations in 2012. PMG was classified as a discontinued operation in 2010.

[4] Earnings per share and weighted-average shares outstanding reflect the two-for-one stock split effective June 8, 2010.

[5] Prior to the Merger, ESI and Medco used slightly different methodologies to report claims; however, we believe the differences between the claims reported by ESI and Medco would not be material had the same methodology applied. We have since combined these two approaches into one methodology. This change was made prospectively beginning April 2, 2012. We have not restated the number of claims in prior periods, because the differences are not material.

[6] Excluded from network claims are manual claims and drug formulary only claims where we only administer the client's formulary.

[7] These claims include home delivery, specialty and other claims including:; (a) drugs we distribute to other PBMs' clients under limited distribution contracts with pharmaceutical manufacturers; (b) FreedomFP claims; and (c) drugs distributed through patient assistance programs.

[8] Total adjusted claims reflect home delivery claims multiplied by 3, as home delivery claims typically cover a time period 3 times longer than network claims.

[9] EBITDA from continuing operations attributable to Express Scripts is earnings before interest income (expense), income taxes, depreciation and amortization and equity income from joint venture, or alternatively calculated as operating income plus depreciation and amortization. EBITDA from continuing operations attributable to Express Scripts is presented because it is a widely accepted indicator of a company's ability to service indebtedness and is frequently used to evaluate a company's performance. EBITDA from continuing operations attributable to Express Scripts, however, should not be considered as an alternative to net income, as a measure of operating performance, as an alternative to cash flow, as a measure of liquidity or as a substitute for any other measure computed in accordance with accounting principles generally accepted in the United States. In addition, our definition and calculation of EBITDA from continuing operations attributable to Express Scripts may not be comparable to that used by other companies.

Provided below is a reconciliation of adjusted EBITDA from continuing operations attributable to Express Scripts to net income attributable to Express Scripts as we believe it is the most directly comparable measure calculated under accounting principles generally accepted in the United States:

EBITDA from Continuing Operations Attributable to Express Scripts

	Year Ended December 31,				
(In millions, except per claim data)	**2014**	**2013**	**2012**	**2011**	**2010**
Net income attributable to Express Scripts	$2,007.6	$1,844.6	$1,312.9	$1,275.8	$1,181.2
Net loss from discontinued operations, net of tax	—	53.6	32.3	—	23.4
Net income from continuing operations	2,007.6	1,898.2	1,345.2	1,275.8	1,204.6
Income taxes	1,031.2	1,104.0	838.0	748.6	704.1
Depreciation and amortization[1]	2,242.9	2,447.0	1,871.4	253.4	244.7
Interest expense, net	554.9	554.2	608.4	287.3	162.2
Equity income from joint venture	(18.7)	(32.8)	(14.9)	—	—
EBITDA from continuing operations attributable to Express Scripts	5,817.9	5,970.6	4,648.1	2,565.1	2,315.6
Adjustments to EBITDA from Continuing Operations Attributable to Express Scripts					
Transaction and integration costs[1]	984.6	693.6	755.1	62.5	122.6
Accrual related to client contractual dispute	—	—	—	30.0	—
Benefit related to client contract amendment	—	—	—	—	(30.0)
Adjusted EBITDA from continuing operations attributable to Express Scripts	6,802.5	6,664.2	5,403.2	2,657.6	2,408.2
Adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim[2]	$ 5.19	$ 4.51	$ 3.87	$ 3.54	$ 3.19

[1] Depreciation and amortization for the years ended December 31, 2014 and 2013 presented above includes $92.1 million and $31.6 million, respectively, of depreciation related to the integration of Medco which is not included in transaction and integration costs.

[2] We calculate and use adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim as an indicator of our ability to generate cash from our reported operating results. This measurement is used in concert with net income and cash flows from operations, which measure actual cash generated in the period. In addition, adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim is a supplemental measurement used by analysts and investors to help evaluate overall operating performance and our ability to incur and service debt and make capital expenditures. We have calculated adjusted EBITDA from continuing operations attributable to Express Scripts excluding certain charges recorded each year, as these charges are not considered an indicator of ongoing company performance. Adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim is calculated by dividing adjusted EBITDA from continuing operations attributable to Express Scripts by the adjusted claim volume for the period. This measure is used as an indicator of EBITDA from continuing operations attributable to Express Scripts performance on a per-unit basis, providing insight into the cash-generating potential of each claim. Adjusted EBITDA from continuing operations attributable to Express Scripts and, as a result, adjusted EBITDA from continuing operations attributable to Express Scripts per adjusted claim, are affected by the changes in claim volumes between network and home delivery, specialty and other, the relative representation of brand-name, generic and specialty pharmacy drugs, as well as the level of efficiency in the business.

FORWARD-LOOKING INFORMATION

1.21 BECTON, DICKINSON AND COMPANY (SEP)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in part)

Cautionary Statement Regarding Forward-Looking Statements

BD and its representatives may from time to time make certain forward-looking statements in publicly released materials, both written and oral, including statements contained in filings with the Securities and Exchange Commission, press releases, and our reports to shareholders. Forward-looking statements may be identified by the use of words such as "plan," "expect," "believe," "intend," "will," "anticipate," "estimate" and other words of similar meaning in conjunction with, among other things, discussions of future operations and financial performance, as well as our strategy for growth, product development, regulatory approvals, market position and expenditures. All statements that address operating performance or events or developments that we expect or anticipate will occur in the future—including statements relating to volume growth, sales and earnings per share growth, cash flows or uses, and statements expressing views about future operating results—are forward-looking statements.

Forward-looking statements are based on current expectations of future events. The forward-looking statements are, and will be, based on management's then-current views and assumptions regarding future events and operating performance, and speak only as of their dates. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from our expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, we undertake no obligation to update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events and developments or otherwise, except as required by applicable law or regulations.

The following are some important factors that could cause our actual results to differ from our expectations in any forward-looking statements. For further discussion of certain of these factors, see Item 1 A. Risk Factors.

- Weakness in the global economy and financial markets, and the potential adverse effect on the cost of operating our business, the demand for our products and services, the prices for our products and services due to increases in pricing pressure, or our ability to produce our products, including the impact on developing countries.
- Deficit reduction efforts or other adverse changes in the availability of government funding for healthcare and research, particularly in the United States and Europe, that could further weaken demand for our products and result in additional pricing pressures, as well as create potential collection risks associated with such sales.
- The consequences of the Patient Protection and Affordable Care Act in the United States, which implemented an excise tax on U.S. sales of certain medical devices, and which could result in reduced demand for our products, increased pricing pressures or otherwise adversely affect BD's business.
- Future healthcare reform in the countries in which we do business may also involve changes in government pricing and reimbursement policies or other cost containment reforms.
- Changes in domestic and foreign healthcare industry practices that result in a reduction in procedures using our products or increased pricing pressures, including the continued consolidation among healthcare providers and trends toward managed care and healthcare cost containment. For example, changes to guidelines providing for increased cervical cancer screening intervals has and may continue to negatively impact sales of our Women's Health and Cancer platform.
- Changes in reimbursement practices of third-party payers.
- Our ability to penetrate emerging markets, which depends on local economic and political conditions, and how well we are able to acquire or form strategic business alliances with local companies and make necessary infrastructure enhancements to production facilities and distribution networks. Our international operations also increase our compliance risks, including risks under the Foreign Corrupt Practices Act and other anti-corruption laws.
- Political conditions in international markets, including civil unrest, terrorist activity, governmental changes, trade barriers, restrictions on the ability to transfer capital across borders and expropriation of assets by a government.
- Security breaches of our computer and communications systems, including computer viruses, "hacking" and "cyber-attacks," which could impair our ability to conduct business, or result in the loss of BD trade secrets or otherwise compromise sensitive information of BD or its customers, suppliers and other business partners.
- Fluctuations in the cost and availability of oil-based resins and other raw materials, as well as certain components, the ability to maintain favorable supplier arrangements and relationships (particularly with respect to sole-source suppliers), and the potential adverse effects of any disruption in the availability of such items.
- Regional, national and foreign economic factors, including inflation, deflation, fluctuations in interest rates and, in particular, foreign currency exchange rates, and the potential effect on our revenues, expenses, margins and credit ratings.
- New or changing laws and regulations affecting our domestic and foreign operations, or changes in enforcement practices, including laws relating to trade, monetary and fiscal policies, taxation (including tax reforms that could adversely impact multinational

corporations), sales practices, environmental protection, price controls and licensing and regulatory requirements for new products and products in the postmarketing phase. In particular, the U.S. and other countries may impose new requirements regarding registration, labeling or prohibited materials that may require us to re-register products already on the market or otherwise impact our ability to market our products. Environmental laws, particularly with respect to the emission of greenhouse gases, are also becoming more stringent throughout the world, which may increase our costs of operations or necessitate changes in our manufacturing plants or processes or those of our suppliers, or result in liability to BD.

- Product efficacy or safety concerns regarding our products resulting in product recalls, regulatory action on the part of the U.S. Food and Drug Administration (FDA) or foreign counterparts, declining sales and product liability claims, particularly in light of the current regulatory environment, including increased enforcement activity by the FDA.
- Competitive factors that could adversely affect our operations, including new product introductions (for example, new forms of drug delivery) by our current or future competitors, increased pricing pressure due to the impact of low-cost manufacturers as certain competitors have established manufacturing sites or have contracted with suppliers in low-cost manufacturing locations as a means to lower their costs, patents attained by competitors (particularly as patents on our products expire), and new entrants into our markets.
- The effects of events that adversely impact our ability to manufacture our products (particularly where production of a product line is concentrated in one or more plants) or our ability to source materials or components from suppliers (including sole-source suppliers) that are needed for such manufacturing, including pandemics, natural disasters, or environmental factors.
- Difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and abroad, obtain intellectual property protection for our products, obtain coverage and adequate reimbursement for new products, or gain and maintain market approval of products, as well as the possibility of infringement claims by competitors with respect to patents or other intellectual property rights, all of which can preclude or delay commercialization of a product. Delays in obtaining necessary approvals or clearances from the FDA or other regulatory agencies or changes in the regulatory process may also delay product launches and increase development costs.
- Fluctuations in the demand for products we sell to pharmaceutical companies that are used to manufacture, or are sold with, the products of such companies, as a result of funding constraints, consolidation or otherwise.
- Fluctuations in university or U.S. and international governmental funding and policies for life sciences research.
- Our ability to achieve our projected level or mix of product sales, as our earnings forecasts are based on projected volumes and sales of many product types, some of which are more profitable than others.
- Our ability to complete the implementation of our ongoing upgrade of our enterprise resource planning system, as any delays or deficiencies in completing the implementation could adversely affect our business.
- Pending and potential future litigation or other proceedings adverse to BD, including antitrust claims, product liability claims, environmental claims and patent infringement claims, and the availability or collectability of insurance relating to any such claims.
- The effect of adverse media exposure or other publicity regarding BD's business or operations, including the effect on BD's reputation or demand for its products.
- The effect of market fluctuations on the value of assets in BD's pension plans and on actuarial interest rate and asset return assumptions, which could require BD to make additional contributions to the plans or increase our pension plan expense.
- The impact of business combinations, including any volatility in earnings relating to acquired in-process research and development assets, and our ability to successfully integrate any business we may acquire.
- Our ability to obtain the anticipated benefits of restructuring programs, if any, that we may undertake.
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board or the Securities and Exchange Commission.
- Risk related to our pending acquisition of CareFusion including,
  - — The failure to satisfy the conditions to completing the transaction, including obtaining required regulatory approvals or approval of the CareFusion stockholders.
  - — Conditions to obtaining regulatory approval that may place restrictions on the business of the combined company.
  - — Our failure to obtain the anticipated benefits and cost savings from the acquisition.
  - — The impact of the additional debt we will incur to finance the acquisition.

The foregoing list sets forth many, but not all, of the factors that could impact our ability to achieve results described in any forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider this list to be a complete statement of all potential risks and uncertainties.

1.22 ALCOA INC. (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in part)

(dollars in millions, except per-share amounts and ingot prices; production and shipments in thousands of metric tons [kmt])

Liquidity and Capital Resources

Alcoa maintains a disciplined approach to cash management and strengthening of its balance sheet. In 2014, as in the prior five years, management initiated actions to significantly improve Alcoa's cost structure and liquidity, providing the Company with the ability to operate effectively. Such actions include procurement efficiencies and overhead rationalization to reduce costs, working capital initiatives to yield significant cash improvements, and maintaining a sustainable level of capital expenditures. In 2015, this approach will continue with the ultimate goal of generating cash from operations that exceeds capital expenditures by a minimum of $500.

Along with the foregoing actions, cash provided from operations and financing activities is expected to be adequate to cover Alcoa's operational and business needs over the next 12 months. For an analysis of long-term liquidity, see Contractual Obligations and Off-Balance Sheet Arrangements below.

At December 31, 2014, cash and cash equivalents of Alcoa were $1,877, of which $800 was held outside the United States. Alcoa has a number of commitments and obligations related to the Company's growth strategy in foreign jurisdictions, resulting in the need for cash outside the United States. As such, management does not have a current expectation of repatriating cash held in foreign jurisdictions.

Cash from Operations

Cash provided from operations in 2014 was $1,674 compared with $1,578 in 2013. The increase of $96, or 6%, was due to higher operating results (net income plus net add-back for noncash transactions in earnings) and a positive change in noncurrent assets of $134, mostly offset by a negative change associated with working capital of $620, a negative change in noncurrent liabilities of $251, and higher pension contributions of $39.

The components of the negative change in working capital were as follows:

- an unfavorable change of $171 in receivables, primarily related to higher customer sales;
- a negative change of $380 in inventories, largely attributable to inventory build for the ramp-up of automotive production at the Davenport, IA plant and customer requirements related to smelters that have been curtailed or shut down in 2014;
- an unfavorable change of $16 in prepaid expenses and other current assets;
- a negative change of $70 in accounts payable, trade, principally the result of timing of payments;
- an unfavorable change of $33 in accrued expenses, mainly caused by $139 in higher payments for layoff and other exit costs associated with restructuring actions and an $88 payment to the United States government due to the resolution of a legal matter (see below), partially offset by the absence of $148 (€109) in payments to the Italian government related to a November 2009 European Commission decision on electricity pricing for certain energy-intensive industries; and
- a positive change of $50 in taxes, including income taxes, mostly driven by higher pretax income.

The higher pension contributions of $39 were principally driven by special termination benefits of $86 for employees affected by the 2013 shutdown of capacity at a smelter in Canada.

On August 8, 2014, the Highway and Transportation Funding Act (HATFA) was signed into law by the United States government. HATFA, in part, provides temporary relief for employers who sponsor defined benefit pension plans related to funding contributions under the Employee Retirement Income Security Act of 1974. Specifically, HATFA modifies the interest rates that had been set in 2012 by the Moving Ahead for Progress in the 21 st Century Act. This relief had an immediate impact on the calculation of the then remaining funding contributions in 2014, resulting in a reduction of $100 in minimum required pension funding.

In 2014, Alcoa World Alumina LLC, a majority-owned subsidiary of Alcoa, and Alcoa Inc. paid a combined $88 to the United States government due to the resolution of a legal matter (paid on January 22, 2014). Additionally, another $74 will be paid in each of the four subsequent years, 2015 (paid on January 9 and 23, 2015) through 2018.

Cash provided from operations in 2013 was $1,578 compared with $1,497 in 2012. The increase of $81, or 5%, was due to higher operating results (net loss plus net add back for noncash impacts to earnings) and lower pension contributions of $99, mostly offset by a negative change associated with all of the following: working capital of $235, noncurrent assets of $162, and noncurrent liabilities of $128.

The lower pension contributions of $99 were principally driven by a change in minimum funding obligations for U.S. pension plans due to enacted legislation in 2012 (see below).

The components of the negative change in working capital were as follows:

- an unfavorable change of $245 in receivables;
- a negative change of $71 in inventories, principally due to a lower LIFO reserve;
- a favorable change of $53 in prepaid expenses and other current assets, mostly caused by the sale of excess carbon credits in Australia;
- a positive change of $338 in accounts payable, trade, principally the result of timing of payments, including a policy change in Alcoa's vendor payment process;
- an unfavorable change of $252 in accrued expenses, largely attributable to a decrease in deferred revenue and payments made to the Italian Government (see below); and
- a negative change of $58 in taxes, including income taxes.

The unfavorable change in noncurrent assets was mostly related to an increase in deferred mining costs in Australia and the absence of value-added tax receipts in Brazil. The negative change in noncurrent liabilities was largely attributable to the absence of a net increase in the environmental reserve of $194 related to five remediation matters.

In June 2012, Alcoa received formal notification from the Italian Government requesting a net payment of $310 (€250) related to a November 2009 European Commission decision on electricity pricing for smelters. Alcoa commenced payment of the requested amount in five quarterly installments of $69 (€50) beginning in October 2012 through December 2013.

On July 6, 2012, the Moving Ahead for Progress in the 21 st Century Act (MAP-21) was signed into law by the United States government. MAP-21, in part, provides temporary relief for employers who sponsor defined benefit pension plans related to funding contributions under the Employee Retirement Income Security Act of 1974. Specifically, MAP-21 allows for the use of a 25-year average interest rate within an upper and lower range for purposes of determining minimum funding obligations instead of an average interest rate for the two most recent years. This relief had an immediate impact on the calculation of the then remaining funding contributions in 2012, resulting in a reduction of $130 in minimum required pension funding. In 2013, this relief resulted in a reduction of $250 in minimum required pension funding.

On October 9, 2012, Alcoa World Alumina LLC, a majority-owned subsidiary of Alcoa, paid $42.5 to the plaintiff of the civil portion of a legal matter pursuant to a settlement agreement. The remaining $42.5 was paid on October 9, 2013.

Financing Activities

Cash provided from financing activities was $2,250 in 2014 compared with cash used for financing activities of $679 and $798 in 2013 and 2012, respectively.

The source of cash in 2014 was mostly driven by $2,878 in additions to debt, virtually all of which was the result of $1,238 in net proceeds from the issuance of new senior debt securities used for the acquisition of an aerospace business (see below) and $1,640 in borrowings under certain revolving credit facilities (see below); net proceeds of $1,211 from the issuance of mandatory convertible preferred stock related to the aforementioned acquisition; and $150 in proceeds from employee exercises of 17.3 million stock options at a weighted average exercise price of $8.70 (not in millions). These items were somewhat offset by $1,723 in payments on debt, mostly related to $1,640 for the repayment of borrowings under certain revolving credit facilities (see below), and $161 in dividends paid to shareholders.

The use of cash in 2013 was primarily due to $2,317 in payments on debt, mainly related to $1,850 for the repayment of borrowings under certain credit facilities (see below), a $422 early repayment of 6.00% Notes due July 2013, and $27 for previous borrowings on the loans supporting the Estreito hydroelectric power project in Brazil; $132 in dividends paid to shareholders; and net cash paid to noncontrolling interests of $97, most of which relates to Alumina Limited's share of AWAC. These items were partially offset by $1,852 in additions to debt, virtually all of which was the result of borrowings under certain credit facilities (see below).

The use of cash in 2012 was principally the result of $1,489 in payments on debt, mainly related to $600 for the repayment of borrowings under certain credit facilities (see below), $322 for the repayment of 6% Notes due 2012 as scheduled, $280 for the repayment of short-term loans to support the export operations of a subsidiary in Brazil, and $272 for previous borrowings on the loans supporting the São Luís refinery expansion, Juruti bauxite mine development, and Estreito hydroelectric power project in Brazil; a change of $224 in commercial paper; and $131 in dividends paid to shareholders. These items were partially offset by $972 in additions to debt, due to $600 in borrowings under certain credit facilities (see below), $280 in short-term loans to support the export operations of a subsidiary in Brazil, and $92 in borrowings under loans that support the Estreito hydroelectric power project in Brazil; and net cash received from noncontrolling interests of $76, all of which relates to Alumina Limited's share of AWAC.

On July 25, 2014, Alcoa entered into a Five-Year Revolving Credit Agreement (the "Credit Agreement") with a syndicate of lenders and issuers named therein. The Credit Agreement provides a $4,000 senior unsecured revolving credit facility (the "Credit Facility"), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed $500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sublimit of $1,000 under the Credit Facility.

The Credit Facility matures on July 25, 2019, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement. Under the provisions of the Credit Agreement, Alcoa will pay a fee of 0.25% (based on Alcoa's long-term debt ratings as of December 31, 2014) of the total commitment per annum to maintain the Credit Facility.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or euros. Loans will bear interest at a base rate or a rate equal to LIBOR, plus, in each case, an applicable margin based on the credit ratings of Alcoa's outstanding senior unsecured long-term debt. The applicable margin on base rate loans and LIBOR loans will be 0.50% and 1.50% per annum, respectively, based on Alcoa's long-term debt ratings as of December 31, 2014. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Agreement replaces Alcoa's Five-Year Revolving Credit Agreement, dated as of July 25, 2011 (the "Former Credit Agreement"), which was scheduled to mature on July 25, 2017. The Former Credit Agreement, which had a total capacity of $3,750 and was undrawn, was terminated effective July 25, 2014.

The Credit Agreement includes covenants substantially similar to those in the Former Credit Agreement, including, among others, (a) a leverage ratio, (b) limitations on Alcoa's ability to incur liens securing indebtedness for borrowed money, (c) limitations on Alcoa's ability to consummate a merger, consolidation or sale of all or substantially all of its assets, and (d) limitations on Alcoa's ability to change the nature of its business. As of December 31, 2014, Alcoa was in compliance with all such covenants.

The obligation of Alcoa to pay amounts outstanding under the Credit Facility may be accelerated upon the occurrence of an "Event of Default" as defined in the Credit Agreement. Such Events of Default include, among others, (a) Alcoa's failure to pay the principal of, or interest on, borrowings under the Credit Facility, (b) any representation or warranty of Alcoa in the Credit Agreement proving to be materially false or misleading, (c) Alcoa's breach of any of its covenants contained in the Credit Agreement, and (d) the bankruptcy or insolvency of Alcoa.

There were no amounts outstanding at December 31, 2014 and no amounts were borrowed during 2014 under the Credit Facility. There were no amounts outstanding at December 31, 2013 and no amounts were borrowed during 2014 and 2013 related to the Former Credit Agreement.

In addition to the Credit Agreement above, Alcoa entered into a number of credit agreements between 2012 and 2014 for additional liquidity. As of December 31, 2014, these arrangements provide a combined borrowing capacity of $1,040, of which $740 is due to expire in 2015 and $300 is due to expire in 2016.

The purpose of any borrowings under these credit arrangements is to provide for working capital requirements and for other general corporate purposes. The covenants contained in all these arrangements are the same as the Credit Agreement (see above).

In 2014, 2013, and 2012, Alcoa borrowed and repaid $1,640, $1,850, and $600, respectively, under the respective credit arrangements. The weighted-average interest rate and weighted-average days outstanding of the respective borrowings during 2014, 2013, and 2012 were 1.54%, 1.57%, and 1.89%, respectively, and 67 days, 213 days, and 260 days, respectively.

In February 2014, Alcoa's automatic shelf registration statement filed with the Securities and Exchange Commission expired. On July 11, 2014, Alcoa filed a new shelf registration statement, which was amended on July 25, 2014 and became effective on July 30, 2014, for up to $5,000 of securities on an unallocated basis for future issuance. As of December 31, 2014, $2,500 in securities were issued under the new shelf registration statement.

In September 2014, Alcoa completed two public securities offerings under its shelf registration statement for (i) $1,250 of 25 million depositary shares, each representing a 1/10th interest in a share of Alcoa's 5.375% Class B Mandatory Convertible Preferred Stock, Series 1, par value $1 per share, liquidation preference $500 per share (the "Mandatory Convertible Preferred Stock"), and (ii) $1,250 of 5.125% Notes due 2024 (the "2024 Notes"). The net proceeds of the offerings were used to finance the cash portion of the acquisition of Firth Rixson (see Engineered Products and Solutions in Segment Information above).

Alcoa's cost of borrowing and ability to access the capital markets are affected not only by market conditions but also by the short- and long-term debt ratings assigned to Alcoa's debt by the major credit rating agencies.

On May 29, 2013, Moody's Investors Service (Moody's) downgraded the following ratings for Alcoa: long-term debt from Baa3 to Ba1 and short-term debt from Prime-3 to Speculative Grade Liquidity Rating-1. Additionally, Moody's changed the current outlook from rating under review to stable.

The following is a summary of Alcoa's liquidity position as it relates to the ratings downgrade by Moody's.

Cash and letters of credit. As a result of the ratings downgrade by Moody's, certain power companies and counterparties to derivative contracts required Alcoa to post letters of credit and cash collateral, respectively, in the amount of $167 and $18, respectively, in June 2013. Since that time, the amount of letters of credit posted decreased by $10 and the amount of cash collateral posted declined by $8. Other vendors and third-parties may require Alcoa to post additional letters of credit and/or cash collateral in future periods.

Outstanding debt. Alcoa's outstanding debt as of December 31, 2014 totaled $8,852 (excludes commercial paper—see below). It is important to note that, due to this downgrade, the issuance of new public debt in the U.S. capital markets may be more difficult as the investor population may be smaller and the cost of the debt may be higher. In September 2014, Alcoa was able to raise enough capital to issue the 2024 Notes (see above) without any difficulty; however, the cost of the 2024 Notes was higher than it would have been had Alcoa not been downgraded. Except for the foregoing, there were no ramifications to Alcoa as a result of the ratings downgrade and interest payments and fees related to the outstanding debt remain unchanged.

Revolving credit facilities. Alcoa has a $4,000 revolving credit facility that expires in July 2019 (see above) and ten other revolving credit facilities totaling $1,040 (see above). This $5,040 of borrowing capacity was also unaffected by the ratings downgrade, including the margins that would be applicable to any borrowings, and remains available for use by Alcoa at its discretion.

Commercial paper. During the period since the downgrade, Alcoa was able to issue the desired level of commercial paper to support operations without difficulty. At the time of the downgrade, the spreads on commercial paper increased slightly, however, by one to three basis points, which did not result in a significant change to Alcoa's total interest costs. While Alcoa expects it can continue to issue commercial paper, there is no assurance about the amount or cost at which it could issue commercial paper.

On April 11, 2014, Fitch Ratings (Fitch) downgraded the following ratings for Alcoa: long-term debt from BBB- to BB+ and short-term debt from F3 to B. Additionally, Fitch changed the current outlook from negative to stable. As of December 31, 2014, this downgrade did not have a significant impact on Alcoa's financing activities, including its ability to access the capital markets. The descriptions for outstanding debt and revolving credit facilities above remain unchanged as a result of the Fitch downgrade. Also, Alcoa is in full compliance with the project financing requirements for the Ma'aden-Alcoa joint venture project in Saudi Arabia, and did not need to post collateral as a result of the ratings downgrade.

On April 23, 2014, Standard and Poor's Ratings Services (S&P) affirmed the following ratings for Alcoa: long-term debt at BBB- and short-term debt at A-3. Additionally, S&P maintained the current outlook as negative.

On June 26, 2014, Moody's, Fitch, and S&P each issued statements that the respective ratings and outlook for Alcoa were not affected by Alcoa's then-planned acquisition of an aerospace business, Firth Rixson, for $2,850 in cash and stock.

On September 16, 2014, Fitch and S&P issued a rating of B+ and BB, respectively, to Alcoa's Mandatory Convertible Preferred Stock. Additionally, on September 17, 2014, Moody's, Fitch, and S&P each issued statements that the respective existing debt ratings and outlook for Alcoa were assigned to the 2024 Notes.

Investing Activities

Cash used for investing activities was $3,460 in 2014 compared with $1,290 in 2013 and $759 in 2012.

The use of cash in 2014 was principally due to $2,385 (net of cash acquired) for the acquisition of an aerospace business (see Engineered Products and Solutions in Segment Information above); $1,219 in capital expenditures (includes costs related to environmental control in new and expanded facilities of $129), 40% of which related to growth projects, including the automotive expansions at the Alcoa, TN and Davenport, IA fabrication plants, the aerospace expansion at the La Porte, IN plant, the aluminum-lithium capacity expansion at the Lafayette, IN plant, and the specialty foil expansion at the Itapissuma plant in Brazil; and $195 in additions to investments, including equity contributions of $120 related to the aluminum complex joint venture in Saudi Arabia and the purchase of $49 in equities and fixed income securities held by Alcoa's captive insurance company. These items were slightly offset by $253 in proceeds from the sale of assets and businesses, largely attributable to the sale of an ownership stake in a bauxite mine and refinery in Jamaica (see Alumina in Segment Information above), an ownership stake in a smelter in the United States (see Primary Metals in Segment Information above), three rolling mills in Spain and France combined (see Global Rolled Products in Segment Information above), and a rod plant in Canada (see Primary Metals in Segment Information above); and $57 in sales of investments, mostly related to $42 in combined proceeds from the sale of a mining interest in Suriname and an equity investment in a China rolling mill.

The use of cash in 2013 was primarily due to $1,193 in capital expenditures (includes costs related to environmental control in new and expanded facilities of $143), 34% of which related to growth projects, including the automotive expansion at the Davenport, IA fabrication plant, the aluminum-lithium capacity expansion at the Lafayette, IN plant, and the automotive sheet expansion at the Alcoa, TN plant; and $293 in additions to investments, including equity contributions of $171 related to the aluminum complex joint venture in Saudi Arabia and the purchase of $54 in equities and fixed income securities held by Alcoa's captive insurance company. These items were slightly offset by a net change in restricted cash of $170, mostly related to the release of funds to be used for capital expenditures of the automotive expansion at the Davenport, IA fabrication plant (see Noncash Financing and Investing Activities below).

The use of cash in 2012 was mainly due to $1,261 in capital expenditures (includes costs related to environmental control in new and expanded facilities of $153), 33% of which related to growth projects, including the automotive expansion at the Davenport, IA fabrication plant and the Estreito hydroelectric power project; and $300 in additions to investments, principally for the equity contributions of $253 related to the aluminum complex joint venture in Saudi Arabia. These items were somewhat offset by $615 in proceeds from the sale of assets, mostly the result of $597 received for the sale of U.S. hydroelectric power assets (see Primary Metals in Segment Information above), and a net change in restricted cash of $87, principally related to the release of funds to be used for capital expenditures of the automotive expansion at the Davenport, IA fabrication plant (see Noncash Financing and Investing Activities below).

Noncash Financing and Investing Activities

In early 2014, holders of $575 principal amount of Alcoa's 5.25% Convertible Notes due March 15, 2014 (the "2014 Notes") exercised their option to convert the 2014 Notes into 89 million shares of Alcoa common stock. The conversion rate for the 2014 Notes was 155.4908 shares of Alcoa's common stock per $1,000 (in full dollars) principal amount of notes, equivalent to a conversion price of $6.43 per share. The difference between the $575 principal amount of the 2014 Notes and the $89 par value of the issued shares increased Additional capital on Alcoa's Consolidated Balance Sheet. This transaction was not reflected in Alcoa's Statement of Consolidated Cash Flows as it represents a noncash financing activity.

In late 2014, Alcoa paid $2,995 (net of cash acquired) to acquire an aerospace business, Firth Rixson (see Engineered Products and Solutions in Segment Information above). A portion of this consideration was paid through the issuance of 37 million shares in Alcoa common stock valued at $610. The issuance of common stock was not reflected in the Statement of Consolidated Cash Flows as it represents a noncash investing activity.

In August 2012, Alcoa received a loan of $250 for the purpose of financing all or part of the cost of acquiring, constructing, reconstructing, and renovating certain facilities at Alcoa's rolling mill plant in Davenport, IA. Because this loan can only be used for this purpose, the net proceeds of $248 were classified as restricted cash. Since restricted cash is not part of cash and cash equivalents, this transaction was not reflected in the Statement of Consolidated Cash Flows as it represents a noncash activity. As funds were expended for the project, the release of the cash was reflected as both an inflow on the Net change in restricted cash line and an outflow on the Capital expenditures line in the Investing Activities section of the Statement of Consolidated Cash Flows. At December 31, 2013 and 2012, Alcoa had $13 and $171, respectively, of restricted cash remaining related to this transaction. In 2014, the remaining funds were expended on the project.

NEW ACCOUNTING STANDARDS

1.23 JOHNSON & JOHNSON (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

New Accounting Pronouncements
Recently Adopted Accounting Pronouncements

During the fiscal first quarter of 2014, the Company adopted the Financial Accounting Standards Board (FASB) guidance clarifying the release of accumulated Foreign Currency Translation from other comprehensive income (OCI), into current year Net Earnings. The amendment requires that when the parent company ceases to have a controlling interest in a subsidiary or a business within a foreign entity the parent is to release accumulated Foreign Currency Translation from OCI. This update became effective for all annual periods and interim reporting periods beginning after December 15, 2013. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position.

During the fiscal first quarter of 2014, the Company adopted the FASB guidance on the presentation of unrecognized tax benefits when various qualifying tax credits exist. The amendment requires that unrecognized tax benefits be presented on the Consolidated Balance Sheet as a reduction to deferred tax assets created by net operating losses or other tax credits from prior periods that occur in the same taxing jurisdiction. To the extent that the unrecognized tax benefit exceeds these credits, it shall be presented as a liability. This update became effective for all annual periods and interim reporting periods beginning after December 15, 2013. The adoption of this standard did not have a material impact on the presentation of the Company's financial position.

During the fiscal second quarter of 2014, the FASB issued amended guidance on the use and presentation of discontinued operations in an entity's financial statements. The new guidance restricts the presentation of discontinued operations to business circumstances when the disposal of business operations represents a strategic shift that has or will have a major effect on an entity's operations and financial results. Examples of a strategic shift could include, but not be limited to, disposal of major geographic segments, a major line of business or other major business component of an entity. The new guidance also expands the required disclosures for entities that have assets held for sale but do not meet the new definition of discontinued operations. This amendment includes early adoption provisions allowing the Company to implement this update immediately for the first quarter of 2014. The Company elected to adopt this standard for the first quarter of 2014. The balances and updated disclosures required by the amended guidance are included in Note 20 in the Notes to the Consolidated Financial Statements.

During the fiscal second quarter of 2014, the FASB issued Accounting Standards Update 2014-12: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This standard clarifies the current accounting guidance for entities that issue share-based payment awards that require a specific performance target be achieved for employees to become eligible to vest in the awards, which may occur subsequent to a required service period. Current accounting guidance does not explicitly address how to account for these types of awards. The new standard provides explicit guidance and clarifies that these types of performance targets should be treated as performance conditions. The accounting for share-based awards with performance conditions is already specified in current accounting guidance. This update is required to be adopted by all public companies for all annual periods and interim reporting periods beginning after December 15, 2015. Early adoption of this standard was permitted and the Company had elected to adopt this standard for the second quarter of 2014. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position.

Recently Issued Accounting Standards
Not Adopted as of December 28, 2014

During the fiscal second quarter of 2014, the FASB issued Accounting Standards Update 2014-09: Revenue from Contracts with Customers. This standard replaces substantially all current revenue recognition accounting guidance. This update is required to be adopted by all public companies for all annual periods and interim reporting periods beginning after December 15, 2016. Early adoption of this standard is not permitted. The Company is currently assessing the impact of the future adoption of this standard on its financial statements.

During the fiscal second quarter of 2014, the FASB issued amended guidance Accounting Standards Update No. 2014-10: Development Stage Entities: Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entity Guidance in Topic 810, Consolidation. The change in the current guidance will require the Company to determine if it should consolidate one of these entities based on the change in the consolidation analysis. This update to the consolidation analysis will become effective for all annual periods and interim reporting periods beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the presentation of the Company's results of operations, cash flows or financial position.

During the fiscal third quarter of 2014, the FASB issued Accounting Standards Update No. 2014-15: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This standard requires management to evaluate, for each annual and interim reporting period, whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued or are available to be issued. If substantial doubt is raised, additional disclosures around management's plan to alleviate these doubts are required. This update will become effective for all annual periods and interim reporting periods beginning after December 15, 2016. This standard is not expected to have any impact on current disclosures in the financial statements.

20. Business Combinations and Divestitures

Certain businesses were acquired for $2,129 million in cash and $38 million of liabilities assumed during 2014. These acquisitions were accounted for using the acquisition method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2014 acquisitions included: Covagen AG, a privately-held, biopharmaceutical company specializing in the development of multispecific protein therapeutics through the FynomAb® technology platform; Alios BioPharma, Inc., a privately-held, clinical stage biopharmaceutical company focused on developing therapies for viral diseases; and the ORSL TM electrolyte ready-to-drink brand from Jagdale Industries Ltd. The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $2,069 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately $1,913 million has been identified as the value of IPR&D associated with the acquisitions of Covagen AG and Alios BioPharma, Inc. The value of the IPR&D was calculated using cash flow projections discounted for the inherent risk in the projects.

The IPR&D related to the acquisition of Alios BioPharma, Inc. (Alios) of $1,688 million is associated with Alios' lead compound AL-8176, an orally administered antiviral therapy for treatment of infants with respiratory syncytial virus (RSV). A probability of success factor of 60.0% was used to reflect inherent clinical and regulatory risk. The discount rate applied was 11.4%. The IPR&D related to the acquisition of Covagen AG of $225 million is associated with Covagen's lead compound COVA-322, currently in Phase 1b study for psoriasis and holding potential as a treatment for a broad range of inflammatory diseases including rheumatoid arthritis. A probability of success factor of 26% was used to reflect inherent clinical and regulatory risk. The discount rate applied was 12.5%.

Certain businesses were acquired for $835 million in cash and $193 million of liabilities assumed during 2013. These acquisitions were accounted for using the acquisition method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The assumed liabilities primarily represent the fair value of the contingent consideration which may be payable related to the acquisition of Aragon Pharmaceuticals, Inc. As per terms of the agreement, additional payments of up to $350 million may be paid in the future based on reaching predetermined milestones.

The 2013 acquisitions included: Flexible Stenting Solutions, Inc., a leading developer of innovative flexible peripheral arterial, venous and biliary stents; Shanghai Elsker Mother & Baby Co., Ltd, a baby care company in China and Aragon Pharmaceuticals, Inc., a privately-held, pharmaceutical discovery and development company focused on drugs to treat hormonally-driven cancers.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $941 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately $831 million has been identified as the value of IPR&D associated with the acquisitions of Aragon Pharmaceuticals, Inc. and Flexible Stenting Solutions, Inc.

The IPR&D related to the acquisition of Aragon Pharmaceuticals, Inc. of $810 million is associated with Aragon's androgen receptor antagonist program for treatment of hormonally-driven cancers. The value of the IPR&D was calculated using cash flow projections discounted for the inherent risk in such projects. Probability of success factors ranging from 37%–52.0% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 15.5%. The IPR&D related to the acquisition of Flexible Stenting Solutions, Inc. of $21 million is associated with the approval for peripheral vascular indications, including the superficial femoral artery indication. A probability of success factor of 100% was used and a discount rate ranging between 16.5%–17.5% was applied.

Certain businesses were acquired for $17,821 million in cash and stock and $1,204 million of liabilities assumed during 2012. These acquisitions were accounted for using the acquisition method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2012 acquisitions included: Synthes, Inc., a global developer and manufacturer of orthopaedics devices; Guangzhou Bioseal Biotech Co., Ltd., a developer of biologic combinations addressing moderate to severe hemostasis; Angiotech Pharmaceuticals, Inc., intellectual property and know how related to the Quill TM Knotless Tissue-Closure Device; CorImmun GmbH, a developer of a phase II treatment for CHF; Calibra Medical, Inc., a developer of a unique, wearable three-day insulin patch for convenient and discreet mealtime dosing for people with diabetes who take multiple daily injections of insulin; Spectrum Vision LLC, a full service distributor of contact lenses serving Russia with facilities in the Ukraine and Kazakhstan; and marketing authorizations, trademarks, and patents extending ZYRTEC® related market rights in Australia and Canada.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $15,785 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately $208 million has been identified as the value of IPR&D associated with the acquisitions of CorImmun GmbH and Synthes, Inc.

The IPR&D related to the acquisition of Synthes, Inc. of $63 million is associated with orthopaedic devices, and the IPR&D associated with CorImmun of $145 million is related to a CHF treatment. These IPR&D values were calculated using the cash flow projections discounted for the risk inherent in such projects. Synthes, Inc. had a probability of success factor of 100%, discounted using a 14% rate. CorImmun had a probability of success factor of 38%, discounted using a 25% rate. During 2013, the Company recorded a charge of $0.2 billion for the impairment of the in-process research and development associated with CorImmun.

During the fiscal second quarter of 2012, the Company completed the acquisition of Synthes, Inc., a global developer and manufacturer of orthopaedics devices, for a purchase price of $20.2 billion in cash and stock. The net acquisition cost of the transaction was $17.5 billion based on cash on hand at closing of $2.7 billion.

Under the terms of the agreement, each share of Synthes, Inc. common stock was exchanged for CHF 55.65 in cash and 1.717 shares of Johnson & Johnson common stock, based on the calculated exchange ratio. The exchange ratio was calculated on June 12, 2012 and based on the relevant exchange rate and closing price of Johnson & Johnson common stock on that date, the total fair value of consideration transferred was $19.7 billion. When the acquisition was completed on June 14, 2012, based on the relevant exchange rate and closing price of Johnson & Johnson common stock on that date, the total fair value of the consideration transferred was $20.2 billion. Janssen Pharmaceutical, a company organized under the laws of Ireland and a wholly-owned subsidiary of Johnson & Johnson, used cash on hand to satisfy the cash portion of the merger consideration.

The stock portion of the merger consideration consisted of shares of Johnson & Johnson common stock purchased by Janssen Pharmaceutical from two banks, pursuant to two accelerated share repurchase (ASR) agreements dated June 12, 2012. On June 13, 2012, Janssen Pharmaceutical purchased an aggregate of approximately 203.7 million shares of Johnson & Johnson common stock at an initial purchase price of $12.9 billion under the ASR agreements, with all of the shares delivered to Janssen Pharmaceutical on June 13, 2012. During the fiscal third quarter of 2013, the Company settled the remaining liabilities under the ASR agreements for $2.9 billion in cash which was recorded as a reduction to equity.

In addition, while the Company believes that the transactions under each ASR agreement and a series of related internal transactions were consummated in a tax efficient manner in accordance with applicable law, it is possible that the Internal Revenue Service could assert one or more contrary positions to challenge the transactions from a tax perspective. If challenged, an amount up to the total purchase price for the Synthes shares could be treated as subject to applicable U.S. tax at approximately the statutory rate to the Company, plus interest.

The following table summarizes the consideration transferred to acquire Synthes, Inc. valued on the acquisition date of June 14, 2012:

(Dollars in Millions)	
Cash (multiply 55.65CHF by shares of Synthes common stock outstanding by the exchange rate)[A]	$ 6,902
Common Stock (multiply 1.717 by shares of Synthes common stock outstanding by J&J stock price)[B]	$13,335
Total fair value of consideration transferred	$20,237

[A] Synthes common stock outstanding of 118.7 million shares as of the acquisition date and CHF/USD exchange rate of .95674

[B] Johnson & Johnson closing stock price on the New York Stock Exchange as of acquisition date of $65.45 per share.

The Company continues to execute the integration plans to combine businesses, sales organizations, systems and locations as a result of which the Company has and will continue to incur integration costs.

The operating results of Synthes were reported in the Company's financial statements beginning on June 14, 2012. Total sales and net earnings for Synthes for the fiscal year ended December 30, 2012 were $2,159 million and $324 million, respectively.

The following table provides pro forma results of operations for the fiscal year ended December 30, 2012, as if Synthes, Inc. had been acquired as of the beginning of the period presented. The pro forma results include the effect of divestitures and certain purchase accounting adjustments such as the estimated changes in depreciation and amortization expense on the acquired tangible and intangible assets. However, pro forma results do not include any anticipated cost savings or other effects of the integration of Synthes, Inc. Accordingly, such amounts are not necessarily indicative of the results if the acquisition had occurred on the dates indicated or which may occur in the future.

	Unaudited Pro Forma Consolidated Results
(Dollars in millions except per share amounts)	2012
Net Sales	$68,894
Net Earnings attributable to Johnson & Johnson	$11,564
Diluted Net Earnings per share attributable to Johnson & Johnson	$ 4.11

The Company recorded acquisition related costs before tax of $754 million, $683 million and $1,028 million in 2014, 2013 and 2012, respectively, which were recorded in Other (income) expense and Cost of products sold.

In connection with the Synthes acquisition, DePuy Orthopaedics, Inc. agreed to divest certain rights and assets related to its trauma business to Biomet, Inc. and completed the initial closing for this transaction in the fiscal second quarter of 2012, including those countries that represented the majority of sales. As of December 30, 2012, the transaction had closed worldwide.

With the exception of the Synthes, Inc. acquisition, supplemental pro forma information for 2014, 2013 and 2012 in accordance with U.S. GAAP standards related to business combinations, and goodwill and other intangible assets, is not provided, as the impact of the aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position.

During 2014, the Company divestitures included: The Ortho-Clinical Diagnostics business to The Carlyle Group; the K-Y® brand to Reckitt Benckiser Group PLC in the U.S. and certain other markets; and the BENECOL® brand to Raisio plc. In 2014, the gains on the divestitures of businesses were approximately $2.4 billion. The Company completed the divestiture of its Ortho-Clinical Diagnostics business to The Carlyle Group for approximately $4.0 billion and the Company recorded a pre-tax net gain of approximately $1.9 billion. Ortho-Clinical Diagnostics' results are included in the Company's Medical Devices segment pre-tax profit. As of December 28, 2014, the assets classified as held for sale relating to the Ortho-Clinical Diagnostics companies in countries that have not completely closed due to local regulatory requirements were $41 million of inventory, classified as prepaid expenses and other on the Consolidated Balance Sheet and $117 million of property, plant and equipment, classified as other assets on the Consolidated Balance Sheet.

During 2013, the Company divestitures included: women's sanitary protection products in the U.S., Canada and the Caribbean to Energizer Holdings, Inc.; Rolaids® to Chattem, Inc.; DORIBAX® rights to Shionogi; and the sale of certain consumer brands and certain pharmaceutical products. In 2013, the gains on the divestitures of businesses were $0.1 billion. During 2012, the Company divestitures included: BYSTOLIC® (nebivolol) IP rights to Forest Laboratories, Inc.; the trauma business of Depuy Orthopaedics, Inc. to Biomet, Inc.; the Therakos business to an affiliate of Gores Capital Partners III, L.P.; the sale of certain consumer brands; and the RhoGAM® business. In 2012, the gains on the divestitures of businesses were $0.9 billion.

In January 2015, a definitive agreement was announced to divest the U.S. license rights to NUCYNTA® (tapentadol), NUCYNTA® ER (tapentadol extended-release tablets), and NUCYNTA® (tapentadol) oral solution for approximately $1.05 billion. The transaction is expected to close in the fiscal second quarter of 2015, subject to customary closing conditions and completion of financing.

MARKET RISK INFORMATION

1.24 THE GOLDMAN SACHS GROUP, INC. (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS (in part)

Market Risk Management

Overview

Market risk is the risk of loss in the value of our inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. We employ a variety of risk measures, each described in the respective sections below, to monitor market risk. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in "Market making," and "Other principal transactions." Categories of market risk include the following:

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads;
- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices;
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates; and
- Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil, petroleum products, natural gas, electricity, and precious and base metals.

Market Risk Management Process

We manage our market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This includes:

- Accurate and timely exposure information incorporating multiple risk metrics;
- A dynamic limit setting framework; and
- Constant communication among revenue-producing units, risk managers and senior management.

Market Risk Management, which is independent of the revenue-producing units and reports to our chief risk officer, has primary responsibility for assessing, monitoring and managing market risk at the firm. We monitor and control risks through strong firmwide oversight and independent control and support functions across our global businesses.

Managers in revenue-producing units are accountable for managing risk within prescribed limits. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Risk Measures

Market Risk Management produces risk measures and monitors them against market risk limits set by our risk committees. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and firmwide levels.

We use a variety of risk measures to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Our primary risk measures are VaR, which is used for shorter-term periods, and stress tests. Our risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both our revenue-producing units and our independent control and support functions.

Value-at-Risk

VaR is the potential loss in value due to adverse market movements over a defined time horizon with a specified confidence level. For positions included in VaR, see "— Financial Statement Linkages to Market Risk Measures." We typically employ a one-day time horizon with a 95% confidence level. We use a single VaR model which captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the firmwide level.

We are aware of the inherent limitations to VaR and therefore use a variety of risk measures in our market risk management process. Inherent limitations to VaR include:

- VaR does not estimate potential losses over longer time horizons where moves may be extreme;
- VaR does not take account of the relative liquidity of different risk positions; and
- Previous moves in market risk factors may not produce accurate predictions of all future market moves.

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors. VaR is calculated at a position level based on simultaneously shocking the relevant market risk factors for that position. We sample from five years of historical data to generate the scenarios for our VaR calculation. The historical data is weighted so that the relative importance of the data reduces over time. This gives greater importance to more recent observations and reflects current asset volatilities, which improves the accuracy of our estimates of potential loss. As a result, even if our positions included in VaR were unchanged, our VaR would increase with increasing market volatility and vice versa.

Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions.

Our VaR measure does not include:

- Positions that are best measured and monitored using sensitivity measures; and
- The impact of changes in counterparty and our own credit spreads on derivatives, as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected.

Stress Testing

Stress testing is a method of determining the effect of various hypothetical stress scenarios. We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of stress testing techniques to calculate the potential loss from a wide range of market moves on our portfolios, including sensitivity analysis, scenario analysis and firmwide stress tests. The results of our various stress tests are analyzed together for risk management purposes.

Sensitivity analysis is used to quantify the impact of a market move in a single risk factor across all positions (e.g., equity prices or credit spreads) using a variety of defined market shocks, ranging from those that could be expected over a one-day time horizon up to those that could take many months to occur. We also use sensitivity analysis to quantify the impact of the default of a single corporate entity, which captures the risk of large or concentrated exposures.

Scenario analysis is used to quantify the impact of a specified event, including how the event impacts multiple risk factors simultaneously. For example, for sovereign stress testing we calculate potential direct exposure associated with our sovereign inventory as well as the corresponding debt, equity and currency exposures associated with our non-sovereign inventory that may be impacted by the sovereign distress. When conducting scenario analysis, we typically consider a number of possible outcomes for each scenario, ranging from moderate to severely adverse market impacts. In addition, these stress tests are constructed using both historical events and forward-looking hypothetical scenarios.

Firmwide stress testing combines market, credit, operational and liquidity risks into a single combined scenario. Firmwide stress tests are primarily used to assess capital adequacy as part of our capital planning and stress testing process; however, we also ensure that firmwide stress testing is integrated into our risk governance framework. This includes selecting appropriate scenarios to use for our capital planning and stress testing process. See "Equity Capital Management and Regulatory Capital—Equity Capital Management" above for further information.

Unlike VaR measures, which have an implied probability because they are calculated at a specified confidence level, there is generally no implied probability that our stress test scenarios will occur. Instead, stress tests are used to model both moderate and more extreme moves in underlying market factors. When estimating potential loss, we generally assume that our positions cannot be reduced or hedged (although experience demonstrates that we are generally able to do so).

Stress test scenarios are conducted on a regular basis as part of our routine risk management process and on an ad hoc basis in response to market events or concerns. Stress testing is an important part of our risk management process because it allows us to quantify our exposure to tail risks, highlight potential loss concentrations, undertake risk/reward analysis, and assess and mitigate our risk positions.

Limits

We use risk limits at various levels in the firm (including firmwide, product and business) to govern risk appetite by controlling the size of our exposures to market risk. Limits are set based on VaR and on a range of stress tests relevant to our exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The Firmwide Risk Committee sets market risk limits at firmwide and product levels and our Securities Division Risk Committee sets sub-limits for market-making and investing activities at a business level. The purpose of the firmwide limits is to assist senior management in controlling our overall risk profile. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day trading decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Our market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The business-level limits that are set by the Securities Division Risk Committee are subject to the same scrutiny and limit escalation policy as the firmwide limits.

When a risk limit has been exceeded (e.g., due to changes in market conditions, such as increased volatilities or changes in correlations), it is reported to the appropriate risk committee and a discussion takes place with the relevant desk managers, after which either the risk position is reduced or the risk limit is temporarily or permanently increased.

Model Review and Validation

Our VaR and stress testing models are subject to review and validation by our independent model validation group. This review includes:

- A critical evaluation of the model, its theoretical soundness and adequacy for intended use;
- Verification of the testing strategy utilized by the model developers to ensure that the model functions as intended; and
- Verification of the suitability of the calculation techniques incorporated in the model.

Our VaR and stress testing models are regularly reviewed and enhanced in order to incorporate changes in the composition of positions included in our market risk measures, as well as variations in market conditions. Prior to implementing significant changes to our assumptions and/or models, we perform model validation and test runs. Significant changes to our VaR and stress testing models are reviewed with our chief risk officer and chief financial officer, and approved by the Firmwide Risk Committee.

We evaluate the accuracy of our VaR model through daily backtesting (i.e., by comparing daily trading net revenues to the VaR measure calculated as of the prior business day) at the firmwide level and for each of our businesses and major regulated subsidiaries.

Systems

We have made a significant investment in technology to monitor market risk including:

- An independent calculation of VaR and stress measures;
- Risk measures calculated at individual position levels;
- Attribution of risk measures to individual risk factors of each position;
- The ability to report many different views of the risk measures (e.g., by desk, business, product type or legal entity); and
- The ability to produce ad hoc analyses in a timely manner.

Metrics

We analyze VaR at the firmwide level and a variety of more detailed levels, including by risk category, business, and region. The tables below present, by risk category, average daily VaR and period-end VaR, as well as the high and low VaR for the period. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

The following table presents average daily VaR.

	Year Ended December		
$ In millions	**2014**	**2013**	**2012**
Risk Categories			
Interest rates	$ 51	$ 63	$ 78
Equity prices	26	32	26
Currency rates	19	17	14
Commodity prices	21	19	22
Diversification effect	(45)	(51)	(54)
Total	$ 72	$ 80	$ 86

Our average daily VaR decreased to $72 million in 2014 from $80 million in 2013, primarily reflecting a decrease in the interest rates category due to decreased exposures and lower levels of volatility, and a decrease in the equity prices category principally due to lower levels of volatility. These decreases were partially offset by a decrease in the diversification benefit across risk categories.

Our average daily VaR decreased to $80 million in 2013 from $86 million in 2012, primarily reflecting a decrease in the interest rates category principally due to lower levels of volatility and decreased exposures. This decrease was partially offset by an increase in the equity prices category principally due to increased exposures.

The following table presents year-end VaR, and high and low VaR.

	As of December		Year Ended December 2014	
$ in millions	2014	2013	High	Low
Risk Categories				
Interest rates	$ 53	$59	$ 71	$37
Equity prices	19	35	80	16
Currency rates	24	16	36	10
Commodity prices	23	20	30	15
Diversification effect	(42)	(45)		
Total	$ 77	$ 85	$116	$51

Our daily VaR decreased to $77 million as of December 2014 from $85 million as of December 2013, primarily reflecting a decrease in the equity prices category principally due to decreased exposures. This decrease was partially offset by an increase in the currency rates category principally due to increased exposures.

During 2014, the firmwide VaR risk limit was not exceeded, raised or reduced.

During 2013, the firmwide VaR risk limit was not exceeded and was reduced on one occasion due to lower levels of volatility.

Daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day exceeded our 95% one-day VaR on one occasion during 2014 (i.e., a VaR exception). Trading losses incurred on a single day did not exceed our 95% one-day VaR during 2013.

During periods in which we have significantly more positive net revenue days than net revenue loss days, we expect to have fewer VaR exceptions because, under normal conditions, our business model generally produces positive net revenues. In periods in which our franchise revenues are adversely affected, we generally have more loss days, resulting in more VaR exceptions. The daily market-making revenues used to determine VaR exceptions reflect the impact of any intraday activity, including bid/offer net revenues, which are more likely than not to be positive by their nature.

Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure. Other sensitivity measures we use to analyze market risk are described below.

10% Sensitivity Measures. The table below presents market risk for inventory positions that are not included in VaR. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the underlying asset value. Equity positions below relate to private and restricted public equity securities, including interests in funds that invest in corporate equities and real estate and interests in hedge funds, which are included in "Financial instruments owned, at fair value." Debt positions include interests in funds that invest in corporate mezzanine and senior debt instruments, loans backed by commercial and residential real estate, corporate bank loans and other corporate debt, including acquired portfolios of distressed loans. These debt positions are included in "Financial instruments owned, at fair value." See Note 6 to the consolidated financial statements for further information about cash instruments. These measures do not reflect diversification benefits across asset categories or across other market risk measures.

	As of December	
$ in millions	2014	2013
Asset Categories		
Equity	$2,132	$2,256
Debt	1,686	1,522
Total	$3,818	$3,778

Credit Spread Sensitivity on Derivatives and Borrowings. VaR excludes the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected. The estimated sensitivity to a one basis point increase in credit spreads (counterparty and our own) on derivatives was a gain of $3 million and $4 million (including hedges) as of December 2014 and December 2013, respectively. In addition, the estimated sensitivity to a one basis point increase in our own credit spreads on unsecured borrowings for which the fair value option was elected was a gain of $10 million and $8 million (including hedges) as of December 2014 and December 2013, respectively. However, the actual net impact of a change in our own credit spreads is also affected by the liquidity, duration and convexity (as the sensitivity is not linear to changes in yields) of those unsecured borrowings for which the fair value option was elected, as well as the relative performance of any hedges undertaken.

Interest Rate Sensitivity. "Loans receivable" as of December 2014 and December 2013 were $28.94 billion and $14.90 billion, respectively, substantially all of which had floating interest rates. As of December 2014 and December 2013, the estimated sensitivity to a 100 basis point increase in interest rates on such loans was $254 million and $136 million, respectively, of additional interest income over a 12-month period, which does not take into account the potential impact of an increase in costs to fund such loans. See Note 9 to the consolidated financial statements for further information about loans receivable.

Other Market Risk Considerations

In addition, as of December 2014 and December 2013, we had commitments and held loans for which we have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the consolidated financial statements for further information about such lending commitments.

Additionally, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in "Other assets." Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 13 to the consolidated financial statements for information about "Other assets."

Financial Statement Linkages to Market Risk Measures

We employ a variety of risk measures, each described in the respective sections above, to monitor market risk across the consolidated statements of financial condition and consolidated statements of earnings. The related gains and losses on these positions are included in "Market making," "Other principal transactions," "Interest income" and "Interest expense." The table below presents certain categories in our consolidated statements of financial condition and the market risk measures used to assess those assets and liabilities. Certain categories on the consolidated statements of financial condition are incorporated in more than one risk measure.

Categories on the Consolidated Statements of Financial Condition Included in Market Risk Measures	Market Risk Measures
Securities segregated for regulatory and other purposes, at fair value	• VaR
Collateralized agreements • Securities purchased under agreements to resell, at fair value • Securities borrowed, at fair value	• VaR
Receivables from customers and counterparties • Certain secured loans, at fair value • Loans receivable	• VaR • Interest Rate Sensitivity
Financial instruments owned, at fair value	• VaR • 10% Sensitivity Measures • Credit Spread Sensitivity—Derivatives
Collateralized financings • Securities sold under agreements to repurchase, at fair value • Securities loaned, at fair value • Other secured financings, at fair value	• VaR
Financial instruments sold, but not yet purchased, at fair value	• VaR • Credit Spread Sensitivity—Derivatives
Unsecured short-term borrowings and unsecured long-term borrowings, at fair value	• VaR • Credit Spread Sensitivity—Borrowings

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

1.25 ABM INDUSTRIES INCORPORATED (OCT)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in part)

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires our management to make certain estimates that affect the reported amounts. We base our estimates on historical experience, known or expected trends, independent valuations, and various other assumptions that are believed to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. The current economic environment and U.S. Government policy and their potential effect on us and our clients have combined to increase the uncertainty inherent in such estimates and assumptions. We believe the following critical accounting policies govern the more significant judgments and estimates used in the preparation of our financial statements.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Allowance for Doubtful Accounts		
We maintain an allowance for doubtful accounts to provide for losses on accounts receivable due to a client's inability to pay. The allowance is estimated based on the historical rate of credit losses or write-offs, specific client concerns, and known or expected trends.	The determination of our allowance for doubtful accounts contains uncertainties because it requires our management to make assumptions and apply judgment about future uncollectible accounts. Actual write-offs and adjustments could differ from the allowance estimates due to unanticipated changes in the business environment as well as factors and risks associated with specific clients. In addition, changes in the financial condition of our clients or adverse developments in negotiations or legal proceedings to obtain payment could result in the actual loss exceeding the estimated allowance.	We have not made any changes in the accounting methodology used to record our allowance for doubtful accounts during the past three years. A 10% difference in our allowance for doubtful accounts as of October 31, 2014 would have affected net income by approximately $0.4 million during 2014.
Amortization and Impairment of Long-Lived Assets		
Our long-lived assets include: property, plant and equipment and amortizable intangible assets. We estimate the depreciable lives of our long-lived assets. For depreciable fixed assets, our depreciable lives are based on our accounting policy, which is intended to mirror the expected useful life of the asset. In determining the estimated useful life of amortizable intangible assets, such as customer contracts and relationships, we rely on our historical experience to estimate the useful life of the applicable asset and consider industry norms as a benchmark. We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. These events and circumstances include, but are not limited to, a current expectation that a long-lived asset will be disposed of significantly before the end of its previously estimated useful life, a significant adverse change in the extent or manner in which we use a long-lived asset, or a change in its physical condition. When such events or changes in circumstances occur, a recoverability test is performed comparing projected undiscounted cash flows from the use and eventual disposition of an asset or asset group to its carrying amount. If the projected undiscounted cash flows are less than the carrying amount, an impairment is recorded for the excess of the carrying amount over the estimated fair value, which is generally determined using discounted future cash flows. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes the new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining estimated useful life of that asset.	Incorrect estimation of useful lives may result in inaccurate depreciation and amortization charges over future periods leading to future impairment. In addition, our impairment evaluations require us to apply judgment in determining whether a triggering event has occurred, including the evaluation of whether it is more likely than not that a long-lived asset will be disposed of significantly before the end of its previously estimated useful life. Any impairment loss calculations would require us to apply judgment in estimating expected future cash flows, including estimated sales, margin, and controllable expenses, and assumptions about market performance for operating locations, and estimated selling prices or lease rates for locations identified for closure. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate for fair values determined using an income approach.	We have not made any changes in the accounting methodology used to evaluate the impairment of long-lived assets during the last three years. Additionally, we have not made any changes to estimated useful lives of our long-lived assets. If actual results are not consistent with our estimates and assumptions used to calculate estimated future cash flows, we may be exposed to future impairment losses that could be material.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Impairment of Goodwill		
We have elected to make the first day of our fiscal fourth quarter, August 1st, the annual impairment assessment date for goodwill. However, we could be required to evaluate the recoverability of goodwill prior to the annual assessment if we experience a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of one of our businesses. We test the carrying value of goodwill for impairment at a "reporting unit" level using a two-step approach. The first step of the process is to evaluate whether the fair value of a reporting unit is less than its carrying value, which is an indicator that the goodwill assigned to that reporting unit may be impaired. In this case, a second step of impairment testing is performed to allocate the fair value of the reporting unit to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination, and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared to the actual carrying value of goodwill. If the implied fair value is less than the carrying value, we would be required to recognize an impairment loss for that excess.	We estimate the fair value of each reporting unit using a combination of the income approach and the market approach. The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal value are calculated for each reporting unit and then discounted to present value using an appropriate discount rate. In making these estimates, weighted average cost of capital is utilized to calculate the present value of future cash flows and terminal value. Many variables go into estimating future cash flows, including our future sales growth and operating results. When estimating our projected revenue growth and future operating results, we consider industry trends, economic data, and our competitive advantage. The market approach estimates fair value by using market comparables for reasonably similar public companies. The valuation of our reporting units requires significant judgment in evaluation of, among other factors, recent indicators of market activity and estimated future cash flows, discount rates, and other factors. Our impairment analyses contain inherent uncertainties due to uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions.	We have not made any changes in the accounting methodology used to evaluate impairment of goodwill during the last three years other than the creation of new reporting units relative to our acquisition of Air Serv and our segment realignment in 2013. As of October 31, 2014, we had $904.6 million of goodwill. Our goodwill is included in the following segments: $488.4 million–Janitorial $72.6 million–Facility Services $69.2 million–Parking $49.9 million–Security $137.4 million–Building & Energy Solutions $87.1 million–Other A goodwill impairment analysis was performed for each of our reporting units as of August 1, 2014, which indicated that the implied fair value of each of our reporting units was substantially in excess of its carrying value. Therefore, the second step was not necessary. A 10% decrease in the estimated fair value of our reporting units would not result in a goodwill impairment.
Insurance Reserves		
We use a combination of insured and self-insurance programs to cover workers' compensation, general liability, property damage, and other insurable risks. Insurance claim liabilities represent our estimate of retained risks without regard to insurance coverage. We retain a substantial portion of the risk related to certain workers' compensation and medical claims. Liabilities associated with these losses include estimates of both claims filed and "incurred but not reported" claim costs. With the assistance of third-party professionals, we periodically review our estimate of ultimate losses for "incurred but not reported" claim costs and adjust our required self-insurance reserves as appropriate. As part of this evaluation, we review the status of existing and new claim reserves as established by our third-party claims administrators. Our third-party administrators establish the case reserves based upon known factors related to the type and severity of the claims, demographic factors, legislative matters, and case law, as appropriate. We compare actual trends to expected trends and monitor claims developments. The specific case reserves estimated by the third-party administrators are provided to an actuary who assists us in projecting an actuarial estimate of the overall ultimate losses for our self-insured or high deductible programs, which includes the case reserves plus an actuarial estimate of reserves required for additional developments including "incurred but not reported" claim costs. We utilize the independent third-party administrator's actuarial point estimate, reviewed by our management, to adjust our carried self-insurance reserves.	Our self-insurance liabilities contain uncertainties due to assumptions required and judgment used. Costs to settle our obligations, including legal and healthcare costs, could increase or decrease and cause estimates of our self-insurance liabilities to change. Incident rates, including frequency and severity, could increase or decrease and cause the estimates in our self-insurance liabilities to change. These estimates are subject to: changes in the regulatory environment; projected exposures, including payroll, revenues, and the number of vehicle units; and the frequency, lag, and severity of claims. The full extent of certain claims, especially workers' compensation and general liability claims, may not become fully determined for several years. In addition, if the reserves related to self-insurance or high deductible programs from acquired businesses are not adequate to cover damages resulting from future accidents or other incidents, we may be exposed to substantial losses arising from future development of the claims.	We have not made any changes in the accounting methodology used to establish our self-insurance liabilities during the past three years. After analyzing the recent loss development patterns, comparing the loss development against benchmarks, and applying actuarial projection methods to determine the estimate of ultimate losses, we reduced our expected reserves for 2014 claims by $6.2 million in the third quarter of 2014. For years prior to 2014, the analysis showed unfavorable developments in our insurance claims, and as a result we increased our expected reserves by $11.5 million. It is possible that actual results could differ from recorded self-insurance liabilities. A 10% change in our projected ultimate losses would have affected net income by approximately $20.5 million for 2014.

(continued)

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Revenue Recognition		
We earn revenue under various types of service contracts. In all forms of service provided by us, revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered, the fee is fixed or determinable, and collectability is reasonably assured. The various types of service contracts are described below. ***Monthly Fixed-Price Arrangements*** These arrangements are contracts in which the client agrees to pay a fixed fee every month over a specified contract term. A variation of a fixed-price arrangement is a square-foot arrangement, under which monthly billings are based on the actual square footage serviced. ***Cost-Plus Arrangements*** These arrangements are contracts in which the clients reimburse us for the agreed-upon amount of wages and benefits, payroll taxes, insurance charges, and other expenses associated with the contracted work, plus a profit margin. ***Transaction-Price Arrangements*** Transaction-price arrangements are agreements in which the clients are billed for each transaction performed on a monthly basis (e.g., wheelchair passengers served, aircrafts cleaned). ***Tag Services*** Tag work generally consists of supplemental services requested by clients outside of the standard service specification. Examples are cleanup after tenant moves, construction cleanup, flood cleanup, snow removal, and extermination services. ***Fixed-Price Repair and Refurbishment Arrangements*** Revenue is recognized on certain fixed-price repair and refurbishment arrangements using the percentage-of-completion method of accounting, most often based on the cost-to-cost method. Under the percentage-of-completion method, revenues are recognized as the work progresses. The percentage of work completed is determined principally by comparing the actual costs incurred to date with the current estimate of total costs to complete. ***Franchise Revenue*** We franchise certain engineering services under the Linc Network, TEGG, CurrentSAFE, and GreenHomes America brands through individual and area franchises. Initial franchise fees are recognized when we have performed substantially all initial services required by the franchise agreement. Continuing franchise royalty fees that are based on a percentage of the franchisees' revenues are recognized in the period in which the revenue is reported to have occurred, whereas franchise fees charged to franchisees on a flat rate are recognized as earned. Direct (incremental) costs related to new franchise sales for which the revenue has not been recognized are deferred until the related revenue is recognized. Costs related to continuing franchise royalty fees are expensed as incurred. ***Parking Reimbursement*** One type of arrangement within our Parking business is a managed location arrangement, whereby we manage the underlying parking facility for the owner in exchange for a management fee. For these arrangements, we pass through revenues and expenses from managed locations to the facility owner under the terms and conditions of the contract. We report revenues and expenses, in equal amounts, for costs reimbursed from our managed locations.	For our service contracts, the determination of the sales allowance contains uncertainties because it requires our management to make assumptions and apply judgment about the amount and timing of unknown billing errors and disputes. For certain fixed-price repair and refurbishment arrangements for which we recognize revenue under the percentage-of-completion method, recognition of profit is dependent upon the accuracy of a variety of estimates, including: (1) engineering progress; (2) achievement of milestones; (3) incentives; (4) labor productivity; and (5) cost estimates. Such estimates are based on various professional judgments made with respect to those factors and are subject to change as each project proceeds and new information becomes available.	For contracts where the percentage-of-completion method is used to recognize revenue, if actual cost estimates differ from our assumptions, the amount of revenue and the related gross profit recognized will also fluctuate. As the fixed-price repair and refurbishment revenue represents a small portion of our total revenue, any revisions to our estimated costs would not have a significant impact on revenue or operating profit. We have not made any changes in the accounting methodology used to record our sales allowance or to recognize revenue under the percentage-of-completion method during the past three years. A 10% difference in our sales allowance as of October 31, 2014 would have affected net income by approximately $0.2 million during 2014.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
In connection with our service contracts, we make estimates for potential future losses on client receivables resulting from client credits, which are recorded as a reduction in revenues and an increase to the allowance for billing adjustments. Credits can result from client vacancy discounts, job cancellations, property damage, and other items. Our sales allowance estimate is based on an analysis of the historical rate of sales adjustments (credit memos, net of re-bills) and considers known current or expected trends.		
Income Taxes		
We estimate total income tax expense based on domestic and international statutory income tax rates in the tax jurisdictions where we operate, permanent differences between financial reporting and tax reporting, and available credits and incentives. Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances are recorded when, in the opinion of our management, it is more-likely-than-not that all or a portion of the deferred tax assets will not be realized. We record liabilities for known or anticipated tax issues based on our analysis of whether, and the extent to which, additional taxes will be due. These unrecognized tax benefits are retained until the associated uncertainty is resolved. This analysis is performed in accordance with the applicable accounting guidance.	Our calculations related to income taxes contain uncertainties due to judgment used to calculate tax liabilities in the application of complex tax laws and regulations across the tax jurisdictions where we operate. Changes in tax laws and rates could affect recorded total income tax expense as well as recorded deferred tax assets and liabilities in the future. Changes in projected future earnings could affect the recorded valuation allowances in the future. Our analysis of unrecognized tax benefits contains uncertainties based on judgment used to apply the more-likely-than-not recognition and measurement thresholds. We may be challenged upon review by the applicable taxing authorities, and positions taken may not be sustained.	We do not believe there is a reasonable likelihood there will be a material change in our total income tax expense, tax-related balances or valuation allowances. However, due to the complexity of some of these uncertainties, our income tax expense or income tax liabilities may be materially different from the current provision for income tax expense or the current estimate of our income tax liabilities. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our recorded liabilities, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement may require use of our cash and result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement could be recognized as a reduction in our effective tax rate in the period of resolution.
Contingencies and Litigation		
We are a party to a variety of actions, proceedings, and legal, administrative, and other inquiries arising in the normal course of business relating to labor and employment, contracts, personal injury, and other matters. We accrue for loss contingencies when losses become probable and are reasonably estimable. If the reasonable estimate of the loss is a range and no amount within the range is a better estimate, the minimum amount of the range is recorded as a liability. We do not accrue for contingent losses that, in our judgment, are considered to be reasonably possible but not probable. Expected costs of resolving contingencies, which include the use of third-party service providers, are accrued as the services are rendered.	Our loss contingencies contain uncertainties because they depend on estimates and judgments regarding projected outcomes and range of loss. The determination of current reserves requires estimates and judgments related to future changes in facts and circumstances, differing interpretations of the law, assessments of the amount of damages, and other factors beyond our control.	We have not made any changes in the accounting methodology used to establish our loss contingencies during the past three years. Our management currently estimates that the range of loss for all reasonably possible losses for which an estimate can be made is between zero and $98.8 million, including the possible $94.2 million impact of the Augustus case. If actual results are not consistent with our estimates or assumptions, we may be exposed to losses that could be material.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.26 CITIGROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies

Throughout these Notes, “Citigroup,” “Citi” and the “Company” refer to Citigroup Inc. and its consolidated subsidiaries.

Certain reclassifications have been made to the prior periods’ financial statements and notes to conform to the current period’s presentation.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Citigroup and its subsidiaries prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments of designated venture capital subsidiaries or investments accounted for at fair value under the fair value option, are accounted for under the equity method, and the pro rata share of their income (loss) is included in *Other revenue*. Income from investments in less than 20% owned companies is recognized when dividends are received. As discussed in more detail in Note 22 to the Consolidated Financial Statements, Citigroup also consolidates entities deemed to be variable interest entities when Citigroup is determined to be the primary beneficiary. Gains and losses on the disposition of branches, subsidiaries, affiliates, buildings, and other investments are included in *Other revenue*.

Citibank, N.A.

Citibank, N.A. is a commercial bank and wholly owned subsidiary of Citigroup Inc. Citibank's principal offerings include: consumer finance, mortgage lending and retail banking products and services; investment banking, commercial banking, cash management and trade finance; and private banking products and services.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in Accounting Standards Codification (ASC) Topic 810, *Consolidation*, which are: (i) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the entity's expected losses or expected returns.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the VIE's economic performance and a right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE (that is, Citi is the primary beneficiary).

In addition to variable interests held in consolidated VIEs, the Company has variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary. These include multi-seller finance companies, certain collateralized debt obligations (CDOs), many structured finance transactions and various investment funds. However, these VIEs and all other unconsolidated VIEs are monitored by the Company to assess whether any events have occurred to cause its primary beneficiary status to change. These events include:

- purchases or sales of variable interests by Citigroup or an unrelated third party, which cause Citigroup's overall variable interest ownership to change;
- changes in contractual arrangements that reallocate expected losses and residual returns among the variable interest holders;
- changes in the party that has power to direct the activities of a VIE that most significantly impact the entity's economic performance; and
- providing financial support to an entity that results in an implicit variable interest.

All other entities not deemed to be VIEs with which the Company has involvement are evaluated for consolidation under other subtopics of ASC 810.

Foreign Currency Translation

Assets and liabilities of Citi's foreign operations are translated from their respective functional currencies into U.S. dollars using period-end spot foreign-exchange rates. The effects of those translation adjustments are reported in *Accumulated other comprehensive income (loss)*, a component of stockholders' equity, along with any related hedge and tax effects, until realized upon sale or substantial liquidation of the foreign operation. Revenues and expenses of Citi's foreign operations are translated monthly from their respective functional currencies into U.S. dollars at amounts that approximate weighted average exchange rates.

For transactions whose terms are denominated in a currency other than the functional currency, including transactions denominated in the local currencies of foreign operations with the U.S. dollar as their functional currency, the effects of changes in exchange rates are primarily included in *Principal transactions*, along with the related effects of any economic hedges. Instruments used to hedge foreign currency exposures include foreign currency forward, option and swap contracts and in certain instances, designated issues of non-U.S. dollar debt. Foreign operations in countries with highly inflationary economies designate the U.S. dollar as their functional currency, with the effects of changes in exchange rates primarily included in *Other revenue*.

Investment Securities

Investments include fixed income and equity securities. Fixed income instruments include bonds, notes and redeemable preferred stocks, as well as certain loan-backed and structured securities that are subject to prepayment risk. Equity securities include common and nonredeemable preferred stock.

Investment securities are classified and accounted for as follows:

- Fixed income securities classified as "held-to-maturity" are securities that the Company has both the ability and the intent to hold until maturity and are carried at amortized cost. Interest income on such securities is included in *Interest revenue*.
- Fixed income securities and marketable equity securities classified as "available-for-sale" are carried at fair value with changes in fair value reported in *Accumulated other comprehensive income (loss)*, a component of *Stockholders' equity*, net of applicable income taxes and hedges. Realized gains and losses on sales are included in income primarily on a specific identification cost basis. Interest and dividend income on such securities is included in *Interest revenue*.
- Certain investments in non-marketable equity securities and certain investments that would otherwise have been accounted for using the equity method are carried at fair value, since the Company has elected to apply fair value accounting. Changes in fair value of such investments are recorded in earnings.
- Certain non-marketable equity securities are carried at cost and are periodically assessed for other-than-temporary impairment, as described in Note 14 to the Consolidated Financial Statements.

For investments in fixed income securities classified as held-to-maturity or available-for-sale, the accrual of interest income is suspended for investments that are in default or for which it is likely that future interest payments will not be made as scheduled.

Investment securities are subject to evaluation for other-than-temporary impairment as described in Note 14 to the Consolidated Financial Statements.

The Company uses a number of valuation techniques for investments carried at fair value, which are described in Note 25 to the Consolidated Financial Statements. Realized gains and losses on sales of investments are included in earnings.

Trading Account Assets and Liabilities

Trading account assets include debt and marketable equity securities, derivatives in a receivable position, residual interests in securitizations and physical commodities inventory. In addition, as described in Note 26 to the Consolidated Financial Statements, certain assets that Citigroup has elected to carry at fair value under the fair value option, such as loans and purchased guarantees, are also included in *Trading account assets*.

Trading account liabilities include securities sold, not yet purchased (short positions) and derivatives in a net payable position, as well as certain liabilities that Citigroup has elected to carry at fair value (as described in Note 26 to the Consolidated Financial Statements).

Other than physical commodities inventory, all trading account assets and liabilities are carried at fair value. Revenues generated from trading assets and trading liabilities are generally reported in *Principal transactions* and include realized gains and losses as well as unrealized gains and losses resulting from changes in the fair value of such instruments. Interest income on trading assets is recorded in *Interest revenue* reduced by interest expense on trading liabilities.

Physical commodities inventory is carried at the lower of cost or market with related losses reported in *Principal transactions*. Realized gains and losses on sales of commodities inventory are included in *Principal transactions*. Investments in unallocated precious metals accounts (gold, silver, platinum and palladium) are accounted for as hybrid instruments containing a debt host contract and an embedded non-financial derivative instrument indexed to the price of the relevant precious metal. The embedded derivative instrument is separated from the debt host contract and accounted for at fair value. The debt host contract is accounted for at fair value under the fair value option, as described in Note 26 to the Consolidated Financial Statements.

Derivatives used for trading purposes include interest rate, currency, equity, credit, and commodity swap agreements, options, caps and floors, warrants, and financial and commodity futures and forward contracts. Derivative asset and liability positions are presented net by counterparty on the Consolidated Balance Sheet when a valid master netting agreement exists and the other conditions set out in ASC 210–20, *Balance Sheet—Offsetting,* are met. See Note 23 to the Consolidated Financial Statements.

The Company uses a number of techniques to determine the fair value of trading assets and liabilities, which are described in Note 25 to the Consolidated Financial Statements.

Securities Borrowed and Securities Loaned

Securities borrowing and lending transactions generally do not constitute a sale of the underlying securities for accounting purposes and are treated as collateralized financing transactions. Such transactions are recorded at the amount of proceeds advanced or received plus accrued interest. As described in Note 26 to the Consolidated Financial Statements, the Company has elected to apply fair value accounting to a number of securities borrowing and lending transactions. Fees paid or received for all securities lending and borrowing transactions are recorded in *Interest expense* or *Interest revenue* at the contractually specified rate.

The Company monitors the fair value of securities borrowed or loaned on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection.

As described in Note 25 to the Consolidated Financial Statements, the Company uses a discounted cash flow technique to determine the fair value of securities lending and borrowing transactions.

Repurchase and Resale Agreements

Securities sold under agreements to repurchase (repos) and securities purchased under agreements to resell (reverse repos) generally do not constitute a sale of the underlying securities for accounting purposes and are treated as collateralized financing transactions. As described in Note 26 to the Consolidated Financial Statements, the Company has elected to apply fair value accounting to the majority of such transactions, with changes in fair value reported in earnings. Any transactions for which fair value accounting has not been elected are recorded at the amount of cash advanced or received plus accrued interest. Irrespective of whether the Company has elected fair value accounting, interest paid or received on all repo and reverse repo transactions is recorded in *Interest expense* or *Interest revenue* at the contractually specified rate.

Where the conditions of ASC 210-20-45-11, *Balance Sheet-Offsetting: Repurchase and Reverse Repurchase Agreements*, are met, repos and reverse repos are presented net on the Consolidated Balance Sheet.

The Company's policy is to take possession of securities purchased under reverse repurchase agreements. The Company monitors the fair value of securities subject to repurchase or resale on a daily basis and obtains or posts additional collateral in order to maintain contractual margin protection.

As described in Note 25 to the Consolidated Financial Statements, the Company uses a discounted cash flow technique to determine the fair value of repo and reverse repo transactions.

Loans

Loans are reported at their outstanding principal balances net of any unearned income and unamortized deferred fees and costs except that credit card receivable balances also include accrued interest and fees. Loan origination fees and certain direct origination costs are generally deferred and recognized as adjustments to income over the lives of the related loans.

As described in Note 26 to the Consolidated Financial Statements, Citi has elected fair value accounting for certain loans. Such loans are carried at fair value with changes in fair value reported in earnings. Interest income on such loans is recorded in *Interest revenue* at the contractually specified rate.

Loans for which the fair value option has not been elected are classified upon origination or acquisition as either held-for-investment or held-for-sale. This classification is based on management's initial intent and ability with regard to those loans.

Loans that are held-for-investment are classified as *Loans, net of unearned income* on the Consolidated Balance Sheet, and the related cash flows are included within the cash flows from investing activities category in the Consolidated Statement of Cash Flows on the line *Change in loans*. However, when the initial intent for holding a loan has changed from held-for-investment to held-for-sale, the loan is reclassified to held-for-sale, but the related cash flows continue to be reported in cash flows from investing activities in the Consolidated Statement of Cash Flows on the line *Proceeds from sales and securitizations of loans*.

Consumer loans

Consumer loans represent loans and leases managed primarily by the *Global Consumer Banking* businesses and Citi Holdings.

Consumer non-accrual and re-aging policies

As a general rule, interest accrual ceases for installment and real estate (both open- and closed-end) loans when payments are 90 days contractually past due. For credit cards and other unsecured revolving loans, however, Citi generally accrues interest until payments are 180 days past due. As a result of OCC guidance, home equity loans in regulated bank entities are classified as non-accrual if the related residential first mortgage is 90 days or more past due. Also as a result of OCC guidance, mortgage loans in regulated bank entities discharged through Chapter 7 bankruptcy, other than FHA-insured loans, are classified as non-accrual. Commercial market loans are placed on a cash (non-accrual) basis when it is determined, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful or when interest or principal is 90 days past due.

Loans that have been modified to grant a concession to a borrower in financial difficulty may not be accruing interest at the time of the modification. The policy for returning such modified loans to accrual status varies by product and/or region. In most cases, a minimum number of payments (ranging from one to six) is required, while in other cases the loan is never returned to accrual status. For regulated bank entities, such modified loans are returned to accrual status if a credit evaluation at the time of, or subsequent to, the modification indicates the borrower is able to meet the restructured terms, and the borrower is current and has demonstrated a reasonable period of sustained payment performance (minimum six months of consecutive payments).

For U.S. consumer loans, generally one of the conditions to qualify for modification is that a minimum number of payments (typically ranging from one to three) must be made. Upon modification, the loan is re-aged to current status. However, re-aging practices for certain open-ended consumer loans, such as credit cards, are governed by Federal Financial Institutions Examination Council (FFIEC) guidelines. For open-ended consumer loans subject to FFIEC guidelines, one of the conditions for the loan to be re-aged to current status is that at least three consecutive minimum monthly payments, or the equivalent amount, must be received. In addition, under FFIEC guidelines, the number of times that such a loan can be re-aged is subject to limitations (generally once in 12 months and twice in five years). Furthermore, Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) loans may only be modified under those respective agencies' guidelines and payments are not always required in order to re-age a modified loan to current.

Consumer charge-off policies

Citi's charge-off policies follow the general guidelines below:

- Unsecured installment loans are charged off at 120 days contractually past due.
- Unsecured revolving loans and credit card loans are charged off at 180 days contractually past due.
- Loans secured with non-real estate collateral are written down to the estimated value of the collateral, less costs to sell, at 120 days contractually past due.
- Real estate-secured loans are written down to the estimated value of the property, less costs to sell, at 180 days contractually past due.
- Real estate-secured loans are charged off no later than 180 days contractually past due if a decision has been made not to foreclose on the loans.
- Non-bank real estate-secured loans are charged off at the earlier of 180 days contractually past due, if there have been no payments within the last six months, or 360 days contractually past due, if a decision has been made not to foreclose on the loans.
- Non-bank loans secured by real estate are written down to the estimated value of the property, less costs to sell, at the earlier of the receipt of title, the initiation of foreclosure (a process that must commence when payments are 120 days contractually past due), when the loan is 180 days contractually past due if there have been no payments within the past six months or 360 days contractually past due.
- Non-bank unsecured personal loans are charged off at the earlier of 180 days contractually past due if there have been no payments within the last six months, or 360 days contractually past due.
- Unsecured loans in bankruptcy are charged off within 60 days of notification of filing by the bankruptcy court or in accordance with Citi's charge-off policy, whichever occurs earlier.
- Consistent with OCC guidance, real estate-secured loans that were discharged through Chapter 7 bankruptcy, other than FHA-insured loans, are written down to the estimated value of the property, less costs to sell. Other real estate-secured loans in bankruptcy are written down to the estimated value of the property, less costs to sell, at the later of 60 days after notification or 60 days contractually past due.
- Non-bank loans secured by real estate that are discharged through Chapter 7 bankruptcy are written down to the estimated value of the property, less costs to sell, at 60 days contractually past due.
- Non-bank unsecured personal loans in bankruptcy are charged off when they are 30 days contractually past due.
- Commercial market loans are written down to the extent that principal is judged to be uncollectable.

Corporate loans

Corporate loans represent loans and leases managed by *ICG* or, to a much lesser extent, Citi Holdings. Corporate loans are identified as impaired and placed on a cash (non-accrual) basis when it is determined, based on actual experience and a forward-looking assessment of the collectability of the loan in full, that the payment of interest or principal is doubtful or when interest or principal is 90 days past due, except when the loan is well collateralized and in the process of collection. Any interest accrued on impaired corporate loans and leases is reversed at 90 days and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. When there is doubt regarding the ultimate collectability of principal, all cash receipts are thereafter applied to reduce the recorded investment in the loan.

Impaired corporate loans and leases are written down to the extent that principal is deemed to be uncollectable. Impaired collateral-dependent loans and leases, where repayment is expected to be provided solely by the sale of the underlying collateral and there are no other available and reliable sources of repayment, are written down to the lower of cost or collateral value. Cash-basis loans are returned to accrual status when all contractual principal and interest amounts are reasonably assured of repayment and there is a sustained period of repayment performance in accordance with the contractual terms.

Loans Held-for-Sale

Corporate and consumer loans that have been identified for sale are classified as loans held-for-sale and included in *Other assets*. The practice of Citi's U.S. prime mortgage business has been to sell substantially all of its conforming loans. As such, U.S. prime mortgage conforming loans are classified as held-for-sale and the fair value option is elected at origination, with changes in fair value recorded in *Other revenue*. With the exception of those loans for which the fair value option has been elected, held-for-sale loans are accounted for at the lower of cost or market value, with any write-downs or subsequent recoveries charged to *Other revenue*. The related cash flows are classified in the Consolidated Statement of Cash Flows in the cash flows from operating activities category on the line *Change in loans held-for-sale*.

Allowance for Loan Losses

Allowance for loan losses represents management's best estimate of probable losses inherent in the portfolio, including probable losses related to large individually evaluated impaired loans and troubled debt restructurings. Attribution of the allowance is made for analytical purposes only, and the entire allowance is available to absorb probable loan losses inherent in the overall portfolio. Additions to the allowance are made through the *Provision for loan losses*. Loan losses are deducted from the allowance and subsequent recoveries are added. Assets received in exchange for loan claims in a restructuring are initially recorded at fair value, with any gain or loss reflected as a recovery or charge-off to the provision.

Consumer loans

For consumer loans, each portfolio of non-modified smaller-balance, homogeneous loans is independently evaluated by product type (e.g., residential mortgage, credit card, etc.) for impairment in accordance with ASC 450-20. The allowance for loan losses attributed to these loans is established via a process that estimates the probable losses inherent in the specific portfolio. This process includes migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analyses that reflect current and anticipated economic conditions, including changes in housing prices and unemployment trends. Citi's allowance for loan losses under ASC 450 only considers contractual principal amounts due, except for credit card loans where estimated loss amounts related to accrued interest receivable are also included.

Management also considers overall portfolio indicators, including historical credit losses, delinquent, non-performing and classified loans, trends in volumes and terms of loans, an evaluation of overall credit quality, the credit process, including lending policies and procedures, and economic, geographical, product and other environmental factors.

Separate valuation allowances are determined for impaired smaller-balance homogeneous loans whose terms have been modified in a troubled debt restructuring (TDR). Long-term modification programs, as well as short-term (less than 12 months) modifications originated beginning January 1, 2011 that provide concessions (such as interest rate reductions) to borrowers in financial difficulty, are reported as TDRs. In addition, loan modifications that involve a trial period are reported as TDRs at the start of the trial period. The allowance for loan losses for TDRs is determined in accordance with ASC 310-10-35 considering all available evidence, including, as appropriate, the present value of the expected future cash flows discounted at the loan's original contractual effective rate, the secondary market value of the loan and the fair value of collateral less disposal costs. These expected cash flows incorporate modification program default rate assumptions. The original contractual effective rate for credit card loans is the pre-modification rate, which may include interest rate increases under the original contractual agreement with the borrower.

Valuation allowances for commercial market loans, which are classifiably managed Consumer loans, are determined in the same manner as for Corporate loans and are described in more detail in the following section. Generally, an asset-specific component is calculated under ASC 310-10-35 on an individual basis for larger-balance, non-homogeneous loans that are considered impaired and the allowance for the remainder of the classifiably managed Consumer loan portfolio is calculated under ASC 450 using a statistical methodology that may be supplemented by management adjustment.

Corporate loans

In the corporate portfolios, the *Allowance for loan losses* includes an asset-specific component and a statistically based component. The asset-specific component is calculated under ASC 310-10-35, *Receivables—Subsequent Measurement* (formerly SFAS 114) on an individual basis for larger-balance, non-homogeneous loans, which are considered impaired. An asset-specific allowance is established when the discounted cash flows, collateral value (less disposal costs) or observable market price of the impaired loan are lower than its carrying value. This allowance considers the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantors (discussed further below) and, if appropriate, the realizable value of any collateral. The asset-specific component of the allowance for smaller balance impaired loans is calculated on a pool basis considering historical loss experience.

The allowance for the remainder of the loan portfolio is determined under ASC 450, *Contingencies* (formerly SFAS 5) using a statistical methodology, supplemented by management judgment. The statistical analysis considers the portfolio's size, remaining tenor and credit quality as measured by internal risk ratings assigned to individual credit facilities, which reflect probability of default and loss given default. The statistical analysis considers historical default rates and historical loss severity in the event of default, including historical average levels and historical variability. The result is an estimated range for inherent losses. The best estimate within the range is then determined by management's quantitative and qualitative assessment of current conditions, including general economic conditions, specific industry and geographic trends, and internal factors including portfolio concentrations, trends in internal credit quality indicators, and current and past underwriting standards.

For both the asset-specific and the statistically based components of the *Allowance for loan losses*, management may incorporate guarantor support. The financial wherewithal of the guarantor is evaluated, as applicable, based on net worth, cash flow statements and personal or company financial statements which are updated and reviewed at least annually. Citi seeks performance on guarantee arrangements in the normal course of business. Seeking performance entails obtaining satisfactory cooperation from the guarantor or borrower in the specific situation. This regular cooperation is indicative of pursuit and successful enforcement of the guarantee; the exposure is reduced without the expense and burden of pursuing a legal remedy. A guarantor's reputation and willingness to work with Citigroup is evaluated based on the historical experience with the guarantor and the knowledge of the marketplace. In the rare event that the guarantor is unwilling or unable to perform or facilitate borrower cooperation, Citi pursues a legal remedy; however, enforcing a guarantee via legal action against the guarantor is not the primary means of resolving a troubled loan situation and rarely occurs. If Citi does not pursue a legal remedy, it is because Citi does not believe that the guarantor has the financial wherewithal to perform regardless of legal action or because there are legal limitations on simultaneously pursuing guarantors and foreclosure. A guarantor's reputation does not impact Citi's decision or ability to seek performance under the guarantee.

In cases where a guarantee is a factor in the assessment of loan losses, it is included via adjustment to the loan's internal risk rating, which in turn is the basis for the adjustment to the statistically based component of the *Allowance for loan losses*. To date, it is only in rare circumstances that an impaired commercial loan or commercial real estate loan is carried at a value in excess of the appraised value due to a guarantee.

When Citi's monitoring of the loan indicates that the guarantor's wherewithal to pay is uncertain or has deteriorated, there is either no change in the risk rating, because the guarantor's credit support was never initially factored in, or the risk rating is adjusted to reflect that uncertainty or deterioration. Accordingly, a guarantor's ultimate failure to perform or a lack of legal enforcement of the guarantee does not materially impact the allowance for loan losses, as there is typically no further significant adjustment of the loan's risk rating at that time. Where Citi is not seeking performance under the guarantee contract, it provides for loan losses as if the loans were non-performing and not guaranteed.

Reserve Estimates and Policies

Management provides reserves for an estimate of probable losses inherent in the funded loan portfolio on the Consolidated Balance Sheet in the form of an allowance for loan losses. These reserves are established in accordance with Citigroup's credit reserve policies, as approved by the Audit Committee of the Board of Directors. Citi's Chief Risk Officer and Chief Financial Officer review the adequacy of the credit loss reserves each quarter with representatives from the risk management and finance staffs for each applicable business area. Applicable business areas include those having classifiably managed portfolios, where internal credit-risk ratings are assigned (primarily *Institutional Clients Group* and *Global Consumer Banking*) or modified Consumer loans, where concessions were granted due to the borrowers' financial difficulties.

The above-mentioned representatives for these business areas present recommended reserve balances for their funded and unfunded lending portfolios along with supporting quantitative and qualitative data discussed below:

Estimated probable losses for non-performing, non-homogeneous exposures within a business line's classifiably managed portfolio and impaired smaller-balance homogeneous loans whose terms have been modified due to the borrowers' financial difficulties, where it was determined that a concession was granted to the borrower. Consideration may be given to the following, as appropriate, when determining this estimate: (i) the present value of expected future cash flows discounted at the loan's original effective rate; (ii) the borrower's overall financial condition, resources and payment record; and (iii) the prospects for support from financially responsible guarantors or the realizable value of any collateral. In the determination of the allowance for loan losses for TDRs, management considers a combination of historical re-default rates, the current economic environment and the nature of the modification program when forecasting expected cash flows. When impairment is measured based on the present value of expected future cash flows, the entire change in present value is recorded in the *Provision for loan losses*.

Statistically calculated losses inherent in the classifiably managed portfolio for performing and de minimis non-performing exposures. The calculation is based on: (i) Citi's internal system of credit-risk ratings, which are analogous to the risk ratings of the major rating agencies; and (ii) historical default and loss data, including rating agency information regarding default rates from 1983 to 2013 and internal data dating to the early 1970s on severity of losses in the event of default. Adjustments may be made to this data. Such adjustments include: (i) statistically calculated estimates to cover the historical fluctuation of the default rates over the credit cycle, the historical variability of loss severity among defaulted loans, and the degree to which there are large obligor concentrations in the global portfolio; and (ii) adjustments made for specific known items, such as current environmental factors and credit trends.

In addition, representatives from each of the risk management and finance staffs that cover business areas with delinquency-managed portfolios containing smaller-balance homogeneous loans present their recommended reserve balances based on leading credit indicators, including loan delinquencies and changes in portfolio size as well as economic trends, including current and future housing prices, unemployment, length of time in foreclosure, costs to sell and GDP. This methodology is applied separately for each individual product within each geographic region in which these portfolios exist.

This evaluation process is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates, the size and diversity of individual large credits, and the ability of borrowers with foreign currency obligations to obtain the foreign currency necessary for orderly debt servicing, among other things, are all taken into account during this review. Changes in these estimates could have a direct impact on the credit costs in any period and could result in a change in the allowance.

Allowance for Unfunded Lending Commitments

A similar approach to the allowance for loan losses is used for calculating a reserve for the expected losses related to unfunded loan commitments and standby letters of credit. This reserve is classified on the balance sheet in *Other liabilities*. Changes to the allowance for unfunded lending commitments are recorded in the *Provision for unfunded lending commitments*.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) are recognized as intangible assets when purchased or when the Company sells or securitizes loans acquired through purchase or origination and retains the right to service the loans. Mortgage servicing rights are accounted for at fair value, with changes in value recorded in *Other revenue* in the Company's Consolidated Statement of Income.

Additional information on the Company's MSRs can be found in Note 22 to the Consolidated Financial Statements.

Citigroup Residential Mortgages—Representations and Warranties

In connection with Citi's sales of residential mortgage loans to the U.S. government-sponsored entities (GSEs) and private investors, as well as through private-label securitizations, Citi typically makes representations and warranties that the loans sold meet certain requirements, such as the loan's compliance with any applicable loan criteria established by the buyer and the validity of the lien securing the loan. The specific representations and warranties made by Citi in any particular transaction depend on, among other things, the nature of the transaction and the requirements of the investor.

These sales expose Citi to potential claims for alleged breaches of its representations and warranties. In the event of a breach of its representations and warranties, Citi could be required either to repurchase the mortgage loans with the identified defects (generally at unpaid principal balance plus accrued interest) or to indemnify (make-whole) the investors for their losses on these loans.

Citi has recorded a repurchase reserve for its potential repurchase or make-whole liability regarding residential mortgage representation and warranty claims. Since the first quarter of 2013, Citi has considered private-label residential mortgage securitization representation and warranty claims as part of its litigation accrual analysis and not as part of its repurchase reserve. See Note 28 to the Consolidated Financial Statements for additional information on Citi's potential private-label residential mortgage securitization exposure. Accordingly, Citi's repurchase reserve has been recorded for purposes of its potential representation and warranty repurchase liability resulting from its whole loan sales to the GSEs and, to a lesser extent private investors, which are made through Citi's Consumer business in CitiMortgage.

In the case of a repurchase, Citi will bear any subsequent credit loss on the mortgage loan and the loan is typically considered a credit-impaired loan and accounted for under AICPA Statement of Position (SOP) 03-3, "Accounting of Certain Loans and Debt Securities Acquired in a Transfer" (now incorporated into ASC 310–30, *Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality*) (SOP 03-3).

In the case of a repurchase of a credit-impaired SOP 03-3 loan, the difference between the loan's fair value and unpaid principal balance at the time of the repurchase is recorded as a utilization of the repurchase reserve. Make-whole payments to the investor are also treated as utilizations and charged directly against the reserve. The repurchase reserve is estimated when Citi sells loans (recorded as an adjustment to the gain on sale, which is included in *Other revenue* in the Consolidated Statement of Income) and is updated quarterly. Any change in estimate is recorded in *Other revenue*.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is subject to annual impairment testing and between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount.

Under ASC 350, *Intangibles—Goodwill and Other,* the Company has an option to assess qualitative factors to determine if it is necessary to perform the goodwill impairment test. If, after assessing the totality of events or circumstances, the Company determines that it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, no further testing is necessary. If, however, the Company determines that it is more-likely-than not that the fair value of a reporting unit is less than its carrying amount, then the Company must perform the first step of the two-step goodwill impairment test.

The Company has an unconditional option to bypass the qualitative assessment for any reporting unit in any reporting period and proceed directly to the first step of the goodwill impairment test. Furthermore, on any business dispositions, goodwill is allocated to the business disposed of based on the ratio of the fair value of the business disposed of to the fair value of the reporting unit.

The first step requires a comparison of the fair value of the individual reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is in excess of the carrying value, the related goodwill is considered not to be impaired and no further analysis is necessary. If the carrying value of the reporting unit exceeds the fair value, this is an indication of potential impairment and a second step of testing is performed to measure the amount of impairment, if any, for that reporting unit.

If required, the second step involves calculating the implied fair value of goodwill for each of the affected reporting units. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of the net assets and identifiable intangibles as if the reporting unit were being acquired. If the amount of the goodwill allocated to the reporting unit exceeds the implied fair value of the goodwill in the pro forma purchase price allocation, an impairment charge is recorded for the excess. A recognized impairment charge cannot exceed the amount of goodwill allocated to a reporting unit and cannot subsequently be reversed even if the fair value of the reporting unit recovers.

Additional information on Citi's goodwill impairment testing can be found in Note 17 to the Consolidated Financial Statements.

Intangible Assets

Intangible assets, including core deposit intangibles, present value of future profits, purchased credit card relationships, other customer relationships, and other intangible assets, but excluding MSRs, are amortized over their estimated useful lives. Intangible assets deemed to have indefinite useful lives, primarily certain asset management contracts and trade names, are not amortized and are subject to annual impairment tests. An impairment exists if the carrying value of the indefinite-lived intangible asset exceeds its fair value. For other intangible assets subject to amortization, an impairment is recognized if the carrying amount is not recoverable and exceeds the fair value of the intangible asset.

Similar to the goodwill impairment analysis, in performing the annual impairment analysis for indefinite-lived intangible assets, Citi may and has elected to bypass the optional qualitative assessment, choosing instead to perform a quantitative analysis.

Other Assets and Other Liabilities

Other assets include, among other items, loans held-for-sale, deferred tax assets, equity method investments, interest and fees receivable, premises and equipment (including purchased and developed software), repossessed assets, and other receivables. *Other liabilities* include, among other items, accrued expenses and other payables, deferred tax liabilities, and reserves for legal claims, taxes, unfunded lending commitments, repositioning reserves, and other matters.

Other Real Estate Owned and Repossessed Assets

Real estate or other assets received through foreclosure or repossession are generally reported in *Other assets*, net of a valuation allowance for selling costs and subsequent declines in fair value.

Securitizations

The Company primarily securitizes credit card receivables and mortgages. Other types of securitized assets include corporate debt instruments (in cash and synthetic form).

There are two key accounting determinations that must be made relating to securitizations. Citi first makes a determination as to whether the securitization entity must be consolidated. Second, it determines whether the transfer of financial assets to the entity is considered a sale under GAAP. If the securitization entity is a VIE, the Company consolidates the VIE if it is the primary beneficiary (as discussed in "Variable Interest Entities" above). For all other securitization entities determined not to be VIEs in which Citigroup participates, consolidation is based on which party has voting control of the entity, giving consideration to removal and liquidation rights in certain partnership structures. Only securitization entities controlled by Citigroup are consolidated.

Interests in the securitized and sold assets may be retained in the form of subordinated or senior interest-only strips, subordinated tranches, spread accounts and servicing rights. In credit card securitizations, the Company retains a seller's interest in the credit card receivables transferred to the trusts, which is not in securitized form. In the case of consolidated securitization entities, including the credit card trusts, these retained interests are not reported on Citi's Consolidated Balance Sheet. The securitized loans remain on the balance sheet. Substantially all of the Consumer loans sold or securitized through non-consolidated trusts by Citigroup are U.S. prime residential mortgage loans. Retained interests in non-consolidated mortgage securitization trusts are classified as *Trading account assets*, except for MSRs, which are included in *Mortgage servicing rights* on Citigroup's Consolidated Balance Sheet.

Debt

Short-term borrowings and *Long-term debt* are accounted for at amortized cost, except where the Company has elected to report the debt instruments, including certain structured notes at fair value, or the debt is in a fair value hedging relationship.

Transfers of Financial Assets

For a transfer of financial assets to be considered a sale: (i) the assets must have been legally isolated from the Company, even in bankruptcy or other receivership; (ii) the purchaser must have the right to pledge or sell the assets transferred or, if the purchaser is an entity whose sole purpose is to engage in securitization and asset-backed financing activities through the issuance of beneficial interests and that entity is constrained from pledging the assets it receives, each beneficial interest holder must have the right to sell or pledge their beneficial interests; and (iii) the Company may not have an option or obligation to reacquire the assets.

If these sale requirements are met, the assets are removed from the Company's Consolidated Balance Sheet. If the conditions for sale are not met, the transfer is considered to be a secured borrowing, the assets remain on the Consolidated Balance Sheet and the sale proceeds are recognized as the Company's liability. A legal opinion on a sale generally is obtained for complex transactions or where the Company has continuing involvement with assets transferred or with the securitization entity. For a transfer to be eligible for sale accounting, those opinions must state that the asset transfer would be considered a sale and that the assets transferred would not be consolidated with the Company's other assets in the event of the Company's insolvency.

For a transfer of a portion of a financial asset to be considered a sale, the portion transferred must meet the definition of a participating interest. A participating interest must represent a pro rata ownership in an entire financial asset; all cash flows must be divided proportionately, with the same priority of payment; no participating interest in the transferred asset may be subordinated to the interest of another participating interest holder; and no party may have the right to pledge or exchange the entire financial asset unless all participating interest holders agree. Otherwise, the transfer is accounted for as a secured borrowing.

See Note 22 to the Consolidated Financial Statements for further discussion.

Risk Management Activities—Derivatives Used for Hedging Purposes

The Company manages its exposures to market rate movements outside its trading activities by modifying the asset and liability mix, either directly or through the use of derivative financial products, including interest-rate swaps, futures, forwards, and purchased options, as well as foreign-exchange contracts. These end-user derivatives are carried at fair value in *Other assets, Other liabilities, Trading account assets* and *Trading account liabilities*.

To qualify as an accounting hedge under the hedge accounting rules (versus an economic hedge where hedge accounting is not sought), a derivative must be highly effective in offsetting the risk designated as being hedged. The hedge relationship must be formally documented at inception, detailing the particular risk management objective and strategy for the hedge. This includes the item and risk being hedged, the derivative being used and how effectiveness will be assessed and ineffectiveness measured. The effectiveness of these hedging relationships is evaluated both on a retrospective and prospective basis, typically using quantitative measures of correlation with hedge ineffectiveness measured and recorded in current earnings.

If a hedge relationship is not highly effective, it no longer qualifies as an accounting hedge and hedge accounting may not be applied. Any gains or losses attributable to the derivatives, as well as subsequent changes in fair value, are recognized in *Other revenue* or *Principal transactions* with no offset to the hedged item, similar to trading derivatives.

The foregoing criteria are applied on a decentralized basis, consistent with the level at which market risk is managed, but are subject to various limits and controls. The underlying asset, liability or forecasted transaction may be an individual item or a portfolio of similar items.

For fair value hedges, in which derivatives hedge the fair value of assets or liabilities, changes in the fair value of derivatives are reflected in *Other revenue*, together with changes in the fair value of the hedged item related to the hedged risk. These amounts are expected to, and generally do, offset each other. Any net amount, representing hedge ineffectiveness, is reflected in current earnings. Citigroup's fair value hedges are primarily hedges of fixed-rate long-term debt and available-for-sale securities.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating- and fixed-rate assets, liabilities or forecasted transactions, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, the effective portion of the changes in the derivatives' fair values will not be included in current earnings, but is reported in *Accumulated other comprehensive income (loss)*. These changes in fair value will be included in earnings of future periods when the hedged cash flows impact earnings. To the extent these derivatives are not effective, changes in their fair values are immediately included in *Other revenue*. Citigroup's cash flow hedges primarily include hedges of floating-rate debt and floating-rate assets, including loans and securities purchased under agreement to resell, as well as rollovers of short-term fixed-rate liabilities and floating-rate liabilities and forecasted debt issuances.

For net investment hedges in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the accounting treatment will similarly depend on the effectiveness of the hedge. The effective portion of the change in fair value of the derivative, including any forward premium or discount, is reflected in *Accumulated other comprehensive income (loss)* as part of the foreign currency translation adjustment.

For those accounting hedge relationships that are terminated or when hedge designations are removed, the hedge accounting treatment described in the paragraphs above is no longer applied. Instead, the end-user derivative is terminated or transferred to the trading account.

For fair value hedges, any changes in the fair value of the hedged item remain as part of the basis of the asset or liability and are ultimately reflected as an element of the yield. For cash flow hedges, any changes in fair value of the end-user derivative remain in *Accumulated other comprehensive income (loss)* and are included in earnings of future periods when the hedged cash flows impact earnings. However, if it becomes probable that some or all of the hedged forecasted transactions will not occur, any amounts that remain in *Accumulated other comprehensive income (loss)* related to these transactions are immediately reflected in *Other revenue*.

End-user derivatives that are economic hedges, rather than qualifying for hedge accounting, are also carried at fair value, with changes in value included in *Principal transactions* or *Other revenue*. Citigroup often uses economic hedges when qualifying for hedge accounting would be too complex or operationally burdensome. Examples are hedges of the credit risk component of commercial loans and loan commitments. Citigroup periodically evaluates its hedging strategies in other areas and may designate either a qualifying hedge or an economic hedge, after considering the relative cost and benefits. Economic hedges are also employed when the hedged item itself is marked to market through current earnings, such as hedges of commitments to originate one-to-four-family mortgage loans to be held for sale and MSRs. See Note 23 to the Consolidated Financial Statements for a further discussion of the Company's hedging and derivative activities.

Employee Benefits Expense

Employee benefits expense includes current service costs of pension and other postretirement benefit plans (which are accrued on a current basis), contributions and unrestricted awards under other employee plans, the amortization of restricted stock awards and costs of other employee benefits.

For its most significant pension and postretirement benefit plans (Significant Plans), the Company measures and discloses plan obligations, plan assets and periodic plan expense quarterly, instead of annually. The effect of remeasuring the Significant Plan obligations and assets by updating plan actuarial assumptions on a quarterly basis is reflected in *Accumulated other comprehensive income (loss)* and periodic plan expense. All other plans (All Other Plans) are remeasured annually. See Note 8 to the Consolidated Financial Statements.

Stock-Based Compensation

The Company recognizes compensation expense related to stock and option awards over the requisite service period, generally based on the instruments' grant-date fair value, reduced by expected forfeitures. Compensation cost related to awards granted to employees who meet certain age plus years-of-service requirements (retirement-eligible employees) is accrued in the year prior to the grant date, in the same manner as the accrual for cash incentive compensation. Certain stock awards with performance conditions or certain clawback provisions are subject to variable accounting, pursuant to which the associated compensation expense fluctuates with changes in Citigroup's stock price. See Note 7 to the Consolidated Financial Statements.

Income Taxes

The Company is subject to the income tax laws of the U.S. and its states and municipalities, and the foreign jurisdictions in which it operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. The Company must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions, both domestic and foreign.

Disputes over interpretations of the tax laws may be subject to review and adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit. The Company treats interest and penalties on income taxes as a component of *Income tax expense*.

Deferred taxes are recorded for the future consequences of events that have been recognized for financial statements or tax returns, based upon enacted tax laws and rates.

Deferred tax assets are recognized subject to management's judgment that realization is more-likely-than-not. FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) (now incorporated into ASC 740, *Income Taxes)*, sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized. ASC 740 also sets out disclosure requirements to enhance transparency of an entity's tax reserves.

See Note 9 to the Consolidated Financial Statements for a further description of the Company's tax provision and related income tax assets and liabilities.

Commissions, Underwriting and Principal Transactions

Commissions revenues are recognized in income when earned. Underwriting revenues are recognized in income typically at the closing of the transaction. Principal transactions revenues are recognized in income on a trade-date basis. See Note 5 to the Consolidated Financial Statements for a description of the Company's revenue recognition policies for commissions and fees, and Note 6 to the Consolidated Financial Statements for details of principal transactions revenue.

Earnings per Share

Earnings per share (EPS) is computed after deducting preferred stock dividends. The Company has granted restricted and deferred share awards with dividend rights that are considered to be participating securities, which are akin to a second class of common stock. Accordingly, a portion of Citigroup's earnings is allocated to those participating securities in the EPS calculation.

Basic earnings per share is computed by dividing income available to common stockholders after the allocation of dividends and undistributed earnings to the participating securities by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. It is computed after giving consideration to the weighted average dilutive effect of the Company's stock options and warrants and convertible securities and after the allocation of earnings to the participating securities.

Use of Estimates

Management must make estimates and assumptions that affect the Consolidated Financial Statements and the related footnote disclosures. Such estimates are used in connection with certain fair value measurements. See Note 25 to the Consolidated Financial Statements for further discussions on estimates used in the determination of fair value. Moreover, estimates are significant in determining the amounts of other-than-temporary impairments, impairments of goodwill and other intangible assets, provisions for probable losses that may arise from credit-related exposures and probable and estimable losses related to litigation and regulatory proceedings, and tax reserves. While management makes its best judgment, actual amounts or results could differ from those estimates. Current market conditions increase the risk and complexity of the judgments in these estimates.

Cash Flows

Cash equivalents are defined as those amounts included in C *ash and due from banks*. Cash flows from risk management activities are classified in the same category as the related assets and liabilities.

Related Party Transactions

The Company has related party transactions with certain of its subsidiaries and affiliates. These transactions, which are primarily short-term in nature, include cash accounts, collateralized financing transactions, margin accounts, derivative trading, charges for operational support and the borrowing and lending of funds, and are entered into in the ordinary course of business.

ACCOUNTING CHANGES

Accounting for Share-Based Payments with Performance Targets

In June 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (a consensus of the FASB Emerging Issues Task Force). The ASU prescribes the accounting to be applied to share-based awards that contain performance targets, the outcome of which will only be confirmed after the employee's service period associated with the award has ended. Citi elected to adopt this ASU from the third quarter of 2014. The impact of adopting the ASU was not material.

Discontinued Operations and Significant Disposals

The FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 810) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08) in April 2014. ASU 2014-08 changes the criteria for reporting discontinued operations while enhancing disclosures. Under the ASU, only disposals representing a strategic shift having a major effect on an entity's operations and financial results, such as a disposal of a major geographic area, a major line of business or a major equity method investment, may be presented as discontinued operations. Additionally, the ASU requires expanded disclosures about discontinued operations that will provide more information about the assets, liabilities, income and expenses of discontinued operations.

The Company early-adopted the ASU in the second quarter of 2014 on a prospective basis for all disposals (or classifications as held-for-sale) of components of an entity that occurred on or after April 1, 2014. As a result of the adoption of the ASU, fewer disposals will now qualify for reporting as discontinued operations; however, disclosure of the pretax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting is required. The impact of adopting the ASU was not material.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Foreign Subsidiaries

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)*. This ASU clarifies the accounting for the cumulative translation adjustment (CTA) when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The ASU requires the CTA to remain in equity until the foreign entity is disposed of or it is completely or substantially liquidated.

This ASU became effective for Citi on January 1, 2014 and was applied on a prospective basis. The accounting prescribed in this ASU is consistent with Citi's prior practice and, as a result, adoption did not result in any impact to Citi.

OCC Chapter 7 Bankruptcy Guidance

In the third quarter of 2012, the Office of the Comptroller of the Currency (OCC) issued guidance relating to the accounting for mortgage loans discharged through bankruptcy proceedings pursuant to Chapter 7 of the U.S. Bankruptcy Code (Chapter 7 bankruptcy). Under this OCC guidance, the discharged loans are accounted for as troubled debt restructurings (TDRs). These TDRs, other than FHA-insured loans, are written down to their collateral value less cost to sell. FHA-insured loans are reserved for, based on a discounted cash flow model. As a result of implementing this guidance, Citigroup recorded an incremental $635 million of charge-offs in the third quarter of 2012, the vast majority of which related to loans that were current. These charge-offs were substantially offset by a related loan loss reserve release of approximately $600 million, with a net reduction in pretax income of $35 million. In the fourth quarter of 2012, Citigroup recorded a benefit to charge-offs of approximately $40 million related to finalizing the impact of this OCC guidance. Furthermore, as a result of this OCC guidance, TDRs increased by $1.7 billion and non-accrual loans increased by $1.5 billion in the third quarter of 2012 ($1.3 billion of which was current).

Fair Value Measurement

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The ASU created a common definition of fair value for GAAP and IFRS and aligned the measurement and disclosure requirements. It required significant additional disclosures both of a qualitative and quantitative nature, particularly for those instruments measured at fair value that are classified in Level 3 of the fair value hierarchy. Additionally, the ASU provided guidance on when it is appropriate to measure fair value on a portfolio basis and expanded the prohibition on valuation adjustments where the size of the Company's position is a characteristic of the adjustment from Level 1 to all levels of the fair value hierarchy.

The ASU became effective for Citigroup on January 1, 2012. As a result of implementing the prohibition on valuation adjustments where the size of the Company's position is a characteristic, the Company released reserves of approximately $125 million, increasing pretax income in the first quarter of 2012.

Deferred Asset Acquisition Costs

In October 2010, the FASB issued ASU No. 2010-26, *Financial Services-Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. The ASU amended the guidance for insurance entities that required deferral and subsequent amortization of certain costs incurred during the acquisition of new or renewed insurance contracts, commonly referred to as deferred acquisition costs (DAC). The new guidance limited DAC to those costs directly related to the successful acquisition of insurance contracts; all other acquisition-related costs must be expensed as incurred. Under prior guidance, DAC consisted of those costs that vary with, and primarily relate to, the acquisition of insurance contracts.

The ASU became effective for Citigroup on January 1, 2012 and was adopted using the retrospective method. As a result of implementing the ASU, in the first quarter of 2012, DAC was reduced by approximately $165 million and a $58 million deferred tax asset was recorded with an offset to opening retained earnings of $107 million (net of tax).

Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

In August 2014, the FASB issued ASU No. 2014-14, *Receivables-Troubled Debt Restructuring by Creditors (Subtopic 310–40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*, which requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met: (i) the loan has a government guarantee that is not separable from the loan before foreclosure; (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable is measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor.

Citi early adopted the ASU on a modified retrospective basis in the fourth quarter of 2014, which resulted in reclassifying approximately $130 million of foreclosed assets from Other Real Estate Owned to a separate other receivable that is included in *Other assets*. Given the modified retrospective approach to adoption, prior periods have not been restated.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

Accounting for Investments in Tax Credit Partnerships

In January 2014, the FASB issued ASU 2014-01, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. Any transition adjustment is reflected as an adjustment to retained earnings in the earliest period presented (retrospective application).

The ASU is applicable to Citi's portfolio of low income housing tax credit (LIHTC) partnership interests. The new standard widens the scope of investments eligible to elect to apply a new alternative method, the proportional amortization method, under which the cost of the investment is amortized to tax expense in proportion to the amount of tax credits and other tax benefits received. Citi qualifies to elect the proportional amortization method under the ASU for its entire LIHTC portfolio. These investments are currently accounted for under the equity method, which results in losses (due to amortization of the investment) being recognized in *Other revenue* and tax credits and benefits being recognized in the *Income tax expense* line. In contrast, the proportional amortization method combines the amortization of the investment and receipt of the tax credits/benefits into one line, *Income tax expense*.

Citi adopted ASU 2014-01 in the first quarter of 2015.

The adoption of this ASU will reduce *Retained earnings* by approximately $349 million, *Other assets* by approximately $178 million, and deferred tax assets by approximately $171 million, each in the first quarter of 2015.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

Accounting for Repurchase-to-Maturity Transactions

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* The ASU changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowed accounting, which is consistent with the accounting for other repurchase agreements. The ASU also requires disclosures about transfers accounted for as sales in transactions that are economically similar to repurchase agreements and about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The ASU's provisions became effective for Citi from the first quarter of 2015, with the exception of the collateral disclosures which will be effective from the second quarter of 2015. The effect of adopting the ASU is required to be reflected as a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. Adoption of the ASU did not have a material effect on the Company's financial statements.

Measuring the Financial Assets and Liabilities of a Consolidated Collateralized Financial Entity

In August 2014, the FASB issued ASU No. 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*, which provides two alternative methods for measuring the fair value of a consolidated Collateralized Financing Entity's (CFE) financial assets and financial liabilities. This election is made separately for each CFE subject to the scope of the ASU. The first method requires the fair value of the financial assets and liabilities to be measured using the requirements of ASC Topic 820, *Fair Value Measurements and Disclosures*, with any differences between the fair value of the financial assets and financial liabilities being attributed to the CFE and reflected in earnings in the consolidated statement of income. The alternative method requires measuring both the financial assets and financial liabilities using the more observable of the fair value of the assets or liabilities. The alternative method would also take into consideration the carrying value of any beneficial interests of the CFE held by the parent, including those representing compensation for services, and the carrying value of any nonfinancial assets held temporarily. The ASU will be effective for Citi from the first quarter of 2016 and is not expected to have a material effect on the Company.

Accounting for Derivatives: Hybrid Financial Instruments

In November 2014, the FASB issued ASU No. 2014–16, Derivatives and Hedging (Topic 815): *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*. The ASU will require an entity to evaluate the economic characteristics and risks of an entire hybrid financial instrument issued in the form of a share (including the embedded derivative feature) in order to determine whether the nature of the host contract is more akin to debt or equity. Additionally, the ASU clarifies that no single term or feature would necessarily determine the economic characteristics and risks of the host contract; therefore, an entity should use judgment based on an evaluation of all the relevant terms and features.

This ASU is effective for Citi from the first quarter of 2016 with early adoption permitted. Citi may choose to report the effects of initial adoption as a cumulative-effect adjustment to retained earnings as of January 1, 2016 or apply the guidance retrospectively to all prior periods. The impact of adopting this ASU is not expected to be material to Citi.

Accounting for Financial Instruments-Credit Losses

In December 2012, the FASB issued a proposed ASU, *Financial Instruments-Credit Losses.* This proposed ASU, or exposure draft, was issued for public comment in order to allow stakeholders the opportunity to review the proposal and provide comments to the FASB and does not constitute accounting guidance until a final ASU is issued.

The exposure draft contains proposed guidance developed by the FASB with the goal of improving financial reporting about expected credit losses on loans, securities and other financial assets held by financial institutions and other organizations. The exposure draft proposes a new accounting model intended to require earlier recognition of credit losses, while also providing additional transparency about credit risk.

The FASB's proposed model would utilize an "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired and adjusted each period for changes in expected credit losses. For available-for-sale securities where fair value is less than cost, impairment would be recognized in the allowance for credit losses and adjusted each period for changes in credit. This would replace the multiple existing impairment models in GAAP, which generally require that a loss be "incurred" before it is recognized.

The FASB's proposed model represents a significant departure from existing GAAP, and may result in material changes to the Company's accounting for financial instruments. The impact of the FASB's final ASU on the Company's financial statements will be assessed when it is issued. The exposure draft does not contain a proposed effective date; this would be included in the final ASU, when issued.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which is intended to improve certain areas of consolidation guidance for legal entities such as limited partnerships, limited liability companies, and securitization structures. The ASU will reduce the number of consolidation models. The ASU will be effective on January 1, 2016. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the effect that ASU 2015-02 will have on its Consolidated Financial Statements.

BASIS OF PRESENTATION

1.27 PEPSICO, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Basis of Presentation and Our Divisions

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. GAAP and include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates using the equity method based on our economic ownership interest, our ability to exercise significant influence over the operating or financial decisions of these affiliates or our ability to direct their economic resources. We do not control these other affiliates, as our ownership in these other affiliates is generally 50% or less. Intercompany balances and transactions are eliminated. Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years.

The results of our Venezuelan businesses have been reported under highly inflationary accounting since the beginning of 2010. See further unaudited information in "Our Business Risks," "Items Affecting Comparability" and "Our Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Estimates are used in determining, among other items, sales incentives accruals, tax reserves, stock-based compensation, pension and retiree medical accruals, amounts and useful lives for intangible assets, and future cash flows associated with impairment testing for perpetual brands, goodwill and other long-lived assets. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effect cannot be determined with precision, actual results could differ significantly from these estimates.

While our United States and Canada (North America) results are reported on a weekly calendar basis, most of our international operations report on a monthly calendar basis. The following chart details our quarterly reporting schedule for all reporting periods presented:

Quarter	U.S. and Canada	International
First Quarter	12 weeks	January, February
Second Quarter	12 weeks	March, April and May
Third Quarter	12 weeks	June, July and August
Fourth Quarter	16 weeks	September, October, November and December

See "Our Divisions" below, and for additional unaudited information on items affecting the comparability of our consolidated results, see further unaudited information in "Items Affecting Comparability" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to prior years' amounts to conform to the current year presentation.

Our Divisions

Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, sell and distribute a wide variety of convenient and enjoyable foods and beverages, serving customers and consumers in more than 200 countries and territories with our largest operations in North America, Russia, Mexico, the United Kingdom and Brazil. Division results are based on how our Chief Executive Officer assesses the performance of and allocates resources to our divisions. For additional unaudited information on our divisions, see "Our Operations" contained in "Item 1. Business." The accounting policies for the divisions are the same as those described in Note 2, except for the following allocation methodologies:

- stock-based compensation expense;
- pension and retiree medical expense; and
- derivatives.

Stock-Based Compensation Expense

Our divisions are held accountable for stock-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost. The allocation of stock-based compensation expense in 2014 was approximately 15% to FLNA, 2% to QFNA, 6% to LAF, 24% to PAB, 13% to Europe, 10% to AMEA and 30% to corporate unallocated expenses. We had similar allocations of stock-based compensation expense to our divisions in 2013 and 2012. The expense allocated to our divisions excludes any impact of changes in our assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

Pension and Retiree Medical Expense

Pension and retiree medical service costs measured at a fixed discount rate, as well as amortization of costs related to certain pension plan amendments and gains and losses due to demographics (including mortality assumptions and salary experience) are reflected in division results for North American employees. Division results also include interest costs, measured at a fixed discount rate, for retiree medical plans. Interest costs for the pension plans, pension asset returns and the impact of pension funding, and gains and losses other than those due to demographics, are all reflected in corporate unallocated expenses. In addition, corporate unallocated expenses include the difference between the service costs measured at a fixed discount rate (included in division results as noted above) and the total service costs determined using the plans' discount rates as disclosed in Note 7 to our consolidated financial statements.

Derivatives

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include agricultural products, energy and metals. Commodity derivatives that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses, as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses. These derivatives hedge underlying commodity price risk and were not entered into for trading or speculative purposes.

Net revenue and operating profit of each division are as follows:

	Net Revenue			**Operating Profit** [(a)]		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
FLNA	$14,502	$14,126	$13,574	$ 4,054	$ 3,877	$ 3,646
QFNA	2,568	2,612	2,636	621	617	695
LAF	8,442	8,350	7,780	1,211	1,242	1,059
PAB	21,154	21,068	21,408	2,846	2,955	2,937
Europe	13,290	13,752	13,441	1,331	1,293	1,330
AMEA	6,727	6,507	6,653	1,043	1,174	747
Total division	66,683	66,415	65,492	11,106	11,158	10,414
Corporate Unallocated						
Mark-to-market net (losses)/gains				(68)	(72)	65
Restructuring and impairment charges				(41)	(11)	(10)
Pension lump sum settlement charges				(141)	—	(195)
Venezuela remeasurement charges				(126)	(124)	—
Other				(1,149)	(1,246)	(1,162)
	$66,683	$66,415	$65,492	$ 9,581	$ 9,705	$ 9,112

[(a)] For information on the impact of restructuring and impairment charges on our divisions, see Note 3 to our consolidated financial statements. See also Note 15 to our consolidated financial statements for more information on our transaction with Tingyi and refranchising of our beverage business in Vietnam in our AMEA segment.

Corporate

Corporate unallocated includes costs of our corporate headquarters, centrally managed initiatives such as research and development projects, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, commodity derivative gains and losses, our ongoing business transformation initiatives and certain other items.

Other Division Information

Total assets and capital spending of each division are as follows:

	Total Assets		Capital Spending		
	2014	2013	2014	2013	2012
FLNA	$ 5,307	$ 5,308	$ 519	$ 423	$ 365
QFNA	982	983	58	38	37
LAF	4,760	4,829	368	384	436
PAB	30,188	30,350	719	716	702
Europe[a]	13,902	18,702	502	550	575
AMEA	5,887	5,754	517	531	510
Total division	61,026	65,926	2,683	2,642	2,625
Corporate[b]	9,483	11,552	176	153	89
	$70,509	$77,478	$2,859	$2,795	$2,714

[a] The change in total assets in 2014 primarily reflects the depreciation of the Russian ruble.

[b] Corporate assets consist principally of cash and cash equivalents, short-term investments, derivative instruments, property, plant and equipment and certain pension and tax assets. In 2014, the change in total Corporate assets was primarily due to the decrease in cash and cash equivalents and certain pension assets, partially offset by an increase in short-term investments.

Amortization of intangible assets and depreciation and other amortization of each division are as follows:

	Amortization of Intangible Assets			Depreciation and Other Amortization		
	2014	2013	2012	2014	2013	2012
FLNA	$ 7	$ 7	$ 7	$ 424	$ 430	$ 445
QFNA	—	—	—	51	51	53
LAF	8	8	10	254	253	248
PAB	45	58	59	856	863	855
Europe	28	32	36	471	525	522
AMEA	4	5	7	313	283	305
Total division	92	110	119	2,369	2,405	2,428
Corporate	—	—	—	164	148	142
	$92	$110	$119	$2,533	$2,553	$2,570

Net revenue and long-lived assets by country are as follows:

	Net Revenue			Long-Lived Assets[a]	
	2014	2013	2012	2014	2013
U.S.	$34,219	$33,626	$33,348	$27,964	$28,157
Russia[b]	4,414	4,908	4,861	4,520	7,922
Mexico	4,113	4,347	3,955	1,126	1,233
Canada	3,022	3,195	3,290	2,815	3,067
United Kingdom	2,174	2,115	2,102	1,155	1,219
Brazil	1,790	1,835	1,866	928	1,005
All other countries	16,951	16,389	16,070	10,478	11,247
	$66,683	$66,415	$65,492	$48,986	$53,850

[a] Long-lived assets represent property, plant and equipment, nonamortizable intangible assets, amortizable intangible assets and investments in noncontrolled affiliates. These assets are reported in the country where they are primarily used.

[b] Change in long-lived assets in 2014 primarily reflects the depreciation of the Russian ruble.

USE OF ESTIMATES

1.28 CAMPBELL SOUP COMPANY (JUL)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in part)

SIGNIFICANT ACCOUNTING ESTIMATES

The consolidated financial statements of the company are prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates and assumptions. See Note 1 to the Consolidated Financial Statements for a discussion of significant accounting policies. The following areas all require the use of subjective or complex judgments, estimates and assumptions:

Trade and consumer promotion programs—The company offers various sales incentive programs to customers and consumers, such as feature price discounts, in-store display incentives, cooperative advertising programs, new product introduction fees, and coupons. The mix between promotion programs, which are classified as reductions in revenue, and advertising or other marketing activities, which are classified as marketing and selling expenses, fluctuates between periods based on the company's overall marketing plans, and such fluctuations have an impact on revenues. The measurement and recognition of the costs for trade and consumer promotion programs involves the use of judgment related to performance and redemption estimates. Estimates are made based on historical experience and other factors. Typically, programs that are offered have a very short duration. Historically, the difference between actual experience compared to estimated redemptions and performance has not been significant to the quarterly or annual financial statements. However, actual expenses may differ if the level of redemption rates and performance were to vary from estimates.

Valuation of long-lived assets—Fixed assets and amortizable intangible assets are reviewed for impairment as events or changes in circumstances occur indicating that the carrying value of the asset may not be recoverable. Undiscounted cash flow analyses are used to determine if impairment exists. If impairment is determined to exist, the loss is calculated based on estimated fair value.

Goodwill and intangible assets deemed to have indefinite lives are not amortized but rather are tested at least annually for impairment, or more often if events or changes in circumstances indicate that more likely than not the carrying amount of the asset may not be recoverable. Goodwill is tested for impairment at the reporting unit level. A reporting unit represents an operating segment or a component of an operating segment. Goodwill is tested for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. The company may elect not to perform the qualitative assessment for some or all reporting units and perform a two-step quantitative impairment test. Fair value is determined based on discounted cash flow analyses. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. If the carrying value of the reporting unit exceeds fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of the goodwill and the "implied" fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

Indefinite-lived intangible assets are tested for impairment by comparing the fair value of the asset to the carrying value. Fair value is determined based on discounted cash flow analyses that include significant management assumptions such as revenue growth rates, weighted average cost of capital, and assumed royalty rates. If the fair value is less than the carrying value, the asset is reduced to fair value.

As of August 3, 2014, the carrying value of goodwill was $2,433 million. As of August 3, 2014, goodwill related to the acquisitions in 2013 and 2014 was as follows: Bolthouse Farms—$692 million, Plum—$128 million and Kelsen—$140 million. As of the 2014 measurement, the estimated fair value of each reporting unit significantly exceeded the carrying value, excluding the 2013 and 2014 acquisitions. Holding all other assumptions used in the 2014 fair value measurement constant, a 100-basis-point increase in the weighted average cost of capital would not result in the carrying value of any reporting unit, excluding the 2013 and 2014 acquisitions, to be in excess of the fair value. Within the acquisitions, the fair value exceeded the carrying value of reporting units by at least 4% and as a result, holding all other assumptions used in the 2014 fair value measurement constant, a 100-basis-point increase in the weighted average cost of capital would result in the carrying value to be in excess of the fair value. The fair value was based on significant management assumptions. If assumptions are not achieved or market conditions decline, potential impairment charges could result.

As of August 3, 2014, the carrying value of indefinite-lived trademarks was $957 million. As of August 3, 2014, trademarks related to the acquisitions in 2013 and 2014 were as follows: Bolthouse Farms—$383 million, Plum—$115 million and Kelsen—$147 million. Holding all other assumptions used in the 2014 measurement constant, a 100-basis-point increase in the weighted average cost of capital would reduce the fair value of trademarks, and result in an impairment charge of approximately $25 million.

In the fourth quarter of 2013, as part of the company's annual review of intangible assets, an impairment charge of $360 million was recorded on goodwill and $36 million on trademarks for the simple meals business in Europe. The impairment was attributable to a combination of factors, including the existence of a firm offer to purchase the business; a revised future outlook for the business, with reduced expectations for future sales and discounted cash flows, given the economic uncertainty in the region; future investments required to maintain performance; and management's assumptions on the weighted average cost of capital. On August 12, 2013, the company announced that it was in final and exclusive negotiations for the potential sale of this business. The company has reflected the results of the business as discontinued operations in the Consolidated Statements of Earnings for all years presented. The business was historically included in the International Simple Meals and Beverages segment. The assets and liabilities have been reflected in assets and liabilities held for sale in the Consolidated Balance Sheet as of July 28, 2013. On October 28, 2013, the company completed the sale of its European simple meals business. See Note 4 to the Consolidated Financial Statements for additional information on discontinued operations.

In 2012, as part of the company's annual review of intangible assets, an impairment charge of $3 million was recognized related to a trademark used in the European simple meals business, formerly included in the International Simple Meals and Beverages segment. The trademark was determined to be impaired as a result of a decrease in the fair value of the brand, resulting from reduced expectations for future sales and discounted cash flows in comparison to the prior year.

The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance, economic conditions, market conditions, and cost of capital. Inherent in estimating the future cash flows are uncertainties beyond the company's control, such as capital markets. The actual cash flows could differ materially from management's estimates due to changes in business conditions, operating performance, and economic conditions.

See also Note 6 to the Consolidated Financial Statements for additional information on goodwill and intangible assets.

Pension and postretirement benefits—The company provides certain pension and postretirement benefits to employees and retirees. Determining the cost associated with such benefits is dependent on various actuarial assumptions, including discount rates, expected return on plan assets, compensation increases, turnover rates and health care trend rates. Independent actuaries, in accordance with accounting principles generally accepted in the United States, perform the required calculations to determine expense. Actual results that differ from the actuarial assumptions are generally accumulated and amortized over future periods.

The discount rate is established as of the company's fiscal year-end measurement date. In establishing the discount rate, the company reviews published market indices of high-quality debt securities, adjusted as appropriate for duration. In addition, independent actuaries apply high-quality bond yield curves to the expected benefit payments of the plans. The expected return on plan assets is a long-term assumption based upon historical experience and expected future performance, considering the company's current and projected investment mix. This estimate is based on an estimate of future inflation, long-term projected real returns for each asset class, and a premium for active management. Within any given fiscal period, significant differences may arise between the actual return and the expected return on plan assets. The value of plan assets, used in the calculation of pension expense, is determined on a calculated method that recognizes 20% of the difference between the actual fair value of assets and the expected calculated method. Gains and losses resulting from differences between actual experience and the assumptions are determined at each measurement date. If the net gain or loss exceeds 10% of the greater of plan assets or liabilities, a portion is amortized into earnings in the following year.

Net periodic pension and postretirement expense was $109 million in 2014, $130 million in 2013 and $102 million in 2012.

Significant weighted-average assumptions as of the end of the year were as follows:

	2014	2013	2012
Pension			
Discount rate for benefit obligations	4.33%	4.82%	4.05%
Expected return on plan assets	7.62%	7.62%	7.65%
Postretirement			
Discount rate for obligations	4.00%	4.50%	3.75%
Initial health care trend rate	8.25%	8.25%	8.25%
Ultimate health care trend rate	4.50%	4.50%	4.50%

Estimated sensitivities to annual net periodic pension cost are as follows: a 50-basis-point reduction in the discount rate would increase expense by approximately $12 million; a 50-basis-point reduction in the estimated return on assets assumption would increase expense by approximately $12 million. A one-percentage-point increase in assumed health care costs would increase postretirement service and interest cost by approximately $1 million.

Net periodic pension and postretirement expense is expected to decrease to approximately $75 million in 2015. The reduction is primarily due to pension settlement charges of $22 million recognized in 2014 associated with a U.S. pension plan. The settlements resulted from the level of lump sum distributions from the plan's assets in 2014, primarily due to the closure of the facility in Sacramento, California.

The company contributed $35 million, $75 million and $55 million, respectively, to U.S. pension plans in 2014, 2013 and 2012. Contributions to non-U.S. plans were $12 million in 2014 and 2013, and $16 million in 2012. The company does not expect to contribute to the U.S. pension plans in 2015. Contributions to non-U.S. plans are expected to be approximately $6 million in 2015.

See also Note 11 to the Consolidated Financial Statements for additional information on pension and postretirement expenses.

Income taxes—The effective tax rate reflects statutory tax rates, tax planning opportunities available in the various jurisdictions in which the company operates and management's estimate of the ultimate outcome of various tax audits and issues. Significant judgment is required in determining the effective tax rate and in evaluating tax positions. Income taxes are recorded based on amounts refundable or payable in the current year and include the effect of deferred taxes. Deferred tax assets and liabilities are recognized for the future impact of differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. Valuation allowances are established for deferred tax assets when it is more likely than not that a tax benefit will not be realized.

See also Notes 1 and 12 to the Consolidated Financial Statements for further discussion on income taxes.

VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

1.29 GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

v. Concentrations

Dependence upon government programs and contracts

Sales to the U.S. government and its agencies, including sales to the Company's significant customers discussed below, were as follows (dollars in millions):

	U.S. Government Sales	Percentage of Net Sales
Fiscal 2014	$1,473.8	92%
Fiscal 2013	1,311.0	95%
Fiscal 2012	936.9	94%

The Standard Missile program, which is included in the U.S. government sales, represented 12%, 22%, and 25% of net sales for fiscal 2014, 2013, and 2012, respectively. The Theater High Altitude Area Defense ("THAAD") program, which is included in the U.S. government sales, represented 12%, 4%, and 5% of net sales for fiscal 2014, 2013, and 2012, respectively. The demand for certain of the Company's services and products is directly related to the level of funding of government programs.

Major customers

Customers that represented more than 10% of net sales for the fiscal years presented are as follows:

	Year Ended		
	2014	2013	2012
Lockheed Martin Corporation ("Lockheed Martin")	28%	23%	32%
United Launch Alliance ("ULA")	25	18	*
Raytheon Company ("Raytheon")	17	32	37
NASA	11	*	*

* Less than 10%.

Credit Risk

Aside from investments held in the Company's defined benefit pension plan, financial instruments that could potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, and trade receivables. The Company's cash and cash equivalents are held and managed by recognized financial institutions and are subject to the Company's investment policy. The investment policy outlines minimum acceptable credit ratings for each type of investment and limits the amount of credit exposure to any one security issue. The Company does not believe significant concentration of credit risk exists with respect to these investments.

Customers that represented more than 10% of accounts receivable for the periods presented are as follows:

	As of November 30,	
	2014	2013
ULA	31%	18%
Raytheon	22	20
Lockheed Martin	21	19
Boeing	12	*
NASA	*	22%

* Less than 10%.

Dependence on Single Source and Other Third Party Suppliers

The Company uses a significant quantity of raw materials that are highly dependent on market fluctuations and government regulations. Further, as a U.S. government contractor, the Company is often required to procure materials from suppliers capable of meeting rigorous customer and government specifications. As market conditions change for these companies, they often discontinue materials with low sales volumes or profit margins. The Company is often forced to either qualify new materials or pay higher prices to maintain the supply. To-date the Company has been successful in establishing replacement materials and securing customer funding to address specific qualification needs of the programs. Prolonged disruptions in the supply of any of the Company's key raw materials, difficulty qualifying new sources of supply, implementing use of replacement materials or new sources of supply, and/or a continuing volatility in the prices of raw materials could have a material adverse effect on the Company's operating results, financial condition, and/or cash flows.

Workforce

As of November 30, 2014, 14% of the Company's 5,071 employees were covered by collective bargaining agreements.

1.30 MERCK & CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in millions except per share amounts)

5. Financial Instruments (in part)

Concentrations of Credit Risk

On an ongoing basis, the Company monitors concentrations of credit risk associated with corporate and government issuers of securities and financial institutions with which it conducts business. Credit exposure limits are established to limit a concentration with any single issuer or institution. Cash and investments are placed in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines.

The majority of the Company's accounts receivable arise from product sales in the United States and Europe and are primarily due from drug wholesalers and retailers, hospitals, government agencies, managed health care providers and pharmacy benefit managers. The Company monitors the financial performance and creditworthiness of its customers so that it can properly assess and respond to changes in their credit profile. The Company also continues to monitor economic conditions, including the volatility associated with international sovereign economies, and associated impacts on the financial markets and its business, taking into consideration global economic conditions and the ongoing sovereign debt issues in certain European countries. The Company continues to monitor the credit and economic conditions within Greece, Italy, Spain and Portugal, among other members of the EU. These economic conditions, as well as inherent variability of timing of cash receipts, have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect accounts receivable outstanding. As such, time value of money discounts have been recorded for those customers for which collection of accounts receivable is expected to be in excess of one year. At December 31, 2014 and 2013, *Other assets* included $80 million and $275 million, respectively, of accounts receivable not expected to be collected within one year. The Company does not expect to have write-offs or adjustments to accounts receivable which would have a material adverse effect on its financial position, liquidity or results of operations.

As of December 31, 2014, the Company's accounts receivable in Greece, Italy, Spain and Portugal totaled approximately $600 million. Of this amount, hospital and public sector receivables were approximately $330 million in the aggregate, of which approximately 14%, 27%, 46% and 13% related to Greece, Italy, Spain and Portugal, respectively. As of December 31, 2014, the Company's total net accounts receivable outstanding for more than one year were approximately $100 million, of which approximately 31% related to accounts receivable in Greece, Italy, Spain and Portugal, mostly comprised of hospital and public sector receivables.

During 2014, the Company completed non-recourse factorings in Spain of approximately $100 million and in Italy of approximately $100 million of hospital and public sector receivables. During 2013, the Company completed non-recourse factorings of approximately $210 million of hospital and public sector receivables in Spain. During 2012, the Company collected approximately $500 million of accounts receivable in connection with the Spanish government's debt stabilization/stimulus plan. In addition, the Company completed non-recourse factorings of approximately $230 million in 2012 of hospital and public sector accounts receivable in Italy.

Additionally, the Company continues to expand in the emerging markets. Payment terms in these markets tend to be longer, resulting in an increase in accounts receivable balances in certain of these markets.

The Company's customers with the largest accounts receivable balances are: AmerisourceBergen Corporation, Cardinal Health, Inc., McKesson Corporation, AAH Pharmaceuticals Ltd (U.K.) and Zuellig Pharma Ltd. (Asia Pacific), which represented, in aggregate, approximately 30% of total accounts receivable at December 31, 2014. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. Bad debts have been minimal. The Company does not normally require collateral or other security to support credit sales.

Derivative financial instruments are executed under International Swaps and Derivatives Association master agreements. The master agreements with several of the Company's financial institution counterparties also include credit support annexes. These annexes contain provisions that require collateral to be exchanged depending on the value of the derivative assets and liabilities, the Company's credit rating, and the credit rating of the counterparty. As of December 31, 2014 and 2013, the Company had received cash collateral of $1.4 billion and $652 million, respectively, from various counterparties and the obligation to return such collateral is recorded in *Accrued and other current liabilities*. The Company had not advanced any cash collateral to counterparties as of December 31, 2014 or 2013.

13. Pension and Other Postretirement Benefit Plans (in part)

The Company has defined benefit pension plans covering eligible employees in the United States and in certain of its international subsidiaries. As a result of plan design changes approved in 2011, beginning on January 1, 2013, active participants in Merck's primary U.S. defined benefit pension plans are accruing pension benefits using new cash balance formulas based on age, service, pay and interest. However, during a transition period from January 1, 2013 through December 31, 2019, participants will earn the greater of the benefit as calculated under the employee's legacy final average pay formula or their new cash balance formula. For all years of service after December 31, 2019, participants will earn future benefits under only the cash balance formula. In addition, the Company provides medical benefits, principally to its eligible U.S. retirees and their dependents, through its other postretirement benefit plans. The Company uses December 31 as the year-end measurement date for all of its pension plans and other postretirement benefit plans.

The Company has established investment guidelines for its U.S. pension and other postretirement plans to create an asset allocation that is expected to deliver a rate of return sufficient to meet the long-term obligation of each plan, given an acceptable level of risk. The target investment portfolio of the Company's U.S. pension and other postretirement benefit plans is allocated 40% to 60% in U.S. equities, 20% to 40% in international equities, 15% to 25% in fixed-income investments, and up to 5% in cash and other investments. The portfolio's equity weighting is consistent with the long-term nature of the plans' benefit obligations. The expected annual standard deviation of returns of the target portfolio, which approximates 13%, reflects both the equity allocation and the diversification benefits among the asset classes in which the portfolio invests. For international pension plans, the targeted investment portfolio varies based on the duration of pension liabilities and local government rules and regulations. Although a significant percentage of plan assets are invested in U.S. equities, concentration risk is mitigated through the use of strategies that are diversified within management guidelines.

Segment Reporting

PRESENTATION

1.31 FASB ASC 280, *Segment Reporting*, requires that a public business enterprise report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. FASB ASC 280-10 requires that all public business enterprises report information about the revenues derived from the enterprise's products or services or groups of similar products and services; about the countries in which the enterprise earns revenues and holds assets; and about major customers, regardless of whether that information is used in making operating decisions. Even if a public company has only one operating segment, FASB ASC 280 requires that it report information about geographic areas and major customers. However, FASB ASC does not require an enterprise to report information that is impracticable to present because the necessary information is not available, and the cost to develop it would be excessive.

1.32 According to FASB ASC 280-10-50-1, an operating segment of a public entity has all of the following characteristics:

- It engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the same public entity
- Its operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance
- Its discrete financial information is available

1.33 FASB ASC 280 uses the management approach to identify operating segments and measure the financial information disclosed based on information reported internally to the Chief Operating Decision Maker (CODM) to make resource allocation and performance assessment decisions. However, according to FASB ASC 280-10-50-9, entities that have a matrix organization should identify operating segments based on products and services when more than one type of component is reviewed by the CODM.

1.34 FASB ASC 280-10-50-30 requires reconciliations of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts in the enterprise's general-purpose financial statements. FASB ASC 350-20-50-1 states that entities that report segment information should provide information about the changes in the carrying amount of goodwill during the period for each reportable segment.

PRESENTATION AND DISCLOSURE EXCERPTS

SEGMENT INFORMATION

1.35 CABOT CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note U. Financial Information by Segment & Geographic Area

Segment Information

The Company identifies a business as an operating segment if: i) it engages in business activities from which it may earn revenues and incur expenses; ii) its operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance; and iii) it has available discrete financial information. The Company has determined that all of its businesses are operating segments. The CODM reviews financial information at the operating segment level to allocate resources and to assess the operating results and financial performance for each operating segment. Operating segments are aggregated into a reportable segment if the operating segments are determined to have similar economic characteristics and if the operating segments are similar in the following areas: i) nature of products and services; ii) nature of production processes; iii) type or class of customer for their products and services; iv) methods used to distribute the products or provide services; and v) if applicable, the nature of the regulatory environment.

The Company has four reportable segments: Reinforcement Materials, Performance Materials, Advanced Technologies and Purification Solutions. Reinforcement Materials represents the Company's Rubber Blacks business. Purification Solutions represents the Company's Activated Carbon business. Performance Materials is an aggregation of the Specialty Carbons and Compounds and Fumed Metal Oxides businesses, which are similar in terms of economic characteristics, nature of products, processes, customer class and product distribution methods.

The Company has combined and disclosed four of its operating segments (Specialty Fluids, Inkjet Colorants, Aerogel and Elastomer Composites) in its Advanced Technologies segment. The Security Materials business was previously included in the Advanced Technologies reportable segment. In fiscal 2014, as discussed in Note D, the Company sold its Security Materials business. Accordingly, results of the Security Materials business for all periods presented have been recast as discontinued operations.

Reportable segment operating profit (loss) before interest and taxes ("Segment EBIT") is presented for each reportable segment in the financial information by the reportable segment table below on the line entitled Income (loss) from continuing operations before taxes.

Segment EBIT excludes certain items, meaning items management does not consider representative of segment results. In addition, Segment EBIT includes Equity in earnings of affiliated companies, net of tax, the full operating results of a contractual joint venture in Purification Solutions, royalties, Net income attributable to noncontrolling interests, net of tax, and discounting charges for certain Notes receivable, but excludes Interest expense, foreign currency transaction gains and losses, interest income, dividend income, unearned revenue, the effects of LIFO accounting for inventory, general unallocated expense and unallocated corporate costs. Segment assets exclude cash, short-term investments, cost investments, income taxes receivable, deferred taxes and headquarters' assets, which are included in unallocated and other. Expenditures for additions to long-lived assets include total equity and other investments (including available-for-sale securities) and property, plant and equipment.

In 2014, a reclassification has been made in the Purification Solutions segment information to include shipping and handling costs in Revenue from external customers in order to align the presentation with that of the Company's other businesses. There is no impact on Segment EBIT as a result of the reclassification. Historical periods have been adjusted to reflect this reclassification.

Reinforcement Materials

Rubber blacks are used in tires and industrial products. These products have traditionally been used in the tire industry as a rubber reinforcing agent and are also used as a performance additive. In industrial products such as hoses, belts, extruded profiles and molded goods, rubber blacks are used to improve the physical performance of the product.

Performance Materials

Performance Materials is comprised of two businesses that sell the following products: specialty grades of carbon black and thermoplastic concentrates and compounds (the Specialty Carbons and Compounds business); and fumed silica, fumed alumina and dispersions thereof (the Fumed Metal Oxides business). The net sales from each of these businesses for fiscal 2014, 2013 and 2012 are as follows:

	Years Ended September 30		
(Dollars in millions)	**2014**	**2013**	**2012**
Specialty Carbons and Compounds	$647	$622	$664
Fumed Metal Oxides	300	282	250
Total Performance Materials	$947	$904	$914

Cabot's specialty grades of carbon black are used to impart color, provide rheology control, enhance conductivity and static charge control, provide UV protection, enhance mechanical properties, and provide formulation flexibility through surface treatment. These products are used in a wide variety of applications, such as inks, coatings, cables, pipes, toners and electronics. In addition, Cabot manufactures and sources thermoplastic concentrates and compounds that are marketed to the plastics industry.

Fumed silica is an ultra-fine, high-purity particle used as a reinforcing, thickening, abrasive, thixotropic, suspending or anti-caking agent in a wide variety of products produced for the automotive, construction, microelectronics, and consumer products industries. These products include adhesives, sealants, cosmetics, inks, toners, silicone rubber, coatings, polishing slurries and pharmaceuticals. Fumed alumina, also an ultra-fine, high-purity particle, is used as an abrasive, absorbent or barrier agent in a variety of products, such as inkjet media, lighting, coatings, cosmetics and polishing slurries.

Advanced Technologies

The net sales from each of the Advanced Technologies businesses are as follows:

	Years Ended September 30		
(Dollars in millions)	**2014**	**2013**	**2012**
Inkjet Colorants	$ 62	$ 64	$ 66
Aerogel	13	21	18
Elastomer Composites	32	29	23
Specialty Fluids	98	101	94
Total Advanced Technologies	$205	$215	$201

The Inkjet Colorants business produces and sells aqueous inkjet colorants primarily to the inkjet printing market. Cabot's inkjet colorants serve various inkjet printing applications, including commercial printing, small office/home office, and corporate office, as well as other niche applications that require a high level of dispersibility and colloidal stability. Cabot also sells inks with its pigment-based colorant dispersions into the emerging commercial printing segment for digital print.

Aerogel is a hydrophobic, silica-based particle with a high surface area that is used in a variety of thermal insulation and specialty chemical applications. Aerogel has several applications in the building and construction, oil and gas and specialty chemicals industries mainly as an insulative and thickening material for use in a variety of applications.

Cabot has developed a patented elastomer composites manufacturing process that is used to manufacture compounds of natural latex rubber and carbon black that improve abrasion/wear resistance, reduce fatigue and reduce rolling resistance compared to natural rubber/carbon black compounds made by conventional methods. The Elastomer Composites business has licensed this process to Manufacture Francaise des Pneumatiques Michelin for their exclusive use in tire applications.

The Specialty Fluids business principally produces and markets cesium formate as a drilling and completion fluid for use primarily in high pressure and high temperature oil and gas well construction. The fluid is resistant to high temperatures, minimizes damage to producing reservoirs and is readily biodegradable in accordance with testing guidelines set by the Organization for Economic Cooperation and Development. The business also manufactures and sells fine cesium chemicals that are used in a wide range of applications, including catalysts and brazing fluxes.

Purification Solutions

The Company's activated carbon products are used for the purification of water, air, food and beverages, pharmaceuticals and other liquids and gases, as either a colorant or a decoloring agent in the production of products for food and beverage applications and as a chemical carrier in slow release applications. In gas and air applications, one of the uses of activated carbon is for the removal of mercury in flue gas streams. In certain applications, used activated carbon can be reactivated for further use by removing the contaminants from the pores of the activated carbon product. In addition to activated carbon production and reactivation, the Company also provides activated carbon solutions through on-site equipment and services, including delivery systems for activated carbon injection in coal-fired utilities, mobile water filter units and carbon reactivation services. Purification Solutions Segment EBIT includes in fiscal 2013 and 2014 an allocation of corporate administrative and functional support costs. In fiscal 2012, these allocations were reflected in unallocated corporate costs and other segment results. Revenue in fiscal 2014 includes $9 million of insurance proceeds related to business interruption and property damage insurance recoveries for operating issues the business experienced in late fiscal 2013 and early fiscal 2014.

Financial information by reportable segment is as follows:

(Dollars in millions)	Reinforce ment Materials	Perfor mance Materials	Advanced Technologies	Purification Solutions	Segment Total	Unallocated and Other[1],[3]	Consolidated Total
Years Ended September 30							
2014							
Revenues from external customers[2]	$2,076	$947	$205	$ 315	$3,543	$ 104	$3,647
Depreciation and amortization	87	50	10	54	201	—	201
Equity in earnings of affiliated companies	(3)	1	—	6	4	(4)	—
Income (loss) from continuing operations before taxes[3]	242	158	66	(19)	447	(139)	308
Assets[4]	1,628	670	180	1,389	3,867	217	4,084
Total expenditures for additions to long-lived assets[5]	65	28	8	64	165	6	171
2013							
Revenues from external customers[2]	$1,902	$904	$215	$ 328	$3,349	$ 107	$3,456
Depreciation and amortization	81	49	10	54	194	(4)	190
Equity in earnings of affiliated companies	9	2	—	4	15	(4)	11
Income (loss) from continuing operations before taxes[3]	188	132	70	(4)	386	(176)	210
Assets[4]	1,512	688	185	1,388	3,773	460	4,233
Total expenditures for additions to long-lived assets[5]	172	46	5	38	261	3	264
2012							
Revenues from external customers[2]	$2,019	$914	$201	$ 61	$3,195	$ 96	$3,291
Depreciation and amortization	82	47	12	8	149	5	154
Equity in earnings of affiliated companies	9	1	—	1	11	—	11
Income (loss) from continuing operations before taxes[3]	227	128	50	5	410	(164)	246
Assets[4]	1,527	717	198	1,433	3,875	524	4,399
Total expenditures for additions to long-lived assets[5]	163	87	16	350	616	6	622

[1] Unallocated and Other includes certain items and eliminations necessary to reflect management's reporting of operating segment results. These items are reflective of the segment reporting presented to the Chief Operating Decision Maker.

[2] Revenue from external customers that are categorized as Unallocated and Other reflects royalties, other operating revenues, external shipping and handling fees, the impact of unearned revenue, the removal of 100% of the sales of an equity method affiliate and discounting charges for certain Notes receivable. Details are provided in the table below.

	Years Ended September 30		
(Dollars in millions)	2014	2013	2012
Royalties, other operating revenues, the impact of unearned revenue, the removal of 100% of the sales of an equity method affiliate and discounting charges for certain Notes receivable	$ (7)	$ 5	$11
Shipping and handling fees	111	102	85
Total	$104	$107	$96

[3] Income (loss) from continuing operations before taxes that are categorized as Unallocated and Other includes:

	Years Ended September 30		
(Dollars in millions)	2014	2013	2012
Interest expense	$ (55)	$ (62)	$ (46)
Total certain items, pre-tax[a]	(28)	(54)	(51)
Equity in earnings of affiliated companies, net of tax[b]	—	(11)	(11)
Unallocated corporate costs[c]	(54)	(48)	(56)
General unallocated expense[d]	(2)	(1)	—
Total	$(139)	$(176)	$(164)

[a] Certain items are items that management does not consider representative of operating segment results and they are, therefore, excluded from Segment EBIT. Certain items, pre-tax, for fiscal 2014 primarily include $29 million related to global restructuring activities, $7 million for acquisition and integration-related charges, $18 million for legal and environmental matters and reserves and $3 million of certain foreign currency gains recorded by foreign subsidiaries offset by a $29 million non-cash gain recognized on the Company's pre-existing investment in NHUMO as a result of the NHUMO transaction. Certain items, pre-tax, for fiscal 2013 primarily include $35 million related to global restructuring activities, $21 million for acquisition and integration-related charges (consisting of $10 million for certain other one-time integration costs and $11 million of additional charges related to acquisition accounting adjustments for the acquired inventory) and $1 million for legal and environmental matters and reserves offset by $3 million of certain foreign currency gains recorded by foreign subsidiaries. Certain items, pre-tax, for fiscal 2012 primarily include $17 million related to global restructuring activities, $26 million for acquisition and integration-related charges (consisting of $14 million of legal and professional fees, $3 million for certain other one-time integration costs and $9 million of additional charges related to acquisition accounting adjustments for the acquired inventory), and $8 million for legal and environmental matters and reserves.

[b] Equity in earnings of affiliated companies, net of tax is included in Segment EBIT and is removed from Unallocated and other to reconcile to income (loss) from operations before taxes.

[c] Unallocated corporate costs are not controlled by the segments and primarily benefit corporate interests.

[d] General unallocated expense consists of gains (losses) arising from foreign currency transactions, net of other foreign currency risk management activities, the impact of accounting for certain inventory on a LIFO basis, the profit or loss related to the corporate adjustment for unearned revenue, and the impact of including the full operating results of an equity affiliate in Purification Solutions Segment EBIT.

[4] Unallocated and Other assets includes cash, marketable securities, cost investments, income taxes receivable, deferred taxes, headquarters' assets, and current and non-current assets held for sale.

[5] Expenditures for additions to long-lived assets include total equity and other investments (including available-for-sale securities) and property, plant and equipment.

Geographic Information

Sales are attributed to the United States and to all foreign countries based on the location from which the sale originated. Revenues from external customers and long-lived assets attributable to an individual country, other than the United States, China and The Netherlands, were not material for disclosure.

Revenues from external customers and long-lived asset information by geographic area are summarized as follows:

(Dollars in millions)	United States	China	The Netherlands	Other Foreign Countries	Consolidated Total
Years Ended September 30,					
2014					
Revenues from external customers	$847	$628	$220	$1,952	$3,647
Net property, plant and equipment	$496	$355	$197	$533	$1,581
2013					
Revenues from external customers	$818	$558	$224	$1,856	$3,456
Net property, plant and equipment	$488	$385	$211	$516	$1,600
2012					
Revenues from external customers	$686	$543	$131	$1,931	$3,291
Net property, plant and equipment	$481	$305	$208	$553	$1,547

1.36 PULTEGROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

4. Segment Information

Our Homebuilding operations are engaged in the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. Home sale revenues for detached and attached homes were $4.8 billion and $885.8 million in 2014, $4.5 billion and $939.0 million in 2013, and $3.6 billion and $925.4 million in 2012, respectively. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	*Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia*
Southeast:	*Georgia, North Carolina, South Carolina, Tennessee*
Florida:	*Florida*
Texas:	*Texas*
North:	*Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, Northern California, Ohio, Washington*
Southwest:	*Arizona, Nevada, New Mexico, Southern California*

We also have a reportable segment for our Financial Services operations, which consist principally of mortgage banking and title operations. The Financial Services segment operates generally in the same markets as the Homebuilding segments. Evaluation of segment performance is generally based on income before income taxes. Each reportable segment generally follows the same accounting policies described in Note1 "Summary of Significant Accounting Policies" to the consolidated financial statements.

	Operating Data by Segment ($000's omitted) Years Ended December 31,		
	2014	**2013**	**2012**
Revenues:			
Northeast	$ 710,859	$ 819,709	$ 755,148
Southeast	949,635	842,921	691,113
Florida	917,956	802,665	628,997
Texas	859,165	835,473	682,929
North	1,436,500	1,232,814	1,022,633
Southwest	822,610	1,005,062	878,290
	5,696,725	5,538,644	4,659,110
Financial Services	125,638	140,951	160,888
Consolidated revenues	$5,822,363	$5,679,595	$4,819,998
Income Before Income Taxes:			
Northeast	$ 103,865	$ 110,246	$ 73,345
Southeast	156,513	121,055	64,678
Florida	190,441	139,673	73,472
Texas	133,005	111,431	60,979
North	197,230	164,348	84,597
Southwest	136,357	179,163	79,887
Other homebuilding[a]	(282,234)	(346,803)	(278,967)
	635,177	479,113	157,991
Financial Services	54,581	48,709	25,563
Consolidated income before income taxes	$ 689,758	$ 527,822	$ 183,554

[a] Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments. Other homebuilding also included the following: losses on debt retirements of $8.6 million, $26.9 million, and $32.1 million for 2014, 2013, and 2012, respectively; charges totaling $69.3 million to increase general liability insurance reserves in 2014; costs associated with the relocation of our corporate headquarters totaling $16.3 million and $15.4 million in 2014 and 2013, respectively; and charges of $41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community.

	Operating Data by Segment ($000's omitted) Years Ended December 31,		
	2014	2013	2012
Land-Related Charges*:			
Northeast	$ 2,824	$ 557	$ 1,794
Southeast	1,826	998	1,363
Florida	487	1,076	214
Texas	321	191	556
North	3,227	3,434	4,546
Southwest	816	472	2,254
Other homebuilding	1,667	2,944	6,468
	$11,168	$9,672	$17,195

* Land-related charges include land impairments, net realizable value adjustments for land held for sale, and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue. Other homebuilding consists primarily of write-offs of capitalized interest related to such land-related charges. See Note 1 for additional discussion of these charges.

	Operating Data by Segment ($000's omitted) Years Ended December 31,		
	2014	2013	2012
Depreciation and Amortization:			
Northeast	$ 1,852	$ 1,987	$ 1,790
Southeast	2,666	1,647	1,028
Florida	2,150	1,334	1,640
Texas	1,698	1,784	1,619
North	4,414	2,265	1,709
Southwest	4,002	2,969	3,143
Other homebuilding[(a)]	19,548	16,248	16,168
	36,330	28,234	27,097
Financial Services	3,534	3,353	2,930
	$39,864	$31,587	$30,027

[(a)] Other homebuilding includes amortization of intangible assets.

	Operating Data by Segment ($000's omitted) Years Ended December 31,		
	2014	2013	2012
Equity in (Earnings) Loss of Unconsolidated Entities:			
Northeast	$(4,733)	$ (58)	$ (4)
Southeast	—	—	—
Florida	(7)	(4)	—
Texas	—	—	—
North	(2,417)	(608)	(1,497)
Southwest	(486)	(678)	(1,137)
Other homebuilding	(583)	355	(1,235)
	(8,226)	(993)	(3,873)
Financial Services	(182)	(137)	(186)
	$(8,408)	$(1,130)	$(4,059)

	Operating Data by Segment ($000's omitted) December 31, 2014				
	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$ 184,974	$ 266,229	$106,077	$ 557,280	$ 659,224
Southeast	147,506	304,762	117,981	570,249	605,067
Florida	150,743	350,016	112,225	612,984	717,531
Texas	134,873	250,102	91,765	476,740	528,392
North	280,970	478,665	137,044	896,679	996,908
Southwest	166,056	698,513	163,421	1,027,990	1,113,592
Other homebuilding[(a)]	19,015	196,762	34,401	250,178	3,527,731
	1,084,137	2,545,049	762,914	4,392,100	8,148,445
Financial Services	—	—	—	—	420,965
	$1,084,137	$2,545,049	$762,914	$4,392,100	$8,569,410

Operating Data by Segment ($000's omitted)

December 31, 2013

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$ 212,611	$ 325,241	$106,681	$ 644,533	$ 731,259
Southeast	139,484	274,981	146,617	561,082	599,271
Florida	140,366	295,631	104,766	540,763	618,449
Texas	130,398	223,979	57,480	411,857	466,198
North	227,537	350,239	78,945	656,721	716,239
Southwest	159,350	512,164	201,659	873,173	940,462
Other homebuilding[(a)]	32,401	207,152	50,879	290,432	4,334,591
	1,042,147	2,189,387	747,027	3,978,561	8,406,469
Financial Services	—	—	—	—	327,674
	$1,042,147	$2,189,387	$747,027	$3,978,561	$8,734,143

December 31, 2012

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$ 198,549	$ 445,436	$109,136	$ 753,121	$ 866,024
Southeast	147,227	286,210	120,193	553,630	590,650
Florida	130,276	310,625	100,633	541,534	620,220
Texas	145,594	256,704	54,556	456,854	523,843
North	219,172	369,144	46,414	634,730	680,447
Southwest	226,204	496,488	167,295	889,987	963,540
Other homebuilding[(a)]	49,162	270,771	64,257	384,190	2,140,739
	1,116,184	2,435,378	662,484	4,214,046	6,385,463
Financial Services	—	—	—	—	348,946
	$1,116,184	$2,435,378	$662,484	$4,214,046	$6,734,409

[(a)] Other homebuilding primarily includes cash and equivalents, capitalized interest, intangibles, deferred tax assets, and other corporate items that are not allocated to the operating segments.

Accounting Changes and Error Corrections

PRESENTATION

1.37 FASB ASC 250 defines various types of accounting changes, including changes in accounting principles and accounting estimates, and provides guidance on the accounting for and reporting of each type of change.

1.38 FASB ASC 250-10-45-1 includes the presumption that, once adopted, an entity should not change an accounting principle (policy) to account for events and transactions of a similar type. FASB ASC 250-10-45-2 permits an entity to change an accounting principle in certain circumstances, such as when required to do so by new authoritative accounting guidance that mandates the use of a new accounting principle, interprets an existing principle, expresses a preference for an accounting principle, or rejects a specific principle. This paragraph also permits an entity to change an accounting principle if it can justify the use of an allowable alternative accounting principle on the basis that it is preferable.

1.39 FASB ASC 250-10-45-1 does not consider the following to be changes in accounting principle:

- Initial adoption of an accounting principle for new events or transactions
- Initial adoption of an accounting principle for new events or transactions that previously were immaterial in their effect
- Adoption or modification of an accounting principle for substantively different transactions or events from those occurring previously

1.40 FASB ASC 250-10-45-5 requires an entity to apply a change in accounting principle retrospectively to all prior periods, unless it is impracticable to do so. Retrospective application requires cumulative adjustments to the carrying amounts of assets and liabilities at the beginning of the earliest period presented; an adjustment, if any, to the opening balance of retained earnings or other relevant equity account; and adjusted financial statements for each individual prior period presented to reflect the period-specific effects of applying the new accounting principle. FASB ASC 250-10-45-7 provides an exception if it is impracticable to determine the cumulative effect of applying a change in accounting principle to any prior period; the new accounting principle should be applied as if the change was made prospectively as of the earliest date practicable. FASB ASC 250-10-45-8 permits only direct effects of the change in accounting principle, including any related income tax effects, to be included in the retrospective adjustment and prohibits an entity from including indirect effects that would have been recognized if the newly adopted accounting principle had been followed in prior periods. If indirect effects are actually incurred and recognized, an entity should only report for those indirect effects in the period in which the accounting change is made.

1.41 FASB ASC 250-10-45-17 requires an entity to account for a change in accounting estimate prospectively in the period of change if the change affects that period only or in the period of change and future periods if the change affects both.

1.42 Paragraphs 18–19 of FASB ASC 250-10-45 recognize that it may be difficult to distinguish between a change in an accounting principle and a change in an accounting estimate. Additional guidance is provided for those circumstances when an entity's change in estimate is affected by a change in accounting principle, recognizing that the effect of a change in accounting principle or the method of applying it may be inseparable from the effect of the change in accounting estimate. An example of such change is a change in the method of depreciation, amortization, or depletion for long-lived nonfinancial assets. Although an entity is permitted to apply this change prospectively as a change in accounting estimate, an entity should only make a change in accounting estimate affected by a change in accounting principle if the entity can justify the new accounting principle on the basis that it is preferable.

1.43 Paragraphs 23–24 of FASB ASC 250-10-45 require an entity to correct any error in the financial statements of a prior period discovered after the financial statements are issued or are available to be issued by restating the prior-period financial statements. Such errors are required to be reported as an error correction by restating the prior-period financial statements retrospectively with adjustments to the financial statements.

DISCLOSURE

1.44 As discussed in FASB ASC 250-10-50, among the required disclosures for a change in accounting principle, the reason should be disclosed, including an explanation about why the new method is preferable. Specific disclosures are also required for a change in accounting estimate, a change in reporting entity, correction of an error in previously-issued financial statements, and error corrections related to prior interim periods of the current fiscal year.

PRESENTATION AND DISCLOSURE EXCERPTS

CHANGE IN ACCOUNTING PRINCIPLE—INVENTORY

1.45 COMMERCIAL METALS COMPANY (AUG)

CONSOLIDATED BALANCE SHEETS (in part)

	August 31,	
(In thousands, except share data)	**2014**	**2013**
Assets (in part)		
Current assets:		
Cash and cash equivalents	$ 434,925	$ 378,770
Accounts receivable (less allowance for doubtful accounts of $5,908 and $10,042)	1,028,425	989,694
Inventories, net	935,411	757,417
Current deferred tax assets	49,455	76,994
Other	105,575	163,320
Total current assets	2,553,791	2,366,195

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 6. Inventories, Net (in part)

During the fourth quarter of fiscal 2014, the Company elected to change the inventory costing method used by its International Mill segment from the FIFO method to the weighted average cost method. The Company believes the weighted average cost method is preferable because it more closely aligns with the physical flow of inventory. The weighted average cost method is the method used by the Company to monitor the financial results of the International Mill segment for operational and financial planning. Additionally, the information system deployed within the segment calculates inventory at weighted average cost, thus adding an administrative burden to report inventories under the FIFO method. Because the change in accounting principle was immaterial in all prior periods, it was not applied retrospectively. The change did not have a material impact on the Company's consolidated financial statements as of and for the fiscal year ended August 31, 2014. The cost for the remaining international and U.S. inventories is determined by the FIFO method.

CHANGE IN ACCOUNTING PRINCIPLE— COMPREHENSIVE INCOME

1.46 CISCO SYSTEMS, INC. (JUL)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

(w) New Accounting Updates Recently Adopted (in part)

In February 2013, the FASB issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard became effective for the Company in the first quarter of fiscal 2014. As a result of the application of this accounting standard update, the Company has provided additional disclosures in Note 15.

15. Comprehensive Income

The components of AOCI, net of tax, and the other comprehensive income (loss), excluding noncontrolling interest are summarized as follows (in millions):

	Net Unrealized Gains on Investments	Net Unrealized Gains (Losses) Cash Flow Hedging Instruments	Cumulative Translation Adjustment and Other	Accumulated Other Comprehensive Income
Balance at July 30, 2011	$ 487	$ 6	$ 801	$1,294
Other comprehensive income (loss) before reclassifications attributable to Cisco Systems, Inc.	(19)	(131)	(532)	(682)
(Gains) losses reclassified out of other comprehensive income	(101)	72	—	(29)
Tax benefit (expense)	42	—	36	78
Balance at July 28, 2012	409	(53)	305	661
Other comprehensive income (loss) before reclassifications attributable to Cisco Systems, Inc.	3	74	(83)	(6)
(Gains) losses reclassified out of other comprehensive income	(48)	(12)	—	(60)
Tax benefit (expense)	15	(1)	(1)	13
Balance at July 27, 2013	379	8	221	608
Other comprehensive income (loss) before reclassifications attributable to Cisco Systems, Inc.	380	48	49	477
(Gains) losses reclassified out of other comprehensive income	(300)	(68)	—	(368)
Tax benefit (expense)	(35)	—	(5)	(40)
Balance at July 26, 2014	$ 424	$ (12)	$ 265	$ 677

The net gains (losses) reclassified out of other comprehensive income into the Consolidated Statements of Operations, with line item location, during each period were as follows (in millions):

	Income Before Taxes			Line Item in Statements of Operations
Comprehensive Income Components	**July 26, 2014**	**July 27, 2013**	**July 28, 2012**	
Net Unrealized Gains on Available-For-Sale Investments				
	$300	$48	$101	Other income (loss), net
Net Unrealized Gains and Losses on Cash Flow Hedging Instruments:				
Foreign currency derivatives	55	10	(59)	Operating expenses
Foreign currency derivatives	13	2	(14)	Cost of sales—service
Interest rate derivatives	—	—	1	Interest expense
	68	12	(72)	
Total amounts reclassified out of other comprehensive income	$368	$60	$ 29	

CHANGE IN ACCOUNTING PRINCIPLE—INCOME TAXES

1.47 ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(dollar amounts in millions, except share data)

Note 2. Summary of Significant Accounting Policies (in part)

Recently Adopted Accounting Standards (in part)

In July 2013, the FASB issued ASU 2013-11 *"Income Taxes—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists"* which is part of ASC 740: Income Taxes. The guidance requires an entity to present an unrecognized tax benefit and a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward on a net basis as part of a deferred tax asset, unless the unrecognized tax benefit is not available to reduce the deferred tax asset component or would not be utilized for that purpose, then a liability would be recognized. The guidance was applied prospectively and was effective for us beginning January 1, 2014. As a result of adopting this guidance, we recorded a reduction to noncurrent income taxes payable and a corresponding increase to noncurrent deferred tax liabilities of $40.0 million. There was no impact on results of operations or cash flows as a result of the adoption of this guidance.

Note 14. Income Taxes

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the following table. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income and foreign source income to realize deferred tax assets, net of valuation allowances. In arriving at this conclusion, we considered the profit before tax generated for the years 2012 through 2014, as well as future reversals of existing taxable temporary differences and projections of future profit before tax and foreign source income.

We reduce the carrying amounts of deferred tax assets by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. The need to establish valuation allowances for deferred tax assets is assessed quarterly. In assessing the requirement for, and amount of, a valuation allowance in accordance with the more likely than not standard for all periods, we give appropriate consideration to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability and foreign source income, the duration of statutory carryforward periods, and our experience with operating loss and tax credit carryforward expirations. A history of cumulative losses is a significant piece of negative evidence used in our assessment. If a history of cumulative losses is incurred for a tax jurisdiction, forecasts of future profitability are not used as positive evidence related to the realization of the deferred tax assets in the assessment.

At December 31, 2014 and 2013, we had valuation allowances of $87.9 million and $109.3 million, respectively. At December 31, 2014, our valuation allowance consisted of $31.6 million for statutorily limited federal NOL carryforwards, $14.6 million for state deferred tax assets, primarily operating loss carryforwards, and $41.7 million for foreign deferred tax assets, primarily foreign operating loss carryforwards.

At December 31, 2014 and 2013, we had $969.6 million and $1,067.3 million, respectively, of state NOL carryforwards expiring between 2015 and 2034. In addition, at December 31, 2014 and 2013, we had $158.3 million and $252.8 million, respectively, of foreign NOL carryforwards, $58.4 million available for carryforward indefinitely and $99.9 million which expire between 2015 and 2032. At December 31, 2014 and 2013, we also had U.S. foreign tax credit ("FTC") carryforwards of $54.3 million on a gross basis, $12.1 million when netted with unrecognized tax benefits, and $94.4 million, respectively, expiring between 2015 and 2022. The FTC carryforward at December 31, 2013 was presented on a gross basis as accounting guidance issued in ASU 2013-11 did not require retrospective application. The guidance was applied prospectively upon adoption on January 1, 2014.

Our valuation allowances at December 31, 2014 of $87.9 million decreased from December 31, 2013 by $21.4 million. The valuation allowance for foreign deferred tax assets decreased by $32.9 million, primarily as a result of the permanent loss of foreign NOLs from activities surrounding the insolvency of our former German subsidiary. The decrease was partially offset by increases from current year operating losses and increases in other deferred assets. The valuation allowance for federal statutorily limited federal losses of $31.6 million increased $6.3 million. The valuation allowance for state deferred tax assets of $14.6 million increased by $5.2 as a result of decreases in projected income which resulted in decreased utilization before expiration.

We estimate we will need to generate future federal taxable income of $155.2 million, including foreign source income of $51.7 million, to fully realize the FTCs before they expire in 2022. We estimate we will need to generate future taxable income of approximately $1,012.8 million for state income tax purposes during the respective realization periods (ranging from 2015 to 2034) in order to fully realize the net deferred income tax assets discussed above.

Our ability to utilize deferred tax assets may be impacted by certain future events, such as changes in tax legislation, insufficient future taxable income prior to expiration of certain deferred tax assets, annual limits imposed under Section 382 of the Internal Revenue Code ("Section 382") or by state law, as a result of an "ownership change." This "ownership change" is defined as a cumulative increase in certain shareholders' ownership of the Company by more than 50 percentage points during the previous rolling three year period.

The Asbestos PI Trust and TPG collectively sold 5,980,000 shares, 12,057,382 shares, 6,000,000 shares and 3,900,000 shares of the Company's common shares during the fourth quarter of 2012, the third quarter of 2013, the fourth quarter of 2013, and the first quarter of 2014, respectively. Those sales significantly increase the likelihood that future sales by the Asbestos PI Trust will cause an "ownership change" under Section 382. At this time, we estimate that an additional sale of the Company's common shares by the Asbestos PI Trust prior to December 2015 would be reasonably likely to cause an "ownership change" under Section 382. An "ownership change" may result in limitations on the utilization of certain tax attributes, primarily our ability to deduct state NOLs against future state taxable income. If such "ownership change" were to occur, then we would be required to record a one-time, non-cash charge in our income statement in the period in which such "ownership change" occurs. We currently estimate that, if such "ownership change" had occurred in the fourth quarter of 2014, based on the factors discussed below, the one-time income tax charge that would have been taken would have reduced our net earnings by an amount between $4.0 million and $8.0 million. This pro forma estimated range of net earnings reduction is based on current management estimates and assumptions that are subject to change over time. The actual amount of the required charge, if any, may differ materially from this current estimate. Key factors impacting the calculation include, but are not limited to, our stock price on the date of the "ownership change", the applicable tax-exempt interest rate, the tax basis and fair market value of our assets, federal and state tax regulations, projections of future taxable income and prior NOL usage.

	December 31, 2014	December 31, 2013
Deferred Income Tax Assets (Liabilities)		
Postretirement benefits	$ 87.7	$ 102.7
Pension benefit liabilities	34.0	4.3
Net operating losses	113.7	143.7
Deferred compensation	23.2	25.3
Foreign tax credit carryforwards	12.1	94.4
State tax credit carryforwards	5.9	6.0
Foreign exchange unrealized	13.3	—
Other	41.9	42.7
Total deferred income tax assets	331.8	419.1
Valuation allowances	(87.9)	(109.3)
Net deferred income tax assets	243.9	309.8
Intangibles	(229.1)	(239.3)
Accumulated depreciation	(77.6)	(78.8)
Prepaid pension costs	—	(44.3)
Inventories	(13.4)	(13.8)
Other	(11.0)	(10.3)
Total deferred income tax liabilities	(331.1)	(386.5)
Net deferred income tax liabilities	($ 87.2)	($ 76.7)
Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax assets—current	$ 31.4	$ 72.0
Deferred income tax assets—noncurrent	26.6	30.1
Deferred income tax liabilities—current	(0.5)	(0.7)
Deferred income tax liabilities—noncurrent	(144.7)	(178.1)
Net deferred income tax liabilities	($ 87.2)	($ 76.7)

	2014	2013	2012
Details of Taxes			
Earnings (loss) before income taxes:			
Domestic	$214.9	$186.2	$188.6
Foreign	($ 29.7)	$ 12.5	$ 46.0
Total	$185.2	$198.7	$234.6
Income Tax Expense (Benefit):			
Current:			
Federal	$ 43.0	$ 18.7	$ 24.1
Foreign	7.9	8.1	13.0
State	2.4	3.3	4.4
Total current	53.3	30.1	41.5
Deferred:			
Federal	19.0	40.1	27.2
Foreign	0.8	2.3	1.8
State	10.1	(1.1)	5.5
Total deferred	29.9	41.3	34.5
Total income tax expense	$ 83.2	$ 71.4	$ 76.0

We have expanded international operations by constructing a plant in Russia and continue to support our investments in emerging markets.

During 2014, we reviewed our position with regards to foreign unremitted earnings and determined that unremitted earnings would continue to be permanently reinvested. Accordingly we have not recorded U.S. income or foreign withholding taxes on approximately $319.8 million of undistributed earnings of foreign subsidiaries that could be subject to taxation if remitted to the U.S. because we currently plan to keep these amounts permanently invested overseas. It is not practical to calculate the residual income tax which would result if these basis differences reversed due to the complexities of the tax law and the hypothetical nature of the calculations.

	2014	2013	2012
Reconciliation to U.S. Statutory Tax Rate			
Continuing operations tax at statutory rate	$64.8	$ 69.6	$ 82.1
State income tax expense, net of federal benefit	6.0	5.9	6.2
Increase (decrease) in valuation allowances on deferred domestic income tax assets	3.0	(2.9)	(0.7)
Increase in valuation allowances on deferred foreign income tax assets	24.6	23.0	9.9
Tax on foreign and foreign-source income	(5.7)	(13.8)	(8.2)
Domestic production activities	(5.8)	(9.0)	(2.3)
Permanent book/tax differences	0.8	3.5	1.4
IRS audit settlement	—	—	2.2
Net benefit due to increase in foreign tax credits	—	—	(15.7)
Research and development credits	(4.8)	(4.4)	—
Other	0.3	(0.5)	1.1
Tax expense at effective rate	$83.2	$ 71.4	$ 76.0

During 2010 and 2011, we recorded $169.6 million of dividends from our foreign subsidiaries related to unremitted foreign earnings for which we previously recorded a net deferred tax liability as the earnings were not considered permanently reinvested. The receipt of the foreign dividends in 2011 provided an opportunity to elect to credit foreign taxes that were previously deducted. In 2011, we increased the deferred tax assets by $21.1 million offset by a valuation allowance of $15.7 million, for a net tax benefit of $5.4 million to reflect the net impact of the foreign tax credit over the tax deduction for the foreign taxes. In 2012, we released the valuation allowance with respect to the foreign tax credits of $15.7 million.

We recognize the tax benefits of an uncertain tax position only if those benefits are more likely than not to be sustained based on existing tax law. Additionally, we establish a reserve for tax positions that are more likely than not to be sustained based on existing tax law, but uncertain in the ultimate benefit to be sustained upon examination by the relevant taxing authorities. Unrecognized tax benefits are subsequently recognized at the time the more likely than not recognition threshold is met, the tax matter is effectively settled or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired, whichever is earlier.

We have $142.6 million of Unrecognized Tax Benefits ("UTB") as of December 31, 2014, $101.9 million ($99.5 million, net of federal benefit) of this amount, if recognized in future periods, would impact the reported effective tax rate.

It is reasonably possible that certain UTB's may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities. Over the next twelve months we estimate that UTB's may decrease by $0.6 million related to state statutes expiring and increase by $6.3 million due to uncertain tax positions expected to be taken on domestic tax returns.

We account for all interest and penalties on uncertain income tax positions as income tax expense. We reported $1.5 million of interest and penalty exposure as noncurrent income tax payable in the Consolidated Balance Sheet as of December 31, 2014.

We had the following activity for UTB's for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Unrecognized tax benefits balance at January 1,	$145.2	$138.4	$127.2
Gross change for current year positions	10.5	8.5	10.2
Increases for prior period positions	2.9	1.4	7.8
Decrease for prior period positions	(14.1)	(2.1)	(6.1)
Decrease due to settlements and payments	(1.2)	—	—
Decrease due to statute expirations	(0.7)	(1.0)	(0.7)
Unrecognized tax benefits balance at December 31,	$142.6	$145.2	$138.4

We conduct business globally, and as a result, we file income tax returns in the U.S., various states and international jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world in such major jurisdictions as Australia, Canada, Germany, India, the Netherlands, the United Kingdom and the United States. Generally, we have open tax years subject to tax audit on average of between three years and six years. Our U.S. income tax returns from 2007 to 2009 are currently under review by the IRS. With respect to these years, we have extended the statute of limitations to May 31, 2016. All tax years prior to 2007 have been settled with the IRS. With few exceptions, the statute of limitations is no longer open for state or non-U.S. income tax examinations for the years before 2007. Other than the U.S., we have not significantly extended any open statutes of limitation for any major jurisdiction and have reviewed and accrued for, where necessary, tax liabilities for open periods. The tax years 2007 through 2013 are subject to future potential tax adjustments.

	2014	2013	2012
Other Taxes			
Payroll taxes	$48.0	$46.4	$44.6
Property, franchise and capital stock taxes	10.9	10.2	11.1

CHANGE IN ACCOUNTING PRINCIPLE—DISCONTINUED OPERATIONS

1.48 ARCHER-DANIELS-MIDLAND COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Adoption of New Accounting Standards (in part)

Effective October 1, 2014, the Company early adopted the amended guidance of ASC Topic 205, *Presentation of Financial Statements* (Topic 205) and ASC Topic 360, *Property, Plant, and Equipment*, which limit the definition of discontinued operations as only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The amended guidance also expands the definition of discontinued operations to include a business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale and a disposal of an equity method investment that meets the definition of discontinued operations. The amended guidance requires the Company to report discontinued operations if (1) the component of an entity or group of components of an entity meets the criteria in Topic 205 to be classified as held for sale; (2) the component of an entity or group of components of an entity is disposed of by sale; or (3) the component of an entity or group of components of an entity is disposed other than by sale. As a result of the prospective adoption of this amended guidance, the global chocolate and cocoa businesses that were classified as held for sale at December 31, 2014 (see Note 18 for more information) were not reported as discontinued operations. The Company does not believe the sale of these businesses to have a major effect on an entity's operations and financial results.

Note 18. Assets and Liabilities Held for Sale

On September 2, 2014, the Company announced the sale of its global chocolate business to Cargill, Inc. for $440 million, subject to regulatory approval and customary conditions. On December 15, 2014, the Company also announced that it has reached an agreement to sell its global cocoa business to Olam International Limited for $1.3 billion, subject to customary conditions. Both transactions are expected to close in 2015. Assets and liabilities subject to the purchase and sale agreements have been classified as held for sale in the Company's consolidated balance sheet at December 31, 2014. The global chocolate and cocoa businesses do not meet the criteria to be classified as discontinued operations at December 31, 2014 under the amended guidance of ASC Topics 205 and 360 which the Company early adopted on October 1, 2014 because these businesses do not comprise a major component of the Company's operations. Assets and liabilities classified as held for sale are required to be recorded at the lower of carrying value or fair value less any costs to sell. As of December 31, 2014. the carrying value of the cocoa and chocolate assets were less than fair value less costs to sell, and accordingly, no adjustment to the asset value was necessary. The gain or loss on disposal, along with the continuing operations of the disposal group, will be reported in the Oilseeds Processing segment.

The major classes of assets and liabilities held for sale were as follows:

	December 31, 2014
	(In millions)
Trade receivables	$ 94
Inventories	742
Other current assets	83
Goodwill	63
Other intangible assets	28
Net property, plant, and equipment	374
Other assets	19
Current assets held for sale	$1,403
Trade payables	$ 114
Accrued expenses and other payables	110
Other liabilities	6
Current liabilities held for sale	$ 230

1.49 CAREER EDUCATION CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

b. Reclassifications

During 2014, we announced the teach-out of three additional Sanford-Brown campuses: Chicago, Las Vegas and Orlando. These campuses are now included in the Transitional Group segment. During the current year, we also completed the teach-out of 20 Transitional Group campuses and one CTU campus as well as sold two campuses (one previously reported in the Career Colleges segment and one previously reported in the Transitional Group segment). As a result, all current and prior periods reflect the sold and fully taught out campuses as components of discontinued operations.

Additionally, during the fourth quarter of 2014, our Board of Directors approved a plan to sell our 16 Culinary Arts campuses ("LCB"). Our decision to pursue the divestiture of LCB was the result of an ongoing portfolio review undertaken to evaluate the strategic direction of the Company. As a result of the decision to sell LCB, the assets and liabilities of the entities to be sold are classified as held for sale within discontinued operations as of December 31, 2014.

All prior period results have been recast to reflect our reporting segments on a comparable basis.

j. Discontinued Operations

Discontinued operations are accounted for in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 360-10-35 *Property, Plant, and Equipment*. In accordance with FASB ASC Section 360-10-35, the net assets of discontinued operations are recorded on our consolidated balance sheets at estimated fair value. The results of operations of discontinued operations are segregated from continuing operations and reported separately as discontinued operations in our consolidated statements of loss and comprehensive loss. See Note 4 "Discontinued Operations" for further discussion.

3. Recent Accounting Pronouncements (in part)

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* This ASU limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. In addition, the amendments in this ASU require expanded disclosures for discontinued operations as well as for disposals that do not qualify as discontinued operations. For public entities, ASU 2014-08 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2014. We have evaluated the impact that the adoption of ASU 2014-08 will have on our financial condition, results of operation and disclosures and believe the impact to be material. Previously, campuses within our Transitional Group would be reclassified as discontinued operations upon the teach-out date. Under the new guidance, campuses that complete their teach-out will not meet the definition of discontinued operations, with the exception of those that meet the definition of a "strategic shift." Therefore, revenues and any respective operating losses associated with these campuses that do not meet the definition of a "strategic shift" will remain within continuing operations for all periods presented. Additionally, we will provide increased disclosures surrounding discontinued operations as well as increased disclosures surrounding our campuses that will cease operations but not meet the requirements to be classified as discontinued operations.

4. Discontinued Operations (in part)

As of December 31, 2014, the results of operations for campuses that have ceased operations, assets that are held for sale or institutions that were sold, and are considered distinct operations as defined under FASB ASC Topic 205—*Presentation of Financial Statements,* are presented within discontinued operations. During 2014, we completed the teach-out of twenty-one campuses, as well as completed the sale of two campuses, and accordingly, all current and prior period financial statements include the results of operations and financial position of these campuses as components of discontinued operations.

Assets Held for Sale

During the fourth quarter of 2014, we made the decision to commit to a plan of sale for our Le Cordon Bleu Culinary Arts institutions. Accordingly, the assets and liabilities for these institutions are included in the assets and liabilities of discontinued operations on our consolidated balance sheets and the results of operations are reported within discontinued operations in the consolidated statements of loss and comprehensive loss. As we anticipate the sale of these assets to be completed within one year, we have recorded the assets and liabilities related to these institutions within current assets and liabilities of discontinued operations as of December 31, 2014.

During the fourth quarter of 2014, and prior to the announcement of the plan of sale for our LCB institutions, we concluded that certain indicators, including the recent release of the gainful employment regulation, existed to suggest the long-lived assets were at risk of their carrying values exceeding their respective fair values. As a result of our analysis of fair value, we recorded $10.0 million of asset impairment charges related to the fixed assets at four of our LCB institutions. The fixed assets related to these institutions are expected to generate negative cash flows through their respective lease end dates and as such the carrying values were not deemed recoverable. The fair value for these assets was determined based upon management's assumptions regarding an estimated percentage of replacement value for similar assets and estimated salvage values. Because the determination of the estimated fair value of these assets requires significant estimation and assumptions, these fair value measurements are categorized as Level 3 per ASC Topic 820.

Disposition of International Segment

On December 3, 2013, we completed the sale and transfer of control of our International Segment, which consisted of our INSEEC schools and the International University of Monaco located in France and Monaco, respectively. This sale reflected our strategy to redeploy our assets to rebuild our domestic educational institutions and improve our options for accelerating growth. The total consideration for the International Segment pursuant to the Purchase Agreement was $305.0 million, less certain distributions and adjustments prior to closing, which resulted in a cash payment of $276.5 million received at closing. We realized a gain on the sale of $130.1 million, net of approximately $8.9 million of transaction costs, during 2013 within loss from discontinued operations on our consolidated statements of loss and comprehensive loss. This gain represented the difference between the proceeds received and the book value of the net assets sold. The income tax expense associated with the gain was approximately $87.9 million.

Results of Discontinued Operations

Combined summary results of operations for our discontinued operations for the years ended December 31, 2014, 2013 and 2012, were as follows (dollars in thousands):

	For the Year Ended December 31,		
	2014	2013[1]	2012[2]
Revenue	$ 177,314	$355,340	$ 470,661
Pretax loss	$(101,923)	$ (7,749)	$(125,123)
Income tax provision (benefit)	—	38,789	(47,168)
Loss from discontinued operations, net of tax	$(101,923)	$ (46,538)	$ (77,955)
Net loss per diluted share	$ (1.52)	$ (0.70)	$ (1.17)

[1] The income tax expense associated with the gain on sale of our International Segment approximates $87.9 million.

[2] 2012 pretax loss includes income for non-profit entities within our International segment, which are not subject to income tax.

The summary results of operations held for sale presented within results from discontinued operations above were (dollars in thousands):

	For the Year Ended December 31,		
	2014	2013	2012
Asset Held For Sale:			
Revenue	$172,606	$177,549	$224,842
Loss from discontinued operations	$ (66,322)	$ (81,242)	$ (33,865)

Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations on our consolidated balance sheets as of December 31, 2014 and 2013 include the following (dollars in thousands):

	As of December 31,	
	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents	$ —	$ 475
Receivables, net	473	1,521
Other current assets	—	1,344
Assets held for sale	76,846	10,879
Total current assets	77,319	14,219
Non-current assets:		
Property and equipment, net	—	2,731
Other assets, net	975	1,507
Assets held for sale	—	97,470
Total assets of discontinued operations	$78,294	$115,927
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 579	$ 1,370
Deferred tuition revenue	—	1,522
Remaining lease obligations	14,927	13,132
Liabilities held for sale	50,357	19,671
Total current liabilities	65,863	35,695
Non-current liabilities:		
Remaining lease obligations	22,689	30,952
Other	170	6,512
Liabilities held for sale	—	25,732
Total liabilities of discontinued operations	$88,722	$ 98,891

The major components of assets and liabilities held for sale presented above within discontinued operations were (dollars in thousands):

	As of December 31,	
	2014	2013
Assets:		
Receivables, net[1]	$ 8,303	$ 7,487
Property and equipment, net[1]	42,521	67,570
Other intangible assets[1]	18,400	27,300
Other assets[1]	7,622	5,992
Total assets held for sale	$76,846	$108,349
Liabilities:		
Accounts payable and accrued expenses	12,410	4,831
Deferred revenue	17,001	14,840
Remaining lease obligations[2]	2,253	2,671
Other liabilities[2]	18,693	23,061
Total liabilities held for sale	$50,357	$ 45,403

[1] Property and equipment, net, other intangible assets and a portion of receivables, net and other assets are classified within non-current assets held for sale as of December 31, 2013.

[2] Other liabilities and a portion of remaining lease obligations are classified within non-current liabilities held for sale as of December 31, 2013.

CHANGE IN ACCOUNTING PRINCIPLE—EXTRAORDINARY ITEMS

1.50 AXIALL CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. New Accounting Pronouncements (in part)

In January 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU” or ”Update) 2015-01—*Extraordinary and Unusual Items (Subtopic 225-20)*. The Update eliminates from GAAP the concept of extraordinary items as part of FASB’s initiative to reduce the complexity in current accounting standards. Previous GAAP guidance required an entity to separately classify, present, and disclose extraordinary events and transactions. An event or transaction was presumed to be both ordinary and usual unless evidence clearly supported classification as an extraordinary item. However, the concept of extraordinary items caused uncertainty in practice because it was unclear as to when an item should be considered both unusual and infrequent and it was extremely rare in practice for a transaction or event to meet the classification requirement of an extraordinary item. Going forward, items that would have met the definition of extraordinary items will be treated in a similar manner as unusual and infrequent items. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2015 and early adoption is permitted. We have adopted the amendments in this Update and there was no material impact on our consolidated financial statements.

CHANGE IN ACCOUNTING PRINCIPLE—DISABILITY ACCOUNTING

1.51 FORD MOTOR COMPANY (DEC)

NOTES TO THE FINANCIAL STATEMENTS (in part)

Note 1. Presentation (in part)

Changes in Accounting (in part)

Disability Accounting. We provide medical, life, and income benefits to hourly and salary employees when they become disabled. As of January 1, 2014, we changed our accounting policy for these benefits from an event-driven model to a service-accrual model, such that our obligation now includes an estimated cost to be incurred for individuals who are disabled at the time of measurement (which was the amount recorded under our previous policy) as well as an amount that considers the probability that active employees will become disabled in the future. We believe this change in accounting method is preferable because it better aligns the recognition of expense with the periods in which the Company receives the benefit of the employees’ services, and will allow for better comparability with the method used by other companies in our industry.

We have retroactively applied this change in accounting method to all prior period amounts. As of December 31, 2011, the cumulative effect of the change decreased *Total equity* by $250 million.

The cumulative effect of this change on our consolidated balance sheet at December 31 was as follows (in millions):

	Revised 2013	As Originally Reported 2013	Effect of Change
Deferred income taxes	$13,468	$13,315	$ 153
Other liabilities and deferred revenue	40,886	40,462	424
Total equity	26,145	26,416	(271)

	Revised 2012	As Originally Reported 2012	Effect of Change
Deferred income taxes	$15,350	$15,185	$ 165
Other liabilities and deferred revenue	48,727	48,259	468
Total equity	15,686	15,989	(303)

The effect of this change was immaterial to our consolidated income statement and consolidated statement of cash flows for the years ended December 31, 2014, 2013, and 2012.

CHANGE IN ACCOUNTING ESTIMATES

1.52 CENTURYLINK, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(1) Basis of Presentation and Summary of Significant Accounting Policies (in part)

Changes in Estimates

As a result of our annual reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment, effective January 2014, we changed the estimates of the remaining economic lives of certain switch and circuit network equipment. These changes resulted in a net increase in depreciation expense of approximately $78 million for the year ended December 31, 2014. This net increase in depreciation expense, net of tax, reduced consolidated net income by approximately $48 million, or $0.08 per basic and diluted common share, for the year ended December 31, 2014.

Additionally, during the third quarter of 2014, we developed a plan to migrate customers from one of our networks to another between the fourth quarter of 2014 through the fourth quarter of 2015. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. These changes increased depreciation expense of approximately $12 million for the year ended December 31, 2014 and is expected to increase depreciation expense by approximately $48 million for 2015. The increase in depreciation expense, net of tax, reduced consolidated net income by approximately $7 million, or $0.01 per basic and diluted common share, for the year ended December 31, 2014.

During the fourth quarter 2013, we changed the estimates of the remaining economic lives of certain intangible assets, specifically, the Savvis trade name, which is no longer being utilized, and certain Savvis cloud software, which has been replaced by cloud software acquired through our more recent acquisitions. These changes resulted in an increase in amortization expense of approximately $23 million for the year ended December 31, 2014. This increase in amortization expense, net of tax, reduced consolidated net income by approximately $14 million, or $0.02 per basic and diluted common share, for the year ended December 31, 2014. As of December 31, 2014, the Savvis trade name and the Savvis cloud software were fully amortized.

1.53 TUTOR PERINI CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

[1] Description of Business and Summary of Significant Accounting Policies

(d) Use of and Changes in Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's construction business involves making significant estimates and assumptions in the normal course of business relating to its contracts and its joint venture contracts due to, among other things, the one-of-a-kind nature of most of its projects, the long-term duration of its contract cycle and the type of contract utilized.

The most significant estimates with regard to these financial statements relate to the estimating of total forecasted construction contract revenues, costs and profits in accordance with accounting for long-term contracts and estimating potential liabilities in conjunction with certain contingencies, including the outcome of pending or future litigation, arbitration or other dispute resolution proceedings relating to contract claims. Actual results could differ from these estimates and such differences could be material.

The Company's estimates of contract revenue and cost are highly detailed. The Company believes that, based on its experience, its current systems of management and accounting controls allow it to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labor, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions and the accuracy of the original bid estimate. Because the Company has many contracts in process at any given time, these changes in estimates can offset each other minimizing the impact on overall profitability. However, large changes in cost estimates on larger, more complex construction projects can have a material impact on the Company's financial statements and are reflected in results of operations when they become known.

Management focuses on evaluating the performance of contracts individually. These estimates and assumptions can vary in the normal course of business as projects progress, when estimated productivity assumptions change based on experience to date and uncertainties are resolved. Change orders and claims, as well as changes in related estimates of costs to complete, are considered revisions in estimates. The Company uses the cumulative catch-up method applicable to construction contract accounting to account for revisions in estimates. In the ordinary course of business, and at a minimum on a quarterly basis, the Company updates projected total contract revenue, cost and profit or loss for each of its contracts based on changes in facts, such as an approved scope change, and changes in estimates. Normal, recurring changes in estimates include, but are not limited to: (i) changes in estimated scope as a result of unapproved or unpriced customer change orders; (ii) changes in estimated productivity assumptions based on experience to date; (iii) changes in estimated materials costs based on experience to date; (iv) changes in estimated subcontractor costs based on subcontractor buyout experience; (v) changes in the timing of scheduled work that may impact future costs; (vi) achievement of incentive income; and (vii) changes in estimated recoveries through the settlement of litigation.

During the year ended December 31, 2014, our results of operations were impacted by $27.9 million because of changes in the estimated recoveries on two Civil segment projects driven by changes in cost recovery assumptions based on certain legal rulings issued during the second quarter of 2014, as well as a final settlement agreement regarding a Building segment project reached with our customer during the fourth quarter of 2014, which resulted in a $11.4 million increase in the estimated recovery projected for that project. With respect to the two Civil segment projects, during 2014 there was a $25.9 million favorable increase and a $9.4 million unfavorable decrease. These changes in estimates altogether resulted in an increase of $27.9 million in income from construction operations, $16.0 million in net income, and $0.33 in diluted earnings per common share during 2014.

During the year ended December 31, 2013, our results of operations were impacted by a $13.8 million increase in the estimated recovery projected for a Building segment project due to changes in facts and circumstances that occurred during 2013. This change in estimate resulted in an increase of $13.8 million in income from construction operations, $8.6 million in net income, and $0.18 in diluted earnings per common share during 2013.

Contracts vary in lengths and larger contracts can span over two to six years. At various stages of a contract's lifecycle, different types of changes in estimates are more typical. Generally during the early ramp up stage, cost estimates relating to purchases of materials and subcontractors are frequently subject to revisions. As a contract moves into the most productive phase of execution, change orders, project cost estimate revisions and claims are frequently the sources for changes in estimates. During the contract's final phase, remaining estimated costs to complete or provisions for claims will be closed out and adjusted based on actual costs incurred. The impact on operating margin in a reporting period and future periods from a change in estimate will depend on the stage of contract completion. Generally, if the contract is at an early stage of completion, the current period impact is smaller than if the same change in estimate is made to the contract at a later stage of completion. Likewise, if the company's overall project portfolio was to be at a later stage of completion during the reporting period, the overall gross margin could be subject to greater variability from changes in estimates.

When recording revenue on contracts relating to unapproved change orders and claims, the Company includes in revenue an amount less than or equal to the amount of costs incurred by it to date for contract price adjustments that it seeks to collect from customers for delays, errors in specifications or designs, change orders in dispute or unapproved as to scope or price, or other unanticipated additional costs, in each case when recovery of the costs is considered probable. The amount of unapproved change orders and claim revenues is included in Consolidated Balance Sheets as part of costs and estimated earnings in excess of billings. When determining the likelihood of eventual recovery, the Company considers such factors as evaluation of entitlement, settlements reached to date and our experience with the customer. The settlement of these issues may take years depending upon whether the item can be resolved directly with the customer or involves litigation or arbitration. When new facts become known, an adjustment to the estimated recovery is made and reflected in the current period results.

CORRECTION OF ERRORS

1.54 BALL CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Critical and Significant Accounting Policies (in part)

Revision of Prior Period Financial Statements Related to Deferred Taxes

During the second quarter of 2014, Ball identified errors in the determination of certain deferred tax amounts, originating in 2007 and prior, primarily related to fixed assets, Canadian entity valuation allowances and pension, other postretirement benefits and restructuring balances in a Canadian entity. The correction of these items impacted the consolidated balance sheets and statements of comprehensive earnings for the years ended December 31, 2013, 2012 and 2011, as presented in the company´s 2013 annual report and the unaudited condensed financial statements for each prior quarterly interim period. Additionally, as a result of these corrections, the 2012 consolidated statement of earnings should have included a tax provision related to the settlement of certain pension plans of the Canadian entity. The company assessed the applicable guidance issued by the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) and concluded that these misstatements were not material to Ball's consolidated financial statements for the aforementioned prior periods; however, the company did conclude that correcting these prior misstatements would be material to the second quarter and full year 2014 consolidated statements of earnings. As a result of this analysis, the 2013 and 2012 consolidated financial statements included in this annual report have been revised to reflect the proper determination of these deferred tax positions and all related impacts. Following is a summary of the financial statement line items impacted by this revision for all periods and statements included in this annual report:

Revised Consolidated Statement of Earnings Amounts

	Year Ended December 31, 2012		
($in millions, except per share amounts)	As Previously Reported	Adjustments	As Revised
Tax provision	$(165.0)	$ (7.2)	$(172.2)
Net earnings	426.5	(7.2)	419.3
Net earnings from continuing operations attributable to Ball	406.3	(7.2)	399.1
Basic earnings per share—continuing operations	$ 2.63	$(0.05)	$ 2.58
Diluted earnings per share—continuing operations	2.57	(0.05)	2.52

Revised Consolidated Statements of Comprehensive Earnings Amounts

	Year Ended December 31, 2013			Year Ended December 31, 2012		
($ in millions)	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
Net earnings	$435.0	$—	$435.0	$426.5	$(7.2)	$419.3
Pension and other postretirement benefits	79.2	0.5	79.7	(79.5)	7.2	(72.3)
Total comprehensive earnings	546.9	0.5	547.4	409.0	—	409.0
Comprehensive earnings attributable to Ball Corporation	518.5	0.5	519.0	386.3	—	386.3

Revised Consolidated Balance Sheets Amounts

	December 31, 2013			December 31, 2012		
($ in millions)	As Previously Reported	Adjustments	As Revised	As Previously Reported	Adjustments	As Revised
Deferred taxes and other current assets	$ 162.0	$ 5.2	$ 167.2	$ 190.8	$ 5.2	$ 196.0
Goodwill	2,404.3	(4.6)	2,399.7	2,359.4	(4.6)	2,354.8
Intangibles and other assets, net	577.5	—	577.5	531.6	13.0	544.6
Total assets	7,819.8	0.6	7,820.4	7,507.1	13.6	7,520.7
Deferred taxes and other liabilities	285.6	(24.1)	261.5	207.9	(10.6)	197.3
Total liabilities	6,428.5	(24.1)	6,404.4	6,217.1	(10.6)	6,206.5
Retained earnings	3,913.8	33.9	3,947.7	3,580.8	33.9	3,614.7
Accumulated other comprehensive earnings (loss)	(240.7)	(9.2)	(249.9)	(352.4)	(9.7)	(362.1)
Total shareholders´equity	1,391.3	24.7	1,416.0	1,290.0	24.2	1,314.2

1.55 MOLSON COORS BREWING COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Presentation and Summary of Significant Accounting Policies (in part)

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets, liabilities, and certain unrecognized gains and losses recorded in accumulated other comprehensive income (loss). Intraperiod tax allocation rules require that we allocate our provision for income taxes between continuing operations and other categories of earnings, such as discontinued operations and other comprehensive income (loss). The application of these rules indicated that no additional tax expense should be allocated outside of continuing operations for all years presented. We provide for taxes that may be payable if undistributed earnings of overseas subsidiaries were to be remitted to the U.S., except for those earnings that we consider to be permanently reinvested. Interest, penalties and offsetting positions related to unrecognized tax benefits are recognized as a component of income tax expense. Our deferred tax valuation allowances are primarily the result of uncertainties regarding the future realization of recorded tax benefits on tax loss carryforwards from operations in various jurisdictions. These valuation allowances are primarily related to deferred tax assets generated from net operating losses.

Unrecognized Tax Benefit Adjustments

During the second quarter of 2014, we identified that we had incorrectly omitted the recognition of a liability for specific uncertain tax positions related to fiscal year 2010 that resulted in an immaterial misstatement of unrecognized tax benefits and retained earnings within our historical reported consolidated balance sheets at December 31, 2013, December 29, 2012, December 31, 2011 and December 25, 2010. We determined the impact of the correction of this error to be too significant to record within our second quarter 2014 results and, therefore, revised our historical balance sheets accordingly. To correct for this error, in the second quarter of 2014, we revised the unrecognized tax benefits and retained earnings in the consolidated balance sheet as of December 31, 2013, and the consolidated statements of stockholders' equity as of December 31, 2013, December 29, 2012, and December 31, 2011. This correction resulted in an increase in the current portion of unrecognized tax benefits included within accounts payable and other current liabilities of $19.3 million, an increase in noncurrent unrecognized tax benefits of $14.4 million and a corresponding decrease to retained earnings of $33.7 million as of December 31, 2013, and December 29, 2012. See Note 7, "Income Tax" for further discussion.

7. Income Tax (in part)

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

	For the Years Ended		
(In millions)	December 31, 2014	December 31, 2013	December 29, 2012
Balance at beginning of year	$137.9	$109.2	$104.4
Additions for tax positions related to the current year	2.2	3.7	9.9
Additions for tax positions of prior years	20.4	59.2	8.6
Reductions for tax positions of prior years	(19.4)	(3.2)	(0.1)
Settlements	(55.4)	(2.6)	(0.9)
Release due to statute expiration and legislative changes	(18.4)	(24.9)	(14.4)
Foreign currency adjustment	(7.5)	(3.5)	1.7
Balance at end of year	$ 59.8	$137.9	$109.2

During the second quarter of 2014, we identified that we had incorrectly omitted recognizing a liability for uncertain tax positions related to fiscal year 2010 that resulted in an immaterial misstatement of income tax expense within the consolidated statement of operations for the year ended December 25, 2010, as well as the liability for unrecognized tax benefits and retained earnings within the consolidated balance sheets at December 31, 2013, December 29, 2012, December 31, 2011, and December 25, 2010. We have revised our current presentation of these amounts to correct for this error, which resulted in an increase in current unrecognized tax benefits of $19.3 million and noncurrent unrecognized tax benefits of $14.4 million as of December 31, 2013. This adjustment is reflected in the beginning and ending balances for 2013 and 2012 in the table above with a corresponding adjustment to retained earnings.

During the third quarter of 2014, we filed an amendment to certain historical U.S. tax returns and concurrently fully settled the current $19.3 million unrecognized tax benefit resulting from this adjustment. This settlement amount is included in the table above but did not impact our effective tax rate as it was settled for the amount of the liability. Additionally, upon expiration of certain statutes of limitations during the third quarter, we released a portion of the noncurrent unrecognized tax benefit adjustment, which resulted in a $6.3 million benefit to our current income tax expense. The remainder of the noncurrent unrecognized tax benefits is reflected in our consolidated balance sheet as of

December 31, 2014. These noncurrent items relate to tax years that are currently open, and amounts may differ from those to be determined upon closing of the positions. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for further discussion.

In addition to the $25.6 million decrease discussed above, the decrease in unrecognized tax positions during 2014 was further driven by the $34.9 million settlement of a tax audit and the impact of the resolution of the APA in Canada that were offset by the intended utilization of deferred tax assets and therefore did not impact our effective tax rate, the favorable resolution of tax audits resolved in Europe resulting in the release of $16.2 million of unrecognized tax positions and the release of unrecognized tax benefits due to expiration of the statute of limitations in Europe and Canada.

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, the amount ultimately paid upon resolution of issues may differ materially from the amount accrued.

During 2015, we anticipate that approximately $9 million to $14 million of unrecognized tax benefits will be released to reflect the closing of statutes of limitation in the U.S., Canada and Europe.

	For the Years Ended		
(In millions)	December 31, 2014	December 31, 2013	December 29, 2012
Reconciliation of Unrecognized Tax Benefits Balance			
Estimated interest and penalties	$ 7.2	$ 15.5	$ 8.5
Offsetting positions	(3.7)	(3.8)	(1.9)
Unrecognized tax positions	59.8	137.9	109.2
Total unrecognized tax benefits	$63.3	$149.6	$115.8
Presented net against non-current deferred tax assets	$37.9	$ —	$ —
Current (included in accounts payable and other current liabilities)	—	42.5	0.3
Non-current	25.4	107.1	115.5
Total unrecognized tax benefits	$63.3	$149.6	$115.8
Amount of unrecognized tax benefits that would impact the effective tax rate	$59.8	$137.9	$109.2

Consolidation

Author's Note

In March 2014, FASB issued ASU No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council)*. The amendments permit a private company lessee (the reporting entity) to elect an alternative not to apply VIE guidance to a lessor entity if (*a*) the private company lessee and the lessor entity are under common control; (*b*) the private company lessee has a lease arrangement with the lessor entity; (*c*) substantially all the activities between the private company lessee and the lessor entity are related to leasing activities (including supporting leasing activities) between those two entities; and (*d*) if the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor entity related to the asset leased by the private company, then the principal amount of the obligation at inception of such guarantee or collateral arrangement does not exceed the value of the asset leased by the private company from the lessor entity. Examples of supporting leasing activities between the private company lessee and the lessor entity include issuance of a guarantee and provision of collateral on the obligations of the lessor entity that are related to the asset(s) leased to the private company lessee. If elected, the accounting alternative should be applied retrospectively to all periods presented. The alternative will be effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance. As this accounting alternative is for private companies, none of the excerpts that follow will demonstrate its use.

In August 2014, FASB issued ASU No. 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force)*. The fair value of the financial assets of a collateralized financing entity, as determined under GAAP, may differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. Before this ASU, there was no specific guidance in GAAP on how a reporting entity should account for that difference. The amendments in this ASU provide an alternative to FASB ASC 820, *Fair Value Measurement*, for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate that difference. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of this ASU, the amendments clarify that (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of FASB ASC 820, and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. For entities other than public business entities, the amendments in this ASU are effective for annual periods ending after December 15, 2016, and interim periods beginning after December 15, 2016. Early adoption is permitted as of the beginning of an annual period. None of the examples that follow contain an example of these disclosures due to the effective date.

RECOGNITION AND MEASUREMENT

1.56 FASB ASC 810-10-10 states that the purpose of consolidated financial statements is to present, primarily for the benefit of the owners and creditors of the parent, the results of operations and the financial position of a parent and all its subsidiaries as if the consolidated group were a single economic entity. It is presumed that consolidated financial statements are more meaningful than separate financial statements and are usually necessary for a fair presentation when one of the entities in the consolidated group directly or indirectly has a controlling financial interest in the other entities.

1.57 As noted in the "Pending Content" in FASB ASC 810-10-05-8,

> [t]he Variable Interest Entities Subsections clarify the application of the General Subsections to certain legal entities in which equity investors do not have sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack any one of the following three characteristics:
>
> a. The power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance.
> b. The obligation to absorb the expected losses of the legal entity.
> c. The right to receive the expected residual returns of the legal entity.

Consolidated financial statements are usually necessary for a fair presentation if one of the entities in the consolidated group directly or indirectly has a controlling financial interest, typically a majority voting interest, in the other entities. Application of the majority voting interest requirement to certain types of entities may not identify the party with a controlling financial interest because that interest may be achieved through other arrangements. The "Pending Content" in FASB ASC 810-10-25-38 A explains that a reporting entity with a variable interest in a variable interest entity (VIE) should assess whether the reporting entity has a controlling financial interest in the VIE and, thus, is the VIE's primary beneficiary. The reporting enterprise with a variable interest(s) that provides the reporting entity with a controlling financial interest in a VIE will have both the following characteristics: (*a*) the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (*b*) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Only one reporting entity, if any, is expected to be identified as the primary beneficiary of a VIE. Although more than one reporting entity could have the obligation to absorb losses previously mentioned, only one reporting entity (if any) will have the power to direct the activities of a VIE that most significantly affect the VIE's economic performance. Further, the concept of a qualifying special-purpose entity no longer exists in FASB ASC.

1.58 FASB ASC 810 also establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and the deconsolidation of a subsidiary. A *noncontrolling interest* is the portion of equity (net assets) in a subsidiary not directly or indirectly attributable to a parent. FASB ASC 810-10-45-16 requires the entity to present any noncontrolling interest within the "Equity" or "Net Assets" section of the consolidated statement of financial position separately from the parent's equity or net assets.

1.59 It is preferable under FASB ASC that the subsidiary's financial statements have the same or nearly the same fiscal period as the parent. However, FASB ASC 810-10-45-12 states that for consolidation purposes, it is usually acceptable to use the subsidiary's financial statements if the difference in fiscal period is not more than approximately three months. In addition, when a difference in the fiscal periods exists, FASB ASC does not require adjustments to be made for the effects of significant transactions that occurred between the parents' and subsidiaries' fiscal year-ends. FASB ASC 810-10-45-12 does require recognition by disclosure or otherwise of the effect of intervening events that materially affect the financial position or results of operations.

1.60 FASB ASC 810-10-45-11 recognizes that an entity may need to prepare parent-entity (separate) financial statements in addition to consolidated financial statements. This paragraph provides guidance on how an entity may choose to present these statements. For example, consolidating financial statements, in which one column is used for the parent and other columns for particular subsidiaries or groups of subsidiaries, is an effective means of presenting the pertinent information.

PRESENTATION

1.61 FASB ASC 810-10-45-23 requires that a change in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest should be adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted should be recognized in equity attributable to the parent.

1.62 "Pending Content" in FASB ASC 810-10-40-4 states that a parent should deconsolidate a subsidiary or derecognize a group of assets specified in FASB ASC 810-10-40-3 A as of the date the parent ceases to have a controlling financial interest in that subsidiary or group of assets. FASB ASC 810-10-40-5 states that if a parent deconsolidates a subsidiary or derecognizes a group of assets through a nonreciprocal transfer to owners, such as a spinoff, the guidance in FASB ASC 845-10 applies. Otherwise, a parent should account for the deconsolidation of a subsidiary or derecognition of a group of assets by recognizing a gain or loss in net income attributable to the parent. This gain or loss is measured as the difference between (*a*) the aggregate of the fair value of any consideration received; the fair value of any retained noncontrolling interest in the former subsidiary or group of assets at the date the subsidiary is deconsolidated or the group of assets is derecognized, and the carrying amount of any noncontrolling interest in the former subsidiary, including any accumulated other comprehensive income attributable to the noncontrolling interest, at the date the subsidiary is deconsolidated and (*b*) the carrying amount of the former subsidiary's assets and liabilities or the carrying amount of the group of assets.

DISCLOSURE

1.63 FASB ASC 810-10-50-1 states in part that consolidated financial statements should disclose the consolidation policy that is being followed. In most cases, this can be made apparent by the headings or other information in the financial statements, but in other cases, a footnote is required.

1.64 FASB ASC 810-10-50-1 A also requires disclosure on the face of the consolidated financial statements of the amounts of consolidated net income and consolidated comprehensive income attributable to the parent and noncontrolling interest. Disclosures in the consolidated financial statements should clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. Those disclosures include a reconciliation of the beginning and ending balances of the equity attributable to the parent and noncontrolling owners and a schedule showing the effects of changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent.

PRESENTATION AND DISCLOSURE EXCERPTS

CONSOLIDATION

1.65 CHESAPEAKE ENERGY CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Presentation and Summary of Significant Accounting Policies (in part)

Consolidation

Chesapeake consolidates entities in which we have a controlling financial interest. We consolidate subsidiaries in which we hold, directly or indirectly, more than 50% of the voting rights and variable interest entities (VIEs) in which Chesapeake is the primary beneficiary. We use the equity method of accounting to record our net interests where Chesapeake has the ability to exercise significant influence through its investment. Under the equity method, our share of net income (loss) is included in our consolidated statements of operations according to our equity ownership or according to the terms of the applicable governing instrument. Investments in securities not accounted for under the equity method have been designated as available-for-sale and, as such, are carried at fair value whenever this value is readily determinable. Otherwise, the investment is carried at cost. See Note 14 for further discussion of our investments. Undivided interests in oil and natural gas exploration and production joint ventures are consolidated on a proportionate basis.

Noncontrolling Interests

Noncontrolling interests represent third-party equity ownership in certain of our consolidated subsidiaries and are presented as a component of equity. See Note 8 for further discussion of noncontrolling interests.

Variable Interest Entities

VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities independently, or (ii) have equity holders that do not have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the entity's losses, or the right to receive the entity's residual returns. We consolidate a VIE when we are the primary beneficiary, which is the party that has both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Along with a VIE that we consolidate, we also hold a variable interest in another VIE that is not consolidated because we are not the primary beneficiary. We continually monitor both our consolidated and unconsolidated VIEs to determine if any events have occurred that could cause the primary beneficiary to change. See Note 15 for further discussion of VIEs.

8. Equity (in part)

Noncontrolling Interests

Cleveland Tonkawa Financial Transaction. We formed CHK Cleveland Tonkawa, L.L.C. (CHK C-T) in March 2012 to continue development of a portion of our oil and natural gas assets in our Cleveland and Tonkawa plays. CHK C-T is an unrestricted subsidiary under our revolving credit facility agreement and is not a guarantor of, or otherwise liable for, any of our indebtedness or other liabilities, including indebtedness under our indentures. In exchange for all of the common shares of CHK C-T, we contributed to CHK C-T approximately 245,000 net acres of leasehold and the existing wells within an area of mutual interest in the plays between the top of the Tonkawa and the top of the Big Lime formations covering Ellis and Roger Mills counties in western Oklahoma. In March 2012, in a private placement, third-party investors contributed $1.25 billion in cash to CHK C-T in exchange for (i) 1.25 million preferred shares, and (ii) our obligation to deliver a 3.75% overriding royalty interest (ORRI) in the existing wells and up to 1,000 future net wells to be drilled on the contributed play leasehold. Subject to customary minority interest protections afforded the investors by the terms of the CHK C-T limited liability company agreement (the CHK C-T LLC Agreement), as the holder of all the common shares and the sole managing member of CHK C-T, we maintain voting and managerial control of CHK C-T and therefore include it in our consolidated financial statements. Of the $1.25 billion of investment proceeds, we allocated $225 million to the ORRI obligation and $1.025 billion to the preferred shares based on estimates of fair values. The remaining ORRI obligation is included in other current and long-term liabilities and the preferred shares are included in noncontrolling interests on our consolidated balance sheets. Pursuant to the CHK C-T LLC Agreement, CHK C-T is required to retain an amount of cash equal to the next two quarters of preferred dividend payments. The amount reserved, approximately $38 million as of December 31, 2014 and 2013, was reflected as restricted cash on our consolidated balance sheets.

Dividends on the preferred shares are payable on a quarterly basis at a rate of 6% per annum based on $1,000 per share. This dividend rate is subject to increase in limited circumstances in the event that, and only for so long as, any dividend amount is not paid in full for any quarter. As the managing member of CHK C-T, we may, at our sole discretion and election at any time after March 31, 2014, distribute certain excess cash of CHK C-T, as determined in accordance with the CHK C-T LLC Agreement and the development agreement, as amended. The optional distribution of excess cash is allocated 75% to the preferred shares (which is applied toward redemption of the preferred shares) and 25% to the common shares; provided, however, that in certain circumstances, as set forth in the CHK C-T L.L.C. Agreement and the development agreement, as amended, the optional distribution would be allocated 100% to the preferred shares (and applied toward redemption thereof). We may also, at our sole discretion and election, in accordance with the CHK C-T LLC Agreement, cause CHK C-T to redeem all or a portion of the CHK C-T preferred shares for cash. The preferred shares may be redeemed at a valuation equal to the greater of a 9% internal rate of return or a return on investment of 1.35 x, in each case inclusive of dividends paid through redemption at the rate of 6% per annum and optional distributions made through the applicable redemption date. In the event that redemption does not occur on or prior to March 31, 2019, the optional redemption valuation will increase to provide a 15% internal rate of return to the investors. The preferred shares can be redeemed on a pro-rata basis in accordance with the then-applicable redemption valuation formula. As of December 31, 2014 and 2013, the redemption price and the liquidation preference were approximately $1,185 and $1,245, respectively, per preferred share.

We initially committed to drill and complete, for the benefit of CHK C-T in the area of mutual interest, a minimum of 37.5 net wells per six-month period through 2013, inclusive of wells drilled in 2012, and 25 net wells per six-month period in 2014 through 2016, up to a minimum cumulative total of 300 net wells. In April 2014, the drilling commitment was amended to require us to drill and complete a minimum cumulative total of (i) 162.5 net wells by June 30, 2014 and (ii) 175 net wells by December 31, 2014. In January 2015, the drilling commitment was suspended. We are not required or allowed to drill any wells with respect to the CHK C-T properties unless we receive written notice from the owners of a majority of the preferred shares electing to lift the drilling prohibition. If we receive written notice at least 45 days prior to June 30, 2015, we will be required to drill and complete a minimum cumulative total of 225 net wells by June 30, 2016, and thereafter the minimum cumulative total will be increased by 25 net wells in each of the subsequent six-month periods ending December 31, 2017. If notice is not received by that time, future drilling commitment dates will be extended, as provided in the January 2015 amendment to the drilling commitment. If we fail to meet the then-current cumulative drilling commitment in any six-month period, any optional cash distributions will be distributed 100% to the investors. If we fail to meet the then-current cumulative drilling commitment in two consecutive six-month periods, the then-applicable internal rate of return to investors at redemption will increase by 3% per annum. In addition, if we fail to meet the then-current cumulative drilling commitment in four consecutive six-month periods, the then-applicable internal rate of return to investors at redemption will be increased by an additional 3% per annum. Any increase in the internal rate of return would be effective only until the end of the first succeeding six-month period in which we have met our then-current cumulative drilling commitment. CHK C-T is responsible for all capital and operating costs of the wells drilled for the benefit of the entity. Under the development agreement, approximately 17, 77 and 84 qualified net wells were added in 2014, 2013 and 2012, respectively. Through December 31, 2014, we had met all current drilling commitments associated with the CHK C-T transaction.

The CHK C-T investors' right to receive, proportionately, a 3.75% ORRI in the contributed wells and up to 1,000 future net wells on our contributed leasehold is subject to an increase to 5% on net wells earned in any year following a year in which we do not meet our net well commitment under the ORRI obligation, which runs from 2012 through the first quarter of 2025. However, in no event are we required to deliver to investors more than a total ORRI of 3.75% in existing wells and 1,000 future net wells. If at any time CHK C-T holds fewer net acres than would enable us to drill all then-remaining net wells on 160 -acre spacing, the investors have the right to require us to repurchase their right to receive ORRIs in the remaining net wells at the then-current fair market value of the remaining ORRIs. CHK C-T retains the right to repurchase the investors' right to receive ORRIs in the remaining net wells at the then-current fair market value of the remaining ORRIs once we have drilled a minimum of 867 net wells. The obligation to deliver future ORRIs has been recorded as a liability which will be settled through the conveyance of the underlying ORRIs to the investors on a net-well basis, at which time the associated liability will be reversed and the sale of the ORRIs reflected as an adjustment to the capitalized cost of our oil and natural gas properties. We had met our ORRI conveyance commitment as of December 31, 2013, but we did not meet the 2014 ORRI conveyance commitment as of December 31, 2014.

As of December 31, 2014 and 2013, $1.015 billion of noncontrolling interests on our consolidated balance sheets were attributable to CHK C-T. For 2014, 2013 and 2012, income of $75 million, $75 million and $57 million, respectively, was attributable to the noncontrolling interests of CHK C-T.

Utica Financial Transaction. We formed CHK Utica, L.L.C. (CHK Utica) in October 2011 to develop a portion of our Utica Shale oil and natural gas assets. In exchange for all of the common shares of CHK Utica, we contributed to CHK Utica approximately 700,000 net acres of leasehold and the existing wells within an area of mutual interest in the Utica Shale play covering 13 counties located primarily in eastern Ohio. During November and December 2011, in private placements, third-party investors contributed $1.25 billion in cash to CHK Utica in exchange for (i) 1.25 million preferred shares, and (ii) our obligation to deliver a 3% ORRI in 1,500 net wells to be drilled on certain of our Utica Shale leasehold.

In 2014, we repurchased all of the outstanding preferred shares of CHK Utica from third-party preferred shareholders for approximately $1.254 billion, or approximately $1,189 per share including accrued dividends. The $447 million difference between the cash paid for the preferred shares and the carrying value of the noncontrolling interest acquired is reflected in retained earnings and as a reduction to net income available to common stockholders for purposes of our EPS computations. Pursuant to the transaction, our obligation to pay quarterly dividends to third-party preferred shareholders was eliminated. In addition, the development agreement was terminated pursuant to the transaction, which eliminated our obligation to drill and complete a minimum number of wells within a specified period for the benefit of CHK Utica. Our repurchase of the outstanding preferred shares in CHK Utica did not affect our obligation to deliver a 3% ORRI in 1,500 net wells on certain Utica Shale leasehold.

The CHK Utica investors' right to receive, proportionately, a 3% ORRI in the first 1,500 net wells drilled on our Utica Shale leasehold is subject to an increase to 4% on net wells earned in any year following a year in which we do not meet our net well commitment under the ORRI obligation, which runs from 2012 through 2023. However, in no event are we required to deliver to investors more than a total ORRI of 3% in 1,500 net wells. If at any time we hold fewer net acres than would enable us to drill all then-remaining net wells on 150 -acre spacing, the investors have the right to require us to repurchase their right to receive ORRIs in the remaining net wells at the then-current fair market value of the remaining ORRIs. We retain the right to repurchase the investors' right to receive ORRIs in the remaining net wells at the then-current fair market value of the remaining ORRIs once we have drilled a minimum of 1,300 net wells. The obligation to deliver future ORRIs has been recorded as a liability which will be settled through the future conveyance of the underlying ORRIs to the investors on a net-well basis, at which time the associated liability will be reversed and the sale of the ORRIs reflected as an adjustment to the capitalized cost of our oil and natural gas properties. Because we did not meet our ORRI commitment in 2012, the ORRI increased to 4% for wells earned in 2013, and the ultimate number of wells in which we must assign an interest will be reduced accordingly. We met the 2013 ORRI conveyance commitment as of December 31, 2013 and met the 2014 ORRI conveyance commitment as of December 31, 2014 associated with the CHK Utica transaction.

As of December 31, 2014 and 2013, $0 and $807 million, respectively, of noncontrolling interests on our consolidated balance sheets were attributable to CHK Utica. In 2014, 2013 and 2012, income of approximately $43 million, $79 million and $88 million, respectively, was attributable to the noncontrolling interests of CHK Utica.

Chesapeake Granite Wash Trust. In November 2011, Chesapeake Granite Wash Trust (the Trust) sold 23,000,000 common units representing beneficial interests in the Trust at a price of $19.00 per common unit in its initial public offering. The common units are listed on the New York Stock Exchange and trade under the symbol "CHKR". We own 12,062,500 common units and 11,687,500 subordinated units, which in the aggregate represent an approximate 51% beneficial interest in the Trust. The Trust has a total of 46,750,000 units outstanding.

In connection with the initial public offering of the Trust, we conveyed royalty interests to the Trust that entitle the Trust to receive (i) 90% of the proceeds (after deducting certain post-production expenses and any applicable taxes) that we receive from the production of hydrocarbons from 69 producing wells, and (ii) 50% of the proceeds (after deducting certain post-production expenses and any applicable taxes) in 118 development wells that have been or will be drilled on approximately 45,400 gross acres (29,000 net acres) in the Colony Granite Wash play in Washita County in the Anadarko Basin of western Oklahoma. Pursuant to the terms of a development agreement with the Trust, we are obligated to drill, or cause to be drilled, the development wells at our own expense prior to June 30, 2016, and the Trust is not responsible for any costs related to the drilling of the development wells or any other operating or capital costs of the Trust properties. In addition, we granted to the Trust a lien on our remaining interests in the undeveloped properties that are subject to the development agreement in order to secure our drilling obligation to the Trust, although the maximum amount that may be recovered by the Trust under the lien cannot exceed $263 million initially and will be proportionately reduced as we fulfill our drilling obligation over time. As of December 31, 2014 and 2013, we had drilled or caused to be drilled approximately 102 and 82 development wells, respectively, as calculated under the development agreement, and the maximum amount recoverable under the drilling support lien was approximately $36 million and $79 million, respectively.

The subordinated units we hold in the Trust are entitled to receive pro rata distributions from the Trust each quarter if and to the extent there is sufficient cash to provide a cash distribution on the common units that is not less than the applicable subordination threshold for the quarter. If there is not sufficient cash to fund a distribution on all of the Trust units, the distribution to be made with respect to the subordinated units will be reduced or eliminated for the quarter in order to make a distribution, to the extent possible, of up to the subordination threshold amount on the common units. The distribution made with respect to the subordinated units to Chesapeake was either reduced or eliminated for each of the most recent ten quarters of distributions paid. In exchange for agreeing to subordinate a portion of our Trust units, and in order to provide additional financial incentive to us to satisfy our drilling obligation and perform operations on the underlying properties in an efficient and cost-effective manner, Chesapeake is entitled to receive incentive distributions equal to 50% of the amount by which the cash available for distribution on the Trust units in any quarter exceeds the applicable incentive threshold for the quarter. The remaining 50% of cash available for distribution in excess of the applicable incentive threshold will be paid to Trust unitholders, including Chesapeake, on a pro rata basis. Through December 31, 2014, no incentive distributions had been made. At the end of the fourth full calendar quarter following our satisfaction of our drilling obligation with respect to the development wells, the subordinated units will automatically convert into common units on a one-for-one basis and our right to receive incentive distributions will terminate. After such time, the common units will no longer have the protection of the subordination threshold, and all Trust unitholders will share in the Trust's distributions on a pro rata basis.

For the years ended December 31, 2014, 2013 and 2012, the Trust declared and paid the following distributions:

Production Period	Distribution Date	Cash Distribution per Common Unit	Cash Distribution per Subordinated Unit
June 2014—August 2014	December 1, 2014	$0.5079	$ —
March 2014—May 2014	August 29, 2014	$0.5796	$ —
December 2013—February 2014	May 30, 2014	$0.6454	$ —
September 2013—November 2013	March 3, 2014	$0.6624	$ —
June 2013—August 2013	November 29, 2013	$0.6671	$ —
March 2013—May 2013	August 29, 2013	$0.6900	$0.1432
December 2012—February 2013	May 31, 2013	$0.6900	$0.3010
September 2012—November 2012	March 1, 2013	$0.6700	$0.3772
June 2012—August 2012	November 29, 2012	$0.6300	$0.2208
March 2012—May 2012	August 30, 2012	$0.6100	$0.4819
December 2011—February 2012	May 31, 2012	$0.6588	$0.6588
September 2011—November 2011	March 1, 2012	$0.7277	$0.7277

We have determined that the Trust is a variable interest entity (VIE) and that Chesapeake is the primary beneficiary. As a result, the Trust is included in our consolidated financial statements. As of December 31, 2014 and 2013, $287 million and $314 million, respectively, of noncontrolling interests on our consolidated balance sheets were attributable to the Trust. In 2014, 2013 and 2012, income of approximately $24 million, $20 million and $35 million, respectively, was attributable to the Trust's noncontrolling interests in our consolidated statements of operations. See Note 15 for further discussion of VIEs.

Wireless Seismic, Inc. As of December 31, 2014, we no longer consolidated Wireless Seismic, Inc. (Wireless), a privately owned company engaged in research, development and production of wireless seismic systems and related technology that delivers seismic information obtained from standard geophones in real time to personal computers. Because we no longer have a controlling equity interest in Wireless, our interest is included in investments in our consolidated balance sheet and within other in the table in Note 14.

15. Variable Interest Entities

We consolidate the activities of VIEs for which we are the primary beneficiary. In order to determine whether we own a variable interest in a VIE, we perform qualitative analysis of the entity's design, organizational structure, primary decision makers and relevant agreements.

Consolidated VIE

Chesapeake Granite Wash Trust. For a discussion of the formation, operations and presentation of the Trust, see *Noncontrolling Interests* in Note 8. The Trust is considered a VIE due to the lack of voting or similar decision-making rights by its equity holders regarding activities that have a significant effect on the economic success of the Trust. Our ownership in the Trust and our obligations under the development agreement and related drilling support lien constitute variable interests. We have determined that we are the primary beneficiary of the Trust because (i) we have the power to direct the activities that most significantly impact the economic performance of the Trust via our obligations to perform under the development agreement, and (ii) as a result of the subordination and incentive thresholds applicable to the subordinated units we hold in the Trust, we have the obligation to absorb losses and the right to receive residual returns that could potentially be significant to the Trust. As a result, we consolidate the Trust in our financial statements, and the common units of the Trust owned by third parties are reflected as a noncontrolling interest.

The Trust is a consolidated entity whose legal existence is separate from Chesapeake and our other consolidated subsidiaries, and the Trust is not a guarantor of any of Chesapeake's debt. The creditors or beneficial holders of the Trust have no recourse to the general credit of Chesapeake; however, we have certain obligations to the Trust through the development agreement that are secured by a drilling support lien on our retained interest in the development wells up to a specified maximum amount recoverable by the Trust, which could result in the Trust acquiring all or a portion of our retained interest in the undeveloped portion of an area of mutual interest, if we do not meet our drilling commitment. In consolidation, as of December 31, 2014, $1 million of cash and cash equivalents, $16 million of short-term derivative assets, $488 million of proved oil and natural gas properties, $251 million of accumulated depreciation, depletion and amortization and $15 million of other current liabilities were attributable to the Trust. We have presented parenthetically on the face of the consolidated balance sheets the assets of the Trust that can be used only to settle obligations of the Trust and the liabilities of the Trust for which creditors do not have recourse to the general credit of Chesapeake.

Unconsolidated VIE

Mineral Acquisition Company I, L.P. In 2012, MAC-LP, L.L.C., a wholly owned non-guarantor unrestricted subsidiary of Chesapeake, entered into a partnership agreement with KKR Royalty Aggregator LLC (KKR) to form Mineral Acquisition Company I, L.P. The purpose of the partnership is to acquire mineral interests, or royalty interests carved out of mineral interests, in oil and natural gas basins in the continental United States. We are committed to acquire for our own account (outside the partnership) 10% of any acquisition agreed upon by the partnership up to a maximum of $25 million, and the partnership will acquire the remaining 90% up to a maximum of $225 million, funded entirely by KKR, making KKR the sole equity investor. We have significant influence over the decisions made by the partnership, as we hold two of five seats on the board of directors. We will receive proportionate distributions from the partnership of any cash received from royalties in excess of expenses paid, ranging from 7% to 22.5%. The partnership is considered a VIE because KKR's control over the partnership is disproportionate to its economic interest. This VIE remains unconsolidated as the power to direct the activities of the partnership is shared between the Company and KKR. We are using the equity method to account for this investment. The carrying value of our investment was $9 million as of December 31, 2014.

22. Condensed Consolidating Financial Information

Chesapeake Energy Corporation is a holding company, owns no operating assets and has no significant operations independent of its subsidiaries. Our obligations under our outstanding senior notes and contingent convertible senior notes listed in Note 3 are fully and unconditionally guaranteed, jointly and severally, by certain of our 100% owned subsidiaries on a senior unsecured basis. Subsidiaries with noncontrolling interests, consolidated variable interest entities and certain de minimis subsidiaries are non-guarantors. Our former oilfield services subsidiaries were separately capitalized and were not guarantors of our debt obligations.

The tables below are condensed consolidating financial statements for Chesapeake Energy Corporation (parent) on a stand-alone, unconsolidated basis, and its combined guarantor and combined non-guarantor subsidiaries as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012. This financial information may not necessarily be indicative of our results of operations, cash flows or financial position had these subsidiaries operated as independent entities.

CONDENSED CONSOLIDATING BALANCE SHEET AS OF DECEMBER 31, 2014

($ in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 4,100	$ 2	$ 84	$ (78)	$ 4,108
Restricted cash	—	—	38	—	38
Other	55	3,174	93	—	3,322
Intercompany receivable, net	24,527	—	341	(24,868)	—
Total Current Assets	28,682	3,176	556	(24,946)	7,468
Property And Equipment:					
Oil and natural gas properties, at cost based on full cost accounting, net	—	28,358	1,112	673	30,143
Other property and equipment, net	—	2,276	3	—	2,279
Property and equipment held for sale, net	—	93	—	—	93
Total Property and Equipment, Net	—	30,727	1,115	673	32,515
Long-Term Assets:					
Other assets	153	618	26	(29)	768
Investments in subsidiaries and intercompany advances	126	467	—	(593)	—
Total Assets	$28,961	$34,988	$1,697	$(24,895)	$40,751
Current Liabilities:					
Current liabilities	$ 792	$ 5,084	$ 68	$ (81)	$ 5,863
Intercompany payable, net	—	24,937	—	(24,937)	—
Total Current Liabilities	792	30,021	68	(25,018)	5,863
Long-Term Liabilities:					
Long-term debt, net	11,154	—	—	—	11,154
Deferred income tax liabilities	—	3,751	234	200	4,185
Other long-term liabilities	112	1,090	142	—	1,344
Total Long-Term Liabilities	11,266	4,841	376	200	16,683
Equity:					
Chesapeake stockholders' equity	16,903	126	1,253	(1,379)	16,903
Noncontrolling interests	—	—	—	1,302	1,302
Total Equity	16,903	126	1,253	(77)	18,205
Total Liabilities And Equity	$28,961	$34,988	$1,697	$(24,895)	$40,751

CONDENSED CONSOLIDATING BALANCE SHEET YEAR ENDED DECEMBER 31, 2013

($ in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 799	$ 8	$ 38	$ (8)	$ 837
Restricted cash	—	37	38	—	75
Other	103	2,465	524	(348)	2,744
Intercompany receivable, net	25,549	—	860	(26,409)	—
Total Current Assets	26,451	2,510	1,460	(26,765)	3,656
Property And Equipment:					
Oil and natural gas properties, at cost based on full cost accounting, net	—	30,933	1,471	189	32,593
Other property and equipment, net	—	2,360	1,452	(1)	3,811
Property and equipment held for sale, net	—	701	29	—	730
Total Property and Equipment, Net	—	33,994	2,952	188	37,134
Long-Term Assets:					
Other assets	111	1,161	96	(376)	992
Investments in subsidiaries and intercompany advances	2,169	(209)	—	(1,960)	—
Total Assets	$28,731	$37,456	$4,508	$(28,913)	$41,782
Current Liabilities:					
Current liabilities	$ 300	$ 5,262	$ 309	$ (356)	$ 5,515
Intercompany payable, net	—	26,409	—	(26,409)	—
Total Current Liabilities	300	31,671	309	(26,765)	5,515
Long-Term Liabilities:					
Long-term debt, net	11,831	—	1,055	—	12,886
Deferred income tax liabilities	209	2,338	773	87	3,407
Other long-term liabilities	396	1,278	504	(344)	1,834
Total Long-Term Liabilities	12,436	3,616	2,332	(257)	18,127
Equity:					
Chesapeake stockholders' equity	15,995	2,169	1,867	(4,036)	15,995
Noncontrolling interests	—	—	—	2,145	2,145
Total Equity	15,995	2,169	1,867	(1,891)	18,140
Total Liabilities And Equity	$28,731	$37,456	$4,508	$(28,913)	$41,782

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2014

($ in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Oil, natural gas and NGL	$ —	$ 7,765	$ 418	$ (3)	$ 8,180
Marketing, gathering and compression	—	12,220	5	—	12,225
Oilfield services	—	41	983	(478)	546
Total Revenues	—	20,026	1,406	(481)	20,951
Operating Expenses:					
Oil, natural gas and NGL production	—	1,166	42	—	1,208
Production taxes	—	227	5	—	232
Marketing, gathering and compression	—	12,232	4	—	12,236
Oilfield services	—	53	769	(391)	431
General and administrative	—	273	49	—	322
Restructuring and other termination costs	—	4	3	—	7
Provision for legal contingencies	100	134	—	—	234
Oil, natural gas and NGL depreciation, depletion and amortization	—	2,523	162	(2)	2,683
Depreciation and amortization of other assets	—	153	143	(64)	232
Impairment of oil and natural gas properties	—	—	349	(349)	—
Impairments of fixed assets and other	—	65	23	—	88
Net gains on sales of fixed assets	—	(192)	(7)	—	(199)
Total Operating Expenses	100	16,638	1,542	(806)	17,474
Income (Loss) From Operations	(100)	3,388	(136)	325	3,477

(continued)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2014

($ in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Other Income (Expense):					
Interest expense	(657)	(37)	(42)	647	(89)
Losses on investments	—	(77)	(5)	2	(80)
Net gain on sales of investments	—	67	—	—	67
Losses on purchases of debt	(195)	(2)	—	—	(197)
Other income (expense)	502	198	(2)	(676)	22
Equity in net earnings (losses) of subsidiary	2,206	(258)	—	(1,948)	—
Total Other Income (Expense)	1,856	(109)	(49)	(1,975)	(277)
Income (Loss) Before Income Taxes	1,756	3,279	(185)	(1,650)	3,200
Income Tax Expense (Benefit)	(161)	1,264	(66)	107	1,144
Net Income (Loss)	1,917	2,015	(119)	(1,757)	2,056
Net income attributable to noncontrolling interests	—	—	—	(139)	(139)
Net Income Attributable To Chesapeake	1,917	2,015	(119)	(1,896)	1,917
Other comprehensive income	1	18	—	—	19
Comprehensive Income (Loss) Attributable To Chesapeake	$1,918	$ 2,033	$ (119)	$(1,896)	$1,936

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2013

($ in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Oil, natural gas and NGL	$ —	$ 6,439	$ 553	$ 60	$ 7,052
Marketing, gathering and compression	—	9,547	12	—	9,559
Oilfield services	—	221	1,836	(1,162)	895
Total Revenues	—	16,207	2,401	(1,102)	17,506
Operating Expenses:					
Oil, natural gas and NGL production	—	1,112	47	—	1,159
Production taxes	—	222	7	—	229
Marketing, gathering and compression	—	9,455	6	—	9,461
Oilfield services	—	239	1,434	(937)	736
General and administrative	—	375	83	(1)	457
Restructuring and other termination costs	—	244	4	—	248
Oil, natural gas and NGL depreciation, depletion and amortization	—	2,336	253	—	2,589
Depreciation and amortization of other assets	—	180	281	(147)	314
Impairment of oil and natural gas properties	—	(2)	313	(311)	—
Impairments of fixed assets and other	—	417	129	—	546
Net gains on sales of fixed assets	—	(301)	(1)	—	(302)
Total Operating Expenses	—	14,277	2,556	(1,396)	15,437
Income (Loss) From Operations	—	1,930	(155)	294	2,069
Other Income (Expense):					
Interest expense	(921)	(4)	(85)	783	(227)
Losses on investments	—	(225)	(1)	—	(226)
Net loss on sales of investments	—	(7)	—	—	(7)
Losses on purchases of debt	(70)	(123)	—	—	(193)
Other income	3,979	(603)	13	(3,363)	26
Equity in net earnings (losses) of subsidiary	(1,129)	(383)	—	1,512	—
Total Other Income (Expense)	1,859	(1,345)	(73)	(1,068)	(627)
Income (Loss) Before Income Taxes	1,859	585	(228)	(774)	1,442
Income Tax Expense (Benefit)	1,135	370	(87)	(870)	548
Net Income (Loss)	724	215	(141)	96	894
Net income attributable to noncontrolling interests	—	—	—	(170)	(170)
Net Income (Loss) Attributable To Chesapeake	724	215	(141)	(74)	724
Other comprehensive income (loss)	3	19	(2)	—	20
Comprehensive Income Attributable To Chesapeake	$ 727	$ 234	$ (143)	$ (74)	$ 744

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2012

		Guarantor	Non-Guarantor		
($ in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Revenues:					
Oil, natural gas and NGL	$ —	$ 5,920	$ 351	$ 7	$ 6,278
Marketing, gathering and compression	—	5,218	212	1	5,431
Oilfield services	—	154	1,553	(1,100)	607
Total Revenues	—	11,292	2,116	(1,092)	12,316
Operating Expenses:					
Oil, natural gas and NGL production	—	1,278	26	—	1,304
Production taxes	—	182	6	—	188
Marketing, gathering and compression	—	5,197	115	—	5,312
Oilfield services	—	301	1,096	(932)	465
General and administrative	—	431	105	(1)	535
Restructuring and other termination costs	—	5	2	—	7
Oil, natural gas and NGL depreciation, depletion and amortization	—	2,353	154	—	2,507
Depreciation and amortization of other assets	—	187	266	(149)	304
Impairment of oil and natural gas properties	—	3,192	123	—	3,315
Impairments of fixed assets and other	—	275	65	—	340
Net gains (losses) on sales of fixed assets	—	(269)	2	—	(267)
Total Operating Expenses	—	13,132	1,960	(1,082)	14,010
Income (Loss) From Operations	—	(1,840)	156	(10)	(1,694)
Other Income (Expense):					
Interest expense	(879)	45	(84)	841	(77)
Losses on investments	—	(167)	55	9	(103)
Net gain on sales of investments	—	29	1,063	—	1,092
Losses on purchases of debt	(200)	—	—	—	(200)
Other income (loss)	819	203	14	(1,028)	8
Equity in net earnings (losses) of subsidiary	(610)	436	—	174	—
Total Other Income (Expense)	(870)	546	1,048	(4)	720
Income (Loss) Before Income Taxes	(870)	(1,294)	1,204	(14)	(974)
Income Tax Expense (Benefit)	(101)	(675)	470	(74)	(380)
Net Income (Loss)	(769)	(619)	734	60	(594)
Net income attributable to noncontrolling interests	—	—	—	(175)	(175)
Net Income (Loss) Attributable To Chesapeake	(769)	(619)	734	(115)	(769)
Other comprehensive income (loss)	6	(22)	—	—	(16)
Comprehensive Income Attributable To Chesapeake	$(763)	$ (641)	$ 734	$ (115)	$ (785)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014

		Guarantor	Non-Guarantor		
($ in millions)	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities	$ —	$ 4,201	$ 462	$(29)	$ 4,634
Cash Flows From Investing Activities:					
Drilling and completion costs	—	(4,445)	(136)	—	(4,581)
Acquisitions of proved and unproved properties	—	(1,306)	(5)	—	(1,311)
Proceeds from divestitures of proved and unproved properties	—	5,812	1	—	5,813
Additions to other property and equipment	—	(480)	(246)	—	(726)
Other investing activities	—	1,199	60	—	1,259
Net Cash Provided By (Used In) Investing Activities	—	780	(326)	—	454
Cash Flows From Financing Activities:					
Proceeds from credit facilities borrowings	—	6,689	717	—	7,406
Payments on credit facilities borrowings	—	(6,689)	(1,099)	—	(7,788)
Proceeds from issuance of senior notes, net of discount and offering costs	2,966	—	494	—	3,460
Proceeds from issuance of term loans, net of discount and offering costs	—	—	394	—	394
Cash paid to purchase debt	(3,362)	—	—	—	(3,362)
Other financing activities	(439)	(1,278)	(169)	(41)	(1,927)
Intercompany advances, net	4,136	(3,709)	(427)	—	—
Net Cash Provided By (Used In) Financing Activities	3,301	(4,987)	(90)	(41)	(1,817)
Net increase (decrease) in cash and cash equivalents	3,301	(6)	46	(70)	3,271
Cash and cash equivalents, beginning of period	799	8	38	(8)	837
Cash and cash equivalents, end of period	$ 4,100	$ 2	$ 84	$(78)	$ 4,108

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2013

($ in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities	$ —	$ 4,218	$ 439	$ (43)	$ 4,614
Cash Flows From Investing Activities:					
Drilling and completion costs	—	(4,838)	(766)	—	(5,604)
Acquisitions of proved and unproved properties	—	(1,378)	346	—	(1,032)
Proceeds from divestitures of proved and unproved properties	—	3,466	1	—	3,467
Additions to other property and equipment	—	(271)	(701)	—	(972)
Other investing activities	—	246	765	163	1,174
Net Cash Provided By (Used In) Investing Activities	—	(2,775)	(355)	163	(2,967)
Cash Flows From Financing Activities:					
Proceeds from credit facilities borrowings	—	6,452	1,217	—	7,669
Payments on credit facilities borrowings	—	(6,452)	(1,230)	—	(7,682)
Proceeds from issuance of senior notes, net of discount and offering costs	2,274	—	—	—	2,274
Cash paid to purchase debt	(2,141)	—	—	—	(2,141)
Proceeds from sales of noncontrolling interests	—	—	6	—	6
Other financing activities	1,819	(2,897)	(17)	(128)	(1,223)
Intercompany advances, net	(1,381)	1,462	(81)	—	—
Net Cash Provided By (Used In) Financing Activities	571	(1,435)	(105)	(128)	(1,097)
Net increase (decrease) in cash and cash equivalents	571	8	(21)	(8)	550
Cash and cash equivalents, beginning of period	228	—	59	—	287
Cash and cash equivalents, end of period	$ 799	$ 8	$ 38	$ (8)	$ 837

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

($ in millions)	Parent[a]	Guarantor Subsidiaries[a]	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows From Operating Activities	$ —	$ 1,711	$ 1,182	$ (56)	$ 2,837
Cash Flows From Investing Activities:					
Drilling and completion costs	—	(8,605)	(325)	—	(8,930)
Acquisitions of proved and unproved properties	—	(3,622)	461	—	(3,161)
Proceeds from divestitures of proved and unproved properties	—	5,884	—	—	5,884
Additions to other property and equipment	—	(1,736)	(915)	—	(2,651)
Other investing activities	—	5,083	(316)	(893)	3,874
Net Cash Used In Investing Activities	—	(2,996)	(1,095)	(893)	(4,984)
Cash Flows From Financing Activities:					
Proceeds from credit facilities borrowings	—	18,930	1,388	—	20,318
Payments on credit facilities borrowings	—	(20,651)	(999)	—	(21,650)
Proceeds from issuance of senior notes, net of discount and offering costs	1,263	—	—	—	1,263
Proceeds from issuance of term loans, net of discount and offering costs	5,722	—	—	—	5,722
Cash paid to purchase debt	(4,000)	—	—	—	(4,000)
Proceeds from sales of noncontrolling interests	—	63	1,014	—	1,077
Other financing activities	(477)	(299)	(820)	949	(647)
Intercompany advances, net	(2,282)	3,242	(960)	—	—
Net Cash Provided By (Used In) Financing Activities	226	1,285	(377)	949	2,083
Net increase (decrease) in cash and cash equivalents	226	—	(290)	—	(64)
Cash and cash equivalents, beginning of period	2	—	349	—	351
Cash and cash equivalents, end of period	$ 228	$ —	$ 59	$ —	$ 287

[a] We have revised the amounts presented as cash and cash equivalents in the Guarantor Subsidiaries and Parent columns to properly reflect the cash of the Parent. As of December 31, 2012, $228 million was incorrectly presented in the Guarantor Subsidiaries column. The impact of this error was not material to any previously issued financial statements.

1.66 CITIGROUP INC. (DEC)

CONSOLIDATED BALANCE SHEET

Citigroup Inc. and Subsidiaries

	December 31,	
In millions of dollars	2014	2013
Assets		
Cash and due from banks (including segregated cash and other deposits)	$ 32,108	$ 29,885
Deposits with banks	128,089	169,005
Federal funds sold and securities borrowed or purchased under agreements to resell (including $144,191 and $144,083 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	242,570	257,037
Brokerage receivables	28,419	25,674
Trading account assets (including $106,217 and $106,695 pledged to creditors at December 31, 2014 and December 31, 2013, respectively)	296,786	285,928
Investments:		
Available for Sale (including $13,808 and $22,258 pledged to creditors as of December 31, 2014 and December 31, 2013, respectively)	300,143	286,511
Held to Maturity (including $2,974 and $4,730 pledged to creditors as of December 31, 2014 and December 31, 2013, respectively)	23,921	10,599
Non-Marketable Equity Securities (including $2,758 and $4,705 at fair value as of December 31, 2014 and December 31, 2013 respectively)	9,379	11,870
Total investments	$ 333,443	$ 308,980
Loans:		
Consumer (including $43 and $957 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	369,970	393,831
Corporate (including $5,858 and $4,072 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	274,665	271,641
Loans, net of unearned income	$ 644,635	$ 665,472
Allowance for loan losses	(15,994)	(19,648)
Total loans, net	$ 628,641	$ 645,824
Goodwill	23,592	25,009
Intangible assets (other than MSRs)	4,566	5,056
Mortgage servicing rights (MSRs)	1,845	2,718
Other assets (including $7,762 and $7,123 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	122,471	125,266
Total assets	$1,842,530	$1,880,382

The following table presents certain assets of consolidated variable interest entities (VIEs), which are included in the Consolidated Balance Sheet above. The assets in the table below include those assets that can only be used to settle obligations of consolidated VIEs, presented on the following page, and are in excess of those obligations. Additionally, the assets in the table below include third-party assets of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation.

	December 31,	
In millions of dollars	2014	2013
Assets of Consolidated VIEs to be Used to Settle Obligations of Consolidated VIEs		
Cash and due from banks	$ 300	$ 362
Trading account assets	671	977
Investments	8,014	10,950
Loans, net of unearned income		
Consumer (including $0 and $910 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	66,383	63,493
Corporate (including $0 and $14 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	29,596	31,919
Loans, net of unearned income	$ 95,979	$ 95,412
Allowance for loan losses	(2,793)	(3,502)
Total loans, net	$ 93,186	$ 91,910
Other assets	619	1,234
Total assets of consolidated VIEs to be used to settle obligations of consolidated VIEs	$102,790	$105,433

	December 31,	
In millions of dollars, except shares and per share amounts	2014	2013
Liabilities		
Non-interest-bearing deposits in U.S. offices	$ 128,958	$ 128,399
Interest-bearing deposits in U.S. offices (including $994 and $988 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	284,978	284,164
Non-interest-bearing deposits in offices outside the U.S.	70,925	69,406
Interest-bearing deposits in offices outside the U.S. (including $690 and $689 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	414,471	486,304
Total deposits	$ 899,332	$ 968,273
Federal funds purchased and securities loaned or sold under agreements to repurchase (including $36,725 and $54,147 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	173,438	203,512
Brokerage payables	52,180	53,707
Trading account liabilities	139,036	108,762
Short-term borrowings (including $1,496 and $3,692 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	58,335	58,944
Long-term debt (including $26,180 and $26,877 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	223,080	221,116
Other liabilities (including $1,776 and $2,011 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	85,084	59,935
Total liabilities	$1,630,485	$1,674,249
Stockholders' equity		
Preferred stock ($1.00 par value; authorized shares: 30 million), issued shares: 418,720 as of December 31, 2014 and 269,520 as of December 31, 2013, at aggregate liquidation value	$ 10,468	$ 6,738
Common stock ($0.01 par value; authorized shares: 6 billion), issued shares: 3,082,037,568 as of December 31, 2014 and 3,062,098,976 as of December 31, 2013	31	31
Additional paid-in capital	107,979	107,193
Retained earnings	118,201	111,168
Treasury stock, at cost: December 31, 2014—58,119,993 shares and December 31, 2013—32,856,062 shares	(2,929)	(1,658)
Accumulated other comprehensive income (loss)	(23,216)	(19,133)
Total Citigroup stockholders' equity	$ 210,534	$ 204,339
Noncontrolling interest	1,511	1,794
Total equity	$ 212,045	$ 206,133
Total liabilities and equity	$1,842,530	$1,880,382

The following table presents certain liabilities of consolidated VIEs, which are included in the Consolidated Balance Sheet above. The liabilities in the table below include third-party liabilities of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts where creditors or beneficial interest holders have recourse to the general credit of Citigroup.

	December 31,	
In millions of dollars	2014	2013
Liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Citigroup		
Short-term borrowings	$20,254	$21,793
Long-term debt (including $0 and $909 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	40,078	34,743
Other liabilities	901	999
Total liabilities of consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of Citigroup	$61,233	$57,535

The Notes to the Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Citigroup and its subsidiaries prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments of designated venture capital subsidiaries or investments accounted for at fair value under the fair value option, are accounted for under the equity method, and the pro rata share of their income (loss) is included in *Other revenue*. Income from investments in less than 20% owned companies is recognized when dividends are received. As discussed in more detail in Note 22 to the Consolidated Financial Statements, Citigroup also consolidates entities deemed to be variable interest entities when Citigroup is determined to be the primary beneficiary. Gains and losses on the disposition of branches, subsidiaries, affiliates, buildings, and other investments are included in *Other revenue*.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in Accounting Standards Codification (ASC) Topic 810, *Consolidation*, which are: (i) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the entity's expected losses or expected returns.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the VIE's economic performance and a right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE (that is, Citi is the primary beneficiary).

In addition to variable interests held in consolidated VIEs, the Company has variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary. These include multi-seller finance companies, certain collateralized debt obligations (CDOs), many structured finance transactions and various investment funds. However, these VIEs and all other unconsolidated VIEs are monitored by the Company to assess whether any events have occurred to cause its primary beneficiary status to change. These events include:

- purchases or sales of variable interests by Citigroup or an unrelated third party, which cause Citigroup's overall variable interest ownership to change;
- changes in contractual arrangements that reallocate expected losses and residual returns among the variable interest holders;
- changes in the party that has power to direct the activities of a VIE that most significantly impact the entity's economic performance; and
- providing financial support to an entity that results in an implicit variable interest.

All other entities not deemed to be VIEs with which the Company has involvement are evaluated for consolidation under other subtopics of ASC 810.

Measuring the Financial Assets and Liabilities of a Consolidated Collateralized Financial Entity

In August 2014, the FASB issued ASU No. 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*, which provides two alternative methods for measuring the fair value of a consolidated Collateralized Financing Entity's (CFE) financial assets and financial liabilities. This election is made separately for each CFE subject to the scope of the ASU. The first method requires the fair value of the financial assets and liabilities to be measured using the requirements of ASC Topic 820, *Fair Value Measurements and Disclosures*, with any differences between the fair value of the financial assets and financial liabilities being attributed to the CFE and reflected in earnings in the consolidated statement of income. The alternative method requires measuring both the financial assets and financial liabilities using the more observable of the fair value of the assets or liabilities. The alternative method would also take into consideration the carrying value of any beneficial interests of the CFE held by the parent, including those representing compensation for services, and the carrying value of any nonfinancial assets held temporarily. The ASU will be effective for Citi from the first quarter of 2016 and is not expected to have a material effect on the Company.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which is intended to improve certain areas of consolidation guidance for legal entities such as limited partnerships, limited liability companies, and securitization structures. The ASU will reduce the number of consolidation models. The ASU will be effective on January 1, 2016. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the effect that ASU 2015-02 will have on its Consolidated Financial Statements.

22. Securitizations and Variable Interest Entities

Uses of Special Purpose Entities

A special purpose entity (SPE) is an entity designed to fulfill a specific limited need of the company that organized it. The principal uses of SPEs by Citi are to obtain liquidity and favorable capital treatment by securitizing certain financial assets, to assist clients in securitizing their financial assets and to create investment products for clients. SPEs may be organized in various legal forms, including trusts, partnerships or corporations. In a securitization, the company transferring assets to an SPE converts all (or a portion) of those assets into cash before they would have been realized in the normal course of business through the SPE's issuance of debt and equity instruments, certificates, commercial paper or other notes of indebtedness. These issuances are recorded on the balance sheet of the SPE, which may or may not be consolidated onto the balance sheet of the company that organized the SPE.

Investors usually have recourse only to the assets in the SPE, but may also benefit from other credit enhancements, such as a collateral account, a line of credit or a liquidity facility, such as a liquidity put option or asset purchase agreement. Because of these enhancements, the SPE issuances typically obtain a more favorable credit rating than the transferor could obtain for its own debt issuances. This results in less expensive financing costs than unsecured debt. The SPE may also enter into derivative contracts in order to convert the yield or currency of the underlying assets to match the needs of the SPE investors or to limit or change the credit risk of the SPE. Citigroup may be the provider of certain credit enhancements as well as the counterparty to any related derivative contracts.

Most of Citigroup's SPEs are variable interest entities (VIEs), as described below.

Variable Interest Entities

VIEs are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest (i.e., ability to make significant decisions through voting rights and a right to receive the expected residual returns of the entity or an obligation to absorb the expected losses of the entity). Investors that finance the VIE through debt or equity interests or other counterparties providing other forms of support, such as guarantees, subordinated fee arrangements or certain types of derivative contracts are variable interest holders in the entity.

The variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary and must consolidate the VIE. Citigroup would be deemed to have a controlling financial interest and be the primary beneficiary if it has both of the following characteristics:

- power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- an obligation to absorb losses of the entity that could potentially be significant to the VIE, or a right to receive benefits from the entity that could potentially be significant to the VIE.

The Company must evaluate each VIE to understand the purpose and design of the entity, the role the Company had in the entity's design and its involvement in the VIE's ongoing activities. The Company then must evaluate which activities most significantly impact the economic performance of the VIE and who has the power to direct such activities.

For those VIEs where the Company determines that it has the power to direct the activities that most significantly impact the VIE's economic performance, the Company must then evaluate its economic interests, if any, and determine whether it could absorb losses or receive benefits that could potentially be significant to the VIE. When evaluating whether the Company has an obligation to absorb losses that could potentially be significant, it considers the maximum exposure to such loss without consideration of probability. Such obligations could be in various forms, including, but not limited to, debt and equity investments, guarantees, liquidity agreements and certain derivative contracts.

In various other transactions, the Company may: (i) act as a derivative counterparty (for example, interest rate swap, cross-currency swap, or purchaser of credit protection under a credit default swap or total return swap where the Company pays the total return on certain assets to the SPE); (ii) act as underwriter or placement agent; (iii) provide administrative, trustee or other services; or (iv) make a market in debt securities or other instruments issued by VIEs. The Company generally considers such involvement, by itself, not to be variable interests and thus not an indicator of power or potentially significant benefits or losses.

See Note 1 to the Consolidated Financial Statements for a discussion of impending changes to targeted areas of consolidation guidance.

Citigroup's involvement with consolidated and unconsolidated VIEs with which the Company holds significant variable interests or has continuing involvement through servicing a majority of the assets in a VIE, each as of December 31, 2014 and 2013, is presented below:

	As of December 31, 2014							
				Maximum Exposure to Loss in Significant Unconsolidated VIEs[1]				
				Funded Exposures[2]		Unfunded Exposures		
In millions of dollars	Total Involvement with SPE Assets	Consolidated VIE/SPE Assets	Significant Unconsolidated VIE Assets[3]	Debt Investments	Equity Investments	Funding Commitments	Guarantees and Derivatives	Total
Citicorp								
Credit card securitizations	$ 60,211	$ 60,211	$ —	$ —	$ —	$ —	$—	$ —
Mortgage securitizations[4]								
U.S. agency-sponsored	236,771	—	236,771	5,063	—	—	19	5,082
Non-agency-sponsored	8,071	1,239	6,832	560	—	—	—	560
Citi-administered asset-backed commercial paper conduits (ABCP)	29,181	29,181	—	—	—	—	—	—
Collateralized debt obligations (CDOs)	3,382	—	3,382	45	—	—	—	45
Collateralized loan obligations (CLOs)	13,099	—	13,099	1,692	—	—	—	1,692
Asset-based financing	62,577	1,149	61,428	22,891	63	2,185	333	25,472
Municipal securities tender option bond trusts (TOBs)	12,280	6,671	5,609	3	—	3,670	—	3,673
Municipal investments	16,825	70	16,755	2,012	2,021	1,321	—	5,354
Client intermediation	1,745	137	1,608	10	—	—	10	20
Investment funds[5]	31,474	1,096	30,378	16	382	124	—	522
Trust preferred securities	2,633	—	2,633	—	6	—	—	6
Other	5,685	296	5,389	183	1,451	23	73	1,730
Total	$483,934	$100,050	$383,884	$32,475	$3,923	$7,323	$435	$44,156
Citi Holdings								
Credit card securitizations	$ 292	$ 60	$ 232	$ —	$ —	$ —	$—	$ —
Mortgage securitizations								
U.S. agency-sponsored	28,077	—	28,077	150	—	—	91	241
Non-agency-sponsored	9,817	65	9,752	17	—	—	1	18
Collateralized debt obligations (CDOs)	2,235	—	2,235	174	—	—	86	260
Collateralized loan obligations (CLOs)	1,020	—	1,020	54	—	—	—	54
Asset-based financing	1,323	2	1,321	37	3	86	—	126
Municipal investments	6,881	—	6,881	2	176	904	—	1,082
Investment funds	518	—	518	—	—	—	—	—
Other	2,613	2,613	—	—	—	—	—	—
Total	$ 52,776	$ 2,740	$ 50,036	$ 434	$ 179	$ 990	$178	$ 1,781
Total Citigroup	$536,710	$102,790	$433,920	$32,909	$4,102	$8,313	$613	$45,937

[1] The definition of maximum exposure to loss is included in the text that follows this table.

[2] Included on Citigroup's December 31, 2014 Consolidated Balance Sheet.

[3] A significant unconsolidated VIE is an entity where the Company has any variable interest or continuing involvement considered to be significant, regardless of the likelihood of loss or the notional amount of exposure.

[4] Citicorp mortgage securitizations also include agency and non-agency (private-label) re-securitization activities. These SPEs are not consolidated. See "Re-securitizations" below for further discussion.

[5] Substantially all of the unconsolidated investment funds' assets are related to retirement funds in Mexico managed by Citi. See "Investment Funds" below for further discussion.

	As of December 31, 2013							
				Maximum Exposure to Loss in Significant Unconsolidated VIEs[1]				
				Funded Exposures[2]		Unfunded Exposures		
In millions of dollars	Total Involvement with SPE Assets	Consolidated VIE / SPE Assets	Significant Unconsolidated VIE Assets[3]	Debt Investments	Equity Investments	Funding Commitments	Guarantees and Derivatives	Total
Citicorp								
Credit card securitizations	$ 52,229	$ 52,229	$ —	$ —	$ —	$ —	$—	$ —
Mortgage securitizations[4]								
U.S. agency-sponsored	239,204	—	239,204	3,583	—	—	36	3,619
Non-agency-sponsored	7,711	598	7,113	583	—	—	—	583
Citi-administered asset-backed commercial paper conduits (ABCP)	31,759	31,759	—	—	—	—	—	—
Collateralized debt obligations (CDOs)	4,204	—	4,204	34	—	—	—	34
Collateralized loan obligations (CLOs)	16,883	—	16,883	1,938	—	—	—	1,938
Asset-based financing	45,884	971	44,913	17,341	74	1,004	195	18,614
Municipal securities tender option bond trusts (TOBs)	12,716	7,039	5,677	29	—	3,881	—	3,910
Municipal investments	15,962	223	15,739	1,846	2,073	1,173	—	5,092
Client intermediation	1,778	195	1,583	145	—	—	—	145
Investment funds[5]	32,324	3,094	29,230	191	264	81	—	536
Trust preferred securities	4,822	—	4,822	—	51	—	—	51
Other	2,439	225	2,214	143	649	20	78	890
Total	$467,915	$ 96,333	$371,582	$25,833	$3,111	$6,159	$309	$35,412
Citi Holdings								
Credit card securitizations	$ 1,867	$ 1,448	$ 419	$ —	$ —	$ —	$—	$ —
Mortgage securitizations								
U.S. agency-sponsored	73,549	—	73,549	549	—	—	77	626
Non-agency-sponsored	13,193	1,695	11,498	35	—	—	2	37
Student loan securitizations	1,520	1,520	—	—	—	—	—	—
Collateralized debt obligations (CDOs)	3,879	—	3,879	273	—	—	87	360
Collateralized loan obligations (CLOs)	2,733	—	2,733	358	—	—	111	469
Asset-based financing	3,508	3	3,505	629	3	258	—	890
Municipal investments	7,304	—	7,304	3	204	939	—	1,146
Investment funds	1,237	—	1,237	—	61	—	—	61
Other	4,494	4,434	60	—	—	—	—	—
Total	$113,284	$ 9,100	$104,184	$ 1,847	$ 268	$1,197	$277	$ 3,589
Total Citigroup	$581,199	$105,433	$475,766	$27,680	$3,379	$7,356	$586	$39,001

[1] The definition of maximum exposure to loss is included in the text that follows this table.

[2] Included on Citigroup's December 31, 2013 Consolidated Balance Sheet.

[3] A significant unconsolidated VIE is an entity where the Company has any variable interest or continuing involvement considered to be significant, regardless of the likelihood of loss or the notional amount of exposure.

[4] Citicorp mortgage securitizations also include agency and non-agency (private-label) re-securitization activities. These SPEs are not consolidated. See "Re-securitizations" below for further discussion.

[5] Substantially all of the unconsolidated investment funds' assets are related to retirement funds in Mexico managed by Citi. See "Investment Funds" below for further discussion.

The previous tables do not include:

- certain venture capital investments made by some of the Company's private equity subsidiaries, as the Company accounts for these investments in accordance with the Investment Company Audit Guide (codified in ASC 946);
- certain limited partnerships that are investment funds that qualify for the deferral from the requirements of ASC 810 where the Company is the general partner and the limited partners have the right to replace the general partner or liquidate the funds;
- certain investment funds for which the Company provides investment management services and personal estate trusts for which the Company provides administrative, trustee and/or investment management services;
- VIEs structured by third parties where the Company holds securities in inventory, as these investments are made on arm's-length terms;
- certain positions in mortgage-backed and asset-backed securities held by the Company, which are classified as *Trading account assets* or *Investments*, where the Company has no other involvement with the related securitization entity deemed to be significant (for more information on these positions, see Notes 13 and 14 to the Consolidated Financial Statements);
- certain representations and warranties exposures in legacy *Securities and Banking* -sponsored mortgage-backed and asset-backed securitizations, where the Company has no variable interest or continuing involvement as servicer. The outstanding balance of

mortgage loans securitized during 2005 to 2008 where the Company has no variable interest or continuing involvement as servicer was approximately $14 billion and $16 billion at December 31, 2014 and 2013, respectively; and

- certain representations and warranties exposures in Citigroup residential mortgage securitizations, where the original mortgage loan balances are no longer outstanding.

The asset balances for consolidated VIEs represent the carrying amounts of the assets consolidated by the Company. The carrying amount may represent the amortized cost or the current fair value of the assets depending on the legal form of the asset (e.g., security or loan) and the Company's standard accounting policies for the asset type and line of business.

The asset balances for unconsolidated VIEs where the Company has significant involvement represent the most current information available to the Company. In most cases, the asset balances represent an amortized cost basis without regard to impairments in fair value, unless fair value information is readily available to the Company. For VIEs that obtain asset exposures synthetically through derivative instruments (for example, synthetic CDOs), the tables generally include the full original notional amount of the derivative as an asset balance.

The maximum funded exposure represents the balance sheet carrying amount of the Company's investment in the VIE. It reflects the initial amount of cash invested in the VIE adjusted for any accrued interest and cash principal payments received. The carrying amount may also be adjusted for increases or declines in fair value or any impairment in value recognized in earnings. The maximum exposure of unfunded positions represents the remaining undrawn committed amount, including liquidity and credit facilities provided by the Company, or the notional amount of a derivative instrument considered to be a variable interest. In certain transactions, the Company has entered into derivative instruments or other arrangements that are not considered variable interests in the VIE (e.g., interest rate swaps, cross-currency swaps, or where the Company is the purchaser of credit protection under a credit default swap or total return swap where the Company pays the total return on certain assets to the SPE). Receivables under such arrangements are not included in the maximum exposure amounts.

Funding Commitments for Significant Unconsolidated VIEs—Liquidity Facilities and Loan Commitments

The following table presents the notional amount of liquidity facilities and loan commitments that are classified as funding commitments in the VIE tables above as of December 31, 2014 and 2013:

	December 31, 2014		**December 31, 2013**	
In millions of dollars	**Liquidity Facilities**	**Loan Commitments**	**Liquidity Facilities**	**Loan Commitments**
Citicorp				
Asset-based financing	$ 5	$2,180	$ 5	$ 999
Municipal securities tender option bond trusts (TOBs)	3,670	—	3,881	—
Municipal investments	—	1,321	—	1,173
Investment funds	—	124	—	81
Other	—	23	—	20
Total Citicorp	$3,675	$3,648	$3,886	$2,273
Citi Holdings				
Asset-based financing	$ —	$ 86	$ —	$ 258
Municipal investments	—	904	—	939
Total Citi Holdings	$ —	$ 990	$ —	$1,197
Total Citigroup funding commitments	$3,675	$4,638	$3,886	$3,470

Citicorp and Citi Holdings Consolidated VIEs

The Company engages in on-balance sheet securitizations, which are securitizations that do not qualify for sales treatment; thus, the assets remain on the Company's balance sheet, and any proceeds received are recognized as secured liabilities. The consolidated VIEs included in the tables below represent hundreds of separate entities with which the Company is involved. In general, the third-party investors in the obligations of consolidated VIEs have legal recourse only to the assets of the respective VIEs and do not have such recourse to the Company, except where the Company has provided a guarantee to the investors or is the counterparty to certain derivative transactions involving the VIE. Thus, the Company's maximum legal exposure to loss related to consolidated VIEs is significantly less than the carrying value of the consolidated VIE assets due to outstanding third-party financing. Intercompany assets and liabilities are excluded from the table. All VIE assets are restricted from being sold or pledged as collateral. The cash flows from these assets are the only source used to pay down the associated liabilities, which are non-recourse to the Company's general assets.

The following table presents the carrying amounts and classifications of consolidated assets that are collateral for consolidated VIE obligations as of December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013		
In billions of dollars	Citicorp	Citi Holdings	Citigroup	Citicorp	Citi Holdings	Citigroup
Cash	$ 0.1	$0.2	$ 0.3	$ 0.2	$0.2	$ 0.4
Trading account assets	0.7	—	0.7	1.0	—	1.0
Investments	8.0	—	8.0	10.9	—	10.9
Total loans, net	90.6	2.5	93.1	83.2	8.7	91.9
Other	0.6	—	0.6	1.1	0.2	1.3
Total assets	$100.0	$2.7	$102.7	$96.4	$9.1	$105.5
Short-term borrowings	$ 22.7	$—	$ 22.7	$24.3	$—	$ 24.3
Long-term debt	38.1	2.0	40.1	32.8	2.0	34.8
Other liabilities	0.8	0.1	0.9	0.9	0.1	1.0
Total liabilities	$ 61.6	$2.1	$ 63.7	$58.0	$2.1	$ 60.1

Citicorp and Citi Holdings Significant Interests in Unconsolidated VIEs—Balance Sheet Classification

The following table presents the carrying amounts and classification of significant variable interests in unconsolidated VIEs as of December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013		
In billions of dollars	Citicorp	Citi Holdings	Citigroup	Citicorp	Citi Holdings	Citigroup
Trading account assets	$ 7.4	$0.2	$ 7.6	$ 4.8	$0.6	$ 5.4
Investments	2.4	0.2	2.6	3.7	0.4	4.1
Total loans, net	24.9	0.1	25.0	18.2	0.6	18.8
Other	1.8	0.2	2.0	2.2	0.5	2.7
Total assets	$36.5	$0.7	$37.2	$28.9	$2.1	$31.0

Credit Card Securitizations

The Company securitizes credit card receivables through trusts established to purchase the receivables. Citigroup transfers receivables into the trusts on a non-recourse basis. Credit card securitizations are revolving securitizations; as customers pay their credit card balances, the cash proceeds are used to purchase new receivables and replenish the receivables in the trust.

Substantially all of the Company's credit card securitization activity is through two trusts—Citibank Credit Card Master Trust (Master Trust) and the Citibank Omni Master Trust (Omni Trust), with the substantial majority through the Master Trust. These trusts are consolidated entities because, as servicer, Citigroup has the power to direct the activities that most significantly impact the economic performance of the trusts, Citigroup holds a seller's interest and certain securities issued by the trusts, and also provides liquidity facilities to the trusts, which could result in potentially significant losses or benefits from the trusts. Accordingly, the transferred credit card receivables remain on Citi's Consolidated Balance Sheet with no gain or loss recognized. The debt issued by the trusts to third parties is included in Citi's Consolidated Balance Sheet.

The Company utilizes securitizations as one of the sources of funding for its business in *North America*. The following table reflects amounts related to the Company's securitized credit card receivables as of December 31, 2014 and 2013:

	Citicorp		Citi Holdings	
In billions of dollars	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Ownership interests in principal amount of trust credit card receivables				
Sold to investors via trust-issued securities	$37.0	$32.3	$—	$—
Retained by Citigroup as trust-issued securities	10.1	8.1	—	1.3
Retained by Citigroup via non-certificated interests	14.2	12.1	—	—
Total ownership interests in principal amount of trust credit card receivables	$61.3	$52.5	$—	$1.3

Credit Card Securitizations—Citicorp

The following table summarizes selected cash flow information related to Citicorp's credit card securitizations for the years ended December 31, 2014, 2013 and 2012:

In billions of dollars	2014	2013	2012
Proceeds from new securitizations	$12.5	$11.5	$0.5
Pay down of maturing notes	(7.8)	(2.1)	(20.4)

Credit Card Securitizations—Citi Holdings

The following table summarizes selected cash flow information related to Citi Holdings' credit card securitizations for the years ended December 31, 2014, 2013 and 2012:

In billions of dollars	2014	2013	2012
Proceeds from new securitizations	$0.1	$0.2	$1.7
Pay down of maturing notes	—	(0.1)	(0.1)

Managed Loans

After securitization of credit card receivables, the Company continues to maintain credit card customer account relationships and provides servicing for receivables transferred to the trusts. As a result, the Company considers the securitized credit card receivables to be part of the business it manages. As Citigroup consolidates the credit card trusts, all managed securitized card receivables are on-balance sheet.

Funding, Liquidity Facilities and Subordinated Interests

As noted above, Citigroup securitizes credit card receivables through two securitization trusts—Master Trust, which is part of Citicorp, and Omni Trust, which is also substantially all part of Citicorp. The liabilities of the trusts are included in the Consolidated Balance Sheet, excluding those retained by Citigroup.

Master Trust issues fixed- and floating-rate term notes. Some of the term notes are issued to multi-seller commercial paper conduits. The weighted average maturity of the term notes issued by the Master Trust was 2.8 years as of December 31, 2014 and 3.1 years as of December 31, 2013.

Master Trust Liabilities (at par value)

In billions of dollars	Dec. 31, 2014	Dec. 31, 2013
Term notes issued to third parties	$35.7	$27.9
Term notes retained by Citigroup affiliates	8.2	6.2
Total Master Trust liabilities	$43.9	$34.1

The Omni Trust issues fixed- and floating-rate term notes, some of which are purchased by multi-seller commercial paper conduits. The weighted average maturity of the third-party term notes issued by the Omni Trust was 1.9 years as of December 31, 2014 and 0.7 years as of December 31, 2013.

Omni Trust Liabilities (at par value)

In billions of dollars	Dec. 31, 2014	Dec. 31, 2013
Term notes issued to third parties	$1.3	$4.4
Term notes retained by Citigroup affiliates	1.9	1.9
Total Omni Trust liabilities	$3.2	$6.3

Mortgage Securitizations

The Company provides a wide range of mortgage loan products to a diverse customer base. Once originated, the Company often securitizes these loans through the use of VIEs. These VIEs are funded through the issuance of trust certificates backed solely by the transferred assets. These certificates have the same life as the transferred assets. In addition to providing a source of liquidity and less expensive funding, securitizing these assets also reduces the Company's credit exposure to the borrowers. These mortgage loan securitizations are primarily non-recourse, thereby effectively transferring the risk of future credit losses to the purchasers of the securities issued by the trust. However, the Company's U.S. consumer mortgage business generally retains the servicing rights and in certain instances retains investment securities, interest-only strips and residual interests in future cash flows from the trusts and also provides servicing for a limited number of *ICG* securitizations. *ICG* and Citi Holdings do not retain servicing for their mortgage securitizations.

The Company securitizes mortgage loans generally through either a government-sponsored agency, such as Ginnie Mae, Fannie Mae or Freddie Mac (U.S. agency-sponsored mortgages), or private-label (non-agency-sponsored mortgages) securitization. The Company is not the primary beneficiary of its U.S. agency-sponsored mortgage securitizations because Citigroup does not have the power to direct the activities of the VIE that most significantly impact the entities' economic performance. Therefore, Citi does not consolidate these U.S. agency-sponsored mortgage securitizations.

The Company does not consolidate certain non-agency-sponsored mortgage securitizations because Citi is either not the servicer with the power to direct the significant activities of the entity or Citi is the servicer but the servicing relationship is deemed to be a fiduciary relationship and, therefore, Citi is not deemed to be the primary beneficiary of the entity.

In certain instances, the Company has (i) the power to direct the activities and (ii) the obligation to either absorb losses or the right to receive benefits that could be potentially significant to its non-agency-sponsored mortgage securitizations and, therefore, is the primary beneficiary and thus consolidates the VIE.

Mortgage Securitizations—Citicorp

The following table summarizes selected cash flow information related to Citicorp mortgage securitizations for the years ended December 31, 2014, 2013 and 2012:

	2014		2013	2012
In billions of dollars	U.S. Agency-Sponsored Mortgages	Non-Agency-Sponsored Mortgages	Agency- and Non-Agency-Sponsored Mortgages	Agency- and Non-Agency-Sponsored Mortgages
Proceeds from new securitizations	$27.4	$11.8	$72.5	$56.5
Contractual servicing fees received	0.4	—	0.4	0.5
Cash flows received on retained interests and other net cash flows	0.1	—	0.1	0.1

Agency and non-agency securitization gains for the year ended December 31, 2014 were $160 million and $53 million, respectively.

Agency and non-agency securitization gains for the years ended December 31, 2013 and 2012 were $203 million and $30 million, respectively.

Key assumptions used in measuring the fair value of retained interests at the date of sale or securitization of mortgage receivables for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014		
		Non-Agency-Sponsored Mortgages[1]	
	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests
Discount rate	0.0% to 14.7%	1.4% to 6.6%	2.6% to 9.1%
Weighted average discount rate	11.0%	4.2%	7.8%
Constant prepayment rate	0.0% to 23.1%	0.0% to 7.0%	0.5% to 8.9%
Weighted average constant prepayment rate	6.2%	5.4%	3.2%
Anticipated net credit losses[2]	NM	40.0% to 67.1%	8.9% to 58.5%
Weighted average anticipated net credit losses	NM	56.3%	43.1%
Weighted average life	0.0 to 9.7 years	2.6 to 11.1 years	3.0 to 14.5 years

	December 31, 2013		
		Non-Agency-Sponsored Mortgages[1]	
	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests
Discount rate	0.0% to 12.4%	2.3% to 4.3%	0.1% to 19.2%
Weighted average discount rate	10.1%	3.4%	7.8%
Constant prepayment rate	0.0% to 21.4%	5.4% to 10.0%	0.1% to 11.2%
Weighted average constant prepayment rate	5.5%	7.2%	7.5%
Anticipated net credit losses[2]	NM	47.2% to 53.0%	0.1% to 89.0%
Weighted average anticipated net credit losses	NM	49.3%	49.2%
Weighted average life	0.0 to 12.4 years	2.9 to 9.7 years	2.5 to 16.5 years

[1] Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

[2] Anticipated net credit losses represent estimated loss severity associated with defaulted mortgage loans underlying the mortgage securitizations disclosed above. Anticipated net credit losses, in this instance, do not represent total credit losses incurred to date, nor do they represent credit losses expected on retained interests in mortgage securitizations.

NM Not meaningful. Anticipated net credit losses are not meaningful due to U.S. agency guarantees.

The interests retained by the Company range from highly rated and/or senior in the capital structure to unrated and/or residual interests.

At December 31, 2014 and 2013, the key assumptions used to value retained interests, and the sensitivity of the fair value to adverse changes of 10% and 20% in each of the key assumptions, are set forth in the tables below. The negative effect of each change is calculated independently, holding all other assumptions constant. Because the key assumptions may not be independent, the net effect of simultaneous adverse changes in the key assumptions may be less than the sum of the individual effects shown below.

	December 31, 2014		
		Non-Agency-Sponsored Mortgages[1]	
	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests
Discount rate	0.0% to 21.2%	1.1% to 17.7%	1.3% to 19.6%
Weighted average discount rate	8.0%	4.9%	8.2%
Constant prepayment rate	6.0% to 41.4%	2.0% to 100.0%	0.5% to 16.2%
Weighted average constant prepayment rate	14.7%	10.1%	7.2%
Anticipated net credit losses[2]	NM	0.0% to 92.4%	13.7% to 83.8%
Weighted average anticipated net credit losses	NM	54.6%	52.5%
Weighted average life	0.0 to 16.0 years	0.3 to 14.4 years	0.0 to 24.4 years

	December 31, 2013		
		Non-Agency-Sponsored Mortgages[1]	
	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated interests
Discount rate	0.1% to 20.9%	0.5% to 17.4%	2.1% to 19.6%
Weighted average discount rate	6.9%	5.5%	11.2%
Constant prepayment rate	6.2% to 30.4%	1.3% to 100.0%	1.4% to 23.1%
Weighted average constant prepayment rate	11.1%	6.4%	7.4%
Anticipated net credit losses[2]	NM	0.1% to 80.0%	25.5% to 81.9%
Weighted average anticipated net credit losses	NM	49.5%	52.8%
Weighted average life	2.1 to 14.1 years	0.0 to 11.9 years	0.0 to 26.0 years

[1] Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

[2] Anticipated net credit losses represent estimated loss severity associated with defaulted mortgage loans underlying the mortgage securitizations disclosed above. Anticipated net credit losses, in this instance, do not represent total credit losses incurred to date, nor do they represent credit losses expected on retained interests in mortgage securitizations.

NM Not meaningful. Anticipated net credit losses are not meaningful due to U.S. agency guarantees.

		Non-Agency-Sponsored Mortgages[1]	
In millions of Dollars at December 31, 2014	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests
Carrying value of retained interests	$2,224	$285	$554
Discount rates			
Adverse change of 10%	$ (64)	$ (5)	$(30)
Adverse change of 20%	(124)	(9)	(57)
Constant prepayment rate			
Adverse change of 10%	(86)	(1)	(9)
Adverse change of 20%	(165)	(2)	(18)
Anticipated net credit losses			
Adverse change of 10%	NM	(2)	(9)
Adverse change of 20%	NM	(3)	(16)

		Non-Agency-Sponsored Mortgages[1]	
In millions of dollars at December 31, 2013	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests
Carrying value of retained interests	$2,519	$293	$429
Discount rates			
Adverse change of 10%	$ (76)	$ (6)	$ (25)
Adverse change of 20%	(148)	(11)	(48)
Constant prepayment rate			
Adverse change of 10%	(96)	(1)	(7)
Adverse change of 20%	(187)	(2)	(14)
Anticipated net credit losses			
Adverse change of 10%	NM	(2)	(7)
Adverse change of 20%	NM	(3)	(14)

[1] Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.
NM Not meaningful. Anticipated net credit losses are not meaningful due to U.S. agency guarantees.

Mortgage Securitizations—Citi Holdings

The following table summarizes selected cash flow information related to Citi Holdings mortgage securitizations for the years ended December 31, 2014, 2013 and 2012:

	2014		2013	2012
In billions of dollars	U.S. Agency-Sponsored Mortgages	Non-Agency-Sponsored Mortgages	U.S. Agency-Sponsored Mortgages	U.S. Agency-Sponsored Mortgages
Proceeds from new securitizations	$0.4	$—	$0.2	$0.4
Contractual servicing fees received	0.1	—	0.3	0.4

Gains recognized on the securitization of U.S. agency-sponsored mortgages during 2014 were $54 million. Agency securitization gains for the years ended December 31, 2013 and 2012 were $20 million and $45 million, respectively.

The Company did not securitize non-agency-sponsored mortgages for the years ended December 31, 2014, 2013 and 2012.

Similar to Citicorp mortgage securitizations discussed above, the range in the key assumptions is due to the different characteristics of the interests retained by the Company. The interests retained range from highly rated and/or senior in the capital structure to unrated and/or residual interests.

At December 31, 2014 and 2013, the key assumptions used to value retained interests, and the sensitivity of the fair value to adverse changes of 10% and 20% in each of the key assumptions, are set forth in the tables below. The negative effect of each change is calculated independently, holding all other assumptions constant. Because the key assumptions may not in fact be independent, the net effect of simultaneous adverse changes in the key assumptions may be less than the sum of the individual effects shown below.

	December 31, 2014		
		Non-Agency-Sponsored Mortgages[1]	
	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests [2]
Discount rate	1.9% to 19.2%	5.1% to 47.1%	—
Weighted average discount rate	13.7%	36.3%	—
Constant prepayment rate	20.4% to 32.3%	6.7% to 20.0%	—
Weighted average constant prepayment rate	23.9%	16.6%	—
Anticipated net credit losses	NM	0.3% to 73.7%	—
Weighted average anticipated net credit losses	NM	19.2%	—
Weighted average life	3.3 to 4.6 years	3.9 to 6.4 years	—

	December 31, 2013		
		Non-Agency-Sponsored Mortgages[1]	
	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests [2]
Discount rate	0.0% to 49.3%	9.9%	—
Weighted average discount rate	9.5%	9.9%	—
Constant prepayment rate	9.6% to 26.2%	12.3% to 27.3%	—
Weighted average constant prepayment rate	20.0%	15.6%	—
Anticipated net credit losses	NM	0.3%	—
Weighted average anticipated net credit losses	NM	0.3%	—
Weighted average life	2.3 to 7.6 years	5.2 years	—

[1] Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

[2] Citi Holdings held no subordinated interests in mortgage securitizations as of December 31, 2014 and 2013.

NM Not meaningful. Anticipated net credit losses are not meaningful due to U.S. agency guarantees.

		Non-Agency-Sponsored Mortgages[1]	
In millions of dollars at December 31, 2014	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests
Carrying value of retained interests	$150	$25	$—
Discount rates			
Adverse change of 10%	$ (5)	$(2)	$—
Adverse change of 20%	(10)	(4)	—
Constant prepayment rate			
Adverse change of 10%	(7)	(2)	—
Adverse change of 20%	(14)	(3)	—
Anticipated net credit losses			
Adverse change of 10%	NM	(4)	—
Adverse change of 20%	NM	(7)	—

		Non-Agency-Sponsored Mortgages[1]	
In millions of dollars at December 31, 2013	U.S. Agency-Sponsored Mortgages	Senior Interests	Subordinated Interests
Carrying value of retained interests	$585	$50	$—
Discount rates			
Adverse change of 10%	$(16)	$(3)	$—
Adverse change of 20%	(32)	(5)	—
Constant prepayment rate			—
Adverse change of 10%	(33)	(3)	—
Adverse change of 20%	(65)	(6)	—
Anticipated net credit losses			
Adverse change of 10%	NM	(5)	—
Adverse change of 20%	NM	(11)	—

[1] Disclosure of non-agency-sponsored mortgages as senior and subordinated interests is indicative of the interests' position in the capital structure of the securitization.

NM Not meaningful. Anticipated net credit losses are not meaningful due to U.S. agency guarantees.

Mortgage Servicing Rights

In connection with the securitization of mortgage loans, the Company's U.S. consumer mortgage business generally retains the servicing rights, which entitle the Company to a future stream of cash flows based on the outstanding principal balances of the loans and the contractual servicing fee. Failure to service the loans in accordance with contractual requirements may lead to a termination of the servicing rights and the loss of future servicing fees.

These transactions create an intangible asset referred to as mortgage servicing rights (MSRs), which are recorded at fair value on Citi's Consolidated Balance Sheet. The fair value of Citi's capitalized MSRs was $1.8 billion and $2.7 billion at December 31, 2014 and 2013, respectively. Of these amounts, approximately $1.7 billion and $2.1 billion, respectively, were specific to Citicorp, with the remainder to Citi Holdings. The MSRs correspond to principal loan balances of $224 billion and $286 billion as of December 31, 2014 and 2013, respectively. The following table summarizes the changes in capitalized MSRs for the years ended December 31, 2014 and 2013:

In millions of dollars	2014	2013
Balance, beginning of year	$2,718	$1,942
Originations	217	634
Changes in fair value of MSRs due to changes in inputs and assumptions	(344)	640
Other changes[1]	(429)	(496)
Sale of MSRs	(317)	(2)
Balance, as of December 31	$1,845	$2,718

[1] Represents changes due to customer payments and passage of time.

The fair value of the MSRs is primarily affected by changes in prepayments of mortgages that result from shifts in mortgage interest rates. Specifically, higher interest rates tend to lead to declining prepayments, which causes the fair value of the MSRs to increase. In managing this risk, the Company economically hedges a significant portion of the value of its MSRs through the use of interest rate derivative contracts, forward purchase and sale commitments of mortgage-backed securities and purchased securities classified as *Trading account assets*.

The Company receives fees during the course of servicing previously securitized mortgages. The amounts of these fees for the years ended December 31, 2014, 2013 and 2012 were as follows:

In billions of dollars	2014	2013	2012
Servicing fees	$638	$800	$ 990
Late fees	25	42	65
Ancillary fees	56	100	122
Total MSR fees	$719	$942	$1,177

These fees are classified in the Consolidated Statement of Income as *Other revenue.*

Re-securitizations

The Company engages in re-securitization transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests. During the years ended December 31, 2014 and 2013, Citi transferred non-agency (private-label) securities with an original par value of approximately $1.2 billion and $955 million, respectively, to re-securitization entities. These securities are backed by either residential or commercial mortgages and are often structured on behalf of clients.

As of December 31, 2014, the fair value of Citi-retained interests in private-label re-securitization transactions structured by Citi totaled approximately $545 million (including $194 million related to re-securitization transactions executed in 2014), which has been recorded in *Trading account assets*. Of this amount, approximately $133 million was related to senior beneficial interests and approximately $412 million was related to subordinated beneficial interests. As of December 31, 2013, the fair value of Citi-retained interests in private-label re-securitization transactions structured by Citi totaled approximately $425 million (including $131 million related to re-securitization transactions executed in 2013). Of this amount, approximately $58 million was related to senior beneficial interests, and approximately $367 million was related to subordinated beneficial interests. The original par value of private-label re-securitization transactions in which Citi holds a retained interest as of December 31, 2014 and 2013 was approximately $5.1 billion and $6.1 billion, respectively.

The Company also re-securitizes U.S. government-agency guaranteed mortgage-backed (agency) securities. During the years ended December 31, 2014 and 2013, Citi transferred agency securities with a fair value of approximately $22.5 billion and $26.3 billion, respectively, to re-securitization entities.

As of December 31, 2014, the fair value of Citi-retained interests in agency re-securitization transactions structured by Citi totaled approximately $1.8 billion (including $1.5 billion related to re-securitization transactions executed in 2014) compared to $1.5 billion as of December 31, 2013 (including $1.2 billion related to re-securitization transactions executed in 2013), which is recorded in *Trading account assets*. The original fair value of agency re-securitization transactions in which Citi holds a retained interest as of December 31, 2014 and 2013 was approximately $73.0 billion and $75.5 billion, respectively.

As of December 31, 2014 and 2013, the Company did not consolidate any private-label or agency re-securitization entities.

Citi-Administered Asset-Backed Commercial Paper Conduits

The Company is active in the asset-backed commercial paper conduit business as administrator of several multi-seller commercial paper conduits and also as a service provider to single-seller and other commercial paper conduits sponsored by third parties.

Citi's multi-seller commercial paper conduits are designed to provide the Company's clients access to low-cost funding in the commercial paper markets. The conduits purchase assets from or provide financing facilities to clients and are funded by issuing commercial paper to third-party investors. The conduits generally do not purchase assets originated by the Company. The funding of the conduits is facilitated by the liquidity support and credit enhancements provided by the Company.

As administrator to Citi's conduits, the Company is generally responsible for selecting and structuring assets purchased or financed by the conduits, making decisions regarding the funding of the conduits, including determining the tenor and other features of the commercial paper issued, monitoring the quality and performance of the conduits' assets, and facilitating the operations and cash flows of the conduits. In return, the Company earns structuring fees from customers for individual transactions and earns an administration fee from the conduit, which is equal to the income from the client program and liquidity fees of the conduit after payment of conduit expenses. This administration fee is fairly stable, since most risks and rewards of the underlying assets are passed back to the clients. Once the asset pricing is negotiated, most ongoing income, costs and fees are relatively stable as a percentage of the conduit's size.

The conduits administered by the Company do not generally invest in liquid securities that are formally rated by third parties. The assets are privately negotiated and structured transactions that are generally designed to be held by the conduit, rather than actively traded and sold. The yield earned by the conduit on each asset is generally tied to the rate on the commercial paper issued by the conduit, thus passing interest rate risk to the client. Each asset purchased by the conduit is structured with transaction-specific credit enhancement features provided by the third-party client seller, including over collateralization, cash and excess spread collateral accounts, direct recourse or third-party guarantees. These credit enhancements are sized with the objective of approximating a credit rating of A or above, based on the Company's internal risk ratings. At December 31, 2014 and 2013, the conduits had approximately $29.2 billion and $31.8 billion of purchased assets outstanding, respectively, and had incremental funding commitments with clients of approximately $15.3 billion and $13.5 billion, respectively.

Substantially all of the funding of the conduits is in the form of short-term commercial paper. At the respective periods ended December 31, 2014 and 2013, the weighted average remaining lives of the commercial paper issued by the conduits were approximately 57 and 67 days, respectively.

The primary credit enhancement provided to the conduit investors is in the form of transaction-specific credit enhancements described above. One conduit holds only loans that are fully guaranteed primarily by AAA-rated government agencies that support export and development financing programs. In addition to the transaction-specific credit enhancements, the conduits, other than the government guaranteed loan conduit, have obtained a letter of credit from the Company, which is equal to at least 8% to 10% of the conduit's assets with a minimum of $200 million. The letters of credit provided by the Company to the conduits total approximately $2.3 billion as of December 31, 2014 and 2013. The net result across multi-seller conduits administered by the Company, other than the government guaranteed loan conduit, is that, in the event defaulted assets exceed the transaction-specific credit enhancements described above, any losses in each conduit are allocated first to the Company and then the commercial paper investors.

The Company also provides the conduits with two forms of liquidity agreements that are used to provide funding to the conduits in the event of a market disruption, among other events. Each asset of the conduits is supported by a transaction-specific liquidity facility in the form of an asset purchase agreement (APA). Under the APA, the Company has generally agreed to purchase non-defaulted eligible receivables from the conduit at par. The APA is not generally designed to provide credit support to the conduit, as it generally does not permit the purchase of defaulted or impaired assets. Any funding under the APA will likely subject the underlying conduit clients to increased interest costs. In addition, the Company provides the conduits with program-wide liquidity in the form of short-term lending commitments. Under these commitments, the Company has agreed to lend to the conduits in the event of a short-term disruption in the commercial paper market, subject to specified conditions. The Company receives fees for providing both types of liquidity agreements and considers these fees to be on fair market terms.

Finally, the Company is one of several named dealers in the commercial paper issued by the conduits and earns a market-based fee for providing such services. Along with third-party dealers, the Company makes a market in the commercial paper and may from time to time fund commercial paper pending sale to a third party. On specific dates with less liquidity in the market, the Company may hold in inventory commercial paper issued by conduits administered by the Company, as well as conduits administered by third parties. Separately, in the normal course of business, the Company invests in commercial paper, including commercial paper issued by the Company's conduits. At December 31, 2014 and 2013, the Company owned $10.6 billion and $13.9 billion, respectively, of the commercial paper issued by its administered conduits. The Company's investments were not driven by market illiquidity and the Company is not obligated under any agreement to purchase the commercial paper issued by the conduits.

The asset-backed commercial paper conduits are consolidated by the Company. The Company determined that, through its roles as administrator and liquidity provider, it had the power to direct the activities that most significantly impacted the entities' economic performance. These powers included its ability to structure and approve the assets purchased by the conduits, its ongoing surveillance and credit mitigation activities, its ability to sell or repurchase assets out of the conduits, and its liability management. In addition, as a result of all the Company's involvement described above, it was concluded that the Company had an economic interest that could potentially be significant. However, the assets and liabilities of the conduits are separate and apart from those of Citigroup. No assets of any conduit are available to satisfy the creditors of Citigroup or any of its other subsidiaries.

During the second quarter of 2013, Citi consolidated the government guaranteed loan conduit it administers that was previously not consolidated due to changes in the primary risks and design of the conduit that were identified as a reconsideration event. Citi, as the administrator and liquidity provider, previously determined it had an economic interest that could potentially be significant. Upon the reconsideration event, it was determined that Citi had the power to direct the activities that most significantly impacted the conduit's economic performance. The impact of the consolidation resulted in an increase of assets and liabilities of approximately $7 billion each and a net pretax gain to the Consolidated Statement of Income of approximately $40 million.

Collateralized Debt and Loan Obligations

A securitized collateralized debt obligation (CDO) is a VIE that purchases a pool of assets consisting of asset-backed securities and synthetic exposures through derivatives on asset-backed securities and issues multiple tranches of equity and notes to investors.

A cash CDO, or arbitrage CDO, is a CDO designed to take advantage of the difference between the yield on a portfolio of selected assets, typically residential mortgage-backed securities, and the cost of funding the CDO through the sale of notes to investors. "Cash flow" CDOs are entities in which the CDO passes on cash flows from a pool of assets, while "market value" CDOs pay to investors the market value of the pool of assets owned by the CDO at maturity. In these transactions, all of the equity and notes issued by the CDO are funded, as the cash is needed to purchase the debt securities.

A synthetic CDO is similar to a cash CDO, except that the CDO obtains exposure to all or a portion of the referenced assets synthetically through derivative instruments, such as credit default swaps. Because the CDO does not need to raise cash sufficient to purchase the entire referenced portfolio, a substantial portion of the senior tranches of risk is typically passed on to CDO investors in the form of unfunded liabilities or derivative instruments. The CDO writes credit protection on select referenced debt securities to the Company or third parties. Risk is then passed on to the CDO investors in the form of funded notes or purchased credit protection through derivative instruments. Any cash raised from investors is invested in a portfolio of collateral securities or investment contracts. The collateral is then used to support the obligations of the CDO on the credit default swaps written to counterparties.

A securitized collateralized loan obligation (CLO) is substantially similar to the CDO transactions described above, except that the assets owned by the VIE (either cash instruments or synthetic exposures through derivative instruments) are corporate loans and to a lesser extent corporate bonds, rather than asset-backed debt securities.

A third-party asset manager is typically retained by the CDO/CLO to select the pool of assets and manage those assets over the term of the VIE.

The Company earns fees for warehousing assets prior to the creation of a "cash flow" or "market value" CDO/CLO, structuring CDOs/CLOs and placing debt securities with investors. In addition, the Company has retained interests in many of the CDOs/CLOs it has structured and makes a market in the issued notes.

The Company's continuing involvement in synthetic CDOs/CLOs generally includes purchasing credit protection through credit default swaps with the CDO/CLO, owning a portion of the capital structure of the CDO/CLO in the form of both unfunded derivative positions (primarily "super-senior" exposures discussed below) and funded notes, entering into interest-rate swap and total-return swap transactions with the CDO/CLO, lending to the CDO/CLO, and making a market in the funded notes.

Where a CDO/CLO entity issues preferred shares (or subordinated notes that are the equivalent form), the preferred shares generally represent an insufficient amount of equity (less than 10%) and create the presumption that preferred shares are insufficient to finance the entity's activities without subordinated financial support. In addition, although the preferred shareholders generally have full exposure to expected losses on the collateral and uncapped potential to receive expected residual returns, they generally do not have the ability to make decisions significantly affecting the entity's financial results because of their limited role in making day-to-day decisions and their limited ability to remove the asset manager. Because one or both of the above conditions will generally be met, the Company has concluded, even where a CDO/CLO entity issued preferred shares, the entity should be classified as a VIE.

In general, the asset manager, through its ability to purchase and sell assets or—where the reinvestment period of a CDO/CLO has expired—the ability to sell assets, will have the power to direct the activities of the entity that most significantly impact the economic performance of the CDO/CLO. However, where a CDO/CLO has experienced an event of default or an optional redemption period has gone into effect, the activities of the asset manager may be curtailed and/or certain additional rights will generally be provided to the investors in a CDO/CLO entity, including the right to direct the liquidation of the CDO/CLO entity.

The Company has retained significant portions of the "super-senior" positions issued by certain CDOs. These positions are referred to as "super-senior" because they represent the most senior positions in the CDO and, at the time of structuring, were senior to tranches rated AAA by independent rating agencies.

The Company does not generally have the power to direct the activities of the entity that most significantly impact the economic performance of the CDOs/CLOs, as this power is generally held by a third-party asset manager of the CDO/CLO. As such, those CDOs/CLOs are not consolidated. The Company may consolidate the CDO/CLO when: (i) the Company is the asset manager and no other single investor has the unilateral ability to remove the Company or unilaterally cause the liquidation of the CDO/CLO, or the Company is not the asset manager but has a unilateral right to remove the third-party asset manager or unilaterally liquidate the CDO/CLO and receive the underlying assets, and (ii) the Company has economic exposure to the entity that could be potentially significant to the entity.

The Company continues to monitor its involvement in unconsolidated CDOs/CLOs to assess future consolidation risk. For example, if the Company were to acquire additional interests in these entities and obtain the right, due to an event of default trigger being met, to unilaterally liquidate or direct the activities of a CDO/CLO, the Company may be required to consolidate the asset entity. For cash CDOs/CLOs, the net result of such consolidation would be to gross up the Company's balance sheet by the current fair value of the securities held by third parties and assets held by the CDO/CLO, which amounts are not considered material. For synthetic CDOs/CLOs, the net result of such consolidation may reduce the Company's balance sheet, because intercompany derivative receivables and payables would be eliminated in consolidation, and other assets held by the CDO/CLO and the securities held by third parties would be recognized at their current fair values.

Key Assumptions and Retained Interests—Citicorp

At December 31, 2014 and 2013, the key assumptions used to value retained interests in CLOs, and the sensitivity of the fair value to adverse changes of 10% and 20% are set forth in the tables below:

	December 31, 2014	**December 31, 2013**
Discount rate	1.4% to 1.6%	1.5% to 1.6%

	December 31, 2014
In millions of dollars	**CLO**
Carrying value of retained interests	$1,539
Value of underlying portfolio	
Adverse change of 10%	$ (9)
Adverse change of 20%	(18)

	December 31, 2013
In millions of dollars	**CLO**
Carrying value of retained interests	$1,333
Value of underlying portfolio	
Adverse change of 10%	$ (7)
Adverse change of 20%	(14)

Key Assumptions and Retained Interests—Citi Holdings

At December 31, 2014 and 2013, the key assumptions used to value retained interests, and the sensitivity of the fair value to adverse changes of 10% and 20% are set forth in the tables below:

	December 31, 2014	
	CDOs	**CLOs**
Discount rate	44.7% to 49.2%	4.5% to 5.0%

	December 31, 2013	
	CDOs	**CLOs**
Discount rate	44.3% to 48.7%	4.5% to 5.0%

	December 31, 2014	
In millions of dollars	CDOs	CLOs
Carrying value of retained interests	$ 6	$ 10
Discount rates		
Adverse change of 10%	$(1)	$—
Adverse change of 20%	(2)	—

	December 31, 2013	
	CDOs	CLOs
Carrying value of retained interests	$19	$ 31
Discount rates		
Adverse change of 10%	$(1)	$—
Adverse change of 20%	(2)	—

Asset-Based Financing

The Company provides loans and other forms of financing to VIEs that hold assets. Those loans are subject to the same credit approvals as all other loans originated or purchased by the Company. Financings in the form of debt securities or derivatives are, in most circumstances, reported in *Trading account assets* and accounted for at fair value through earnings. The Company generally does not have the power to direct the activities that most significantly impact these VIEs' economic performance, and thus it does not consolidate them.

Asset-Based Financing—Citicorp

The primary types of Citicorp's asset-based financings, total assets of the unconsolidated VIEs with significant involvement, and the Company's maximum exposure to loss at December 31, 2014 and 2013 are shown below. For the Company to realize the maximum loss, the VIE (borrower) would have to default with no recovery from the assets held by the VIE.

	December 31, 2014	
In millions of dollars	Total Unconsolidated VIE Assets	Maximum Exposure to Unconsolidated VIEs
Type		
Commercial and other real estate	$25,978	$ 9,426
Corporate loans	460	473
Airplanes, ships and other assets	34,990	15,573
Total	$61,428	$25,472

	December 31, 2013	
In millions of dollars	Total Unconsolidated VIE Assets	Maximum Exposure to Unconsolidated VIEs
Type		
Commercial and other real estate	$14,042	$ 3,902
Corporate loans	2,221	1,754
Airplanes, ships and other assets	28,650	12,958
Total	$44,913	$18,614

The following table summarizes selected cash flow information related to asset-based financings for the years ended December 31, 2014, 2013 and 2012:

In billions of dollars	2014	2013	2012
Proceeds from new securitizations	$0.5	$0.5	$—
Cash flows received on retained interest and other net cash flows	$0.2	$0.7	$0.3

The key assumption used to value retained interests and the sensitivity of the fair value to adverse changes of 10% and 20% is set forth in the tables below for the following periods presented:

	Dec. 31, 2014	Dec. 31, 2013
Discount rate	N/A	3.0%

	December 31, 2013
In millions of dollars	Asset-Based Financing
Carrying value of retained interests[1]	$1,316
Value of underlying portfolio	
Adverse change of 10%	$ (11)
Adverse change of 20%	(23)

[1] Citicorp held no retained interests in asset-based financings as of December 31, 2014.

Asset-Based Financing—Citi Holdings

The primary types of Citi Holdings' asset-based financing, total assets of the unconsolidated VIEs with significant involvement and the Company's maximum exposure to loss at December 31, 2014 and 2013 are shown below. For the Company to realize the maximum loss, the VIE (borrower) would have to default with no recovery from the assets held by the VIE.

	December 31, 2014	
In millions of dollars	Total Unconsolidated VIE Assets	Maximum Exposure to Unconsolidated VIEs
Type		
Commercial and other real estate	$ 168	$ 50
Corporate loans	—	—
Airplanes, ships and other assets	1,153	76
Total	$1,321	$126

	December 31, 2013	
In millions of dollars	Total Unconsolidated VIE Assets	Maximum Exposure to Unconsolidated VIEs
Type		
Commercial and other real estate	$ 774	$298
Corporate loans	112	96
Airplanes, ships and other assets	2,619	496
Total	$3,505	$890

The following table summarizes selected cash flow information related to asset-based financings for the years ended December 31, 2014, 2013 and 2012:

In billions of dollars	2014	2013	2012
Cash flows received on retained interest and other net cash flows	$0.1	$0.2	$1.7

At December 31, 2014 and 2013, the effects of adverse changes of 10% and 20% in the discount rate used to determine the fair value of retained interests are set forth in the tables below:

	December 31, 2013
In millions of dollars	Asset-Based Financing
Carrying value of retained interests[1]	$ 95
Value of underlying portfolio	
Adverse change of 10%	$—
Adverse change of 20%	—

[1] Citi Holdings held no retained interests in asset-based financings as of December 31, 2014.

Municipal Securities Tender Option Bond (TOB) Trusts

TOB trusts hold fixed- and floating-rate, taxable and tax-exempt securities issued by state and local governments and municipalities. The trusts are typically single-issuer trusts whose assets are purchased from the Company or from other investors in the municipal securities market. The TOB trusts fund the purchase of their assets by issuing long-term, putable floating rate certificates (Floaters) and residual certificates (Residuals). The trusts are referred to as TOB trusts because the Floater holders have the ability to tender their interests periodically back to the issuing trust, as described further below. The Floaters and Residuals evidence beneficial ownership interests in, and are collateralized by, the underlying assets of the trust. The Floaters are held by third-party investors, typically tax-exempt money market funds. The Residuals are typically held by the original owner of the municipal securities being financed.

The Floaters and the Residuals have a tenor that is equal to or shorter than the tenor of the underlying municipal bonds. The Residuals entitle their holders to the residual cash flows from the issuing trust, the interest income generated by the underlying municipal securities net of interest paid on the Floaters and trust expenses. The Residuals are rated based on the long-term rating of the underlying municipal bond. The Floaters bear variable interest rates that are reset periodically to a new market rate based on a spread to a high grade, short-term, tax-exempt index. The Floaters have a long-term rating based on the long-term rating of the underlying municipal bond and a short-term rating based on that of the liquidity provider to the trust.

There are two kinds of TOB trusts: customer TOB trusts and non-customer TOB trusts. Customer TOB trusts are trusts through which customers finance their investments in municipal securities. The Residuals are held by customers and the Floaters by third-party investors, typically tax-exempt money market funds. Non-customer TOB trusts are trusts through which the Company finances its own investments in municipal securities. In such trusts, the Company holds the Residuals, and third-party investors, typically tax-exempt money market funds, hold the Floaters.

The Company serves as remarketing agent to the trusts, placing the Floaters with third-party investors at inception, facilitating the periodic reset of the variable rate of interest on the Floaters, and remarketing any tendered Floaters. If Floaters are tendered and the Company (in its role as remarketing agent) is unable to find a new investor within a specified period of time, it can declare a failed remarketing, in which case the trust is unwound. The Company may, but is not obligated to, buy the Floaters into its own inventory. The level of the Company's inventory of Floaters fluctuates over time. At December 31, 2014 and 2013, the Company held $3 million and $176 million, respectively, of Floaters related to both customer and non-customer TOB trusts.

For certain non-customer trusts, the Company also provides credit enhancement. At December 31, 2014 and 2013 approximately $198 million and $230 million, respectively, of the municipal bonds owned by TOB trusts have a credit guarantee provided by the Company.

The Company provides liquidity to many of the outstanding trusts. If a trust is unwound early due to an event other than a credit event on the underlying municipal bond, the underlying municipal bonds are sold in the market. If there is a shortfall in the trust's cash flows between the redemption price of the tendered Floaters and the proceeds from the sale of the underlying municipal bonds, the trust draws on a liquidity agreement in an amount equal to the shortfall. For customer TOBs where the Residual is less than 25% of the trust's capital structure, the Company has a reimbursement agreement with the Residual holder under which the Residual holder reimburses the Company for any payment made under the liquidity arrangement. Through this reimbursement agreement, the Residual holder remains economically exposed to fluctuations in value of the underlying municipal bonds. These reimbursement agreements are generally subject to daily margining based on changes in value of the underlying municipal bond. In cases where a third party provides liquidity to a non-customer TOB trust, a similar reimbursement arrangement is made whereby the Company (or a consolidated subsidiary of the Company) as Residual holder absorbs any losses incurred by the liquidity provider.

At December 31, 2014 and 2013, liquidity agreements provided with respect to customer TOB trusts totaled $3.7 billion and $3.9 billion, respectively, of which $2.6 billion and $2.8 billion, respectively, were offset by reimbursement agreements. For the remaining exposure related to TOB transactions, where the Residual owned by the customer was at least 25% of the bond value at the inception of the transaction, no reimbursement agreement was executed. The Company also provides other liquidity agreements or letters of credit to customer-sponsored municipal investment funds, which are not variable interest entities, and municipality-related issuers that totaled $7.4 billion and $5.4 billion as of December 31, 2014 and 2013, respectively. These liquidity agreements and letters of credit are offset by reimbursement agreements with various term-out provisions.

The Company considers the customer and non-customer TOB trusts to be VIEs. Customer TOB trusts are not consolidated by the Company. The Company has concluded that the power to direct the activities that most significantly impact the economic performance of the customer TOB trusts is primarily held by the customer Residual holder, which may unilaterally cause the sale of the trust's bonds.

Non-customer TOB trusts generally are consolidated. Similar to customer TOB trusts, the Company has concluded that the power over the non-customer TOB trusts is primarily held by the Residual holder, which may unilaterally cause the sale of the trust's bonds. Because the Company holds the Residual interest, and thus has the power to direct the activities that most significantly impact the trust's economic performance, it consolidates the non-customer TOB trusts.

Municipal Investments

Municipal investment transactions include debt and equity interests in partnerships that finance the construction and rehabilitation of low-income housing, facilitate lending in new or underserved markets, or finance the construction or operation of renewable municipal energy facilities. The Company generally invests in these partnerships as a limited partner and earns a return primarily through the receipt of tax credits and grants earned from the investments made by the partnership. The Company may also provide construction loans or permanent loans for the development or operation of real estate properties held by partnerships. These entities are generally considered VIEs. The power to direct the activities of these entities is typically held by the general partner. Accordingly, these entities are not consolidated by the Company.

Client Intermediation

Client intermediation transactions represent a range of transactions designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index. These transactions include credit-linked notes and equity-linked notes. In these transactions, the VIE typically obtains exposure to the underlying security, referenced asset or index through a derivative instrument, such as a total-return swap or a credit-default swap. In turn the VIE issues notes to investors that pay a return based on the specified underlying security, referenced asset or index. The VIE invests the proceeds in a financial asset or a guaranteed insurance contract that serves as collateral for the derivative contract over the term of the transaction. The Company's involvement in these transactions includes being the counterparty to the VIE's derivative instruments and investing in a portion of the notes issued by the VIE. In certain transactions, the investor's maximum risk of loss is limited, and the Company absorbs risk of loss above a specified level. The Company does not have the power to direct the activities of the VIEs that most significantly impact their economic performance, and thus it does not consolidate them.

The Company's maximum risk of loss in these transactions is defined as the amount invested in notes issued by the VIE and the notional amount of any risk of loss absorbed by the Company through a separate instrument issued by the VIE. The derivative instrument held by the Company may generate a receivable from the VIE (for example, where the Company purchases credit protection from the VIE in connection with the VIE's issuance of a credit-linked note), which is collateralized by the assets owned by the VIE. These derivative instruments are not considered variable interests, and any associated receivables are not included in the calculation of maximum exposure to the VIE.

The proceeds from new securitizations related to the Company's client intermediation transactions for the year ended December 31, 2014 totaled approximately $2.0 billion.

Investment Funds

The Company is the investment manager for certain investment funds and retirement funds that invest in various asset classes including private equity, hedge funds, real estate, fixed income and infrastructure. The Company earns a management fee, which is a percentage of capital under management, and may earn performance fees. In addition, for some of these funds the Company has an ownership interest in the investment funds. The Company has also established a number of investment funds as opportunities for qualified employees to invest in private equity investments. The Company acts as investment manager to these funds and may provide employees with financing on both recourse and non-recourse bases for a portion of the employees' investment commitments.

The Company has determined that a majority of the investment entities managed by Citigroup are provided a deferral from the requirements of ASC 810, because they meet the criteria in Accounting Standards Update No. 2010-10, *Consolidation (Topic 810), Amendments for Certain Investment Funds* (ASU 2010-10). These entities continue to be evaluated under the requirements of ASC 810-10, prior to the implementation of SFAS 167 (FIN 46(R), *Consolidation of Variable Interest Entities*), which required that a VIE be consolidated by the party with a variable interest that will absorb a majority of the entity's expected losses or residual returns, or both. See Note 1 to the Consolidated Financial Statements for a discussion of ASU 2015-02 which includes impending changes to targeted areas of consolidation guidance. When ASU 2015-02 becomes effective on January 1, 2016, it will eliminate the above noted deferral for certain investment entities pursuant to ASU 2010-10.

Trust Preferred Securities

The Company has previously raised financing through the issuance of trust preferred securities. In these transactions, the Company forms a statutory business trust and owns all of the voting equity shares of the trust. The trust issues preferred equity securities to third-party investors and invests the gross proceeds in junior subordinated deferrable interest debentures issued by the Company. The trusts have no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the preferred equity securities held by third-party investors. Obligations of the trusts are fully and unconditionally guaranteed by the Company.

Because the sole asset of each of the trusts is a receivable from the Company and the proceeds to the Company from the receivable exceed the Company's investment in the VIE's equity shares, the Company is not permitted to consolidate the trusts, even though it owns all of the voting equity shares of the trust, has fully guaranteed the trusts' obligations, and has the right to redeem the preferred securities in certain circumstances. The Company recognizes the subordinated debentures on its Consolidated Balance Sheet as long-term liabilities. (For additional information, see Note 18 to the Consolidated Financial Statements.)

Business Combinations

Author's Note

In November 2014, FASB issued ASU No. 2014-17, *Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this ASU provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with FASB ASC 250, *Accounting Changes and Error Corrections*. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. If an acquired entity elects the option to apply pushdown accounting in its separate financial statements, it should disclose information in the current reporting period that enables users of financial statements to evaluate the effect of pushdown accounting. The amendments in this ASU are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued, or made available to be issued, the application of this guidance would be a change in accounting principle.

RECOGNITION AND MEASUREMENT

1.67 FASB ASC 805, *Business Combinations*, requires that the acquisition method be used for all business combinations. An acquirer is required to recognize the identifiable acquired assets, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Additionally, FASB ASC 805-10-25-23 requires acquisition-related costs to be recognized as expenses as incurred, rather than included in the cost allocated to the acquired assets and assumed liabilities. However, the costs to issue debt or equity securities should be recognized in accordance with other applicable GAAP. In a business combination achieved in stages, the "Pending Content" in FASB ASC 805-10-25-10 also requires the acquirer to remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognize the resulting gain or loss, if any, in earnings. For all business combinations, the guidance requires the acquirer to recognize goodwill as of the acquisition date, measured as the excess of (*a*) over (*b*):

a. The aggregate of the following:
   i. The transferred consideration measured in accordance with FASB ASC 805-30, which generally requires acquisition-date fair value
   ii. The fair value of any noncontrolling interest in the acquiree
   iii. In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree
b. The net of the acquisition-date amounts of the identifiable acquired assets and the assumed liabilities, measured in accordance with FASB ASC 805

If the amounts in (*b*) are in excess of those in (*a*), a bargain purchase has occurred. Before recognizing a gain on a bargain purchase, FASB ASC 805-30-30-5 requires the acquirer to reassess whether it has correctly identified all the acquired assets and assumed liabilities and to recognize any additional assets or liabilities identified in that review. If an excess still remains, the acquirer should recognize the resulting gain in earnings on the acquisition date.

DISCLOSURE

1.68 FASB ASC 805-10-50 requires the acquirer to disclose information that enables financial statement users to evaluate the nature and financial statement effect of a business combination that occurs during the current reporting period or after the reporting date but before the financial statements are issued or are available to be issued. To meet this objective, the following items should be disclosed:

- The name and a description of the acquiree
- The acquisition date
- The percentage of voting equity interests acquired
- The primary reasons for the business combination and a description of how control was obtained
- For public business entities
  - — The amounts of revenue and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period
  - — Pro forma information that differs depending upon whether the entity presents comparative financial statements. If an entity presents comparative financial statements, it should provide pro forma disclosures for the comparative prior period for revenue and earnings of the combined entity
  - — Nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the business combination, that are included in the reported pro forma revenue and earnings
- For a business combination achieved in stages:
  - — The acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date
  - — The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree that the acquirer held immediately before the business combination
  - — The valuation technique(s) used to measure the acquisition-date fair value of the equity interest in the acquiree that the acquirer held immediately before the business combination
  - — Other information helpful to users in assessing the inputs used to develop the fair value measurement of the equity interest in the acquiree held by the acquirer immediately before the business combination.

If any of the preceding disclosures for public business entities are impracticable, the acquirer should disclose that fact and explain why. Additional disclosures are required for transactions that are recognized separately from the acquisition of assets and assumptions of liabilities in the business combination.

PRESENTATION AND DISCLOSURE EXCERPTS

BUSINESS COMBINATIONS

1.69 CONVERGYS CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Amounts in millions except share and per share amounts)

2. Significant Accounting Policies (in part)

Business Combinations

Accounting for acquisitions requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations. Refer to Note 3 of the Notes to the Consolidated Financial Statements for a discussion of the Stream acquisition.

3. Business Combinations (in part)

Stream Acquisition

Background and Financing

On January 6, 2014, the Company and its wholly-owned subsidiary (Merger Sub), entered into an Agreement and Plan of Merger (the Merger Agreement) with Stream and, for limited purposes, other Sellers listed in the Merger Agreement. On March 3, 2014, Merger Sub was merged with and into Stream (the Merger), with Stream continuing as the surviving corporation and as a wholly owned subsidiary of Convergys. At the time of the Merger, each share of Stream common stock was converted into the right to receive an amount in cash, without interest.

The total purchase price, net of cash acquired, was $802.6, which was funded using available cash, borrowings under the Accounts Receivable Securitization Facility and proceeds from a term loan under the February 28, 2014 Credit Agreement (the Credit Agreement). The Credit Agreement consists of a term loan in the amount of $350.0 and a revolving credit facility in the amount of $300.0 (see Note 7, "Debt and Capital Lease Obligations" for the definition of these terms and further discussion).

The purchase price of Stream consisted of the following items:

Cash consideration for Stream stock[1]	$481.0
Cash consideration for Stream stock options[2]	16.1
Cash consideration for repayment of Stream 11.25% Senior Secured Notes[3]	243.0
Cash consideration for repayment of Stream 10.0% Promissory Notes[4]	19.3
Cash consideration for repayment of Stream Revolving Credit Facility[5]	63.4
Cash consideration for transaction expenses of Stream[6]	7.8
Total cash consideration	830.6
Cash acquired[7]	(28.0)
Net consideration transferred	$802.6

[1] The cash consideration for the outstanding shares of Stream's common stock, which includes final settlement for working capital. Stream outstanding common shares totaled 0.7 as of March 3, 2014.

[2] The cash consideration paid per share of "in the money" stock option awards.

[3] The cash consideration to repay Stream's 11.25% Senior Secured Notes due 2014, which reflects the aggregate principal and interest amounts of $230.0 and $13.0, respectively, as of March 3, 2014.

[4] The cash consideration to repay Stream's 10.0% Promissory Notes, which reflects the aggregate principal and interest amounts of $16.1 and $3.2, respectively, as of March 3, 2014.

[5] The cash consideration to repay Stream's Revolving Credit Facility, which reflects the aggregate principal and interest amounts of $63.1 and $0.3, respectively, as of March 3, 2014.

[6] Pursuant to the Merger Agreement, Convergys reimbursed the holders of Stream common stock for expenses incurred by Stream in connection with the merger. These expenses primarily related to third-party consulting services.

[7] Represents the Stream cash balance acquired at acquisition.

The Company incurred $14.7 and $2.7 of transaction costs for the twelve months ended December 31, 2014 and 2013, respectively. These costs are included in Transaction and integration costs in the accompanying Consolidated Statements of Income.

Preliminary Purchase Price Allocation

The Company accounted for Stream using the acquisition method of accounting in accordance with applicable U.S. GAAP whereby the total purchase price was preliminarily allocated to tangible and intangible assets acquired and liabilities assumed based on respective fair values. The following table summarizes the preliminary values of the assets acquired and liabilities assumed at the date of acquisition:

	March 3, 2014
Assets:	
Receivables	$ 197.9
Other current assets	13.5
Property and equipment	159.3
Goodwill	277.5
Intangible assets	370.4
Other assets	7.8
Liabilities:	
Accounts payable	$ (12.3)
Accrued expenses	(100.3)
Other current liabilities	(3.8)
Debt	(34.6)
Deferred tax—net	(61.2)
Other long-term liabilities	(11.6)
Total purchase price	$802.6

As of December 31, 2014, the purchase price allocation for the acquisition was preliminary and subject to completion. Adjustments to the current fair value estimates in the above table may occur as the process conducted for various valuations and assessments is finalized, including tax assets, liabilities and other attributes. Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The factors contributing to the recognition of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Stream acquisition. The benefits include an enhanced global footprint and expanded language capabilities. None of the goodwill is expected to be deductible for income tax purposes and was entirely allocated to the Customer Management—Agent Services reporting unit for purposes of the evaluation for any future goodwill impairment. The Company evaluated whether any adjustments in the prior period purchase price allocation was material and concluded no retrospective adjustment to prior period financial statements were required.

Intangible Assets Identified

The following details the total intangible assets identified:

Intangible Asset Type	**Value**	**Life (years)**
Customer relationship	$352.0	17
Trade name	17.0	4
Favorable lease contract	1.4	1–7
Total	$370.4	

The preliminary fair value of the customer relationship asset was determined using the income approach through an excess earnings analysis, with projected earnings discounted at a rate of 11.0%. The customer relationship intangible asset represents relationships between Stream and its customers. Convergys applied the income approach through a relief-from-royalty analysis to determine the preliminary fair value of the Stream trade name asset. The determination of the useful lives was based upon consideration of market participant assumptions and transaction specific factors.

Impact on Operating Results

The results of Stream's operations have been included in Convergys' Consolidated Financial Statements since the March 3, 2014 date of acquisition. The following table provides sales and results of operations from the acquired Stream business included in Convergys' December 31, 2014 results:

	Three Months Ended December 31, 2014	**Twelve Months Ended December 31, 2014**
Revenues	$253.3	$834.8
Income before income taxes	$ 9.2	$ 11.2

The following unaudited pro forma information assumes the acquisition of Stream occurred at the beginning of the respective periods presented. The unaudited pro forma information presented below is for illustrative purposes only and does not reflect future events that may occur after December 31, 2014 or any operating efficiencies or inefficiencies that may result from the Stream acquisition and related financing. Additionally, this unaudited pro forma information for the twelve months ended December 31, 2014 includes certain one-time costs associated with the Company's integration of the acquired Stream operations. Therefore, the information is not necessarily indicative of results that would have been achieved had the business been combined during the periods presented or the results that the Company will experience going forward.

	Year Ended December 31,	
Unaudited Pro Forma Information	**2014**	**2013**
Revenues	$3,026.9	$3,061.8
Income from Continuing Operations, net of tax	$ 110.8	$ 56.0
Earnings from Continuing Operations per share		
Basic	$ 1.10	$ 0.54
Diluted	$ 1.04	$ 0.51
Weighted average common shares outstanding		
Basic	100.7	103.3
Diluted	106.2	109.2

1.70 THE KROGER CO. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

All dollar amounts are in millions except share and per share amounts.

2. Merger

On January 28, 2014, the Company closed its merger with Harris Teeter by purchasing 100% of the Harris Teeter outstanding common stock for $2,436. The merger allows us to expand into the fast-growing southeastern and mid-Atlantic markets and into Washington, D.C. The merger was accounted for under the purchase method of accounting and was financed through a combination of commercial paper and long-term debt (see Note 6). In a business combination, the purchase price is allocated to assets acquired and liabilities assumed based on their fair values, with any excess of purchase price over fair value recognized as goodwill. In addition to recognizing the assets and liabilities on the acquired company's balance sheet, the Company reviews supply contracts, leases, financial instruments, employment agreements and other significant agreements to identify potential assets or liabilities that require recognition in connection with the application of acquisition accounting under ASC 805. Intangible assets are recognized apart from goodwill when the asset arises from contractual or other legal rights, or are separable from the acquired entity such that they may be sold, transferred, licensed, rented or exchanged either on a standalone basis or in combination with a related contract, asset or liability.

Pending the finalization of the Company's valuations and other items, the following table summarizes the preliminary fair values of the assets acquired and liabilities assumed:

	January 28, 2014
Assets	
Cash and temporary cash investments	$ 92
Store deposits in-transit	28
Receivables	41
FIFO inventory	426
Prepaid and other current assets	31
Total current assets	618
Property, plant and equipment	1,328
Intangibles	558
Other assets	238
Total Assets, excluding Goodwill	2,742
Liabilities	
Current portion of long-term debt including obligations under capital leases and financing obligations	(7)
Trade accounts payable	(202)
Accrued salaries and wages	(47)
Deferred income taxes	(20)
Other current liabilities	(159)
Total current liabilities	(435)
Fair-value of long-term debt including obligations under capital leases and financing obligations	(252)
Deferred income taxes	(285)
Pension and postretirement benefit obligations	(98)
Other long-term liabilities	(137)
Total Liabilities	(1,207)
Total Identifiable Net Assets	1,535
Goodwill	901
Total Purchase Price	$ 2,436

Of the $558 allocated to intangible assets, $430 relates to the Harris Teeter trade name, to which we assigned an indefinite life and, therefore, will not be amortized. The Company also recorded $53 and $75 related to pharmacy prescription files and favorable leasehold interests, respectively. The Company will amortize the pharmacy prescription files and favorable leasehold interests over seven and 24 years, respectively. The goodwill recorded as part of the merger was attributable to the assembled workforce of Harris Teeter and operational synergies expected from the merger, as well as any intangible assets that do not qualify for separate recognition. The transaction was treated as a stock purchase for income tax purposes. The assets acquired and liabilities assumed as part of the merger did not result in a step up of the tax basis and goodwill is not expected to be deductible for tax purposes. The above amounts represent the preliminary allocation of the purchase price, and are subject to revision when the resulting valuations of property and intangible assets are finalized, which will occur prior to January 28, 2015. Due to the timing of the merger closing late in the year, the revenue and earnings of Harris Teeter in 2013 were not material.

Pro forma results of operations, assuming the transaction had taken place at the beginning of 2012, are included in the following table. The pro forma information includes historical results of operations of Harris Teeter and adjustments for interest expense that would have been incurred due to financing the acquisition, depreciation and amortization of the assets acquired and excludes the pre-acquisition transaction related expenses incurred by Harris Teeter and the Company. The pro forma information does not include efficiencies, cost reductions, synergies and investments in lower prices for our customers expected to result from the merger or immaterial acquisitions completed in 2012. The unaudited pro forma financial information is not necessarily indicative of the results that actually would have occurred had the merger been completed at the beginning of the 2012.

	Fiscal Year Ended February 1, 2014	Fiscal Year Ended February 2, 2013
Sales	$103,202	$101,214
Net earnings including noncontrolling interests	1,664	1,584
Net earnings attributable to noncontrolling interests	12	11
Net earnings attributable to The Kroger Co.	$ 1,652	$ 1,573

3. Goodwill and Intangible Assets (in part)

The following table summarizes the changes in the Company's net goodwill balance through February 1, 2014.

	2013	2012
Balance beginning of year		
Goodwill	$ 3,766	$ 3,670
Accumulated impairment losses	(2,532)	(2,532)
	1,234	1,138
Activity during the year		
Acquisitions	901	96
Balance end of year		
Goodwill	4,667	3,766
Accumulated impairment losses	(2,532)	(2,532)
	$ 2,135	$ 1,234

In 2013, the Company acquired all the outstanding shares of Harris Teeter, a supermarket retailer in southeastern and mid-Atlantic markets and Washington, D.C., resulting in additional goodwill of $901. See Note 2 for additional information regarding the merger.

The Company acquired definite and indefinite lived intangible assets totaling approximately $558 as a result of the merger with Harris Teeter. See Note 2 for additional information regarding the merger.

The following table summarizes the Company's intangible assets balance through February 1, 2014.

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization[1]	Gross Carrying Amount	Accumulated amortization[1]
Definite-lived favorable leasehold interests	$144	$(61)	$ 69	$(58)
Definite-lived pharmacy prescription files	95	(28)	45	(26)
Definite-lived other	78	(10)	54	(2)
Indefinite-lived trade name	430	—	—	—
Indefinite-lived liquor licenses	54	—	48	—
Total	$801	$(99)	$216	$(86)

[1] Favorable leasehold interests are amortized to rent expense, pharmacy prescription files are amortized to merchandise costs and other intangibles are amortized to operating, general and administrative expense.

6. Debt Obligations (in part)

Long-term debt consists of:

	2013	2012
0.80% to 8.00% Senior notes due through 2043	$ 9,083	$ 6,587
5.00% to 12.75% Mortgages due in varying amounts through 2034	64	60
0.27% to 0.45% Commercial paper due through February 2014	1,250	1,645
Other	383	184
Total debt	10,780	8,476
Less current portion	(1,616)	(2,700)
Total long-term debt	$ 9,164	$ 5,776

In 2013, the Company issued $600 of senior notes due in fiscal year 2023 bearing an interest rate of 3.85%, $400 of senior notes due in fiscal year 2043 bearing an interest rate of 5.15%, $500 of senior notes due in fiscal year 2016 bearing an interest rate of 3-month London Inter-Bank Offering Rate plus 53 basis points, $300 of senior notes due in fiscal year 2016 bearing an interest rate of 1.20%, $500 of senior notes due in fiscal year 2019 bearing an interest rate of 2.30%, $700 of senior notes due in fiscal year 2021 bearing an interest rate of 3.30%

and $500 in senior notes due in fiscal year 2024 bearing an interest rate of 4.00%. In 2013, the Company repaid $400 of senior notes bearing an interest rate of 5.00% and $600 of senior notes bearing an interest rate of 7.50% upon their maturity.

As of February 1, 2014, the Company had outstanding letters of credit in the amount of $209, of which $12 reduces funds available under the Company's Credit Agreement. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company.

Most of the Company's outstanding public debt is subject to early redemption at varying times and premiums, at the option of the Company. In addition, subject to certain conditions, some of the Company's publicly issued debt will be subject to redemption, in whole or in part, at the option of the holder upon the occurrence of a redemption event, upon not less than five days' notice prior to the date of redemption, at a redemption price equal to the default amount, plus a specified premium. "Redemption Event" is defined in the indentures as the occurrence of (i) any person or group, together with any affiliate thereof, beneficially owning 50% or more of the voting power of the Company, (ii) any one person or group, or affiliate thereof, succeeding in having a majority of its nominees elected to the Company's Board of Directors, in each case, without the consent of a majority of the continuing directors of the Company or (iii) both a change of control and a below investment grade rating.

The aggregate annual maturities and scheduled payments of long-term debt, as of year-end 2013, and for the years subsequent to 2013 are:

2014	$ 1,616
2015	524
2016	1,267
2017	708
2018	1,003
Thereafter	5,662
Total debt	$10,780

Commitments

DISCLOSURE

1.71 FASB ASC 440, *Commitments*, requires the disclosure of commitments such as those for unused letters of credit; long-term leases; assets pledged as security for loans; pension plans; cumulative preferred stock dividends in arrears; plant acquisition, obligations to reduce debts, maintain working capital, and restrict dividends; and unconditional purchase obligations.

PRESENTATION AND DISCLOSURE EXCERPTS

RESTRICTIVE COVENANTS

1.72 UNIFI, INC. (JUN)

CONSOLIDATED BALANCE SHEETS (in part)

(amounts in thousands, except share and per share amounts)

	June 29, 2014	June 30, 2013
Liabilities and Shareholders' Equity (in part)		
Accounts payable	$ 51,364	$ 45,544
Accrued expenses	18,589	18,485
Income taxes payable	3,134	851
Current portion of long-term debt	7,215	65
Total current liabilities	80,302	64,945
Long-term debt	92,273	97,688
Other long-term liabilities	7,549	5,053
Deferred income taxes	2,205	1,300
Total liabilities	182,329	168,986

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

12. Long-Term Debt (in part)

Debt Obligations

The following table presents a summary of the total balances outstanding for the Company's debt obligations, their scheduled maturity dates and the weighted average interest rate for borrowings (including the effects of any interest rate swaps) as well as the applicable current portion of long-term debt:

	Scheduled Maturity Date	Weighted Average Interest Rate as of June 29, 2014	Principal Amounts as of June 29, 2014	June 30, 2013
ABL Revolver	March 2019	3.1%	$26,000	$52,500
ABL Term Loan	March 2019	2.9%	68,000	42,800
Term loan from unconsolidated affiliate	August 2015	3.0%	1,250	1,250
Capital lease obligations	(1)	(2)	4,238	1,203
Total debt			99,488	97,753
Current portion of long-term debt			(7,215)	(65)
Total long-term debt			$92,273	$97,688

(1) Scheduled maturity dates for capital lease obligations range from January 2017 to November 2027.

(2) Fixed interest rates for capital lease obligations range from 2.3% to 4.6%.

On May 24, 2012, the Company entered into a credit agreement (the "Credit Agreement") to establish a $150,000 senior secured credit facility ("ABL Facility") with Wells Fargo Bank, N.A. and Bank of America, N.A. In addition, the Company entered into a $30,000 term loan ("Term B Loan"). The purpose of entering into the ABL Facility and the Term B Loan was to, among other things, refinance the Company's then-existing indebtedness. Since that establishment, the Term B Loan has been repaid (on January 8, 2013), and the ABL Facility has been amended several times (most recently on August 25, 2014), such that, as of June 29, 2014, it had a maturity date of March 28, 2019, and consisted of a $100,000 revolving credit facility ("ABL Revolver") and a $68,000 term loan ("ABL Term Loan"). As a result of the last amendment entered into after the end of fiscal year 2014 (which is described more specifically below under "—Subsequent Event—Fifth Amendment"), the ABL Term Loan increased to $90,000.

ABL Facility

The ABL Facility is secured by a first-priority security interest in substantially all owned property and assets (together with proceeds and products) of Unifi, Inc., Unifi Manufacturing, Inc. and certain subsidiary guarantors (the "Loan Parties"). It is also secured by a first-priority security interest in all (or 65% in the case of first tier controlled foreign corporations) of the stock of (or other ownership interests in) each of the Loan Parties (other than the Company) and certain subsidiaries of the Loan Parties, together with all proceeds and products thereof. The ABL Facility is further secured by a first-priority lien on the Company's limited liability company membership interest in Parkdale America, LLC ("PAL").

The Credit Agreement, as amended, includes representations and warranties made by the Loan Parties, affirmative and negative covenants and events of default that are usual and customary for financings of this type. Should excess availability under the ABL Revolver fall below the defined Trigger Level, a financial covenant requiring the Loan Parties to maintain a fixed charge coverage ratio on a monthly basis of at least 1.05 to 1.0 becomes effective. The Trigger Level as of June 29, 2014 was $21,000. In addition, the ABL Facility contains restrictions on certain payments and investments, including restrictions on the payment of dividends and share repurchases, unless excess availability is greater than the Trigger Level for the thirty-day period prior to the making of such a distribution (as calculated on a pro forma basis as if the payment and any revolving loans made in connection therewith were made on the first day of such period).

The Company's ability to borrow under the ABL Revolver is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to certain conditions and limitations. ABL Revolver borrowings bear interest at the London Interbank Offer Rate ("LIBOR") plus an applicable margin of 1.75% to 2.25%, or the Base Rate plus an applicable margin of 0.75% to 1.25%, with interest payable on a monthly basis. The applicable margin is based on the average quarterly excess availability under the ABL Revolver. The Base Rate means the greater of (i) the prime lending rate as publicly announced from time to time by Wells Fargo, (ii) the Federal Funds Rate plus 0.5%, and (iii) LIBOR plus 1.0%. There is also a monthly unused line fee under the ABL Revolver of 0.25% to 0.375% of the unused line amount.

As of June 29, 2014, the ABL Term Loan bore interest at LIBOR plus an applicable margin of 2.25%, or the Base Rate plus an applicable margin of 1.25%, with interest payable on a monthly basis. Subject to certain provisions, the ABL Term Loan may be prepaid at par, in whole or in part, at any time before the maturity date, at the Company's discretion.

As of June 29, 2014, under the terms of the ABL Facility, the Company was required to hedge at least $50,000 of variable interest rate exposure, so long as the outstanding principal of all indebtedness having variable rates of interest exceeds $75,000.

First Amendment

On December 27, 2012, the Company entered into a First Amendment to Credit Agreement ("First Amendment") to amend certain terms of the ABL Facility in connection with the Company's then-anticipated January 8, 2013 repayment of all amounts outstanding under the Term B Loan. The First Amendment revised the definition of fixed charges within the Credit Agreement for the ABL Facility and within the Company's fixed charge coverage ratio calculation to exclude any mandatory or optional prepayments of the Term B Loan made after December 25, 2012 and prior to February 4, 2013, in an amount not to exceed $13,800, subject to the satisfaction of certain specified conditions (which were met by the Company). An amendment fee of $50 was paid to the participating lenders during the quarter ended March 24, 2013.

Second Amendment

On June 25, 2013, the Company entered into a Second Amendment to Credit Agreement ("Second Amendment"). The Second Amendment, among other things: (i) extended the maturity date of the ABL Facility from May 24, 2017 to May 24, 2018; (ii) authorized the ABL Term Loan amount to be increased from its then existing balance of $42,800 to $50,000; (iii) replaced the $1,800 quarterly ABL Term Loan principal payments with payments (if any) based on the amount that the outstanding balance of the ABL Term Loan exceeds a calculation of eligible collateral; (iv) reduced the ABL Term Loan interest rate from LIBOR plus an applicable margin of 2.25% to 2.75%, or the Base Rate plus an applicable margin of 1.25% to 1.75%, to LIBOR plus an applicable margin of 2.25%, or the Base Rate plus an applicable margin of 1.25%; (v) revised the definition of fixed charges for purposes of the Company's fixed charge coverage ratio calculation to exclude ABL Term Loan voluntary principal prepayments and all principal prepayments of the Term B Loan; (vi) revised the definition of fixed charge coverage ratio to exclude share repurchases permitted under the Credit Agreement; (vii) increased the trigger level for the financial covenant which requires the Company to maintain a fixed charge coverage ratio on a monthly basis of at least 1.05 to 1.0 when excess availability under the ABL Revolver falls below the greater of $10,000 or 20% of the maximum revolver amount (from the previous trigger level of the greater of $10,000 or 15% of the maximum revolver amount); (viii) required excess availability to not be less than $20,000 at any time during the thirty day period prior to the making of restricted payments consisting of dividends and share repurchases; (ix) after July 19, 2015, allowed the Company to reset the calculation of eligible machinery and equipment and eligible real property collateral specific to the ABL Term Loan (the "Collateral Reset"), such that the ABL Term Loan amount could be increased to $50,000 (the "ABL Term Loan Reload"), upon satisfaction of certain additional conditions at the time of the reload; and (x) reduced the letter of credit sublimit to $10,000. Some of the foregoing items were subject to satisfaction of certain conditions, including updated real estate appraisals, which conditions were subsequently satisfied on July 19, 2013. An amendment fee of $125 was paid to the participating lenders during the quarter ended June 30, 2013.

Third Amendment

On January 16, 2014, the Company entered into a Third Amendment to Credit Agreement ("Third Amendment"). The Third Amendment, among other things: (i) revised the definition of permitted indebtedness to allow the Company to enter into permitted sales and leaseback transactions of equipment in an aggregate amount not to exceed $4,000 per fiscal year; (ii) revised the definition of permitted dispositions to increase the amount of certain asset sales or dispositions from $500 to $4,000 per fiscal year; and (iii) revised the mandatory prepayment provision to increase the amount of net proceeds received from certain permitted dispositions that would be required to prepay the outstanding ABL Facility debt from $500 to $4,000 per fiscal year. No amendment fee was required.

Fourth Amendment

On March 28, 2014, the Company entered into a Fourth Amendment to Credit Agreement ("Fourth Amendment"). The Fourth Amendment, among other things: (i) increased the ABL Term Loan by $18,000 to $68,000; (ii) beginning October 1, 2014, requires $2,125 of fixed quarterly payments on the ABL Term Loan; (iii) extended the maturity date of the ABL Facility from May 24, 2018 to March 28, 2019; (iv) modified the calculation of the fixed charge coverage ratio to exclude certain capital expenditures, at the election of the Company, through June 30, 2015, subject to a maximum exclusion of $18,000 for any consecutive twelve month period and other limitations; (v) modified the definition of the trigger level, such that it is reached when excess availability under the ABL Revolver falls below the greater of $10,000, 20% of the maximum revolver amount or 12.5% of the sum of the maximum revolver amount plus the outstanding principal amount of the ABL

Term Loan; and (vi) increased the ABL Term Loan Reload amount from $50,000 to $68,000. An amendment fee of $150 was paid to the participating lenders during the quarter ended June 29, 2014.

Subsequent Event—Fifth Amendment

On August 25, 2014, the Company entered into a Fifth Amendment to Credit Agreement ("Fifth Amendment"). The Fifth Amendment, among other things: (i) increased the ABL Term Loan by $22,000 to $90,000; (ii) increased the fixed quarterly payments on the ABL Term Loan from $2,125 to $2,812; (iii) modified the calculation of the fixed charge coverage ratio to exclude certain capital expenditures and permitted acquisitions, at the election of the Company, through June 30, 2015, subject to a maximum exclusion of $40,000 for any consecutive twelve-month period and other limitations; (iv) increased the ABL Term Loan interest rate from LIBOR plus an applicable margin of 2.25%, or the Base Rate plus an applicable margin of 1.25%, to LIBOR plus an applicable margin of 2.50%, or the Base Rate plus an applicable margin of 1.50%; (v) modified the date on which the eligibility of certain collateral is calculated as a date between July 19, 2015 and December 31, 2015, subject to satisfaction of certain additional conditions, such that the ABL Term Loan amount can be increased up to $90,000; (vi) related to the making of restricted payments (consisting of dividends and share repurchases), in addition to existing requirements, added a requirement to have a fixed charge coverage ratio of at least 1.0 to 1.0 during the same period, calculated on a pro forma basis as if all such restricted payments made pursuant to the most recent compliance certificate date were made on the last day of the applicable twelve-fiscal-month period; and (vii) removed the requirement to hedge interest rate exposure on funded indebtedness. An amendment fee of $95 was paid to the participating lenders during the quarter ending September 28, 2014.

As of June 29, 2014, the Company was in compliance with all financial covenants; the excess availability under the ABL Revolver was $61,103; the fixed charge coverage ratio was 10.3 to 1.0; and the Company had $2,325 of standby letters of credit, none of which have been drawn upon.

Term Loan from Unconsolidated Affiliate

On August 30, 2012, a foreign subsidiary of the Company entered into an unsecured loan agreement under which it borrowed $1,250 from the Company's unconsolidated affiliate, U.N.F. Industries Ltd. The loan bears interest at 3% with interest payable semi-annually and does not amortize. During fiscal year 2014, the maturity date was extended from August 30, 2014 to August 30, 2015, at which time the entire principal balance is due.

Capital Lease Obligations

On November 19, 2012, the Company entered into a capital lease with Salem Leasing Corporation for certain transportation equipment. The present value of the fifteen-year lease was $1,234 and payments are made monthly. The implicit annual interest rate under the lease is approximately 4.6%.

During fiscal year 2014, the Company entered into four capital leases with an unrelated third party for certain machinery and equipment, with an aggregate present value of $3,353.

Scheduled Debt Maturities

The following table presents the scheduled maturities of the Company's outstanding debt obligations for the following five fiscal years and thereafter:

	Scheduled Maturities on a Fiscal Year Basis					
	2015	2016	2017	2018	2019	Thereafter
ABL Revolver	$ —	$ —	$ —	$ —	$26,000	$ —
ABL Term Loan	6,375	8,500	8,500	8,500	36,125	—
Capital lease obligations	840	866	808	558	366	800
Term loan from unconsolidated affiliate	—	1,250	—	—	—	—
Total	$7,215	$10,616	$9,308	$9,058	$62,491	$800

1.73 ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(amounts in millions, except share data)

	December 31, 2014	December 31, 2013
Liabilities and Shareholders' Equity (in part)		
Current liabilities:		
Current installments of long-term debt	$ 39.6	$ 23.9
Accounts payable and accrued expenses	345.5	334.6
Liabilities of deconsolidated operations	—	47.7
Income tax payable	2.5	4.0
Deferred income taxes	0.5	0.7
Total current liabilities	388.1	410.9
Long-term debt, less current installments	1,003.0	1,042.6
Postretirement benefit liabilities	201.5	234.2
Pension benefit liabilities	115.5	83.9
Other long-term liabilities	53.2	63.6
Noncurrent liabilities of deconsolidated operations	—	148.4
Noncurrent income taxes payable	51.1	81.7
Deferred income taxes	144.7	178.1
Total noncurrent liabilities	1,569.0	1,832.5

See accompanying notes to consolidated financial statements beginning on page 51.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(dollar amounts in millions, except share data)

Note 15. Debt

	December 31, 2014	Average Year-End Interest Rate	December 31, 2013	Average Year-End Interest Rate
Term loan A due 2018	$ 530.9	3.14%	$ 550.0	3.13%
Term loan B due 2020	466.6	3.50%	471.4	3.50%
Tax exempt bonds due 2025–2041	45.1	0.88%	45.1	0.92%
Subtotal	1,042.6	3.20%	1,066.5	3.20%
Less current portion and short-term debt	39.6	3.18%	23.9	3.20%
Total long-term debt, less current portion	$1,003.0	3.20%	$1,042.6	3.20%

The average year-end interest rates are inclusive of our interest rate swaps. See Note 18 to the Consolidated Financial Statements for further information.

In March 2013, we refinanced our $1.3 billion senior credit facility. The amended facility is composed of a $250 million revolving credit facility (with a $150 million sublimit for letters of credit), a $550 million Term Loan A and a $475 million Term Loan B. The terms of the facility resulted in a lower interest rate spread (2.5% vs. 3.0%) than our previous facility. We also extended the maturity of Term Loan A from November 2015 to March 2018 and of Term Loan B from March 2018 to March 2020. The facility is secured by U.S. personal property, the capital stock of material U.S. subsidiaries, and a pledge of 65% of the stock of our material first tier foreign subsidiaries. In connection with the refinancing, we incurred $8.3 million for bank, legal, and other fees, of which $7.2 million was capitalized and is being amortized into interest expense over the life of the loans. Additionally, we wrote off $18.9 million of unamortized debt financing costs in the first quarter of 2013 related to our previous credit facility to interest expense.

The primary covenant change resulting from the 2013 refinancing is related to mandatory prepayments required under the senior credit facility. If our ratio of consolidated funded indebtedness minus AWI and domestic subsidiary unrestricted cash and cash equivalents up to $100 million to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") ("Consolidated Net Leverage Ratio") is greater than or equal to 3.5 to 1.0, we would be required to make a prepayment of 50% of fiscal year Consolidated Excess Cash Flow, as defined by the credit agreement. If our Consolidated Net Leverage Ratio is less than 3.5 to 1.0, no prepayment would be required. These annual payments would be made in the first quarter of the following year. No payment will be required in 2015.

As of December 31, 2014, we were in compliance with all covenants of the amended senior credit facility. Our debt agreements include other restrictions, including restrictions pertaining to the acquisition of additional debt, the redemption, repurchase or retirement of our capital stock, payment of dividends, and certain financial transactions as it relates to specified assets. We currently believe that default under these covenants is unlikely. Fully borrowing under our revolving credit facility would not violate these covenants.

In March 2012, we amended our $1.05 billion senior credit facility. We added $250 million to our existing Term Loan B facility. The amended $1.3 billion facility was made up of a $250 million revolving credit facility (with a $150 million sublimit for letters of credit), a $250 million Term Loan A and an $800 million Term Loan B. In connection with the additional $250 million Term Loan B borrowings, we paid $8.1 million for bank fees. This amount was capitalized and was being amortized into interest expense over the scheduled life of the loan.

In December 2010 we established a $100 million Accounts Receivable Securitization Facility with the Bank of Nova Scotia (the "funding entity"). The purchase and letter of credit commitments under the program were due to expire in December 2014. In March 2013, we decreased the facility to $75 million to reduce commitment fees on unused capacity. The maturity was also extended to March 2016. On December 18, 2014, we amended and increased the facility. The facility now reflects a seasonality clause that changes to $100 million from March through September, and $90 million from October through February. The maturity date has been extended from March 2016 to December 2017. Under this agreement AWI and Armstrong Hardwood Flooring Company (the Originators) sell their accounts receivables to Armstrong Receivables Company, LLC ("ARC"), a Delaware entity that is consolidated in these financial statements. ARC is a 100% wholly owned single member LLC special purpose entity created specifically for this transaction; therefore, any receivables sold to ARC are not available to the general creditors of AWI. ARC then sells an undivided interest in the purchased accounts receivables to the funding entity. This undivided interest acts as collateral for drawings on the facility. Any borrowings under this facility are obligations of ARC and not AWI. ARC contracts with and pays a servicing fee to AWI to manage, collect and service the purchased accounts receivables.

All new receivables under the program generated by the originators are continuously purchased by ARC with the proceeds from collections of receivables previously purchased. Ongoing changes in the amount of funding under the program, through changes in the amount of undivided interests sold by ARC, reflect seasonal variations in the level of accounts receivable, changes in collection trends and other factors such as changes in sales prices and volumes. ARC has issued subordinated notes payable to the originators for the difference between the face amount of uncollected accounts receivable purchased, less a discount, and cash paid to the originators that was funded by the sale of the undivided interests. The notes issued by ARC are subordinated to the undivided interests of the funding entity in the purchased receivables. The balance of the subordinated notes payable, which are eliminated during consolidation, totaled $103.1 million and $104.1 million as of December 31, 2014 and December 31, 2013, respectively. As of December 31, 2014 we had no borrowings under this facility but had $59.3 million of letters of credit issued under the facility, with an additional $0.2 million of international subsidiary letters of credit issued by other banks.

None of the remaining outstanding debt as of December 31, 2014 was secured with buildings and other assets. The credit lines at our foreign subsidiaries are subject to immaterial annual commitment fees.

Scheduled payments of long-term debt:

2015	$ 39.6
2016	52.1
2017	55.3
2018	402.9
2019	4.8
2020 and later	487.9

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2014, we had a $250 million revolving credit facility with a $150 million sublimit for letters of credit, of which $7.8 million was outstanding. There were no borrowings under the revolving credit facility. Availability under this facility totaled $242.2 million as of December 31, 2014. We also have the $90 million securitization facility which as of December 31, 2014 had letters of credit outstanding of $59.3 million and no borrowings against it. Maximum capacity under this facility was $75.5 million (of which $16.2 million was available), subject to accounts receivable balances and other collateral adjustments, as of December 31, 2014. As of December 31, 2014, our foreign subsidiaries had available lines of credit totaling $5.0 million of which $0.3 million was available only for letters of credit and guarantees. There were $0.2 million of letters of credit and guarantees issued under these credit lines as of December 31, 2014, leaving an additional letter of credit availability of $0.1 million. There were no borrowings under these lines of credit as of December 31, 2014 leaving $4.8 million of unused lines of credit available for foreign borrowings. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AWI's failure to pay its obligations to the beneficiary.

1.74 ENERGIZER HOLDINGS, INC. (SEP)

CONSOLIDATED BALANCE SHEETS (in part)

(Dollars in millions, except share count and par values)

	September 30,	
	2014	2013
Liabilities and Shareholders' Equity (in part)		
Current liabilities		
Current maturities of long-term debt	$ 230.0	$ 140.0
Notes payable	289.5	99.0
Accounts payable	397.1	340.4
Other current liabilities	657.1	574.0
Total current liabilities	1,573.7	1,153.4
Long-term debt	1,768.9	1,998.8
Other liabilities	1,063.8	1,111.6
Total liabilities	4,406.4	4,263.8

The above financial statements should be read in conjunction with the Notes To Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Dollars in millions, except per share)

(13) Debt (in part)

Notes payable at September 30, 2014 and 2013 consisted of notes payable to financial institutions with original maturities of less than one year of $289.5 and $99.0, respectively, and had a weighted-average interest rate of 2.1% and 3.6%, respectively.

The detail of long-term debt at September 30 for the year indicated is as follows:

	2014	2013
Private Placement, fixed interest rates ranging from 5.2% to 6.6%, due 2014 to 2017	$ 900.0	$1,040.0
Senior Notes, fixed interest rate of 4.7%, due 2021	600.0	600.0
Senior Notes, fixed interest rate of 4.7%, due 2022, net of discount	498.9	498.8
Total long-term debt, including current maturities	1,998.9	2,138.8
Less current portion	230.0	140.0
Total long-term debt	$1,768.9	$1,998.8

The Company's total borrowings were $2,288.4 at September 30, 2014, including $289.5 tied to variable interest rates. The Company maintains total debt facilities of $2,603.4. The Company's Amended and Restated Revolving Credit Agreement, which matures in 2016, currently provides for revolving credit loans and the issuance of letters of credit in an aggregate amount of up to $450 at September 30, 2014. The Company had outstanding borrowings of $135.0 under our revolving credit facility, recorded within notes payable, and $302.8 remains available as of September 30, 2014, taking into account outstanding borrowings and $12.2 of outstanding letters of credit.

Advances under the Company's $150 receivables securitization program, as amended, are not considered debt for purposes of the Company's debt compliance covenants, but are included in total debt on the balance sheet. At September 30, 2014 and 2013, $133.5 and $78.0, respectively, was outstanding under this facility.

In addition, the Company had outstanding international borrowings, recorded within Notes payable, of $21.0 as of September 30, 2014 and 2013, respectively.

Under the terms of the Company's credit agreement, the ratio of the Company's indebtedness to its earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the agreement and detailed below, cannot be greater than 4.0 to 1, and may not remain above 3.5 to 1 for more than four consecutive quarters. If and so long as the ratio is above 3.5 to 1 for any period, the Company is required to pay additional interest expense for the period in which the ratio exceeds 3.5 to 1. The interest rate margin and certain fees vary depending on the indebtedness to EBITDA ratio. Under the Company's private placement note agreements, indebtedness to EBITDA may not be greater than 4.0 to 1; if the ratio is above 3.5 to 1 for any quarter, the Company is required to pay additional interest on the private placement notes of 0.75% per annum for each quarter until the ratio is reduced to not more than 3.5 to 1. In addition, under the credit agreement, the ratio of its current year earnings before interest and taxes (EBIT), as defined in the agreement, to total interest expense must exceed 3.0 to 1. Under the credit agreement, EBITDA is defined as net earnings, as adjusted to add-back interest expense, income taxes, depreciation and amortization, all of which are determined in accordance with GAAP. In addition, the credit agreement allows certain non-cash charges such as stock award amortization and asset write-offs including, but not limited to, impairment and accelerated depreciation, to be "added-back" in determining EBITDA for purposes of the indebtedness ratio. Severance and other cash charges incurred as a result of restructuring and realignment activities as well as expenses incurred in acquisition integration activities are included as reductions in EBITDA for calculation of the indebtedness ratio. In the event of an acquisition, EBITDA is calculated on a pro forma basis to include the trailing twelve-month EBITDA of the acquired company or brands. Total debt is calculated in accordance with GAAP, but excludes outstanding borrowings under the receivable securitization program. EBIT is calculated in a fashion identical to EBITDA except that depreciation and amortization are not "added-back". Total interest expense is calculated in accordance with GAAP.

The Company's ratio of indebtedness to its EBITDA was 2.7 to 1, and the ratio of its EBIT to total interest expense was 5.3 to 1, as of September 30, 2014. In addition to the financial covenants described above, the credit agreements and the note purchase agreements contain customary representations and affirmative and negative covenants, including limitations on liens, sales of assets, subsidiary indebtedness, mergers and similar transactions, changes in the nature of the business of the Company and transactions with affiliates. If the Company fails to comply with the financial covenants referred to above or with other requirements of the credit agreement or private placement note agreements, the lenders would have the right to accelerate the maturity of the debt. Acceleration under one of these facilities would trigger cross defaults on other borrowings.

Aggregate maturities of long-term debt, including current maturities, at September 30, 2014 are as follows for the fiscal years' noted: $230.0 in 2015, $210.0 in 2016, $150.0 in 2017, $310.0 in 2018, zero in 2019 and $1,100.0 thereafter. At this time, the Company intends to repay scheduled debt maturities over the course of the next fiscal year.

LEASE AGREEMENTS

1.75 PEABODY ENERGY CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
(Amounts in millions, except per share data)	**2014**	**2013**
Liabilities and Stockholders' Equity (in part)		
Current liabilities		
Current maturities of long-term debt	$ 21.2	$ 31.7
Liabilities from coal trading activities, net	32.7	6.1
Accounts payable and accrued expenses	1,809.2	1,764.0
Total current liabilities	1,863.1	1,801.8
Long-term debt, less current maturities	5,965.6	5,970.7
Deferred income taxes	89.1	40.9
Asset retirement obligations	722.3	691.8
Accrued postretirement benefit costs	781.9	684.0
Other noncurrent liabilities	1,042.6	996.3
Total liabilities	10,464.6	10,185.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(12) Long-term Debt (in part)

The Company's total indebtedness as of December 31, 2014 and 2013 consisted of the following:

	December 31,	
(Dollars in millions)	**2014**	**2013**
2013 Term Loan Facility due September 2020	$1,175.1	$1,185.4
7.375% Senior Notes due November 2016	650.0	650.0
6.00% Senior Notes due November 2018	1,518.8	1,518.8
6.50% Senior Notes due September 2020	650.0	650.0
6.25% Senior Notes due November 2021	1,339.6	1,339.6
7.875% Senior Notes due November 2026	247.6	247.5
Convertible Junior Subordinated Debentures due December 2066	382.3	379.7
Capital lease obligations	22.2	30.5
Other	1.2	0.9
Total	$5,986.8	$6,002.4

The carrying amounts of the 2013 Term Loan Facility due September 2020, the 7.875% Senior Notes due December 2026 and the Convertible Junior Subordinated Debentures due December 2066 (the Debentures) have been presented above net of the respective unamortized original issue discounts.

Capital Lease Obligations

In June 2013, the Company executed an amendment to its master equipment hire agreement with an unconsolidated equity affiliate in Australia to allow for the legal right of offset of receivables and payables due between parties. The operations of that equity affiliate are funded through equity interests and shareholder loans for the purpose of purchasing on behalf of and leasing equipment to its shareholders. Because the Company intends to use the right of offset provided by that amendment, $38.0 million of capital lease obligations due to that equity affiliate have been presented on a net basis in the consolidated balance sheet as of December 31, 2014 and offset against the related shareholder loans due from that equity affiliate included in "Investments and other assets." Prior to the amendment, such amounts were presented on a gross basis in the Company's consolidated financial statements.

Refer to Note 13. "Leases" for additional information associated with the Company's capital leases, which pertain to the financing of mining equipment used in operations.

(13) Leases

The Company leases equipment and facilities under various noncancelable lease agreements. Certain lease agreements require the maintenance of specified ratios and are subject to the restrictive covenants of the Company's credit facilities. Rental expense under operating leases, including expense related to short-term operating leases, was $306.0 million, $305.9 million and $247.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. One of the Company's operating lease agreements for underground mining equipment in Australia entered into in 2013 requires contingent rent to be paid only if and when certain coal is mined at a specified margin as defined in the agreements. There was no contingent expense related to that arrangement for the years ended December 31, 2014 and 2013. The gross value of property, plant, and equipment under capital leases was $175.1 million as of December 31, 2014 and 2013, related primarily to the leasing of mining equipment. The accumulated depreciation for these items was $138.4 million and $111.3 million at December 31, 2014 and 2013, respectively, and changes thereto have been included in "Depreciation, depletion and amortization" in the consolidated statements of operations.

The Company also leases coal reserves under agreements that require royalties to be paid as the coal is mined. Certain agreements also require minimum annual royalties to be paid regardless of the amount of coal mined during the year. Total royalty expense was $507.8 million, $546.0 million and $637.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

A substantial amount of the coal mined by the Company is produced from mineral reserves leased from the owner. One of the major lessors is the U.S. government, from which the Company leases substantially all of the coal it mines in Wyoming under terms set by Congress and administered by the U.S. Bureau of Land Management. These leases are generally for an initial term of ten years but may be extended by diligent development and mining of the reserves until all economically recoverable reserves are depleted. The Company has met the diligent development requirements for substantially all of these federal leases either directly through production, by including the lease as a part of a logical mining unit with other leases upon which development has occurred, or by paying an advance royalty in lieu of continued operations. Annual production on these federal leases must total at least 1.0% of the leased reserve or the original amount of coal in the entire logical mining unit in which the leased reserve resides. In addition, royalties are payable monthly at a rate of 12.5% of the gross realization from the sale of the coal mined using surface mining methods and at a rate of 8.0% of the gross realization for coal produced using underground mining methods. The Company also leases coal reserves in Arizona from The Navajo Nation and the Hopi Tribe under leases that are administered by the U.S. Department of the Interior. These leases expire upon exhaustion of the leased reserves or upon the permanent ceasing of all mining activities on the related reserves as a whole. The royalty rates are also generally based upon a percentage of the gross realization from the sale of coal. These rates are subject to redetermination every ten years under the terms of the leases. The remainder of the leased coal is generally leased from state governments, land holding companies and various individuals. The duration of these leases varies greatly. Typically, the lease terms are automatically extended as long as active mining continues. Royalty payments are generally based upon a specified rate per ton or a percentage of the gross realization from the sale of the coal.

Mining and exploration in Australia is generally conducted under leases, licenses or permits granted by state governments. Mining leases are typically for an initial term of up to 21 years (but may be renewed) and contain conditions relating to such matters as minimum annual expenditures, environmental compliance, restoration and rehabilitation. Royalties are paid to the state government as a percentage of the sales price (less certain allowable deductions in some cases). Generally landowners do not own the mineral rights or have the ability to grant rights to mine those minerals. These rights are retained by state governments. Compensation is often payable to landowners and occupiers for the loss of access to the land and any impact on the value of the land where the landowner retains the surface rights, and the amount and type of compensation can be determined by agreement or court determination, as provided by law. Surface rights may be acquired directly from landowners by mutual agreement.

Future minimum lease and royalty payments as of December 31, 2014 are as follows:

Year Ending December 31,	Capital Leases	Operating Leases	Coal Lease and Royalty Obligations
		(Dollars in millions)	
2015	$ 9.5	$207.2	$284.6
2016	6.9	196.0	253.3
2017	1.4	178.9	22.3
2018	0.5	104.3	20.5
2019	0.5	51.3	18.2
2020 and thereafter	10.6	64.3	29.0
Total minimum lease payments	29.4	$802.0	$627.9
Less interest	7.2		
Present value of minimum capital lease payments	$22.2		

As of December 31, 2014, certain of the Company's coal lease obligations were secured by outstanding surety bonds totaling $103.8 million.

SUPPLY AGREEMENTS

1.76 AIRGAS, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(17) Commitments and Contingencies (in part)

(c) Supply Agreements

The Company purchases bulk quantities of industrial gases under take-or-pay supply agreements. The Company is a party to a take-or-pay supply agreement, in effect through 2017, under which Air Products and Chemicals, Inc. ("Air Products") will supply the Company with bulk nitrogen, oxygen, argon, hydrogen and helium. The Company is committed to purchase a minimum of approximately $52 million annually in bulk gases under the Air Products supply agreement. The Company also has take-or-pay supply agreements with The Linde Group AG to purchase oxygen, nitrogen, argon and helium. The agreements expire at various dates through 2019 and represent approximately $45 million in minimum annual bulk gas purchases. Additionally, the Company has take-or-pay supply agreements to purchase oxygen, nitrogen, argon and helium from other major producers. Minimum annual purchases under these contracts are approximately $29 million and they expire at various dates through 2024.

The Company also purchases liquid carbon dioxide and ammonia under take-or-pay supply agreements. The Company is a party to take-or-pay supply agreements for the purchase of liquid carbon dioxide with ten suppliers that expire at various dates through 2044 and represent minimum annual purchases of approximately $22 million. The Company purchases ammonia from a variety of sources and is obligated to purchase a minimum of approximately $1 million annually under these contracts.

The Company's annual purchase commitments under all of its supply agreements reflect estimates based on fiscal 2014 purchases. The Company's supply agreements contain periodic pricing adjustments, most of which are based on certain economic indices and market analyses. The Company believes the minimum product purchases under the agreements are within the Company's normal product purchases. Actual purchases in future periods under the supply agreements could differ materially from those presented above due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions. If a supply agreement with a major supplier of gases or other raw materials was terminated, the Company would attempt to locate alternative sources of supply to meet customer requirements, including utilizing excess internal production capacity for atmospheric gases. The Company purchases hardgoods from major manufacturers and suppliers. For certain products, the Company has negotiated national purchasing arrangements. The Company believes that if an arrangement with any supplier of hardgoods was terminated, it would be able to negotiate comparable alternative supply arrangements.

At March 31, 2014, future commitments under take-or-pay supply agreements were as follows:

(In thousands)	
Years Ending March 31,	
2015	$149,103
2016	137,432
2017	105,929
2018	54,802
2019	41,541
Thereafter	111,191
	$599,998

Contingencies

RECOGNITION AND MEASUREMENT

1.77 The FASB ASC glossary defines a *contingency* as an existing condition, situation, or set of circumstances involving uncertainty about possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur. FASB ASC 450-20 sets forth guidance for the recognition and disclosure of loss contingencies. An estimated loss from a loss contingency should be accrued by a charge to income if both of the following conditions are met:

- Information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
- The amount of loss can be reasonably estimated.

1.78 Disclosure is preferable to accrual when a reasonable estimate of loss cannot be made. Even losses that are reasonably estimable should not be accrued if it is not probable that an asset has been impaired or a liability has been incurred at the date of the entity's financial statements because those losses relate to a future period, rather than the current period. In accordance with FASB ASC 450-20-30-1, if some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, that amount should be accrued. When no amount within the range is a better estimate than any other amount, however, the minimum amount in that range should be accrued. Select loss contingency disclosures do not apply to loss contingencies arising from an entity's recurring estimation of its allowance for credit losses. FASB ASC 450-30-25-1 usually does not permit recognition of gain contingencies because to do so might be to recognize revenue before its realization. When contingency disclosures exist, public companies generally present a balance sheet caption for contingencies, in accordance with Rule 5-02 of Regulation S-X.

1.79 FASB ASC 460-10-25-5 considers warranties to fall within the definition of a contingency. Therefore, an entity should meet the two conditions described in paragraph 1.77 before recognizing a loss and related liability. FASB ASC 460-10 contains additional guidance concerning the items that an entity should consider in order to meet the probability recognition criteria, including references to the entity's own and others' experience. FASB ASC also provides more specific guidance for extended warranties and product maintenance contracts.

PRESENTATION AND DISCLOSURE EXCERPTS

LEGAL MATTERS

1.80 HALLIBURTON COMPANY (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31	
Millions of dollars and shares except per share data	**2014**	**2013**
Liabilities and Shareholders' Equity (in part)		
Current liabilities:		
Accounts payable	$ 2,814	$ 2,365
Accrued employee compensation and benefits	1,033	1,029
Taxes other than income	407	357
Loss contingency for Macondo well incident	367	278
Deferred revenue	349	350
Other current liabilities	913	647
Total current liabilities	5,883	5,026
Long-term debt	7,840	7,816
Employee compensation and benefits	691	584
Loss contingency for Macondo well incident	439	1,022
Other liabilities	1,089	1,160
Total liabilities	15,942	15,608

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 9. Commitments and Contingencies

Macondo Well Incident

Overview. The semisubmersible drilling rig, Deepwater Horizon, sank on April 22, 2010 after an explosion and fire onboard the rig that began on April 20, 2010. The Deepwater Horizon was owned by an affiliate of Transocean Ltd. and had been drilling the Macondo exploration well in Mississippi Canyon Block 252 in the Gulf of Mexico for the lease operator, BP Exploration & Production, Inc. (BP Exploration), an indirect wholly owned subsidiary of BP p.l.c. We performed a variety of services for BP Exploration, including cementing, mud logging, directional drilling, measurement-while-drilling, and rig data acquisition services. Crude oil flowing from the well site spread across thousands of square miles of the Gulf of Mexico and reached the United States Gulf Coast. Efforts to contain the flow of hydrocarbons from the well were led by the United States government and by BP p.l.c., BP Exploration, and their affiliates (collectively, as applicable, BP). There were eleven fatalities and a number of injuries as a result of the Macondo well incident.

Litigation. Numerous lawsuits relating to the Macondo well incident were filed against us, BP, Transocean and others in federal and state courts throughout the United States, most of which have been consolidated in a Multi-District Litigation (MDL) proceeding before Judge Carl Barbier in the United States Eastern District of Louisiana. Generally, those lawsuits allege either (1) damages arising from the oil spill pollution and contamination or (2) wrongful death or personal injuries. The pollution complaints include suits brought against us by governmental entities, including all of the coastal states of the Gulf of Mexico, numerous local governmental entities, the Mexican State of Yucatan, and the United Mexican States, and generally allege, among other things, negligence and gross negligence, property damages, taking of protected species, and potential economic losses as a result of environmental pollution, and generally seek awards of compensatory damages, including unspecified economic damages, and punitive damages, as well as injunctive relief. The wrongful death and other personal injury complaints generally allege negligence and gross negligence and seek awards of compensatory damages, including unspecified economic damages, and punitive damages.

The defendants in the proceedings described above have filed numerous cross claims, third party claims, and other actions against certain other defendants, including us, seeking subrogation, contribution, indemnification, including with respect to liabilities under the Oil Pollution Act of 1990 (OPA), and direct damages, and alleging negligence, gross negligence, fraudulent conduct, willful misconduct, fraudulent concealment, comparative fault, and breach of warranty of workmanlike performance.

Judge Barbier issued an order, among others, clarifying certain aspects of law applicable to the lawsuits pending in his court. The court ruled that: (1) general maritime law will apply, and therefore all claims brought under state law causes of action were dismissed; (2) general maritime law claims may be brought directly against defendants who are non-"responsible parties" under the OPA with the exception of pure economic loss claims by plaintiffs other than commercial fishermen; (3) all claims for damages, including pure economic loss claims, may be brought under the OPA directly against responsible parties; and (4) punitive damage claims may be brought against both responsible and non-responsible parties under general maritime law. The rulings in the court's order remain subject to each applicable party's right to appeal. Certain parishes in Louisiana appealed the dismissal of their state law claims, and the United States Fifth Circuit Court of Appeals (Fifth Circuit) affirmed the dismissal. The parishes filed a petition for writ of certiorari in the United States Supreme Court (Supreme Court), which the Court denied.

We have not been named as a responsible party under the OPA, but BP has filed a claim against us for contribution with respect to liabilities incurred by BP under the OPA. In an order dismissing certain other claims, the MDL court noted that we are not liable with respect to those claims under the OPA because we are not a "responsible party" under the OPA. A group of plaintiffs appealed the order, but the Fifth Circuit dismissed the appeal.

In April 2012, BP announced that it had reached definitive settlement agreements with the Plaintiffs' Steering Committee (PSC) in the MDL to resolve the substantial majority of eligible private economic loss and medical claims stemming from the Macondo well incident (BP MDL Settlements). The PSC acts on behalf of individuals and business plaintiffs in the MDL. The BP MDL Settlements do not include claims against BP made by the United States Department of Justice (DOJ) or other federal agencies or by states and local governments. The BP MDL Settlements provide that the settlement classes are precluded from asserting compensatory damages claims against us. The economic loss settlement (BP Economic Loss Settlement) provides that, to the extent permitted by law, BP assigns to the settlement class certain of its claims, rights, and recoveries against Transocean and us for damages, including BP's alleged direct damages such as damages for clean-up expenses and damage to the well and reservoir. The MDL court has since certified the classes and granted final approval for the BP MDL Settlements. BP's medical claims settlement was final as of February 2014. BP challenged certain provisions of the BP Economic Loss Settlement in the MDL court and applicable appellate courts. In March 2014, the Fifth Circuit upheld the settlement, and BP subsequently filed a petition for writ of certiorari in the Supreme Court. In December 2014, the Supreme Court denied BP's petition.

The first phase of the MDL trial, which concluded in April 2013, covered issues arising out of the conduct and degree of culpability of various parties allegedly relevant to the loss of well control, the ensuing fire and explosion on and sinking of the Deepwater Horizon, and the initiation of the release of hydrocarbons from the Macondo well. At the conclusion of the plaintiffs' case, in March 2013, the MDL court dismissed all claims against certain defendants, leaving BP, Transocean, and us as the remaining defendants with respect to the matters addressed during the first phase of the trial.

In September 2014, we reached an agreement, subject to court approval, to settle a substantial portion of the plaintiffs' claims asserted against us relating to the Macondo well incident (our MDL Settlement). Pursuant to our MDL Settlement, we agreed to pay an aggregate of $1.1 billion, which includes legal fees and costs, into a settlement fund in three installments over two years, except that one installment of legal fees will not be paid until all of the conditions to the settlement have been satisfied or waived. Under our MDL Settlement, (1) a class of plaintiffs alleging physical damage to property or damages associated with the commercial fishing industry arising from the Macondo well incident agree to release all claims against us for punitive damages and (2) class members of the BP Economic Loss Settlement agree to release the claims against us that BP assigned to them in that settlement. We also agreed to release BP for any damages, consideration, or other relief that we provide under our MDL Settlement.

Certain conditions must be satisfied before our MDL Settlement becomes effective and the funds are released from the settlement fund. These conditions include, among others, the BP Economic Loss Settlement becoming final and effective and the issuance of a final order of the MDL court, including the resolution of any appeals, that (1) affirms we have no liability for compensatory damages to the class members of the BP Economic Loss Settlement, (2) adopts the MDL court's January 2012 order enforcing our indemnity rights against BP (see "Indemnification and Insurance" below), and (3) adopts the MDL court's prior order that, under general maritime law, pure economic loss claims by plaintiffs other than commercial fishermen may not be brought against us. In addition, we have the right to terminate our MDL Settlement if more than an agreed number of plaintiffs elect to opt out of the settlement prior to the expiration of the opt out deadline to be established by the MDL court.

Our MDL Settlement does not cover claims against us by the state governments of Alabama, Florida, Mississippi, Louisiana, or Texas, claims by our own employees, compensatory damages claims by plaintiffs in the MDL that opted out of or were excluded from the settlement class in the BP MDL Settlements, or claims by other defendants in the MDL or their respective employees. However, as discussed below, these claims have either been dismissed, are subject to dismissal, are subject to indemnification by BP pursuant to rulings of the MDL court, or are not believed to be material.

Before approving our MDL Settlement, the MDL court must certify the settlement class, the numerous class members must be notified of the proposed settlement, and the court must hold a fairness hearing. We are unable to predict when the MDL court will approve our MDL Settlement.

Subsequently in September 2014, the MDL court ruled (Phase One Ruling) that, among other things, (1) in relation to the Macondo well incident, BP's conduct was reckless, Transocean's conduct was negligent, and our conduct was negligent, (2) fault for the Macondo blowout, explosion, and spill is apportioned 67% to BP, 30% to Transocean, and 3% to us, and (3) the indemnity and release clauses in our contract with BP are valid and enforceable against BP. The MDL court did not find that our conduct was grossly negligent, thereby, subject to any appeals, eliminating our exposure in the MDL for punitive damages.

In October 2014, BP filed a motion in the MDL court to amend the court's findings, alter or amend the court's judgment, or for a new trial, and in November 2014, the MDL court denied the motion. BP has filed a notice of appeal of both the MDL court's denial of its motion and of the Phase One Ruling.

The second phase of the MDL trial was split into two parts, with testimony presented in October 2013. The first part covered attempts to collect, control, or halt the flow of hydrocarbons from the well, while the second part covered the quantification of hydrocarbons discharged from the well. The parties submitted proposed findings of fact and conclusions of law, post-trial briefs and responses during December 2013 and January 2014. According to a stipulation and post-trial filings, BP contends that 2.45 million barrels of oil were released into the Gulf of Mexico and the DOJ contends that a total of 4.2 million barrels were released. In January 2015, the MDL court ruled that, giving effect to the amount of oil collected as a result of BP's cleanup efforts, a total of 3.19 million barrels of oil were discharged into the Gulf of Mexico for the purposes of determining the maximum penalty under the Clean Water Act (CWA).

The DOJ's civil action for CWA violations, fines, and penalties against BP Exploration, Anadarko Petroleum Corporation and Anadarko E&P Company LP, which had an approximate 25% interest in the Macondo well, is being addressed by the MDL court in another phase of the trial that began in January 2015. Also, the MDL court has scheduled a trial of seven OPA test cases which are limited to the plaintiffs and BP. The plaintiffs have dropped their general maritime law claims against us in these test cases, although BP asserts in its affirmative defenses that the damages involved were caused by third parties such as Transocean and us.

Damages for the cases tried in the MDL proceeding, including punitive damages, if any, are expected to be tried pursuant to a process to be determined by the MDL court. Under ordinary MDL procedures, such cases would, unless waived by the respective parties, be tried in the courts from which they were transferred into the MDL. A process is underway to establish a schedule for trial of the State of Alabama's OPA and general maritime law damages claims, with a potential trial commencing in the fourth quarter of 2015.

Subject to all applicable appeals and final approvals, the following briefly summarizes the status of the various claims against us based on the various settlements and MDL court rulings described above:

- compensatory damages claims asserted against us by the members of the settlement class in the BP MDL Settlements may not be pursued under the terms of that settlement;
- compensatory damages claims asserted against us by plaintiffs in the MDL that are not members of the settlement class in the BP MDL Settlements, including plaintiffs who opted out of or were excluded from those settlements, the state governments of Alabama, Florida, Mississippi, Louisiana, and Texas, the Mexican State of Yucatan, and the United Mexican States, are either dismissed, subject to dismissal, or subject to indemnification by BP pursuant to rulings of the MDL court;
- punitive damages claims asserted against us by the members of the settlement class in our MDL Settlement are released pursuant to that settlement, and we should not otherwise be held liable for punitive damages claims asserted by any other plaintiffs in the MDL because the Phase One Ruling did not find that our conduct was grossly negligent;
- BP's direct damages claims against us, such as claims for clean-up expenses and damage to the well and reservoir, that are assigned to members of the settlement class in the BP Economic Loss Settlement are released pursuant to our MDL Settlement;
- BP's claim against us for contribution, indemnity, or subrogation with respect to fines and penalties under the CWA or other federal or state statute are unresolved, although we believe that the claim is without merit and is subject to a release given by BP in our contract relating to the Macondo well; and
- claims against us asserted by Transocean, and claims against us that are not included in the MDL, are unresolved, but these claims are subject to indemnification by BP pursuant to the rulings of the MDL court and we do not believe that these claims are material.

As of December 31, 2014, our remaining loss contingency liability related to the Macondo well incident was $805 million, consisting of a current portion of $367 million and a non-current portion of $439 million. The $805 million represents a $733 million loss contingency related to our MDL Settlement and a loss contingency of $72 million unrelated to that settlement. Our loss contingency liability does not include potential recoveries from our insurers or indemnification by BP. As a result of our MDL Settlement, the Phase One Ruling, and our insurance recovery related to our MDL Settlement, we recorded an adjustment of $195 million for Macondo-related items in operating income within "Corporate and other" in our consolidated statements of operations for the year ended December 31, 2014. During the fourth quarter of 2014, we made the first installment payment under our MDL Settlement in the amount of $395 million. See "Indemnification and Insurance" below for information regarding amounts that we could potentially recover from insurance and are currently unable to classify as probable.

Subject to the satisfaction of the conditions of our MDL Settlement and to the resolution of appeals of the Phase One Ruling, we believe our MDL Settlement and the Phase One Ruling have eliminated any additional material financial exposure to us in relation to the Macondo well incident. However, because our MDL Settlement is subject to court approval and other conditions and the Phase One Ruling is subject to appeals, we are unable to predict the ultimate outcome of the many lawsuits, investigations, and other matters relating to the Macondo well incident, including appeals of the Phase One Ruling, further orders and rulings of the MDL court and other courts, and indemnification and insurance arrangements. We are also unable to predict whether the court will approve our MDL Settlement or whether the conditions of our MDL Settlement will be satisfied. Accordingly, there are additional loss contingencies relating to the Macondo well incident that are reasonably possible but for which we cannot make a reasonable estimate and we may adjust our estimated loss contingency liability and our amounts recoverable from insurance in the future. In addition, applicable accounting rules and guidance may require us to recognize a loss contingency for which we may be fully indemnified, without recognizing a corresponding receivable for the amount of the indemnity payment. Depending on the developments discussed above, liabilities arising out of the Macondo well incident could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

We intend to continue defending any litigation, fines, and/or penalties relating to the Macondo well incident and to vigorously pursue any damages, remedies, or other rights available to us as a result of the Macondo well incident. We have incurred and expect to continue to incur significant legal fees and costs, some of which we intend to seek recovery of through indemnity or insurance arrangements, as a result of the numerous investigations and lawsuits relating to the incident.

Regulatory Action. In October 2011, the Bureau of Safety and Environmental Enforcement (BSEE) issued a notification of Incidents of Noncompliance (INCs) to us for allegedly violating federal regulations relating to the failure to take measures to prevent the unauthorized release of hydrocarbons, the failure to take precautions to keep the Macondo well under control, the failure to cement the well in a manner that would, among other things, prevent the release of fluids into the Gulf of Mexico, and the failure to protect health, safety, property, and the environment as a result of a failure to perform operations in a safe and workmanlike manner. We have appealed the INCs, but the appeal has been suspended pending certain proceedings in the MDL trial and potential appeals. The BSEE has announced that the INCs will be reviewed for possible imposition of civil penalties once the appeal has ended. We understand that the regulations in effect at the time of the alleged violations provide for fines of up to $35,000 per day per violation.

DOJ Investigations and Actions. On June 1, 2010, the United States Attorney General announced that the DOJ was launching civil and criminal investigations into the Macondo well incident. The DOJ announced that it was reviewing, among other traditional criminal statutes, possible violations of and liabilities under the CWA, the OPA, and the Endangered Species Act of 1973 (ESA).

Under the CWA, civil penalties of up to $1,100 per barrel of oil discharged (or $4,300 per barrel in the case of those found to have been grossly negligent) may be assessed against responsible parties, which include an "owner, operator, or person in charge of any vessel, onshore facility, or offshore facility from which oil or a hazardous substance is discharged." Under the OPA, responsible parties can be liable for removal and response costs for discharges of oil from vessels, onshore facilities, and offshore facilities into or upon the navigable waters of the United States, as well as for damages, including recovery costs to contain and remove discharged oil and damages for injury to natural resources and real or personal property, lost revenues, lost profits, and lost earning capacity. The cap on liability under the OPA during 2010 was the full cost of removal of the discharged oil plus up to $75 million for damages, except that the $75 million cap does not apply in the event the damage was proximately caused by gross negligence or the violation of certain federal safety, construction or operating standards. The OPA defines the set of responsible parties differently depending on whether the source of the discharge is a vessel or an offshore facility. Liability for vessels is imposed on owners and operators; liability for offshore facilities is imposed on the holder of the permit or lessee of the area in which the facility is located. The ESA establishes liability for injury and death to wildlife. The ESA provides for civil penalties for knowing violations that can range up to $25,000 per violation.

The DOJ has filed a civil action seeking damages and injunctive relief against BP Exploration, subsidiaries of Transocean Ltd., and others for violations of the CWA and the OPA. The DOJ's complaint seeks a declaration that the defendants are strictly liable under the CWA as a result of the Macondo well incident, and seeks a declaration that the defendants are strictly liable under the OPA, with removal costs and damages to the United States far exceeding $75 million. BP Exploration has been designated, and has accepted the designation, as a responsible party for the pollution under the CWA and the OPA. Others have also been named as responsible parties, and all responsible parties may be held jointly and severally liable for any damages under the OPA. Under the OPA, a responsible party may make a claim for contribution against any other responsible party or against third parties it alleges contributed to or caused the oil spill. In connection with the proceedings discussed above under "Litigation," in April 2011 BP filed a claim against us for statutory and equitable contribution with respect to liabilities incurred by BP under the OPA or another law, which subsequent court filings have indicated may include the CWA, and requested a judgment that the DOJ assert its claims for OPA financial liability directly against us. We filed a motion to dismiss BP's claim, and that motion is pending. In July 2013, we also filed a motion for summary judgment requesting a court order that we are not liable to BP or Transocean for equitable indemnification or contribution with regard to any CWA fines and penalties that have been assessed or may be assessed against BP or Transocean. That motion is also pending.

We were not named as a responsible party under the CWA or the OPA in the DOJ civil action, and we do not believe we are a responsible party under the CWA or the OPA. While we were not included in the DOJ's civil complaint, there can be no assurance that federal governmental authorities will not bring a civil action against us under the CWA, the OPA, and/or other statutes or regulations.

In 2013, we settled the federal government's criminal investigation of us in relation to the Macondo well incident by pleading guilty to one misdemeanor violation of federal law concerning the deletion of certain computer files created after the occurrence of the Macondo well incident, paying a criminal fine of $0.2 million, and agreeing to three years' probation. In 2012, BP settled the federal criminal charges against it relating to the Macondo well incident by pleading guilty to 14 criminal charges and agreeing to, among other things, pay $4.0 billion, including approximately $1.3 billion in criminal fines, and to a term of five years' probation. In 2013, Transocean settled both federal civil and criminal claims against it arising from the Macondo well incident by pleading guilty to one misdemeanor violation of the CWA for negligent discharge of oil into the Gulf of Mexico and agreeing to pay $1.0 billion in CWA penalties and $400 million in fines and recoveries and to a term of five years' probation, among other things.

Indemnification and Insurance. Our contract with BP relating to the Macondo well generally provides for our indemnification by BP for certain claims and expenses relating to the Macondo well incident, including those resulting from pollution or contamination (other than claims by our employees, loss or damage to our property, and any pollution emanating directly from our equipment). Also, under our contract with BP, we have, among other things, generally agreed to indemnify BP and other contractors performing work on the well for claims for personal injury of our employees and subcontractors, as well as for damage to our property. In turn, we believe that BP was obligated to obtain agreement by other contractors performing work on the well to indemnify us for claims for personal injury of their employees or subcontractors, as well as for damages to their property. We have entered into separate indemnity agreements with Transocean and others, under which we have agreed to indemnify those parties for claims for personal injury of our employees and subcontractors and they have agreed to indemnify us for claims for personal injury of their employees and subcontractors.

In January 2012, the MDL court entered an order regarding certain indemnification matters. The court held that BP is required to indemnify us for third-party compensatory claims, or actual damages, that arise from pollution or contamination that did not originate from our property or equipment located above the surface of the land or water, even if we were found to be grossly negligent. The court also held, however, that BP does not owe us indemnity for punitive damages or for civil penalties under the CWA, if any. As discussed above, the DOJ is not seeking civil penalties from us under the CWA, but BP has filed a claim for contribution against us with respect to its liabilities.

As discussed above, the Phase One Ruling found that the indemnification provisions in our contract with BP are valid and enforceable against BP.

In addition to our contractual indemnity arrangements, we had a general liability insurance program of $600 million at the time of the Macondo well incident. Our insurance was designed to cover claims by businesses and individuals made against us in the event of property damage, injury, or death and, among other things, claims relating to environmental damage, as well as legal fees incurred in defending against those claims. We have received payments from our insurers with respect to covered legal fees incurred in connection with the Macondo well incident. Through December 31, 2014, we have incurred legal fees and related expenses of approximately $319 million, of which $283 million has been reimbursed under our insurance program. With respect to our MDL Settlement, we have collected $93 million under our general liability insurance program, including amounts collected subsequent to December 31, 2014.

With regard to the remaining $200 million of potential insurance recovery relating to the Macondo well incident, our insurance carriers have notified us that they do not intend to reimburse us with respect to our MDL Settlement. We disagree with our insurance carriers and intend to vigorously pursue recovery of the $200 million. Due to the uncertainty surrounding such recovery, no related amounts have been recognized in the consolidated financial statements as of December 31, 2014.

TAX CONTINGENCIES

1.81 THE PRICELINE GROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

16. Commitments and Contingencies (in part)

Litigation Related to Travel Transaction Taxes

The Company and certain third-party online travel companies ("OTCs") are currently involved in approximately forty lawsuits, including certified and putative class actions, brought by or against U.S. states, cities and counties over issues involving the payment of travel transaction taxes (e.g., hotel occupancy taxes, excise taxes, sales taxes, etc.). The Company's subsidiaries priceline.com LLC, Lowestfare.com LLC and Travelweb LLC are named in some but not all of these cases. Generally, the complaints allege, among other things, that the OTCs violated each jurisdiction's respective relevant travel transaction tax ordinance with respect to the charge and remittance of amounts to cover taxes under each law. The complaints typically seek compensatory damages, disgorgement, penalties available by law, attorneys' fees and other relief. In addition, approximately seventy-nine municipalities or counties, and at least eleven states, have initiated audit proceedings (including proceedings initiated by more than forty municipalities in California, which have been inactive for several years), issued proposed tax assessments or started inquiries relating to the payment of travel transaction taxes. Additional state and local jurisdictions are likely to assert that the Company is subject to travel transaction taxes and could seek to collect such taxes, retroactively and/or prospectively.

With respect to the principal claims in these matters, the Company believes that the laws at issue do not apply to the services it provides, namely the facilitation of travel reservations, and, therefore, that it does not owe the taxes that are claimed to be owed. Rather, the Company believes that the laws at issue generally impose travel transaction taxes on entities that own, operate or control hotels (or similar businesses) or furnish or provide hotel rooms or similar accommodations or other travel services. In addition, in many of these matters, the taxing jurisdictions have asserted claims for "conversion"—essentially, that the Company has collected a tax and wrongfully "pocketed" those tax dollars—a claim that the Company believes is without basis and has vigorously contested. The taxing jurisdictions that are currently involved in litigation and other proceedings with the Company, and that may be involved in future proceedings, have asserted contrary positions and will likely continue to do so. From time to time, the Company has found it expedient to settle, and may in the future agree to settle, claims pending in these matters without conceding that the claims at issue are meritorious or that the claimed taxes are in fact due to be paid.

In connection with some of these tax audits and assessments, the Company may be required to pay any assessed taxes, which amounts may be substantial, prior to being allowed to contest the assessments and the applicability of the laws in judicial proceedings. This requirement is commonly referred to as "pay to play" or "pay first." For example, the City and County of San Francisco assessed the Company approximately $3.4 million (an amount that includes interest and penalties) relating to hotel occupancy taxes, which the Company paid in July 2009, and issued a second assessment totaling approximately $2.7 million, which the Company paid in January 2013. Payment of these amounts, if any, is not an admission that the Company believes it is subject to such taxes. In the San Francisco action, for example, the court ruled in February 2013 that the Company and OTCs do not owe transient accommodations tax to the city and ordered the city to refund the amount paid in July 2009; the Company also is seeking a refund of the amount paid in January 2013. San Francisco has appealed the court's ruling and has not refunded the amount paid in July 2009 pending resolution of the appeal. The matter has been stayed while the appeal in another case with the City of San Diego is pending before the California Supreme Court.

Litigation is subject to uncertainty and there could be adverse developments in these pending or future cases and proceedings. For example, in January 2013, the Tax Appeal Court for the State of Hawaii held that the Company and other OTCs are not liable for the State's transient accommodations tax, but held that the OTCs, including the Company, are liable for the State's general excise tax on the full amount the OTC collects from the customer for a hotel room reservation, without any offset for amounts passed through to the hotel. The Company recorded an accrual for travel transaction taxes (including estimated interest and penalties), with a corresponding charge to cost of revenues, of approximately $16.5 million in December 2012 and approximately $18.7 million in the three months ended March 31, 2013, primarily related to this ruling. During the years ended December 31, 2013 and December 31, 2014, the Company paid approximately $20.6 million and $2.2 million, respectively, to the State of Hawaii related to this ruling. The Company has filed an appeal now pending before the Hawaii Supreme Court.

Other adverse rulings include a decision in September 2012, in which the Superior Court in the District of Columbia granted summary judgment in favor of the District and against the OTCs ruling that tax is due on the OTCs' margin and service fees, which the Company is appealing. As a result, the Company increased its accrual for travel transaction taxes (including estimated interest), with a corresponding charge to cost of revenues, by approximately $4.8 million in September 2012 and by approximately $5.6 million in the three months ended March 31, 2013. Also, in July 2013, the Circuit Court of Cook County, Illinois, ruled that the Company and the other OTCs are liable for tax and other obligations under the Chicago Hotel Accommodations Tax. In July 2014, the Company resolved all claims in this case through settlement and the claims against the Company were dismissed on September 3, 2014. In addition, in October 2009, a jury in a San Antonio class action found that the Company and the other OTCs that are defendants in the lawsuit "control" hotels for purposes of the local hotel occupancy tax ordinances at issue and are, therefore, subject to the requirements of those ordinances. The Company intends to vigorously appeal the trial court's judgment when it becomes final.

An unfavorable outcome or settlement of pending litigation may encourage the commencement of additional litigation, audit proceedings or other regulatory inquiries and also could result in substantial liabilities for past and/or future bookings, including, among other things, interest, penalties, punitive damages and/or attorney fees and costs. There have been, and will continue to be, substantial ongoing costs, which may include "pay first" payments, associated with defending the Company's position in pending and any future cases or proceedings. An adverse outcome in one or more of these unresolved proceedings could have a material adverse effect on the Company's business and could be material to the Company's results of operations or cash flow in any given operating period. However, the Company believes that even if it were to suffer adverse determinations in the near term in more of the pending proceedings than currently anticipated, given results to date it would not have a material impact on the Company's liquidity because of the Company's available cash.

To the extent that any tax authority succeeds in asserting that the Company's services are subject to travel transaction taxes and that the Company has a tax collection responsibility for those taxes, or the Company determines that it has such a responsibility, with respect to future transactions the Company may collect any such additional tax obligation from its customers, which would have the effect of increasing the cost of travel reservations to its customers and, consequently, could make the Company's travel reservation services less competitive (as compared to the services of other OTCs or travel service providers) and reduce the Company's travel reservation transactions; alternatively, the Company could choose to reduce the compensation for its services. Either action could have a material adverse effect on the Company's business and results of operations.

In many of the judicial and other proceedings initiated to date, the taxing jurisdictions seek not only historical taxes that are claimed to be owed on the Company's gross profit, but also, among other things, interest, penalties, punitive damages and/or attorney fees and costs. Therefore, any liability associated with travel transaction tax matters is not constrained to the Company's liability for tax owed on its historical gross profit, but may also include, among other things, penalties, interest and attorneys' fees. To date, the majority of the taxing jurisdictions in which the Company facilitates hotel reservations have not asserted that these taxes are due and payable. With respect to taxing jurisdictions that have not initiated proceedings to date, it is possible that they will do so in the future or that they will seek to amend their tax statutes and seek to collect taxes from the Company only on a prospective basis.

Accrual for Travel Transaction Taxes

As a result of this litigation and other attempts by jurisdictions to levy similar taxes, the Company has established an accrual (including estimated interest and penalties) for the potential resolution of issues related to travel transaction taxes in the amount of approximately $52 million at December 31, 2014 compared to approximately $55 million at December 31, 2013. The Company's legal expenses for these matters are expensed as incurred and are not reflected in the amount accrued. The actual cost may be less or greater, potentially significantly, than the liabilities recorded. An estimate for a reasonably possible loss or range of loss in excess of the amount accrued cannot be reasonably made.

The Company intends to vigorously defend against the claims in all of the proceedings described below.

Statewide Class Actions and Putative Class Actions

Such actions include:

- City of Los Angeles, California v. Hotels.com, Inc., et al. (California Superior Court, Los Angeles County; filed in December 2004); (California Court of Appeal; appeal filed in March 2014);
- City of San Antonio, Texas v. Hotels.com, L.P., et al. (U.S. District Court for the Western District of Texas; filed in May 2006);
- Pine Bluff Advertising and Promotion Commission, Jefferson County, Arkansas, et al. v. Hotels.com, LP, et al. (Circuit Court of Jefferson County, Arkansas; filed in September 2009); (Arkansas Supreme Court; appeal filed in March 2013);
- County of Lawrence, Pennsylvania v. Hotels.com, L.P., et al. (Court of Common Pleas of Lawrence County, Pennsylvania; filed Nov. 2009); (Commonwealth Court of Pennsylvania; appeal filed in November 2010);
- City of Columbia, South Carolina, et al. v. Hotelguides.com, Inc. et al. (Court of Common Pleas, Ninth Judicial Circuit, County of Charleston; filed in July 2013); and
- City of Charleston, et al. v. Hotelguides.com, Inc. et al. (Court of Common Pleas for Charleston County, South Carolina; filed January 2014).

Actions Filed on Behalf of Individual Cities, Counties and States

Such actions include:

- City of San Diego, California v. Hotels.com L.P., et al. (California Superior Court, San Diego County; filed in September 2006) (Superior Court of California, Los Angeles County) (California Court of Appeal; appeal filed in August 2012); (California Supreme Court; petition for review granted in July 2014);
- City of Atlanta, Georgia v. Hotels.com L.P., et al. (Superior Court of Fulton County, Georgia; filed in March 2006); (Court of Appeals of the State of Georgia; appeal filed in January 2007); (Georgia Supreme Court; further appeal filed in December 2007; petition for writs of mandamus and prohibition filed in December 2012; further appeal filed in November 2013 but transferred to Georgia Court of Appeals in July 2014);

- Leon County, et al. v. Expedia, Inc., et al. (Second Judicial Circuit Court for Leon County, Florida; filed November 2009); (Florida First District Court of Appeal; appeal filed in May 2012); (Florida Supreme Court; jurisdiction accepted in September 2013);
- Leon County v. Expedia, Inc. et al. (Second Judicial Circuit Court for Leon County, Florida; filed in December 2009); (Florida First District Court of Appeal; appeal filed in October 2012); (Florida Supreme Court; notice to invoke jurisdiction filed in October 2013);
- Montana Department of Revenue v. Priceline.com, Inc., et al. (First Judicial District Court of Lewis and Clark County, Montana; filed in November 2010); (Montana Supreme Court; appeal filed in May 2014);
- District of Columbia v. Expedia, Inc., et al. (Superior Court of District of Columbia; filed in March 2011); (District of Columbia Court of Appeals; appeal filed in March 2014);
- Volusia County, et al. v. Expedia, Inc., et al. (Circuit Court for Volusia County, Florida; filed in April 2011);
- Town of Breckenridge, Colorado v. Colorado Travel Company, LLC, et al. (District Court for Summit County, Colorado; filed in July 2011);
- County of Nassau v. Expedia, Inc., et al. (Supreme Court of Nassau County, New York; filed in September 2011); (Appellate Division, Second Department; appeal filed in April 2013);
- State of Mississippi v. Priceline.com Inc., et al., (Chancery Court of Hinds County, Mississippi; filed in January 2012);
- Fargo v. Expedia, Inc. et al. (District Court for the County of Cass; filed in February 2013)
- Village of Bedford Park, et al. v. Expedia, Inc. et al. (U.S. District Court for the Northern District of Illinois; filed in July 2013);
- Department of Revenue, Finance and Administration Cabinet, Commonwealth of Kentucky v. Expedia Inc., et al. (Franklin Circuit Court, Kentucky; filed in July 2013);
- State of New Hampshire v. priceline.com Inc., et al. (Merrimack Superior Court; filed in October 2013);
- Puerto Rico Tourism Company v. Priceline.com Incorporated, et al. (U.S. District Court for the District of Puerto Rico; filed in April 2014); and
- City of Phoenix, et al. v. Priceline.com Inc., et al. (Arizona Tax Court; filed in August 2014).

Judicial Actions Relating to Assessments Issued by Individual Cities, Counties and States

The Company may seek judicial review of assessments issued by an individual city or county. Currently pending actions seeking such a review include:

- Priceline.com, Inc., et al. v. Broward County, Florida (Second Judicial Circuit, Leon County, Florida; filed in January 2009); (Florida First District Court of Appeal; filed in February 2013); (Florida Supreme Court; notice to invoke jurisdiction filed in February 2014);
- Priceline.com, Inc. v. Indiana Department of State Revenue (Indiana Tax Court; filed in March 2009);
- Priceline.com, Inc., et al. v. City and County of San Francisco, California, et al. (California Superior Court, County of Los Angeles; filed in June 2009); (California Court of Appeal; appeal filed in December 2013); Priceline.com, Inc. v. City and County of San Francisco, California, et al. (California Superior Court, County of Los Angeles; filed in November 2013);
- Priceline.com, Inc. v. Miami-Dade County, Florida, et al. (Eleventh Judicial Circuit Court for Miami-Dade, County, Florida; filed in December 2009);
- priceline.com Incorporated, et al. v. Osceola County, Florida, et al. (Second Judicial Circuit, Leon County, Florida; filed in January 2011);
- In the Matter of the Tax Appeal of priceline.com Inc. and In the Matter of the Tax Appeal of Travelweb LLC (Tax Appeal Court of the State of Hawaii; filed in March 2011) (Hawaii Supreme Court; appeal transferred in December 2013); In the Matter of the Tax Appeal of priceline.com Inc. and In the Matter of the Tax Appeal of Travelweb LLC (Tax Appeal Court of the State of Hawaii, filed in July 2012) (Hawaii Supreme Court; appeal transferred in December 2013); In the Matter of the Tax Appeal of priceline.com Inc. and In the Matter of Tax Appeal of Travelweb LLC (Tax Appeal Court of the State of Hawaii, filed in June 2013); In the Matter of the Tax Appeal of priceline.com Inc. and In the Matter of Tax Appeal of Travelweb LLC (Tax Appeal Court of the State of Hawaii; filed in January 2014); In the Matter of the Appeal of priceline.com Incorporated (Tax Appeal Court of the State of Hawaii; filed in August 2014);
- Expedia, Inc. et al. v. City of Portland (Circuit Court for Multnomah County, Oregon, filed in February 2012);
- Expedia, Inc., et al. v. City and County of Denver, et al. (District Court for Denver County, Colorado, filed in March 2012); (Colorado Court of Appeal; appeal filed in April 2013); (Colorado Supreme Court; petition for review filed in August 2014); and
- Expedia, Inc., et al. v. Oregon Department of Revenue (Oregon Tax Court; filed in September 2013).

Administrative Proceedings and Other Possible Actions

At various times, the Company has also received inquiries or proposed tax assessments from municipalities and other taxing jurisdictions relating to the Company's charges and remittance of amounts to cover state and local travel transaction taxes. Among others, the City of Paradise Valley, Arizona; fifteen cities (and one county) in Colorado; Arlington, Texas; Lake County, Indiana; and state tax officials from Arkansas, Colorado, Louisiana, Maine, Maryland, Michigan, Minnesota, South Carolina, South Dakota, Texas, Vermont, West Virginia and Wisconsin have begun formal or informal administrative procedures or stated that they may assert claims against the Company relating to allegedly unpaid state or local travel transaction taxes. Between 2008 and 2010, the Company received audit notices from more than forty cities in the state of California. The audit proceedings in those cities have not been active but have not been formally closed. The Company has also been contacted for audit by five counties in the state of Utah.

ENVIRONMENTAL MATTERS

1.82 EASTMAN CHEMICAL COMPANY (DEC)

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Significant Accounting Policies (in part)

Environmental Costs

The Company accrues environmental remediation costs when it is probable that the Company has incurred a liability at a contaminated site and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Company accrues the minimum amount. This undiscounted accrued amount reflects liabilities expected to be paid out within 30 years and the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, and chemical control regulations and testing requirements could result in higher or lower costs.

The Company also establishes reserves for closure/postclosure costs associated with the environmental and other assets it maintains. Environmental assets include but are not limited to waste management units, such as landfills, water treatment facilities, and surface impoundments. When these types of assets are constructed or installed, a reserve is established for the future costs anticipated to be associated with the closure of the site based on an expected life of the environmental assets and the applicable regulatory closure requirements. These expenses are charged into earnings over the estimated useful life of the assets. Currently, the Company estimates the useful life of each individual asset up to 50 years. If the Company changes its estimate of the environmental asset retirement obligation costs or its estimate of the useful lives of these assets, the expenses charged into earnings could increase or decrease. The Company also monitors conditional obligations and recognizes contingent liabilities associated with them when and to the extent that more detailed information becomes available concerning applicable retirement costs.

The current portion of accruals for environmental liabilities is included in payables and other current liabilities with the long-term portion included in other long-term liabilities. These accruals exclude claims for recoveries from insurance companies or other third parties. Environmental costs are capitalized if they extend the life of the related property, increase its capacity, and/or mitigate or prevent future contamination. The cost of operating and maintaining environmental control facilities is charged to expense.

For additional information see Note 13, "Environmental Matters and Asset Retirement Obligations ".

Litigation and Contingent Liabilities

The Company and its operations from time to time are, and in the future may be, parties to or targets of lawsuits, claims, investigations, and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. The Company accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Company accrues the minimum amount. The Company expenses legal costs, including those expected to be incurred in connection with a loss contingency, as incurred.

13. Environmental Matters and Asset Retirement Obligations (in part)

Certain Eastman manufacturing sites generate hazardous and nonhazardous wastes, the treatment, storage, transportation, and disposal of which are regulated by various governmental agencies. In connection with the cleanup of various hazardous waste sites, the Company, along with many other entities, has been designated a potentially responsible party ("PRP") by the U.S. Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act, which potentially subjects PRPs to joint and several liability for such cleanup costs. In addition, the Company will be required to incur costs for environmental remediation and closure and postclosure under the federal Resource Conservation and Recovery Act. Reserves for environmental contingencies have been established in accordance with Eastman's policies described in Note 1, " Significant Accounting Policies ". The Company's total reserve for environmental contingencies was $345 million and $368 million at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, this reserve included $10 million and $9 million, respectively, related to sites previously closed and impaired by Eastman, as well as sites that have been divested by Eastman but for which the Company retains the environmental liability.

Estimated future environmental expenditures for remediation costs ranged from the minimum or best estimate of $324 million to the maximum of $548 million and from the minimum or best estimate of $341 million to the maximum of $581 million at December 31, 2014 and 2013, respectively. The maximum estimated future costs are considered to be reasonably possible and include the amounts accrued at both December 31, 2014 and 2013. Although the resolution of uncertainties related to these environmental matters may have a material adverse effect on the Company's consolidated results of operations in the period recognized, because of expected sharing of costs, the availability of legal defenses, and the Company's preliminary assessment of actions that may be required, management does not believe that the Company's liability for these environmental matters, individually or in the aggregate, will be material to the Company's consolidated financial position or cash flows.

Reserves for environmental remediation that management believes to be probable and estimable are recorded as current and long-term liabilities in the Consolidated Statements of Financial Position. These reserves include liabilities expected to be paid out within 30 years. The amounts charged to pre-tax earnings for environmental remediation and related charges are included in cost of sales and other (income) charges, net, and are summarized below:

(Dollars in millions)	
Balance at December 31, 2013	$341
Assumed remediation reserve from acquisitions	2
Changes in estimates recorded to earnings and other	8
Cash reductions	(27)
Balance at December 31, 2014	$324

The Company's total environmental reserve for environmental contingencies, including remediation costs and asset retirement obligations, is recorded in the Consolidated Statements of Financial Position as follows:

	December 31,	
(Dollars in millions)	**2014**	**2013**
Environmental contingent liabilities, current	$ 35	$ 40
Environmental contingent liabilities, long-term	310	328
Total	$345	$368

Additionally, costs of certain remediation projects included in the assumed environmental reserve are subject to a cost-sharing arrangement with Monsanto Company ("Monsanto") under the provisions of the Amended and Restated Settlement Agreement effective February 28, 2008 (the "Effective Date"), into which Solutia entered with Monsanto upon its emergence from bankruptcy (the "Monsanto Settlement Agreement"). Under the provisions of the Monsanto Settlement Agreement, the Company shares responsibility with Monsanto for remediation at certain locations outside of the boundaries of plant sites in Anniston, Alabama and Sauget, Illinois (the "Shared Sites"). The Company is responsible for the funding of environmental liabilities at the Shared Sites up to a total of $325 million from the Effective Date. If remediation costs for the Shared Sites exceed this amount, such costs will thereafter be shared equally between the Company and Monsanto. Including payments by Solutia prior to its acquisition by Eastman, $64 million had been paid for costs at the Shared Sites as of December 31, 2014. As of December 31, 2014, an additional $212 million has been accrued for estimated future remediation costs at the Shared Sites, over a period of thirty years.

Environmental costs are capitalized if they extend the life of the related property, increase its capacity, and/or mitigate or prevent future contamination. The cost of operating and maintaining environmental control facilities is charged to expense. The Company's cash expenditures related to environmental protection and improvement were $319 million, $285 million, and $262 million in 2014, 2013, and 2012, respectively. These amounts were primarily for operating costs associated with environmental protection equipment and facilities, but also included $79 million and $53 million in expenditures for engineering and construction in 2014 and 2013, respectively.

SELF-INSURANCE

1.83 THE MCCLATCHY COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

9. Commitments and Contingencies (in part)

We have certain other obligations for various contractual agreements that secure future rights to goods and services to be used in the normal course of operations. These include purchase commitments for printing outsource agreements, planned capital expenditures, lease commitments and self—insurance obligations.

The following table summarizes our minimum annual contractual obligations as of December 2 8, 201 4:

	Payments Due By Period						
(In thousands)	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Purchase obligations[1]	$30,947	$13,526	$ 8,876	$ 6,614	$ 6,601	$35,995	$102,559
Operating leases[2]							
Lease obligations	11,152	10,535	9,655	8,431	7,075	31,180	78,028
Sublease income	(2,018)	(1,442)	(737)	(421)	(296)	(698)	(5,612)
Net lease obligation	9,134	9,093	8,918	8,010	6,779	30,482	72,416
Workers' compensation obligations[3]	4,420	3,171	2,345	1,743	1,368	4,912	17,959
Total[4]	$44,501	$25,790	$20,139	$16,367	$14,748	$71,389	$192,934

[1] Represents our purchase obligations primarily related to printing outsource agreements and capital expenditures for property, plant and equipment expiring at various dates through 2028. As of December 2 8, 201 4, this table excludes a fiscal year 2015 purchase commitment of 30,000 metric tons of newsprint from SP Fiber Technologies because it is based on the market price at time of purchase.

[2] Represents minimum rental commitments under operating leases with non-cancelable terms in excess of one year and sublease income from leased space. We rent certain facilities and equipment under operating leases expiring at various dates through 2028. Total rental expense, included in other operating expenses, from continuing operations amounted to $12.5 million, $11.2 million and $12.5 million in fiscal year s 2014, 2013 and 201 2, respectively. Most of the leases provide that we pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased premises in addition to the minimum monthly payments. Some of the operating leases have built in escalation clauses. We sublease office space to other companies under noncancellable agreements that expire at various dates through 2023. Sublease income from operating leases totaled $2. 2 million, $3.9 million and $3.8 million in fiscal years 201 4, 201 3 and 201 2, respectively.

[3] Represents the expected insurance payments of undiscounted ultimate losses, net of estimated insurance recoveries of approximately $2.6 million, and is based on our historical payment patterns. We retain the risk for workers' compensation resulting from uninsured deductibles per accident or occurrence that are subject to annual aggregate limits. Losses up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. For the year ended December 2 8, 201 4, we compiled our historical data pertaining to the self-insurance experiences and actuarially developed the ultimate loss associated with our self-insurance programs for workers' compensation liability. We believe that the actuarial valuation provides the best estimate of the ultimate losses to be expected under these programs. The undiscounted ultimate losses of all our self-insurance reserves related to our workers' compensation liabilities, net of insurance recoveries at December 2 8, 201 4 and December 29, 201 3, were $18.0 million and $18.7 million, respectively. We discount the net amount above to present value using an approximate risk-free rate over the average life of our insurance claims. For the years ended December 2 8, 201 4 and December 29, 201 3, the discount rate used was 2.0% and 1.9%, respectively. The present value of all self-insurance reserves, net of estimated insurance recoveries, for our workers' compensation liability recorded at December 2 8, 201 4 and December 29, 201 3, was $17.5 million and $18.7 million, respectively.

GOVERNMENT MATTERS

1.84 GENERAL CABLE CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

19. Commitments and Contingencies (in part)

Government and Internal Investigations

We have been reviewing, with the assistance of external counsel, certain commission payments involving sales to customers of our subsidiary in Angola. The review has focused upon payment practices with respect to employees of public utility companies, use of agents in connection with such payment practices, and the manner in which the payments were reflected in our books and records. We have determined at this time that certain employees in our Portugal and Angola subsidiaries directly and indirectly made or directed payments at various times from 2002 through 2013 to officials of Angola government-owned public utilities that raise concerns under the FCPA and possibly under the laws of other jurisdictions. Based on an analysis completed with the assistance of our external counsel and forensic accountants, we have concluded at this time, that we are able to reasonably estimate the profit derived from sales made to the Angolan government-owned public utilities in connection with the payments described above which we believe is likely to ultimately be disgorged. As a result, we have recorded an estimated charge in the amount of $ 24 million as an accrual as of December 31, 2014. The accrued amount reflects the probable and estimable amount of the Angola-related profits that the Company believes is subject to being disgorged, and does not include any provision for any fines, civil or criminal penalties, or other relief, any or all of which could be substantial. We also have been reviewing, with the assistance of external counsel, our use and payment of agents in connection with our Thailand and India operations, which may have implications under the FCPA. We have voluntarily disclosed these matters to the SEC and the DOJ and have provided them with additional information at their request, including information in response to an SEC subpoena. The SEC and DOJ inquiries into these matters are ongoing. We continue to cooperate with the DOJ and the SEC with respect to these matters. At this time, we are unable to predict the nature of any action that may be taken by the DOJ or SEC or any remedies these agencies may pursue as a result of such actions. We are implementing a screening process relating to sales agents that we use outside of the United States, including, among other things, a review of the agreements under which they were retained and a risk-based assessment of such agents to determine the scope of due diligence measures to be performed by a third-party investigative firm. We also have provided anti-corruption training to our global sales force, and ultimately will provide such training to all salaried employees. In addition, we have hired a Chief Compliance Officer, who is responsible for the day-to-day management of our compliance function. The Chief Compliance Officer reports to our Chief Executive Officer, and also has a reporting relationship with the Audit Committee.

As previously disclosed, we conducted internal investigations, subject to the oversight of the Audit Committee of our Board of Directors and with the assistance of external counsel, principally relating to matters resulting in restatements of a number of our previously issued financial statements. The matters addressed in the investigations included (i) inventory accounting errors addressed in the restatements, including those resulting from inventory theft in Brazil, as well as the timing of internal reporting of the inventory accounting issues to senior corporate management at our headquarters in Highland Heights, Kentucky and (ii) historical revenue recognition accounting practices with regard to "bill and hold" sales in Brazil related to aerial transmission projects, including instances where we have determined that the requirements for revenue recognition under GAAP with respect to the bill and hold sales were not met. ("Bill and hold" sales generally are sales meeting specified criteria under GAAP that enable the seller to recognize revenue at the time title to goods and ownership risk is transferred to the customer, even though the seller does not ship the goods until a later time. In typical sales transactions other than those accounted for as bill and hold, title to goods and ownership risk is transferred to the customer at the time of shipment or delivery.) In connection with these matters, among others, our management identified control deficiencies that constituted material weaknesses in our internal control over financial reporting. These material weaknesses resulted in accounting errors that caused us to issue two sets of restated financial statements. In March 2013, principally to correct the inventory accounting errors, we issued restated consolidated financial statements as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009, and unaudited restated financial statements for interim periods in 2011 and interim periods ended on March 30, 2012 and June 29, 2012. In January 2014, principally to correct errors relating to revenue recognition with respect to the bill and hold sales, we issued restated consolidated financial statements (which also encompassed matters addressed in the earlier restatement) as of December 31, 2012, 2011 and 2010 and for the years ended December 31, 2012, 2011, 2010 and 2009, and unaudited restated financial statements for interim periods in 2011 and 2012 and the interim period ended on March 29, 2013.

We voluntarily contacted the SEC to advise it of our initial internal investigation, and we have continued to provide information to the SEC on an ongoing basis, including, among other things, information regarding the matters described above and certain earnings management activities by employees prior to the end of 2012. As we previously disclosed, these earnings management activities (none of which identified to date had a material effect on our consolidated financial statements) were designed to delay the reporting of expenses or other charges, including improper capitalization of costs, misuse of accruals and failure to timely report inventory shortfalls identified through physical inventory counts. The SEC has issued a formal order of investigation. Pursuant to the formal order, the SEC issued subpoenas to us seeking relevant documents and to certain of our current and former employees seeking their testimony. The SEC has requested information regarding, among other things, the above-described Angola matter, matters that were subject to our internal investigations and earnings management activities by employees. We continue to cooperate with the SEC in connection with its investigation.

Any determination that our operations or activities are not in compliance with existing laws or regulations could result in the imposition of substantial fines, civil and criminal penalties, and equitable remedies, including disgorgement and injunctive relief. Because the government investigations and our review regarding commission payment practices and our use and payment of agents described above are ongoing, we are unable to predict their duration, scope, results, or consequences. Dispositions of these types of matters can result in modifications to business practices and compliance programs, and in some cases the appointment of a monitor to review future business and practices with the objective of effecting compliance with the FCPA and other applicable laws. At this time, we cannot reasonably estimate the amount or range of additional possible loss that we may incur above the amount accrued to date in connection with the foregoing matters.

Purported Class Action and Derivative Litigation

Litigation was initiated against us and certain of our current and former directors, executive officers and employees following the restating of our financial statements principally as a result of the matters described above under "Government and internal investigations" relating to our Brazilian business.

Two civil complaints were filed in the United States District Court for the Southern District of New York on October 21, 2013 and December 4, 2013 by named plaintiffs, on behalf of purported classes of persons who purchased or otherwise acquired our publicly traded securities, against us, Gregory Kenny, our President and Chief Executive Officer, and Brian Robinson, our Executive Vice President and Chief Financial Officer. On our motion, the complaints were transferred to the United States District Court for the Eastern District of Kentucky, the actions were consolidated, and a consolidated complaint was filed in that Court on May 20, 2014 by City of Livonia Employees Retirement System, as lead plaintiff on behalf of a purported class of all persons or entities who purchased our securities between November 3, 2010 and October 14, 2013 (the "City of Livonia Complaint"). The City of Livonia Complaint alleged claims under the antifraud and controlling person liability provisions of the Exchange Act, alleging generally, among other assertions, that we employed inadequate internal financial reporting controls that resulted in, among other things, improper revenue recognition, understated cost of sales, overstated operating income, net income and earnings per share, and the failure to detect inventory lost through theft; that we issued materially false financial results that had to be restated on two occasions; and that statements of Messrs. Kenny and Robinson that they had tested and found effective our internal controls over financial reporting and disclosure were false. The City of Livonia Complaint alleged that as a result of the foregoing, our stock price was artificially inflated and the plaintiffs suffered damages in connection with their purchase of our stock. The City of Livonia Complaint seeked damages in an unspecified amount; reasonable costs and expenses, including counsel and experts fees; and such equitable injunctive or other relief as the Court deems just and proper. On July 18, 2014, defendants filed a motion to dismiss the City of Livonia Complaint based on plaintiff's failure to state a claim upon which relief could be granted. After oral argument on January 7, 2015, the Court granted the motion to dismiss with prejudice on January 27, 2015. On February 24, 2015, plaintiff filed a motion to alter or amend the January 27, 2015 judgment and for leave to file the proposed amended complaint. Under the Local Rules, defendants' opposition to the motion is due on March 17, 2015.

In addition, a derivative complaint was filed on January 7, 2014 in the Campbell County, Kentucky Circuit Court against all but one member of our Board of Directors, including Mr. Kenny, two former directors, Mr. Robinson and two former officials, one of whom is our former executive officer. The derivative complaint alleges that the defendants breached their fiduciary duties by knowingly failing to ensure that we implemented and maintained adequate internal controls over our accounting and financial reporting functions and by knowingly disseminating to stockholders materially false and misleading statements concerning our financial results and internal controls. The derivative complaint seeks damages in an unspecified amount, appropriate equitable relief to remedy the alleged breaches of fiduciary duty, attorneys' fees, experts' fees and other costs. On March 5, 2014, the derivative case was placed on inactive status until a motion is filed by a party to reinstate the action to the Court's active docket.

We believe the derivative complaint, insofar as it relates to our current and former directors, including Mr. Kenny, and to Mr. Robinson, and the City of Livonia Complaint are without merit and intend to vigorously contest the actions.

GUARANTEES

1.85 ALLIANCE ONE INTERNATIONAL, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(in thousands)

Note 1—Significant Accounting Policies (in part)

Guarantees

The Company and certain of its foreign subsidiaries guarantee bank loans to suppliers to finance their crops. Under longer-term arrangements, the Company may also guarantee financing on suppliers' construction of curing barns or other tobacco production assets. Guaranteed loans are generally repaid concurrent with the delivery of tobacco to the Company. The Company is obligated to repay any guaranteed loan should the supplier default. If default occurs, the Company has recourse against the supplier. The Company also guarantees bank loans of certain unconsolidated subsidiaries in Asia, Brazil and Zimbabwe. The following table summarizes amounts guaranteed and the fair value of those guarantees:

	March 31, 2014	March 31, 2013
Amounts guaranteed (not to exceed)	$301,870	$125,623
Amounts outstanding under guarantee	218,847	98,689
Fair value of guarantees	7,344	6,367

Of the guarantees outstanding at March 31, 2014, all expire within one year. The fair value of guarantees is recorded in Accrued Expenses and Other Current Liabilities in the Consolidated Balance Sheets and included in crop costs except for Zimbabwe and the joint venture in Brazil which are included in Accounts Receivable, Related Parties.

In Brazil, some suppliers obtain government subsidized rural credit financing from local banks that is guaranteed by the Company. The Company withholds amounts owed to suppliers related to the rural credit financing of the supplier upon delivery of tobacco to the Company. The Company remits payments to the local banks on behalf of the guaranteed suppliers. Terms of rural credit financing are such that repayment is due to local banks based on contractual due dates. As of March 31, 2014 and 2013, respectively, the Company had balances of $26,076 and $45,843 that were due to local banks on behalf of suppliers. These amounts are included in Accounts Payable in the Consolidated Balance Sheets.

Note 3—Variable Interest Entities

The Company holds variable interests in six joint ventures that are accounted for under the equity method of accounting. These joint ventures procure inventory on behalf of the Company and the other joint venture partners. The variable interests relate to equity investments and advances made by the Company to the joint ventures. In addition, the Company also guarantees two of its joint ventures' borrowings which also represent a variable interest in those joint ventures. The Company is not the primary beneficiary, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities as a result of the entities' management and board of directors structure. Therefore, these entities are not consolidated. At March 31, 2014 and 2013, the Company's investment in these joint ventures was $49,860 and $23,986, respectively and is classified as Investments in Unconsolidated Affiliates in the Consolidated Balance Sheets. The Company's advances to these joint ventures were $10 at March 31, 2014 and is classified as Accounts Receivable, Related Parties in the Consolidated Balance Sheets. There were no advances at March 31, 2013. The Company guaranteed an amount to two joint ventures not to exceed $142,904 and $19,363 at March 31, 2014 and 2013, respectively. The investments, advances and guarantees in these joint ventures represent the Company's maximum exposure to loss.

Note 18—Fair Value Measurements (in part)

Guarantees

The Company guarantees funds issued to tobacco suppliers by third party lending institutions and also guarantees funds borrowed by a deconsolidated subsidiary. The fair value of guarantees is based upon either the premium the Company would require to issue the same inputs or historical loss rates and as such these guarantees fall into Level 3 of the fair value hierarchy.

Tobacco Supplier Guarantees—The Company provides guarantees to third parties for indebtedness of certain tobacco suppliers to finance their crops. The fair value of these guarantees is the greater of using a discounted cash flow based on rates with and without the guarantees or applying historical loss rates generated from guaranteed and non-guaranteed tobacco supplier loans. Should the loss rates change 10% or 20%, the fair value of the guarantee at March 31, 2014 would change by $537 or $1,074, respectively.

Deconsolidated subsidiary guarantees—The fair value of these guarantees is determined using a discounted cash flow model based on the differential between interest rates available with and without the guarantees. The fair value of these guarantees is most closely tied to the theoretical interest rate differential. Should interest rates used in the model change by 10% or 20%, the fair value of the guarantee, at March 31, 2014 would change by $385 or $763, respectively.

Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis:

	March 31, 2014			March 31, 2013		
	Level 2	**Level 3**	**Total Assets/ Liabilities, at Fair Value**	**Level 2**	**Level 3**	**Total Assets/ Liabilities, at Fair Value**
Assets						
Derivative financial instruments	$ —	$ —	$ —	$3,145	$ —	$ 3,145
Securitized beneficial interests	—	35,559	35,559	—	31,992	31,992
Total Assets	$ —	$35,559	$35,559	$3,145	$31,992	$35,137
Liabilities						
Guarantees	$ —	$ 7,344	$ 7,344	$ —	$ 6,367	$ 6,367
Derivative financial instruments	169	—	169	644	—	644
Total liabilities	$169	$ 7,344	$ 7,513	$ 644	$ 6,367	$ 7,011

Reconciliation of Change in Recurring Level 3 Balances

The following tables present the changes in Level 3 instruments measured on a recurring basis.

	Securitized Beneficial Interests	Guarantees
Beginning Balance March 31, 2012	$ 25,864	$ 5,265
Issuance of guarantees/sales of receivables	286,265	11,116
Settlements	(275,397)	(10,014)
Changes in anticipated loss rate	—	—
Losses recognized in earnings	(4,740)	—
Ending Balance March 31, 2013	31,992	6,367
Issuance of guarantees/sales of receivables	287,432	11,013
Settlements	(278,990)	(9,740)
Changes in anticipated loss rate	—	—
Losses recognized in earnings	(4,875)	(296)
Ending Balance at March 31, 2014	$ 35,559	$ 7,344

The amount of total losses included in earnings for the years ended March 31, 2014 and 2013 attributable to the change in unrealized losses relating to assets still held at the respective dates was $1,572 and $1,538 on securitized beneficial interests.

Gains and losses included in earnings are reported in Other Income.

Information About Fair Value Measurements Using Significant Unobservable Inputs

The following table summarizes significant unobservable inputs and the valuation techniques thereof for the periods ended March 31, 2014 and 2013:

	Fair Value at 3/31/2014	Valuation Technique	Unobservable Input	Range (Weighted Average)
Securitized Beneficial Interests			Discount Rate	2.74% to 3.86%
	$35,559	Discounted Cash Flow	Payment Speed	62.1 to 105.1 days
Tobacco Supplier Guarantees	1,211	Historical Loss	Historical Loss	6.0% to 8.0%
	4,157	Discounted Cash Flow	Market Interest Rate	10.0% to 46.0%
Deconsolidated Subsidiary Guarantees	1,976	Discounted Cash Flow	Market Interest Rate	12%

	Fair Value at 3/31/2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Securitized Beneficial Interests	$31,992	Discounted Cash Flow	Discount Rate	2.32% to 3.48%
			Payment Speed	80 to 138 days
Tobacco Supplier Guarantees	5,119	Historical Loss	Historical Loss	8% to 9.1%
Deconsolidated Subsidiary Guarantees	1,248	Discounted Cash Flow	Market Interest Rate	12%

GAIN CONTINGENCY

1.86 AMERISOURCEBERGEN CORPORATION (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Contingencies (in part)

Gain Contingencies: The Company records gain contingencies when they are realized. Gains from antitrust litigation settlements are realized upon the receipt of cash and recorded as a reduction to cost of goods sold because they represent a recovery of amounts historically paid to manufacturers to originally acquire the pharmaceuticals that were the subject of the antitrust litigation settlements (see Note 13).

Note 13. Litigation Settlements

Antitrust Settlements

Numerous class action lawsuits have been filed against certain brand pharmaceutical manufacturers alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company has not been a named plaintiff in any of these class actions, but has been a member of the direct purchasers' class (i.e., those purchasers who purchase directly from these pharmaceutical manufacturers). None of the class actions has gone to trial, but some have settled in the past with the Company receiving proceeds from the settlement funds. During the fiscal years ended September 30, 2014, 2013, and 2012, the Company recognized gains of $24.4 million, $22.9 million, and $14.8 million, respectively, relating to the above-mentioned class action lawsuits. These gains, which are net of attorney fees and estimated payments due to other parties, were recorded as reductions to cost of goods sold in the Company's consolidated statements of operations.

Financial Instruments

Author's Note

In January 2014, FASB issued ASU No. 2014-03, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach (a consensus of the Private Company Council)*. This ASU gives private companies—other than financial institutions—the option to use a simplified hedge accounting approach to account for swaps that are entered into for the purpose of economically converting variable-rate payments to fixed-rate payments. The simplified hedge accounting approach will be effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015, with early adoption permitted. Private companies have the option to apply the amendments in this ASU using either (*a*) the modified retrospective approach or (*b*) the full retrospective approach. Because this accounting alternative is for private companies, none of the excerpts that follow will demonstrate its use.

In November 2014, FASB issued ASU No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force)*. The objective of this ASU is to eliminate the use of different methods in practice and thereby reduce existing diversity under GAAP in the accounting for hybrid financial instruments issued in the form of a share. The amendments in this ASU do not change the current criteria in GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria. The amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features—including the embedded derivative feature being evaluated for bifurcation—in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The effects of initially adopting the amendments in this ASU should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption, including adoption in an interim period, is permitted. If an entity adopts the amendments early in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes that interim period. None of the examples that follow contain an example of these disclosures due to the effective date.

RECOGNITION AND MEASUREMENT

1.87 FASB ASC 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and hedging activities. FASB ASC 815 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In addition, paragraphs 4–6 of FASB ASC 815-15-25 simplify the accounting for certain hybrid financial instruments by permitting an entity to irrevocably elect to initially and subsequently measure that hybrid financial instrument in its entirety at fair value, with changes recognized in earnings. This election is also available when a previously recognized financial instrument is subject to a remeasurement (new basis) event and the separate recognition of an embedded derivative.

1.88 FASB ASC 825, *Financial Instruments*, permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Further, under FASB ASC 825, a business entity should report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument by instrument basis, with certain exceptions, and applied to the entire instrument, not only to specified risks, specific cash flows, or portions of that instrument.

DISCLOSURE

1.89 The disclosures required by FASB ASC 815 for entities with derivative instruments or nonderivative instruments that are designated and qualify as hedging instruments are intended to enable users of financial statements to understand

- How and why an entity uses derivative or such nonderivative instruments.
- How derivative instruments or such nonderivative instruments and related hedged items are accounted for under FASB ASC 815.
- How derivative instruments or such nonderivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

1.90 To meet those objectives, FASB ASC 815-10-50-1 A requires qualitative disclosures about an entity's objectives and strategies for using derivatives and such nonderivative instruments. An entity that holds or issues derivative instruments or such nonderivative instruments should disclose all of the following for each interim and annual reporting period for which a statement of financial position and statement of financial performance are presented:

- Its objectives for holding or issuing those instruments.
- The context needed to understand those objectives. This should be disclosed in the context of each instrument's primary underlying risk exposure.
- Its strategies for achieving those objectives. This should be disclosed in the context of each instrument's primary underlying risk exposure.
- Information that would enable users of its financial statements to understand the volume of its activity in those instruments.

1.91 These instruments should be disclosed in the context of each instrument's primary underlying risk exposure and should be distinguished among those used for risk management purposes, those used as economic hedges and other purposes related to risk exposure, and those used for other purposes. Those used for risk management purposes should be distinguished between those designated as hedging instruments and, further, whether they are fair value hedges, cash flow hedges, or foreign currency hedges. An entity should select the format and specifics for this that are most relevant and practicable for its individual facts and circumstances. For any derivatives not designated as hedging instruments under FASB ASC 815-20, the description should include the purpose of the derivative activity.

1.92 Paragraphs .4 A-.4E of FASB ASC 815-10-50 explain the quantitative disclosures about derivatives and such nonderivative instruments. For every annual and interim reporting period for which a statement of financial position and statement of financial performance are presented, an entity that holds or issues derivative instruments is required to disclose the location and fair value amounts of derivative instruments and such nonderivative instruments reported in the statement of financial position. The fair value of those instruments should be presented on a gross basis, even when those instruments are subject to master netting arrangements and qualify for net presentation in the statement of financial position. Cash collateral payables and receivables associated with these instruments should not be added to, or netted against, the fair value amounts.

1.93 Fair value amounts should be presented as separate asset and liability values segregated between derivatives that are designated and qualifying as hedging instruments presented separately by type of contract and those that are not. The disclosure should also identify the line item(s) in the statement of financial position in which the fair value amounts for these categories of derivative instruments are included. Also, disclosure of the location and amount of the gains and losses on derivative instruments and such nonderivative instruments and related hedged items in the statement of financial performance or statement of financial position (for example, in other comprehensive income) is required. These gain and loss disclosures should be presented separately by type of contract. These quantitative disclosures are required to be presented in tabular format, except for disclosures regarding hedged items that can be presented in either tabular or nontabular format.

1.94 For derivative instruments not designated or qualifying as hedging instruments under FASB ASC 815-20, if the entity's policy is to include them in its trading activities, the entity can elect not to separately disclose gains and losses, provided that the entity discloses certain other information. Additionally, FASB ASC 815 requires specific disclosures for derivative instruments that contain credit-risk-related features and credit derivatives.

1.95 FASB ASC 825 requires certain reporting entities to disclose the fair value of financial instruments and disclosure requirements of credit risk concentrations of all financial instruments, and it provides guidance on the fair value option. FASB ASC 825 also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities.

FINANCIAL GUARANTEES AND INDEMNIFICATIONS—LINE OF CREDIT

1.96 ABM INDUSTRIES INCORPORATED (OCT)

CONSOLIDATED BALANCE SHEETS (in part)

	October 31,	
(in millions, except share and per share amounts)	2014	2013
Liabilities and Stockholders' Equity (in part)		
Current liabilities		
Trade accounts payable	$ 175.9	$ 157.3
Accrued compensation	131.2	138.4
Accrued taxes—other than income	29.4	25.7
Insurance claims	80.0	84.6
Income taxes payable	2.0	0.1
Other accrued liabilities	107.9	102.4
Total current liabilities	526.4	508.5
Noncurrent income taxes payable	53.7	50.4
Line of credit	319.8	314.9
Deferred income tax liability, net	16.4	13.1
Noncurrent insurance claims	269.7	273.4
Other liabilities	38.1	41.4
Total liabilities	1,224.1	1,201.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

10. Line Of Credit

On November 30, 2010, we entered into a five-year syndicated credit agreement ("Credit Agreement") that provided for revolving loans, swing line loans, and letters of credit up to an aggregate amount of $650.0 million (the "Facility"). During 2011, the Credit Agreement was amended to reduce the borrowing spread interest on loans, extend the maturity date to September 8, 2016, and revise certain defined terms. On December 11, 2013, the Credit Agreement was further amended to increase the aggregate amount of the Facility from $650.0 million to $800.0 million and extend the maturity date to December 11, 2018. At our option, we may increase the size of the Facility to $1.0 billion at any time prior to the expiration date (subject to receipt of commitments for the increased amount from existing and new lenders). In connection with this amendment, the pricing for standby letters of credit fees can be reduced based upon certain threshold restrictions. Additionally, our commitment fee on the average daily unused portion of our Facility decreased by 0.025%. Financial covenants and interest rates were not changed by this amendment.

Borrowings under the Facility bear interest at a rate equal to an applicable margin plus, at our option, either a (i) eurodollar rate (generally LIBOR) or (ii) base rate determined by reference to the highest of (1) the federal funds rate plus 0.50%, (2) the prime rate published by Bank of America, N.A. from time to time, and (3) the eurodollar rate plus 1.00%. The applicable margin is a percentage per annum varying from zero to 0.75% for base rate loans and 1.00% to 1.75% for eurodollar loans, based upon our leverage ratio.

We also pay a commitment fee, based on the leverage ratio, payable quarterly in arrears, ranging from 0.200% to 0.275% on the average daily unused portion of the Facility. For purposes of this calculation, irrevocable standby letters of credit, issued primarily in conjunction with our insurance programs, and cash borrowings are included as outstanding under the Facility.

The Credit Agreement contains certain leverage and liquidity covenants that require us to maintain a maximum leverage ratio of 3.25 to 1.0 at the end of each fiscal quarter, a minimum fixed charge coverage ratio of 1.50 to 1.0 at any time, and a consolidated net worth in an amount not less than the sum of (i) $570.0 million, (ii) 50% of our consolidated net income (with no deduction for net loss), and (iii) 100% of our aggregate increases in stockholders' equity, beginning on November 30, 2010, each as further described in the Credit Agreement, as amended. We were in compliance with all covenants as of October 31, 2014.

If an event of default occurs under the Credit Agreement, including certain cross-defaults, insolvency, change in control, or violation of specific covenants, among others, the lenders can terminate or suspend our access to the Facility, declare all amounts outstanding under the Facility (including all accrued interest and unpaid fees) to be immediately due and payable, and require that we cash collateralize the outstanding standby letters of credit obligations.

The Facility is available for working capital, the issuance of up to $300.0 million for standby letters of credit, the issuance of up to $50.0 million in swing line advances, the financing of capital expenditures, and other general corporate purposes, including acquisitions and investments in subsidiaries, subject to certain limitations, if applicable. At October 31, 2014, the total outstanding amounts under the Facility in the form of cash borrowings and standby letters of credit were $319.8 million and $114.9 million, respectively. As of October 31, 2013, the total outstanding amounts under the Facility in the form of cash borrowings and standby letters of credit were $314.9 million and $100.6 million, respectively.

At October 31, 2014 and 2013, we had up to $365.3 million and $234.5 million borrowing capacity, respectively, under the Facility, the availability of which is subject to, and is limited by, compliance with the covenants described above.

Interest Rate Swaps

During 2013, we entered into a series of interest rate swap agreements with effective start dates of March 18, 2013 and April 11, 2013 totaling an underlying aggregate notional amount of $155.0 million, pursuant to which we receive variable interest payments based on LIBOR and pay fixed interest at rates ranging from 0.44% to 0.47%. These interest rate swaps will mature between March 18, 2016 and April 11, 2016 and are structured to hedge the interest rate risk associated with our floating-rate, LIBOR-based borrowings under our Facility. The swaps were designated and accounted for as cash flow hedges from inception.

We recognize all interest rate swaps on the accompanying consolidated balance sheets at fair value. The fair values of the interest rate swaps are estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rates and the expected cash flows at current market interest rates using observable benchmarks for LIBOR forward rates at the end of the period. See Note 5, "Fair Value of Financial Instruments," for more information.

Each of the swap derivatives is designated as a cash flow hedge, and the effective portion of the derivative's mark-to-market gain or loss is initially reported as a component of AOCL and subsequently reclassified into earnings when the hedged transactions occur and affect earnings. The ineffective portion of the gain or loss is reported in earnings immediately. Interest payables and receivables under the swap agreements are accrued and recorded as adjustments to interest expense.

At each of October 31, 2014 and 2013, the amount recorded in AOCL was $0.2 million ($0.1 million, net of taxes). Amounts expected to be reclassified from AOCL to earnings during the next twelve months were $0.1 million at October 31, 2014.

DERIVATIVE FINANCIAL INSTRUMENTS—INTEREST RATE SWAP AGREEMENTS

1.97 REGAL ENTERTAINMENT GROUP (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Interest Rate Swaps

Regal Cinemas has entered into hedging relationships via interest rate swap agreements to hedge against interest rate exposure of its variable rate debt obligations. Our interest rate swaps settle any accrued interest for cash on the last day of each calendar month or calendar quarter, as applicable, until expiration. At such dates, the differences to be paid or received on the interest rate swaps will be included in interest expense. The interest rate swaps qualify for cash flow hedge accounting treatment and as such, the change in the fair values of the interest rate swaps is recorded on the Company's consolidated balance sheet as an asset or liability with the effective portion of the interest rate swaps' gains or losses reported as a component of other comprehensive income and the ineffective portion reported in earnings. As interest expense is accrued on the debt obligation, amounts in accumulated other comprehensive income/loss related to the interest rate swaps will be reclassified into earnings to obtain a net cost on the debt obligation equal to the effective yield of the fixed rate of each swap. In the event that an interest rate swap is terminated prior to maturity, gains or losses accumulated in other comprehensive income or loss remain deferred and are reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings. The fair value of the Company's interest rate swaps is based on Level 2 inputs as described in ASC Topic 820, *Fair Value Measurements and Disclosures*, which include observable inputs such as dealer quoted prices for similar assets or liabilities, and represents the estimated amount Regal Cinemas would receive or pay to terminate the agreements taking into consideration various factors, including current interest rates, credit risk and counterparty credit risk. The counterparties to the Company's interest rate swaps are major financial institutions. The Company evaluates the bond ratings of the financial institutions and believes that credit risk is at an acceptably low level.

Comprehensive Income

Total comprehensive income for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 was $106.1 million, $159.5 million and $147.0 million, respectively. Total comprehensive income consists of net income and other comprehensive income, net of tax, related to the change in the aggregate unrealized gain/loss on the Company's interest rate swap arrangement, the change in fair value of available for sale equity securities (including other-than-temporary impairments), the reclassification adjustment for gain on sale of available for sale securities recognized in net income and the change in fair value of equity method investee interest rate swap transactions during each of the years ended January 1, 2015, December 26, 2013 and December 27, 2012. The Company's interest rate swap arrangements and available for sale equity securities are further described in Note 5—"Debt Obligations" and Note 13—"Fair Value of Financial Instruments."

Interest Rate Swaps

As of January 1, 2015, the Company maintained three effective hedging relationships via three distinct interest rate swap agreements (maturity dates ranging from June 30, 2015 through December 31, 2016), which require Regal Cinemas to pay interest at fixed rates ranging from 0.817% to 1.820% and receive interest at a variable rate. These interest rate swap agreements are designated to hedge $450.0 million of variable rate debt obligations at an effective rate of approximately 3.88% as of January 1, 2015.

Under the terms of the Company's three effective interest rate swap agreements as of January 1, 2015 detailed below, Regal Cinemas currently receives interest at a variable rate based on the 3-month LIBOR on the first $300.0 million of aggregate borrowings under the Term Facility and receives 1-month LIBOR on the next $150.0 million of borrowings under the Term Facility. In addition, the Company will receive 1-month LIBOR on the next $200.0 million of borrowings under the Term Facility once the remaining interest rate swap agreement becomes effective. With respect to the Company's three effective interest rate swap agreements as of January 1, 2015, the 3-month LIBOR rate and the 1-month LIBOR rate on each respective reset date determines the variable portion of the interest rate swaps for the following three-month and one-month periods, respectively. The interest rate swaps settle any accrued interest for cash on the last day of each calendar month or calendar quarter, as applicable, until expiration. At such dates, the differences to be paid or received on the interest rate swaps will be included in interest expense. No premium or discount was incurred upon the Company entering into the interest rate swaps, because the pay and receive rates on the interest rate swaps represented prevailing rates for the counterparty at the time the interest rate swaps were entered into. The interest rate swaps qualify for cash flow hedge accounting treatment and as such, the change in the fair value of the interest rate swaps are recorded on the Company's consolidated balance sheet as an asset or liability with the effective portion of the interest rate swaps' gains or losses reported as a component of other comprehensive income (loss) and the ineffective portion reported in earnings (interest expense). As interest expense is accrued on the debt obligation, amounts in accumulated other comprehensive income (loss) related to the interest rate swaps will be reclassified into earnings to obtain a net cost on the debt obligation equal to the effective yield of the fixed rate of each swap. In the event that an interest rate swap is terminated prior to maturity, gains or losses accumulated in other comprehensive income or loss remain deferred and are reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

Below is a summary of the Company's current interest rate swap agreements designated as hedge agreements as of January 1, 2015:

Nominal Amount	Effective Date	Base Rate	Receive Rate	Expiration Date
$200.0 million[1]	June 30, 2012	1.820%	3-month LIBOR	June 30, 2015
$100.0 million[1]	December 31, 2012	1.325%	3-month LIBOR	December 31, 2015
$150.0 million[2]	December 31, 2013	0.817%	1-month LIBOR	December 31, 2016
$200.0 million[3]	June 30, 2015	1.828%	1-month LIBOR	June 30, 2018

[1] During the year ended December 29, 2011, Regal Cinemas entered into two hedging relationships via two distinct interest rate swap agreements with effective dates beginning on June 30, 2012 and December 31, 2012, respectively, and maturity terms ending on June 30, 2015 and December 31, 2015, respectively. These swaps require Regal Cinemas to pay interest at fixed rates ranging from 1.325% to 1.82% and receive interest at a variable rate. The interest rate swaps are designated to hedge $300.0 million of variable rate debt obligations.

[2] During the year ended December 27, 2012, Regal Cinemas entered into one additional hedging relationship via one distinct interest rate swap agreement with an effective date beginning on December 31, 2013 and a maturity date of December 31, 2016. This swap requires Regal Cinemas to pay interest at a fixed rate of 0.817% and receive interest at a variable rate. The interest rate swap is designated to hedge $150.0 million of variable rate debt obligations.

[3] During the year ended December 26, 2013, Regal Cinemas entered into one additional hedging relationship via one distinct interest rate swap agreement with an effective date beginning on June 30, 2015, and a maturity date of June 30, 2018. This swap will require Regal Cinemas to pay interest at a fixed rate of 1.828% and receive interest at a variable rate. The interest rate swap is designated to hedge $200.0 million of variable rate debt obligations.

See Note 13—"Fair Value of Financial Instruments" for discussion of the Company's interest rate swaps' fair value estimation methods and assumptions.

13. Fair Value of Financial Instruments (in part)

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The inputs used to develop these fair value measurements are established in a hierarchy, which ranks the quality and reliability of the information used to determine fair value. The fair value classification is based on levels of inputs. Assets and liabilities that are carried at fair value are classified and disclosed in one of the following categories described in ASC Topic 820, *Fair Value Measurements and Disclosures:*

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The following table summarizes the fair value hierarchy of the Company's financial assets and liabilities carried at fair value on a recurring basis as of January 1, 2015:

		Fair Value Measurements at January 1, 2015 Using		
(In millions)	Total Carrying Value at January 1, 2015	Quoted Prices Inactive Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity securities, available for sale[1]	$3.8	$3.8	$—	$—
Total assets at fair value	$3.8	$3.8	$—	$—
Liabilities:				
Interest rate swaps[2]	$4.7	$—	$4.7	$—
Total liabilities at fair value	$4.7	$—	$4.7	$—

[1] The Company maintains an investment in RealD, Inc., an entity specializing in the licensing of 3D technologies. In connection with the RealD, Inc. motion picture license agreement, the Company received 1,222,780 shares of RealD, Inc. common stock during fiscal 2010. The fair value of the RealD, Inc. shares is determined using RealD, Inc.'s publicly traded common stock price, which falls under Level 1 of the valuation hierarchy. The held shares of RealD, Inc. stock are accounted for as available-for-sale equity securities and recurring fair value adjustments to these shares are recorded to "Other Non-Current Assets" with a corresponding entry to "Accumulated other comprehensive income (loss)" on a quarterly basis. During the quarter ended June 27, 2013, the Company sold 400,000 shares of RealD, Inc. common stock at prices ranging from $14.61 to $15.42 per share. In connection with the sale, the Company received approximately $5.9 million in aggregate net proceeds (after deducting related fees and expenses) and recorded a gain on sale of approximately $2.6 million. During the year ended January 1, 2015, the Company sold a total of 500,000 shares of RealD, Inc. common stock at prices ranging from $11.27 to $12.47 per share. In connection with the sales, the Company received approximately $6.0 million in aggregate net proceeds (after deducting related fees and expenses) and recorded a gain on sale of approximately $2.0 million. During the year ended January 1, 2015, the Company recorded a net decrease to its investment in RealD, Inc. of approximately $3.2 million and a corresponding net increase to "Accumulated other comprehensive income, net" of $0.5 million, net of tax. The fair value of the remaining 322,780 RealD, Inc. common shares was $3.8 million, based on the publicly traded common stock price of RealD, Inc. as of January 1, 2015 of $11.80 per share.

[2] The fair value of the Company's interest rate swaps described in Note 5—"Debt Obligations" is based on Level 2 inputs, which include observable inputs such as dealer quoted prices for similar assets or liabilities, and represents the estimated amount Regal Cinemas would receive or pay to terminate the agreements taking into consideration various factors, including current interest rates, credit risk and counterparty credit risk. The counterparties to the Company's interest rate swaps are major financial institutions. The Company evaluates the bond ratings of the financial institutions and believes that credit risk is at an acceptably low level. As of January 1, 2015, the aggregate fair value the Company's interest rate swaps was determined to be approximately $(4.7) million, which was recorded as components of "Other Non-Current Liabilities" (approximately $0.1 million) and "Accrued expenses" (approximately $4.6 million) with a corresponding amount of $(2.9) million, net of tax, recorded to "Accumulated other comprehensive loss, net." As of December 26, 2013, the aggregate fair value of the Company's interest rate swaps was determined to be approximately $(6.6) million, which was recorded as components of "Other Non-Current Liabilities" (approximately $1.6 million) and "Accrued expenses" (approximately $5.0 million) with a corresponding amount of $(4.0) million, net of tax, recorded to "Accumulated other comprehensive loss, net." These interest rate swaps exhibited no ineffectiveness during the years ended January 1, 2015, December 26, 2013 and December 27, 2012 and accordingly, the net gain on the swaps, net of tax, of $1.1 million, $2.3 million and $2.8 million, respectively, were reported as a component of other comprehensive income for the years ended January 1, 2015, December 26, 2013 and December 27, 2012.

DERIVATIVE FINANCIAL INSTRUMENTS—FOREIGN CURRENCY CONTRACTS

1.98 MERCK & CO., INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

($ in millions except per share amounts)

5. Financial Instruments (in part)

Derivative Instruments and Hedging Activities (in part)

The Company manages the impact of foreign exchange rate movements and interest rate movements on its earnings, cash flows and fair values of assets and liabilities through operational means and through the use of various financial instruments, including derivative instruments.

A significant portion of the Company's revenues and earnings in foreign affiliates is exposed to changes in foreign exchange rates. The objectives and accounting related to the Company's foreign currency risk management program, as well as its interest rate risk management activities are discussed below.

Foreign Currency Risk Management

The Company has established revenue hedging, balance sheet risk management and net investment hedging programs to protect against volatility of future foreign currency cash flows and changes in fair value caused by volatility in foreign exchange rates.

The objective of the revenue hedging program is to reduce the potential for longer-term unfavorable changes in foreign exchange rates to decrease the U.S. dollar value of future cash flows derived from foreign currency denominated sales, primarily the euro and Japanese yen. To achieve this objective, the Company will hedge a portion of its forecasted foreign currency denominated third-party and intercompany distributor entity sales that are expected to occur over its planning cycle, typically no more than three years into the future. The Company will layer in hedges over time, increasing the portion of third-party and intercompany distributor entity sales hedged as it gets closer to the expected date of the forecasted foreign currency denominated sales. The portion of sales hedged is based on assessments of cost-benefit profiles that consider natural offsetting exposures, revenue and exchange rate volatilities and correlations, and the cost of hedging instruments. The hedged anticipated sales are a specified component of a portfolio of similarly denominated foreign currency-based sales transactions, each of which responds to the hedged currency risk in the same manner. The Company manages its anticipated transaction exposure principally with purchased local currency put options, which provide the Company with a right, but not an obligation, to sell foreign currencies in the future at a predetermined price. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, total changes in the options' cash flows offset the decline in the expected future U.S. dollar equivalent cash flows of the hedged foreign currency sales. Conversely, if the U.S. dollar weakens, the options' value reduces to zero, but the Company benefits from the increase in the U.S. dollar equivalent value of the anticipated foreign currency cash flows.

In connection with the Company's revenue hedging program, a purchased collar option strategy may be utilized. With a purchased collar option strategy, the Company writes a local currency call option and purchases a local currency put option. As compared to a purchased put option strategy alone, a purchased collar strategy reduces the upfront costs associated with purchasing puts through the collection of premium by writing call options. If the U.S. dollar weakens relative to the currency of the hedged anticipated sales, the purchased put option value of the collar strategy reduces to zero and the Company benefits from the increase in the U.S. dollar equivalent value of its anticipated foreign currency cash flows; however, this benefit would be capped at the strike level of the written call. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, the written call option value of the collar strategy reduces to zero and the changes in the purchased put cash flows of the collar strategy would offset the decline in the expected future U.S. dollar equivalent cash flows of the hedged foreign currency sales.

The Company may also utilize forward contracts in its revenue hedging program. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, the increase in the fair value of the forward contracts offsets the decrease in the expected future U.S. dollar cash flows of the hedged foreign currency sales. Conversely, if the U.S. dollar weakens, the decrease in the fair value of the forward contracts offsets the increase in the value of the anticipated foreign currency cash flows.

The fair values of these derivative contracts are recorded as either assets (gain positions) or liabilities (loss positions) in the Consolidated Balance Sheet. Changes in the fair value of derivative contracts are recorded each period in either current earnings or *OCI*, depending on whether the derivative is designated as part of a hedge transaction and, if so, the type of hedge transaction. For derivatives that are designated as cash flow hedges, the effective portion of the unrealized gains or losses on these contracts is recorded in *AOCI* and reclassified into *Sales* when the hedged anticipated revenue is recognized. The hedge relationship is highly effective and hedge ineffectiveness has been *de minimis*. For those derivatives which are not designated as cash flow hedges, but serve as economic hedges of forecasted sales, unrealized gains or losses are recorded in *Sales* each period. The cash flows from both designated and non-designated contracts are reported as operating activities in the Consolidated Statement of Cash Flows. The Company does not enter into derivatives for trading or speculative purposes.

The primary objective of the balance sheet risk management program is to mitigate the exposure of foreign currency denominated net monetary assets of foreign subsidiaries where the U.S. dollar is the functional currency from the effects of volatility in foreign exchange. In these instances, Merck principally utilizes forward exchange contracts, which enable the Company to buy and sell foreign currencies in the future at fixed exchange rates and economically offset the consequences of changes in foreign exchange from the monetary assets. Merck routinely enters into contracts to offset the effects of exchange on exposures denominated in developed country currencies, primarily the euro and Japanese yen. For exposures in developing country currencies, the Company will enter into forward contracts to partially offset the effects of exchange on exposures when it is deemed economical to do so based on a cost-benefit analysis that considers the magnitude of the exposure, the volatility of the exchange rate and the cost of the hedging instrument. The Company will also minimize the effect of exchange on monetary assets and liabilities by managing operating activities and net asset positions at the local level. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

Monetary assets and liabilities denominated in a currency other than the functional currency of a given subsidiary are remeasured at spot rates in effect on the balance sheet date with the effects of changes in spot rates reported in *Other (income) expense, net*. The forward contracts are not designated as hedges and are marked to market through *Other (income) expense, net*. Accordingly, fair value changes in the forward contracts help mitigate the changes in the value of the remeasured assets and liabilities attributable to changes in foreign currency exchange rates, except to the extent of the spot-forward differences. These differences are not significant due to the short-term nature of the contracts, which typically have average maturities at inception of less than one year.

The Company also uses forward exchange contracts to hedge its net investment in foreign operations against movements in exchange rates. The forward contracts are designated as hedges of the net investment in a foreign operation. The Company hedges a portion of the net investment in certain of its foreign operations and measures ineffectiveness based upon changes in spot foreign exchange rates. The effective portion of the unrealized gains or losses on these contracts is recorded in foreign currency translation adjustment within *OCI*, and remains in *AOCI* until either the sale or complete or substantially complete liquidation of the subsidiary. The cash flows from these contracts are reported as investing activities in the Consolidated Statement of Cash Flows.

Foreign exchange risk is also managed through the use of foreign currency debt. The Company's senior unsecured euro-denominated notes have been designated as, and are effective as, economic hedges of the net investment in a foreign operation. Accordingly, foreign currency transaction gains or losses due to spot rate fluctuations on the euro-denominated debt instruments are included in foreign currency translation adjustment within *OCI*. Included in the cumulative translation adjustment are pretax gains of $294 million in 2014 and pretax losses of $84 million in 2013 and $31 million in 2012 from the euro-denominated notes.

Presented in the table below is the fair value of derivatives on a gross basis segregated between those derivatives that are designated as hedging instruments and those that are not designated as hedging instruments as of December 31:

		2014			2013		
		Fair Value of Derivative			Fair Value of Derivative		
	Balance Sheet Caption	Asset	Liability	U.S. Dollar Notional	Asset	Liability	U.S. Dollar Notional
Derivatives Designated as Hedging Instruments							
Interest rate swap contracts (non-current)	Other assets	$ 19	$—	$ 1,950	$ 13	$—	$ 1,550
Interest rate swap contracts (non-current)	Other noncurrent liabilities	—	15	2,000	—	25	2,000
Foreign exchange contracts (current)	Deferred income taxes and other current assets	772	—	5,513	493	—	4,427
Foreign exchange contracts (non-current)	Other assets	691	—	6,253	515	—	6,676
Foreign exchange contracts (current)	Accrued and other current liabilities	—	—	—	—	19	1,659
		$1,482	$ 15	$15,716	$1,021	$ 44	$16,312
Derivatives Not Designated as Hedging Instruments							
Foreign exchange contracts (current)	Deferred income taxes and other current assets	$ 365	$—	$ 6,966	$ 69	$—	$ 5,705
Foreign exchange contracts (current)	Accrued and other current liabilities	—	88	3,386	—	140	7,892
		$ 365	$ 88	$10,352	$ 69	$140	$13,597
		$1,847	$103	$26,068	$1,090	$184	$29,909

As noted above, the Company records its derivatives on a gross basis in the Consolidated Balance Sheet. The Company has master netting agreements with several of its financial institution counterparties (see *Concentrations of Credit Risk* below). The following table provides information on the Company's derivative positions subject to these master netting arrangements as if they were presented on a net basis, allowing for the right of offset by counterparty and cash collateral exchanged per the master agreements and related credit support annexes at December 31:

	2014		2013	
	Asset	Liability	Asset	Liability
Gross amounts recognized in the consolidated balance sheet	$ 1,847	$103	$1,090	$ 184
Gross amount subject to offset in master netting arrangements not offset in the consolidated balance sheet	(97)	(97)	(147)	(147)
Cash collateral (received) posted	(1,410)	—	(652)	—
Net amounts	$ 340	$ 6	$ 291	$ 37

The table below provides information on the location and pretax gain or loss amounts for derivatives that are: (i) designated in a fair value hedging relationship, (ii) designated in a foreign currency cash flow hedging relationship, (iii) designated in a foreign currency net investment hedging relationship and (iv) not designated in a hedging relationship:

Years Ended December 31	**2014**	**2013**	**2012**
Derivatives Designated in a Fair Value Hedging Relationship			
Interest rate swap contracts			
Amount of (gain) loss recognized in *Other (income) expense, net* on derivatives [1]	$ (17)	$ 12	$ —
Amount of loss (gain) recognized in *Other (income) expense, net* on hedged item [1]	14	(14)	—
Derivatives Designated in Foreign Currency Cash Flow Hedging Relationships			
Foreign exchange contracts			
Amount of (gain) loss reclassified from *AOCI* to *Sales*	(143)	45	50
Amount of (gain) loss recognized in *OCI* on derivatives	(775)	(306)	204
Derivatives Designated in Foreign Currency Net Investment Hedging Relationships			
Foreign exchange contracts			
Amount of gain recognized in *Other (income) expense, net* on derivatives[2]	(6)	(10)	(20)
Amount of gain recognized in *OCI* on derivatives	(192)	(363)	(208)
Derivatives not Designated in a Hedging Relationship			
Foreign exchange contracts			
Amount of (gain) loss recognized in *Other (income) expense, net* on derivatives[3]	(516)	183	382
Amount of loss recognized in *Sales*	15	8	30

[1] There was $3 million and $2 million of ineffectiveness on the hedge during 2014 and 2013, respectively.

[2] There was no ineffectiveness on the hedge. Represents the amount excluded from hedge effectiveness testing.

[3] These derivative contracts mitigate changes in the value of remeasured foreign currency denominated monetary assets and liabilities attributable to changes in foreign currency exchange rates.

At December 31, 2014, the Company estimates $457 million of pretax net unrealized gains on derivatives maturing within the next 12 months that hedge foreign currency denominated sales over that same period will be reclassified from *AOCI* to *Sales*. The amount ultimately reclassified to *Sales* may differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity.

17. Other Comprehensive Income (Loss)

Changes in *AOCI* by component are as follows:

	Derivatives	Investments	Employee Benefit Plans	Cumulative Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance January 1, 2012, net of taxes	$ 4	$ 21	$ (2,346)	$ (811)	$(3,132)
Other comprehensive income (loss) before reclassification adjustments, pretax	(198)	74	(1,852)	(99)	(2,075)
Tax	77	(10)	450	(81)	436
Other comprehensive income (loss) before reclassification adjustments, net of taxes	(121)	64	(1,402)	(180)	(1,639)
Reclassification adjustments, pretax	33	(13)	136	—	156
Tax	(13)	1	(55)	—	(67)
Reclassification adjustments, net of taxes	20[1]	(12)[2]	81[3]	—	89
Other comprehensive income (loss), net of taxes	(101)	52	(1,321)	(180)	(1,550)
Balance December 31, 2012, net of taxes	(97)	73	(3,667)	(991)	(4,682)
Other comprehensive income (loss) before reclassification adjustments, pretax	335	33	3,917	(383)	3,902

(continued)

	Derivatives	Investments	Employee Benefit Plans	Cumulative Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Tax	(132)	(23)	(1,365)	(100)	(1,620)
Other comprehensive income (loss) before reclassification adjustments, net of taxes	203	10	2,552	(483)	2,282
Reclassification adjustments, pretax	42	(39)	286	—	289
Tax	(16)	10	(80)	—	(86)
Reclassification adjustments, net of taxes	26[1]	(29)[2]	206[3]	—	203
Other comprehensive income (loss), net of taxes	229	(19)	2,758	(483)	2,485
Balance December 31, 2013, net of taxes	132	54	(909)[4]	(1,474)	(2,197)
Other comprehensive income (loss) before reclassification adjustments, pretax	778	48	(3,196)	(412)	(2,782)
Tax	(285)	(17)	1,067	(92)	673
Other comprehensive income (loss) before reclassification adjustments, net of taxes	493	31	(2,129)	(504)	(2,109)
Reclassification adjustments, pretax	(146)	43	62	—	(41)
Tax	51	(17)	(10)	—	24
Reclassification adjustments, net of taxes	(95)[1]	26[2]	52[3]	—	(17)
Other comprehensive income (loss), net of taxes	398	57	(2,077)	(504)	(2,126)
Balance December 31, 2014, net of taxes	$ 530	$111	$(2,986)[4]	$(1,978)	$(4,323)

[1] Relates to foreign currency cash flow hedges that were reclassified from AOCI to Sales.

[2] Represents net realized (gains) losses on the sales of available-for-sale investments that were reclassified from AOCI to Other (income) expense, net.

[3] Includes net amortization of prior service cost and actuarial gains and losses included in net periodic benefit cost (see Note 13).

[4] Includes pension plan net loss of $ (3.5) billion and $(1.7) billion at December 31, 2014 and 2013, respectively, and other postretirement benefit plan net loss of $(228) million and $(80) million at December 31, 2014 and in 2013, respectively, as well as pension plan prior service credit of $473 million and $559 million at December 31, 2014 and 2013, respectively, and other postretirement benefit plan prior service credit of $257 million and $331 million at December 31, 2014 and 2013.

CREDIT FACILITY

1.99 THE BON-TON STORES, INC. (JAN)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands, except share and per share data)	February 1, 2014	February 2, 2013
Liabilities and Shareholders' Equity (in part)		
Current liabilities:		
Accounts payable	$ 200,465	$ 193,898
Accrued payroll and benefits	28,343	32,410
Accrued expenses	150,595	165,536
Current maturities of long-term debt	7,363	75,886
Current maturities of obligations under capital leases	3,797	3,925
Deferred income taxes	22,744	20,256
Income taxes payable	—	739
Total current liabilities	413,307	492,650
Long-term debt, less current maturities	804,372	768,864
Obligations under capital leases, less current maturities	48,977	52,478
Other long-term liabilities	182,617	209,611
Total liabilities	1,449,273	1,523,603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In thousands, except share and per share data)

10. Long-Term Debt (in part)

Long-term debt consisted of the following:

	February 1, 2014	February 2, 2013
Senior secured credit facility—expires on December 12, 2018; interest payable periodically at varying rates (3.09% weighted average for 2013)	$184,879	$154,335
Senior notes—mature on March 15, 2014; interest payable each March 15 and September 15 at 10.25%	—	133,983
Second lien senior secured notes—mature on July 15, 2017; interest payable each March 15 and September 15 at 10.625%	57,292	329,998
Second lien senior secured notes—mature on June 15, 2021; interest payable each June 15 and December 15 at 8.00%	350,000	—
Mortgage loan facility—principal payable in varying monthly installments, with balance due April 1, 2016; interest payable monthly at 6.21%; secured by land and buildings	218,492	225,020
Mortgage notes payable—principal payable in varying monthly installments through June 2016; interest payable monthly at 9.62%; secured by land and buildings	1,072	1,414
Total debt	811,735	844,750
Less: current maturities	(7,363)	(75,886)
Long-term debt	$804,372	$768,864

Senior Secured Credit Facility

On March 21, 2011, The Bon-Ton Department Stores, Inc.; The Elder-Beerman Stores Corp.; Carson Pirie Scott II, Inc.; Bon-Ton Distribution, Inc.; and McRIL, LLC, as borrowers (the "Borrowers"), and the Company and certain other subsidiaries as obligors (together with the Borrowers and the Company, the "Obligors") entered into the Second Amended and Restated Loan and Security Agreement (the "Second Amended Revolving Credit Facility") with Bank of America, N.A., as Agent, and certain financial institutions as lenders that amended and restated the Company's prior revolving credit facility. The Second Amended Revolving Credit Facility initially provided for a revolving credit facility of $625,000. Unamortized deferred financing fees of $1,271 were accelerated on the date of the agreement and recognized in loss (gain) on exchange/extinguishment of debt.

On October 25, 2012, the Obligors entered into a First Amendment to the Second Amended Revolving Credit Facility, which (1) increased the borrowing limit to $675,000 and (2) increased the margins applicable to borrowings under the Tranche A-1 revolving commitments. Unamortized deferred financing fees of $202 were accelerated and recognized in loss (gain) on exchange/extinguishment of debt.

On December 12, 2013, the Obligors entered into a Second Amendment to the Second Amended Revolving Credit Facility, which, among other changes, (1) decreased the margins applicable to borrowings, (2) decreased the unused line fee, (3) extended the maturity date of the commitments under the Second Amended Revolving Credit Facility to the earlier of December 12, 2018 and a springing maturity date based on the maturity of the Company's second lien senior secured notes and any junior debt, if incurred, and (4) excluded from the calculation of such springing maturity date the Company's existing mortgage loan debt and up to $60,000 of second lien senior secured notes. Unamortized deferred financing fees of $136 were accelerated and recognized in loss (gain) on exchange/extinguishment of debt.

All borrowings under the Second Amended Revolving Credit Facility are limited by amounts available pursuant to a borrowing base calculation, which is based on percentages of eligible inventory, real estate and credit card receivables, in each case subject to reductions for applicable reserves. Under the terms of the Second Amended Revolving Credit Facility, the Borrowers are jointly and severally liable for all of the obligations incurred under the Second Amended Revolving Credit Facility and the other loan documents, which obligations are guaranteed on a joint and several basis by the Company, the other Obligors and all future domestic subsidiaries of the Obligors (subject to certain exceptions).

The borrowing limit under the Second Amended Revolving Credit Facility totals $675,000 (including a $150,000 sub-line for letters of credit and $75,000 for swing line loans). The Second Amended Revolving Credit Facility provides that the Borrowers may make requests to increase the commitments up to $900,000 in the aggregate upon the satisfaction of certain conditions, provided that the lenders are under no obligation to provide any such increases.

Borrowings under the Second Amended Revolving Credit Facility bear interest at either (1) Adjusted LIBOR (based on the British Bankers Association per annum LIBOR Rate for an interest period selected by the Borrowers) plus an applicable margin or (2) a base rate (based on the highest of (a) the Federal Funds Rate plus 0.5%, (b) the Bank of America prime rate, and (c) Adjusted LIBOR based on an interest period of one month plus 1.0%) plus the applicable margin. The applicable margin is based upon the excess availability under the Second Amended Revolving Credit Facility.

The Second Amended Revolving Credit Facility is secured by a first priority security position on substantially all of the current and future assets of the Borrowers and the other Obligors, including, but not limited to, inventory, general intangibles, trademarks, equipment, certain real estate and proceeds from any of the foregoing, subject to certain exceptions and permitted liens.

The financial covenant contained in the Second Amended Revolving Credit Facility requires that the minimum excess availability be an amount greater than or equal to the greater of (1) 10% of the lesser of: (a) the aggregate commitments at such time and (b) the aggregate borrowing base at such time and (2) $50,000. The affirmative covenants include requirements that the Obligors and their subsidiaries provide the lenders with certain financial statements, forecasts and other reports, borrowing base certificates and notices; comply with various federal, state and local rules and regulations, their organizational documents and their material contracts; maintain their properties; and take certain actions with respect to any future subsidiaries. In addition, there are certain limitations on the Obligors and their subsidiaries, including limitations on any debt the Obligors may have in addition to the existing debt, and the terms of that debt; acquisitions, joint ventures and investments; mergers and consolidations; dispositions of property; dividends by the Obligors or their subsidiaries (dividends paid may not exceed $10,000 in any year or $30,000 during the term of the agreement; however, additional dividends may be paid subject to meeting other requirements); transactions with affiliates; changes in the business or corporate structure of the Obligors or their subsidiaries; prepaying, redeeming or repurchasing certain debt; changes in accounting policies or reporting practices, unless required by generally accepted accounting principles; and speculative transactions. The Second Amended Revolving Credit Facility also provides that it is a condition precedent to borrowing that no event has occurred that could reasonably be expected to have a material adverse effect, as defined in the agreement, on the Company. If the Company fails to comply with the financial covenant or the other restrictions contained in the Second Amended Revolving Credit Facility, mortgage loan facility or the indentures that govern the second lien senior secured notes, an event of default would occur. An event of default could result in the acceleration of the Company's debt due to the cross-default provisions within the debt agreements. The borrowing base calculation under the Second Amended Revolving Credit Facility contains an inventory advance rate subject to periodic review at the lenders' discretion.

As of February 1, 2014, the Company had borrowings of $184,879 under the Second Amended Revolving Credit Facility, with $419,201 of borrowing availability (before taking into account the minimum borrowing availability covenant under this facility) and letter-of-credit commitments of $3,543.

Fair Value

RECOGNITION AND MEASUREMENT

1.100 FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. *Fair value* is defined as an exit price (that is, a price that would be received to sell, versus acquire, an asset or transfer a liability in an orderly transaction between market participants at the measurement date). Further, fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs.

1.101 FASB ASC 820-10-35-10 A provides that a fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. FASB ASC 820-10-35-10B states that the highest and best use for a nonfinancial asset takes into account the use of the asset that is physically possible, legally permissible, and financial feasible. FASB ASC 820-10-35-10E states that the highest and best use of a nonfinancial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities. The highest and best use of a nonfinancial asset is determined from the perspective of market participants, even if the reporting entity intends a different use. Because the highest and best use of the asset is determined based on its use by market participants, the fair value measurement considers the assumptions that market participants would use in pricing the asset, whether using an in-use or an in-exchange valuation premise.

1.102 According to paragraphs 16–16AA of FASB ASC 820-10-35, a fair value measurement of a financial or nonfinancial liability or an instrument classified in a reporting entity's shareholders' equity is transferred to a market participant at the measurement date. Even when there is no observable market to provide pricing information about the transfer of a liability or an instrument classified in a reporting entity's shareholders' equity, there might be an observable market for such items if they are held by other parties as assets. In all cases, a reporting entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of a fair value measurement. A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of "Pending Content" in paragraph 4 of FASB ASC 820-10-15 using the net asset value per share (or its equivalent) of the investment if the net asset value per share or its equivalent is calculated in a manner consistent with the measurement principles of FASB ASC 946, *Financial Services—Investment Companies*, as of the reporting entity's measurement date.

DISCLOSURE

1.103 For assets and liabilities measured at fair value, whether on a recurring or nonrecurring basis, FASB ASC 820-10-50 specifies the required disclosures concerning the inputs used to measure fair value. FASB ASC 820-10-50–1 explains that the reporting entity should disclose information that enables users of its financial statements to assess the following: (*a*) for assets and liabilities measured at fair value on a recurring basis in periods subsequent to initial recognition or measured on a nonrecurring basis in periods subsequent to initial recognition, the valuation techniques and inputs used to develop those measurements; and (*b*) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings for the period.

PRESENTATION AND DISCLOSURE EXCERPT

FAIR VALUE MEASUREMENTS

1.104 GENERAL ELECTRIC COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Basis of Presentation and Summary of Significant Accounting Policies (in part)

Investment Securities

We report investments in debt and marketable equity securities, and certain other equity securities, at fair value. See Note 21 for further information on fair value. Unrealized gains and losses on available-for-sale investment securities are included in shareowners ' equity, net of applicable taxes and other adjustments. We regularly review investment securities for impairment using both quantitative and qualitative criteria.

For debt securities, if we do not intend to sell the security or it is not more likely than not that we will be required to sell the security before recovery of our amortized cost, we evaluate other qualitative criteria to determine whether we do not expect to recover the amortized cost basis of the security, such as the financial health of and specific prospects for the issuer, including whether the issuer is in compliance with the terms and covenants of the security. We also evaluate quantitative criteria including determining whether there has been an adverse change in expected future cash flows. If we do not expect to recover the entire amortized cost basis of the security, we consider the security to be other-than-temporarily impaired, and we record the difference between the security ' s amortized cost basis and its recoverable amount in earnings and the difference between the security ' s recoverable amount and fair value in other comprehensive income. If we intend to sell the security or it is more likely than not we will be required to sell the security before recovery of its amortized cost basis, the security is also considered other-than-temporarily impaired and we recognize the entire difference between the security ' s amortized cost basis and its fair value in earnings. For equity securities, we consider the length of time and magnitude of the amount that each security is in an unrealized loss position. If we do not expect to recover the entire amortized cost basis of the security, we consider the security to be other-than-temporarily impaired, and we record the difference between the security's amortized cost basis and its fair value in earnings.

Realized gains and losses are accounted for on the specific identification method. Unrealized gains and losses on investment securities classified as trading and certain retained interests are included in earnings.

Fair Value Measurements

For financial assets and liabilities measured at fair value on a recurring basis, fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3—Significant inputs to the valuation model are unobservable.

We maintain policies and procedures to value instruments using the best and most relevant data available. In addition, we have risk management teams that review valuation, including independent price validation for certain instruments. With regard to Level 3 valuations (including instruments valued by third parties), we perform a variety of procedures to assess the reasonableness of the valuations. Such reviews, which may be performed quarterly, monthly or weekly, include an evaluation of instruments whose fair value change exceeds predefined thresholds (and/or does not change) and consider the current interest rate, currency and credit environment, as well as other published data, such as rating agency market reports and current appraisals. These reviews are performed within each business by the asset and risk managers, pricing committees and valuation committees. A detailed review of methodologies and assumptions is performed by individuals independent of the business for individual measurements with a fair value exceeding predefined thresholds. This detailed review may include the use of a third-party valuation firm.

Recurring Fair Value Measurements

The following sections describe the valuation methodologies we use to measure different financial instruments at fair value on a recurring basis.

Investments in Debt and Equity Securities. When available, we use quoted market prices to determine the fair value of investment securities, and they are included in Level 1. Level 1 securities primarily include publicly traded equity securities.

For large numbers of investment securities for which market prices are observable for identical or similar investment securities but not readily accessible for each of those investments individually (that is, it is difficult to obtain pricing information for each individual investment security at the measurement date), we obtain pricing information from an independent pricing vendor. The pricing vendor uses various pricing models for each asset class that are consistent with what other market participants would use. The inputs and assumptions to the model of the pricing vendor are derived from market observable sources including: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market-related data. Since many fixed income securities do not trade on a daily basis, the methodology of the pricing vendor uses available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. The pricing vendor considers available market observable inputs in determining the evaluation for a security. Thus, certain securities may not be priced using quoted prices, but rather determined from market observable information. These investments are included in Level 2 and primarily comprise our portfolio of corporate fixed income, and government, mortgage and asset-backed securities. In infrequent circumstances, our pricing vendors may provide us with valuations that are based on significant unobservable inputs, and in those circumstances we classify the investment securities in Level 3.

Annually, we conduct reviews of our primary pricing vendor to validate that the inputs used in that vendor's pricing process are deemed to be market observable as defined in the standard. While we are not provided access to proprietary models of the vendor, our reviews have included on-site walk-throughs of the pricing process, methodologies and control procedures for each asset class and level for which prices are provided. Our reviews also include an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process we perform each reporting period. In addition, the pricing vendor has an established challenge process in place for all security valuations, which facilitates identification and resolution of potentially erroneous prices. We believe that the prices received from our pricing vendor are representative of prices that would be received to sell the assets at the measurement date (exit prices) and are classified appropriately in the hierarchy.

We use non-binding broker quotes and other third-party pricing services as our primary basis for valuation when there is limited, or no, relevant market activity for a specific instrument or for other instruments that share similar characteristics. We have not adjusted the prices we have obtained. Investment securities priced using non-binding broker quotes and other third-party pricing services are included in Level 3. As is the case with our primary pricing vendor, third-party brokers and other third-party pricing services do not provide access to their proprietary valuation models, inputs and assumptions. Accordingly, our risk management personnel conduct reviews of vendors, as applicable, similar to the reviews performed of our primary pricing vendor. In addition, we conduct internal reviews of pricing for all such investment securities quarterly to ensure reasonableness of valuations used in our financial statements. These reviews are designed to identify prices that appear stale, those that have changed significantly from prior valuations, and other anomalies that may indicate that a price may not be accurate. Based on the information available, we believe that the fair values provided by the brokers and other third-party pricing services are representative of prices that would be received to sell the assets at the measurement date (exit prices).

Derivatives. We use closing prices for derivatives included in Level 1, which are traded either on exchanges or liquid over-the-counter markets.

The majority of our derivatives are valued using internal models. The models maximize the use of market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities. Derivative assets and liabilities included in Level 2 primarily represent interest rate swaps, cross-currency swaps and foreign currency and commodity forward and option contracts.

Derivative assets and liabilities included in Level 3 primarily represent equity derivatives and interest rate products that contain embedded optionality or prepayment features.

Non-Recurring Fair Value Measurements

Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances. These assets can include loans and long-lived assets that have been reduced to fair value when they are held for sale, impaired loans that have been reduced based on the fair value of the underlying collateral, cost and equity method investments and long-lived assets that are written down to fair value when they are impaired and the remeasurement of retained investments in formerly consolidated subsidiaries upon a change in control that results in deconsolidation of a subsidiary, if we sell a controlling interest and retain a noncontrolling stake in the entity. Assets that are written down to fair value when impaired and retained investments are not subsequently adjusted to fair value unless further impairment occurs.

The following sections describe the valuation methodologies we use to measure financial and non-financial instruments accounted for at fair value on a non-recurring basis and for certain assets within our pension plans and retiree benefit plans at each reporting period, as applicable.

Financing Receivables and Loans Held for Sale. When available, we use observable market data, including pricing on recent closed market transactions, to value loans that are included in Level 2. When this data is unobservable, we use valuation methodologies using current market interest rate data adjusted for inherent credit risk, and such loans are included in Level 3. When appropriate, loans may be valued using collateral values (see Long-Lived Assets below).

Cost and Equity Method Investments. Cost and equity method investments are valued using market observable data such as quoted prices when available. When market observable data is unavailable, investments are valued using a discounted cash flow model, comparative market multiples or a combination of both approaches as appropriate and other third-party pricing sources. These investments are generally included in Level 3.

Investments in private equity, real estate and collective funds are valued using net asset values. The net asset values are determined based on the fair values of the underlying investments in the funds. Investments in private equity and real estate funds are generally included in Level 3 because they are not redeemable at the measurement date. Investments in collective funds are included in Level 2.

Long-lived Assets, including Real Estate . Fair values of long-lived assets, including aircraft and real estate, are primarily derived internally and are based on observed sales transactions for similar assets. In other instances, for example, collateral types for which we do not have comparable observed sales transaction data, collateral values are developed internally and corroborated by external appraisal information. Adjustments to third-party valuations may be performed in circumstances where market comparables are not specific to the attributes of the specific collateral or appraisal information may not be reflective of current market conditions due to the passage of time and the occurrence of market events since receipt of the information. For real estate, fair values are based on discounted cash flow estimates that reflect current and projected lease profiles and available industry information about capitalization rates and expected trends in rents and occupancy and are corroborated by external appraisals. These investments are generally included in Level 2 or Level 3.

Retained Investments in Formerly Consolidated Subsidiaries. Upon a change in control that results in deconsolidation of a subsidiary, the fair value measurement of our retained noncontrolling stake is valued using market observable data such as quoted prices when available, or if not available, an income approach, a market approach, or a combination of both approaches as appropriate. In applying these methodologies, we rely on a number of factors, including actual operating results, future business plans, economic projections, market observable pricing multiples of similar businesses and comparable transactions, and possible control premium. These investments are generally included in Level 1 or Level 3, as appropriate, determined at the time of the transaction.

Accounting Changes (in part)

On January 1, 2012, we adopted ASU 2011-04, an amendment to ASC 820, *Fair Value Measurements*. ASU 2011-04 clarifies or changes the application of existing fair value measurements, including: that the highest and best use valuation premise in a fair value measurement is relevant only when measuring the fair value of nonfinancial assets; that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; that in the absence of a Level 1 input, a reporting entity should apply premiums and discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; and that premiums and discounts related to size as a characteristic of the reporting entity's holding are not permitted in a fair value measurement. Adopting these amendments had no effect on the financial statements.

Note 3. Investment Securities

Substantially all of our investment securities are classified as available-for-sale. These comprise mainly investment-grade debt securities supporting obligations to annuitants, policyholders in our run-off insurance operations and supporting obligations to holders of guaranteed investment contracts (GICs) in Trinity and investments held in our CLL business collateralized by senior secured loans of high-quality, middle-market companies in a variety of industries. We do not have any securities classified as held-to-maturity.

	2014				2013			
December 31	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
(In millions)								
GE								
Debt								
U.S. corporate	$ 12	$ —	$ —	$ 12	$ 21	$ 14	$ —	$ 35
Corporate—non-U.S.	1	—	—	1	13	—	(1)	12
Equity								
Available-for-sale	69	4	(2)	71	302	9	(41)	270
Trading	—	—	—	—	6	—	—	6
	82	4	(2)	84	342	23	(42)	323
GECC								
Debt								
U.S. corporate	19,889	3,967	(69)	23,787	19,600	2,323	(217)	21,706
State and municipal	5,181	624	(56)	5,749	4,245	235	(191)	4,289
Residential mortgage-backed[a]	1,578	153	(6)	1,725	1,819	139	(48)	1,910
Commercial mortgage-backed	2,903	170	(10)	3,063	2,929	188	(82)	3,035
Asset-backed	8,084	9	(175)	7,918	7,373	60	(46)	7,387
Corporate—non-U.S.	1,380	126	(30)	1,476	1,741	103	(86)	1,758
Government—non-U.S.	1,646	152	(2)	1,796	2,336	81	(7)	2,410
U.S. government and federal agency	1,957	56	—	2,013	752	45	(27)	770
Retained interests	20	4	—	24	64	8	—	72
Equity								
Available-for-sale	197	58	(1)	254	203	51	(3)	251
Trading	22	—	—	22	74	—	—	74
	42,857	5,319	(349)	47,827	41,136	3,233	(707)	43,662
Eliminations	(4)	—	—	(4)	(4)	—	—	(4)
Total	$42,935	$5,323	$(351)	$47,907	$41,474	$3,256	$(749)	$43,981

[a] Substantially collateralized by U.S. mortgages. At December 31, 2014, $1,191 million related to securities issued by government-sponsored entities and $534 million related to securities of private-label issuers. Securities issued by private-label issuers are collateralized primarily by pools of individual direct mortgage loans of financial institutions.

The fair value of investment securities increased to $47,907 million at December 31, 2014, from $43,981 million at December 31, 2013, primarily due to purchases of U.S. government and federal agency securities at Synchrony Financial, and higher net unrealized gains in U.S. corporate and State and municipal securities driven by lower interest rates in the U.S.

Estimated Fair Value and Gross Unrealized Losses of Available-For-Sale Investment Securities

	In Loss Position For			
	Less Than 12 Months		12 Months or More	
(In millions) ***December 31***	**Estimated Fair Value[a]**	**Gross Unrealized Losses[b]**	**Estimated Fair Value**	**Gross Unrealized Losses[b]**
2014				
Debt				
U.S. corporate	$ 554	$ (16)	$ 836	$ (53)
State and municipal	81	(1)	348	(55)
Residential mortgage-backed	30	—	159	(6)
Commercial mortgage-backed	165	(1)	204	(9)
Asset-backed	7,493	(158)	77	(17)
Corporate—non-U.S.	42	(1)	237	(29)
Government—non-U.S.	677	(2)	14	—
U.S. government and federal agency	705	—	1	—
Equity	18	(3)	—	—
Total	$9,765	$(182)	$1,876	$(169)[c]

(continued)

	In Loss Position For			
	Less Than 12 Months		12 Months or More	
(In millions) *December 31*	Estimated Fair Value[a]	Gross Unrealized Losses[b]	Estimated Fair Value	Gross Unrealized Losses[b]
2013				
Debt				
U.S. corporate	$2,170	$(122)	$ 598	$ (95)
State and municipal	1,076	(82)	367	(109)
Residential mortgage-backed	232	(11)	430	(37)
Commercial mortgage-backed	396	(24)	780	(58)
Asset-backed	112	(2)	359	(44)
Corporate—non-U.S.	108	(4)	454	(83)
Government—non-U.S.	1,479	(6)	42	(1)
U.S. government and federal agency	229	(27)	254	—
Retained interests	2	—	—	—
Equity	253	(44)	—	—
Total	$6,057	$(322)	$3,284	$(427)

[a] Includes the estimated fair value of and gross unrealized losses on Corporate-non-U.S. and Equity securities held by GE. At December 31, 2014, there were no Corporate-non-U.S. securities held by GE in a loss position. At December 31, 2014, the estimated fair value of and gross unrealized losses on Equity securities were $4 million and $(2) million, respectively. At December 31, 2013, the estimated fair value of and gross unrealized losses on Corporate-non-U.S. securities were $12 million and $(1) million, respectively. At December 31, 2013 the estimated fair value of and gross unrealized losses on Equity securities were $222 million and $(41) million, respectively.

[b] Included gross unrealized losses related to securities that had other-than-temporary impairments previously recognized of $29 million at December 31, 2014.

[c] The majority relate to debt securities held to support obligations to holders of GICs and more than 70% are debt securities that were considered to be investment-grade by the major rating agencies at December 31, 2014.

We regularly review investment securities for other-than-temporary impairment (OTTI) using both qualitative and quantitative criteria. For debt securities, our qualitative review considers our ability and intent to hold the security and the financial condition of and near-term prospects for the issuer, including whether the issuer is in compliance with the terms and covenants of the security. Our quantitative review considers whether there has been an adverse change in expected future cash flows. Unrealized losses are not indicative of the amount of credit loss that would be recognized and at December 31, 2014 are primarily due to increases in market yields subsequent to our purchase of the securities. We presently do not intend to sell the vast majority of our debt securities that are in an unrealized loss position and believe that it is not more likely than not that we will be required to sell the vast majority of these securities before anticipated recovery of our amortized cost. The methodologies and significant inputs used to measure the amount of credit loss for our investment securities during 2014 have not changed. For equity securities, we consider the duration and the severity of the unrealized loss. We believe that the unrealized loss associated with our equity securities will be recovered within the foreseeable future.

Our corporate debt portfolio comprises securities issued by public and private corporations in various industries, primarily in the U.S. Substantially all of our corporate debt securities are rated investment grade by the major rating agencies.

Our RMBS portfolio is collateralized primarily by pools of individual, direct mortgage loans, of which substantially all are in a senior position in the capital structure of the deals, not other structured products such as collateralized debt obligations. Of the total RMBS held at December 31, 2014, $1,191 million and $534 million related to agency and non-agency securities, respectively. Additionally, $287 million was related to residential subprime credit securities, primarily supporting our guaranteed investment contracts. Substantially all of the subprime exposure is related to securities backed by mortgage loans originated in 2006 and prior. A majority of subprime RMBS have been downgraded to below investment grade and are insured by Monoline insurers (Monolines). We continue to place partial reliance on Monolines with adequate capital and claims paying resources depending on the extent of the Monoline's anticipated ability to cover expected credit losses.

Our commercial mortgage-backed securities (CMBS) portfolio is collateralized by both diversified pools of mortgages that were originated for securitization (conduit CMBS) and pools of large loans backed by high-quality properties (large loan CMBS), a majority of which were originated in 2007 and prior. The vast majority of the securities in our CMBS portfolio have investment-grade credit ratings.

Our asset-backed securities (ABS) portfolio is collateralized by senior secured loans of high-quality, middle-market companies in a variety of industries, as well as a variety of diversified pools of assets such as student loans and credit cards. The vast majority of the securities in our ABS portfolio are in a senior position in the capital structure of the deals.

Pre-Tax, Other-Than-Temporary Impairments On Investment Securities

(In millions)	2014	2013	2012
Total pre-tax, OTTI recognized	$407	$798	$193
Pre-tax, OTTI recognized in AOCI	(16)	(31)	(52)
Pre-tax, OTTI recognized in earnings[a]	$391	$767	$141

[a] Included pre-tax, other-than-temporary impairments recorded in earnings related to equity securities of $221 million, $15 million and $39 million in 2014, 2013, and 2012, respectively.

Changes In Cumulative Credit Loss Impairments Recognized On Debt Securities Still Held

(In millions)	2014	2013	2012
Cumulative credit loss impairments recognized, beginning of period	$1,193	$ 588	$ 747
Credit loss impairments recognized on securities not previously impaired	4	389	27
Incremental credit loss impairments recognized on securities previously impaired	77	336	40
Less credit loss impairments previously recognized on securities sold during the period or that we intend to sell	304	120	226
Cumulative credit loss impairments recognized, end of period	$ 970	$1,193	$ 588

Contractual Maturities Of Investment In Available-For-Sale Debt Securities (Excluding Mortgage-Backed And Asset-Backed Securities)

(In millions)	Amortized Cost	Estimated Fair Value
Due		
Within one year	$ 2,478	$ 2,492
After one year through five years	3,521	3,768
After five years through ten years	5,285	5,686
After ten years	18,782	22,888

We expect actual maturities to differ from contractual maturities because borrowers have the right to call or prepay certain obligations.

Gross Realized Gains And Losses On Available-For-Sale Investment Securities

(In millions)	2014	2013	2012
GE			
Gains	$ 3	$ 1	$ —
Losses, including impairments	(218)	(20)	(1)
Net	(215)	(19)	(1)
GECC			
Gains	169	239	177
Losses, including impairments	(186)	(762)	(211)
Net	(17)	(523)	(34)
Total	$(232)	$(542)	$ (35)

Although we generally do not have the intent to sell any specific securities at the end of the period, in the ordinary course of managing our investment securities portfolio, we may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield and liquidity requirements and the funding of claims and obligations to policyholders. In some of our bank subsidiaries, we maintain a certain level of purchases and sales volume principally of non-U.S. government debt securities. In these situations, fair value approximates carrying value for these securities.

Proceeds from investment securities sales and early redemptions by issuers totaled $6,549 million, $19,276 million and $12,745 million in 2014, 2013 and 2012 respectively, principally from sales of short-term government securities in our bank subsidiaries and redemptions of non-U.S. corporate and asset-backed securities in our CLL business. The 2013 amount also included proceeds from the sale of Comcast guaranteed debt and short-term securities in our Treasury operations.

We recognized pre-tax gains (losses) on trading securities of $10 million, $48 million and $20 million in 2014, 2013 and 2012, respectively.

Note 21. Fair Value Measurements

Recurring Fair Value Measurements

Our assets and liabilities measured at fair value on a recurring basis include investment securities primarily supporting obligations to annuitants and policyholders in our run-off insurance operations and supporting obligations to holders of GICs in Trinity and investment securities held in our CLL business collateralized by senior secured loans of high-quality, middle-market companies in a variety of industries.

Assets And Liabilities Measured At Fair Value On A Recurring Basis

(In millions)	Level 1[a]	Level 2[a]	Level 3	Netting Adjustment[b]	Net Balance
December 31, 2014					
Assets					
Investment securities					
Debt					
U.S. corporate	$ —	$20,659	$ 3,140	$ —	$23,799
State and municipal	—	5,171	578	—	5,749
Residential mortgage-backed	—	1,709	16	—	1,725
Commercial mortgage-backed	—	3,054	9	—	3,063
Asset-backed[c]	—	343	7,575	—	7,918
Corporate—non-U.S.	—	681	796	—	1,477
Government—non-U.S.	56	1,738	2	—	1,796
U.S. government and federal agency	—	1,747	266	—	2,013
Retained interests	—	—	24	—	24
Equity					
Available-for-sale	293	19	9	—	321
Trading	20	2	—	—	22
Derivatives[d]	—	10,038	144	(7,605)	2,577
Other[e]	—	—	324	—	324
Total	$ 369	$45,161	$12,883	$(7,605)	$50,808
Liabilities					
Derivatives	$ —	$ 4,971	$ 18	$(4,407)	$ 582
Other[f]	—	1,180	—	—	1,180
Total	$ —	$ 6,151	$ 18	$(4,407)	$ 1,762
December 31, 2013					
Assets					
Investment securities					
Debt					
U.S. corporate	$ —	$18,788	$2,953	$ —	$21,741
State and municipal	—	4,193	96	—	4,289
Residential mortgage-backed	—	1,824	86	—	1,910
Commercial mortgage-backed	—	3,025	10	—	3,035
Asset-backed(c)	—	489	6,898	—	7,387
Corporate—non-U.S.	61	645	1,064	—	1,770
Government—non-U.S.	1,590	789	31	—	2,410
U.S. government and federal agency	—	545	225	—	770
Retained interests	—	—	72	—	72
Equity					
Available-for-sale	475	31	11	—	517
Trading	78	2	—	—	80
Derivatives[d]	—	8,304	175	(6,739)	1,740
Other[e]	—	—	494	—	494
Total	$2,204	$38,635	$12,115	$(6,739)	$46,215
Liabilities					
Derivatives	$ —	$ 5,409	$20	$(4,355)	$1,074
Other[f]	—	1,170	—	—	1,170
Total	$ —	$ 6,579	$ 20	$(4,355)	$ 2,244

[a] Included $487 million of Government—non-U.S. and $13 million of Corporate—non-U.S. available-for-sale debt securities transferred from Level 1 to Level 2 primarily attributable to changes in market observable data during 2014. The fair value of securities transferred between Level 1 and Level 2 was $2 million during 2013.

[b] The netting of derivative receivables and payables (including the effects of any collateral posted or received) is permitted when a legally enforceable master netting agreement exists.

[c] Includes investments in our CLL business in asset-backed securities collateralized by senior secured loans of high-quality, middle-market companies in a variety of industries.

[d] The fair value of derivatives includes an adjustment for non-performance risk. The cumulative adjustment was a gain (loss) of $9 million and $(7) million at December 31, 2014 and 2013, respectively. See Note 22 for additional information on the composition of our derivative portfolio.

[e] Includes private equity investments and loans designated under the fair value option.

[f] Primarily represented the liability associated with certain of our deferred incentive compensation plans.

Level 3 Instruments

The majority of our Level 3 balances consist of investment securities classified as available-for-sale with changes in fair value recorded in shareowners' equity.

Changes In Level 3 Instruments For The Years Ended December 31, 2014 And 2013

(In millions)	Balance at January 1	Net Realized/ Unrealized Gains (Losses) Included in Earnings[a]	Net Realized/ Unrealized Gains (Losses) Included in AOCI	Pur-chases	Sales	Settle-ments	Transfers Into Level 3[b]	Transfers Out of Level 3[b]	Balance at December 31	Net Change in Unrealized Gains (Losses) Relating to Instruments Still Held at December 31[c]
2014										
Investment securities										
Debt										
U.S. corporate	$ 2,953	$ 22	$121	$ 550	$ (234)	$ (284)	$175	$(163)	$ 3,140	$ —
State and municipal	96	—	38	18	(36)	(10)	472	—	578	—
RMBS	86	—	2	—	(16)	(9)	—	(47)	16	—
CMBS	10	—	—	—	—	(3)	2	—	9	—
ABS	6,898	3	(206)	2,249	—	(1,359)	—	(10)	7,575	—
Corporate—non-U.S.	1,064	30	3	1,019	(269)	(1,033)	1	(19)	796	—
Government—non-U.S.	31	—	—	—	—	—	2	(31)	2	—
U.S. government and federal agency	225	—	34	—	—	—	9	(2)	266	—
Retained interests	72	29	(4)	3	(66)	(10)	—	—	24	—
Equity										
Available-for-sale	11	—	—	2	(2)	—	—	(2)	9	—
Derivatives[d][e]	164	60	1	5	—	(93)	2	(1)	138	(26)
Other	494	86	—	646	(617)	(6)	—	(279)	324	73
Total	$12,104	$230	$(11)	$4,492	$(1,240)	$(2,807)	$663	$(554)	$12,877	$ 47
2013										
Investment securities										
Debt										
U.S. corporate	$ 3,591	$(497)	$135	$ 380	$ (424)	$ (231)	$108	$(109)	$2,953	$ —
State and municipal	77	—	(7)	21	—	(5)	10	—	96	—
RMBS	100	—	(5)	—	(2)	(7)	—	—	86	—
CMBS	6	—	—	—	—	(6)	10	—	10	—
ABS	5,023	5	32	2,632	(4)	(795)	12	(7)	6,898	—
Corporate—non-U.S.	1,218	(103)	49	5,814	(3)	(5,874)	21	(58)	1,064	—
Government—non-U.S.	42	1	(12)	—	—	—	—	—	31	—
U.S. government and federal agency	277	—	(52)	—	—	—	—	—	225	—
Retained interests	83	3	1	6	—	(21)	—	—	72	—
Equity										
Available-for-sale	13	—	—	—	—	—	—	(2)	11	—
Derivatives[d][e]	416	43	2	(2)	—	(335)	37	3	164	(30)
Other	799	(68)	12	538	(779)	—	4	(12)	494	(102)
Total	$11,645	$(616)	$155	$9,389	$(1,212)	$(7,274)	$202	$(185)	$12,104	$(132)

[a] Earnings effects are primarily included in the "GECC revenues from services" and "Interest and other financial charges" captions in the Statement of Earnings.

[b] Transfers in and out of Level 3 are considered to occur at the beginning of the period. Transfers out of Level 3 were primarily a result of increased use of quotes from independent pricing vendors based on recent trading activity.

[c] Represents the amount of unrealized gains or losses for the period included in earnings.

[d] Represents derivative assets net of derivative liabilities and included cash accruals of $12 million and $9 million not reflected in the fair value hierarchy table during 2014 and 2013, respectively.

[e] Gains (losses) included in net realized/unrealized gains (losses) included in earnings were offset by the earnings effects from the underlying items that were economically hedged. See Note 22.

Non-Recurring Fair Value Measurements

The following table represents non-recurring fair value amounts (as measured at the time of the adjustment) for those assets remeasured to fair value on a non-recurring basis during the fiscal year and still held at December 31, 2014 and 2013.

	Remeasured During the Years Ended December 31			
	2014		2013	
(In millions)	Level 2	Level 3	Level 2	Level 3
Financing receivables and loans held for sale	$ 49	$1,430	$ 210	$2,986
Cost and equity method investments[a]	11	404	—	690
Long-lived assets, including real estate	364	1,253	2,050	1,088
Total	$424	$3,087	$2,260	$4,764

The following table represents the fair value adjustments to assets measured at fair value on a non-recurring basis and still held at December 31, 2014 and 2013.

	Years Ended December 31	
(In millions)	2014	2013
Financing receivables and loans held for sale	$ (317)	$ (361)
Cost and equity method investments	(388)	(484)
Long-lived assets, including real estate	(794)	(1,188)
Total	$(1,499)	$(2,033)

Level 3 Measurements—Significant Unobservable Inputs

(Dollars in millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
December 31, 2014				
Recurring fair value measurements				
Investment securities—Debt				
U.S. corporate	$ 980	Income approach	Discount rate[a]	1.5%–14.8% (6.6%)
State and municipal	481	Income approach	Discount rate[a]	1.9%–5.9% (2.8%)
Asset-backed	7,554	Income approach	Discount rate[a]	2.2%–12.4% (5.0%)
Corporate—non-U.S.	724	Income approach	Discount rate[a]	0.4%–14.7% (7.6%)
Other financial assets	165	Income approach, Market comparables	EBITDA multiple	5.4X–9.1X (7.7X)
			Discount rate[a]	4.2%–4.7% (4.3%)
			Capitalization rate[b]	6.5%–7.8% (7.7%)
Non-recurring fair value measurements				
Financing receivables and loans held for sale	$ 666	Income approach, Business enterprise value	Capitalization rate[b]	6.9%–11.0% (7.8%)
			EBITDA multiple	4.3X–6.5X (6.2X)
Cost and equity method investments	346	Income approach, Business enterprise value, Market comparables	Discount rate[a]	8.0%–10.0% (9.4%)
			Capitalization rate[b]	6.4%–6.4% (6.4%)
			EBITDA multiple	1.8X–10.5X (7.0X)
Long-lived assets, including real estate	932	Income approach	Capitalization rate[b]	6.3%–15.3% (6.8%)
			Discount rate[a]	2.0%–19.0% (6.8%)
December 31, 2013				
Recurring fair value measurements				
Investment securities—Debt				
U.S. corporate	$ 898	Income approach	Discount rate[a]	1.5%–13.3% (6.5%)
Asset-backed	6,854	Income approach	Discount rate[a]	1.2%–10.5% (3.7%)
Corporate—non-U.S.	819	Income approach	Discount rate[a]	1.4%–46.0% (15.1%)
Other financial assets	381	Income approach, Market comparables	WACC[c]	9.3%–9.3% (9.3%)
			EBITDA multiple	5.4X–12.5X (9.5X)
			Discount rate[a]	5.2%–8.8% (5.3%)
			Capitalization rate[b]	6.3%–7.5% (7.2%)
Non-recurring fair value measurements				
Financing receivables and loans held for sale	$1,937	Income approach, Business enterprise value	Capitalization rate[b]	5.5%–16.7% (8.0%)
			EBITDA multiple	4.3X–5.5X (4.8X)
			Discount rate[a]	6.6%–6.6% (6.6%)
Cost and equity method investments	102	Income approach, Market comparables	Discount rate[a]	5.7%–5.9% (5.8%)
			Capitalization rate[b]	8.5%–10.6% (10.0%)
			WACC[c]	9.3%–9.6% (9.4%)
			EBITDA multiple	7.1X–14.5X (11.3X)
			Revenue multiple	2.2X–12.6X (9.4X)
Long-lived assets, including real estate	694	Income approach	Capitalization rate[b]	5.4%–14.5% (7.8%)
			Discount rate[a]	4.0%–23.0% (9.0%)

[a] Discount rates are determined based on inputs that market participants would use when pricing investments, including credit and liquidity risk. An increase in the discount rate would result in a decrease in the fair value.

[b] Represents the rate of return on net operating income that is considered acceptable for an investor and is used to determine a property's capitalized value. An increase in the capitalization rate would result in a decrease in the fair value.

[c] Weighted average cost of capital (WACC).

At December 31, 2014 and 2013, other Level 3 recurring fair value measurements of $2,694 million and $2,816 million, respectively, and non-recurring measurements of $1,035 million and $1,460 million, respectively, are valued using non-binding broker quotes or other third-party sources. At December 31, 2014 and 2013, other recurring fair value measurements of $267 million and $327 million, respectively, and non-recurring fair value measurements of $108 million and $571 million, respectively, were individually insignificant and utilize a number of different unobservable inputs not subject to meaningful aggregation.

Note 22. Financial Instruments

The following table provides information about assets and liabilities not carried at fair value. The table excludes finance leases and non-financial assets and liabilities. Substantially all of the assets discussed below are considered to be Level 3. The vast majority of our liabilities' fair value can be determined based on significant observable inputs and thus considered Level 2. Few of the instruments are actively traded and their fair values must often be determined using financial models. Realization of the fair value of these instruments depends upon market forces beyond our control, including marketplace liquidity.

	2014			2013		
		Assets (liabilities)			Assets (liabilities)	
(In millions) **December 31**	**Notional Amount**	**Carrying Amount (Net)**	**Estimated Fair Value**	**Notional Amount**	**Carrying Amount (Net)**	**Estimated Fair Value**
GE						
Assets						
Investments and notes receivable	$ [(a)]	$ 502	$ 551	$ [(a)]	$ 488	$ 512
Liabilities						
Borrowings[(b)]	[(a)]	(16,340)	(17,503)	[(a)]	(13,356)	(13,707)
GECC						
Assets						
Loans	[(a)]	212,719	217,662	[(a)]	226,293	230,792
Other commercial mortgages	[(a)]	3,520	3,600	[(a)]	2,270	2,281
Loans held for sale	[(a)]	1,801	1,826	[(a)]	512	512
Other financial instruments[(c)]	[(a)]	691	1,015	[(a)]	1,622	2,203
Liabilities						
Borrowings and bank deposits[(b)(d)]	[(a)]	(349,548)	(366,256)	[(a)]	(371,062)	(386,823)
Investment contract benefits	[(a)]	(2,970)	(3,565)	[(a)]	(3,144)	(3,644)
Guaranteed investment contracts	[(a)]	(1,000)	(1,031)	[(a)]	(1,471)	(1,459)
Insurance—credit life[(e)]	1,843	(90)	(77)	2,149	(108)	(94)

[(a)] These financial instruments do not have notional amounts.

[(b)] See Note 10.

[(c)] Principally comprises cost method investments.

[(d)] Fair values exclude interest rate and currency derivatives designated as hedges of borrowings. Had they been included, the fair value of borrowings at December 31, 2014 and 2013 would have been reduced by $5,020 million and $2,284 million, respectively.

[(e)] Net of reinsurance of $964 million and $1,250 million at December 31, 2014 and 2013, respectively.

A description of how we estimate fair values follows:

Loans. Based on a discounted future cash flows methodology, using current market interest rate data adjusted for inherent credit risk or quoted market prices and recent transactions, if available.

Borrowings and bank deposits. Based on valuation methodologies using current market interest rate data that are comparable to market quotes adjusted for our non-performance risk.

Investment contract benefits. Based on expected future cash flows, discounted at currently offered rates for immediate annuity contracts or the income approach for single premium deferred annuities.

Guaranteed investment contracts. Based on valuation methodologies using current market interest rate data, adjusted for our non-performance risk.

Insurance—credit life. Certain insurance affiliates, primarily in Consumer, issue credit life insurance designed to pay the balance due on a loan if the borrower dies before the loan is repaid. As part of our overall risk management process, we cede to third parties a portion of this associated risk, but are not relieved of our primary obligation to the policy holders.

All other instruments. Based on observable market transaction and/or valuation methodologies using current market interest rate data adjusted for inherent credit risk.

Assets and liabilities that are reflected in the accompanying financial statements at fair value are not included in the above disclosures; such items include cash and equivalents, investment securities and derivative financial instruments.

Additional information about Notional Amounts of Loan Commitments follows.

Notional Amounts Of Loan Commitments

December 31 (In millions)	**2014**	**2013**
Ordinary course of business lending commitments[a]	$ 4,282	$ 4,756
Unused revolving credit lines[b]		
Commercial[c]	14,681	16,570
Consumer—principally credit cards	306,188	290,662

[a] Excluded investment commitments of $980 million and $1,395 million at December 31, 2014 and 2013, respectively.

[b] Excluded amounts related to inventory financing arrangements, which may be withdrawn at our option, of $15,041 million and $13,502 million at December 31, 2014 and 2013, respectively.

[c] Included amounts related to commitments of $10,509 million and $11,629 million at December 31, 2014 and 2013, respectively, associated with secured financing arrangements that could have increased to a maximum of $12,353 million and $14,590 million at December 31, 2014 and 2013, respectively, based on asset volume under the arrangement.

Securities Repurchase and Reverse Repurchase Arrangements

Our issuances of securities repurchase agreements are insignificant and are limited to activities at certain of our foreign banks primarily for purposes of liquidity management. At December 31, 2014, we were party to repurchase agreements totaling $169 million, which were reported in short-term borrowings on the financial statements. No repurchase agreements were accounted for as off-book financing and we do not engage in securities lending transactions.

We also enter into reverse securities repurchase agreements, primarily for short-term investment with maturities of 90 days or less. At December 31, 2014, we were party to reverse repurchase agreements totaling $11.5 billion, which were reported in cash and equivalents on the financial statements. Under these reverse securities repurchase agreements, we typically lend available cash at a specified rate of interest and hold U.S. or highly-rated European government securities as collateral during the term of the agreement. Collateral value is in excess of amounts loaned under the agreements.

Derivatives and Hedging

As a matter of policy, we use derivatives for risk management purposes and we do not use derivatives for speculative purposes. A key risk management objective for our financial services businesses is to mitigate interest rate and currency risk by seeking to ensure that the characteristics of the debt match the assets they are funding. If the form (fixed versus floating) and currency denomination of the debt we issue do not match the related assets, we typically execute derivatives to adjust the nature and tenor of funding to meet this objective within pre-defined limits. The determination of whether we enter into a derivative transaction or issue debt directly to achieve this objective depends on a number of factors, including market related factors that affect the type of debt we can issue.

The notional amounts of derivative contracts represent the basis upon which interest and other payments are calculated and are reported gross, except for offsetting foreign currency forward contracts that are executed in order to manage our currency risk of net investment in foreign subsidiaries. Of the outstanding notional amount of $297,000 million, approximately 87% or $258,000 million, is associated with reducing or eliminating the interest rate, currency or market risk between financial assets and liabilities in our financial services businesses. The remaining derivative activities primarily relate to hedging against adverse changes in currency exchange rates and commodity prices related to anticipated sales and purchases and contracts containing certain clauses that meet the accounting definition of a derivative. The instruments used in these activities are designated as hedges when practicable. When we are not able to apply hedge accounting, or when the derivative and the hedged item are both recorded in earnings concurrently, the derivatives are deemed economic hedges and hedge accounting is not applied. This most frequently occurs when we hedge a recognized foreign currency transaction (e.g., a receivable or payable) with a derivative. Since the effects of changes in exchange rates are reflected concurrently in earnings for both the derivative and the transaction, the economic hedge does not require hedge accounting.

Fair Value Of Derivatives

December 31	**2014**		**2013**	
(In millions)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives accounted for as hedges				
Interest rate contracts	$ 5,859	$ 461	$3,837	$1,989
Currency exchange contracts	2,579	884	1,830	984
Other contracts	—	2	1	—
	8,438	1,347	5,668	2,973
Derivatives not accounted for as hedges				
Interest rate contracts	276	137	270	169
Currency exchange contracts	1,212	3,450	2,257	2,245
Other contracts	256	55	284	42
	1,744	3,642	2,811	2,456
Gross derivatives recognized in statement of financial position				
Gross derivatives	10,182	4,989	8,479	5,429
Gross accrued interest	1,401	(18)	1,227	241
	11,583	4,971	9,706	5,670
Amounts offset in statement of financial position				
Netting adjustments[a]	(3,896)	(3,905)	(4,120)	(4,113)
Cash collateral[b]	(3,709)	(502)	(2,619)	(242)
	(7,605)	(4,407)	(6,739)	(4,355)
Net derivatives recognized in statement of financial position				
Net derivatives	3,978	564	2,967	1,315
Amounts not offset in statement of financial position				
Securities held as collateral[c]	(3,361)	—	(1,962)	—
Net amount	$ 617	$ 564	$1,005	$1,315

Derivatives are classified in the captions "All other assets" and "All other liabilities" and the related accrued interest is classified in "Other GECC receivables" and "All other liabilities" in our financial statements.

[a] The netting of derivative receivables and payables is permitted when a legally enforceable master netting agreement exists. Amounts include fair value adjustments related to our own and counterparty non-performance risk. At December 31, 2014 and 2013, the cumulative adjustment for non-performance risk was a gain (loss) of $9 million and $(7) million, respectively.

[b] Excluded excess cash collateral received and posted of $63 million and $211 million, and $160 million and $37 million at December 31, 2014 and 2013, respectively.

[c] Excluded excess securities collateral received of $224 million and $363 million at December 31, 2014 and 2013, respectively.

Fair Value Hedges

We use interest rate and currency exchange derivatives to hedge the fair value effects of interest rate and currency exchange rate changes on local and non-functional currency denominated fixed-rate debt. For relationships designated as fair value hedges, changes in fair value of the derivatives are recorded in earnings within interest and other financial charges, along with offsetting adjustments to the carrying amount of the hedged debt.

Earnings Effects Of Fair Value Hedging Relationships

	2014		**2013**	
(In millions)	**Gain (Loss) on Hedging Derivatives**	**Gain (Loss) on Hedged Items**	**Gain (Loss) on Hedging Derivatives**	**Gain (Loss) on Hedged Items**
Interest rate contracts	$3,898	$(3,973)	$(5,258)	$5,180
Currency exchange contracts	(19)	17	(7)	6

Fair value hedges resulted in $(77) million and $(79) million of ineffectiveness in 2014 and 2013, respectively. In both 2014 and 2013, there were insignificant amounts excluded from the assessment of effectiveness.

Cash Flow Hedges

We use interest rate, currency exchange and commodity derivatives to reduce the variability of expected future cash flows associated with variable rate borrowings and commercial purchase and sale transactions, including commodities. For derivatives that are designated in a cash flow hedging relationship, the effective portion of the change in fair value of the derivative is reported as a component of AOCI and reclassified into earnings contemporaneously and in the same caption with the earnings effects of the hedged transaction.

	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified From AOCI into Earnings	
(In millions)	2014	2013	2014	2013
Interest rate contracts	$ (1)	$ (26)	$(234)	$(364)
Currency exchange contracts	(541)	941	(641)	817
Commodity contracts	(4)	(6)	(3)	(5)
Total[a]	$(546)	$909	$(878)	$ 448

[a] Gain (loss) is recorded in GECC revenues from services, interest and other financial charges, and other costs and expenses when reclassified to earnings.

The total pre-tax amount in AOCI related to cash flow hedges of forecasted transactions was a $213 million loss at December 31, 2014. We expect to transfer $212 million to earnings as an expense in the next 12 months contemporaneously with the earnings effects of the related forecasted transactions. In both 2014 and 2013, we recognized insignificant gains and losses related to hedged forecasted transactions and firm commitments that did not occur by the end of the originally specified period. At December 31, 2014 and 2013, the maximum term of derivative instruments that hedge forecasted transactions was 18 years and 19 years, respectively. See Note15 for additional information about reclassifications out of AOCI.

For cash flow hedges, the amount of ineffectiveness in the hedging relationship and amount of the changes in fair value of the derivatives that are not included in the measurement of ineffectiveness were insignificant for each reporting period.

Net Investment Hedges In Foreign Operations

We use currency exchange derivatives to protect our net investments in global operations conducted in non-U.S. dollar currencies. For derivatives that are designated as hedges of net investment in a foreign operation, we assess effectiveness based on changes in spot currency exchange rates. Changes in spot rates on the derivative are recorded as a component of AOCI until such time as the foreign entity is substantially liquidated or sold, or upon the loss of a controlling interest in a foreign entity. The change in fair value of the forward points, which reflects the interest rate differential between the two countries on the derivative, is excluded from the effectiveness assessment.

Gains (Losses) Recognized Through CTA

	Gain (Loss) Recognized in CTA		Gain (Loss) Reclassified from CTA	
(In millions)	2014	2013	2014	2013
Currency exchange contracts[a]	$5,741	$2,322	$88	$(1,525)

[a] Gain (loss) is recorded in GECC revenues from services when reclassified out of AOCI.

The amounts related to the change in the fair value of the forward points that are excluded from the measure of effectiveness were $(549) million and $(678) million for the years ended December 31, 2014 and 2013, respectively, and were recorded in interest and other financial charges.

Free-Standing Derivatives

Changes in the fair value of derivatives that are not designated as hedges are recorded in earnings each period. As discussed above, these derivatives are typically entered into as economic hedges of changes in interest rates, currency exchange rates, commodity prices and other risks. Gains or losses related to the derivative are typically recorded in GECC revenues from services or other income, based on our accounting policy. In general, the earnings effects of the item that represent the economic risk exposure are recorded in the same caption as the derivative. Gains (losses) for the year ended December 31, 2014 on derivatives not designated as hedges were $(2,045) million composed of amounts related to interest rate contracts of $(58) million, currency exchange contracts of $(2,034) million, and other derivatives of $47 million. These losses were more than offset by the earnings effects from the underlying items that were economically hedged. Gains (losses) for the year ended December 31, 2013 on derivatives not designated as hedges were $(449) million composed of amounts related to interest rate contracts of $(111) million, currency exchange contracts of $(595) million, and other derivatives of $257 million. These losses were more than offset by the earnings effects from the underlying items that were economically hedged.

Counterparty Credit Risk

Fair values of our derivatives can change significantly from period to period based on, among other factors, market movements and changes in our positions. We manage counterparty credit risk (the risk that counterparties will default and not make payments to us according to the terms of our agreements) on an individual counterparty basis. Where we have agreed to netting of derivative exposures with a counterparty, we net our exposures with that counterparty and apply the value of collateral posted to us to determine the exposure. We actively monitor these net exposures against defined limits and take appropriate actions in response, including requiring additional collateral.

As discussed above, we have provisions in certain of our master agreements that require counterparties to post collateral (typically, cash or U.S. Treasury securities) when our receivable due from the counterparty, measured at current market value, exceeds a specified limit. The fair value of such collateral was $7,070 million at December 31, 2014, of which $3,709 million was cash and $3,361 million was in the form of securities held by a custodian for our benefit. Under certain of these same agreements, we post collateral to our counterparties for our derivative obligations, the fair value of which was $502 million at December 31, 2014. At December 31, 2014, our exposure to counterparties (including accrued interest), net of collateral we hold, was $487 million. This excludes exposure related to embedded derivatives.

Additionally, our master agreements typically contain mutual downgrade provisions that provide the ability of each party to require termination if the long-term credit rating of the counterparty were to fall below A-/A3. In certain of these master agreements, each party also has the ability to require termination if the short-term rating of the counterparty were to fall below A-1/P-1. Our master agreements also typically contain provisions that provide termination rights upon the occurrence of certain other events, such as a bankruptcy or events of default by one of the parties. If an agreement was terminated under any of these circumstances, the termination amount payable would be determined on a net basis and could also take into account any collateral posted. The net amount of our derivative liability, after consideration of collateral posted by us and outstanding interest payments was $514 million at December 31, 2014. This excludes embedded derivatives.

Subsequent Events

RECOGNITION AND MEASUREMENT

1.105 The FASB ASC glossary defines *subsequent events* as events or transactions that occur subsequent to the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855, *Subsequent Events*, includes general guidance applicable to all entities on accounting for, and disclosure of, events after the reporting period (subsequent events) that are not addressed specifically in other topics within FASB ASC. The following are the two types of subsequent events: the first type existed at the balance sheet date and includes the estimates inherent in the process of preparing financial statements (recognized subsequent events); the second type did not exist at the balance sheet date but arose subsequent to that date (nonrecognized subsequent events). The first type of subsequent event should be recognized in the entity's financial statements.

1.106 FASB ASC 855-10-25-1 requires an entity to recognize the effects of events that provide evidence of conditions that existed at the balance sheet date, including accounting estimates. FASB ASC 855-10-25-1A indicates that an SEC filer or a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets) should evaluate subsequent events through the date the financial statements are issued. In addition, FASB ASC 855-10-25-2 requires all other entities that do not meet the criteria outlined in FASB ASC 855-10-25-1A to evaluate such events through the date the financial statements are available to be issued. As defined in the FASB ASC glossary, financial statements are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, and all significant shareholders.

1.107 FASB ASC 855-10-25-3 prohibits an entity from recognizing subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but which arose after that date but before the financial statements are issued or are available to be issued.

1.108 FASB ASC 855-10-25-4 also addresses the potential for reissue of the financial statements in reports filed with regulatory agencies. In this circumstance, an entity should not recognize events occurring between the time the financial statements were originally issued or were available to be issued and the time the financial statements were reissued, unless GAAP or regulatory requirements require the adjustment. Similarly, an entity should not recognize events or transactions occurring after the financial statements were issued or were available to be issued in financial statements that are later reissued in comparative form along with financial statements of subsequent periods, unless the adjustment meets the criteria previously stated.

DISCLOSURE

1.109 FASB ASC 855-10-50-3 requires an entity to consider supplementing the historical financial statements with pro forma financial data when an unrecognized subsequent event occurs. An entity should present pro forma financial data when an unrecognized subsequent event is sufficiently significant that pro forma information provides the best disclosure. In preparing pro forma data, an entity should include the event as if it had occurred on the balance sheet date. An entity should also consider presenting pro forma statements, usually a statement of financial position only, in columnar form on the face of the historical statements.

1.110 Paragraphs 1 and 4 of FASB ASC 855-10-50 state that an entity, except an SEC registrant, should disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. An entity, except an SEC registrant, should also disclose in the revised financial statements the date through which subsequent events have been evaluated in both the originally issued financial statements and the reissued financial statements.

PRESENTATION AND DISCLOSURE EXCERPTS

DEBT AMENDMENT

1.111 PVH CORP. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Currency and share amounts in thousands, except per share data)

22. Subsequent Events (Unaudited)

On March 21, 2014 (the "Restatement Date"), the Company entered into an amendment (the "Amendment") to the 2013 facilities (as amended by the Amendment, the "2014 facilities").

Among other things, the Amendment provides for an additional $350,000 principal amount of Term Loan A and an additional $250,000 principal amount of Term Loan B and extends the maturity of the Term Loan A and the revolving credit facilities from February 13, 2018 to February 13, 2019.The maturity of the Term Loan B remains February 13, 2020.

On the Restatement Date, the Company borrowed the additional $350,000 principal amount of Term Loan A and the additional $250,000 principal amount of Term Loan B made available pursuant to the 2014 facilities.

The following is a description of the material terms of the 2014 facilities:

The 2014 facilities consist of a $1,986,250 United States Dollar-denominated Term Loan A, a $1,188,563 United States Dollar-denominated Term Loan B and senior secured revolving credit facilities consisting of (a) a $475,000 United States Dollar denominated revolving credit facility, (b) a $25,000 United States Dollar denominated revolving credit facility available in United States Dollars or Canadian Dollars and (c) a €185,850 Euro-denominated revolving credit facility available in Euro, Pounds Sterling, Japanese Yen and Swiss Francs.

The Company has fully drawn the term loans under the 2014 facilities. The revolving credit facilities include amounts available for letters of credit.A portion of each of the United States dollar-denominated revolving credit facilities is also available for the making of swingline loans. The issuance of such letters of credit and the making of any swingline loan reduces the amount available under the applicable revolving credit facility. So long as certain conditions are satisfied, the Company may add one or more term loan facilities or increase the commitments under the revolving credit facilities by an aggregate amount not to exceed the sum of (1) the sum of (x) $1,350,000 plus (y) the aggregate amount of all voluntary prepayments of term loans under the facilities and the revolving credit facilities (to the extent, in the case of voluntary prepayments of loans under the revolving credit facilities, there is an equivalent permanent reduction of the revolving commitments) plus (z) an amount equal to the aggregate revolving commitments of any defaulting lender (to the extent the commitments with respect thereto have been terminated) and (2) an additional unlimited amount as long as the ratio of the Company's senior secured net debt to consolidated adjusted earnings before interest, taxes, depreciation and amortization (in each case calculated as set forth in the documentation relating to the 2014 facilities) would not exceed 3 to 1 after giving pro forma effect to the incurrence of such increase.The lenders under the 2014 facilities are not required to provide commitments with respect to such additional facilities or increased commitments.

Obligations of the Company under the 2014 facilities are guaranteed by substantially all of the Company's existing and future direct and indirect United States subsidiaries, with certain exceptions. Obligations of the European Borrower under the 2014 facilities are guaranteed by the Company, substantially all of its existing and future direct and indirect United States subsidiaries (with certain exceptions) and Tommy Hilfiger Europe B.V., a wholly owned subsidiary of the Company.The Company and its domestic subsidiary guarantors have pledged certain of their assets as security for the obligations under the 2014 facilities.

The terms of the Term Loan A facility require the Company to repay quarterly amounts outstanding under such facility, commencing with the quarter ending June 30, 2014. Such amounts will equal 5.00% per annum of the principal amount outstanding on the Restatement Date for the first eight full calendar quarters following the Restatement Date, 7.50% per annum of the principal amount for the four quarters thereafter and 10.00% per annum of the principal amount for the remaining quarters, in each case paid in equal installments and in each case subject to certain customary adjustments, with the balance due on the maturity date of the Term Loan A facility. The terms of the Term Loan B facility require the Company to repay the outstanding principal amount thereof on the maturity date of the Term Loan B facility. (As of the Restatement Date, the Company had, through voluntary and mandatory prepayments of amounts outstanding under the Term Loan B facility prior to the Restatement Date, reduced the required quarterly principal payments under the Term Loan B facility set forth in the 2013 facilities such that the only remaining payment is the outstanding principal amount of the Term Loan B facility on the maturity date of the Term Loan B facility.)

The outstanding borrowings under the 2014 facilities are prepayable at any time without penalty (other than customary breakage costs and, solely with respect to the Term Loan B facility, any prepayment in connection with a Repricing Event (as defined in the 2014 facilities) that is consummated on or prior to the six-month anniversary of the Restatement Date). The terms of the 2014 facilities require the Company to repay certain amounts outstanding thereunder with (a) net cash proceeds of the incurrence of certain indebtedness, (b) net cash proceeds of certain asset sales or other dispositions (including as a result of casualty or condemnation) that exceed certain thresholds, to the extent such proceeds are not reinvested or committed to be reinvested in the business in accordance with customary reinvestment provisions, and (c) a percentage of excess cash flow, which percentage is based upon the Company's net leverage ratio during the relevant fiscal period.

The United States Dollar-denominated borrowings under the 2014 facilities bear interest at a rate equal to an applicable margin plus, as determined at the Company's option, either (a) a base rate determined by reference to the greater of (i) the prime rate, (ii) the United States federal funds rate plus 1/2 of 1.00% and (iii) a one-month adjusted Eurocurrency rate plus 1.00% (provided, that, with respect to the Term Loan B facility, in no event will the base rate be deemed to be less than 1.75%) or (b) an adjusted Eurocurrency rate, calculated in a manner set forth in the 2014 facilities (provided, that, with respect to the Term Loan B facility, in no event will the adjusted Eurocurrency rate be deemed to be less than 0.75%).

Canadian Dollar-denominated borrowings under the 2014 facilities bear interest at a rate equal to an applicable margin plus, as determined at the Company's option, either (a) a Canadian prime rate determined by reference to the greater of (i) the rate of interest per annum that Royal Bank of Canada establishes at its main office in Toronto, Ontario as the reference rate of interest in order to determine interest rates for loans in Canadian Dollars to its Canadian borrowers and (ii) the sum of (x) the average of the rates per annum for Canadian Dollar bankers' acceptances having a term of one month that appears on the display referred to as "CDOR Page" of Reuters Monitor Money Rate Services as of 10:00a.m. (Toronto time) on the date of determination, as reported by the administrative agent (and if such screen is not available, any successor or similar service as may be selected by the administrative agent), and (y) 0.75%, or (b) an adjusted Eurocurrency rate, calculated in a manner set forth in the 2014 facilities.

The borrowings under the 2014 facilities in currencies other than United States Dollars or Canadian Dollars bear interest at a rate equal to an applicable margin plus an adjusted Eurocurrency rate, calculated in a manner set forth in the 2014 facilities.

The initial applicable margin with respect to the Term Loan A facility and each revolving credit facility will be 1.75% for adjusted Eurocurrency rate loans and 0.75% for base rate loans, respectively.The initial applicable margin with respect to the Term Loan B facility will be 2.50% for adjusted Eurocurrency rate loans and 1.50% for base rate loans, respectively.After the date of delivery of the compliance certificate and financial statements with respect to the Company's fiscal quarter in which the Amendment occurred (*i.e.*, the Company's fiscal quarter ending May 4, 2014), the applicable margin for borrowings under the Term Loan A facility, the Term Loan B facility and the revolving credit facilities will be subject to adjustment based upon the Company's net leverage ratio.

The 2014 facilities require the Company to comply with customary affirmative, negative and financial covenants. The 2014 facilities require the Company to maintain a minimum interest coverage ratio and a maximum net leverage ratio.The method of calculating all of the components used in such financial covenants is set forth in the 2014 facilities.

The 2014 facilities contain customary events of default, including but not limited to nonpayment; material inaccuracy of representations and warranties; violations of covenants; certain bankruptcies and liquidations; cross-default to material indebtedness; certain material judgments; certain events related to the Employee Retirement Income Security Act of 1974, as amended; certain events related to certain of the guarantees by the Company and certain of its subsidiaries, and certain pledges of its assets and those of certain of its subsidiaries, as security for the obligations under the 2014 facilities; and a change in control (as defined in the 2014 facilities).

On March 24, 2014, the Company redeemed all of its outstanding 7 3/8% senior notes due May 15, 2020 (the "Notes"), representing an aggregate principal amount of $600,000. The redemption price of the Notes was 111.272% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the redemption date. The Notes were issued and the redemption was effected pursuant to the provisions of the Indenture, dated as of May 6, 2010, between the Company and U.S. National Bank Association, as trustee, as amended.

LITIGATION

1.112 BOSTON SCIENTIFIC CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

	Year Ended December 31,		
In millions, except per share data	2014	2013	2012
Net sales	$7,380	$7,143	$7,249
Cost of products sold	2,210	2,174	2,349
Gross profit	5,170	4,969	4,900
Operating expenses:			
Selling, general and administrative expenses	2,902	2,674	2,535
Research and development expenses	817	861	886
Royalty expense	111	140	153
Amortization expense	438	410	395
Goodwill impairment charges	—	423	4,350
Intangible asset impairment charges	195	53	142
Contingent consideration expense (benefit)	(85)	4	(6)
Restructuring charges	69	101	136
Litigation-related charges	1,036	221	192
Gain on divestiture	(12)	(38)	(15)
	5,471	4,849	8,768
Operating income (loss)	(301)	120	(3,868)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note A—Significant Accounting Policies (in part)

Subsequent Events

We evaluate events occurring after the date of our accompanying consolidated balance sheets for potential recognition or disclosure in our financial statements. On February 13, 2015, we signed an agreement with Johnson & Johnson to settle the breach of merger agreement lawsuit brought by Johnson & Johnson against Guidant Corporation (Guidant), stemming from our acquisition of Guidant. As a result of the settlement agreement, Johnson & Johnson has agreed to dismiss permanently its action without acknowledgment of liability by Guidant. In exchange, we have agreed to make aggregate payments totaling $600 million to Johnson & Johnson. This settlement is considered a material recognized subsequent event and has been reflected appropriately in our accompanying consolidated financial statements. See *Note K– Commitments and Contingencies* for futher details.

In addition, those items requiring disclosure (unrecognized subsequent events) in the financial statements have been disclosed accordingly. See *Note K– Commitments and Contingencies* for further details.

Note K—Commitments and Contingencies (in part)

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.

In accordance with ASC Topic 450, *Contingencies*, we accrue anticipated costs of settlement, damages, losses for 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 $1.577 billion as of December31, 2014 and $607 million as of December31, 2013, 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 2014, 2013 and 2012, we recorded litigation-related charges in the amount of $1.036 billion, $221 million, and $192 million, respectively. The charges recorded in 2014 included $600 million related to the settlement agreement between our subsidiary, Guidant and Johnson & Johnson signed on February 13, 2015. 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.

Other Proceedings (in part)

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, costs, and interest. 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 July 7, 2014, the judge denied Guidant's motion. The bench trial was held in November and December. On February 13, 2015, the parties reached a settlement agreement pursuant to which Guidant will make aggregate payments to Johnson & Johnson totaling $600 million, we agreed that neither we nor our affiliates will commence, or assist any third party in commencing, proceedings of any kind, against Johnson & Johnson or its affiliates for patent infringement or seeking any remedy for patent infringement based on Johnson & Johnson or its affiliates making, having made, using, selling, offering for sale or importing the S.M.A.R.T ®, S.M.A.R.T ® Control ®, and S.M.A.R.T ® Flex stent products and Johnson & Johnson has agreed to dismiss its actions against Guidant with prejudice.

MERGER AGREEMENT

1.113 SAFEWAY INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note V: Subsequent Event

Merger Closing Pursuant to the Merger Agreement, on January 30, 2015, Merger Sub merged with and into Safeway with Safeway surviving the Merger as a wholly owned subsidiary of Albertsons Holdings. Further, each share of common stock of Safeway issued and outstanding immediately prior to the effective time of the Merger was cancelled and converted automatically into the right to receive the following (together, the "Per Share Merger Consideration"):

i. $34.92 in cash (the "Per Share Cash Merger Consideration") which consists of $32.50 in initial cash consideration, $2.412 in consideration relating to the sale of PDC and $0.008 in cash consideration relating to a dividend that Safeway received in December 2014 on its 49% interest in Casa Ley,
ii. one contingent value right ("CVR") relating to Safeway's interest in Casa Ley, and
iii. one contingent value right relating to any deferred consideration relating to the sale of the PDC assets.

In connection with the closing of the Merger and immediately prior to the effective time of the Merger, each outstanding, unexpired and unexercised option to purchase shares of Safeway common stock (each, a "Safeway Option"), that was granted under any equity incentive plan of Safeway, including the 1999 Amended and Restated Equity Participation Plan, the 2007 Equity and Incentive Award Plan and the

2011 Equity and Incentive Award Plan or any other plan, agreement or arrangement (collectively, the "Safeway Equity Incentive Plans"), whether or not then exercisable or vested, was accelerated, vested and cancelled and converted into the right to receive an amount in cash (subject to any applicable withholding taxes) equal to the product of (A) the total number of shares of Safeway common stock subject to such Safeway Option as of immediately prior to the effective time of the Merger and (B) the excess, if any, of the Per Share Cash Merger Consideration over the exercise price per share (the "Option Price") of such Safeway Option (the "Option Payment"). In addition, each such Safeway Option that had an Option Price less than the Per Share Cash Merger Consideration received one Casa Ley CVR and one PDC CVR in respect of each share of Safeway common stock subject to such cancelled Safeway Option.

Immediately prior to the effective time of the Merger, each restricted share of Safeway common stock that was outstanding and that was granted pursuant to any Safeway Equity Incentive Plan, whether or not then exercisable or vested, automatically vested and all restrictions thereon lapsed, and all such restricted shares were cancelled and converted into the right to receive the Per Share Merger Consideration.

Immediately prior to the effective time of the Merger, each outstanding performance share award covering shares of Safeway common stock (each a "Performance Share Award") that was granted under any Safeway Equity Incentive Plan vested at the target levels specified for each such award and was cancelled in exchange for (i) an amount in cash (subject to any applicable withholding taxes) equal to the product of (A) the number of vested shares of Safeway common stock subject to such Performance Share Award (after taking into account any vesting as a result of the Merger) and (B) the Per Share Cash Merger Consideration and (ii) one Casa Ley CVR and one PDC CVR in respect of each vested share of Safeway common stock subject to such Performance Share Award.

Immediately prior to the effective time of the Merger, each outstanding restricted stock unit covering shares of Safeway common stock (each a "Restricted Stock Unit"), that was granted under any Safeway Equity Incentive Plan, whether or not then vested, was accelerated, vested and cancelled in exchange for the right to receive (i) an amount in cash (subject to any applicable withholding taxes) equal to the product of (A) the number of vested shares of Safeway common stock subject to such Restricted Stock Unit and (B) the Per Share Cash Merger Consideration and (ii) one Casa Ley CVR and one PDC CVR in respect of each vested share of Safeway common stock subject to such Restricted Stock Unit.

On January 30, 2015, Safeway entered into a contingent value rights agreement with respect to the Casa Ley CVRs with AB Acquisition, the Shareholder Representative (as defined in the agreement), Computershare Inc. and Computershare Trust Company, N.A., as rights agent (the "Casa Ley CVR Agreement") providing for the terms of the Casa Ley CVRs. Pursuant to the Casa Ley CVR Agreement, a Casa Ley CVR will entitle the holder to a pro rata share of the net proceeds from the sale of Safeway's interest in Casa Ley. In the event that Safeway's interest in Casa Ley is not sold prior to January 30, 2018, holders of the Casa Ley CVRs will be entitled to receive their pro rata portion of the fair market value of such remaining interest minus certain fees, expenses and assumed taxes (based on a 39.25% rate) that would have been deducted from the proceeds of a sale of the Casa Ley interest.

On January 30, 2015, Safeway entered into a contingent value rights agreement with respect to the PDC CVRs with AB Acquisition, the Shareholder Representative (as defined in the agreement), Computershare Inc. and Computershare Trust Company, N.A., as rights agent (the "PDC CVR Agreement") providing for the terms of the PDC CVRs. Pursuant to the PDC CVR Agreement, a PDC CVR will entitle the holder to a pro rata share of the net proceeds from any deferred consideration relating to the sale of the assets of PDC.

Sale of Eastern Division As contemplated by the Merger Agreement, immediately after the closing of the Merger, Safeway completed the sale of its Eastern division business ("EDS") to New Albertson's, Inc., an Ohio corporation and indirect subsidiary of Safeway's ultimate parent company AB Acquisition ("New Albertsons"). In a two-step sale process, Safeway contributed certain EDS assets and liabilities to a newly formed subsidiary and sold the interests in the subsidiary to New Albertsons. New Albertsons acquired the new EDS subsidiary for a purchase price of approximately $659 million, subject to customary adjustments. Safeway also agreed to provide certain intercompany services and licenses to the new EDS subsidiary after the sale.

Effect of Merger on Debt

Change of Control Tender Offer In December 2014, Safeway commenced a change of control tender offer to purchase any and all of the outstanding series of the $500 million of 5.00% Senior Notes due August 15, 2019, the $500 million of 3.95% Senior Notes due August 15, 2020 and the $400 million of 4.75% Senior Notes due December 1, 2021. This offer expired on January 30, 2015 and required Safeway to pay $1,010 per $1,000 principal amount of the senior notes, plus accrued and unpaid interest that were validly tendered. On February 2, 2015, a change of control payment of $873.2 million, based on a principal amount of $864.6 million of tendered notes and $14.2 million of accrued interest was paid.

Credit Agreement At the closing of the Merger, Safeway's credit agreement, as discussed under the caption "Bank Credit Agreement" in Note G, was terminated.

New Bonds In connection with the Merger, Safeway is an obligor and its domestic subsidiaries are guarantors of $609.7 million in principal amount of 7.750% senior secured notes due 2022 (the "2022 Notes"), after repayment of some of the 2022 Notes on February 9, 2015. As a result of the issuance of these notes and pursuant to Safeway's existing indenture, our Senior Notes due 2016, Senior Notes due 2017 and Senior Notes due 2019 were guaranteed by Albertson's Holdings LLC and its domestic subsidiaries, including Safeway's domestic subsidiaries, and are ratably and equally secured by the assets, subject to certain limited exceptions, of Albertson's Holdings LLC and its subsidiaries that are co-issuers or guarantors of the 2022 Notes, including Safeway and its subsidiaries. Our Senior Notes due 2020, Senior Notes due 2021, Senior Notes due 2027 and Senior Notes due 2031 are equally and ratably secured by the assets (other than accounts receivable, merchandise inventory, equipment or intellectual property) of Safeway and its domestic subsidiaries, but are not guaranteed by Albertson's Holdings LLC or any of its subsidiaries, including the Safeway subsidiaries.

ABL Agreement On March 21, 2013, our parent company, Albertson's Holdings LLC, entered into an asset-based revolving credit agreement among Albertson's Holdings LLC, Albertson's LLC, the guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America N.A., as administrative and collateral agent. This agreement was amended on January 30, 2015 (as amended, the "ABL Agreement") in connection with the Merger, whereby Albertson's LLC, Safeway and certain of their affiliates became the borrowers thereunder (the "ABL Borrowers").

The ABL Agreement provides for a $3 billion revolving credit facility (with subfacilities for letters of credit and swingline loans) (the "New ABL Facility"). On January 30, 2015, $980 million of the New ABL Facility was used to repay all debt outstanding under Albertson's LLC's existing credit facility, to pay a portion of the Merger consideration and fees and expenses, and to provide working capital to the borrowers. After January 30, 2015, the New ABL Facility may be utilized to fund working capital and general corporate purposes, including permitted acquisitions and other investments.

The New ABL Facility matures on the earlier to occur of (a) January 30, 2020 and (b) the date that is 91 days prior to the final maturity of certain material indebtedness (if such other indebtedness has not been repaid or extended prior to such 91st day).

ACQUISITIONS

1.114 REGAL BELOIT CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(17) Subsequent Event

On January 30, 2015, the Company acquired PTS for approximately $1.4 billion in cash. PTS will be included in the Power Transmission Solutions segment. The Company acquired PTS because management believes it provides complementary products, expands and balances the Company's product portfolio, and enhances its margin profile.

PTS is a global leader in highly engineered power transmission products and solutions. The business manufactures, sells and services bearings, couplings, gearing, drive components and conveyor systems.

PTS had net sales of $607.3 million in 2014.

The following summarizes the allocation of the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is preliminary and differences between the preliminary and final purchase price allocation could be material. The Company has not completed its analysis estimating the fair value of inventory, property, plant, and equipment, intangible assets, income tax liabilities and certain contingent liabilities (in millions).

	As of January 30, 2015
Current assets	$ 3.2
Trade receivables	71.3
Inventories	102.8
Net Property, plant and equipment and other noncurrent assets	1,384.0
Total assets acquired	$1,561.3
Current liabilities assumed	76.6
Long-term liabilities assumed	82.7
Net assets acquired	$1,402.0

On January 30, 2015, the Company entered into a Credit Agreement for a 5-year unsecured term loan facility for the Company in the principal amount of $1.25 billion which was drawn in full by the Company on January 30, 2015 in connection with the closing of the acquisition of PTS (see Note 7 of Notes to the Consolidated Financial Statements, "Debt and Bank Credit Facilities" for additional details of the of the Credit Agreement.

Unaudited Pro Forma Consolidated Financial Information

The following unaudited pro forma financial information shows the results of continuing operations for 2014, as though the acquisition of PTS occurred at the beginning of fiscal year 2014. As a practical expedient, the Company has used the audited stand-alone financial statements of PTS for the fiscal year ended September 30, 2014. The pro forma financial information includes, where applicable, adjustments for: (i) the estimated amortization of acquired intangible assets, (ii) estimated additional interest expense on acquisition related borrowings, (iii) the income tax effect on the pro forma adjustments using an estimated effective tax rate, (iv) exclude the estimated impact of inventory purchase accounting adjustments and (v) exclude estimated closing costs on the acquisition. The pro forma adjustments related to the acquisition of PTS are based on a preliminary purchase price allocation. Differences between the preliminary and final purchase price allocation could have an impact on the pro forma financial information presented and such impact could be material. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated above or the results that may be obtained in the future, (in millions, except per share amounts):

	2014
Pro forma net sales	$3,864.4
Pro forma net income	47.0
Basic earnings per share as reported	$ 0.69
Proforma basic earnings per share	1.04
Diluted earnings per share as reported	$ 0.69
Pro forma diluted earnings per share	1.04

Related Party Transactions

DISCLOSURE

1.115 FASB ASC 850, *Related Party Disclosures*, specifies the nature of information that should be disclosed in financial statements about related-party transactions and certain common control relationships. FASB ASC 850-10-50-1 requires an entity to disclose material related party transactions but exempts compensation arrangements, expense allowances, and other similar items in the ordinary course of business from disclosure requirements. However, Item 402, "Executive Compensation," of SEC Regulation S-K requires SEC registrants to provide compensation information outside the financial statements for specified members of management. The disclosures should include the nature of the relationship(s) involved, a description of the transactions, the dollar amounts of the transactions, and amounts due to or from related parties for each period for which the entity presents an income statement. FASB ASC 740-10-50-17 also includes guidance for entities with separately issued financial statements that are members of a consolidated tax return and the additional disclosures that are required. Further, if the reporting entity and one or more other companies are under common ownership or management control, and the existence of that control could result in operating results or a financial position of the reporting entity significantly different from those that would have been obtained if the companies were autonomous, FASB ASC 850-10-50-6 requires the nature of the control relationship to be disclosed even if there are no transactions between the entities.

PRESENTATION AND DISCLOSURE EXCERPTS

TRANSACTIONS WITH RELATED PARTIES

1.116 CABLEVISION SYSTEMS CORPORATION (DEC)

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Dollars in thousands, except per share amounts)

Note 15. Related Party Transactions

Cablevision is controlled by Charles F. Dolan, certain members of his immediate family and certain family related entities (collectively the "Dolan Family"). Members of the Dolan Family are also the controlling stockholders of both AMC Networks and Madison Square Garden.

The following table summarizes the revenue and charges (credits) related to services provided to or received from AMC Networks not discussed elsewhere in the accompanying combined notes to the consolidated financial statements:

	Years Ending December 31,		
	2014	2013	2012
Revenues, net	$ 1,841	$ 2,483	$ 3,246
Operating expenses:			
Technical expenses, net of credits	$21,785	$22,963	$22,751
Selling, general and administrative expenses (credits):			
General and administrative expense allocations	(584)	(1,458)	1,777
Other	—	(407)	(454)
Selling, general and administrative expenses (credits), subtotal	(584)	(1,865)	1,323
Operating expenses, net	21,201	21,098	24,074
Net charges	$19,360	$18,615	$20,828

The following table summarizes the revenue and charges (credits) related to services provided to or received from Madison Square Garden not discussed elsewhere in the accompanying combined notes to the consolidated financial statements:

	Years Ending December 31,		
	2014	2013	2012
Revenues, net	$ 3,234	$ 3,103	$ 2,538
Operating expenses:			
Technical expenses, net of credits	$157,359	$156,028	$158,622
Selling, general and administrative expenses (credits):			
General and administrative expense allocations	(3,176)	(2,282)	(2,755)
Other	7,638	7,133	5,046
Selling, general and administrative expenses, subtotal	4,462	4,851	2,291
Operating expenses, net	161,821	160,879	160,913
Net charges	$158,587	$157,776	$158,375

Revenues, Net

The Company recognizes revenue in connection with television advertisements and print advertising, as well as certain telecommunication services charged by its subsidiaries to AMC Networks and Madison Square Garden. The Company and its subsidiaries, together with AMC Networks and Madison Square Garden, may enter into agreements with third parties in which the amounts paid/received by AMC Networks and Madison Square Garden, their subsidiaries, or the Company may differ from the amounts that would have been paid/received if such arrangements were negotiated separately. Where subsidiaries of the Company have incurred a cost incremental to fair value and Madison Square Garden or AMC Networks have received a benefit incremental to fair value from these negotiations, the Company and its subsidiaries will charge Madison Square Garden or AMC Networks for the incremental amount.

Technical Expenses

Technical expenses include costs incurred by the Company for the carriage of the MSG networks and Fuse program services (through June 30, 2014), as well as for AMC, WE tv, IFC, Sundance Channel and BBC America (beginning in the fourth quarter of 2014) on Cablevision's cable systems. The Company also purchases certain programming signal transmission and production services from AMC Networks.

Selling, General and Administrative Expenses (Credits)

General and Administrative Expense Allocations

Amounts included in the tables above represent allocations to Madison Square Garden and AMC Networks for services performed by the Company on their behalf. Amounts also include charges to the Company for services performed or paid by the affiliate on the Company's behalf.

Other

The Company, AMC Networks and Madison Square Garden routinely enter into transactions with each other in the ordinary course of business. Such transactions may include, but are not limited to, sponsorship agreements and cross-promotion arrangements.

As the transactions discussed above are conducted between subsidiaries under common control, amounts charged for certain services may not represent amounts that might have been received or incurred if the transactions were based upon arm's length negotiations.

Transactions with Other Affiliates

During 2014, 2013 and 2012, the Company provided services to or incurred costs on behalf of certain related parties, including from time to time, the Dolan Family. All costs incurred on behalf of these related parties are reimbursed to the Company.

Aggregate amounts due from and due to AMC Networks, Madison Square Garden and other affiliates at December31, 2014 and 2013 are summarized below:

	December 31,	
Cablevision	**2014**	**2013**
Amounts due from affiliates	$ 1,732	$ 1,520
Amounts due to affiliates	29,651	30,941

	December 31,	
CSC Holdings	**2014**	**2013**
Amounts due from affiliates (principally Cablevision)	$ 1,694	$115,538
Amounts due to affiliates (principally Cablevision)	135,636	30,887

1.117 THE WENDY'S COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In Thousands Except Per Share Amounts)

(21) Transactions with Related Parties

The following is a summary of transactions between the Company and its related parties, which are included in continuing operations:

	Year Ended		
	2014	**2013**	**2012**
Transactions with QSCC:			
Wendy's Co-Op[(a)]	$(1,516)	$(3,291)	$(2,464)
Lease income[(b)]	(185)	(188)	(191)
Transactions with the Management Company:			
Use of company-owned aircraft[(c)]	$ (375)	$(1,420)	$(1,309)
Sublease income[(d)]	—	—	(683)
Distributions of proceeds to noncontrolling interests[(e)]	$ —	$ —	$ 3,667
TimWen lease and management fee payments[(f)]	$ 6,064	$ 6,587	$ 6,605

Transactions with QSCC

(a) Wendy's has a purchasing co-op relationship agreement (the "Wendy's Co-op") with its franchisees which establishes Quality Supply Chain Co-op, Inc. ("QSCC"). QSCC manages, for the Wendy's system in the U.S. and Canada, contracts for the purchase and distribution of food, proprietary paper, operating supplies and equipment under national agreements with pricing based upon total system volume. QSCC's supply chain management facilitates continuity of supply and provides consolidated purchasing efficiencies while monitoring and seeking to minimize possible obsolete inventory throughout the Wendy's supply chain in the U.S. and Canada.

Wendy's and its franchisees pay sourcing fees to third-party vendors on certain products sourced by QSCC. Such sourcing fees are remitted by these vendors to QSCC and are the primary means of funding QSCC's operations. Should QSCC's sourcing fees exceed its expected needs, QSCC's board of directors may return some or all of the excess to its members in the form of a patronage dividend. Wendy's recorded its share of patronage dividends of $1,516, $3,291 and $2,464 in 2014, 2013 and 2012, respectively, which are included as a reduction of "Cost of sales."

(b) Effective January 1, 2011, Wendy's leased 14,333 square feet of office space to QSCC for an annual base rental of $176. There is currently one one-year renewal option remaining under this lease. The Wendy's Company received $185, $188 and $191 of lease income from QSCC during 2014, 2013 and 2012, respectively, which has been recorded as a reduction of "General and administrative."

Transactions with the Management Company

(c) In June 2009, The Wendy's Company and TASCO, LLC (an affiliate of a management company formed by the Former Executives and a director, who was our former Vice Chairman (the "Management Company")) ("TASCO") entered into an aircraft lease agreement (the

"Aircraft Lease Agreement") to lease a company-owned aircraft. On June 29, 2011, The Wendy's Company and TASCO entered into an agreement to extend the Aircraft Lease Agreement for an additional one year period (expiring on June 30, 2012) and an increased monthly rent of $13. On June 30, 2012, The Wendy's Company and TASCO entered into an extension of that lease agreement that extended the lease term to July 31, 2012 and effective as of August 1, 2012, entered into an amended and restated aircraft lease agreement (the "2012 Lease") that expired on January 5, 2014. Under the 2012 Lease, all expenses related to the ownership, maintenance and operation of the aircraft were paid by TASCO, subject to certain limitations and termination rights. The 2012 Lease expired without any limitation or termination provisions being invoked. The Wendy's Company did not extend or renew the 2012 Lease. Under the previous Aircraft Lease Agreement, the Company recorded lease income of $92 during 2012 as a reduction of "General and administrative."

The Wendy's Company, through a wholly-owned subsidiary, was party to a three -year aircraft management and lease agreement, which expired in March 2014, with CitationAir, a subsidiary of Cessna Aircraft Company, pursuant to which the Company leased a corporate aircraft to CitationAir to use as part of its Jet Card program fleet. The Company entered into the lease agreement as a means of offsetting the cost of owning and operating the corporate aircraft by receiving revenue from third parties' use of such aircraft. Under the terms of the lease agreement, the Company paid annual management and flight crew fees to CitationAir and reimbursed CitationAir for maintenance costs and fuel usage related to the corporate aircraft. In return, CitationAir paid a negotiated fee to the Company based on the number of hours that the corporate aircraft was used by Jet Card members. This fee was reduced based on the number of hours that (1) the Company used other aircraft in the Jet Card program fleet and (2) Jet Card members who are affiliated with the Company used the corporate aircraft or other aircraft in the Jet Card program fleet. The Company's participation in the aircraft management and lease agreement reduced the aggregate costs that the Company would otherwise have incurred in connection with owning and operating the corporate aircraft. Under the terms of the lease agreement, the Company's directors had the opportunity to become Jet Card members and to use aircraft in the Jet Card program fleet at the same negotiated fee paid by the Company as provided for under the lease agreement. During the first quarter of 2014 and the years ended December 29, 2013 and December 30, 2012, the Former Executives and a director, who was our former Vice Chairman, and members of their immediate families, used their Jet Card agreements for business and personal travel on aircraft in the Jet Card program fleet. The Management Company paid CitationAir directly, and the Company received credit from CitationAir for charges related to such travel of approximately $375, $1,420 and $1,217 during the first quarter of 2014 and the years ended December 29, 2013 and December 30, 2012, respectively.

(d) In July 2008 and July 2007, The Wendy's Company entered into agreements under which the Management Company subleased (the "Subleases") office space on two of the floors of the Company's former New York headquarters. During the second quarter of 2010, The Wendy's Company and the Management Company entered into an amendment to the sublease, effective April 1, 2010, pursuant to which the Management Company's early termination right was canceled in exchange for a reduction in rent. Under the terms of the amended sublease, which expired in May 2012, the Management Company paid rent to the Company in an amount that covered substantially all of the Company's rent obligations under the prime lease for the subleased space. The Company recognized income of $683 from the Management Company under such subleases in 2012, which has been recorded as a reduction of "General and administrative."

Distributions of Proceeds to Noncontrolling Interests

(e) Jurl, a 99.7% owned subsidiary, completed the sale of our investment in Jurlique in February 2012. Prior to 2009, when our predecessor entity was a diversified company active in investments, we had provided our Former Executives, and certain other former employees, equity and profit interests in Jurl. In connection with the gain on sale of Jurlique, we distributed, based on the related agreement, approximately $3,667 in 2012 to Jurl's minority shareholders, including approximately $2,296 to the Former Executives. See Note 6 for further discussion of the sale of Jurlique.

TimWen Lease and Management Fee Payments

(f) A wholly-owned subsidiary of Wendy's leases restaurant facilities from TimWen for the operation of Wendy's/Tim Hortons combo units in Canada. Wendy's paid TimWen $6,313, $6,854 and $6,880 under such leases during 2014, 2013 and 2012, respectively, which have been included in "Costs of sales." Wendy's subleases some of the restaurant facilities to franchisees and they pay TimWen directly. In addition, TimWen paid Wendy's a management fee under the TimWen joint venture agreement, of $249, $267 and $275 during 2014, 2013 and 2012, respectively, which has been included as a reduction to "General and administrative."

Other Related Party Transactions

On March 24, 2014, the Company completed the sale of 40 Company-owned restaurants in the Phoenix, Arizona market to Arizona Restaurant Company, LLC ("ARC") as part of the Company's system optimization initiative. John N. Peters, who served as the Company's Senior Vice President—North America Operations until his retirement on March 10, 2014, is a 10% owner and manager of ARC. Pursuant to an Asset Purchase Agreement dated November 20, 2013 and related transaction documents: (1) the Company sold to ARC substantially all of the assets (other than real property) used in the operation of the restaurants for an aggregate purchase price of approximately $21,000 (including inventory, cash banks and franchise and development fees), subject to adjustment as set forth in the agreement; (2) the Company and ARC entered into lease and sublease agreements with respect to the real property and buildings for the restaurants; and (3) ARC agreed to develop five new restaurants and complete Image Activation remodels at seven existing restaurants following the closing. During the year ended December 28, 2014, the Company recognized $4,677 of royalty revenue and rental income from ARC of which $384 is outstanding as of December 28, 2014 and included in "Accounts and notes receivable." As of December 28, 2014 the Company had $27 accrued for amounts owed to Mr. Peters in connection with his employment with the Company.

As part of its overall retention efforts, The Wendy's Company provided certain of its Former Executives and current and former employees, the opportunity to co-invest with The Wendy's Company in certain investments. During 2013, The Wendy's Company and certain of its former management had one remaining co-investment, 280 BT Holdings LLC ("280 BT"), a limited liability company formed to invest in certain operating entities. In early 2014, 280 BT received a liquidating distribution following the dissolution of its last investment. Upon receipt of the liquidating distribution, 280 BT made a final, equivalent distribution to its members in accordance with the terms of its operating agreement. The ownership percentages in 280 BT for the purpose of the distribution and as of December 29, 2013 for The Wendy's Company, the former officers of The Wendy's Company and other investors were 80.1%, 11.2% and 8.7%, respectively. The distribution during the first quarter of 2014 to The Wendy's Company and the former officers of The Wendy's Company was $22 and $5, respectively. 280 BT did not make any distributions to its members in 2013 or 2012.

During the third quarter of 2012, Matthew Peltz was appointed to the ARG Holding Corporation Board of Directors. He is not currently receiving compensation as a director of ARG Holding Corporation. A subsidiary of the Company owns 18.5% of the common stock of ARG Holding Corporation. Matthew Peltz is the son of the Company's Chairman of the Board.

1.118 SCHNITZER STEEL INDUSTRIES, INC. (AUG)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 20—Related Party Transactions

The Company purchases recycled metal from its joint venture operations at prices that approximate fair market value. These purchases totaled $30 million, $26 million and $41 million for the years ended August 31, 2014, 2013 and 2012, respectively. Net advances to these joint ventures were $3 million, $2 million and less than $1 million for the years ended August 31, 2014, 2013 and 2012, respectively. The Company had immaterial balances due from joint ventures as of August31, 2014 and owed $3 million to joint ventures as of August31, 2013. Amounts receivable from joint venture partners were $1 million as of August 31, 2014 and 2013.

In connection with the acquisition of the metals recycling business assets of Amix Salvage and Sales Ltd. in March 2011, the Company entered into a series of agreements to obtain barging and other services and lease property with entities owned by the minority shareholder of the Company's subsidiary that operates its MRB facilities in Vancouver, British Columbia and Alberta, Canada. On March 8, 2013, the Company purchased the noncontrolling interest in that subsidiary and, as a result, those entities under common ownership of the former minority shareholder ceased to be related parties of the Company. Prior to its purchase of the noncontrolling interest, the Company paid $5 million and $9 million primarily for barging services under these agreements for the years ended August 31, 2013 and 2012, respectively.

In connection with the acquisition of a metals recycling business in fiscal 2011, the Company entered into an agreement with the selling parties, one of which was an employee of the Company, whereby the selling parties agreed to indemnify the Company for property improvements in excess of a contractually defined threshold on property owned by the selling parties and leased to the Company.The Company recognized an amount receivable of $1 million as of August 31, 2012 under the agreement, for which payment was received in the first quarter of fiscal 2013.

Thomas D. Klauer,Jr., President of the Company's Auto Parts Business, is the sole shareholder of a corporation that is the 25% minority partner in a partnership in which the Company is the 75% partner and which operates five self-service stores in Northern California. Mr.Klauer's 25% share of the profits of this partnership totaled $2 million, $1 million and $2 million for the years ended August 31, 2014, 2013 and 2012, respectively. The partnership leases properties from entities in which Mr. Klauer has ownership interests under agreements that expire in March 2016 with options to renew the leases, upon expiration, for multiple periods. The rent paid by the partnership to the entities in which Mr. Klauer has ownership interests was $1 million in each of the years ended August 31, 2014, 2013 and 2012.

Certain members of the Schnitzer family own significant interests in, or are related to owners of, MMGL Corp ("MMGL", formerly known as Schnitzer Investment Corp.), which is engaged in the real estate business and was a subsidiary of the Company prior to 1989. MMGL is considered a related party for financial reporting purposes. The Company and MMGL are both potentially responsible parties with respect to

Portland Harbor, which has been designated as a Superfund site since December 2000. The Company and MMGL have worked together in response to Portland Harbor matters, and the Company has paid all of the legal and consulting fees for the joint defense, in part due to its environmental indemnity obligation to MMGL with respect to the Portland scrap metal operations property. The Company and MMGL have agreed to an equitable cost sharing arrangement with respect to defense costs under which MMGL will pay 50% of the legal and consulting costs, net of insurance recoveries. The amounts receivable from (payable to) MMGL vary from period-to-period because of the timing of incurring legal and consulting fees, payments for cost reimbursements and insurance recoveries. Amounts receivable from MMGL under this agreement were $1 million and less than $1 million as of August 31, 2014 and 2013, respectively.

Inflationary Accounting

DISCLOSURE

1.119 FASB ASC 255, *Changing Prices*, states that entities are encouraged to disclose supplementary information on the effects of changing prices (inflation). Entities are not discouraged from experimenting with other forms of disclosure.

1.120 However, Item 303 of the SEC's Regulation S-K requires that registrants discuss in "Management's Discussion and Analysis of Financial Condition and Results of Operations" the effects of inflation and other changes in prices when considered material. The SEC also encourages experimentation with these disclosures in order to provide the most meaningful presentation of the impact of price changes on the registrant's financial statements.

PRESENTATION AND DISCLOSURE EXCERPT

INFLATIONARY ACCOUNTING

1.121 AVON PRODUCTS, INC. (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In millions) **Years Ended December 31**	**2014**	**2013**	**2012**
Cash Flows from Operating Activities			
Net loss	$(384.9)	$(51.9)	$(38.2)
Loss from discontinued operations, net of tax	—	50.9	131.5
(Loss) income from continuing operations, net of tax	(384.9)	(1.0)	93.3
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	141.3	164.8	161.8
Amortization	51.3	59.8	50.7
Provision for doubtful accounts	192.5	239.3	250.9
Provision for obsolescence	100.9	117.1	118.8
Share-based compensation	38.9	43.3	41.1
Foreign exchange losses (gains)	42.4	26.3	(22.4)
Deferred income taxes	244.5	(128.6)	27.9
Charge for Venezuelan monetary assets and liabilities	53.7	34.1	—
Charge for Venezuelan non-monetary assets to net realizable value	115.7	—	—
Impairment of goodwill, intangible assets and SMT capitalized software	—	159.3	44.0
Other	70.2	28.2	57.7
Changes in assets and liabilities:			
Accounts receivable	(182.6)	(235.3)	(240.9)
Inventories	(155.4)	(87.4)	(81.8)
Prepaid expenses and other	(61.6)	77.7	59.1
Accounts payable and accrued liabilities	125.0	140.1	82.6
Income and other taxes	47.9	3.4	(23.3)
Noncurrent assets and liabilities	(80.0)	(101.5)	(75.5)
Net cash provided by operating activities of continuing operations	359.8	539.6	544.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(U.S. dollars in millions, except per share and share data)

Note 1. Description of the Business and Summary of Significant Accounting Policies (in part)

Foreign Currency

Financial statements of foreign subsidiaries operating in other than highly inflationary economies are translated at year-end exchange rates for assets and liabilities and average exchange rates during the year for income and expense accounts. The resulting translation adjustments are recorded within accumulated other comprehensive loss ("AOCI"). Gains or losses resulting from the impact of changes in foreign currency rates on assets and liabilities denominated in a currency other than the functional currency are recorded in other expense, net.

For financial statements of Avon subsidiaries operating in highly inflationary economies, the United States ("U.S.") dollar is required to be used as the functional currency. At December 31, 2014, Venezuela was the only Avon subsidiary considered to be operating in a highly inflationary economy. Highly inflationary accounting requires monetary assets and liabilities, such as cash, receivables and payables, to be remeasured into U.S. dollars at the current exchange rate at the end of each period with the impact of any changes in exchange rates being recorded in income. We record the impact of changes in exchange rates on monetary assets and liabilities in other expense, net. Similarly, deferred tax assets and liabilities are remeasured into U.S. dollars at the current exchange rates; however, the impact of changes in exchange rates is recorded in income taxes in the Consolidated Statements of Income. Non-monetary assets and liabilities, such as inventory, property, plant and equipment and prepaid expenses are recorded in U.S. dollars at the historical rates at the time of acquisition of such assets or liabilities.

Venezuela Currency

We account for Venezuela as a highly inflationary economy. In February 2014, the Venezuelan government announced a foreign exchange system ("SICAD II") which began operating on March 24, 2014. There are multiple legal mechanisms in Venezuela to exchange currency. As SICAD II represented the rate which better reflected the economics of Avon Venezuela's business activity, we concluded that we should utilize the SICAD II exchange rate to remeasure our Venezuelan operations effective March 31, 2014. As a result of the change to the SICAD II rate, which caused the recognition of a devaluation of approximately 88% as compared to the official exchange rate we used previously, we recorded an after-tax loss of $41.8 ($53.7 in other expense, net, and a benefit of $11.9 in income taxes) in the first quarter of 2014, primarily reflecting the write-down of monetary assets and liabilities. In addition, as a result of using the historical U.S. dollar cost basis of non-monetary assets, such as inventories, these assets continued to be remeasured, following the change to the SICAD II rate, at the applicable rate at the time of acquisition. The remeasurement of non-monetary assets at the historical U.S. dollar cost basis causes a disproportionate expense as these assets are consumed in operations, negatively impacting operating profit and net income during 2014. Also as a result, we determined that an adjustment of $115.7 to cost of sales was needed to reflect certain non-monetary assets at their net realizable value, which was recorded in the first quarter of 2014. In addition, at March 31, 2014, we reviewed Avon Venezuela's long-lived assets to determine whether the carrying amount of the assets were recoverable, and determined that they were. As such, no impairment of Avon Venezuela's long-lived assets was required. In February 2015, the Venezuelan government announced that the SICAD II market would no longer be available, and a new open market foreign exchange system ("SIMADI") was created. We believe that significant uncertainty exists regarding the foreign exchange mechanisms in Venezuela, as well as how any such mechanisms will operate in the future and the availability of U.S. dollars under each mechanism. We are still evaluating our future access to funds through the SIMADI or other similar markets.

Effective February 13, 2013, the Venezuelan government devalued its currency by approximately 32% and as such we recorded a one-time, after-tax loss of $50.7 ($34.1 in other expense, net, and $16.6 in income taxes) in the first quarter of 2013, primarily reflecting the write-down of monetary assets and liabilities and deferred tax benefits. In addition, as a result of using the historical U.S. dollar cost basis of non-monetary assets, such as inventories, acquired prior to the devaluation, operating profit and net loss during 2013 were negatively impacted.

Section 2: **Balance Sheet and Related Disclosures** ...

General Balance Sheet Considerations

PRESENTATION

2.01 FASB *Accounting Standards Codification*® (ASC) describes the benefits of presenting comparative financial statements instead of single-period financial statements and addresses the required disclosures and how the comparative information should be presented. SEC Regulation S-X, together with Financial Reporting Releases and Staff Accounting Bulletins, prescribe the form and content of, and requirements for, financial statements filed with the SEC. However, those requirements are modified for smaller reporting companies, as defined by SEC Regulation S-K, in Article 8 of Regulation S-X.

2.02 FASB ASC 810, *Consolidation*, and Rule 3 A-02 of Regulation S-X state that a presumption exists that consolidated financial statements are more meaningful than separate financial statements and that they are usually necessary for a fair presentation when one of the entities in the consolidated group directly or indirectly has a controlling financial interest in the other entities. Rule 3-01(a) of Regulation S-X requires an entity to present consolidated balance sheets as of the end of each of the two most recent fiscal years, unless the entity has been in existence for less than one year.

2.03 FASB ASC does not require an entity to present a classified balance sheet or mandate any particular ordering of balance sheet accounts. However, FASB ASC 210-10-05-4 states that entities usually present a classified balance sheet to facilitate calculation of working capital. FASB ASC 210-10-05-5 indicates that in the statements of manufacturing, trading, and service entities, assets and liabilities are generally classified and segregated. Financial institutions generally present unclassified balance sheets. The FASB ASC glossary includes definitions of *current assets* and *current liabilities* for when an entity presents a classified balance sheet. FASB ASC 210-10-45 provides additional guidance for determining these classifications.

DISCLOSURE

2.04 FASB ASC sets forth disclosure guidelines regarding capital structure and other balance sheet items. SEC regulations also contain additional requirements for disclosures that registrants should provide outside the financial statements.

2.05 FASB ASC 205-10-50 states that reclassifications or other changes in the manner of, or basis for, presenting corresponding items for two or more periods should be explained. This conforms with the well-recognized principle that any change that affects comparability of financial statements should be disclosed.

PRESENTATION AND DISCLOSURE EXCERPT

RECLASSIFICATIONS

2.06 NORTHROP GRUMMAN CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

	December 31	
$ in millions	**2014**	**2013**
Liabilities		
Trade accounts payable	$1,305	$1,229
Accrued employee compensation	1,441	1,446
Advance payments and amounts in excess of costs incurred	1,713	1,722
Other current liabilities	1,433	1,418
Total current liabilities	5,892	5,815
Long-term debt, net of current portion of $3 in 2014 and $2 in 2013	5,925	5,928
Pension and other post-retirement benefit plan liabilities	6,555	2,954
Other non-current liabilities	965	1,064
Total liabilities	19,337	15,761

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Reclassifications (in part)

In the first quarter of 2014, we reclassified our cash awards incentive compensation accrual from other current liabilities to accrued employee compensation, which are both reported within current liabilities on the consolidated statement of financial position. The reclassification reduced other current liabilities and increased accrued employee compensation by $226 million and $277 million, as of December 31, 2014 and 2013, respectively.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	December 31	
$ in millions	**2014**	**2013**
Unamortized benefit plan costs, net of tax benefit of $3,395 in 2014 and $1,972 in 2013	$(5,316)	$(3,000)
Cumulative translation adjustment	(41)	18
Net unrealized gain (loss) on marketable securities and cash flow hedges, net of tax	1	(2)
Total accumulated other comprehensive loss	$(5,356)	$(2,984)

Unamortized benefit plan costs consist primarily of net after-tax actuarial losses totaling $5.6 billion and $3.3 billion as of December 31, 2014 and 2013, respectively. Net actuarial gains or losses are re-determined annually or upon remeasurement events and principally arise from changes in the rate used to discount our benefit obligations and differences between expected and actual returns on plan assets.

Reclassifications from accumulated other comprehensive income to net earnings related to the amortization of benefit plan costs were $145 million, $319 million and $204 million, net of taxes, for the years ended December 31, 2014, 2013 and 2012, respectively. The reclassifications represent the amortization of net actuarial losses and prior service credits for the company's retirement benefit plans, and are included in the computation of net periodic pension cost (See Note 12 for further information).

Reclassifications from accumulated other comprehensive income to net earnings, relating to cumulative translation adjustments, marketable securities and effective cash flow hedges for the years ended December 31, 2014, 2013 and 2012, respectively, were not material. Reclassifications for cumulative translation adjustments and marketable securities are recorded in other income, and reclassifications for effective cash flow hedges are recorded in operating income.

Cash and Cash Equivalents

PRESENTATION

2.07 Cash is commonly considered to consist of currency and demand deposits. The FASB ASC glossary defines *cash equivalents* as short-term, highly liquid investments that are both readily convertible into known amounts of cash and so near their maturity that they present an insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under that definition.

DISCLOSURE

2.08 Rule 5-02.1 of Regulation S-X states that separate disclosure should be made of the cash and cash items that are restricted regarding withdrawal or usage. The provisions of any restrictions should be described in a note to the financial statements. Restrictions may include legally restricted deposits held as compensating balances against short-term borrowing arrangements, contracts entered into with others, or company statements of intention with regard to particular deposits; however, time deposits and short-term certificates of deposit are not generally included in legally restricted deposits. Compensating balance arrangements that do not legally restrict the use of cash should be described in the notes to the financial statements; the amount involved, if determinable, for the most recent audited balance sheet and any subsequent unaudited balance sheet should be disclosed. Compensating balances maintained under an agreement to assure future credit availability should be disclosed, along with the amount and terms of such agreement.

Marketable Securities

RECOGNITION AND MEASUREMENT

2.09 FASB ASC 320, *Investments—Debt and Equity Securities*, provides guidance on accounting for and reporting investments in equity securities that have readily determinable fair values and all investments in debt securities.

2.10 FASB ASC 320-10-25-1 requires that at acquisition, entities classify certain debt and equity securities into one of three categories: held-to-maturity, trading, or available-for-sale. Investments in debt securities that the entity has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost in the statement of financial position. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities and reported at fair value. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value. FASB ASC 320-10-35-1 explains that unrealized holding gains and losses are included in earnings for trading securities and other comprehensive income for available-for-sale securities with the exception of an available-for-sale security designated as being hedged in a fair value hedge. All or a portion of that unrealized gain or loss should be recognized in earnings during the period of the hedge in accordance with paragraphs 1–4 of FASB ASC 815-25-35.

2.11 FASB ASC 320 indicates when certain investments are considered impaired, whether that impairment is other than temporary, and the measurement and recognition of an impairment loss. FASB ASC 320 also provides guidance on accounting considerations for debt securities subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

PRESENTATION

2.12 Under FASB ASC 320-10-45-2, an entity that presents a classified balance sheet should report individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities as either current or noncurrent.

DISCLOSURE

2.13 FASB ASC 320-10-50 includes detailed disclosure requirements for various marketable securities, including matters such as the nature and risks of the securities; cost, fair value, contractual maturities; impairment of securities; and certain transaction information.

2.14 By definition, investments in debt and equity securities are financial instruments. FASB ASC 825, *Financial Instruments*, requires disclosure of the fair value of those investments for which it is practicable to estimate that value, the methods and assumptions used in estimating the fair value of marketable securities, and a description of any changes in the methods and assumptions during the period. Under FASB ASC 825-10-50-3, the fair value disclosures are optional for certain nonpublic entities with assets less than $100 million.

2.15 FASB ASC 820, *Fair Value Measurement*, defines *fair value*, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Further, fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Fair value measurement should consider adjustment for risk, such as the risk inherent in a valuation technique or its inputs.

2.16 For assets and liabilities measured at fair value, whether on a recurring or nonrecurring basis, FASB ASC 820 specifies the required disclosures concerning the inputs used to measure fair value. FASB ASC 820-10-50-1 explains that the reporting entity should disclose information that enables users of its financial statements to assess the following: (*a*) for assets and liabilities measured at fair value on a recurring or nonrecurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements and (*b*) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings or other comprehensive income for the period.

2.17 FASB ASC 820-10-50-2 states that the reporting entity should disclose all of the following information for each interim and annual period separately for each class of assets and liabilities:

a. The fair value measurement at the reporting date.
b. The level within the fair value hierarchy in which the fair value measurement in its entirety falls (quoted prices in active markets for identical assets or liabilities—Level 1, significant other observable inputs—Level 2; significant unobservable inputs—Level 3).
c. The amounts of significant transfers between Level 1 and Level 2 and the reasons for the transfers.
d. For Level 3 measurements, a reconciliation of beginning and ending balances showing gains and losses for the period (realized and unrealized), purchases, sales, issuances, and settlements, and transfers in or out of Level 3 and reasons for those transfers.
e. For Level 3 measurements, the amount of total gains or losses for the period that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities).
f. For Level 2 and Level 3 measurements, a description of the valuation technique and the inputs used in determining the fair values of each class of assets or liabilities.
g. For recurring fair value measurements in Level 3, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement.
h. For recurring and nonrecurring fair value measurements, if the highest and best use of a nonfinancial asset differs from its current use, the reason why the asset is being used in a manner that differs from its highest and best use.

2.18 FASB ASC 825 permits entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Further, under FASB ASC 825, a business entity should report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. The irrevocable election of the fair value option is made on an instrument-by-instrument basis, with certain exceptions, and applied to the entire instrument, not only to specified risks, specific cash flows, or portions of that instrument. FASB ASC 825 also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. The required disclosures are optional for certain nonpublic entities.

PRESENTATION AND DISCLOSURE EXCERPTS

MARKETABLE SECURITIES—AVAILABLE-FOR-SALE SECURITIES

2.19 3M COMPANY (DEC)

CONSOLIDATED BALANCE SHEET (in part)

At December 31

(Dollars in millions, except per share amount)	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 1,897	$ 2,581
Marketable securities—current	626	756
Accounts receivable—net of allowances of $94 and $104	4,238	4,253
Inventories		
Finished goods	1,723	1,790
Work in process	1,081	1,139
Raw materials and supplies	902	935
Total inventories	3,706	3,864
Other current assets	1,298	1,279
Total current assets	11,765	12,733
Marketable securities—non-current	828	1,453
Investments	102	122
Property, plant and equipment	22,841	23,068
Less: Accumulated depreciation	(14,352)	(14,416)
Property, plant and equipment—net	8,489	8,652
Goodwill	7,050	7,345
Intangible assets—net	1,435	1,688
Prepaid pension benefits	46	577
Other assets	1,554	980
Total assets	$31,269	$33,550

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Significant Accounting Policies (in part)

Marketable securities: The classification of marketable securities as current or non-current is dependent upon management's intended holding period, the security's maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. 3M reviews impairments associated with its marketable securities in accordance with the measurement guidance provided by ASC 320, Investments-Debt and Equity Securities, when determining the classification of the impairment as "temporary" or "other-than-temporary". A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of shareholders' equity. Such an unrealized loss does not reduce net income for the applicable accounting period because the loss is not viewed as other-than-temporary. The factors evaluated to differentiate between temporary and other-than-temporary include the projected future cash flows, credit ratings actions, and assessment of the credit quality of the underlying collateral, as well as other factors.

Investments: Investments primarily include equity method, cost method, and available-for-sale equity investments. Available-for-sale investments are recorded at fair value. Unrealized gains and losses relating to investments classified as available-for-sale are recorded as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Fair value measurements: 3M follows ASC 820, Fair Value Measurements and Disclosures, with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under the standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs 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, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Note 8. Marketable Securities

The Company invests in agency securities, corporate securities, asset-backed securities and other securities. The following is a summary of amounts recorded on the Consolidated Balance Sheet for marketable securities (current and non-current).

(Millions)	December 31, 2014	December 31, 2013
U.S. government agency securities	$ 67	$ 103
Foreign government agency securities	75	30
Corporate debt securities	241	143
Commercial paper	—	60
Certificates of deposit/time deposits	41	20
U.S. municipal securities	—	2
Asset-backed securities:		
Automobile loan related	122	287
Credit card related	59	52
Equipment lease related	21	30
Other	—	29
Asset-backed securities total	202	398
Current marketable securities	$ 626	$ 756
U.S. government agency securities	$ 41	$ 131
Foreign government agency securities	20	95
Corporate debt securities	378	638
Certificates of deposit/time deposits	—	20
U.S. treasury securities	38	49
U.S. municipal securities	15	—
Auction rate securities	—	11
Asset-backed securities:		
Automobile loan related	160	298

(continued)

(Millions)	**December 31, 2014**	**December 31, 2013**
Credit card related	103	128
Equipment lease related	27	37
Other	46	46
Asset-backed securities total	336	509
Non-current marketable securities	$ 828	$1,'453
Total marketable securities	$1,454	$2,209

Classification of marketable securities as current or non-current is dependent upon management's intended holding period, the security's maturity date and liquidity considerations based on market conditions. If management intends to hold the securities for longer than one year as of the balance sheet date, they are classified as non-current. At December 31, 2014, gross unrealized losses totaled approximately $1 million (pre-tax), while gross unrealized gains totaled approximately $1 million (pre-tax). At December 31, 2013, gross unrealized losses totaled approximately $5 million (pre-tax), while gross unrealized gains totaled approximately $1 million (pre-tax). Refer to Note 5 for a table that provides the net realized gains (losses) related to sales or impairments of debt and equity securities, which includes marketable securities. The gross amounts of the realized gains or losses were not material. Cost of securities sold use the first in, first out (FIFO) method. Since these marketable securities are classified as available-for-sale securities, changes in fair value will flow through other comprehensive income, with amounts reclassified out of other comprehensive income into earnings upon sale or "other-than-temporary" impairment.

3M reviews impairments associated with its marketable securities in accordance with the measurement guidance provided by ASC 320, *Investments-Debt and Equity Securities*, when determining the classification of the impairment as "temporary" or "other-than-temporary". A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of shareholders' equity. Such an unrealized loss does not reduce net income attributable to 3M for the applicable accounting period because the loss is not viewed as other-than-temporary. The factors evaluated to differentiate between temporary and other-than-temporary include the projected future cash flows, credit ratings actions, and assessment of the credit quality of the underlying collateral, as well as other factors.

The balance at December 31, 2014, for marketable securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(Millions)	**December 31, 2014**
Due in one year or less	$ 367
Due after one year through five years	1,064
Due after five years through ten years	8
Due after ten years	15
Total marketable securities	$1,454

3M has a diversified marketable securities portfolio of $1.454 billion as of December 31, 2014. Within this portfolio, current and long-term asset-backed securities (estimated fair value of $538 million) primarily include interests in automobile loans, credit cards and equipment leases. 3M's investment policy allows investments in asset-backed securities with minimum credit ratings of Aa2 by Moody's Investors Service or AA by Standard & Poor's or Fitch Ratings or DBRS. Asset-backed securities must be rated by at least two of the aforementioned rating agencies, one of which must be Moody's Investors Service or Standard & Poor's. At December 31, 2014, all asset-backed security investments were in compliance with this policy. Approximately 96.6 percent of all asset-backed security investments were rated AAA or A-1 + by Standard & Poor's and/or Aaa or P-1 by Moody's Investors Service and/or AAA or F1 + by Fitch Ratings. Interest rate risk and credit risk related to the underlying collateral may impact the value of investments in asset-backed securities, while factors such as general conditions in the overall credit market and the nature of the underlying collateral may affect the liquidity of investments in asset-backed securities. 3M does not currently expect risk related to its holding in asset-backed securities to materially impact its financial condition or liquidity.

Note 12. Fair Value Measurements (in part)

3M follows ASC 820, *Fair Value Measurements and Disclosures*, with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under the standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs 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, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:

For 3M, assets and liabilities that are measured at fair value on a recurring basis primarily relate to available-for-sale marketable securities, available-for-sale investments (included as part of investments in the Consolidated Balance Sheet) and certain derivative instruments. Derivatives include cash flow hedges, interest rate swaps and most net investment hedges. The information in the following paragraphs and tables primarily addresses matters relative to these financial assets and liabilities. Separately, there were no material fair value measurements with respect to nonfinancial assets or liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis for 2014 and 2013.

3M uses various valuation techniques, which are primarily based upon the market and income approaches, with respect to financial assets and liabilities. Following is a description of the valuation methodologies used for the respective financial assets and liabilities measured at fair value.

Available-for-sale marketable securities—except auction rate securities and certain U.S. municipal securities:

Marketable securities, except auction rate securities and certain U.S. municipal securities, are valued utilizing multiple sources. A weighted average price is used for these securities. Market prices are obtained for these securities from a variety of industry standard data providers, security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily fair value to be used. 3M classifies U.S. treasury securities as level 1, while all other marketable securities (excluding auction rate securities and certain U.S. municipal securities) are classified as level 2. Marketable securities are discussed further in Note 8.

Available-for-sale marketable securities—auction rate securities and certain U.S. municipal securities only:

Auction rate securities held by 3M failed to auction since the second half of 2007. As a result, investments in auction rate securities are valued utilizing third-party indicative bid levels in markets that are not active and broker-dealer valuation models that utilize inputs such as current/forward interest rates, current market conditions and credit default swap spreads. 3M classifies these securities as level 3. In the fourth quarter 2014, 3M sold all remaining auction rate securities out of their portfolio and no longer has a balance at December 31, 2014.

In the fourth quarter 2014, 3M obtained a municipal bond with the City of Nevada, Missouri, which represent 3M's only U.S. municipal securities holding as of December 31, 2014. Due to the nature of this security, the valuation method utilized will include the financial health of the City of Nevada, any recent municipal bond issuances by Nevada, and macroeconomic considerations related to the direction of interest rates and the health of the overall municipal bond market, and as such will be classified as a level 3 security. 3M's other U.S. municipal securities holdings at December 31, 2013 were classified as level 2.

Available-for-sale investments:

Investments include equity securities that are traded in an active market. Closing stock prices are readily available from active markets and are used as being representative of fair value. 3M classifies these securities as level 1.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis.

(Millions)	Fair Value at	Fair Value Measurements Using Inputs Considered as		
Description	**Dec. 31, 2014**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	$108	$—	$108	$—
Foreign government agency securities	95	—	95	—
Corporate debt securities	619	—	619	—
Certificates of deposit/time deposits	41	—	41	—
Asset-backed securities:				
Automobile loan related	282	—	282	—
Credit card related	162	—	162	—

(continued)

(Millions) Description	Fair Value at Dec. 31, 2014	Fair Value Measurements Using Inputs Considered as Level 1	 Level 2	 Level 3
Equipment lease related	48	—	48	—
Other	46	—	46	—
U.S. treasury securities	38	38	—	—
U.S. municipal securities	15	—	—	15
Investments	1	1	—	—
Derivative instruments—assets:				
Foreign currency forward/option contracts	229	—	229	—
Interest rate swap contracts	27	—	27	—
Liabilities:				
Derivative instruments—liabilities:				
Foreign currency forward/option contracts	36	—	36	—
Commodity price swap contracts	4	—	4	—
Interest rate swap contracts	3	—	3	—

(Millions) Description	Fair Value at Dec. 31, 2013	Fair Value Measurements Using Inputs Considered as Level 1	 Level 2	 Level 3
Assets:				
Available-for-sale:				
Marketable securities:				
U.S. government agency securities	$234	$—	$234	$—
Foreign government agency securities	125	—	125	—
Corporate debt securities	781	—	781	—
Certificates of deposit/time deposits	40	—	40	—
Commercial paper	60	—	60	—
Asset-backed securities:				
Automobile loan related	585	—	585	—
Credit card related	180	—	180	—
Equipment lease related	67	—	67	—
Other	75	—	75	—
U.S. treasury securities	49	49	—	—
U.S. municipal securities	2	—	2	—
Auction rate securities	11	—	—	11
Investments	2	2	—	—
Derivative instruments—assets:				
Foreign currency forward/option contracts	75	—	75	—
Commodity price swap contracts	1	—	1	—
Interest rate swap contracts	8	—	8	—
Liabilities:				
Derivative instruments—liabilities:				
Foreign currency forward/option contracts	103	—	103	—
Interest rate swap contracts	7	—	7	—

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (level 3).

(Millions) Marketable Securities—Auction Rate Securities and Certain U.S. Municipal Securities Only	2014	2013	2012
Beginning balance	$ 11	$ 7	$ 4
Total gains or losses:			
Included in earnings	(1)	—	—
Included in other comprehensive income	2	4	3
Purchases and issuances	15	—	—
Sales and settlements	(12)	—	—
Transfers in and/or out of level 3	—	—	—
Ending balance (December 31)	15	11	7
Change in unrealized gains or losses for the period included in earnings for securities held at the end of the reporting period	—	—	—

MARKETABLE SECURITIES—HELD-TO-MATURITY SECURITIES

2.20 CITIGROUP INC. (DEC)

CONSOLIDATED BALANCE SHEET (in part)

	December 31,	
In millions of dollars	2014	2013
Assets		
Cash and due from banks (including segregated cash and other deposits)	$ 32,108	$ 29,885
Deposits with banks	128,089	169,005
Federal funds sold and securities borrowed or purchased under agreements to resell (including $144,191 and $144,083 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	242,570	257,037
Brokerage receivables	28,419	25,674
Trading account assets (including $106,217 and $106,695 pledged to creditors at December 31, 2014 and December 31, 2013, respectively)	296,786	285,928
Investments:		
Available for Sale (including $13,808 and $22,258 pledged to creditors as of December 31, 2014 and December 31, 2013, respectively)	300,143	286,511
Held to Maturity (including $2,974 and $4,730 pledged to creditors as of December 31, 2014 and December 31, 2013, respectively)	23,921	10,599
Non-Marketable Equity Securities (including $2,758 and $4,705 at fair value as of December 31, 2014 and December 31, 2013 respectively)	9,379	11,870
Total investments	$ 333,443	$ 308,980
Loans:		
Consumer (including $43 and $957 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	369,970	393,831
Corporate (including $5,858 and $4,072 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	274,665	271,641
Loans, net of unearned income	$ 644,635	$ 665,472
Allowance for loan losses	(15,994)	(19,648)
Total loans, net	$ 628,641	$ 645,824
Goodwill	23,592	25,009
Intangible assets (other than MSRs)	4,566	5,056
Mortgage servicing rights (MSRs)	1,845	2,718
Other assets (including $7,762 and $7,123 as of December 31, 2014 and December 31, 2013, respectively, at fair value)	122,471	125,266
Total assets	$1,842,530	$1,880,382

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Investment Securities

Investments include fixed income and equity securities. Fixed income instruments include bonds, notes and redeemable preferred stocks, as well as certain loan-backed and structured securities that are subject to prepayment risk. Equity securities include common and nonredeemable preferred stock.

Investment securities are classified and accounted for as follows:

- Fixed income securities classified as "held-to-maturity" are securities that the Company has both the ability and the intent to hold until maturity and are carried at amortized cost. Interest income on such securities is included in *Interest revenue*.
- Fixed income securities and marketable equity securities classified as "available-for-sale" are carried at fair value with changes in fair value reported in *Accumulated other comprehensive income (loss)*, a component of *Stockholders' equity*, net of applicable income taxes and hedges. Realized gains and losses on sales are included in income primarily on a specific identification cost basis. Interest and dividend income on such securities is included in *Interest revenue*.
- Certain investments in non-marketable equity securities and certain investments that would otherwise have been accounted for using the equity method are carried at fair value, since the Company has elected to apply fair value accounting. Changes in fair value of such investments are recorded in earnings.
- Certain non-marketable equity securities are carried at cost and are periodically assessed for other-than-temporary impairment, as described in Note 14 to the Consolidated Financial Statements.

For investments in fixed income securities classified as held-to-maturity or available-for-sale, the accrual of interest income is suspended for investments that are in default or for which it is likely that future interest payments will not be made as scheduled.

Investment securities are subject to evaluation for other-than-temporary impairment as described in Note 14 to the Consolidated Financial Statements.

The Company uses a number of valuation techniques for investments carried at fair value, which are described in Note 25 to the Consolidated Financial Statements. Realized gains and losses on sales of investments are included in earnings.

14. Investments (in part)

Overview (in part)

	December 31,	
In millions of dollars	2014	2013
Securities available-for-sale (AFS)	$300,143	$286,511
Debt securities held-to-maturity (HTM)[1]	23,921	10,599
Non-marketable equity securities carried at fair value[2]	2,758	4,705
Non-marketable equity securities carried at cost[3]	6,621	7,165
Total investments	$333,443	$308,980

[1] Carried at amortized cost basis, including any impairment for securities that have credit-related impairment.

[2] Unrealized gains and losses for non-marketable equity securities carried at fair value are recognized in earnings.

[3] Primarily consists of shares issued by the Federal Reserve Bank, Federal Home Loan Banks, foreign central banks and various clearing houses of which Citigroup is a member.

The Company has sold certain debt securities that were classified as HTM. These sales were in response to significant deterioration in the creditworthiness of the issuers or securities. In addition, other securities were reclassified to AFS investments in response to significant credit deterioration or because a substantial portion of the securities' principal outstanding at acquisition has been collected. Because the Company generally intends to sell the securities, Citi recorded OTTI on the securities. The following table sets forth, for the periods indicated, gain (loss) on HTM securities sold, securities reclassified to AFS and OTTI recorded on AFS securities reclassified.

In millions of dollars	2014	2013	2012
Carrying value of HTM securities sold	$ 8	$ 935	$2,110
Net realized gain (loss) on sale of HTM securities	—	(128)	(187)
Carrying value of securities reclassified to AFS	889	989	244
OTTI losses on securities reclassified to AFS	(25)	(156)	(59)

Debt Securities Held-to-Maturity

The carrying value and fair value of debt securities HTM at December 31, 2014 and 2013 were as follows:

In millions of dollars	Amortized Cost Basis[1]	Net Unrealized Gains (Losses) Recognized in AOCI	Carrying Value[2]	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2014						
Debt securities held-to-maturity						
Mortgage-backed securities[3]						
U.S. government agency guaranteed	$ 8,795	$ 95	$ 8,890	$ 106	$ (6)	$ 8,990
Prime	60	(12)	48	6	(1)	53
Alt-A	1,125	(213)	912	537	(287)	1,162
Subprime	6	(1)	5	15	—	20
Non-U.S. residential	983	(137)	846	92	—	938
Commercial	8	—	8	1	—	9
Total mortgage-backed securities	$10,977	$(268)	$10,709	$ 757	$(294)	$11,172
State and municipal[4]	$ 8,443	$(494)	$ 7,949	$ 227	$ (57)	$ 8,119
Foreign government	4,725	—	4,725	77	—	4,802
Corporate	—	—	—	—	—	—
Asset-backed securities[3]	556	(18)	538	50	(10)	578
Total debt securities held-to-maturity[5]	$24,701	$(780)	$23,921	$1,111	$(361)	$24,671
December 31, 2013						
Debt securities held-to-maturity						
Mortgage-backed securities[3]						
Prime	$ 72	$ (16)	$ 56	$ 5	$ (2)	$ 59
Alt-A	1,379	(287)	1,092	449	(263)	1,278
Subprime	2	—	2	1	—	3
Non-U.S. residential	1,372	(206)	1,166	60	(20)	1,206
Commercial	10	—	10	1	—	11
Total mortgage-backed securities	$ 2,835	$(509)	$ 2,326	$ 516	$(285)	$ 2,557

(continued)

In millions of dollars	Amortized Cost Basis[1]	Net Unrealized Gains (Losses) Recognized in AOCI	Carrying Value[2]	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
State and municipal	$ 1,394	$ (62)	$ 1,332	$ 50	$ (70)	$ 1,312
Foreign government	5,628	—	5,628	70	(10)	5,688
Corporate	818	(78)	740	111	—	851
Asset-backed securities[3]	599	(26)	573	22	(10)	585
Total debt securities held-to-maturity	$11,274	$(675)	$10,599	$ 769	$(375)	$10,993

[1] For securities transferred to HTM from *Trading account assets*, amortized cost basis is defined as the fair value of the securities at the date of transfer plus any accretion income and less any impairments recognized in earnings subsequent to transfer. For securities transferred to HTM from AFS, amortized cost is defined as the original purchase cost, adjusted for the cumulative accretion or amortization of any purchase discount or premium, plus or minus any cumulative fair value hedge adjustments, net of accretion or amortization, and less any other-than-temporary impairment recognized in earnings.

[2] HTM securities are carried on the Consolidated Balance Sheet at amortized cost basis, plus or minus any unamortized unrealized gains and losses and fair value hedge adjustments recognized in AOCI prior to reclassifying the securities from AFS to HTM. Changes in the values of these securities are not reported in the financial statements, except for the amortization of any difference between the carrying value at the transfer date and par value of the securities, and the recognition of any non-credit fair value adjustments in AOCI in connection with the recognition of any credit impairment in earnings related to securities the Company continues to intend to hold until maturity.

[3] The Company invests in mortgage-backed and asset-backed securities. These securitizations are generally considered VIEs. The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities, which is reflected in the table above. For mortgage-backed and asset-backed securitizations in which the Company has other involvement, see Note 22 to the Consolidated Financial Statements.

[4] The net unrealized losses recognized in AOCI on state and municipal debt securities are primarily attributable to the effects of fair value hedge accounting applied when these debt securities were classified as AFS. Specifically, Citi hedged the LIBOR-benchmark interest rate component of certain fixed-rate tax-exempt state and municipal debt securities utilizing LIBOR-based interest rate swaps. During the hedge period, losses incurred on the LIBOR-hedging swaps recorded in earnings were substantially offset by gains on the state and municipal debt securities attributable to changes in the LIBOR swap rate being hedged. However, because the LIBOR swap rate decreased significantly during the hedge period while the overall fair value of the municipal debt securities was relatively unchanged, the effect of reclassifying fair value gains on these securities from AOCI to earnings attributable solely to changes in the LIBOR swap rate resulted in net unrealized losses remaining in AOCI that relate to the unhedged components of these securities. Upon transfer of these debt securities to HTM, all hedges have been de-designated and hedge accounting has ceased.

[5] During the second quarter of 2014, securities with a total fair value of approximately $11.8 billion were transferred from AFS to HTM and comprised $5.4 billion of U.S. government agency mortgage-backed securities and $6.4 billion of obligations of U.S. states and municipalities. The transfer reflects the Company's intent to hold these securities to maturity or to issuer call in order to reduce the impact of price volatility on AOCI and certain capital measures under Basel III. While these securities were transferred to HTM at fair value as of the transfer date, no subsequent changes in value may be recorded, other than in connection with the recognition of any subsequent other-than-temporary impairment and the amortization of differences between the carrying values at the transfer date and the par values of each security as an adjustment of yield over the remaining contractual life of each security. Any net unrealized holding losses within AOCI related to the respective securities at the date of transfer, inclusive of any cumulative fair value hedge adjustments, will be amortized over the remaining contractual life of each security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

The Company has the positive intent and ability to hold these securities to maturity or, where applicable, the exercise of any issuer call options, absent any unforeseen significant changes in circumstances, including deterioration in credit or changes in regulatory capital requirements.

The net unrealized losses classified in AOCI primarily relate to debt securities previously classified as AFS that have been transferred to HTM, and include any cumulative fair value hedge adjustments. The net unrealized loss amount also includes any non-credit-related changes in fair value of HTM securities that have suffered credit impairment recorded in earnings. The AOCI balance related to HTM securities is amortized over the remaining contractual life of the related securities as an adjustment of yield in a manner consistent with the accretion of any difference between the carrying value at the transfer date and par value of the same debt securities. The table below shows the fair value of debt securities in HTM that have been in an unrecognized loss position as of December 31, 2014 and 2013 for less than 12 months and for 12 months or longer:

	Less Than 12 Months		12 Months or Longer		Total	
In millions of dollars	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses
December 31, 2014						
Debt securities held-to-maturity						
Mortgage-backed securities	$ 4	$—	$1,134	$294	$1,138	$294
State and municipal	2,528	34	314	23	2,842	57
Foreign government	—	—	—	—	—	—
Asset-backed securities	9	1	174	9	183	10
Total debt securities held-to-maturity	$2,541	$ 35	$1,622	$326	$4,163	$361
December 31, 2013						
Debt securities held-to-maturity						
Mortgage-backed securities	$ —	$—	$ 358	$285	$ 358	$285
State and municipal	235	20	302	50	537	70
Foreign government	920	10	—	—	920	10
Asset-backed securities	98	6	198	4	296	10
Total debt securities held-to-maturity	$1,253	$ 36	$ 858	$339	$2,111	$375

Excluded from the gross unrecognized losses presented in the above table are $(780) million and $(675) million of net unrealized losses recorded in AOCI as of December 31, 2014 and 2013 respectively, primarily related to the difference between the amortized cost and carrying value of HTM securities that were reclassified from AFS. Substantially all of these net unrecognized losses relate to securities that have been in a loss position for 12 months or longer at December 31, 2014 and 2013.

The following table presents the carrying value and fair value of HTM debt securities by contractual maturity dates as of December 31, 2014 and 2013:

	2014		2013	
In millions of dollars	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage-Backed Securities				
Due within 1 year	$ —	$ —	$ —	$ —
After 1 but within 5 years	—	—	—	—
After 5 but within 10 years	863	869	10	11
After 10 years[1]	9,846	10,303	2,316	2,546
Total	$10,709	$11,172	$ 2,326	$ 2,557
State and Municipal				
Due within 1 year	$ 36	$ 38	$ 8	$ 9
After 1 but within 5 years	24	24	17	17
After 5 but within 10 years	144	148	69	72
After 10 years[1]	7,745	7,909	1,238	1,214
Total	$ 7,949	$ 8,119	$ 1,332	$ 1,312
Foreign Government				
Due within 1 year	$ —	$ —	$ —	$ —
After 1 but within 5 years	4,725	4,802	5,628	5,688
After 5 but within 10 years	—	—	—	—
After 10 years[1]	—	—	—	—
Total	$ 4,725	$ 4,802	$ 5,628	$ 5,688
All Other[2]				
Due within 1 year	$ —	$ —	$ —	$ —
After 1 but within 5 years	—	—	740	851
After 5 but within 10 years	—	—	—	—
After 10 years[1]	538	578	573	585
Total	$ 538	$ 578	$ 1,313	$ 1,436
Total debt securities held-to-maturity	$23,921	$24,671	$10,599	$10,993

[1] Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.
[2] Includes corporate and asset-backed securities.

Evaluating Investments for Other-Than-Temporary Impairment (in part)

Overview

The Company conducts periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other-than-temporary.

An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in AOCI for AFS securities. Losses related to HTM securities generally are not recorded, as these investments are carried at amortized cost basis. However, for HTM securities with credit-related losses, the credit loss is recognized in earnings as OTTI and any difference between the cost basis adjusted for the OTTI and fair value is recognized in AOCI and amortized as an adjustment of yield over the remaining contractual life of the security. For securities transferred to HTM from Trading account assets, amortized cost is defined as the fair value of the securities at the date of transfer, plus any accretion income and less any impairment recognized in earnings subsequent to transfer. For securities transferred to HTM from AFS, amortized cost is defined as the original purchase cost, adjusted for the cumulative accretion or amortization of any purchase discount or premium, plus or minus any cumulative fair value hedge adjustments, net of accretion or amortization, and less any impairment recognized in earnings.

Regardless of the classification of the securities as AFS or HTM, the Company assesses each position with an unrealized loss for OTTI. Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer that may indicate adverse credit conditions; and
- the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company's review for impairment generally entails:

- identification and evaluation of impaired investments;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- consideration of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses, as required under business policies.

Recognition and Measurement of OTTI

The following table presents the total OTTI recognized in earnings for the year ended December 31, 2014:

OTTI on Investments and Other Assets	**Year Ended December 31, 2014**			
In millions of dollars	**AFS[1]**	**HTM**	**Other Assets**	**Total**
Impairment losses related to securities that the Company does not intend to sell nor will likely be required to sell:				
Total OTTI losses recognized during the period	$ 21	$ 5	$—	$ 26
Less: portion of impairment loss recognized in AOCI (before taxes)	8	—	—	8
Net impairment losses recognized in earnings for securities that the Company does not intend to sell nor will likely be required to sell	$ 13	$ 5	$—	$ 18
Impairment losses recognized in earnings for securities that the Company intends to sell or more-likely-than-not will be required to sell before recovery	380	26	—	406
Total impairment losses recognized in earnings	$393	$31	$—	$424

[1] Includes OTTI on non-marketable equity securities.

The following table presents the total OTTI recognized in earnings for the year ended December 31, 2013:

OTTI on Investments and Other Assets	**Year Ended December 31, 2013**			
In millions of dollars	**AFS[1]**	**HTM**	**Other Assets[2]**	**Total**
Impairment losses related to securities that the Company does not intend to sell nor will likely be required to sell:				
Total OTTI losses recognized during the period	$ 9	$154	$ —	$163
Less: portion of impairment loss recognized in AOCI (before taxes)	—	98	—	98
Net impairment losses recognized in earnings for securities that the Company does not intend to sell nor will likely be required to sell	$ 9	$ 56	$ —	$ 65
Impairment losses recognized in earnings for securities that the Company intends to sell or more-likely-than-not will be required to sell before recovery[2]	269	—	201	470
Total impairment losses recognized in earnings	$278	$ 56	$201	$535

[1] Includes OTTI on non-marketable equity securities.

[2] The impairment charge relates to the carrying value of Citi's then-remaining 35% interest in the Morgan Stanley Smith Barney joint venture (MSSB), offset by the equity pickup from MSSB during the respective periods that was recorded in *Other revenue*.

The following is a 12-month roll-forward of the credit-related impairments recognized in earnings for AFS and HTM debt securities held as of December 31, 2014 that the Company does not intend to sell nor likely will be required to sell:

	Cumulative OTTI Credit Losses Recognized in Earnings on Securities Still Held				
In millions of dollars	**Dec. 31, 2013 Balance**	**Credit Impairments Recognized in Earnings on Securities Not Previously Impaired**	**Credit Impairments Recognized in Earnings on Securities That Have Been Previously Impaired**	**Reductions Due to Credit-Impaired Securities Sold, Transferred or Matured**	**Dec. 31, 2014 Balance**
AFS debt securities					
Mortgage-backed securities	$295	$—	$—	$—	$295
Foreign government securities	171	—	—	—	171
Corporate	113	8	—	(3)	118
All other debt securities	144	5	—	—	149
Total OTTI credit losses recognized for AFS debt securities	$723	$ 13	$—	$ (3)	$733
HTM debt securities					
Mortgage-backed securities[1]	$678	$ 5	$—	$(13)	$670
Corporate	56	—	—	(56)	—
All other debt securities	133	—	—	—	133
Total OTTI credit losses recognized for HTM debt securities	$867	$ 5	$—	$(69)	$803

[1] Primarily consists of Alt-A securities.

2.21 JPMORGAN CHASE & CO. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

December 31, (in millions, except share data)	**2014**	**2013**
Assets		
Cash and due from banks	$ 27,831	$ 39,771
Deposits with banks	484,477	316,051
Federal funds sold and securities purchased under resale agreements (included $28,585 and $25,135 at fair value)	215,803	248,116
Securities borrowed (included $992 and $3,739 at fair value)	110,435	111,465
Trading assets (included assets pledged of $125,034 and $116,499)	398,988	374,664
Securities (included $298,752 and $329,977 at fair value and assets pledged of $24,912 and $23,446)	348,004	354,003
Loans (included $2,611 and $2,011 at fair value)	757,336	738,418
Allowance for loan losses	(14,185)	(16,264)
Loans, net of allowance for loan losses	743,151	722,154
Accrued interest and accounts receivable	70,079	65,160
Premises and equipment	15,133	14,891
Goodwill	47,647	48,081
Mortgage servicing rights	7,436	9,614
Other intangible assets	1,192	1,618
Other assets (included $12,366 and $15,187 at fair value and assets pledged of $1,396 and $2,066)	102,950	110,101
Total assets[(a)]	$2,573,126	$2,415,689

[(a)] The following table presents information on assets and liabilities related to VIEs that are consolidated by the Firm at December 31, 2014 and 2013. The difference between total VIE assets and liabilities represents the Firm's interests in those entities, which were eliminated in consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 3—Fair Value Measurement (in part)

JPMorgan Chase carries a portion of its assets and liabilities at fair value. These assets and liabilities are predominantly carried at fair value on a recurring basis (i.e., assets and liabilities that are measured and reported at fair value on the Firm's Consolidated balance sheets). Certain assets (e.g., certain mortgage, home equity and other loans where the carrying value is based on the fair value of the underlying collateral), liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment).

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on models that consider relevant transaction characteristics (such as maturity) and use as inputs observable or unobservable market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, as described below.

The level of precision in estimating unobservable market inputs or other factors can affect the amount of gain or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the methods and assumptions used reflect management judgment and may vary across the Firm's businesses and portfolios.

The Firm uses various methodologies and assumptions in the determination of fair value. The use of different methodologies or assumptions to those used by the Firm could result in a different estimate of fair value at the reporting date.

Valuation process

Risk-taking functions are responsible for providing fair value estimates for assets and liabilities carried on the Consolidated balance sheets at fair value. The Firm's valuation control function, which is part of the Firm's Finance function and independent of the risk-taking functions, is responsible for verifying these estimates and determining any fair value adjustments that may be required to ensure that the Firm's positions are recorded at fair value. In addition, the Firm has a firmwide Valuation Governance Forum ("VGF") comprised of senior finance and risk executives to oversee the management of risks arising from valuation activities conducted across the Firm. The VGF is chaired by the Firmwide head of the valuation control function, and also includes sub-forums for the Corporate & Investment Bank ("CIB"), Mortgage Banking, (part of Consumer & Community Banking) and certain corporate functions including Treasury and Chief Investment Office ("CIO").

The valuation control function verifies fair value estimates provided by the risk-taking functions by leveraging independently derived prices, valuation inputs and other market data, where available. Where independent prices or inputs are not available, additional review is performed by the valuation control function to ensure the reasonableness of the estimates, and may include: evaluating the limited market activity including client unwinds; benchmarking of valuation inputs to those for similar instruments; decomposing the valuation of structured instruments into individual components; comparing expected to actual cash flows; reviewing profit and loss trends; and reviewing trends in collateral valuation. In addition there are additional levels of management review for more significant or complex positions.

The valuation control function determines any valuation adjustments that may be required to the estimates provided by the risk-taking functions. No adjustments are applied to the quoted market price for instruments classified within level 1 of the fair value hierarchy (see below for further information on the fair value hierarchy). For other positions, judgment is required to assess the need for valuation adjustments to appropriately reflect liquidity considerations, unobservable parameters, and, for certain portfolios that meet specified criteria, the size of the net open risk position. The determination of such adjustments follows a consistent framework across the Firm:

- Liquidity valuation adjustments are considered where an observable external price or valuation parameter exists but is of lower reliability, potentially due to lower market activity. Liquidity valuation adjustments are applied and determined based on current market conditions. Factors that may be considered in determining the liquidity adjustment include analysis of: (1) the estimated bid-offer spread for the instrument being traded; (2) alternative pricing points for similar instruments in active markets; and (3) the range of reasonable values that the price or parameter could take.
- The Firm manages certain portfolios of financial instruments on the basis of net open risk exposure and, as permitted by U.S. GAAP, has elected to estimate the fair value of such portfolios on the basis of a transfer of the entire net open risk position in an orderly transaction. Where this is the case, valuation adjustments may be necessary to reflect the cost of exiting a larger-than-normal market-size net open risk position. Where applied, such adjustments are based on factors that a relevant market participant would consider in the transfer of the net open risk position including the size of the adverse market move that is likely to occur during the period required to reduce the net open risk position to a normal market-size.
- Unobservable parameter valuation adjustments may be made when positions are valued using prices or input parameters to valuation models that are unobservable due to a lack of market activity or because they cannot be implied from observable market data. Such prices or parameters must be estimated and are, therefore, subject to management judgment. Unobservable parameter valuation adjustments are applied to reflect the uncertainty inherent in the resulting valuation estimate.

Where appropriate, the Firm also applies adjustments to its estimates of fair value in order to appropriately reflect counterparty credit quality, the Firm's own creditworthiness and the impact of funding, applying a consistent framework across the Firm. For more information on such adjustments see Credit and funding adjustments on pages 196–197 of this Note.

Valuation model review and approval

If prices or quotes are not available for an instrument or a similar instrument, fair value is generally determined using valuation models that consider relevant transaction data such as maturity and use as inputs market-based or independently sourced parameters. Where this is the case the price verification process described above is applied to the inputs to those models.

The Model Risk function is independent of the model owners and reviews and approves a wide range of models, including risk management, valuation and certain regulatory capital models used by the Firm. The Model Risk function is part of the Firm's Model Risk and Development unit, and the Firmwide Model Risk and Development Executive reports to the Firm's CRO. When reviewing a model, the Model Risk function analyzes and challenges the model methodology and the reasonableness of model assumptions and may perform or require additional testing, including back-testing of model outcomes.

New significant valuation models, as well as material changes to existing valuation models, are reviewed and approved prior to implementation except where specified conditions are met. The Model Risk function performs an annual firmwide model risk assessment where developments in the product or market are considered in determining whether valuation models which have already been reviewed need to be reviewed and approved again.

Valuation Hierarchy (in part)

A three-level valuation hierarchy has been established under U.S. GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3—one or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table describes the valuation methodologies used by the Firm to measure its more significant products/instruments at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Product/Instrument	Valuation Methodology	Classifications in the Valuation Hierarchy
Trading portfolio	Where observable market data is available, valuations are based on: • Observed market prices (circumstances are infrequent) • Relevant broker quotes • Observed market prices for similar instruments Where observable market data is unavailable or limited, valuations are based on discounted cash flows, which consider the following: • Yield • Lifetime credit losses • Loss severity • Prepayment speed • Servicing costs	Level 2 or 3

The following table presents the asset and liabilities reported at fair value as of December 31, 2014 and 2013, by major product category and fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis (in part)

	Fair Value Hierarchy			Derivative Netting Adjustments	Total Fair Value
December 31, 2014 (in millions)	**Level 1**	**Level 2**	**Level 3**		
Federal funds sold and securities purchased under resale agreements	$ —	$ 28,585	$ —	$ —	$ 28,585
Securities borrowed	—	992	—	—	992
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[a]	14	31,904	922	—	32,840
Residential—nonagency	—	1,381	663	—	2,044
Commercial—nonagency	—	927	306	—	1,233
Total mortgage-backed securities	14	34,212	1,891	—	36,117
U.S. Treasury and government agencies[a]	17,816	8,460	—	—	26,276
Obligations of U.S. states and municipalities	—	9,298	1,273	—	10,571
Certificates of deposit, bankers' acceptances and commercial paper	—	1,429	—	—	1,429
Non-U.S. government debt securities	25,854	27,294	302	—	53,450
Corporate debt securities	—	28,099	2,989	—	31,088
Loans[b]	—	23,080	13,287	—	36,367
Asset-backed securities	—	3,088	1,264	—	4,352
Total debt instruments	43,684	134,960	21,006	—	199,650
Equity securities	104,890	748	431	—	106,069
Physical commodities[c]	2,739	1,741	2	—	4,482
Other	—	8,762	1,050	—	9,812
Total debt and equity instruments[d]	151,313	146,211	22,489	—	320,013
Derivative receivables:					
Interest rate	473	951,901	4,149	(922,798)	33,725
Credit	—	73,853	2,989	(75,004)	1,838
Foreign exchange	758	205,887	2,276	(187,668)	21,253
Equity	—	44,240	2,552	(38,615)	8,177
Commodity	247	42,807	599	(29,671)	13,982
Total derivative receivables[e]	1,478	1,318,688	12,565	(1,253,756)	78,975
Total trading assets	152,791	1,464,899	35,054	(1,253,756)	398,988

	Fair Value Hierarchy			Derivative	Total Fair
				Netting	
December 31, 2013 (in millions)	Level 1	Level 2	Level 3	Adjustments	Value
Federal funds sold and securities purchased under resale agreements	$ —	$ 25,135	$ —	$ —	$ 25,135
Securities borrowed	—	3,739	—	—	3,739
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[a]	4	25,582	1,005	—	26,591
Residential—nonagency	—	1,749	726	—	2,475
Commercial—nonagency	—	871	432	—	1,303
Total mortgage-backed securities	4	28,202	2,163	—	30,369
U.S. Treasury and government agencies[a]	14,933	10,547	—	—	25,480
Obligations of U.S. states and municipalities	—	6,538	1,382	—	7,920
Certificates of deposit, bankers' acceptances and commercial paper	—	3,071	—	—	3,071
Non-U.S. government debt securities	25,762	22,379	143	—	48,284
Corporate debt securities[h]	—	24,802	5,920	—	30,722
Loans[b]	—	17,331	13,455	—	30,786
Asset-backed securities	—	3,647	1,272	—	4,919
Total debt instruments	40,699	116,517	24,335	—	181,551
Equity securities	107,667	954	885	—	109,506
Physical commodities[c]	4,968	5,217	4	—	10,189
Other	—	5,659	2,000	—	7,659
Total debt and equity instruments[d]	153,334	128,347	27,224	—	308,905
Derivative receivables:					
Interest rate	419	848,862	5,398	(828,897)	25,782
Credit	—	79,754	3,766	(82,004)	1,516
Foreign exchange	434	151,521	1,644	(136,809)	16,790
Equity	—	45,892	7,039	(40,704)	12,227
Commodity	320	34,696	722	(26,294)	9,444
Total derivative receivables[e]	1,173	1,160,725	18,569	(1,114,708)	65,759
Total trading assets	154,507	1,289,072	45,793	(1,114,708)	374,664

[a] At December 31, 2014 and 2013, included total U.S. government-sponsored enterprise obligations of $84.1 billion and $91.5 billion, respectively, which were predominantly mortgage-related.

[b] At December 31, 2014 and 2013, included within trading loans were $17.0 billion and $14.8 billion, respectively, of residential first-lien mortgages, and $5.8 billion and $2.1 billion, respectively, of commercial first-lien mortgages. Residential mortgage loans include conforming mortgage loans originated with the intent to sell to U.S. government agencies of $7.7 billion and $6.0 billion, respectively, and reverse mortgages of $3.4 billion and $3.6 billion, respectively.

[c] Physical commodities inventories are generally accounted for at the lower of cost or market. "Market" is a term defined in U.S. GAAP as not exceeding fair value less costs to sell ("transaction costs"). Transaction costs for the Firm's physical commodities inventories are either not applicable or immaterial to the value of the inventory. Therefore, market approximates fair value for the Firm's physical commodities inventories. When fair value hedging has been applied (or when market is below cost), the carrying value of physical commodities approximates fair value, because under fair value hedge accounting, the cost basis is adjusted for changes in fair value. For a further discussion of the Firm's hedge accounting relationships, see Note 6. To provide consistent fair value disclosure information, all physical commodities inventories have been included in each period presented.

[d] Balances reflect the reduction of securities owned (long positions) by the amount of identical securities sold but not yet purchased (short positions).

[e] As permitted under U.S. GAAP, the Firm has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the tables above, the Firm does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. Therefore, the balances reported in the fair value hierarchy table are gross of any counterparty netting adjustments. However, if the Firm were to net such balances within level 3, the reduction in the level 3 derivative receivables and payables balances would be $2.5 billion and $7.6 billion at December 31, 2014 and 2013, respectively; this is exclusive of the netting benefit associated with cash collateral, which would further reduce the level 3 balances.

[f] Private equity instruments represent investments within the Corporate line of business. The cost basis of the private equity investment portfolio totaled $6.0 billion and $8.0 billion at December 31, 2014 and 2013, respectively.

[g] Includes investments in hedge funds, private equity funds, real estate and other funds that do not have readily determinable fair values. The Firm uses net asset value per share when measuring the fair value of these investments. At December 31, 2014 and 2013, the fair values of these investments were $1.8 billion and $3.2 billion, respectively, of which $337 million and $899 million, respectively were classified in level 2, and $1.4 billion and $2.3 billion, respectively, in level 3.

Transfers Between Levels for Instruments Carried at Fair Value on a Recurring Basis (in part)

For the year ended December 31, 2014 and 2013, there were no significant transfers between levels 1 and 2.

During the year ended December 31, 2014, transfers from level 3 to level 2 included the following:

- $4.3 billion and $4.4 billion of gross equity derivative receivables and payables, respectively, due to increased observability of certain equity option valuation inputs;
- $2.7 billion of trading loans, $2.6 billion of margin loans, $2.3 billion of private equity investments, $2.0 billion of corporate debt, and $1.3 billion of long-term debt, based on increased liquidity and price transparency.

Transfers from level 2 into level 3 included $1.1 billion of other borrowed funds, $1.1 billion of trading loans and $1.0 billion of long-term debt, based on a decrease in observability of valuation inputs and price transparency.

During the year ended December 31, 2013, transfers from level 3 to level 2 included certain highly rated CLOs, including $27.4 billion held in the Firm ' s available-for-sale ("AFS") securities portfolio and $1.4 billion held in the trading portfolio, based on increased liquidity and price transparency; and $1.3 billion of long-term debt, largely driven by an increase in observability of certain equity structured notes. Transfers from level 2 to level 3 included $1.4 billion of corporate debt securities in the trading portfolio largely driven by a decrease in observability for certain credit instruments.

Changes in Level 3 Recurring Fair Value Measurements (in part)

The following tables include a rollforward of the Consolidated balance sheets amounts (including changes in fair value) for financial instruments classified by the Firm within level 3 of the fair value hierarchy for the years ended December 31, 2014, 2013 and 2012. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Firm risk-manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of the Firm's risk management activities related to such level 3 instruments.

	Fair Value Measurements Using Significant Unobservable Inputs (in part)							
Year Ended December 31, 2014 (In millions)	Fair Value at January 1, 2014	Total Realized/ Unrealized Gains/ (Losses)	Purchases[g]	Sales	Settle-ments	Transfers Into and/ or Out of Level 3[h]	Fair Value at Dec. 31, 2014	Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at Dec. 31, 2014
Assets:								
Trading assets:								
Debt instruments:								
Mortgage-backed securities:								
U.S. government agencies	$1,005	$ (97)	$ 351	$ (186)	$ (121)	$ (30)	$ 922	$ (92)
Residential—nonagency	726	66	827	(761)	(41)	(154)	663	(15)
Commercial—nonagency	432	17	980	(914)	(60)	(149)	306	(12)
Total mortgage-backed securities	2,163	(14)	2,158	(1,861)	(222)	(333)	1,891	(119)
Obligations of U.S. states and municipalities	1,382	90	298	(358)	(139)	—	1,273	(27)
Non-U.S. government debt securities	143	24	719	(617)	(3)	36	302	10
Corporate debt securities	5,920	210	5,854	(3,372)	(4,531)	(1,092)	2,989	379
Loans	13,455	387	13,551	(7,917)	(4,623)	(1,566)	13,287	123
Asset-backed securities	1,272	19	2,240	(2,126)	(283)	142	1,264	(30)
Total debt instruments	24,335	716	24,820	(16,251)	(9,801)	(2,813)	21,006	336
Equity securities	885	112	248	(272)	(290)	(252)	431	46
Physical commodities	4	(1)	—	—	(1)	—	2	—
Other	2,000	239	1,426	(276)	(201)	(2,138)	1,050	329
Total trading assets—debt and equity instruments	27,224	1,066[c]	26,494	(16,799)	(10,293)	(5,203)	22,489	711[c]
Net derivative receivables:[a]								
Interest rate	2,379	184	198	(256)	(1,771)	(108)	626	(853)
Credit	95	(149)	272	(47)	92	(74)	189	(107)
Foreign exchange	(1,200)	(137)	139	(27)	668	31	(526)	(62)
Equity	(1,063)	154	2,044	(2,863)	10	(67)	(1,785)	583
Commodity	115	(465)	1	(113)	(109)	6	(565)	(186)
Total net derivative receivables	326	(413)[h]	2,654	(3,306)	(1,110)	(212)	(2,061)	(625)[c]

	Fair Value Measurements Using Significant Unobservable Inputs (in part)							
Year Ended December 31, 2013 (In millions)	**Fair Value at January 1, 2013**	**Total Realized/ Unrealized Gains/ (Losses)**	**Purchases[g]**	**Sales**	**Settle-ments**	**Transfers Into and/ or Out of Level 3[h]**	**Fair Value at Dec. 31, 2013**	**Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at Dec. 31, 2013**
Assets:								
Trading assets:								
Debt instruments:								
Mortgage-backed securities:								
U.S. government agencies	$ 498	$ 169	$ 819	$ (381)	$ (100)	$ —	$ 1,005	$ 200
Residential—nonagency	663	407	780	(1,028)	(91)	(5)	726	205
Commercial—nonagency	1,207	114	841	(1,522)	(208)	—	432	(4)
Total mortgage-backed securities	2,368	690	2,440	(2,931)	(399)	(5)	2,163	401
Obligations of U.S. states and municipalities	1,436	71	472	(251)	(346)	—	1,382	18
Non-U.S. government debt securities	67	4	1,449	(1,479)	(8)	110	143	(1)
Corporate debt securities	5,308	103	7,602	(5,975)	(1,882)	764	5,920	466
Loans	10,787	665	10,411	(7,431)	(685)	(292)	13,455	315
Asset-backed securities	3,696	191	1,912	(2,379)	(292)	(1,856)	1,272	105
Total debt instruments	23,662	1,724	24,286	(20,446)	(3,612)	(1,279)	24,335	1,304
Equity securities	1,114	(41)	328	(266)	(135)	(115)	885	46
Physical Commodities	—	(4)	—	(8)	—	16	4	(4)
Other	863	558	659	(95)	(120)	135	2,000	1,074
Total trading assets—debt and equity instruments	25,639	2,237[c]	25,273	(20,815)	(3,867)	(1,243)	27,224	2,420[c]
Net derivative receivables:[a]								
Interest rate	3,322	1,358	344	(220)	(2,391)	(34)	2,379	107
Credit	1,873	(1,697)	115	(12)	(357)	173	95	(1,449)
Foreign exchange	(1,750)	(101)	3	(4)	683	(31)	(1,200)	(110)
Equity	(1,806)	2,528[i]	1,305[i]	(2,111)[i]	(1,353)	374	(1,063)	872
Commodity	254	816	105	(3)	(1,107)	50	115	410
Total net derivative receivables	1,893	2,904[c]	1,872	(2,350)	(4,525)	532	326	(170)[c]

	Fair Value Measurements Using Significant Unobservable Inputs (in part)							
Year Ended December 31, 2012 (In millions)	**Fair Value at January 1, 2012**	**Total Realized/ Unrealized Gains/ (Losses)**	**Purchases[g]**	**Sales**	**Settle-ments**	**Transfers Into and/ or Out of Level 3[h]**	**Fair Value at Dec. 31, 2012**	**Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at Dec. 31, 2012**
Assets:								
Trading assets:								
Debt instruments:								
Mortgage-backed securities:								
U.S. government agencies	$ 86	$ (44)	$ 575	$ (103)	$ (16)	$ —	$ 498	$ (21)
Residential—nonagency	796	151	417	(533)	(145)	(23)	663	74
Commercial—nonagency	1,758	(159)	287	(475)	(104)	(100)	1,207	(145)
Total mortgage-backed securities	2,640	(52)	1,279	(1,111)	(265)	(123)	2,368	(92)
Obligations of U.S. states and municipalities	1,619	37	336	(552)	(4)	—	1,436	(15)
Non-U.S. government debt securities	104	(6)	661	(668)	(24)	—	67	(5)
Corporate debt securities	6,373	187	8,391	(6,186)	(3,045)	(412)	5,308	689

(continued)

	Fair Value Measurements Using Significant Unobservable Inputs (in part)							
Year Ended December 31, 2012 (In millions)	**Fair Value at January 1, 2012**	**Total Realized/ Unrealized Gains/ (Losses)**	**Purchases[g]**	**Sales**	**Settle-ments**	**Transfers Into and/ or Out of Level 3[h]**	**Fair Value at Dec. 31, 2012**	**Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at Dec. 31, 2012**
Loans	12,209	836	5,342	(3,269)	(3,801)	(530)	10,787	411
Asset-backed securities	7,965	272	2,550	(6,468)	(614)	(9)	3,696	184
Total debt instruments	30,910	1,274	18,559	(18,254)	(7,753)	(1,074)	23,662	1,172
Equity securities	1,177	(209)	460	(379)	(12)	77	1,114	(112)
Other	880	186	68	(108)	(163)	—	863	180
Total trading assets—debt and equity instruments	32,967	1,251[c]	19,087	(18,741)	(7,928)	(997)	25,639	1,240[c]
Net derivative receivables:[a]								
Interest rate	3,561	6,930	406	(194)	(7,071)	(310)	3,322	905
Credit	7,732	(4,487)	124	(84)	(1,416)	4	1,873	(3,271)
Foreign exchange	(1,263)	(800)	112	(184)	436	(51)	(1,750)	(957)
Equity	(3,105)	160[i]	1,279[i]	(2,174)[i]	899	1,135	(1,806)	580
Commodity	(687)	(673)	74	64	1,278	198	254	(160)
Total net derivative receivables	6,238	1,130[c]	1,995	(2,572)	(5,874)	976	1,893	(2,903)[c]

[a] All level 3 derivatives are presented on a net basis, irrespective of underlying counterparty.

[b] Level 3 liabilities as a percentage of total Firm liabilities accounted for at fair value (including liabilities measured at fair value on a nonrecurring basis) were 15%, 18% and 18% at December 31, 2014, 2013 and 2012, respectively.

[c] Predominantly reported in principal transactions revenue, except for changes in fair value for CCB mortgage loans, lending-related commitments originated with the intent to sell, and mortgage loan purchase commitments, which are reported in mortgage fees and related income.

[d] Realized gains/(losses) on AFS securities, as well as other-than-temporary impairment losses that are recorded in earnings, are reported in securities gains. Unrealized gains/(losses) are reported in Other Comprehensive Income ("OCI"). Realized gains/(losses) and foreign exchange remeasurement adjustments recorded in income on AFS securities were $(43) million, $17 million, and $145 million for the years ended December 31, 2014, 2013 and 2012, respectively. Unrealized gains/(losses) recorded on AFS securities in OCI were $(16) million, $13 million and $45 million for the years ended December 31, 2014, 2013 and 2012, respectively.

[e] Changes in fair value for CCB mortgage servicing rights are reported in mortgage fees and related income.

[f] Predominantly reported in other income.

[g] Loan originations are included in purchases.

[h] All transfers into and/or out of level 3 are assumed to occur at the beginning of the quarterly reporting period in which they occur.

[i] The prior period amounts have been revised. The revision had no impact on the Firm's Consolidated balance sheets or its results of operations.

Trading Assets and Liabilities

Trading assets include debt and equity instruments owned by JPMorgan Chase ("long" positions) that are held for client market-making and client-driven activities, as well as for certain risk management activities, certain loans managed on a fair value basis and for which the Firm has elected the fair value option, and physical commodities inventories that are generally accounted for at the lower of cost or market (market approximates fair value). Trading liabilities include debt and equity instruments that the Firm has sold to other parties but does not own ("short" positions). The Firm is obligated to purchase instruments at a future date to cover the short positions. Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading assets and liabilities are carried at fair value on the Consolidated balance sheets. Balances reflect the reduction of securities owned (long positions) by the amount of identical securities sold but not yet purchased (short positions).

Trading Assets and Liabilities—Average Balances

Average trading assets and liabilities were as follows for the periods indicated.

Year ended December 31, (In millions)	**2014**	**2013**	**2012**
Trading assets—debt and equity instruments	$327,259	$340,449	$349,337
Trading assets—derivative receivables	67,123	72,629	85,744
Trading liabilities—debt and equity instruments[a]	84,707	77,706	69,001
Trading liabilities—derivative payables	54,758	64,553	76,162

[a] Primarily represent securities sold, not yet purchased.

Current Receivables

PRESENTATION

2.22 FASB ASC 310, *Receivables*, indicates that loans or trade receivables may be presented on the balance sheet as aggregate amounts. However, major categories of loans or trade receivables should be presented separately either in the balance sheet or in the notes to the financial statements. Also, any such receivables held for sale should be a separate balance sheet category. Receivables from officers, employees, or affiliated companies should be shown separately and not included under a general heading, such as accounts receivable. Valuation allowance for credit losses or doubtful accounts and any unearned income included in the face amount of receivables should be shown as a deduction from the related receivables.

DISCLOSURE

2.23 FASB ASC 310 states that allowances for doubtful accounts should be deducted from the related receivables and appropriately disclosed. FASB ASC 310-10-50-4 requires, as applicable, any unearned income, unamortized premiums and discounts, and net unamortized deferred fees and costs be disclosed in the financial statements. Under FASB ASC 825, fair value disclosure is not required for trade receivables when the carrying amount of the trade receivable approximates its fair value.

PRESENTATION AND DISCLOSURE EXCERPTS

INCOME TAX RECEIVABLE

2.24 VISA INC. (SEP)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except par value data)	September 30, 2014	September 30, 2013
Assets (in part)		
Cash and cash equivalents	$1,971	$2,186
Restricted cash—litigation escrow (Note 3)	1,498	49
Investment securities (Note 4):		
Trading	69	75
Available-for-sale	1,910	1,994
Income tax receivable (Note 19)	91	142
Settlement receivable	786	799
Accounts receivable	822	761
Customer collateral (Note 11)	961	866
Current portion of client incentives	210	282
Deferred tax assets (Note 19)	1,028	481
Prepaid expenses and other current assets (Note 5)	216	187
Total current assets	9,562	7,822

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 19—Income Taxes (in part)

The Company's income before taxes by fiscal year consisted of the following:

(In millions)	2014	2013	2012
U.S.	$6,140	$5,992	$1,030
Non-U.S.	1,584	1,265	1,177
Total income before taxes and non-controlling interest	$7,724	$7,257	$2,207

U.S. income before taxes included $2.3 billion, $2.0 billion and $1.6 billion of the Company's U.S. entities' income from operations outside of the U.S. for fiscal 2014, 2013 and 2012, respectively.

Income tax provision by fiscal year consisted of the following:

(In millions)	2014	2013	2012
Current:			
U.S. federal	$2,353	$ 568	$1,376
State and local	237	(58)	165
Non-U.S.	274	239	214
Total current taxes	2,864	749	1,755
Deferred:			
U.S. federal	(576)	1,401	(1,276)
State and local	(31)	114	(415)
Non-U.S.	29	13	1
Total deferred taxes	(578)	1,528	(1,690)
Total income tax provision	$2,286	$2,277	$ 65

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and liabilities at September 30, 2014 and 2013, are presented below:

(In millions)	2014	2013
Deferred Tax Assets:		
Accrued compensation and benefits	$ 134	$ 154
Comprehensive (income) loss	14	(8)
Investments in joint ventures	14	14
Accrued litigation obligation	558	1
Client incentives	235	226
Net operating loss carryforward	35	31
Tax credits	21	22
Federal benefit of state taxes	210	176
Other	139	121
Valuation allowance	(34)	(25)
Deferred tax assets	1,326	712
Deferred Tax Liabilities:		
Property, equipment and technology, net	(298)	(310)
Intangible assets	(4,000)	(4,003)
Foreign taxes	(125)	(55)
Other	(12)	(12)
Deferred tax liabilities	(4,435)	(4,380)
Net deferred tax liabilities	$(3,109)	$(3,668)

Total net deferred tax assets and liabilities are included in the Company's consolidated balance sheets as follows:

(In millions)	September 30, 2014	September 30, 2013
Current deferred tax assets	$ 1,028	$ 481
Non-current deferred tax liabilities[1]	(4,137)	(4,149)
Net deferred tax liabilities	$(3,109)	$(3,668)

[1] The $4.1 billion of non-current deferred tax liabilities at September 30, 2014 includes $8 million of non-current deferred tax assets, which are reflected in other assets on the consolidated balance sheets.

The increase in the deferred tax asset for accrued litigation obligation reflects the deferred tax impact of the $1.4 billion net increase in covered litigation accrual associated with the interchange multidistrict litigation. See *Note 3—Retrospective Responsibility Plan* and *Note 20—Legal Matters*.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. The fiscal 2014 and 2013 valuation allowances relate primarily to foreign net operating losses from subsidiaries acquired in recent years.

As of September 30, 2014, the Company had $16 million state and $154 million foreign net operating loss carryforwards. The state net operating loss carryforwards will expire in fiscal 2031. The foreign net operating loss may be carried forward indefinitely. The Company expects to fully utilize the state net operating loss carryforwards in future years.

As of September 30, 2014, the Company also had federal and state research and development tax credit carryforwards of $2 million and $21 million, respectively. The federal carryforwards will expire in fiscal 2029. The state carryforwards may be carried forward indefinitely. The Company expects to realize the benefit of the credit carryforwards in future years.

The income tax provision differs from the amount of income tax determined by applying the applicable U.S. federal statutory rate of 35% to pretax income, as a result of the following:

	For the Years Ended September 30,					
	2014		2013		2012	
(In millions, except percentages)	Dollars	Percent	Dollars	Percent	Dollars	Percent
U.S. federal income tax at statutory rate	$2,704	35 %	$2,540	35 %	$772	35 %
State income taxes, net of federal benefit	129	2 %	42	1 %	36	2 %
Non-U.S. tax effect, net of federal benefit	(278)	(4)%	(328)	$^{(5)}$%	(257)	(12)%
Prior years U.S. domestic production activities deduction	(191)	(2)%	—	— %	—	— %
Reversal of tax reserves related to the deductibility of covered litigation expense	—	— %	—	— %	(299)	(14)%
Remeasurement of deferred taxes due to California state apportionment rule changes	—	— %	—	— %	(208)	(9)%
Other, net	(78)	(1)%	23	— %	21	1 %
Income tax provision	$2,286	30 %	$2,277	31 %	$65	3 %

The effective income tax rate of 30% in fiscal 2014 differs from the effective income tax rate of 31% in fiscal 2013 mainly due to:

- a $264 million tax benefit related to a deduction for U.S. domestic production activities, of which $191 million related to prior fiscal years, as a result of the completion of a study in the second quarter of fiscal 2014; and
- the absence of the following in fiscal 2014:
  - a tax benefit recognized in fiscal 2013 as a result of new guidance issued by the state of California regarding apportionment rules for years prior to fiscal 2012; and
  - certain foreign tax credit benefits related to prior years recognized in fiscal 2013.

The effective income tax rate of 31% in fiscal 2013 differs from the effective income tax rate of 3% in fiscal 2012 mainly due to:

- the aforementioned tax benefit recognized in fiscal 2013 as a result of new guidance issued by the state of California regarding apportionment rules for years prior to fiscal 2012;
- certain foreign tax credit benefits related to prior years recognized in fiscal 2013, as mentioned above; and
- the absence of the following in fiscal 2013:
  - the fiscal 2012 reversal of previously recorded tax reserves associated with uncertainties related to the deductibility of covered litigation expense;
  - a fiscal 2012 one-time, non-cash benefit from the remeasurement of existing net deferred tax liabilities due to the changes in California apportionment rules adopted in that year; and
  - the effect of applying the aforementioned fiscal 2012 tax benefits to a fiscal 2012 pre-tax income that was reduced by the $4.1 billion covered litigation provision.

Current income taxes receivable were $91 million and $142 million at September 30, 2014 and 2013, respectively. Non-current income taxes receivable of $597 million were included in other assets at September 30, 2014. See *Note 5—Prepaid Expenses and Other Assets*. At September 30, 2014 and 2013, income taxes payable of $73 million and $64 million, respectively, were included in accrued income taxes as part of accrued liabilities, and accrued income taxes of $855 million and $453 million, respectively, were included in other long-term liabilities. See *Note 8—Accrued and Other Liabilities*.

Cumulative undistributed earnings of the Company's international subsidiaries that are intended to be reinvested indefinitely outside the United States amounted to $5.0 billion at September 30, 2014. The amount of income taxes that would have resulted had such earnings been repatriated is not practicably determinable.

The Company's largest operating hub outside the United States is located in Singapore. It operates under a tax incentive agreement which is effective through September 30, 2023, and is conditional upon meeting certain business operations and employment thresholds in Singapore. The tax incentive agreement decreased Singapore tax by $168 million, $158 million and $130 million, and the benefit of the tax incentive agreement on diluted earnings per share was $0.27, $0.24 and $0.19 in fiscal 2014, 2013 and 2012, respectively.

FINANCE RECEIVABLES

2.25 HARLEY-DAVIDSON, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands, except share amounts)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 906,680	$1,066,612
Marketable securities	57,325	99,009
Accounts receivable, net	247,621	261,065
Finance receivables, net	1,916,635	1,773,686
Inventories	448,871	424,507
Restricted cash	98,627	144,807
Deferred income taxes	89,916	103,625
Other current assets	182,420	115,492
Total current assets	3,948,095	3,988,803
Finance receivables, net	4,516,246	4,225,877
Property, plant and equipment, net	883,077	842,477
Prepaid pension costs	—	244,871
Goodwill	27,752	30,452
Deferred income taxes	77,835	3,339
Other long-term assets	75,092	69,221
	$9,528,097	$9,405,040

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Finance Receivables, Net—Finance receivables include both retail and wholesale finance receivables, net, including amounts held by VIEs. Finance receivables are recorded in the financial statements at amortized cost net of an allowance for credit losses. The provision for credit losses on finance receivables is charged to earnings in amounts sufficient to maintain the allowance for credit losses at a level that is adequate to cover estimated losses of principal inherent in the existing portfolio. Portions of the allowance for credit losses are specified to cover estimated losses on finance receivables specifically identified for impairment. The unspecified portion of the allowance covers estimated losses on finance receivables which are collectively reviewed for impairment. Finance receivables are considered impaired when management determines it is probable that the Company will be unable to collect all amounts due according to the terms of the loan agreement.

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. The Company performs a periodic and systematic collective evaluation of the adequacy of the retail allowance for credit losses. The Company utilizes loss forecast models which consider a variety of factors including, but not limited to, historical loss trends, origination or vintage analysis, known and inherent risks in the portfolio, the value of the underlying collateral, recovery rates and current economic conditions including items such as unemployment rates. Retail finance receivables are not evaluated individually for impairment prior to charge-off and therefore are not reported as impaired loans.

The wholesale portfolio is primarily composed of large balance, non-homogeneous loans. The Company's wholesale allowance evaluation is first based on a loan-by-loan review. A specific allowance for credit losses is established for wholesale finance receivables determined to be individually impaired when management concludes that the borrower will not be able to make full payment of contractual amounts due based on the original terms of the loan agreement. The impairment is determined based on the cash that the Company expects to receive discounted at the loan's original interest rate or the fair value of the collateral, if the loan is collateral-dependent. In establishing the allowance, management considers a number of factors including the specific borrower's financial performance as well as ability to repay. As described below in the Financial Services Revenue Recognition policy, the accrual of interest on such finance receivables is discontinued when the collection of the account becomes doubtful. While a finance receivable is considered impaired, all cash received is applied to principal or interest as appropriate.

Finance receivables in the wholesale portfolio that are not individually evaluated for impairment are segregated, based on similar risk characteristics, according to the Company's internal risk rating system and collectively evaluated for impairment. The related allowance is based on factors such as the Company's past loan loss experience, current economic conditions as well as the value of the underlying collateral.

Impaired finance receivables also include loans that have been modified in troubled debt restructurings as a concession to borrowers experiencing financial difficulty. Generally, it is the Company's policy not to change the terms and conditions of finance receivables. However, to minimize the economic loss, the Company may modify certain impaired finance receivables in troubled debt restructurings. Total restructured finance receivables are not significant.

Repossessed inventory representing recovered collateral on impaired finance receivables is recorded at the lower of cost or net realizable value. In the period during which the collateral is repossessed, the related finance receivable is adjusted to the fair value of the collateral through a charge to the allowance for credit losses and reclassified to repossessed inventory. Repossessed inventory is included in other current assets and was $13.4 million and $13.8 million at December 31, 2014 and 2013, respectively.

5. Finance Receivables

Finance receivables, net at December 31 for the past five years were as follows (in thousands):

	2014	2013	2012	2011	2010
Wholesale					
United States	$ 903,380	$ 800,491	$ 776,633	$ 778,320	$ 735,481
Canada	48,941	44,721	39,771	46,320	78,516
Total wholesale	952,321	845,212	816,404	824,640	813,997
Retail					
United States	5,398,006	5,051,245	4,850,450	4,858,781	5,126,699
Canada	209,918	213,799	222,665	228,709	250,462
Total retail	5,607,924	5,265,044	5,073,115	5,087,490	5,377,161
	6,560,245	6,110,256	5,889,519	5,912,130	6,191,158
Allowance for credit losses	(127,364)	(110,693)	(107,667)	(125,449)	(173,589)
Total finance receivables, net	$6,432,881	$5,999,563	$5,781,852	$5,786,681	$6,017,569

HDFS offers wholesale financing to the Company's independent dealers. Wholesale loans to dealers are generally secured by financed inventory or property and are originated in the U.S. and Canada.

HDFS provides retail financial services to customers of the Company's independent dealers in the U.S. and Canada. The origination of retail loans is a separate and distinct transaction between HDFS and the retail customer, unrelated to the Company's sale of product to its dealers. Retail finance receivables consist of secured promissory notes and installment loans. HDFS holds either titles or liens on titles to vehicles financed by promissory notes and installment loans. As of December 31, 2014 and 2013, approximately 12% of gross outstanding finance receivables were originated in Texas; there were no other state that accounted for more than 10%.

Unused lines of credit extended to the Company's wholesale finance customers totaled $1.01 billion at both December 31, 2014 and 2013. Approved but unfunded retail finance loans totaled $168.7 million and $149.8 million at December 31, 2014 and 2013, respectively.

Wholesale finance receivables are related primarily to motorcycles and related parts and accessories sales to independent Harley-Davidson dealers and are generally contractually due within one year. Retail finance receivables are primarily related to sales of motorcycles to the dealers' customers. On December 31, 2014, contractual maturities of finance receivables were as follows (in thousands):

	United States	Canada	Total
2015	$1,856,097	$ 86,518	$1,942,615
2016	1,029,075	40,378	1,069,453
2017	1,155,891	45,041	1,200,932
2018	1,259,696	50,243	1,309,939
2019	953,581	36,679	990,260
Thereafter	47,046	—	47,046
Total	$6,301,386	$258,859	$6,560,245

The allowance for credit losses on finance receivables is comprised of individual components relating to wholesale and retail finance receivables. Changes in the allowance for credit losses on finance receivables by portfolio for the year ended December 31 were as follows (in thousands):

	2014		
	Retail	Wholesale	Total
Balance, beginning of period	$106,063	$4,630	$110,693
Provision for credit losses	80,237	709	80,946
Charge-offs	(102,831)	—	(102,831)
Recoveries	38,556	—	38,556
Balance, end of period	$122,025	$5,339	$127,364

	2013		
	Retail	Wholesale	Total
Balance, beginning of period	$101,442	$6,225	$107,667
Provision for credit losses	61,603	(1,595)	60,008
Charge-offs	(97,928)	—	(97,928)
Recoveries	40,946	—	40,946
Balance, end of period	$106,063	$4,630	$110,693

	2012		
	Retail	Wholesale	Total
Balance, beginning of period	$116,112	$9,337	$125,449
Provision for credit losses	25,252	(3,013)	22,239
Charge-offs	(86,963)	(99)	(87,062)
Recoveries	47,041	—	47,041
Balance, end of period	$101,442	$6,225	$107,667

The allowance for credit losses and finance receivables by portfolio, segregated by those amounts that are individually evaluated for impairment and those that are collectively evaluated for impairment, at December 31 were as follows (in thousands):

	2014		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$ —	$ —	$ —
Collectively evaluated for impairment	122,025	5,339	127,364
Total allowance for credit losses	$ 122,025	$ 5,339	$ 127,364
Finance receivables, ending balance:			
Individually evaluated for impairment	$ —	$ —	$ —
Collectively evaluated for impairment	5,607,924	952,321	6,560,245
Total finance receivables	$5,607,924	$952,321	$6,560,245

	2013		
	Retail	Wholesale	Total
Allowance for credit losses, ending balance:			
Individually evaluated for impairment	$ —	$ —	$ —
Collectively evaluated for impairment	106,063	4,630	110,693
Total allowance for credit losses	$106,063	$4,630	$110,693
Finance receivables, ending balance:			
Individually evaluated for impairment	$—	$—	$—
Collectively evaluated for impairment	5,265,044	845,212	6,110,256
Total finance receivables	$5,265,044	$845,212	$6,110,256

Finance receivables are considered impaired when management determines it is probable that the Company will be unable to collect all amounts due according to the loan agreement. As retail finance receivables are collectively and not individually reviewed for impairment, this portfolio does not have specifically impaired finance receivables. At December 31, 2014 and 2013, there were no wholesale finance receivables that were on non-accrual status or individually deemed to be impaired under ASC Topic 310, "Receivables".

An analysis of the aging of past due finance receivables at December 31 was as follows (in thousands):

	2014					
	Current	31–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,427,719	$113,007	$38,486	$28,712	$180,205	$5,607,924
Wholesale	951,660	383	72	206	661	952,321
Total	$6,379,379	$113,390	$38,558	$28,918	$180,866	$6,560,245

	2013					
	Current	31–60 Days Past Due	61–90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Finance Receivables
Retail	$5,094,615	$109,806	$36,029	$24,594	$170,429	$5,265,044
Wholesale	844,033	791	181	207	1,179	845,212
Total	$5,938,648	$110,597	$36,210	$24,801	$171,608	$6,110,256

The recorded investment of retail and wholesale finance receivables, excluding non-accrual status finance receivables, that were contractually past due 90 days or more at December 31 for the past five years was as follows (in thousands):

	2014	2013	2012	2011	2010
United States	$27,800	$23,770	$26,500	$27,171	$34,391
Canada	1,118	1,031	1,533	1,207	1,351
Total	$28,918	$24,801	$28,033	$28,378	$35,742

A significant part of managing the Company's finance receivable portfolios includes the assessment of credit risk associated with each borrower. As the credit risk varies between the retail and wholesale portfolios, the Company utilizes different credit risk indicators for each portfolio.

The Company manages retail credit risk through its credit approval policy and ongoing collection efforts. The Company uses FICO scores, a standard credit rating measurement, to differentiate the expected default rates of retail credit applicants enabling the Company to better evaluate credit applicants for approval and to tailor pricing according to this assessment. Retail loans with a FICO score of 640 or above at origination are considered prime, and loans with a FICO score below 640 are considered sub-prime. These credit quality indicators are determined at the time of loan origination and are not updated subsequent to the loan origination date.

The recorded investment of retail finance receivables, by credit quality indicator, at December 31 was as follows (in thousands):

	2014	2013
Prime	$4,435,352	$4,141,559
Sub-prime	1,172,572	1,123,485
Total	$5,607,924	$5,265,044

The Company's credit risk on the wholesale portfolio is different from that of the retail portfolio. Whereas the retail portfolio represents a relatively homogeneous pool of retail finance receivables that exhibit more consistent loss patterns, the wholesale portfolio exposures are less consistent. The Company utilizes an internal credit risk rating system to manage credit risk exposure consistently across wholesale borrowers and individually evaluates credit risk factors for each borrower. The Company uses the following internal credit quality indicators, based on an internal risk rating system, listed from highest level of risk to lowest level of risk, for the wholesale portfolio: Doubtful, Substandard, Special Mention, Medium Risk and Low Risk. Based upon management's review, the dealers classified in the Doubtful category are the dealers with the greatest likelihood of being charged-off, while the dealers classified as Low Risk are least likely to be charged-off. The internal rating system considers factors such as the specific borrower's ability to repay and the estimated value of any collateral. Dealer risk rating classifications are reviewed and updated on a quarterly basis.

The recorded investment of wholesale finance receivables, by internal credit quality indicator, at December 31 was as follows (in thousands):

	2014	2013
Doubtful	$ 954	$ —
Substandard	7,025	8,383
Special Mention	—	2,076
Medium Risk	11,557	5,205
Low Risk	932,785	829,548
Total	$952,321	$845,212

INSURANCE CLAIMS

2.26 CRANE CO. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	Balance at December 31,	
(In thousands, except shares and per share data)	2014	2013
Assets (in part)		
Current assets:		
Cash and cash equivalents	$346,266	$270,643
Current insurance receivable—asbestos	20,500	22,783
Accounts receivable, net	410,852	437,541
Inventories	369,719	368,886
Current deferred tax assets	33,002	31,651
Other current assets	14,845	17,588
Total current assets	1,195,184	1,149,092

Note 11—Commitments and Contingencies (in part)

Asbestos Liability (in part)

Insurance Coverage and Receivables. Prior to 2005, a significant portion of the Company's settlement and defense costs were paid by its primary insurers. With the exhaustion of that primary coverage, the Company began negotiations with its excess insurers to reimburse the Company for a portion of its settlement and/or defense costs as incurred. To date, the Company has entered into agreements providing for such reimbursements, known as "coverage-in-place", with eleven of its excess insurer groups. Under such coverage-in-place agreements, an insurer's policies remain in force and the insurer undertakes to provide coverage for the Company's present and future asbestos claims on specified terms and conditions that address, among other things, the share of asbestos claims costs to be paid by the insurer, payment terms, claims handling procedures and the expiration of the insurer's obligations. Similarly, under a variant of coverage-in-place, the Company has entered into an agreement with a group of insurers confirming the aggregate amount of available coverage under the subject policies and setting forth a schedule for future reimbursement payments to the Company based on aggregate indemnity and defense payments made. In addition, with ten of its excess insurer groups, the Company entered into policy buyout agreements, settling all asbestos and other coverage obligations for an agreed sum, totaling $82.5 million in aggregate. Reimbursements from insurers for past and ongoing settlement and defense costs allocable to their policies have been made in accordance with these coverage-in-place and other agreements. All of these agreements include provisions for mutual releases, indemnification of the insurer and, for coverage-in-place, claims handling procedures. With the agreements referenced above, the Company has concluded settlements with all but one of its solvent excess insurers whose policies are expected to respond to the aggregate costs included in the updated liability estimate. That insurer, which issued a single applicable policy, has been paying the shares of defense and indemnity costs the Company has allocated to it, subject to a reservation of rights. There are no pending legal proceedings between the Company and any insurer contesting the Company's asbestos claims under its insurance policies.

In conjunction with developing the aggregate liability estimate referenced above, the Company also developed an estimate of probable insurance recoveries for its asbestos liabilities. In developing this estimate, the Company considered its coverage-in-place and other settlement agreements described above, as well as a number of additional factors. These additional factors include the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, how settlement and defense costs will be covered by the insurance policies and interpretation of the effect on coverage of various policy terms and limits and their interrelationships. In addition, the timing and amount of reimbursements will vary because the Company's insurance coverage for asbestos claims involves multiple insurers, with different policy terms and certain gaps in coverage. In addition to consulting with legal counsel on these insurance matters, the Company retained insurance consultants to assist management in the estimation of probable insurance recoveries based upon the aggregate liability estimate described above and assuming the continued viability of all solvent insurance carriers. Based upon the analysis of policy terms and other factors noted above by the Company's legal counsel, and incorporating risk mitigation judgments by the Company where policy terms or other factors were not certain, the Company's insurance consultants compiled a model indicating how the Company's historical insurance policies would respond to varying levels of asbestos settlement and defense costs and the allocation of such costs between such insurers and the Company. Using the estimated liability as of December 31, 2011 (for claims filed or expected to be filed through 2021), the insurance consultant's model forecasted that approximately 25% of the liability would be reimbursed by the Company's insurers. While there are overall limits on the aggregate amount of insurance available to the Company with respect to asbestos claims, those overall limits were not reached by the total estimated liability currently recorded by the Company, and such overall limits did not influence the Company in its determination of the asset amount to record. The proportion of the asbestos liability that is allocated to certain insurance coverage years, however, exceeds the limits of available insurance in those years. The Company allocates to itself the amount of the asbestos liability (for claims filed or expected to be filed through 2021) that is in excess of available insurance coverage allocated to such years. An asset of $225 million was recorded as of December 31, 2011 representing the probable insurance reimbursement for such claims expected through 2021. The asset is reduced as reimbursements and other payments from insurers are received. The asset was $147 million as of December 31, 2014.

The Company reviews the aforementioned estimated reimbursement rate with its insurance consultants on a periodic basis in order to confirm its overall consistency with the Company's established reserves. The reviews encompass consideration of the performance of the insurers under coverage-in-place agreements and the effect of any additional lump-sum payments under policy buyout agreements. Since December 2011, there have been no developments that have caused the Company to change the estimated 25% rate, although actual insurance reimbursements vary from period to period, and will decline over time, for the reasons cited above.

Receivables Sold or Collateralized

Author's Note

In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* The amendments in this ASU require disclosures for certain transactions involving (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all the exposure to the economic return on the transferred financial asset throughout the term of the transaction. The amendments also require disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The accounting changes in this ASU are effective for public business entities for the first interim or annual period beginning after December 15, 2014. For all other entities, the accounting changes are effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited; however, all other entities may elect to apply the requirements for interim periods beginning after December 15, 2014. For public business entities, the disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. For all other entities, both new disclosures are required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. Due to the effective date, none of the examples that follow contain an example of these disclosures.

RECOGNITION AND MEASUREMENT

2.27 FASB ASC 860, *Transfers and Servicing*, establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or pledge of collateral in a secured borrowing. FASB ASC 860 also establishes the criteria for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures.

2.28 FASB ASC 860 requires that all separately recognized servicing assets and liabilities be initially measured at fair value. Further, FASB ASC 860 permits, but does not require, the subsequent measurement of servicing assets and liabilities at fair value.

DISCLOSURE

2.29 FASB ASC 860 requires additional disclosures and separate balance sheet presentation of the carrying amounts of servicing assets and liabilities that are subsequently measured at fair value. FASB ASC 860-50-50-2 requires disclosures including (*a*) a description of the risks inherent in servicing assets and servicing liabilities, (*b*) the amount of contractually specified servicing fees, late fees, and ancillary fees earned for each period, including a description of where each amount is reported in the statement of income, and(c) quantitative and qualitative information about the assumptions used to estimate fair value.

PRESENTATION AND DISCLOSURE EXCERPTS

RECEIVABLES SOLD OR COLLATERALIZED

2.30 JABIL CIRCUIT, INC. (AUG)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

3. Trade Accounts Receivable Securitization and Sale Programs

The Company regularly sells designated pools of trade accounts receivable under two asset-backed securitization programs, a factoring agreement and three uncommitted trade accounts receivable sale programs (collectively referred to herein as the "programs"). The Company continues servicing the receivables sold and in exchange receives a servicing fee under each of the programs. Servicing fees related to each of the programs recognized during the fiscal years ended August 31, 2014, 2013 and 2012 were not material. The Company does not record a servicing asset or liability on the Consolidated Balance Sheets as the Company estimates that the fee it receives to service these receivables approximates the fair market compensation to provide the servicing activities.

Transfers of the receivables under the programs are accounted for as sales and, accordingly, net receivables sold under the programs are excluded from accounts receivable on the Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Consolidated Statements of Cash Flows.

a. Asset-Backed Securitization Programs

The Company continuously sells designated pools of trade accounts receivable under its North American asset-backed securitization program, currently scheduled to expire on October 20, 2017 (as the program was renewed on October 21, 2014), and its foreign asset-backed securitization program, currently scheduled to expire on May 15, 2015, (collectively referred to herein as the "asset-backed securitization programs") to special purpose entities, which in turn sell 100% of the receivables to conduits administered by unaffiliated financial institutions (for the North American asset-backed securitization program) and an unaffiliated financial institution (for the foreign asset-backed securitization program). The special purpose entity in the North American asset-backed securitization program is a wholly-owned subsidiary of the Company. The special purpose entity in the foreign asset-backed securitization program is a separate bankruptcy-remote entity whose assets would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company is deemed the primary beneficiary of this special purpose entity as the Company has both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive the benefits that could potentially be significant to the entity from the transfer of the trade accounts receivable into the special purpose entity. Accordingly, the special purpose entities associated with these asset-backed securitization programs are included in the Company's Consolidated Financial Statements. Any portion of the purchase price for the receivables which is not paid in cash upon the sale taking place is recorded as a deferred purchase price receivable, which is paid as payments on the receivables are collected. Net cash proceeds of up to a maximum of $200.0 million for the North American asset-backed securitization program are available at any one time. The Company decreased its North American asset-backed securitization program's facility limit from $300.0 million to $200.0 million during the first quarter of fiscal year 2014. In connection with the AMS transaction, on January 31, 2014, certain subsidiaries of the Company terminated their sale of receivables under the North American asset-backed securitization program. Net cash proceeds of up to a maximum of $75.0 million for the foreign asset-backed securitization program are available at any one time. The Company decreased its foreign asset-backed securitization program's facility limit from $200.0 million to $75.0 million during the fourth quarter of fiscal year 2014.

In connection with the asset-backed securitization programs, the Company sold $8.0 billion, $9.0 billion and $8.4 billion of eligible trade accounts receivable during the fiscal years ended August 31, 2014, 2013 and 2012, respectively. In exchange, the Company received cash proceeds of $7.4 billion, $8.5 billion and $8.0 billion during the fiscal years ended August 31, 2014, 2013 and 2012, respectively, (of which approximately $4.0 million, $54.2 million and $0.0 million, respectively, represented new transfers and the remainder represented proceeds from collections reinvested in revolving-period transfers) and a deferred purchase price receivable. At August 31, 2014, 2013 and 2012, the net deferred purchase price receivables recorded in connection with the asset-backed securitization programs totaled approximately $513.0 million, $541.2 million and $477.5 million, respectively. The asset-backed securitization programs require compliance with several covenants. The North American asset-backed securitization program covenants include compliance with the interest coverage ratio and debt to EBITDA ratio of the five year unsecured credit facility amended as of July 25, 2014 (the "Amended and Restated Credit Facility"). The foreign asset-backed securitization program covenants include limitations on certain corporate actions such as mergers and consolidations.

The Company recognized pretax losses on the sales of receivables under the asset-backed securitization programs of approximately $3.6 million, $4.3 million and $5.6 million during the fiscal years ended August 31, 2014, 2013 and 2012, respectively, which are recorded to other expense within the Consolidated Statements of Operations.

The deferred purchase price receivables recorded under the asset-backed securitization programs are recorded initially at fair value as prepaid expenses and other current assets on the Consolidated Balance Sheets and are valued using unobservable inputs (Level 3 inputs), primarily discounted cash flows, and due to their credit quality and short-term maturity the fair values approximated book values. The unobservable inputs consist of estimated credit losses and estimated discount rates, which both have an immaterial impact on the fair value calculations of the deferred purchase price receivables.

b. Trade Accounts Receivable Factoring Agreement

In connection with a factoring agreement, the Company transfers ownership of eligible trade accounts receivable of a foreign subsidiary without recourse to a third party purchaser in exchange for cash. Proceeds from the transfer reflect the face value of the account less a discount. The discount is recorded as a loss to other expense within the Consolidated Statements of Operations in the period of the sale. In

April 2014, the factoring agreement was extended through September 30, 2014, at which time it was automatically renewed for an additional six-month period.

The Company sold $1.1 million, $31.2 million and $76.0 million of trade accounts receivable during fiscal years 2014, 2013 and 2012, respectively, and in exchange, received cash proceeds of $1.1 million, $31.2 million and $76.0 million, respectively. The resulting losses on the sales of trade accounts receivables sold under this factoring agreement for fiscal years 2014, 2013 and 2012 were not material, and were recorded to other expense within the Consolidated Statements of Operations.

c. Trade Accounts Receivable Sale Programs

In connection with three separate trade accounts receivable sale agreements with unaffiliated financial institutions, the Company may elect to sell, at a discount, on an ongoing basis, up to a maximum of $350.0 million, $150.0 million and $100.0 million, respectively, of specific trade accounts receivable at any one time. The $350.0 million trade accounts receivable sale agreement is an uncommitted facility that was renewed during the first quarter of fiscal year 2014 and is scheduled to expire on November 28, 2014 (during the fourth quarter of fiscal year 2014, the Company increased its uncommitted capacity from $150.0 million to $350.0 million). The $150.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the second quarter of fiscal year 2014 and is subject to expiration on August 31, 2015 as it was extended during the fourth quarter. The $100.0 million trade accounts receivable sale agreement is an uncommitted facility that was entered into during the first quarter of fiscal year 2014 and is scheduled to expire on November 1, 2014, although any party may elect to terminate the agreement upon 15 days prior notice. The agreement will be automatically extended each year for additional 365 day periods until November 1, 2018, unless any party gives no less than 30 days prior notice that the agreement should not be extended. A $200.0 million committed trade accounts receivable sale agreement was amended during the fourth quarter of fiscal year 2014 to decrease the committed capacity from $200.0 million to $0.0 million. A $40.0 million uncommitted trade accounts receivable sale agreement, which the Company was previously party to, was terminated effective March 19, 2014.

During fiscal years 2014, 2013 and 2012, the Company sold $1.9 billion, $2.4 billion and $2.1 billion of trade accounts receivable under these programs, respectively. In exchange, the Company received cash proceeds of $1.9 billion, $2.4 billion and $2.1 billion, respectively. The resulting losses on the sales of trade accounts receivable during fiscal years 2014, 2013 and 2012 were not material, and were recorded to other expense within the Consolidated Statements of Operations.

2.31 XEROX CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
(In millions, except share data in thousands)	2014	2013
Assets		
Cash and cash equivalents	$ 1,411	$ 1,764
Accounts receivable, net	2,652	2,929
Billed portion of finance receivables, net	110	113
Finance receivables, net	1,425	1,500
Inventories	934	998
Assets of discontinued operations	1,260	—
Other current assets	1,082	1,207
Total current assets	8,874	8,511
Finance receivables due after one year, net	2,719	2,917
Equipment on operating leases, net	525	559
Land, buildings and equipment, net	1,123	1,466
Investments in affiliates, at equity	1,338	1,285
Intangible assets, net	2,031	2,503
Goodwill	8,805	9,205
Other long-term assets	2,243	2,590
Total Assets	$27,658	$29,036

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(in millions, except per-share data and where otherwise noted)

Note 1—Summary of Significant Accounting Policies (in part)

Receivable Sales

We regularly transfer certain portions of our receivable portfolios and normally account for those transfers as sales based on meeting the criteria for derecognition in accordance with ASC Topic 860 "Transfer and Servicing" of Financial Assets. Gains or losses on the sale of receivables depend, in part, on both (a) the cash proceeds and (b) the net non-cash proceeds received or paid. When we sell receivables we normally receive beneficial interests in the transferred receivables from the purchasers as part of the proceeds. We may refer to these beneficial interests as a deferred purchase price. The beneficial interests obtained are initially measured at their fair value. We generally estimate fair value based on the present value of expected future cash flows, which are calculated using management ' s best estimates of the key assumptions including credit losses, prepayment rate and discount rates commensurate with the risks involved. Refer to Note 5—Accounts Receivable, Net and Note 6—Finance Receivables, Net for more details on our receivable sales.

Note 5—Accounts Receivable, Net

Accounts receivable, net were as follows:

	December 31,	
	2014	2013
Amounts billed or billable	$2,634	$2,651
Unbilled amounts	319	390
Allowance for doubtful accounts	(88)	(112)
Subtotal	2,865	2,929
Discontinued operations[1]	(213)	—
Accounts Receivable, Net	$2,652	$2,929

[1] Represents net accounts receivable related to our ITO business which is held for sale and being reported as a discontinued operation at December 31, 2014. Refer to Note 4—Divestitures for additional information regarding this pending sale.

Unbilled amounts include amounts associated with percentage-of-completion accounting and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent month for current services provided are included in amounts billable, and at December 31, 2014 and 2013 were approximately $997 and $1,054, respectively. The balance at December 31, 2014 includes $52 related to our ITO business.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. The allowance for uncollectible accounts receivables is determined principally on the basis of past collection experience as well as consideration of current economic conditions and changes in our customer collection trends.

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivable without recourse to third-parties. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Consolidated Statements of Cash Flows because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to their short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in the caption "Other current assets" in the accompanying Consolidated Balance Sheets and were $73 and $121 at December 31, 2014 and 2013, respectively.

Under most of the agreements, we continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material.

Of the accounts receivables sold and derecognized from our balance sheet, $580 and $723 remained uncollected as of December 31, 2014 and 2013, respectively. Accounts receivable sales were as follows:

	Year Ended December 31,		
	2014	2013	2012
Accounts receivable sales	$2,906	$3,401	$3,699
Deferred proceeds	387	486	639
Loss on sale of accounts receivable	15	17	21
Estimated decrease to operating cash flows[1]	(68)	(55)	(78)

[1] Represents the difference between current and prior year fourth quarter receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the year and (iii) currency.

ACCOUNTS RECEIVABLE SECURITIZATION FACILITY

2.32 HANESBRANDS INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in thousands, except share and per share amounts)

	January 3, 2015	December 28, 2013
Assets		
Cash and cash equivalents	$ 239,855	$ 115,863
Trade accounts receivable, net	672,048	578,558
Inventories	1,537,200	1,283,331
Deferred tax assets	215,065	197,260
Other current assets	101,064	68,654
Total current assets	2,765,232	2,243,666
Property, net	674,379	579,883
Trademarks and other identifiable intangibles, net	691,201	377,751
Goodwill	723,120	626,392
Deferred tax assets	294,347	207,426
Other noncurrent assets	73,502	54,930
Total assets	$5,221,781	$4,090,048
Liabilities and Stockholders' Equity (in part)		
Accounts payable	$ 621,220	$ 466,270
Accrued liabilities and other:		
Payroll and employee benefits	143,335	143,543
Advertising and promotion	149,345	73,841
Other	202,947	97,642
Notes payable	144,438	36,192
Accounts Receivable Securitization Facility	210,963	181,790
Current portion of long-term debt	14,354	—
Total current liabilities	1,486,602	999,278
Long-term debt	1,613,997	1,467,000
Pension and postretirement benefits	472,003	263,819
Other noncurrent liabilities	262,407	129,328
Total liabilities	3,835,009	2,859,425

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(amounts in thousands, except per share data)

(10) Debt (in part)

The Company had the following debt at January 3, 2015 and December 28, 2013:

	Interest Rate as of	Principal Amount		
	January 3, 2015	January 3, 2015	December 28, 2013	Maturity Date
Senior Secured Credit Facility:				
Revolving Loan Facility	1.88%	$ 176,500	$ 467,000	July 2018
Euro Term Loan	3.50%	436,953	—	August 2021
6.375% Senior Notes	6.38%	1,000,000	1,000,000	December 2020
Accounts Receivable Securitization Facility	1.22%	210,963	181,790	March 2015
Other International Debt	Various	14,898	—	Various
		1,839,314	1,648,790	
Less current maturities		225,317	181,790	
		$1,613,997	$1,467,000	

The Company's primary financing arrangements are the senior secured credit facility (the "Senior Secured Credit Facility"), $1,000,000 in aggregate principal amount of 6.375% senior notes (the " 6.375% Senior Notes") and the Accounts Receivable Securitization Facility. The outstanding balances at January 3, 2015 are reported in the "Current portion of long-term debt", "Long-term debt" and "Accounts Receivable Securitization Facility" lines of the Consolidated Balance Sheets.

Total cash paid for interest related to debt in 2014, 2013 and 2012 was $85,512, $96,434 and $124,427, respectively.

Accounts Receivable Securitization Facility

The Accounts Receivable Securitization Facility provides for up to $225,000 in funding accounted for as a secured borrowing, limited to the availability of eligible receivables, and is secured by certain domestic trade receivables. Under the terms of the Accounts Receivable Securitization Facility, the Company and certain of its subsidiaries sell, on a revolving basis, certain domestic trade receivables to HBI Receivables LLC ("Receivables LLC"), a wholly owned bankruptcy-remote subsidiary that in turn uses the trade receivables to secure the borrowings, which are funded through conduits and financial institutions that are not affiliated with the Company. The commitments of any conduits party to the Accounts Receivable Securitization Facility are funded through the issuance of commercial paper in the short-term market or through committed bank purchasers if the conduits fail to fund. The assets and liabilities of Receivables LLC are fully reflected on the Consolidated Balance Sheet, and the securitization is treated as a secured borrowing for accounting purposes, but the assets of Receivables LLC will be used first to satisfy the creditors of Receivables LLC, not the Company's creditors. The borrowings under the Accounts Receivable Securitization Facility remain outstanding throughout the term of the agreement subject to the Company maintaining sufficient eligible receivables, by continuing to sell trade receivables to Receivables LLC, unless an event of default occurs. In March 2014, the Company amended the Accounts Receivable Securitization Facility to decrease certain fee rates, revise concentration limits and dilutions triggers, and extended the termination date to March 14, 2015. The Company plans to extend the term.

Availability of funding under the Accounts Receivable Securitization Facility depends primarily upon the eligible outstanding receivables balance. As of January 3, 2015, Receivables LLC had $210,963 outstanding under the Accounts Receivable Securitization Facility. The outstanding balance under the Accounts Receivable Securitization Facility is reported on the Consolidated Balance Sheet in the line "Accounts Receivable Securitization Facility." In the case of any creditors party to the Accounts Receivable Securitization Facility that are conduits, unless the conduits fail to fund, the yield on the commercial paper, which is the conduits' cost to issue the commercial paper plus certain dealer fees, is considered a financing cost and is included in interest expense on the Consolidated Statement of Income. If the conduits fail to fund, the Accounts Receivable Securitization Facility would be funded through committed bank purchasers, and the interest rate would be payable at the Company's option at the rate announced from time to time by HSBC Bank USA, N.A. as its prime rate or at the LIBO Rate (as defined in the Accounts Receivable Securitization Facility) plus the applicable margin in effect from time to time. In the case of borrowings from any other creditors party to the Accounts Receivable Securitization Facility that are not conduits or their related committed bank purchasers, the interest rate is payable at the LIBO Rate (as defined in the Accounts Receivable Securitization Facility) or, if this rate is unavailable or otherwise does not accurately reflect the costs to these creditors related to the borrowings, the prime rate. These amounts are also considered financing costs and are included in interest expense on the Consolidated Statement of Income. In addition, Receivables LLC is required to make certain payments to a conduit purchaser, a committed purchaser, or certain entities that provide funding to or are affiliated with them, in the event that assets and liabilities of a conduit purchaser are consolidated for financial and/or regulatory accounting purposes with certain other entities. The average blended interest rate for the outstanding balance as of January 3, 2015 was 1.22%.

The Accounts Receivable Securitization Facility contains customary events of default and requires the Company to maintain the same interest coverage ratio and leverage ratio contained from time to time in the Senior Secured Credit Facility, provided that any changes to such covenants will only be applicable for purposes of the Accounts Receivable Securitization Facility if approved by the Managing Agents or their affiliates. As of January 3, 2015, the Company was in compliance with all financial covenants.

The total amount of receivables used as collateral for the credit facility was $320,117 at January 3, 2015 and is reported on the Company's Consolidated Balance Sheet in "Trade accounts receivable, net."

Inventory

RECOGNITION AND MEASUREMENT

2.33 FASB ASC 330, *Inventory*, states that the primary basis of accounting for inventories is cost, but a departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as their cost. FASB ASC 330-10-35-1 requires an entity to measure inventories at the lower of cost or market. *Market*, as defined in the FASB ASC glossary, means current replacement cost, with the constraint that market should not exceed net realizable value and should not be lower than net realizable value less an allowance for an approximately normal profit margin.

2.34 FASB ASC 330-10-35-14 states that if inventories are written down below cost at the close of a fiscal year, such reduced amount is to be considered the cost for subsequent accounting purposes. Similarly, the Topic 5(BB), "Inventory Valuation Allowances," of the SEC's *Codification of Staff Accounting Bulletins* indicates that a write-down of inventory creates a new cost basis that subsequently cannot be marked up.

PRESENTATION

2.35 Rule 5-02.6 of Regulation S-X requires separate presentation in the balance sheet or notes of the amounts of major classes of inventory, such as finished goods, work in process, raw materials, and supplies. Additional disclosures are required for amounts related to long-term contracts or programs.

DISCLOSURE

2.36 FASB ASC 330 requires disclosure of the basis for stating inventories. Rule 5-02.6 of Regulation S-X requires disclosure of the method by which amounts are removed from inventory (for example, average cost; first in, first out (FIFO); last in, first out (LIFO); estimated average cost per unit).

2.37 Rule 5-02.6 c of Regulation S-X requires that registrants using LIFO disclose the excess of replacement or current cost over stated LIFO value, if material.

PRESENTATION AND DISCLOSURE EXCERPTS

FIRST-IN FIRST-OUT

2.38 AGCO CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except share amounts)

Assets (in part)	December 31, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 363.7	$1,047.2
Accounts and notes receivable, net	963.8	940.6
Inventories, net	1,750.7	2,016.1
Deferred tax assets	217.2	241.2
Other current assets	232.5	272.0
Total current assets	3,527.9	4,517.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Operations and Summary of Significant Accounting Policies (in part)

Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out method. Market is current replacement cost (by purchase or by reproduction, dependent on the type of inventory). In cases where market exceeds net realizable value (i.e., estimated selling price less reasonably predictable costs of completion and disposal), inventories are stated at net realizable value. Market is not considered to be less than net realizable value reduced by an allowance for an approximately normal profit margin. At December 31, 2014 and 2013, the Company had recorded $126.5 million and $119.9 million, respectively, as an adjustment for surplus and obsolete inventories. These adjustments are reflected within "Inventories, net" within the Company's Consolidated Balance Sheets.

Inventories, net at December 31, 2014 and 2013 were as follows (in millions):

	2014	2013
Finished goods	$ 616.6	$ 775.7
Repair and replacement parts	536.4	550.2
Work in process	130.5	109.0
Raw materials	467.2	581.2
Inventories, net	$1,750.7	$2,016.1

Cash flows related to the sale of inventories are reported within "Cash flows from operating activities" within the Company's Consolidated Statements of Cash Flows.

LAST-IN FIRST-OUT

2.39 MCKESSON CORPORATION (MAR)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except per share amounts)

	March 31,	
Assets (in part)	**2014**	**2013**
Current assets		
Cash and cash equivalents	$ 4,193	$ 2,456
Receivables, net	14,193	9,975
Inventories, net	13,308	10,335
Prepaid expenses and other	879	404
Total Current Assets	32,573	23,170

FINANCIAL NOTES (in part)

1. Significant Accounting Policies (in part)

Inventories: We report inventories at the lower of cost or market ("LCM"). Inventories for our Distribution Solutions segment consist of merchandise held for resale. For our Distribution Solutions segment, the majority of the cost of domestic inventories is determined using the last-in, first-out ("LIFO") method. The majority of the cost of inventories held in foreign locations is based on weighted average purchase prices using the first-in, first-out method. Technology Solutions segment inventories consist of computer hardware with cost generally determined by the standard cost method, which approximates average cost. Rebates, cash discounts, and other incentives received from vendors are accounted for as a reduction in the cost of inventory and are recognized when the inventory is sold.

The LIFO method was used to value approximately 67% and 80% of our inventories at March 31, 2014 and 2013. If we had used the FIFO method of inventory valuation, which approximates current replacement costs, inventories would have been approximately $431 million and $120 million higher than the amounts reported at March 31, 2014 and 2013, respectively. These amounts are equivalent to our LIFO reserves. Our LIFO valuation amount includes both pharmaceutical and non-pharmaceutical products. In 2014, 2013 and 2012, we recognized net LIFO expense of $311 million, $13 million and $11 million within our consolidated statements of operations. A LIFO expense is recognized when the net effect of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory exceeds the impact of price declines and shifts towards generic pharmaceuticals, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines and shifts towards generic pharmaceuticals exceeds the impact of price increases on branded pharmaceuticals and non-pharmaceutical products held in inventory.

We believe that the average inventory costing method provides a reasonable estimation of the current cost of replacing inventory (i.e., "market"). As such, our LIFO inventory is valued at the lower of LIFO or market. Primarily due to historical net deflation in our pharmaceutical inventories, pharmaceutical inventories at LIFO were $60 million higher than market as of March 31, 2013. As a result, we recorded a LCM credit of $60 million and $16 million in 2014 and 2013 within our consolidated statements of operations to adjust our LIFO inventories to market.

AVERAGE COST

2.40 TEREX CORPORATION (DEC)

CONSOLIDATED BALANCE SHEET (in part)

(in millions, except par value)

	December 31,	
	2014	**2013**
Assets (in part)		
Current assets		
Cash and cash equivalents	$ 478.2	$ 408.1
Trade receivables (net of allowance of $30.5 and $47.6 at December 31, 2014 and 2013, respectively)	1,086.4	1,176.8
Inventories	1,460.9	1,613.2
Prepaid assets	248.0	220.9
Other current assets	82.7	91.1
Current assets—discontinued operations	—	129.3
Total current assets	3,356.2	3,639.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(dollar amounts in millions, unless otherwise noted, except per share amounts)

Note A—Basis of Presentation (in part)

Inventories. Inventories are stated at the lower of cost or market ("LCM") value. Cost is determined by the average cost and first-in, first-out ("FIFO") methods (approximately 52% and 48%, respectively). In valuing inventory, the Company is required to make assumptions regarding the level of reserves required to value potentially obsolete or over-valued items at the lower of cost or market. These assumptions require the Company to analyze the aging of and forecasted demand for its inventory, forecast future products sales prices, pricing trends and margins, and to make judgments and estimates regarding obsolete or excess inventory. Future product sales prices, pricing trends and margins are based on the best available information at that time including actual orders received, negotiations with the Company's customers for future orders, including their plans for expenditures, and market trends for similar products. The Company's judgments and estimates for excess or obsolete inventory are based on analysis of actual and forecasted usage. The valuation of used equipment taken in trade from customers requires the Company to use the best information available to determine the value of the equipment to potential customers. This value is subject to change based on numerous conditions. Inventory reserves are established taking into account age, frequency of use, or sale, and in the case of repair parts, the installed base of machines. While calculations are made involving these factors, significant management judgment regarding expectations for future events is involved. Future events that could significantly influence the Company's judgment and related estimates include general economic conditions in markets where the Company's products are sold, new equipment price fluctuations, actions of the Company's competitors, including the introduction of new products and technological advances, as well as new products and design changes the Company introduces. The Company makes adjustments to its inventory reserve based on the identification of specific situations and increases its inventory reserves accordingly. As further changes in future economic or industry conditions occur, the Company will revise the estimates that were used to calculate its inventory reserves. At December 31, 2014 and 2013, reserves for LCM, excess and obsolete inventory totaled $116.3 million and $132.5 million, respectively.

If actual conditions are less favorable than those the Company has projected, the Company will increase its reserves for LCM, excess and obsolete inventory accordingly. Any increase in the Company's reserves will adversely impact its results of operations. The establishment of a reserve for LCM, excess and obsolete inventory establishes a new cost basis in the inventory. Such reserves are not reduced until the product is sold.

Note F—Inventories

Inventories consist of the following (in millions):

	December 31,	
	2014	**2013**
Finished equipment	$ 425.7	$ 450.0
Replacement parts	170.5	168.4
Work-in-process	454.2	527.3
Raw materials and supplies	410.5	467.5
Inventories	$1,460.9	$1,613.2

Reserves for lower of cost or market value, excess and obsolete inventory were $116.3 million and $132.5 million at December 31, 2014 and 2013, respectively.

RETAIL METHOD

2.41 WAL-MART STORES, INC. (JAN)

CONSOLIDATED BALANCE SHEETS (in part)

	As of January 31,	
(Amounts in millions)	**2014**	**2013**
Assets (in part)		
Current Assets:		
Cash and cash equivalents	$ 7,281	$ 7,781
Receivables, net	6,677	6,768
Inventories	44,858	43,803
Prepaid expenses and other	1,909	1,551
Current assets of discontinued operations	460	37
Total current assets	61,185	59,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Inventories

The Company values inventories at the lower of cost or market as determined primarily by the retail method of accounting, using the last-in, first-out ("LIFO") method for substantially all of the Walmart U.S. segment's inventories. The Walmart International segment's inventories are primarily valued by the retail method of accounting, using the first-in, first-out ("FIFO") method. The retail method of accounting results in inventory being valued at the lower of cost or market since permanent markdowns are immediately recorded as a reduction of the retail value of inventory. The Sam's Club segment's inventories are valued based on the weighted-average cost using the LIFO method. At January 31, 2014 and January 31, 2013, the Company's inventories valued at LIFO approximate those inventories as if they were valued at FIFO.

Other Current Assets

PRESENTATION

2.42 Rule 5-02.8 of Regulation S-X requires that any amount of current assets in excess of 5 percent of total current assets be stated separately on the balance sheet or disclosed in the notes.

PRESENTATION AND DISCLOSURE EXCERPTS

DEFERRED TAXES

2.43 CARLISLE COMPANIES INCORPORATED (DEC)
CONSOLIDATED BALANCE SHEETS (in part)

(In millions except share and per share amounts)	December 31, 2014	December 31, 2013
Assets (in part)		
Current Assets:		
Cash and cash equivalents	$ 730.8	$ 754.5
Receivables, net of allowance of $4.8 in 2014 and $3.3 in 2013	439.2	399.6
Inventories (Note 8)	339.1	298.8
Deferred income taxes (Note 6)	35.4	35.7
Prepaid expenses and other current assets	67.0	46.4
Total current assets	1,611.5	1,535.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Accounting Policies (in part)

Income Taxes

Income taxes are recorded in accordance with ASC 740, *Income Taxes*, which includes an estimate of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Note 6—Income Taxes (in part)

A summary of pre-tax income from U.S. and non U.S. operations is as follows:

(In millions)	2014	2013	2012
Continuing operations			
U.S. domestic	$318.9	$291.9	$311.8
Foreign	57.2	41.1	34.6
Total pre-tax income from continuing operations	376.1	333.0	346.4
Discontinued operations			
U.S. domestic	(3.2)	(132.4)	40.6
Foreign	1.1	71.9	14.6
Total pre-tax income (loss) from discontinued operations	(2.1)	(60.5)	55.2
Total pre-tax income	$374.0	$272.5	$401.6

The provision for income taxes from continuing operations is as follows:

(In millions)	2014	2013	2012
Current expense			
Federal and State	$118.4	$ 97.2	$114.1
Foreign	16.1	21.9	14.2
Total current expense	134.5	119.1	128.3
Deferred expense (benefit)			
Federal and State	(8.5)	(8.2)	(6.3)
Foreign	(1.6)	(13.1)	(4.3)
Total deferred expense (benefit)	(10.1)	(21.3)	(10.6)
Total tax expense	$124.4	$ 97.8	$117.7

A reconciliation of the tax provision for continuing operations computed at the U.S. federal statutory rate to the actual tax provision is as follows:

(In millions)	2014	2013	2012
Taxes at the 35% U.S. statutory rate	$131.6	$116.6	$121.2
State and local taxes, net of federal income tax benefit	7.4	6.2	6.4
Benefit of foreign earnings taxed at lower rates	(5.2)	(3.0)	(2.2)
Benefit for domestic manufacturing deduction	(8.7)	(9.7)	(10.5)
Benefits from state tax incentives	—	(1.3)	—
Benefit associated with foreign reorganization	—	(11.8)	1.0
Other, net	(0.7)	0.8	1.8
Tax expense	$124.4	$ 97.8	$117.7
Effective income tax rate on continuing operations	33.1%	29.4%	34.0%

Cash payments for income taxes, net of refunds, were $138.5 million, $127.7 million, and $100.8 million, in 2014, 2013, and 2012, respectively.

Deferred tax assets (liabilities) at December 31 related to the following:

(In millions)	2014	2013
Deferred revenue	$ 25.7	$ 20.2
Warranty reserves	4.3	$ 4.1
Inventory reserves	9.0	$ 9.1
Allowance for doubtful accounts	3.8	$ 1.9
Employee benefits	41.4	$ 41.0
Foreign loss carryforwards	3.7	$ 6.2
Deferred state tax attributes	15.8	$ 18.2
Other, net	2.3	$ 9.8
Gross deferred assets	106.0	110.5
Valuation allowances	(9.6)	$ (13.5)
Deferred tax assets after valuation allowances	$ 96.4	$ 97.0
Depreciation	(43.8)	$ (52.4)
Amortization	(47.3)	$ (43.2)
Acquired identifiable intangibles	(136.2)	$(127.6)
Gross deferred liabilities	(227.3)	(223.2)
Net deferred tax liabilities	$(130.9)	$(126.2)

At December 31, 2014 the Company had no deferred tax assets related to net operating loss ("NOL") carryforwards for U.S. federal tax purposes but had a deferred tax asset for state NOL carryforwards and credits of approximately $12.3 million (expiring 2015-2034) and deferred tax assets related to NOL carryforwards in foreign jurisdictions of approximately $3.7 million (expiring 2015-2022). The Company believes that it is likely that certain of the state attributes will expire unused and therefore has established a valuation allowance of approximately $8.8 million against the deferred tax assets associated with these attributes. Likewise, the Company believes that it is likely that certain of the foreign NOLs will expire unused and therefore has established a valuation allowance of approximately $0.8 million against the deferred tax assets associated with these NOL carryforwards. Although realization is not assured for the remaining deferred tax assets, the Company believes that the timing and amount of the reversal of taxable temporary differences, expected future taxable income and tax planning strategies will generate sufficient income to be fully realized. However, deferred tax assets could be reduced in the near term if our estimates of the timing and amount of the reversal of taxable temporary differences, expected future taxable income during the carryforward period are significantly reduced or tax planning strategies are no longer viable.

Deferred tax assets and (liabilities) are classified as current or long-term consistent with the classification of the asset or liability to which the difference relates. Foreign deferred tax assets and (liabilities) are grouped separately from U.S. domestic assets and (liabilities).

Deferred tax assets and (liabilities) are included in the balance sheet as follows:

(In millions)	2014	2013
Deferred income taxes	$ 35.4	$ 35.7
Accrued expenses	$ (0.2)	$ (0.8)
Other long-term assets	1.4	4.9
Other long-term liabilities	(167.5)	(166.0)
Net deferred tax liabilities	$(130.9)	$(126.2)

The Company is not required to provide U.S. federal or state income taxes on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. The Company's excess of financial reporting over the tax basis of investments in foreign subsidiaries is approximately equal to the cumulative undistributed earnings of its foreign subsidiaries. The Company reconsiders this assertion quarterly.

ADVANCES

2.44 UNIVERSAL CORPORATION (MAR)

CONSOLIDATED BALANCE SHEETS (in part)

	March 31,	
(In thousands of dollars)	2014	2013
Assets (in part)		
Current assets		
Cash and cash equivalents	$ 163,532	$ 367,864
Accounts receivable, net	468,015	401,747
Advances to suppliers, net	134,621	132,100
Accounts receivable—unconsolidated affiliates	7,375	555
Inventories—at lower of cost or market:		
Tobacco	639,812	623,377
Other	67,219	57,745
Prepaid income taxes	27,866	6,245
Deferred income taxes	22,052	32,127
Other current assets	142,755	124,213
Total current assets	1,673,247	1,745,973

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(All dollar amounts are in thousands, except per share amounts or as otherwise noted.)

Note 1. Nature of Operations and Significant Accounting Policies (in part)

Advances to Suppliers

In many sourcing origins where the Company operates, it provides agronomy services and seasonal advances of seed, fertilizer, and other supplies to tobacco farmers for crop production, or makes seasonal cash advances to farmers for the procurement of those inputs. These advances are short term, are repaid upon delivery of tobacco to the Company, and are reported in advances to suppliers in the consolidated balance sheets. In several origins, the Company has made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In some years, due to low crop yields and other factors, individual farmers may not deliver sufficient volumes of tobacco to fully repay their seasonal advances, and the Company may extend repayment of those advances into future crop years. The long-term portion of advances is included in other noncurrent assets in the consolidated balance sheets. Both the current and the long-term portions of advances to suppliers are reported net of allowances recorded when the Company determines that amounts outstanding are not likely to be collected. Short-term and long-term advances to suppliers totaled $190.0 million at March 31, 2014 and $199.1 million at March 31, 2013. The related valuation allowances totaled $46.1 million at March 31, 2014, and $54.4 million at March 31, 2013, and were estimated based on the Company's historical loss information and crop projections. The allowances were increased by net provisions for estimated uncollectible amounts of approximately $5.5 million in fiscal year 2014, $1.6 million in fiscal year 2013, and $11.9 million in fiscal year 2012. These provisions are included in selling, general, and administrative expenses in the consolidated statements of income. Interest on advances is recognized in earnings upon the farmers' delivery of tobacco in payment of principal and interest. Advances on which interest accrual had been discontinued totaled approximately $23.0 million at March 31, 2014, and $40.0 million at March 31, 2013.

RESTRICTED CASH

2.45 VISA INC. (SEP)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except par value data)	September 30, 2014	September 30, 2013
Assets (in part)		
Cash and cash equivalents	$1,971	$2,186
Restricted cash—litigation escrow (Note 3)	1,498	49
Investment securities (Note 4):		
Trading	69	75
Available-for-sale	1,910	1,994
Income tax receivable (Note 19)	91	142
Settlement receivable	786	799
Accounts receivable	822	761
Customer collateral (Note 11)	961	866
Current portion of client incentives	210	282
Deferred tax assets (Note 19)	1,028	481
Prepaid expenses and other current assets (Note 5)	216	187
Total current assets	9,562	7,822

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 3—Retrospective Responsibility Plan (in part)

The Company has established several related mechanisms designed to address potential liability under certain litigation referred to as the "covered litigation." These mechanisms are included in and referred to as the retrospective responsibility plan, or the plan, and consist of a litigation escrow agreement, the conversion feature of the Company's shares of class B common stock, the indemnification obligations of the Visa U.S.A. members, an interchange judgment sharing agreement, a loss sharing agreement, and an omnibus agreement, as amended.

Covered litigation consists of:

- *the Discover Litigation*. Discover Financial Services Inc. v. Visa U.S.A. Inc., Case No. 04-CV-07844 (S.D.N.Y) (settled)
- *the American Express Litigation*. American Express Travel Related Services Co., Inc. v. Visa U.S.A. Inc. et al., No. 04-CV-0897 (S.D.N.Y.), which the Company refers to as the American Express litigation (settled);
- *the Attridge Litigation*. Attridge v. Visa U.S.A. Inc. et al., Case No. CGC-04-436920 (Cal. Super.);
- *the Interchange Multidistrict Litigation*. In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation, 1:05-md-01720-JG-JO (E.D.N.Y.) or MDL 1720, including all cases currently included in MDL 1720, any other case that includes claims for damages relating to the period prior to the Company's IPO that has been or is transferred for coordinated or consolidated pre-trial proceedings at any time to MDL 1720 by the Judicial Panel on Multidistrict Litigation or otherwise included at any time in MDL 1720 by order of any court of competent jurisdiction and Kendall v. Visa U.S.A., Inc. et al., Case No. C04-4276 JSW (N.D. Cal.); and
- any claim that challenges the reorganization or the consummation thereof; provided that such claim is transferred for coordinated or consolidated pre-trial proceedings at any time to MDL 1720 by the Judicial Panel on Multidistrict Litigation or otherwise included at any time in MDL 1720 by order of any court of competent jurisdiction.

Litigation escrow agreement. In accordance with the litigation escrow agreement, the Company maintains an escrow account, from which monetary liabilities from settlements of, or judgments in, the covered litigation are paid. The amount of the escrow is determined by the board of directors and the Company's litigation committee, all members of which are affiliated with, or act for, certain Visa U.S.A. members. The escrow funds are held in money market investments along with the interest earned, less applicable taxes, and are classified as restricted cash on the consolidated balance sheets.

The following table sets forth the changes in the litigation escrow account:

(In millions)	Fiscal 2014	Fiscal 2013
Balance at October 1	$ 49	$ 4,432
Return of takedown payments from settlement fund into the litigation escrow account	1,056	—
Deposits into the litigation escrow account	450	—
Payments to opt-out merchants[1]	(57)	—
Payments to class plaintiff settlement fund[1]	—	(4,033)
Payments to individual plaintiff settlement fund[1]	—	(350)
Balance at September 30	$1,498	$ 49

[1] These payments are associated with the interchange multidistrict litigation. The settlement with the class plaintiffs in these proceedings is subject to the adjudication of appeals. See *Note 20—Legal Matters.*

An accrual for the covered litigation and a change to the litigation provision are recorded when loss is deemed to be probable and reasonably estimable. In making this determination, the Company evaluates available information, including but not limited to recommendations made by the litigation committee. The accrual related to the covered litigation could be either higher or lower than the litigation escrow account balance. The Company recorded an additional $450 million accrual for the covered litigation during fiscal 2014. See *Note 20—Legal Matters*.

COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

2.46 EMCOR GROUP, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands, except share and per share data)

	December 31, 2014	December 31, 2013
Assets (in part)		
Current assets:		
Cash and cash equivalents	$ 432,056	$ 439,813
Accounts receivable, less allowance for doubtful accounts of $10,424 and $11,890, respectively	1,234,187	1,268,226
Costs and estimated earnings in excess of billings on uncompleted contracts	103,201	90,727
Inventories	46,854	52,123
Prepaid expenses and other	70,305	79,216
Total current assets	1,886,603	1,930,105

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Policies (in part)

Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings in excess of billings on uncompleted contracts arise in the consolidated balance sheets when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of a contract. Also included in costs and estimated earnings on uncompleted contracts are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to both scope and/or price or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Such amounts are recorded at estimated net realizable value when realization is probable and can be reasonably estimated. No profit is recognized on construction costs incurred in connection with claim amounts. Claims and unapproved change orders made by us involve negotiation and, in certain cases, litigation. In the event litigation costs are incurred by us in connection with claims or unapproved change orders, such litigation costs are expensed as incurred, although we may seek to recover these costs. We believe that we have established legal bases for pursuing recovery of our recorded unapproved change orders and claims, and it is management's intention to pursue and litigate such claims, if necessary, until a determination or settlement is reached. Unapproved change orders and claims also involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded claims and unapproved change orders may be made in the near term. If we do not successfully resolve these matters, a net expense (recorded as a reduction in revenues) may be required, in addition to amounts that may have been previously provided for. We record the profit associated with the settlement of claims upon receipt of final payment. There was no significant profit recognized from settlements or payment of claims in 2014 and 2013. Claims against us are recognized when a loss is considered probable and amounts are reasonably determinable.

Costs and estimated earnings on uncompleted contracts and related amounts billed as of December 31, 2014 and 2013 were as follows (in thousands):

	2014	2013
Costs incurred on uncompleted contracts	$7,620,522	$7,794,620
Estimated earnings, thereon	808,549	835,820
	8,429,071	8,630,440
Less: billings to date	8,694,425	8,921,008
	$ (265,354)	$ (290,568)

Such amounts were included in the accompanying Consolidated Balance Sheets at December 31, 2014 and 2013 under the following captions (in thousands):

	2014	2013
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 103,201	$ 90,727
Billings in excess of costs and estimated earnings on uncompleted contracts	(368,555)	(381,295)
	$(265,354)	$(290,568)

As of December 31, 2014 and 2013, costs and estimated earnings in excess of billings on uncompleted contracts included unbilled revenues for unapproved change orders of approximately $18.8 million and $19.2 million, respectively, and claims of approximately $3.0 million and $0.4 million, respectively. In addition, accounts receivable as of December 31, 2014 and 2013 included claims of approximately $2.3 million and $2.9 million, respectively. Additionally, there are contractually billed amounts and retention related to such contracts of $54.0 million and $56.1 million as of December 31, 2014 and 2013, respectively. Generally, contractually billed amounts will not be paid by the customer to us until final resolution of related claims.

DERIVATIVES

2.47 TUPPERWARE BRANDS CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except share amounts)	December 27, 2014	December 28, 2013
Assets (in part)		
Cash and cash equivalents	$ 77.0	$127.3
Accounts receivable, less allowances of $34.5 and $32.9, respectively	168.1	168.8
Inventories	306.0	313.4
Deferred income tax benefits, net	118.8	96.4
Non-trade amounts receivable, net	61.8	50.1
Prepaid expenses and other current assets	21.9	23.0
Total current assets	753.6	779.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Summary of Significant Accounting Policies (in part)

Derivative Financial Instruments. The Company recognizes all derivative instruments as either assets or liabilities in its Consolidated Balance Sheets and measures those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the value of a derivative accounted for as a hedge depends on the intended use of the derivative and the resulting designation of the hedge exposure. Depending on how the hedge is used and the designation, the gain or loss due to changes in value is reported either in earnings or initially in other comprehensive income. Gains or losses that are reported in other comprehensive income are eventually recognized in earnings, with the timing of this recognition governed by ASC 815, *Derivatives and Hedging*.

The Company uses derivative financial instruments, principally over-the-counter forward exchange contracts with major international financial institutions, to offset the effects of exchange rate changes on net investments in certain foreign subsidiaries, certain forecasted purchases, certain intercompany loan transactions, and certain accounts payable. Gains and losses on instruments designated as hedges of net investments in a foreign subsidiary or on intercompany transactions that are permanent in nature are accrued as exchange rates change, and are recognized in shareholders' equity as a component of foreign currency translation adjustments within accumulated other comprehensive loss. Forward points associated with these net investment hedges are included in interest expense. Gains and losses on contracts designated as hedges of intercompany transactions that are not permanent in nature are accrued as exchange rates change and are recognized in income. Gains and losses on contracts designated as hedges of identifiable foreign currency forecasted purchases are deferred and included in other comprehensive income. See Note 8 to the Consolidated Financial Statements.

Note 8: Derivative Financial Instruments

The Company is exposed to fluctuations in foreign currency exchange rates on the earnings, cash flows and financial position of its international operations. Although this currency risk is partially mitigated by the natural hedge arising from the Company's local manufacturing in many markets, a strengthening U.S. dollar generally has a negative impact on the Company. In response to this fact, the Company uses financial instruments to hedge certain of its exposures and to manage the foreign exchange impact to its financial statements. At its inception, a derivative financial instrument used for hedging is designated as a fair value, cash flow or net equity hedge.

Fair value hedges are entered into with financial instruments such as forward contracts with the objective of limiting exposure to certain foreign exchange risks primarily associated with accounts receivable, accounts payable and non-permanent intercompany transactions. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings. In assessing hedge effectiveness, the Company excludes forward points, which are considered to be a component of interest expense. In 2014, 2013 and 2012, forward points on fair value hedges resulted in pretax gains of $10.3 million, $11.1 million and $10.3 million, respectively.

The Company also uses derivative financial instruments to hedge foreign currency exposures resulting from certain forecasted purchases and classifies these as cash flow hedges. The Company generally enters into cash flow hedge contracts for periods ranging from three to fifteen months. The effective portion of the gain or loss on the hedging instrument is recorded in other comprehensive loss and is reclassified into earnings as the transactions being hedged are recorded. As such, the balance in other comprehensive loss at the end of the annual reporting period will be reclassified into earnings within the next twelve months. The associated asset or liability on the open hedges is recorded in other current assets or accrued liabilities, as applicable. The balance in accumulated other comprehensive loss, net of tax, resulting from open foreign currency hedges designated as cash flow hedges was a deferred gain/(loss) of $7.8 million, $2.2 million and $(0.2) million as of December 27, 2014, December 28, 2013 and December 29, 2012, respectively. In 2014, 2013 and 2012, the Company recorded, net of tax, net gains/(losses) associated with these types of hedges of $5.6 million, $2.4 million and $(0.4) million, respectively, in other comprehensive loss. In assessing hedge effectiveness, the Company excludes forward points, which are included as a component of interest expense.

The Company also uses financial instruments, such as forward contracts and certain euro denominated borrowings under the Company's Credit Agreement, to hedge a portion of its net equity investment in international operations and classifies these as net equity hedges. Changes in the value of these derivative instruments, excluding any ineffective portion of the hedges, are included in foreign currency translation adjustments within accumulated other comprehensive losses. In 2014, 2013 and 2012, the Company recorded, net of tax, net gains/(losses) associated with these hedges of $25.5 million, $13.3 million and $(8.9) million, respectively, in other comprehensive loss. Due to the permanent nature of the investments, the Company does not anticipate reclassifying any portion of these amounts to the income statement in the next twelve months. In assessing hedge effectiveness, the Company excludes forward points, which are included as a component of interest expense.

While the Company's foreign currency contracts designated as net equity and fair value hedges of non-permanent intercompany balances mitigate its exposure to foreign exchange gains or losses, other than the euro borrowings designated as a hedge, they result in an impact to operating cash flows as they are settled, whereas the hedged items do not generate offsetting cash flows. For the years ended December 27, 2014, December 28, 2013 and December 29, 2012 the cash flow impact of these currency hedges was an inflow of $4.6 million, $3.2 million and $2.1 million, respectively.

Following is a listing of the notional amounts included in the Company's outstanding derivative financial instruments as of December 27, 2014 and December 28, 2013. Related to the forward contracts, the "buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies, all translated at the year-end market exchange rates for the U.S. dollar. All forward contracts are hedging net investments in certain foreign subsidiaries, cross-currency intercompany loans that are not permanent in nature, cross-currency external payables and receivables or forecasted purchases. Some amounts are between two foreign currencies:

Forward Contracts	**2014**		**2013**	
(In millions)	**Buy**	**Sell**	**Buy**	**Sell**
U.S. dollar	$ 76.8			$ 54.7
Euro	70.9		$157.7	
South Korean won	10.6		9.7	
Philippine peso	7.6		11.3	
New Zealand dollar	7.4		4.5	
South African rand	6.4			10.4
Danish krone	3.9			3.5

(continued)

Forward Contracts	2014		2013	
(In millions)	Buy	Sell	Buy	Sell
Uruguayan peso	1.5		4.7	
Swiss franc		$ 46.7		49.4
Turkish lira		23.4		11.7
Japanese yen		14.8		3.7
Mexican peso		13.6	18.2	
Indonesian rupiah		13.2	2.3	
Canadian dollar		11.8		11.0
Russian ruble		11.0		22.9
Singapore dollar		8.1		1.7
Brazilian real		5.9		6.6
Polish zloty		4.5		4.7
Australian dollar		4.2		6.8
Indian rupee		3.7		6.6
Czech koruna		3.6		2.5
Norwegian krone		3.4		1.7
Malaysian ringgit		3.3		2.7
Swedish krona		3.0		1.7
Hungarian forint		2.7		2.4
Croatian kuna		2.3		2.6
Chinese renminbi		1.7	8.1	
Romanian leu		1.0		1.2
British pound		1.0		1.0
Other currencies (net)		1.3		8.1
	$185.1	$184.2	$216.5	$217.6

In agreements to sell foreign currencies in exchange for U.S. dollars, for example, an appreciating dollar versus the opposing currency generates a cash inflow for the Company at settlement, with the opposite result in agreements to buy foreign currencies for U.S. dollars. The above noted notional amounts change based upon changes in the Company's outstanding currency exposures.

The following tables summarize the Company's derivative positions, representing the Company's only fair value measurements performed on a recurring basis, and the impact they had on the Company's financial position as of December 27, 2014 and December 28, 2013. Fair values were determined based on third party quotations (Level 2 fair value measurement):

(In millions)	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	2014	2013	Balance Sheet Location	2014	2013
Foreign exchange contracts	Non-trade amounts receivable	$35.0	$20.3	Accrued liabilities	$30.3	$19.2

The following tables summarize the Company's derivative positions and the impact they had on the Company's results of operations and comprehensive income for the years ended December 27, 2014, December 28, 2013 and December 29, 2012:

Derivatives Designated as Fair Value Hedges	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives			Location of Gain or (Loss) Recognized in Income on Related Hedged Items	Amount of Gain or (Loss) Recognized in Income on Related Hedged Items		
(In millions)		2014	2013	2012		2014	2013	2012
Foreign exchange contracts	Other expense	($36.6)	($17.4)	$11.9	Other expense	$35.0	$16.7	($11.9)

Derivatives Designated as Cash Flow and Net Equity Hedges (in millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)			Location of Gain or (Loss) Reclassified From Accumulated OCI Into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified From Accumulated OCI Into Income (Effective Portion)			Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amounts Excluded From Effectiveness Testing)		
Cash Flow Hedging Relationships	2014	2013	2012		2014	2013	2012		2014	2013	2012
Foreign exchange contracts	$15.9	$ 6.5	$(0.9)	Cost of products sold	$9.1	$3.2	$1.0	Interest expense	$ (4.9)	$ (2.9)	$ (2.5)
Net Equity Hedging Relationships											
Foreign exchange contracts	38.8	20.8	(13.9)	Other expense	—	—	—	Interest expense	(13.3)	(13.2)	(12.9)

The Company's theoretical credit risk for each derivative instrument is its replacement cost, but management believes that the risk of incurring credit losses is remote and such losses, if any, would not be material. The Company is also exposed to market risk on its derivative instruments due to potential changes in foreign exchange rates; however, such market risk would be fully offset by changes in the valuation of the underlying items being hedged. For all outstanding derivative instruments, the net accrued gain/(loss) was $4.7 million, $1.1 million and $(2.6) million at December 27, 2014, December 28, 2013 and December 29, 2012, respectively, and were recorded either in other assets or accrued liabilities, depending upon the net position of the individual contracts. While certain of its fair value hedges of non-permanent intercompany loans mitigate its exposure to foreign exchange gains or losses, they result in an impact to operating cash flows as the hedges are settled. However, the cash flow impact of certain of these exposures is in turn partially offset by certain hedges of net equity. The notional amounts shown above change based upon the Company's outstanding exposure to fair value fluctuations.

PREPAID EXPENSES

2.48 ELECTRONIC ARTS INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(1) Description of Business and Summary of Significant Accounting Policies (in part)

Royalties and Licenses

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of revenue generally at the greater of the contractual rate or an effective royalty rate based on the total projected net revenue for contracts with guaranteed minimums.

Each quarter, we also evaluate the expected future realization of our royalty-based assets, as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments or losses determined before the launch of a product are generally charged to research and development expense. Impairments or losses determined post-launch are charged to cost of revenue. We evaluate long-lived royalty-based assets for impairment generally using undiscounted cash flows when impairment indicators exist. Unrecognized minimum royalty-based commitments are accounted for as executory contracts, and therefore, any losses on these commitments are recognized when the underlying intellectual property is abandoned (*i.e.*, cease use) or the contractual rights to use the intellectual property are terminated.

(9) Royalties and Licenses

Our royalty expenses consist of payments to (1) content licensors, (2) independent software developers, and (3) co-publishing and distribution affiliates. License royalties consist of payments made to celebrities, professional sports organizations, movie studios and other organizations for our use of their trademarks, copyrights, personal publicity rights, content and/or other intellectual property. Royalty payments to independent software developers are payments for the development of intellectual property related to our games. Co-publishing and distribution royalties are payments made to third parties for the delivery of products.

Royalty-based obligations with content licensors and distribution affiliates are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of revenue generally at the greater of the contractual rate or an effective royalty rate based on the total projected net revenue for contracts with guaranteed minimums. Prepayments made to thinly capitalized independent software developers and co-publishing affiliates are generally made in connection with the development of a particular product, and therefore, we are generally subject to development risk prior to the release of the product. Accordingly, payments that are due prior to completion of a product are generally expensed to research and development over the development period as the services are incurred. Payments due after completion of the product (primarily royalty-based in nature) are generally expensed as cost of revenue.

Our contracts with some licensors include minimum guaranteed royalty payments, which are initially recorded as an asset and as a liability at the contractual amount when no performance remains with the licensor. When performance remains with the licensor, we record guarantee payments as an asset when actually paid and as a liability when incurred, rather than recording the asset and liability upon execution of the contract. Royalty liabilities are classified as current liabilities to the extent such royalty payments are contractually due within the next 12 months.

Each quarter, we also evaluate the expected future realization of our royalty-based assets, as well as any unrecognized minimum commitments not yet paid to determine amounts we deem unlikely to be realized through product sales. Any impairments or losses determined before the launch of a product are generally charged to research and development expense. Impairments or losses determined post-launch are charged to cost of revenue. We evaluate long-lived royalty-based assets for impairment generally using undiscounted cash flows when impairment indicators exist. Unrecognized minimum royalty-based commitments are accounted for as executory contracts, and therefore, any losses on these commitments are recognized when the underlying intellectual property is abandoned (*i.e.*, cease use) or the contractual rights to use the intellectual property are terminated. During fiscal year 2014, we recognized losses of $35 million, inclusive of impairment charges of $17 million on royalty-based assets and $18 million of losses on previously unrecognized royalty-based commitments. During fiscal year 2013, we recognized losses of $15 million on previously unrecognized royalty-based commitments, inclusive of $9 million in license termination costs related to our fiscal 2013 restructuring. The losses related to restructuring and other plan-related activities are presented in Note 8.

The current and long-term portions of prepaid royalties and minimum guaranteed royalty-related assets, included in other current assets and other assets, consisted of (in millions):

	As of March 31,	
	2014	**2013**
Other current assets	$ 97	$ 63
Other assets	58	93
Royalty-related assets	$155	$156

At any given time, depending on the timing of our payments to our co-publishing and/or distribution affiliates, content licensors and/or independent software developers, we recognize unpaid royalty amounts owed to these parties as accrued liabilities. The current and long-term portions of accrued royalties, included in accrued and other current liabilities and other liabilities, consisted of (in millions):

	As of March 31,	
	2014	**2013**
Accrued royalties	$ 73	$103
Other accrued expenses	7	21
Other liabilities	53	46
Royalty-related liabilities	$133	$170

As of March 31, 2014, $1 million of restructuring accruals related to the fiscal 2013 restructuring plan, and $47 million of restructuring accruals related to the fiscal 2011 restructuring plan is included in royalty-related liabilities in the table above. See Note 8 for details of restructuring and other restructuring plan-related activities and Note 10 for the details of our accrued and other current liabilities.

In addition, as of March 31, 2014, we were committed to pay approximately $1,301 million to content licensors, independent software developers, and co-publishing and/or distribution affiliates, but performance remained with the counterparty (*i.e.*, delivery of the product or content or other factors) and such commitments were therefore not recorded in our Consolidated Financial Statements.

CONTRACTS

2.49 RAYTHEON COMPANY (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except per share amount) **December 31:**	**2014**	**2013**
Assets (in part)		
Current assets		
Cash and cash equivalents	$ 3,222	$3,296
Short-term investments	1,497	1,001
Contracts in process, net	4,985	4,870
Inventories	414	363
Prepaid expenses and other current assets	174	286
Total current assets	10,292	9,816

Note 1: Summary of Significant Accounting Policies (in part)

Revenue Recognition—We use the percentage-of-completion accounting method to account for our long-term contracts associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment and related services, such as certain cost-plus service contracts. Under this method, revenue is recognized based on the extent of progress towards completion of the long-term contract. Our analysis of these contracts also contemplates whether contracts should be combined or segmented in accordance with the applicable criteria under GAAP. We combine closely related contracts when all the applicable criteria under GAAP are met. The combination of two or more contracts requires judgment in determining whether the intent of entering into the contracts was effectively to enter into a single project, which should be combined to reflect an overall profit rate. Similarly, we may segment a project, which may consist of a single contract or group of contracts, with varying rates of profitability, only if the applicable criteria under GAAP are met. Judgment also is involved in determining whether a single contract or group of contracts may be segmented based on how the arrangement was negotiated and the performance criteria. The decision to combine a group of contracts or segment a contract could change the amount of revenue and gross profit recorded in a given period.

The selection of the method by which to measure progress towards completion of a contract also requires judgment and is based on the nature of the products or services to be provided. We generally use the cost-to-cost measure of progress for our long-term contracts unless we believe another method more clearly measures progress towards completion of the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the contract. Contract costs include labor, materials and subcontractors costs, as well as an allocation of indirect costs. Revenues, including estimated fees or profits, are recorded as costs are incurred. Due to the nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion (the process for which we describe below in more detail) is complex and subject to many variables. Incentive and award fees generally are awarded at the discretion of the customer or upon achievement of certain program milestones or cost targets. Incentive and award fees, as well as penalties related to contract performance, are considered in estimating profit rates. Estimates of award fees are based on actual awards and anticipated performance, which may include the performance of subcontractors or partners depending on the individual contract requirements. Incentive provisions that increase or decrease earnings based solely on a single significant event generally are not recognized until the event occurs. Such incentives and penalties are recorded when there is sufficient information for us to assess anticipated performance. Our claims on contracts are recorded only if it is probable that the claim will result in additional contract revenue and the amounts can be reliably estimated.

We have a Company-wide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and performance of our contracts. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities, and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product), and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the contract (e.g., to estimate increases in wages and prices for materials and related support cost allocations), performance by our subcontractors, the availability and timing of funding from our customer, and overhead cost rates, among other variables. These estimates also include the estimated cost of satisfying our industrial cooperation agreements, sometimes referred to as offset obligations, required under certain contracts. Based on this analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual contracts, if we determine we will be successful in mitigating risks surrounding the technical, schedule, and cost aspects of those contracts or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, cost of sales, and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our contracts. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recognized in the period the loss is determined.

Net EAC adjustments had the following impact on our operating results:

(In millions, except per share amounts)	2014	2013	2012
Operating income	$ 513	$ 557	$ 613
Income from continuing operations attributable to Raytheon Company	333	362	398
Diluted EPS from continuing operations attributable to Raytheon Company	$1.07	$1.12	$1.19

To a much lesser extent, we enter into other types of contracts such as service, commercial, or software and licensing arrangements. Revenue under fixed-price service contracts not associated with the design, development, manufacture, or modification of complex aerospace or electronic equipment, and under commercial contracts, generally is recognized upon delivery or as services are rendered once persuasive evidence of an arrangement exists, our price is fixed or determinable, and collectability is reasonably assured. Costs on fixed-price service contracts are expensed as incurred, unless they otherwise qualify for deferral. We recognize revenue on contracts to sell software when evidence of an arrangement exists, the software has been delivered and accepted by the customer, the fee is fixed or determinable, and collection is probable. For software arrangements that include multiple elements, including perpetual software licenses and undelivered items (e.g., maintenance and/or services; subscriptions/term licenses), we allocate and defer revenue for the undelivered items based on vendor specific objective evidence (VSOE) of the fair value of the undelivered elements, and recognize revenue on the perpetual license using the residual method. We base VSOE of each element on the price for which the undelivered element is sold separately. We determine fair value of the undelivered elements based on historical evidence of our stand-alone sales of these elements to third parties or from the stated renewal rate for the undelivered elements. When VSOE does not exist for undelivered items, we recognize the entire arrangement fee ratably over the applicable performance period. Revenue from non-software license fees is recognized over the expected life of the continued involvement with the customer. Additionally, royalty revenue is recognized when earned.

We apply the separation guidance under GAAP for contracts with multiple deliverables. We analyze revenue arrangements with multiple deliverables to determine if the deliverables should be divided into more than one unit of accounting. For contracts with more than one unit of accounting, we allocate the consideration we receive among the separate units of accounting based on their relative selling prices, which we determine based on prices of the deliverables as sold on a stand-alone basis, or if not sold on a stand-alone basis, the prices we would charge if sold on a stand-alone basis. We recognize revenue for each deliverable based on the revenue recognition policies described above.

Contracts in Process, Net—Contracts in process, net are stated at cost plus estimated profit, but not in excess of estimated realizable value. Included in contracts in process are accounts receivable, which include amounts billed and due from customers. We maintain an allowance for doubtful accounts to provide for the estimated amount of accounts receivable that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and collateral to the extent applicable.

Deferred Contract Costs—Included in contracts in process, net are certain costs related to the performance of our U.S. Government contracts which are required to be recorded under GAAP but are not currently allocable to contracts. Such costs are deferred and primarily include a portion of our environmental expenses, asset retirement obligations, certain restructuring costs, deferred state income taxes, workers' compensation and certain other accruals. At December 31, 2014 and December 31, 2013, net deferred contract costs were approximately $223 million and $279 million, respectively. These costs are allocated to contracts when they are paid or otherwise agreed. We regularly assess the probability of recovery of these costs. This assessment requires us to make assumptions about the extent of cost recovery under our contracts and the amount of future contract activity. If the level of backlog in the future does not support the continued deferral of these costs, the profitability of our remaining contracts could be adversely affected.

Pension and other postretirement benefits costs are allocated to our contracts as allowed costs based on the U.S. Government cost accounting standards (CAS). The CAS requirements for pension and other postretirement benefits costs differ from the financial accounting standards (FAS) requirements under GAAP. Given the inability to match with reasonable certainty individual expense and income items between the CAS and FAS requirements to determine specific recoverability, we have not estimated the incremental FAS income or expense to be recoverable under our expected future contract activity, and therefore did not defer any FAS expense for pension and other postretirement benefits plans in 2012–2014. This resulted in $286 million of income, $249 million of expense, and $255 million of expense in 2014, 2013 and 2012, respectively, reflected in our consolidated results of operations for the difference between CAS and FAS requirements for our pension and other postretirement benefits plans in those years.

Advance Payments and Billings in Excess of Costs Incurred—We receive advances, performance-based payments and progress payments from customers that may exceed costs incurred on certain contracts. We classify advance payments and billings in excess of costs incurred as current liabilities. Costs incurred in excess of billings are classified as contracts in process, net.

Note 5: Contracts in Process, Net

Contracts in process, net consisted of the following at December 31:

	Cost-Type		Fixed-Price		Total	
(In millions)	2014	2013	2014	2013	2014	2013
U.S. Government contracts (including foreign military sales):						
Billed	$ 409	$ 490	$ 226	$ 374	$ 635	$ 864
Unbilled	810	787	8,418	8,139	9,228	8,926
Progress payments	—	—	(5,834)	(6,003)	(5,834)	(6,003)
	1,219	1,277	2,810	2,510	4,029	3,787
Other customers:						
Billed	14	16	393	343	407	359
Unbilled	27	22	1,127	1,411	1,154	1,433
Progress payments	—	—	(601)	(705)	(601)	(705)
	41	38	919	1,049	960	1,087
Allowance for doubtful accounts	—	—	(4)	(4)	(4)	(4)
Total contracts in process, net	$1,260	$1,315	$3,725	$3,555	$4,985	$4,870

The U.S. Government has title to the assets related to unbilled amounts on contracts that provide progress payments. Unbilled amounts are recorded under the percentage-of-completion method and are recoverable from the customer upon shipment of the product, presentation of billings or completion of the contract. Included in unbilled at December 31, 2014 was $190 million which is expected to be collected outside of one year.

Billed and unbilled contracts in process include retentions arising from contractual provisions. At December 31, 2014, retentions were $50 million. We anticipate collecting $5 million of these retentions in 2015 and the balance thereafter.

Property, Plant, and Equipment

RECOGNITION AND MEASUREMENT

2.50 *Property, plant, and equipment* are the long-lived, physical assets of the entity acquired for use in the entity's normal business operations and not intended for resale by the entity. FASB ASC 360, *Property, Plant, and Equipment*, states that these assets are initially recorded at historical cost, which includes the costs necessarily incurred to bring them to the condition and location necessary for their intended use. FASB ASC 835-20 establishes standards for capitalizing interest cost as part of the historical cost of acquiring assets constructed by an entity for its own use or produced for the entity by others for which deposits or progress payments have been made.

2.51 An entity may acquire or develop computer software either for internal use or for sale or lease to others. If for internal use, FASB ASC 350-40 provides guidance on accounting for the costs of computer software and for determining whether the software is for internal use. Under FASB ASC 350-40, internal and external costs incurred to develop internal-use software during the application development stage should be capitalized and amortized over the software's estimated useful life. Accounting for software acquired or developed for sale or lease is addressed by FASB ASC 985-20. Whether for internal use or sale or lease, FASB ASC refers to capitalized software costs as amortizable intangible assets.

PRESENTATION

2.52 FASB ASC 210-10-45-4 indicates that property, plant, and equipment should be classified as noncurrent when a classified balance sheet is presented. Under FASB ASC 805-20-55-37, some use rights acquired in a business combination may have characteristics of tangible, rather than intangible, assets. An example is mineral rights.

2.53 Under FASB ASC 985-20-45-2, capitalized costs related to software for sale or lease having a life of more than one year or one operating cycle should be presented as an other asset. Under FASB ASC 985-20, amortization expense should be on a product-by-product basis and charged to cost of sales or a similar expense category because it relates to a software product that is marketed to others. Presentations of capitalized computer software costs by survey entities vary.

DISCLOSURE

2.54 FASB ASC 360-10-50-1 requires the following disclosures in the financial statements or notes thereto:

a. Depreciation expense for the period
b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date
c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date
d. A general description of the method(s) used in computing depreciation with respect to major classes of depreciable assets.

FASB ASC 360 also provides accounting and disclosure guidance for long-lived assets that are impaired or held for disposal. Rule 5-02 of Regulation S-X requires that registrants state the basis of determining the amounts of property, plant, and equipment.

PRESENTATION AND DISCLOSURE EXCERPTS

PROPERTY, PLANT, AND EQUIPMENT

2.55 ALLIANCE ONE INTERNATIONAL, INC. (MAR)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands)	March 31, 2014	March 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 234,742	$ 92,026
Trade and other receivables, net	176,459	224,222
Accounts receivable, related parties	44,869	55,696
Inventories	760,607	903,947
Advances to tobacco suppliers	49,598	109,520
Recoverable income taxes	4,789	8,980
Current deferred taxes	10,013	16,776
Prepaid expenses	27,667	36,811
Current derivative asset	—	3,145
Other current assets	12,053	13,632
Total current assets	1,320,797	1,464,755
Other assets		
Investments in unconsolidated affiliates	50,876	25,169
Goodwill and other intangible assets	34,725	31,471
Long-term recoverable income taxes	5,423	—
Deferred income taxes	40,927	56,045
Other deferred charges	19,038	12,971
Other noncurrent assets	42,255	50,190
	193,244	175,846
Property, plant and equipment, net	261,246	270,978
	$1,775,287	$1,911,579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(in thousands)

Note 1—Significant Accounting Policies (in part)

Property, Plant and Equipment

Property, plant and equipment at March 31, 2014 and 2013, are summarized as follows:

	2014	2013
Land	$ 31,517	$ 28,752
Buildings	183,175	196,601
Machinery and equipment	201,306	207,717
Total	415,998	433,070
Less accumulated depreciation	154,752	162,092
Total property, plant and equipment, net	$261,246	$270,978

Property, plant and equipment is stated at cost less accumulated depreciation. Provisions for depreciation are computed on a straight-line basis at annual rates calculated to amortize the cost of depreciable properties over their estimated useful lives. Buildings and machinery and equipment are depreciated over ranges of 20 to 30 years and 3 to 10 years, respectively. The consolidated financial statements do not include fully depreciated assets. Depreciation expense recorded in Cost of Goods and Services Sold for the years ended March 31, 2014, 2013 and 2012 was $25,680, $25,939 and $24,712, respectively. Depreciation expense recorded in Selling, General and Administrative Expense for the years ended March 31, 2014, 2013 and 2012 was $3,209, $3,112 and $3,717, respectively. Total property and equipment purchases, including internally developed software intangibles, were $27,755 for the year ended March 31, 2014 of which $4,322 was unpaid at March 31, 2014 and included in Accounts Payable; $42,803 for the year ended March 31, 2013 of which $2,743 was unpaid at March 31, 2013 and included in Accounts Payable; and $42,347 for the year ended March 31, 2012 of which $776 was unpaid at March 31, 2012 and included in Accounts Payable. Estimated useful lives are periodically reviewed and changes are made to the estimated useful lives when necessary. Long-lived assets are reviewed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows. An impairment loss would be recognized when estimated undiscounted future cash flows from the use of the asset and its eventual disposition are less than its carrying amount. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset over its fair value. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures.

2.56 AUTONATION, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except share and per share data)

	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 75.4	$ 69.2
Receivables, net	817.8	740.9
Inventory	2,899.0	2,827.2
Other current assets	207.0	192.7
Total Current Assets	3,999.2	3,830.0
Property and Equipment, Net	2,422.0	2,235.3
Goodwill, Net	1,314.7	1,259.6
Other Intangible Assets, Net	354.7	335.1
Other Assets	309.1	254.1
Total Assets	$8,399.7	$7,914.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(All tables in millions, except per share data)

1. Description of Business and Summary of Significant Accounting Policies (in part)

Property and Equipment, Net

Property and equipment are recorded at cost less accumulated depreciation. Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance, and repairs are charged to expense as incurred. In addition, we capitalize interest on borrowings during the active construction period of capital projects. Capitalized interest is added to the cost of the assets and depreciated over the estimated useful lives of the assets. Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability and included in current and/or long-term debt based on the lease term. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in Other Expenses (Income), Net in the Consolidated Statements of Income. See Note 4 of the Notes to Consolidated Financial Statements for detailed information about our property and equipment.

Depreciation is provided over the estimated useful lives of the assets involved using the straight-line method. Leasehold improvements and capitalized lease assets are amortized to depreciation expense over the estimated useful life of the asset or the respective lease term used in determining lease classification, whichever is shorter. The range of estimated useful lives is as follows:

- Buildings and improvements 5 to 40 years
- Furniture, fixtures, and equipment 3 to 12 years

We continually evaluate property and equipment, including leasehold improvements, to determine whether events or changes in circumstances have occurred that may warrant revision of the estimated useful life or whether the remaining balance should be evaluated for possible impairment. We use an estimate of the related undiscounted cash flows over the remaining life of the property and equipment in assessing whether an asset has been impaired. We measure impairment losses based upon the amount by which the carrying amount of the asset exceeds the fair value. See Note 17 of the Notes to Consolidated Financial Statements for information about our fair value measurements.

During 2014, there were no significant impairment charges recorded for the carrying value of long-lived assets held and used in continuing operations. During 2013, we fully impaired certain long-lived assets held and used in continuing operations and recorded a non-cash impairment charge of $0.7 million. This charge is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the "Corporate and other" category of our segment information.

When property and equipment is identified as held for sale, we reclassify the held for sale assets to Other Current Assets and cease recording depreciation. Assets held for sale in both continuing operations and discontinued operations are reported in the "Corporate and other" category of our segment information.

We had assets held for sale of $64.7 million at December 31, 2014, and $59.8 million at December 31, 2013, included in continuing operations. We recorded an impairment charge of $1.1 million in 2014 associated with assets held for sale in continuing operations. This charge is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the "Corporate and other" category of our segment information. We recorded no impairment charges in 2013 associated with assets held for sale in continuing operations.

We had assets held for sale of $23.2 million at December 31, 2014, and $34.5 million at December 31, 2013, included in discontinued operations. During 2014 and 2013, there were no significant impairment charges associated with assets held for sale in discontinued operations.

During 2013, we recognized a gain of $8.1 million ($5.0 million after-tax) related to the sale of a continuing operations held for sale property. This gain is recorded as a component of Other Expenses (Income), Net in the Consolidated Statements of Income and is reported in the "Corporate and other" category of our segment information.

4. Property and Equipment, Net

A summary of property and equipment, net, at December 31 is as follows:

	2014	2013
Land	$1,090.4	$ 997.1
Buildings and improvements	1,683.4	1,552.6
Furniture, fixtures, and equipment	578.7	569.3
	3,352.5	3,119.0
Less: accumulated depreciation and amortization	(930.5)	(883.7)
Property and equipment, net	$2,422.0	$2,235.3

We capitalized interest in connection with various construction projects to upgrade or remodel our facilities of $1.2 million in 2014, $0.7 million in 2013, and $0.6 million in 2012.

Equity Method and Joint Ventures

Author's Note

In January 2014, FASB issued ASU No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)*. This ASU provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2014, and interim periods within annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Due to the effective date, none of the examples that follow contain an example of these disclosures due to the effective date.

RECOGNITION AND MEASUREMENT

2.57 FASB ASC 323, *Investments—Equity Method and Joint Ventures*, stipulates that the equity method should be used to account for investments in corporate joint ventures and certain other noncontrolled entities when an investor has the ability to exercise significant influence over operating and financial policies of an investee, even though the investor holds 50 percent or less of the common stock. FASB ASC 323 considers an investor to have the ability to exercise significant influence when it owns 20 percent or more of the voting stock of an investee. FASB ASC 323 specifies the criteria for applying the equity method of accounting to 50 percent or less owned entities and lists circumstances under which, despite 20 percent ownership, an investor may not be able to exercise significant influence.

PRESENTATION

2.58 Under the equity method, FASB ASC 323-10-45-1 requires that an investment in common stock be shown in the balance sheet of an investor as a single amount.

DISCLOSURE

2.59 Under FASB ASC 323-10-50-2, the significance of an equity method investment to the investor's financial position and results of operations should be considered in evaluating the extent of disclosures of the financial position and results of operations of an investee. If the investor has more than one investment in common stock, disclosures wholly or partly on a combined basis may be appropriate. FASB ASC 323-10-50-3 details disclosures required for equity method investments, including name and percentage of ownership of the investee, investor accounting policies, any difference between the amount at which an investment is carried and the amount of underlying equity in net assets, and the accounting treatment of the difference.

PRESENTATION AND DISCLOSURE EXCERPTS

EQUITY METHOD

2.60 YAHOO! INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
(In thousands, except par values)	**2013**	**2014**
Assets		
Current assets:		
Cash and cash equivalents	$ 2,077,590	$ 2,667,916
Short-term marketable securities	1,330,304	5,327,412
Accounts receivable, net of allowance of $35,549 and $39,799 as of December 31, 2013 and 2014, respectively	979,559	1,032,704
Prepaid expenses and other current assets	638,404	671,075
Total current assets	5,025,857	9,699,107
Long-term marketable securities	1,589,500	2,230,892
Property and equipment, net	1,488,518	1,487,684
Goodwill	4,679,648	5,163,654
Intangible assets, net	417,808	470,842
Other long-term assets and investments	177,281	550,798
Investment in Alibaba Group	—	39,867,789
Investments in equity interests	3,426,347	2,489,578
Total assets	$16,804,959	$61,960,344

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. The Company and Summary of Significant Accounting Policies (in part)

Basis of Presentation. The consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the consolidated balance sheets. The Company has included the results of operations of acquired companies from the date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation.

Investments in Equity Interests. Investments in the common stock of entities in which the Company can exercise significant influence but does not own a majority equity interest or otherwise control are accounted for using the equity method and are included as investments in equity interests on the consolidated balance sheets. The Company records its share of the results of these companies one quarter in arrears within earnings in equity interests in the consolidated statements of income. Investments in privately held equity interests in which the Company cannot exercise significant influence are accounted for using the cost method of accounting.

The Company reviews its investments for other-than-temporary impairment whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the investment. The determination of fair value of the investment involves considering factors such as the stock prices of public companies in which the Company has an equity investment, current economic and market conditions, the operating performance of the companies including current earnings trends and forecasted cash flows, and other company and industry specific information.

Note 8. Investments in Equity Interests Accounted for Using the Equity Method of Accounting

The following table summarizes the Company's investments in equity interests as of December 31, 2013 (dollars in thousands):

	December 31, 2013	Percent Ownership
Alibaba Group	$1,018,126	24%
Yahoo Japan	2,399,590	35%
Other	8,631	19%
Total	$3,426,347	

The following table summarizes the Company's investments in equity interests as of December 31, 2014 (dollars in thousands):

	December 31, 2014	Percent Ownership
Yahoo Japan	$2,482,660	35.5%
Other	6,918	20%
Total	$2,489,578	

Alibaba Group

Equity Investment in Alibaba Group. On October 23, 2005, the Company acquired approximately 46 percent of the outstanding ordinary shares of Alibaba Group in exchange for $1.0 billion in cash, the contribution of the Company's China-based businesses ("Yahoo China"), and direct transaction costs of $8 million.

Prior to the initial public offering ("IPO") by Alibaba Group of American Depositary Shares ("ADSs"), the Company's investment in Alibaba Group was accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets and goodwill, was classified as part of investments in equity interests on the Company's consolidated balance sheets. Prior to the IPO, the Company recorded its share of the results of Alibaba Group one quarter in arrears, within earnings in equity interests in the consolidated statements of income, including any related tax impacts related to the earnings in equity interest. As of December 31, 2013, the excess of carrying value of the Company's investment in Alibaba Group and the Company's proportionate share of the net assets of Alibaba Group was largely attributable to goodwill.

The following table presents Alibaba Group's U.S. GAAP financial information, as derived from the Alibaba Group financial statements (in thousands):

	Twelve Months Ended September 30,		
	2012	2013	2014[1]
Operating data:			
Revenue	$4,082,838	$6,734,978	$7,584,932
Gross profit[2]	$2,764,314	$4,983,444	$5,592,862
Income from operations[2]	$ 687,632	$3,236,733	$3,437,766
Net income	$ 536,050	$2,847,139	$4,309,405
Net income attributable to ordinary shareholders of Alibaba Group Holding Limited	$ 484,511	$2,809,429	$4,260,067

(continued)

	September 30, 2013	June 30, 2014
Balance sheet data:		
Current assets	$7,994,731	$14,225,068
Long-term assets	$5,959,835	$11,973,248
Current liabilities	$4,838,510	$ 7,318,619
Long-term liabilities	$5,319,113	$ 8,828,663
Convertible preferred shares and other mezzanine equity	$1,688,889	$ 1,699,714
Noncontrolling interests	$ 92,127	$ 747,364

[1] Data is for the nine months ended June 30, 2014.

[2] For the twelve months ended September 30, 2013, certain amounts have been reclassified to conform to the current period presentation with no effect on previously reported net income or stockholders' equity.

From the date of its acquisition of its interest in Alibaba Group through the date of the Alibaba Group IPO, the Company has recorded, in retained earnings, cumulative earnings in equity interests, net of tax, of $1,078 million and $1,691 million as of December 31, 2013 and 2014, respectively.

Initial Repurchase by Alibaba Group. On September 18, 2012 (the "Repurchase Closing Date"), Alibaba Group repurchased 523 million of the 1,047 million ordinary shares of Alibaba Group ("Alibaba Group shares") owned by the Company (the "Initial Repurchase"). The Initial Repurchase was made pursuant to the terms of the Share Repurchase and Preference Share Sale Agreement entered into by Yahoo! Inc., Alibaba Group and Yahoo! Hong Kong Holdings Limited ("YHK"), a wholly owned subsidiary of the Company, on May 20, 2012 (as amended on September 11, 2012, October 14, 2013 and July 14, 2014). Yahoo received $13.54 per Alibaba Group share, or approximately $7.1 billion in total consideration, for the 523 million Alibaba Group shares sold to Alibaba Group. Approximately $6.3 billion of the consideration was received in cash and $800 million was received in Alibaba Group Preference Shares, which Alibaba Group redeemed on May 16, 2013. During the six months ended June 30, 2013, the Company received cash dividends from Alibaba Group of $58 million related to the Alibaba Group Preference Shares. The Company recorded a pre-tax gain of approximately $4.6 billion for the year ended December 31, 2012.

On May 16, 2013, the Company received $846 million in cash from Alibaba Group to redeem the Alibaba Group Preference Shares. The cash received represented the redemption value, which included the stated value of $800 million plus accrued dividends of $46 million. Prior to their redemption, the Alibaba Group Preference Shares yielded semi-annual dividends at a rate per annum of up to 10 percent, with at least 3 percent payable in cash and the remainder accruing and increasing the liquidation preference.

Alibaba Group IPO. On September 24, 2014, Alibaba Group closed its IPO of ADSs. Each Alibaba Group ADS represents one ordinary share of Alibaba Group. YHK sold 140,000,000 Alibaba Group ADSs in the IPO at an initial public offering price of $68.00 per ADS. The Company received $9.4 billion (net of underwriting discounts, commissions, and fees of approximately $115 million) in cash for the 140 million Alibaba Group ADSs sold. The Company recorded a pre-tax gain of $10.3 billion (including a $1.3 billion gain reflecting the Company's proportionate share of the proceeds from the IPO) for the year ended December 31, 2014, which is included in other income, net on the consolidated statements of income. The after-tax gain was approximately $6.3 billion. Following completion of the sale in the IPO, the Company retained 383,565,416 Alibaba Group ordinary shares, representing approximately 15 percent of Alibaba Group's outstanding ordinary shares.

As of the date of the IPO, the Company no longer accounts for its remaining investment in Alibaba Group using the equity method and no longer records its proportionate share of Alibaba Group's financial results in the consolidated financial statements. The Company reflects its remaining investment in Alibaba Group as an available-for-sale equity security on the consolidated balance sheet and adjusts the investment to fair value each quarterly reporting period with changes in fair value recorded within other comprehensive income (loss), net of tax. Also in connection with the IPO, each of Yahoo and YHK entered into a lock-up agreement with the underwriters restricting the sale of its remaining Alibaba Group shares for a period of one year, subject to certain exceptions. As of December 31, 2014, the remaining lock-up period is 8.5 months.

In connection with the IPO, Yahoo entered into a voting agreement with Alibaba Group, Jack Ma, Joe Tsai, SoftBank Corp., a Japanese corporation ("Softbank") and certain other shareholders of Alibaba Group, pursuant to which Yahoo agreed to certain voting arrangements with respect to all of its Alibaba Group shares, including an agreement to vote for the director nominee of SoftBank and the director nominees of the Alibaba Partnership (a partnership comprised of members of management of Alibaba Group, one of its affiliates and/or certain companies with which Alibaba Group has a significant relationship). Yahoo also granted a proxy to Jack Ma and Joe Tsai, Alibaba Group's executive chairman and executive vice chairman, respectively, to vote, subject to certain exceptions, 121.5 million of the Company's Alibaba Group shares or, if less, the remaining Alibaba Group shares then owned by the Company.

See Note 2—"Marketable Securities, Investments and Fair Value Disclosures" for additional information.

Technology and Intellectual Property License Agreement (the "TIPLA"). On the Repurchase Closing Date, the Company and Alibaba Group entered into an amendment of the existing TIPLA pursuant to which Alibaba Group made an initial payment to the Company of $550 million in satisfaction of certain future royalty payments under the existing TIPLA. As a result of the IPO, the TIPLA will terminate on September 18, 2015 and Alibaba Group's obligation to make royalty payments under the TIPLA ceased on September 24, 2014. The royalty revenue recognized was approximately $86 million, $122 million, and $106 million for the years ended December 31, 2012, 2013 and 2014, respectively. The remaining initial TIPLA deferred revenue of $199 million is now being recognized ratably over the remaining term of the TIPLA, through September 18, 2015. For the years ended December 31, 2012, 2013, and 2014, the Company recognized approximately $39 million, $137 million, and $175 million, respectively, of the TIPLA deferred revenue.

Yahoo Japan

During April 1996, the Company signed a joint venture agreement with Softbank, as amended in September 1997, which formed Yahoo Japan. Yahoo Japan was formed to establish and manage a local version of Yahoo in Japan.

The investment in Yahoo Japan is being accounted for using the equity method and the total investment, including net tangible assets, identifiable intangible assets, and goodwill, is classified as part of the investments in equity interests balance on the Company's consolidated balance sheets. The Company records its share of the results of Yahoo Japan and any related amortization expense, one quarter in arrears, within earnings in equity interests in the consolidated statements of income.

The Company makes adjustments to the earnings in equity interests line in the consolidated statements of income for any differences between U.S. GAAP and International Financial Reporting Standards ("IFRS"), the standards by which Yahoo Japan's financial statements are prepared.

The fair value of the Company's ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately $7 billion as of December 31, 2014.

During the years ended December 31, 2012, 2013 and 2014, the Company received cash dividends from Yahoo Japan in the amounts of $84 million, $77 million, and $84 million, net of withholding taxes, respectively, which were recorded as reductions to the Company's investment in Yahoo Japan.

During the year ended December 31, 2014, the Company sold data center assets and assigned a data center lease to Yahoo Japan for cash proceeds of $11 million and recorded a net gain of approximately $5 million within general and administrative operating expenses.

The following tables present summarized financial information derived from Yahoo Japan's consolidated financial statements, which are prepared on the basis of IFRS. The Company has made adjustments to the Yahoo Japan financial information to address differences between IFRS and U.S. GAAP that materially impact the summarized financial information below. Due to these adjustments, the Yahoo Japan summarized financial information presented below is not materially different than such information presented on the basis of U.S. GAAP.

	Twelve Months Ended September 30,		
	2012	**2013**	**2014**
Operating data:			
Revenue	$4,242,623	$4,296,522	$4,046,412
Gross profit	$3,594,633	$3,577,001	$3,262,450
Income from operations	$2,189,323	$2,150,644	$1,896,368
Net income	$1,313,494	$1,365,443	$1,236,583
Net income attributable to Yahoo Japan	$1,308,539	$1,355,457	$1,225,221

	September 30,	
	2013	**2014**
Balance sheet data:		
Current assets	$6,318,156	$6,161,126
Long-term assets	$1,728,912	$1,908,379
Current liabilities	$1,992,508	$1,948,540
Long-term liabilities	$ 56,762	$ 35,418
Noncontrolling interests	$ 74,754	$ 66,998

Since acquiring its equity interest in Yahoo Japan, the Company has recorded cumulative earnings in equity interests, net of dividends received and related taxes on dividends, of $2.8 billion and $3.3 billion as of December 31, 2013 and 2014, respectively.

Under technology and trademark license and other commercial arrangements with Yahoo Japan, the Company records revenue from Yahoo Japan based on a percentage of advertising revenue earned by Yahoo Japan. The Company recorded revenue from Yahoo Japan of approximately $281 million, $264 million, and $253 million, respectively, for the years ended December 31, 2012, 2013, and 2014. As of December 31, 2013 and 2014, the Company had net receivable balances from Yahoo Japan of approximately $42 million and $47 million, respectively.

COST METHOD

2.61 EQUIFAX INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
(In millions, except par values)	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 128.3	$ 235.9
Trade accounts receivable, net of allowance for doubtful accounts of $7.2 and $6.8 at December 31, 2014 and 2013, respectively	337.2	309.7
Prepaid expenses	35.7	34.5
Other current assets	103.9	68.3
Total current assets	605.1	648.4
Property and equipment:		
Capitalized internal-use software and system costs	257.3	388.0
Data processing equipment and furniture	203.3	188.0
Land, buildings and improvements	194.8	185.2
Total property and equipment	655.4	761.2
Less accumulated depreciation and amortization	(354.8)	(472.3)
Total property and equipment, net	300.6	288.9
Goodwill	2,606.8	2,395.1
Indefinite-lived intangible assets	95.2	95.5
Purchased intangible assets, net	953.9	973.2
Other assets, net	112.6	138.8
Total assets	$4,674.2	$4,539.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Basis of Consolidation. Our Consolidated Financial Statements and the accompanying notes, which are prepared in accordance with U.S. generally accepted accounting principles, or GAAP, include Equifax and all its subsidiaries. We consolidate all majority-owned and controlled subsidiaries as well as variable interest entities in which we are the primary beneficiary. Other parties' interests in consolidated entities are reported as noncontrolling interests. We use the equity method of accounting for investments in which we are able to exercise significant influence and use the cost method for all other investments. All significant intercompany transactions and balances are eliminated.

Our Consolidated Financial Statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the periods presented therein. Certain prior year amounts have been reclassified to conform to current year presentation. The effect of these reclassifications is not material.

Other Assets. Other assets on our Consolidated Balance Sheets primarily represents our investment in unconsolidated affiliates, our cost method investment in Boa Vista Servicos ("BVS"), interest rate swaps, assets related to life insurance policies covering certain officers of the Company, and employee benefit trust assets.

Impairment of Cost Method Investment. We monitor the status of our cost method investment in order to determine if conditions exist or events and circumstances indicate that it may be impaired in that its carrying amount may exceed the fair value of the investment. Significant factors that are considered that could be indicative of an impairment include: changes in business strategy, market conditions, underperformance relative to historical or expected future operating results; and negative industry or economic trends. If potential indicators of impairment exist, we estimate the fair value of the investment using a combination of a discounted cash flow analysis and an evaluation of EBITDA and transaction multiples for comparable companies. If the carrying value of the investment exceeds the estimated fair value, an impairment loss is recorded based on the amount by which the investment's carrying amount exceeds its fair value. There were no indicators of impairment for 2014. We recorded an impairment of our cost method investment in 2013. See Note 2 for further discussion.

2. Cost Method Investment

We hold a 15% equity interest in BVS, which is the second largest consumer and commercial credit information company in Brazil. This investment is recorded in other assets, net, on the Consolidated Balance Sheets and is accounted for using the cost method. As of December 31, 2012, our investment in BVS was valued at 130 million Brazilian Reais, which is the same as the initial fair value. The initial fair value was determined by a third-party using income and market approaches.

During the fourth quarter of 2013, management of BVS updated financial projections in connection with a request for additional financing. The financial projections reflected the effects of reduced near-term market expectations for consumer credit and for credit information services in Brazil and increased investment to achieve the strategic objectives and capitalize on future market opportunities, such as positive data, resulting in reduced expected cash flows. The request for financing, the projections received, along with the near-term weakness in the Brazilian consumer and small commercial credit markets were considered indicators of impairment. Management of Equifax prepared an analysis to estimate the fair value of our investment at December 31, 2013 and estimated that value to be 90 million Reais ($38.2 million). As a result, we wrote-down the carrying value of our investment and recorded a loss of 40 million Reais ($17.0 million) which is included in other income (expense) in the Consolidated Statements of Income.

At December 31, 2014, we estimated the fair value of the investment approximated the fair value of the investment recorded.

FAIR VALUE

2.62 HEALTH NET, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(Amounts in thousands, except per share data)

	December 31,	
	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 869,133	$ 433,155
Investments-available-for-sale (amortized cost: 2014-$1,777,404, 2013-$1,602,456)	1,791,060	1,567,020
Premiums receivable, net of allowance for doubtful accounts (2014-$1,671, 2013-$643)	951,935	430,012
Amounts receivable under government contracts	150,546	194,041
Other receivables	424,910	68,919
Deferred taxes	57,911	94,060
Assets held for sale	50,000	—
Other assets	220,122	132,683
Total current assets	4,515,617	2,919,890
Property and equipment, net	84,328	201,395
Goodwill	558,886	565,886
Other intangible assets, net	11,822	13,842
Deferred taxes	33,081	5,793
Investments-available-for-sale-noncurrent (amortized cost: 2014-$5,474, 2013-$67,943)	4,570	59,768
Other noncurrent assets	187,630	162,551
Total Assets	$5,395,934	$3,929,125

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Policies (in part)

Investments

Investments classified as available-for-sale, which consist primarily of debt securities, are stated at fair value. Unrealized gains and losses are excluded from earnings and reported as other comprehensive income, net of income tax effects. The cost of investments sold is determined in accordance with the specific identification method and realized gains and losses are included in net investment income. We analyze all debt investments that have unrealized losses for impairment consideration and assess the intent to sell such securities. If such intent exists, impaired securities are considered other-than-temporarily impaired. Management also assesses if we may be required to sell the debt investments prior to the recovery of amortized cost, which may also trigger an impairment charge. If securities are considered other-than-temporarily impaired based on intent or ability, we assess whether the amortized costs of the securities can be recovered. If management anticipates recovering an amount less than the amortized cost of the securities, an impairment charge is calculated based on the expected discounted cash flows of the securities. Any deficit between the amortized cost and the expected cash flows is recorded through earnings as a charge. All other temporary impairment charges are recorded through other comprehensive income. During the years ended December 31, 2014, 2013 and 2012, no losses were recognized from other-than-temporary impairments.

Fair Value of Financial Instruments

The estimated fair value amounts of cash equivalents, investments available-for-sale, premiums and other receivables, notes receivable and notes payable have been determined by using available market information and appropriate valuation methodologies. The carrying amounts of cash equivalents approximate fair value due to the short maturity of those instruments. Fair values for debt and equity securities are generally based upon quoted market prices. Where quoted market prices were not readily available, fair values were estimated using valuation methodologies based on available and observable market information. Such valuation methodologies include reviewing the value ascribed to the most recent financing, comparing the security with securities of publicly traded companies in a similar line of business, and reviewing the underlying financial performance including estimating discounted cash flows. The carrying value of premiums and other receivables, long-term notes receivable and nonmarketable securities approximates the fair value of such financial instruments. The fair value of notes payable is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt with the same remaining maturities. The fair value of our fixed-rate borrowings was $437.0 million and $434.5 million as of December 31, 2014 and 2013, respectively. The fair value of our variable-rate borrowings under our revolving credit facility was $100.0 million and $100.0 million as of December 31, 2014 and 2013, respectively, which was equal to the carrying value because the interest rates paid on these borrowings were based on prevailing market rates. The fair value of our fixed-rate borrowings was determined using the quoted market price, which is a Level 1 input in the fair value hierarchy. The fair value of our variable-rate borrowings was estimated to equal the carrying value because the interest rates paid on these borrowings were based on prevailing market rates. Since the pricing inputs are other than quoted prices and fair value is determined using an income approach, our variable-rate borrowings are classified as a Level 2 in the fair value hierarchy. See Notes 6 and 7 for additional information regarding our financing arrangements and fair value measurements, respectively.

Note 4—Investments

Investments classified as available-for-sale, which consist primarily of debt securities, are stated at fair value. Unrealized gains and losses are excluded from earnings and reported as other comprehensive income, net of income tax effects. The cost of investments sold is determined in accordance with the specific identification method, and realized gains and losses are included in net investment income. We periodically assess our available-for-sale investments for other-than-temporary impairment. Any such other-than-temporary impairment loss is recognized as a realized loss, which is recorded through earnings, if related to credit losses.

During the years ended December 31, 2014 and 2013, we recognized no losses from other-than-temporary impairments of our cash equivalents and available-for-sale investments.

We classified $4.6 million and $59.8 million as investments available-for-sale-noncurrent as of December 31, 2014 and 2013, respectively, because we did not intend to sell and we believed it may take longer than a year for such impaired securities to recover. This classification does not affect the marketability or the valuation of the investments, which are reflected at their market value as of December 31, 2014 and 2013.

As of December 31, 2014 and 2013, the amortized cost, gross unrealized holding gains and losses, and fair value of our current investments available-for-sale and our investments available-for-sale-noncurrent, after giving effect to other-than-temporary impairments were as follows:

	2014			
(Dollars in millions)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Carrying Value
Current:				
Asset-backed securities	$ 437.2	$ 2.6	$(1.9)	$ 437.9
U.S. government and agencies	36.5	—	—	36.5
Obligations of states and other political subdivisions	716.7	17.2	(1.7)	732.2
Corporate debt securities	587.0	2.7	(5.3)	584.4
	$1,777.4	$22.5	$(8.9)	$1,791.0
Noncurrent:				
Asset-backed securities	$ 0.8	$ —	$(0.2)	$ 0.6
Corporate debt securities	4.7	—	(0.7)	4.0
	$ 5.5	$ —	$(0.9)	$ 4.6

	2013			
(Dollars in millions)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Carrying Value
Current:				
Asset-backed securities	$ 394.7	$ 3.4	$ (8.7)	$ 389.4
U.S. government and agencies	23.7	—	—	23.7
Obligations of states and other political subdivisions	734.3	5.9	(30.3)	709.9
Corporate debt securities	449.8	3.6	(9.4)	444.0
	$1,602.5	$12.9	$(48.4)	$1,567.0
Noncurrent:				
Asset-backed securities	$ 1.3	$ —	$ (0.2)	$ 1.1
Obligations of states and other political subdivisions	53.4	—	(6.3)	47.1
Corporate debt securities	13.2	—	(1.6)	11.6
	$ 67.9	$ —	$ (8.1)	$ 59.8

As of December 31, 2014, the contractual maturities of our current investments available-for-sale and our investments available-for-sale-noncurrent were as follows:

(Dollars in millions)	Amortized Cost	Estimated Fair Value
Current:		
Due in one year or less	$ 69.4	$ 69.6
Due after one year through five years	357.5	357.8
Due after five years through ten years	486.3	489.6
Due after ten years	427.0	436.1
Asset-backed securities	437.2	437.9
Total current investments available-for-sale	$1,777.4	$1,791.0
Noncurrent:		
Due after one year through five years	1.3	1.1
Due after five years through ten years	3.4	2.9
Asset-backed securities	0.8	0.6
Total noncurrent investments available-for-sale	$ 5.5	$ 4.6

Proceeds from sales of investments available-for-sale during 2014 were $441.4 million. Gross realized gains and losses during 2014 totaled $5.7 million and $3.0 million, respectively. Proceeds from sales of investments available-for-sale during 2013 were $696.5 million. Gross realized gains and losses during 2013 totaled $26.4 million and $2.4 million, respectively. Proceeds from sales of investments available-for-sale during 2012 were $1,350.0 million. Gross realized gains and losses during 2012 totaled $37.2 million and $0.5 million, respectively.

The following tables show our investments' fair values and gross unrealized losses for individual securities that have been in a continuous loss position through December 31, 2014 and December 31, 2013. These investments are interest-yielding debt securities of varying maturities. We have determined that the unrealized loss position for these securities is primarily due to market volatility. Generally, in a rising interest rate environment, the estimated fair value of fixed income securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of fixed income securities would be expected to increase. These securities may also be negatively impacted by illiquidity in the market.

The following table shows our current investments' fair values and gross unrealized losses for individual securities in a continuous loss position as of December 31, 2014:

	Less than 12 Months		12 Months or More		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$149.3	$(0.5)	$112.5	$(1.4)	$261.8	$(1.9)
U.S. government and agencies	20.7	—	—	—	20.7	—
Obligations of states and other political subdivisions	37.3	(0.1)	104.8	(1.6)	142.1	(1.7)
Corporate debt securities	299.1	(3.9)	56.0	(1.4)	355.1	(5.3)
	$506.4	$(4.5)	$273.3	$(4.4)	$779.7	$(8.9)

The following table shows our noncurrent investments' fair values and gross unrealized losses for individual securities that have been in a continuous loss position through December 31, 2014:

	Less than 12 Months		12 Months or More		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$—	$ —	$0.6	$(0.2)	$0.6	$(0.2)
Corporate debt securities	4.0	(0.7)	—	—	4.0	(0.7)
	$4.0	$(0.7)	$0.6	$(0.2)	$4.6	$(0.9)

The following table shows the number of our individual securities-current that have been in a continuous loss position at December 31, 2014:

	Less than 12 Months	12 Months or More	Total
Asset-backed securities	124	51	175
U.S. government and agencies	4	—	4
Obligations of states and other political subdivisions	21	46	67
Corporate debt securities	320	69	389
	469	166	635

The following table shows the number of our individual securities-noncurrent that have been in a continuous loss position through December 31, 2014:

	Less than 12 Months	12 Months or More	Total
Asset-backed securities	—	1	1
Corporate debt securities	9	—	9
	9	1	10

The following table shows our current investments' fair values and gross unrealized losses for individual securities that have been in a continuous loss position through December 31, 2013:

	Less than 12 Months		12 Months or More		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$225.3	$ (7.9)	$ 22.5	$(0.8)	$ 247.8	$ (8.7)
U.S. government and agencies	4.0	—	—	—	4.0	—
Obligations of states and other political subdivisions	453.5	(23.5)	79.7	(6.8)	533.2	(30.3)
Corporate debt securities	242.8	(9.0)	6.7	(0.4)	249.5	(9.4)
	$925.6	$(40.4)	$108.9	$(8.0)	$1,034.5	$(48.4)

The following table shows our noncurrent investments' fair value and gross unrealized losses for our individual securities that have been in a continuous loss position through December 31, 2013:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 0.5	$(0.1)	$ 0.7	$(0.1)	$ 1.2	$(0.2)
Obligations of states and other political subdivisions	17.4	(2.2)	29.6	(4.1)	$47.0	$(6.3)
Corporate debt securities	7.5	(0.9)	4.1	(0.7)	$11.6	$(1.6)
	$25.4	$(3.2)	$34.4	$(4.9)	$59.8	$(8.1)

Noncurrent Receivables

PRESENTATION

2.63 FASB ASC 210, *Balance Sheet*, states that the concept of current assets excludes receivables arising from unusual transactions that are not expected to be collected within 12 months, such as the sale of capital assets or loans or advances to affiliates, officers, or employees.

2.64 FASB ASC 825 includes noncurrent receivables as financial instruments. FASB ASC 820 requires disclosure of both the fair value and bases for estimating the fair value of noncurrent receivables, unless it is not practicable to estimate that value. However, FASB ASC 825-10-50-14 indicates that for trade receivables and payables, fair value disclosure is not required if the carrying amount approximates fair value.

PRESENTATION AND DISCLOSURE EXCERPTS

LONG-TERM RECEIVABLES

2.65 CISCO SYSTEMS, INC. (JUL)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions, except par value)

	July 26, 2014	July 27, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 6,726	$ 7,925
Investments	45,348	42,685
Accounts receivable, net of allowance for doubtful accounts of $265 at July 26, 2014 and $228 at July 27, 2013	5,157	5,470
Inventories	1,591	1,476
Financing receivables, net	4,153	4,037
Deferred tax assets	2,808	2,616
Other current assets	1,331	1,312
Total current assets	67,114	65,521
Property and equipment, net	3,252	3,322
Financing receivables, net	3,918	3,911
Goodwill	24,239	21,919
Purchased intangible assets, net	3,280	3,403
Other assets	3,331	3,115
Total assets	$105,134	$101,191

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

(f) Financing Receivables and Guarantees The Company provides financing arrangements, including leases, financed service contracts, and loans, for certain qualified end-user customers to build, maintain, and upgrade their networks. Lease receivables primarily represent sales-type and direct-financing leases. Leases have on average a four-year term and are usually collateralized by a security interest in the underlying assets, while loan receivables generally have terms of up to three years. Financed service contracts typically have terms of one to three years and primarily relate to technical support services.

The Company determines the adequacy of its allowance for credit loss by assessing the risks and losses inherent in its financing receivables by portfolio segment. The portfolio segment is based on the types of financing offered by the Company to its customers: lease receivables, loan receivables, and financed service contracts and other.

The Company assesses the allowance for credit loss related to financing receivables on either an individual or a collective basis. The Company considers various factors in evaluating lease and loan receivables and the earned portion of financed service contracts for possible impairment on an individual basis. These factors include the Company's historical experience, credit quality and age of the receivable balances, and economic conditions that may affect a customer's ability to pay. When the evaluation indicates that it is probable that all amounts due pursuant to the contractual terms of the financing agreement, including scheduled interest payments, are unable to be collected, the financing receivable is considered impaired. All such outstanding amounts, including any accrued interest, will be assessed and fully reserved at the customer level. The Company's internal credit risk ratings are categorized as 1 through 10, with the lowest credit risk rating representing the highest quality financing receivables. Typically, the Company also considers receivables with a risk rating of 8 or higher to be impaired and will include them in the individual assessment for allowance. The Company evaluates the remainder of its financing receivables portfolio for impairment on a collective basis and records an allowance for credit loss at the portfolio segment level. When evaluating the financing receivables on a collective basis, the Company uses expected default frequency rates published by a major third-party credit-rating agency as well as its own historical loss rate in the event of default, while also systematically giving effect to economic conditions, concentration of risk, and correlation.

Expected default frequency rates are published quarterly by a major third-party credit-rating agency, and the internal credit risk rating is derived by taking into consideration various customer-specific factors and macroeconomic conditions. These factors, which include the strength of the customer's business and financial performance, the quality of the customer's banking relationships, the Company's specific historical experience with the customer, the performance and outlook of the customer's industry, the customer's legal and regulatory environment, the potential sovereign risk of the geographic locations in which the customer is operating, and independent third-party evaluations, are updated regularly or when facts and circumstances indicate that an update is deemed necessary.

Financing receivables are written off at the point when they are considered uncollectible, and all outstanding balances, including any previously earned but uncollected interest income, will be reversed and charged against the allowance for credit loss. The Company does not typically have any partially written-off financing receivables.

Outstanding financing receivables that are aged 31 days or more from the contractual payment date are considered past due. The Company does not accrue interest on financing receivables that are considered impaired or more than 90 days past due unless either the receivable has not been collected due to administrative reasons or the receivable is well secured and in the process of collection. Financing receivables may be placed on nonaccrual status earlier if, in management's opinion, a timely collection of the full principal and interest becomes uncertain. After a financing receivable has been categorized as nonaccrual, interest will be recognized when cash is received. A financing receivable may be returned to accrual status after all of the customer's delinquent balances of principal and interest have been settled, and the customer remains current for an appropriate period.

The Company facilitates arrangements for third-party financing extended to channel partners, consisting of revolving short-term financing, generally with payment terms ranging from 60 to 90 days. In certain instances, these financing arrangements result in a transfer of the Company's receivables to the third party. The receivables are derecognized upon transfer, as these transfers qualify as true sales, and the Company receives a payment for the receivables from the third party based on the Company's standard payment terms. These financing arrangements facilitate the working capital requirements of the channel partners, and, in some cases, the Company guarantees a portion of these arrangements. The Company also provides financing guarantees for third-party financing arrangements extended to end-user customers related to leases and loans, which typically have terms of up to three years. The Company could be called upon to make payments under these guarantees in the event of nonpayment by the channel partners or end-user customers. Deferred revenue relating to these financing arrangements is recorded in accordance with revenue recognition policies or for the fair value of the financing guarantees.

7. Financing Receivables and Operating Leases (in part)

(a) Financing Receivables (in part)

Financing receivables primarily consist of lease receivables, loan receivables, and financed service contracts and other. Lease receivables represent sales-type and direct-financing leases resulting from the sale of the Company's and complementary third-party products and are typically collateralized by a security interest in the underlying assets. Loan receivables represent financing arrangements related to the sale of the Company's products and services, which may include additional funding for other costs associated with network installation and integration of the Company's products and services. Lease receivables consist of arrangements with terms of four years on average, while loan receivables generally have terms of up to three years. The financed service contracts and other category includes financing receivables related to technical support and advanced services, as well as receivables related to financing of certain indirect costs associated with leases. Revenue related to the technical support services is typically deferred and included in deferred service revenue and is recognized ratably over the period during which the related services are to be performed, which typically ranges from one to three years.

A summary of the Company's financing receivables is presented as follows (in millions):

July 26, 2014	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Gross	$3,532	$1,683	$3,210	$8,425
Residual value	233	—	—	233
Unearned income	(238)	—	—	(238)
Allowance for credit loss	(233)	(98)	(18)	(349)
Total, net	$3,294	$1,585	$3,192	$8,071
Reported as:				
Current	$1,476	$728	$1,949	$4,153
Noncurrent	1,818	857	1,243	3,918
Total, net	$3,294	$1,585	$3,192	$8,071

July 27, 2013	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Gross	$3,529	$1,649	$3,136	$8,314
Residual value	251	—	—	251
Unearned income	(273)	—	—	(273)
Allowance for credit loss	(238)	(86)	(20)	(344)
Total, net	$3,269	$1,563	$3,116	$7,948
Reported as:				
Current	$1,418	$898	$1,721	$4,037
Noncurrent	1,851	665	1,395	3,911
Total, net	$3,269	$1,563	$3,116	$7,948

As of July 26, 2014 and July 27, 2013, the deferred service revenue related to the financed service contracts and other was $1,843 million and $2,036 million, respectively.

(b) Credit Quality of Financing Receivables

Gross receivables less unearned income categorized by the Company's internal credit risk rating as of July 26, 2014 and July 27, 2013 are summarized as follows (in millions):

	Internal Credit Risk Rating			
July 26, 2014	1 to 4	5 to 6	7 and Higher	Total
Lease receivables	$1,615	$1,538	$141	$3,294
Loan receivables	953	593	137	1,683
Financed service contracts and other	1,744	1,367	99	3,210
Total	$4,312	$3,498	$377	$8,187

	Internal Credit Risk Rating			
July 27, 2013	1 to 4	5 to 6	7 and Higher	Total
Lease receivables	$1,681	$1,482	$ 93	$3,256
Loan receivables	842	777	30	1,649
Financed service contracts and other	1,876	1,141	119	3,136
Total	$4,399	$3,400	$242	$8,041

The Company determines the adequacy of its allowance for credit loss by assessing the risks and losses inherent in its financing receivables by portfolio segment. The portfolio segment is based on the types of financing offered by the Company to its customers, which consist of the following: lease receivables, loan receivables, and financed service contracts and other.

The Company's internal credit risk ratings of 1 through 4 correspond to investment-grade ratings, while credit risk ratings of 5 and 6 correspond to non-investment grade ratings. Credit risk ratings of 7 and higher correspond to substandard ratings.

In circumstances when collectibility is not deemed reasonably assured, the associated revenue is deferred in accordance with the Company's revenue recognition policies, and the related allowance for credit loss, if any, is included in deferred revenue. The Company also records deferred revenue associated with financing receivables when there are remaining performance obligations, as it does for financed service contracts. Total allowances for credit loss and deferred revenue as of July 26, 2014 and July 27, 2013 were $2,220 million and $2,453 million, respectively, and they were associated with total financing receivables before allowance for credit loss of $8,420 million and $8,292 million as of their respective period ends.

The following tables present the aging analysis of gross receivables less unearned income as of July 26, 2014 and July 27, 2013 (in millions):

	Days Past Due (Includes Billed and Unbilled)							
				Total			Nonaccrual Financing	Impaired Financing
July 26, 2014	31-60	61-90	91 +	Past Due	Current	Total	Receivables	Receivables
Lease receivables	$104	$ 43	$165	$ 312	$2,982	$3,294	$48	$41
Loan receivables	2	1	16	19	1,664	1,683	19	19
Financed service contracts and other	301	238	230	769	2,441	3,210	12	9
Total	$407	$282	$411	$1,100	$7,087	$8,187	$79	$69

	Days Past Due (Includes Billed and Unbilled)							
				Total			Nonaccrual Financing	Impaired Financing
July 27, 2013	31-60	61-90	91 +	Past Due	Current	Total	Receivables	Receivables
Lease receivables	$ 85	$48	$124	$257	$2,999	$3,256	$27	$22
Loan receivables	6	3	11	20	1,629	1,649	11	9
Financed service contracts and other	75	48	392	515	2,621	3,136	18	11
Total	$166	$99	$527	$792	$7,249	$8,041	$56	$42

Past due financing receivables are those that are 31 days or more past due according to their contractual payment terms. The data in the preceding tables are presented by contract, and the aging classification of each contract is based on the oldest outstanding receivable, and therefore past due amounts also include unbilled and current receivables within the same contract. The balances of either unbilled or current financing receivables included in the category of 91 days plus past due for financing receivables were $296 million and $406 million as of July 26, 2014 and July 27, 2013, respectively.

As of July 26, 2014, the Company had financing receivables of $116 million, net of unbilled or current receivables from the same contract, that were in the category of 91 days plus past due but remained on accrual status. Such balance was $87 million as of July 27, 2013 . A financing receivable may be placed on nonaccrual status earlier if, in management's opinion, a timely collection of the full principal and interest becomes uncertain.

(c) Allowance for Credit Loss Rollforward

The allowances for credit loss and the related financing receivables are summarized as follows (in millions):

	Credit Loss Allowances			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 27, 2013	$ 238	$ 86	$ 20	$ 344
Provisions	4	9	1	14
Recoveries (write-offs), net	(11)	5	(3)	(9)
Foreign exchange and other	2	(2)	—	—
Allowance for credit loss as of July 26, 2014	$ 233	$ 98	$ 18	$ 349
Financing receivables as of July 26, 2014[(1)]	$3,527	$1,683	$3,210	$8,420

	Credit Loss Allowances			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 28, 2012	$ 247	$ 122	$ 11	$ 380
Provisions	21	(20)	10	11
Recoveries (write-offs), net	(30)	(15)	(1)	(46)
Foreign exchange and other	—	(1)	—	(1)
Allowance for credit loss as of July 27, 2013	$ 238	$ 86	$ 20	$ 344
Financing receivables as of July 27, 2013[(1)]	$3,507	$1,649	$3,136	$8,292

	Credit Loss Allowances			
	Lease Receivables	Loan Receivables	Financed Service Contracts and Other	Total
Allowance for credit loss as of July 30, 2011	$237	$103	$27	$367
Provisions	22	22	(13)	31
Recoveries (write-offs), net	(2)	—	(1)	(3)
Foreign exchange and other	(10)	(3)	(2)	(15)
Allowance for credit loss as of July 28, 2012	$ 247	$ 122	$ 11	$ 380
Financing receivables as of July 28, 2012[(1)]	$3,179	$1,796	$2,651	$7,626

[(1)] Total financing receivables before allowance for credit loss.

2.66 MARRIOTT INTERNATIONAL, INC. (DEC)

Item 7 A. Quantitative and Qualitative Disclosures About Market Risk (in part)

We are exposed to market risk from changes in interest rates, stock prices, currency exchange rates, and debt prices. We manage our exposure to these risks by monitoring available financing alternatives, through development and application of credit granting policies and by entering into derivative arrangements. We do not foresee any significant changes in either our exposure to fluctuations in interest rates or currency rates or how we manage such exposure in the future.

We are exposed to interest rate risk on our floating-rate notes receivable and floating-rate debt. Changes in interest rates also impact the fair value of our fixed-rate notes receivable and the fair value of our fixed-rate long-term debt.

	Maturities by Period							
($ in millions)	2015	2016	2017	2018	2019	Thereafter	Total Carrying Amount	Total Fair Value
Assets—Maturities represent expected principal receipts, fair values represent assets.								
Fixed-rate notes receivable	$ 23	$ 72	$ 2	$ 3	$ 1	$ 38	$ 139	$ 138
Average interest rate							2.61%	
Floating-rate notes receivable	$ 4	$ —	$ —	$ —	$ —	$ 99	$ 103	$ 104
Average interest rate							3.48%	
Liabilities—Maturities represent expected principal payments, fair values represent liabilities.								
Fixed-rate debt	$(324)	$(297)	$(301)	$ (9)	$(606)	$(1,169)	$(2,706)	$(2,502)
Average interest rate							4.14%	
Floating-rate debt	$ —	$ —	$ —	$(1,072)	$ —	$ —	$(1,072)	$(1,072)
Average interest rate							0.43%	

CONSOLIDATED BALANCE SHEETS (in part)

($ in millions)

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and equivalents	$ 104	$ 126
Accounts and notes receivable, net[1]	1,100	1,081
Current deferred taxes, net	311	252
Prepaid expenses	64	67
Other[1]	109	27
Assets held for sale	233	350
	1,921	1,903
Property and equipment, net	1,460	1,543
Intangible assets		
Contract acquisition costs and other[1]	1,351	1,131
Goodwill	894	874
	2,245	2,005
Equity and cost method investments[1]	224	222
Notes receivable, net	215	142
Deferred taxes, net[1]	530	647
Other noncurrent assets[1]	270	332
	$6,865	$6,794
Liabilities and Shareholders' Deficit		
Current liabilities		
Current portion of long-term debt	$ 324	$ 6
Accounts payable[1]	605	557
Accrued payroll and benefits	799	817
Liability for guest loyalty programs	677	666
Accrued expenses and other[1]	655	629
	3,060	2,675
Long-term debt	3,457	3,147
Liability for guest loyalty programs	1,657	1,475
Other noncurrent liabilities[1]	891	912
Shareholders' deficit		
Class A common stock	5	5
Additional paid-in-capital	2,802	2,716
Retained earnings	4,286	3,837
Treasury stock, at cost	(9,223)	(7,929)
Accumulated other comprehensive loss	(70)	(44)
	(2,200)	(1,415)
	$6,865	$6,794

[1] See Footnote No. 17, "Related Party Transactions," to our Consolidated Financial Statements for disclosure of related party amounts.

13. Notes Receivable

The following table presents the composition of our notes receivable balances (net of reserves and unamortized discounts) at year-end 2014 and 2013:

($ in millions)	At Year-End 2014	At Year-End 2013
Senior, mezzanine, and other loans	$242	$178
Less current portion	(27)	(36)
	$215	$142

We classify notes receivable due within one year as current assets in the caption "Accounts and notes receivable, net" in our Balance Sheets. We did not have any past due notes receivable amounts at the end of either 2014 or 2013. In 2014, we provided an $85 million mezzanine loan (net of a $15 million discount) to an owner in conjunction with entering into a franchise agreement for an International property. The unamortized discounts for our notes receivable were $25 million at year-end 2014 and $12 million at year-end 2013.

The following table presents the expected future principal payments (net of reserves and unamortized discounts) as well as interest rates and unamortized discounts for our notes receivable as of year-end 2014:

	Amount
Notes Receivable Principal Payments (net of reserves and unamortized discounts) and Interest Rates ($ in millions)	
2015	$ 27
2016	72
2017	2
2018	3
2019	1
Thereafter	137
Balance at year-end 2014	$ 242
Weighted average interest rate at year-end 2014	6.1%
Range of stated interest rates at year-end 2014	0–9.0%

Senior, Mezzanine, and Other Loans

Generally, all of the loans we make have similar characteristics in that they are loans to owners and operators of hotels and hospitality properties. We reflect interest income for "Senior, mezzanine, and other loans" in the "Interest income" caption in our Income Statements. At year-end 2014, our recorded investment in impaired "Senior, mezzanine, and other loans" was $63 million. We had a $50 million notes receivable reserve representing an allowance for credit losses, leaving $13 million of our investment in impaired loans, for which we had no related allowance for credit losses. At year-end 2013, our recorded investment in impaired "Senior, mezzanine, and other loans" was $99 million, and we had a $90 million notes receivable reserve representing an allowance for credit losses, leaving $9 million of our investment in impaired loans, for which we had no related allowance for credit losses. Our average investment in impaired "Senior, mezzanine, and other loans" totaled $81 million during 2014, $96 million during 2013, and $94 million during 2012.

The following table summarizes the activity for our "Senior, mezzanine, and other loans" notes receivable reserve for 2012, 2013, and 2014:

($ in millions)	Notes Receivable Reserve
Balance at year-end 2011	$78
Additions	2
Reversals	(1)
Write-offs	(1)
Transfers and other	1
Balance at year-end 2012	79
Reversals	(2)
Transfers and other	13
Balance at year-end 2013	90
Write-offs	(45)
Transfers and other	5
Balance at year-end 2014	$50

Intangible Assets

Author's Note

In January 2014, FASB issued ASU No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)*. This ASU permits a private company to subsequently amortize goodwill on a straight-line basis over a period of 10 years, or less, if the company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill. The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance. Due to the fact that this ASU provides an accounting alternative for private companies, none of the excerpts provided will include this presentation.

RECOGNITION AND MEASUREMENT

2.67 FASB ASC 350, *Intangibles—Goodwill and Other*, specifies that goodwill and intangible assets that have indefinite lives are not subject to amortization but, rather, should be tested at least annually for impairment. In addition, FASB ASC 350 provides specific guidance on how to determine and measure impairment of goodwill and intangible assets not subject to amortization. Intangible assets that have finite useful lives should be amortized over their useful lives.

2.68 FASB ASC 350-20-35 delineates a comprehensive two-step approach to impairment testing of a reporting unit that includes goodwill. If an entity chooses, it may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount; the entity may use this determination as a basis for deciding whether it is necessary to perform the two-step goodwill impairment test. The *more-likely-than-not threshold* is defined as having a likelihood of more than 50 percent. An entity has an unconditional option to bypass the qualitative assessment described in the preceding paragraph for any reporting unit in any period and proceed directly to performing the first step of the goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period.

2.69 If the entity decides that the quantitative impairment test is required, then the first step is to compare the fair value of a reporting unit with its carrying amount, including goodwill. When the carrying amount is greater than zero and its fair value exceeds its carrying amount, the entity should not consider the goodwill impaired and the second step is unnecessary. When the carrying amount of the reporting unit exceeds its fair value, an entity should proceed to step two to measure the loss by comparing the implied fair value of the goodwill with its carrying value. When the carrying amount of the reporting unit is zero or negative, an entity should proceed to step two to measure an impairment loss, if any, when it is more likely than not that a goodwill impairment exists. An entity should evaluate whether there are adverse qualitative factors in making that "more likely than not" assessment. FASB ASC 350-20-35-3 C (a)–(g) provide examples of such qualitative factors.

2.70 FASB ASC 350 also provides guidance on accounting for the cost of computer software developed or obtained for internal use and website development costs.

PRESENTATION

2.71 FASB ASC 350-20-45-1 requires that the aggregate amount of goodwill be presented as a separate line item in the balance sheet. Under FASB ASC 350-30-45-1, at minimum, all intangible assets should be aggregated and presented as a separate line item in the balance sheet. However, that requirement does not preclude the presentation of individual intangible assets or classes of intangible assets as separate line items. Rule 5-02 of Regulation S-X also calls for separately stating each class of intangible assets in excess of 5 percent of total assets and for separate presentation of the amount of accumulated amortization of intangible assets.

DISCLOSURE

2.72 FASB ASC 350 requires additional disclosures for each period for which a balance sheet is presented, including information about gross carrying amounts and changes therein of goodwill and other intangible assets, accumulated amortization for amortizable assets, and estimates about intangible asset amortization expense for each of the five succeeding fiscal years. For intangibles, the balance sheet disclosures should be in total and by major intangible asset class.

PRESENTATION AND DISCLOSURE EXCERPTS

GOODWILL

2.73 CONAGRA FOODS, INC. (MAY)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except share data)

	May 25, 2014	May 26, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 183.1	$ 183.9
Receivables, less allowance for doubtful accounts of $5.3 and $7.6	1,230.8	1,279.4
Receivable on sale of flour milling assets	162.4	—
Inventories	2,292.6	2,340.9
Prepaid expenses and other current assets	361.9	510.8
Current assets held for sale	—	64.8
Total current assets	4,230.8	4,379.8
Property, plant and equipment		
Land and land improvements	231.3	254.4
Buildings, machinery and equipment	6,044.4	5,600.5
Furniture, fixtures, office equipment and other	924.1	900.5
Construction in progress	370.1	331.5
	7,569.9	7,086.9
Less accumulated depreciation	(3,758.0)	(3,329.3)
Property, plant and equipment, net	3,811.9	3,757.6
Goodwill	7,836.5	8,426.7
Brands, trademarks and other intangibles, net	3,205.8	3,403.6
Other assets	270.5	293.5
Noncurrent assets held for sale	10.9	144.1
	$19,366.4	$20,405.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(columnar dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (in part)

Goodwill and Other Identifiable Intangible Assets (in part)—Goodwill and other identifiable intangible assets with indefinite lives (e.g., brands or trademarks) are not amortized and are tested annually for impairment of value and whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include deterioration in general economic conditions, adverse changes in the markets in which an entity operates, increases in input costs that have negative effects on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. The fair value that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill and other intangible assets.

In testing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If we elect to perform a qualitative assessment and determine that an impairment is more likely than not, we are then required to perform a quantitative impairment test, otherwise no further analysis is required. We also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test.

Under the goodwill qualitative assessment, various events and circumstances that would affect the estimated fair value of a reporting unit are identified (similar to impairment indicators above). Furthermore, management considers the results of the most recent two-step quantitative impairment test completed for a reporting unit and compares the weighted average cost of capital between the current and prior years for each reporting unit.

Under the goodwill two-step quantitative impairment test, the evaluation of impairment involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. The first step of the test compares the carrying value of a reporting unit, including goodwill, with its fair value. We estimate the fair value using level 3 inputs as defined by the fair value hierarchy. Refer to Note 19 for the definition of the levels in the fair value hierarchy. The inputs used to calculate the fair value include a number of subjective factors, such as estimates of future cash flows, estimates of our future cost structure, discount rates for our estimated cash flows, required level of working capital, assumed terminal value, and time horizon of cash flow forecasts. If the carrying value of a reporting unit exceeds its fair value, we complete the second step of the test to determine the amount of goodwill impairment loss, if any, to be recognized. In the second step, we estimate an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The impairment loss is equal to the excess of the carrying value of the goodwill over the implied fair value of that goodwill.

We implemented organizational changes during the second quarter of fiscal 2014 that resulted in new reporting segments. As a result, we reassigned goodwill to the new reporting units using a relative fair value allocation approach and performed an analysis of the potential impairment of goodwill.

In the fourth quarter of fiscal 2014, in conjunction with our annual review for impairment, we performed a qualitative analysis of goodwill for each of the reporting units in our segments. As sales and profits for Private Brands continued to be softer than we expected through fiscal 2014, we performed a quantitative analysis of goodwill of our Private Brands segment. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, industry and economic conditions. Refer to Note 8 for the details of the impairment charges in fiscal 2014.

Business Combinations—We use the acquisition method in accounting for acquired businesses. Under the acquisition method, our financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill.

2. Acquisitions (in part)

On January 29, 2013, we acquired Ralcorp Holdings, Inc. ("Ralcorp"). The total amount of consideration paid in connection with the acquisition was approximately $4.75 billion, net of cash acquired, plus assumed liabilities. We funded the merger consideration with existing cash on hand, borrowings under a new $1.5 billion senior unsecured Term Loan Facility (the "Term Loan Facility") and net proceeds from the issuance of new senior notes and common stock. The results from our Ralcorp acquisition are reflected principally within the Private Brands segment, and to a lesser extent within Commercial Foods and Consumer Foods.

The following table summarizes the initial estimated fair values of the assets acquired and liabilities assumed at the acquisition date. We have adjusted amounts to reflect the disposition of Medallion Foods.

	January 29, 2013
Assets acquired:	
Cash and cash equivalents	$ 320.7
Other current assets	899.0
Current assets held for sale	14.1
Property, plant and equipment	955.9
Goodwill	4,360.6
Brands, trademarks and other intangibles	2,152.7
Other assets	27.7
Noncurrent assets held for sale	57.2
Total assets acquired	$8,787.9
Liabilities assumed:	
Current liabilities	$ 616.2
Current liabilities held for sale	4.6
Noncurrent liabilities	3,097.3
Noncurrent liabilities held for sale	0.1
Total liabilities assumed	$3,718.2
Net assets acquired	$5,069.7

As a result of the Ralcorp acquisition, we recognized a total of $4.38 billion of goodwill and $2.17 billion of brands, trademarks and other intangibles, of which $17.5 million and $14.6 million, respectively, have been reclassified as assets held for sale to reflect the disposition of Medallion Foods. Amortizable brands, trademarks and other intangibles totaled $2.03 billion. Indefinite lived brands, trademarks and other intangibles totaled $134.1 million. Of the total goodwill, $397.0 million is deductible for tax purposes. The allocation of goodwill to Private Brands, Consumer Foods, and Commercial Foods was $3.52 billion, $512.0 million, and $350.6 million, respectively. See Note 8 for disclosure of subsequent impairment of related goodwill and indefinite lived brands.

In August 2012, we acquired the *P.F. Chang's*® and *Bertolli*® brands frozen meal business from Unilever for $266.9 million in cash. Approximately $100.1 million of the purchase price was allocated to goodwill and $91.8 million was allocated to brands, trademarks and other intangibles. The amount allocated to goodwill is deductible for tax purposes. This business is included in the Consumer Foods segment.

In May 2012, we acquired Kangaroo Brands' pita chip operations for $47.9 million in cash. Approximately $20.4 million of the purchase price was allocated to goodwill and $20.8 million was allocated to brands, trademarks and other intangibles. The amount allocated to goodwill is deductible for tax purposes. This business is included in the Private Brands segment.

In May 2012, we acquired Odom's Tennessee Pride for $96.6 million in cash, plus assumed liabilities. The business manufactures *Odom's Tennessee Pride®* branded frozen breakfast products and other sausage products. Approximately $32.4 million of the purchase price was allocated to goodwill and $32.8 million was allocated to brands, trademarks and other intangibles. The amount allocated to goodwill is not deductible for tax purposes. This business is included in the Consumer Foods segment.

In March 2012, we acquired Del Monte Canada for $185.6 million in cash, plus assumed liabilities. The acquisition includes all *Del Monte®* branded packaged fruit, fruit snacks, and vegetable products in Canada, as well as *Aylmer®* brand tomato products. Approximately $44.7 million of the purchase price was allocated to goodwill and $80.9 million was allocated to brands, trademarks and other intangibles. The amount allocated to goodwill is not deductible for tax purposes. This business is included in the Consumer Foods segment.

In November 2011, we acquired National Pretzel Company for $301.9 million in cash, net of cash acquired, plus assumed liabilities. National Pretzel Company is a private brand supplier and branded producer of pretzels and related products. Approximately $178.5 million of the purchase price was allocated to goodwill and $68.2 million was allocated to brands, trademarks and other intangibles. The amount allocated to goodwill is deductible for tax purposes. This business is included in the Private Brands segment.

In November 2011, we acquired an additional equity interest in ATFL for $4.9 million in cash, net of cash acquired, plus assumed liabilities. ATFL is a publicly traded company in India that markets food and food ingredients to consumers and institutional customers in India. Approximately $130.3 million of the acquisition value was allocated to goodwill and $42.2 million was allocated to trade names. The amount allocated to goodwill is not deductible for income tax purposes. As a result of this additional investment, we own a majority interest (approximately 52%) in ATFL, and we began consolidating the financial statements of ATFL in the third quarter of fiscal 2012. Prior to our acquisition of a majority interest in ATFL, we accounted for our noncontrolling interest (approximately 48% of the outstanding common shares) under the equity method. The fair value of ATFL was determined based upon the closing price of ATFL common shares as of the date of the acquisition of this additional investment. Consolidated financial results of ATFL are included in the Consumer Foods segment in periods subsequent to our acquisition of a majority interest.

For each of these acquisitions, the amounts allocated to goodwill were primarily attributable to anticipated synergies, product portfolios, and other intangibles that do not qualify for separate recognition.

Under the acquisition method of accounting, the assets acquired and liabilities assumed in these acquisitions were recorded at their respective estimated fair values at the date of acquisition.

6. Discontinued Operations (in part)

Medallion Foods

In the fourth quarter of fiscal 2014, we completed the sale of a small snack business, Medallion Foods, for $32.0 million in cash. The business results were previously reflected in the Private Brands segment. We reflected the results of these operations as discontinued operations for all periods presented. The assets and liabilities of the discontinued business have been reclassified as assets and liabilities held for sale within our Consolidated Balance Sheets for all periods presented prior to divestiture. We recognized a pre-tax loss of $5.8 million ($3.5 million after-tax) on the sale of this business in the fourth quarter of fiscal 2014. In the third quarter of fiscal 2014, we recognized an impairment charge related to allocated amounts of goodwill and intangible assets, totaling $25.4 million ($15.2 million after-tax), in anticipation of this divestiture.

8. Goodwill and Other Identifiable Intangible Assets (in part)

The change in the carrying amount of goodwill for fiscal 2014 and 2013 was as follows:

	Consumer Foods	Commercial Foods	Private Brands	Total
Balance as of May 27, 2012	$3,162.1	$525.0	$ 321.7	$4,008.8
Acquisitions	612.2	347.8	3,473.2	4,433.2
Currency translation and purchase accounting adjustments	(13.8)	0.2	(1.7)	(15.3)
Balance as of May 26, 2013	$3,760.5	$873.0	$3,793.2	$8,426.7
Impairment	—	—	(602.2)	(602.2)
Currency translation and purchase accounting adjustments	(12.0)	0.4	23.6	12.0
Balance as of May 25, 2014	$3,748.5	$873.4	$3,214.6	$7,836.5

Other identifiable intangible assets were as follows:

	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	$1,059.5	$ —	$1,139.7	$ —
Amortizing intangible assets	2,377.1	230.8	2,385.9	122.0
	$3,436.6	$230.8	$3,525.6	$122.0

We implemented organizational changes during the second quarter of fiscal 2014 that resulted in new reporting segments. As a result, we reassigned goodwill to the new reporting units using a relative fair value allocation approach and performed a goodwill impairment analysis, which did not identify any potential impairments.

In the fourth quarter of fiscal 2014, in conjunction with our annual review for impairment, we performed a qualitative analysis of goodwill for each of the reporting units in our segments. Because sales and profits for Private Brands continued to fall below our expectations throughout fiscal 2014 and following preparation of plans for the business for fiscal 2015, we performed a quantitative analysis of goodwill of our Private Brands segment. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans and future industry and economic conditions. We estimated the future cash flows of each reporting unit within the Private Brands segment and calculated the net present value of those estimated cash flows using a risk adjusted discount rate, in order to estimate the fair value of each reporting unit from the perspective of a market participant. We used discount rates and terminal growth rates of approximately 8.3% and 3%, respectively, to calculate the present value of estimated future cash flows. We then compared the estimated fair value of each reporting unit to the respective historical carrying value (including allocated assets and liabilities of certain shared and Corporate functions), and determined that the fair value of the reporting unit was less than the carrying value for five of our reporting units within the Private Brands segment. With the assistance of a third-party valuation specialist, we estimated the fair value of the assets and liabilities of each of these reporting units, in order to determine the implied fair value of goodwill of each reporting unit. We recognized impairment charges for the difference between the implied fair value of goodwill and the historical carrying value of goodwill within each reporting unit. Accordingly, during the fourth quarter of fiscal 2014, we recorded a $602.2 million charge for the impairment of goodwill. The following reporting units within Private Brands were impacted: $66.4 million in Bars and Coordinated, $154.6 million in Cereal, $94.2 million in Pasta, $231.6 million in Snacks, and $55.4 million in Retail Bakery.

In the case of three of our reporting units within the Private Brands segment; Pasta, Snacks, and Retail Bakery, the estimated fair value of certain amortizing intangible assets (customer relationships) used in step two of our impairment analysis was substantially less than the carrying value of those assets and, as a result, the carrying value of the Pasta, Snacks, and Retail Bakery reporting units exceeded the estimated fair values of those reporting units, even after the previously described goodwill impairment charges were recorded. The carrying value of the Private Brands amortizing intangible assets are expected to be recovered over their remaining lives (on an undiscounted basis) and, accordingly, no impairments were required to be recognized.

Following the impairment charges recorded in fiscal 2014, the carrying value of goodwill in our Private Brands reporting units included $328.7 million for Bars and Coordinated, $464.4 million for Cereal, $752.1 million for Pasta, $816.2 million for Snacks, $717.1 million for Retail Bakery, and $136.1 million for Condiments. If the future performance of one or more of the reporting units within the Private Brands segment falls short of our expectations or if there are significant changes in risk-adjusted discount rates due to changes in market conditions, we could be required to recognize additional, material impairment charges in future periods.

In the fourth quarter of fiscal 2014, we completed the sale of Medallion Foods within the Private Brands segment. Related allocated goodwill and amortizing intangible assets of $17.5 million and $14.4 million, respectively, were reclassified to noncurrent assets held for sale. During fiscal 2014, we recognized impairments of $17.5 million and $7.9 million, of the allocated goodwill and amortizing intangible assets, respectively, which are reflected in discontinued operations.

TRADEMARKS

2.74 REYNOLDS AMERICAN INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(Dollars in Millions)

	December 31,	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	$ 966	$ 1,500
Accounts receivable	116	106
Accounts receivable, related party	41	56
Notes receivable	—	37
Other receivables	12	16
Inventories	1,281	1,127
Deferred income taxes, net	703	606
Prepaid expenses and other	204	207
Total current assets	3,323	3,655
Property, plant and equipment, at cost:		
Land and land improvements	93	92
Buildings and leasehold improvements	729	717
Machinery and equipment	1,925	1,739
Construction-in-process	83	105
Total property, plant and equipment	2,830	2,653
Accumulated depreciation	(1,627)	(1,579)
Property, plant and equipment, net	1,203	1,074
Trademarks and other intangible assets, net of accumulated amortization	2,421	2,417
Goodwill	8,016	8,011
Other assets and deferred charges	233	245
	$15,196	$15,402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Business and Summary of Significant Accounting Policies (in part)

Long-Lived Assets

Long-lived assets, such as property, plant and equipment, trademarks and other intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. Impairment of the carrying value of long-lived assets would be indicated if the best estimate of future undiscounted cash flows expected to be generated by the asset grouping is less than its carrying value. If an impairment is indicated, any loss is measured as the difference between estimated fair value and carrying value and is recognized in operating income.

Intangible Assets

Intangible assets include goodwill, trademarks and other intangible assets and are capitalized when acquired. The determination of fair value involves considerable estimates and judgment. In particular, the fair value of a reporting unit involves, among other things, developing forecasts of future cash flows, determining an appropriate discount rate, and when goodwill impairment is implied, determining the fair value of individual assets and liabilities, including unrecorded intangibles. Although RAI believes it has based its impairment testing and impairment charges of its intangibles on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results. If the current legal and regulatory environment, business or competitive climate worsens, or RAI's operating companies' strategic initiatives adversely affect their financial performance, the fair value of goodwill, trademarks and other intangible assets could be impaired in future periods. Trademarks and other intangible assets with indefinite lives are not amortized, but are tested for impairment annually, in the fourth quarter, and more frequently if events and circumstances indicate that the asset might be impaired.

Note 4—Intangible Assets (in part)

The changes in the carrying amounts of indefinite-lived intangible assets by segment not subject to amortization were as follows:

	RJR Tobacco		American Snuff	Santa Fe	All Other	Consolidated	
	Trademarks	Other	Trademarks	Trademarks	Other	Trademarks	Other
Balance as of December 31, 2011	$1,109	$99	$1,136	$155	$49	$2,400	$148
Impairment charge	(82)	—	—	—	(47)	(82)	(47)
Foreign currency translation	—	—	—	—	3	—	3
Balance as of December 31, 2012	1,027	99	1,136	155	5	2,318	104
Impairment charge	(32)	—	—	—	—	(32)	—
Foreign currency translation	—	—	—	—	(1)	—	(1)
Reclassified to finite-lived	(18)	—	—	—	—	(18)	—
Balance as of December 31, 2013	977	99	1,136	155	4	2,268	103
Balance as of December 31, 2014	$ 977	$99	$1,136	$155	$ 4	$2,268	$103

The changes in the carrying amounts of finite-lived intangible assets by segment subject to amortization were as follows:

	RJR Tobacco		American Snuff	Consolidated	
	Trademarks	Other	Trademarks	Trademarks	Other
Balance as of December 31, 2011	$ 4	$39	$11	$15	$39
Amortization	(4)	(15)	(2)	(6)	(15)
Balance as of December 31, 2012	—	24	9	9	24
Amortization	—	(4)	(1)	(1)	(4)
Reclassified from indefinite-lived	18	—	—	18	—
Balance as of December 31, 2013	18	20	8	26	20
Amortization	(6)	(4)	(1)	(7)	(4)
Acquisition	—	15	—	—	15
Balance as of December 31, 2014	$12	$31	$ 7	$19	$31

On July 1, 2014, RJR Tobacco completed its acquisition of certain intellectual property for $15 million in cash. The intellectual property will be amortized over the remaining useful life of 15 years and is included in the RJR Tobacco segment.

Details of finite-lived intangible assets were as follows:

	December 31, 2014			December 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Contract manufacturing agreements	$151	$(135)	$16	$151	$(131)	$20
Trademarks	114	(95)	19	114	(88)	26
Other intangibles	15	—	15	—	—	—
	$280	$(230)	$50	$265	$(219)	$46

The estimated remaining amortization associated with finite-lived intangible assets is expected to be expensed as follows:

Year	Amount
2015	$10
2016	9
2017	9
2018	8
2019	2
Thereafter	12
	$50

The impairment testing of trademarks in the fourth quarters of 2014, 2013 and 2012 assumed a rate of decline in projected net sales of certain brands, compared with that assumed in the prior year strategic plan. The analysis of the fair value of trademarks was based on estimates of fair value on an income approach using a discounted cash flow valuation model under a relief from royalty methodology. The relief-from-royalty model includes the estimates of the royalty rate that a market participant might assume, projected revenues and judgment regarding the discount rate applied to those estimated cash flows, with that discount rate being 10.0% during 2014, 2013 and 2012. The determination of the discount rate was based on a cost of equity model, using a risk-free rate, adjusted by a stock beta-adjusted risk premium and a size premium.

As a result of these analyses, trademark impairment charges are recorded based on the excess of certain brands' carrying values over their estimated fair values. No impairment charges were indicated for 2014. During 2013, impairment was indicated on four of RJR Tobacco's brands, and one trademark brand was reclassified from indefinite-lived to finite-lived. During 2012, impairment was indicated on four of RJR Tobacco's brands. These trademark impairment charges are reflected as decreases in the carrying value of the trademarks in the consolidated balance sheets as of December 31, 2014 and 2013, as trademark and other intangible asset impairment charges in the consolidated statements of income for the years ended December 31, 2013 and 2012, and had no impact on cash flows. Certain brands are being amortized over their remaining useful lives, which range from 1 to 8 years, consistent with the pattern of economic benefits estimated to be received.

During the fourth quarter of 2012, a change in the use of an other intangible asset within the All Other segment was determined. As a result, the $47 million carrying value of the other intangible asset was fully impaired.

CUSTOMER RELATIONSHIPS

2.75 REGAL BELOIT CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(Dollars in Millions)

	January 3, 2015	December 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 334.1	$ 466.0
Trade receivables, less allowances of $11.6 million in 2014 and $11.5 million in 2013	447.5	463.8
Inventories	691.7	618.7
Prepaid expenses and other current assets	111.7	130.6
Deferred income tax benefits	67.0	46.8
Total current assets	1,652.0	1,725.9
Net property, plant and equipment	531.5	573.4
Goodwill	1,004.0	1,081.9
Intangible assets, net of amortization	202.3	244.2
Other noncurrent assets	17.8	18.1
Total assets	$3,407.6	$3,643.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(3) Accounting Policies (in part)

Long-Lived Assets (in part)

The Company evaluates the recoverability of the carrying amount of intangible assets whenever events or changes in circumstance indicate that the carrying amount of an asset may not be fully recoverable through future cash flows. Factors that could trigger an impairment review include a significant decrease in the market value of an asset or significant negative or economic trends. For definite-lived intangible assets, the Company uses an estimate of the related undiscounted cash flows over the remaining life of the primary asset to estimate recoverability. If the asset is not recoverable, the asset is written down to fair value.

During 2014, due primarily to unfavorable customer dynamics and the effects of the sharp decline in the price of oil, the carrying amounts of intangible and other long-lived assets for two reporting units within the Climate Solutions and Power Transmission Solutions segments were deemed to be not fully recoverable. Fair value was determined using the discounted cash flows from the Company's internal cash flow projections and a discount rate indicative of the return an investor would expect to receive for investing in the asset which are Level 3 measurements. As a result, intangible and other long-lived asset impairments of $26.2 million were recognized related to hydraulic fracturing equipment used in the oil and gas end markets. Technology and other long-lived asset impairments were recognized related to products used in hermetic climate applications of $13.8 million and recognized in Asset Impairments and Other, Net.

During 2013, indicators related to the future expected cash flows of certain reporting units in the Commercial and Industrial Systems segment triggered a detailed undiscounted cash flow test of long-lived assets, which included intangible assets. Discounted cash flows were determined as discussed above, which are Level 3 measurments. As a result, in-process research and development technology intangible impairments totaling $16.2 million, related to switched reluctance technology, and $0.8 million of customer relationship intangible impairments related to a European motor distribution reporting unit were impaired and recognized in Asset Impairments and Other, Net.

During the year ended December 28, 2013, the Company recognized a loss on certain intangible asset impairments as discussed above, which was netted with a related gain of $12.3 million from a fair value adjustment for a contingent consideration liability related to one of the reporting units (see Note 14 of Notes to the Consolidated Financial Statements).

The details were as follows (in millions):

	Commercial & Industrial Systems	Climate Solutions	Power Transmission Solutions	Total
Impairments During 2014:				
Impairment of intangible assets	$ —	$ 7.8	$11.1	$18.9
Impairment of property, plant and equipment	—	6.0	15.1	21.1
Asset impairments and other, net	$ —	$13.8	$26.2	$40.0
Impairments During 2013:				
Impairment of technology intangible assets	16.2	—	—	16.2
Impairment of customer relationships intangible assets	0.8	—	—	0.8
Less: gain from adjustment to the fair value of a contingent consideration liability	12.3	—	—	12.3
Asset impairments and other, net	$ 4.7	$ —	$ —	$ 4.7

(5) Goodwill and Intangible Assets (in part)

Intangible Assets

As described in Note 3 of Notes to the Consolidated Financial Statements, the Company evaluates intangible assets in accordance with prescribed guidance. As a result of this review, during 2014, due primarily to the sharp decline in the price of oil, the carrying amounts of intangible assets for two reporting units within the Climate Solutions and Power Transmission Solutions segments were deemed impaired. The impairment charges related to these two reporting units were $7.8 million and $11.1 million, respectively. During fiscal 2013, a total of $17.0 million of intangible assets in the Commercial and Industrial Systems segment were deemed impaired. A switched reluctance technology reporting unit recognized a $16.2 million impairment in technology and a motor distribution reporting unit in Europe recognized a $0.8 million impairment in customer relationships.

Gross intangible assets consist of the following (in millions):

	Weighted Average Amortization Period (Years)	December 28, 2013	Acquisitions	Impairment Charges	Translation Adjustments	January 3, 2015
Customer relationships	11	$253.8	$20.5	$10.7	$(6.8)	$256.8
Technology	9	133.0	5.2	7.8	(1.0)	129.4
Trademarks	12	32.6	2.0	0.4	(1.1)	33.1
Patent and engineering drawings	5	16.6	—	—	—	16.6
Non-compete agreements	5	8.3	0.4	—	(0.1)	8.6
Total gross intangibles		$444.3	$28.1	$18.9	$(9.0)	$444.5

Accumulated amortization on intangible assets consists of the following:

	December 28, 2013	Amortization	Translation Adjustments	January 3, 2015
Customer relationships	$101.4	$24.2	$(3.0)	$122.6
Technology	57.9	17.6	(0.6)	74.9
Trademarks	18.0	2.9	(0.8)	20.1
Patent and engineering drawings	15.0	1.7	(0.1)	16.6
Non-compete agreements	7.8	0.3	(0.1)	8.0
Total accumulated amortization	$200.1	$46.7	$(4.6)	$242.2
Intangible assets, net of amortization	$244.2			$202.3

The Company's contractual customer relationships are generally short-term in nature. Useful lives are established at acquisition based on historical attrition rates.

Amortization expense was $46.7 million in fiscal 2014, $44.1 million in fiscal 2013 and $44.0 million in fiscal 2012.

The following table presents estimated future amortization expense (in millions):

Year	Estimated Amortization
2015	$35.4
2016	30.8
2017	24.2
2018	22.2
2019	22.1

TECHNOLOGY

2.76 ZIMMER HOLDINGS, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	As of December 31,	
(In millions)	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	$1,083.3	$1,080.6
Short-term investments	612.5	727.0
Accounts receivable, less allowance for doubtful accounts	912.1	936.6
Inventories	1,169.0	1,074.5
Prepaid expenses and other current assets	193.7	107.1
Deferred income taxes	318.4	271.9
Total current assets	4,289.0	4,197.7
Property, plant and equipment, net	1,288.8	1,224.7
Goodwill	2,514.2	2,611.2
Intangible assets, net	603.5	707.7
Other assets	939.2	839.3
Total assets	$9,634.7	$9,580.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

Intangible Assets—Intangible assets are initially measured at their fair value. We have determined the fair value of our intangible assets either by the fair value of the consideration exchanged for the intangible asset or the estimated after-tax discounted cash flows expected to be generated from the intangible asset. Intangible assets with an indefinite life, including certain trademarks and trade names, are not amortized. Indefinite life intangible assets are assessed annually to determine whether events and circumstances continue to support an indefinite life. Intangible assets with a finite life, including core and developed technology, certain trademarks and trade names, customer-related intangibles, intellectual property rights and patents and licenses are amortized on a straight-line basis over their estimated useful life, ranging from less than one year to 40 years. Intangible assets with a finite life are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Intangible assets with an indefinite life are tested for impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the estimated fair value of the asset. The amount of the impairment loss to be recorded would be determined based upon the excess of the asset's carrying value over its fair value. The fair values of indefinite lived intangible assets are determined based upon a discounted cash flow analysis using the relief from royalty method or a qualitative assessment may be performed for any changes to the asset's fair value from the last quantitative assessment. The relief from royalty method estimates the cost savings associated with owning, rather than licensing, assets. Significant assumptions are incorporated into these discounted cash flow analyses such as estimated growth rates, royalty rates and risk-adjusted discount rates. We may do a qualitative assessment when the results of the previous quantitative test indicated that the asset's fair value was significantly in excess of its carrying value.

In determining the useful lives of intangible assets, we consider the expected use of the assets and the effects of obsolescence, demand, competition, anticipated technological advances, changes in surgical techniques, market influences and other economic factors. For technology-based intangible assets, we consider the expected life cycles of products, absent unforeseen technological advances, which incorporate the corresponding technology. Trademarks and trade names that do not have a wasting characteristic (i.e., there are no legal, regulatory, contractual, competitive, economic or other factors which limit the useful life) are assigned an indefinite life. Trademarks and trade names that are related to products expected to be phased out are assigned lives consistent with the period in which the products bearing each brand are expected to be sold. For customer relationship intangible assets, we assign useful lives based upon historical levels of customer attrition. Intellectual property rights are assigned useful lives that approximate the contractual life of any related patent or the period for which we maintain exclusivity over the intellectual property.

9. Goodwill and Other Intangible Assets (in part)

The components of identifiable intangible assets were as follows (in millions):

	Technology	Intellectual Property Rights	Trademarks and Trade Names	Customer Relationships	Other	Total
As of December 31, 2014:						
Intangible assets subject to amortization:						
Gross carrying amount	$727.2	$173.4	$ 74.2	$213.8	$93.9	$1,282.5
Accumulated amortization	(458.3)	(157.7)	(34.1)	(99.6)	(58.3)	(808.0)
Intangible assets not subject to amortization:						
Gross carrying amount	—	—	129.0	—	—	129.0
Total identifiable intangible assets	$268.9	$ 15.7	$169.1	$114.2	$35.6	$ 603.5
As of December 31, 2013:						
Intangible assets subject to amortization:						
Gross carrying amount	$700.4	$173.4	$ 43.3	$216.2	$95.1	$1,228.4
Accumulated amortization	(401.4)	(142.5)	(33.9)	(76.4)	(43.9)	(698.1)
Intangible assets not subject to amortization:						
Gross carrying amount	—	—	177.4	—	—	177.4
Total identifiable intangible assets	$299.0	$ 30.9	$186.8	$139.8	$51.2	$ 707.7

Intangible amortization expense was recorded as follows (in millions):

For the Years Ended December 31,	2014	2013	2012
Cost of products sold	$ 15.2	$18.3	$24.0
Selling, general and administrative	92.0	77.6	73.1
Total intangible amortization	$107.2	$95.9	$97.1

Estimated annual amortization expense based upon intangible assets recognized as of December 31, 2014 for the years ending December 31, 2015 through 2019 is (in millions):

For the Years Ending December 31,	
2015	$88.5
2016	81.6
2017	66.2
2018	50.9
2019	36.3

SOFTWARE

2.77 XEROX CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
(In millions, except share data in thousands)	2014	2013
Assets		
Cash and cash equivalents	$ 1,411	$ 1,764
Accounts receivable, net	2,652	2,929
Billed portion of finance receivables, net	110	113
Finance receivables, net	1,425	1,500
Inventories	934	998
Assets of discontinued operations	1,260	—
Other current assets	1,082	1,207
Total current assets	8,874	8,511
Finance receivables due after one year, net	2,719	2,917
Equipment on operating leases, net	525	559
Land, buildings and equipment, net	1,123	1,466
Investments in affiliates, at equity	1,338	1,285
Intangible assets, net	2,031	2,503
Goodwill	8,805	9,205
Other long-term assets	2,243	2,590
Total assets	$27,658	$29,036

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(in millions, except per-share data and where otherwise noted)

Note 1—Summary of Significant Accounting Policies (in part)

Summary of Accounting Policies (in part)

Software—Internal Use and Product

We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight-line basis over the expected useful life of the software, beginning when the software is implemented (Internal Use Software). Costs incurred for upgrades and enhancements that will not result in additional functionality are expensed as incurred. Amounts expended for Internal Use Software are included in Cash Flows from Investing.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility (Product Software). These costs are amortized on a straight-line basis over the estimated economic life of the software. Amounts expended for Product Software are included in Cash Flows from Operations. We perform periodic reviews to ensure that unamortized Product Software costs remain recoverable from estimated future operating profits (net realizable value or NRV). Costs to support or service licensed software are charged to Costs of services as incurred.

Refer to Note 8—Land, Buildings, Equipment and Software, Net for further information.

Note 8—Land, Buildings, Equipment and Software, Net (in part)

Internal Use and Product Software

	Year Ended December 31,		
Additions to:	**2014**	**2013**	**2012**
Internal use software[1]	$82	$77	$110
Product software	23	28	107

[1] Excludes amounts related to our ITO business which is held for sale and reported as a discontinued operation at December 31, 2014. Refer to Note 4—Divestitures for additional information regarding this pending sale.

	December 31,	
Capitalized Costs, Net:	**2014**	**2013**
Internal use software[1]	$454	$506
Product software	307	343

[1] Internal use software at December 31, 2014 includes $20 related to our ITO business which is held for sale and being reported as a discontinued operation at December 31, 2014. Refer to Note 4—Divestitures for additional information regarding this pending sale.

Useful lives of our internal use and product software generally vary from three to ten years.

Included within product software at December 31, 2014 is approximately $250 of capitalized costs associated with significant software system platforms developed for use in certain of our government services businesses. We regularly review these software system platforms for impairment. Our impairment reviews for 2014 and 2013 indicated that the costs would be recoverable from estimated future operating profits; however, those future operating profits are heavily dependent on our ability to successfully complete existing contracts as well as obtain future contracts.

Note 12—Supplementary Financial Information (in part)

The components of other current and long-term assets and liabilities were as follows:

	December 31,	
Other Long-Term Assets	**2014**	**2013**
Deferred taxes and income taxes receivable	$ 367	$ 377
Prepaid pension costs	17	55
Net investment in TRG	158	173
Internal use software, net	454	506
Product software, net	307	343
Restricted cash	139	170
Debt issuance costs, net	31	31
Customer contract costs, net	323	399
Beneficial interest—sales of finance receivables	42	86
Deferred compensation plan investments	125	116
Other	427	334
Discontinued operations[1]	(147)	—
Total other long-term assets	$2,243	$2,590

FRANCHISE RIGHTS

2.78 YUM! BRANDS, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions)

Assets	**2014**	**2013**
Current Assets		
Cash and cash equivalents	$ 578	$ 573
Accounts and notes receivable, net	325	319
Inventories	301	294
Prepaid expenses and other current assets	254	286
Deferred income taxes	93	123
Advertising cooperative assets, restricted	95	96
Total current assets	1,646	1,691
Property, plant and equipment, net	4,498	4,459
Goodwill	700	889
Intangible assets, net	318	638
Investments in unconsolidated affiliates	52	53
Other assets	560	566
Deferred income taxes	571	399
Total assets	$8,345	$8,695

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Tabular amounts in millions, except share data)

Note 1—Description of Business

YUM! Brands, Inc. and Subsidiaries (collectively referred to herein as "YUM" or the "Company") comprise primarily the worldwide operations of KFC, Pizza Hut and Taco Bell (collectively the "Concepts"). YUM has over 41,000 units of which 56% are located outside the U.S. in more than 125 countries and territories. YUM was created as an independent, publicly-owned company on October 6, 1997 via a tax-free distribution by our former parent, PepsiCo, Inc., of our Common Stock to its shareholders. References to YUM throughout these Consolidated Financial Statements are made using the first person notations of "we," "us" or "our."

Through our widely-recognized Concepts, we develop, operate, franchise and license a system of both traditional and non-traditional quick service restaurants. Each Concept has proprietary menu items and emphasizes the preparation of food with high quality ingredients as well as unique recipes and special seasonings to provide appealing, convenient, tasty and attractive food at competitive prices. Our traditional restaurants feature dine-in, carryout and, in some instances, drive-thru or delivery service. Non-traditional units, which are principally licensed outlets, include express units and kiosks which have a more limited menu and operate in non-traditional locations like malls, airports, gasoline service stations, train stations, subways, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient. We also operate multibrand units, where two or more of our Concepts are operated in a single unit.

As of December 27, 2014, YUM consisted of five operating segments:

- YUM China ("China" or "China Division") which includes all operations in mainland China
- YUM India ("India" or "India Division") which includes all operations in India, Bangladesh, Nepal and Sri Lanka
- The KFC Division which includes all operations of the KFC concept outside of China Division and India Division
- The Pizza Hut Division which includes all operations of the Pizza Hut concept outside of China Division and India Division
- The Taco Bell Division which includes all operations of the Taco Bell concept outside of India Division

Prior to 2014, our reporting segments consisted of YUM Restaurants International ("YRI"), the United States, China and India. In the first quarter of 2014 we changed our management reporting structure to align our global operations outside of China and India by brand. As a result, our YRI and United States reporting segments were combined, and we began reporting this information by three new reporting segments: KFC Division, Pizza Hut Division and Taco Bell Division. China and India remain separate reporting segments. This new structure is designed to drive greater global brand focus, enabling us to more effectively share know-how and accelerate growth. While our consolidated results have not been impacted, we have restated our comparable segment information for consistent presentation.

Note 2—Summary of Significant Accounting Policies (in part)

Goodwill and Intangible Assets (in part). We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, we amortize the intangible asset prospectively over its estimated remaining useful life. Intangible assets that are deemed to have a definite life are generally amortized on a straight-line basis to their residual value.

We evaluate our indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairments might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. We may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying value, then the asset's fair value is compared to its carrying value. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset.

Our definite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable on an undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the definite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

Note 9—Goodwill and Intangible Assets (in part)

Intangible assets, net for the years ended 2014 and 2013 are as follows:

	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets				
Reacquired franchise rights	$186	$ (81)	$188	$ (66)
Franchise contract rights	126	(92)	130	(90)
Lease tenancy rights	67	(12)	71	(12)
Favorable operating leases	15	(9)	20	(12)
Other	52	(25)	52	(22)
	$446	$(219)	$461	$(202)
Indefinite-lived intangible assets				
KFC trademark	$ 31		$ 31	
Little Sheep trademark[(a)]	60		348	
	$ 91		$379	

[(a)] We recorded an impairment charge of $284 million in 2014 to write down the Little Sheep trademark. See Note 4.

Amortization expense for all definite-lived intangible assets was $27 million in 2014 and $28 million in both 2013 and 2012. Amortization expense for definite-lived intangible assets will approximate $28 million in 2015, $27 million in 2016, $25 million in 2017, $24 million in 2018 and $23 million in 2019.

PURCHASED INTANGIBLE ASSETS

2.79 WORTHINGTON INDUSTRIES, INC. (MAY)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands)

	May 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 190,079	$ 51,385
Receivables, less allowances of $3,043 and $3,408 at May 31, 2014 and 2013, respectively	493,127	394,327
Inventories:		
Raw materials	213,173	175,093
Work in process	105,872	103,861
Finished products	90,957	77,814
Total inventories	410,002	356,768
Income taxes receivable	5,438	724
Assets held for sale	32,235	3,040
Deferred income taxes	24,272	21,928
Prepaid expenses and other current assets	43,769	38,711
Total current assets	1,198,922	866,883
Investments in unconsolidated affiliates	179,113	246,125
Goodwill	251,093	213,858
Other intangible assets, net of accumulated amortization of $35,506 and $26,669 at May 31, 2014 and 2013, respectively	145,993	147,144
Other assets	22,399	17,417
Property, plant and equipment:		
Land	15,260	26,253
Buildings and improvements	213,848	205,017
Machinery and equipment	848,889	798,467
Construction in progress	32,135	22,899
Total property, plant and equipment	1,110,132	1,052,636
Less accumulated depreciation	611,271	593,206
Total property, plant and equipment, net	498,861	459,430
Total assets	$2,296,381	$1,950,857

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note C—Goodwill and Other Long-Lived Assets (in part)

Other Intangible Assets

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, which range from one to 20 years. The following table summarizes other intangible assets by class as of May 31, 2014 and 2013:

	2014		2013	
(In thousands)	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Indefinite-lived intangible assets:				
Trademarks	$ 8,481	$ —	$ 27,581	$ —
Total indefinite-lived intangible assets	8,481	—	27,581	—
Definite-lived intangible assets:				
Patents and trademarks	$ 4,696	148	$ 15,111	2,201
Customer relationships	143,585	28,257	113,098	18,967
Non-compete agreements	10,733	4,263	11,669	3,427
Other	14,004	2,838	6,354	2,074
Total definite-lived intangible assets	173,018	35,506	146,232	26,669
Total intangible assets	$181,499	$35,506	$173,813	$26,669

The increase in the carrying amount of other intangible assets resulted primarily from acquisitions completed during fiscal 2014 partially offset by impairment charges of $30,734,000 related to certain trade name intangible assets impacted by the rebranding initiative described below. Impairment charges totaling $19,100,000 related to indefinite-lived trade names intangible assets within Engineered Cabs and $11,634,000 related to certain definite-lived trade names intangible assets within Pressure Cylinders.

Amortization expense of $17,386,000, $10,467,000, and $5,229,000 was recognized during fiscal 2014, fiscal 2013 and fiscal 2012, respectively.

Amortization expense for each of the next five fiscal years is estimated to be:

(In thousands)	
2015	$17,527
2016	$16,888
2017	$16,269
2018	$15,836
2019	$13,216

Note O—Acquisitions

Fiscal 2014

The Tank Manufacturing Division of Steffes Corporation

On March 27, 2014, we acquired the tank manufacturing division of Steffes Corporation ("Steffes") for cash consideration of approximately $28,874,000, subject to a final working capital adjustment. This division manufactures oilfield storage tanks for customers drilling in the Bakken shale and Williston Basin region out of a manufacturing facility located in Dickinson, North Dakota, and complements our existing operations in Ohio and Kansas that manufacture steel and fiberglass storage tanks, gas separators, gas production units and related wellhead equipment for oil and gas exploration in the Marcellus, Utica, Bakken and Mid-Continent regions. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. In connection with the acquisition of Steffes, we identified and valued the following identifiable intangible assets:

Category	Amount (In thousands)	Useful Life (Years)
Customer relationships	$10,000	9
Trade name	290	Less than 1
Total acquired identifiable intangible assets	$10,290	

The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for Steffes and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(In thousands)	
Inventories	$ 2,316
Intangible assets	10,290
Property, plant and equipment	2,638
Total identifiable assets	15,244
Goodwill	13,046
Purchase price	28,290
Estimated working capital deficit	584
Total cash paid	$28,874

Operating results of Steffes have been included in our consolidated statements of earnings from the acquisition date, forward. Pro forma results, including the acquired business since the beginning of fiscal 2013, would not be materially different than reported results.

Aritaş Basinçli Kaplar Sanayi

On January 24, 2014, we acquired a 75% interest in Worthington Aritas, one of Europe's leading LNG (liquefied natural gas) and cryogenic technology companies. The remaining 25% stake was retained by the prior owners. The total purchase price, including an adjustment for estimated final working capital, was $35,325,000. The purchase price also includes contingent consideration with an estimated fair value of $404,000. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

The contingent consideration arrangement requires the Company to pay $2,000,000 of additional consideration to the former owners if earnings before interest, taxes, depreciation and amortization ("EBITDA") exceed $5,000,000 during any 12 consecutive months during the first 14 month period following the closing date. We determined the acquisition date fair value of the contingent consideration obligation using a Monte Carlo simulation model based on management's projections of future EBITDA levels. Refer to "Note Q—Fair Value Measurements" for additional information regarding the fair value measurement of the contingent consideration obligation.

The assets acquired and liabilities assumed were recognized at their estimated acquisition-date fair values based on a preliminary valuation analysis, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. In connection with the acquisition of our 75% interest in Worthington Aritas, we identified and valued the following identifiable intangible assets:

Category	Amount (In thousands)	Useful Life (Years)
Customer relationships	$ 8,400	10
Technological know-how	8,100	20
Trade name	180	2
Non-compete agreements	120	3
Total acquired identifiable intangible assets	$16,800	

The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is not expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for Worthington Aritas and the final fair values assigned to the assets acquired and liabilities assumed at the acquisition date:

(In thousands)	Preliminary Valuation February 28, 2014	Measurement Period Adjustments	Final Valuation May 31, 2014
Cash and cash equivalents	$ 1,037	$ —	$ 1,037
Accounts receivable	3,326	(84)	3,242
Inventories	10,678	—	10,678
Prepaid expenses and other current assets	1,317	—	1,317
Intangible assets	16,800	—	16,800
Other noncurrent assets	1,099	—	1,099
Property, plant and equipment	5,467	—	5,467
Total identifiable assets	39,724	(84)	39,640
Accounts payable	(5,587)	—	(5,587)
Short-term borrowings	(251)	—	(251)
Accrued liabilities	(2,756)	(4,146)	(6,902)
Other liabilities	(4,954)	4,954	—
Deferred taxes	(2,787)	—	(2,787)
Net identifiable assets	23,389	724	24,113
Goodwill	23,586	(599)	22,987
Net assets	46,975	125	47,100
Noncontrolling interest	(11,744)	(31)	(11,775)
Total consideration	$35,231	$ 94	$35,325

The Company recognized $1,520,000 of acquisition-related costs that were expensed within SG&A expense in the current period. Operating results of Worthington Aritas have been included in our consolidated statements of earnings from the acquisition date, forward. Pro forma results, including the acquired business since the beginning of fiscal 2013, would not be materially different than reported results.

TWB Company, L.L.C.

On July 31, 2013, we purchased an additional 10% interest in our laser welded blank joint venture, TWB, for $17,869,000, increasing our ownership to a 55% controlling interest. This transaction was accounted for as a step acquisition, which required that we re-measure our previously held 45% ownership interest to fair value and record the difference between fair value and carrying value as a gain in our consolidated statement of earnings. The re-measurement to fair value resulted in a non-cash pre-tax gain of $11,000,000, which is included in miscellaneous income in our consolidated statement of earnings for fiscal 2014. The acquired net assets became part of our Steel Processing operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values. In connection with the acquisition of TWB, we identified and valued the following identifiable intangible assets:

Category	Amount (In thousands)	Useful Life (Years)
Customer relationships	$17,438	5–6
Trade names	4,120	Indefinite
Non-compete agreement	470	5
Total acquired identifiable intangible assets	$22,028	

The estimated fair value of the assets acquired and liabilities assumed approximated the purchase price and therefore no goodwill was recognized.

The following table summarizes the consideration transferred for our 55% controlling interest in TWB and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(In thousands)	
Consideration Transferred:	
Cash consideration	$ 17,869
Fair value of previously held interest in TWB	72,369
Total consideration	$ 90,238
Estimated Fair Value of Assets Acquired and Liabilities Assumed:	
Cash and cash equivalents	$ 70,826
Accounts receivable	52,012
Inventories	20,403
Prepaid expenses and other current assets	4,027
Intangible assets	22,028
Other noncurrent assets	103
Property, plant and equipment	52,390
Total identifiable assets	221,789
Accounts payable	(50,642)
Accrued liabilities	(6,431)
Deferred taxes	(2,109)
Net assets	162,607
Noncontrolling interest	(72,369)
Total consideration	$ 90,238

The fair value of our previously held equity interest and the noncontrolling interest was derived using a market approach, and included a minority discount of 10% to reflect management's estimate of the control premium.

Net sales of $319,542,000 and earnings before income taxes of $22,991,000 have been included in the Company's consolidated statement of earnings from the acquisition date through May 31, 2014.

Proforma net sales of the combined entity had the acquisition occurred at the beginning of fiscal 2013 were $3,180,428,000 and $2,956,309,000 for the fiscal years ended May 31, 2014 and 2013, respectively. Pro forma earnings would not be materially different than reported results due to our 45% noncontrolling interest in TWB prior to the acquisition date.

Fiscal 2013

Palmer Mfg. & Tank, Inc.

On April 9, 2013, we acquired the net assets of Palmer Mfg. & Tank, Inc. ("Palmer") for cash consideration of approximately $113,479,000. Palmer manufactures steel and fiberglass tanks and processing equipment for the oil and gas industry, and custom manufactures fiberglass tanks for agricultural, chemical and general industrial applications. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. In connection with the acquisition of Palmer, we identified and valued the following identifiable intangible assets:

Category	Amount (In thousands)	Useful Life (Years)
Customer relationships	$25,730	8
Trade name	8,406	5
Non-compete agreement	5,208	5
Other	150	3
Total acquired identifiable intangible assets	$39,494	

The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for Palmer and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(In thousands)	
Cash and cash equivalents	$ 364
Accounts receivable	9,252
Inventories	17,758
Prepaid expenses and other current assets	9
Intangible assets	39,494
Property, plant and equipment	16,504
Total identifiable assets	83,381
Accounts payable	(2,547)
Accrued liabilities	(2,175)
Net identifiable assets	78,659
Goodwill	34,820
Total cash consideration	$113,479

Operating results of Palmer have been included in our consolidated statements of earnings from the acquisition date, forward. Pro forma results, including the acquired business since the beginning of fiscal 2012, would not be materially different than reported results.

Westerman, Inc.

On September 17, 2012, we acquired 100% of the outstanding common shares of Westerman, Inc. ("Westerman") for cash consideration of approximately $62,749,000 and the assumption of approximately $7,251,000 of debt, which was repaid at closing. Westerman is a leading manufacturer of tanks, pressure vessels and other products for the oil and gas and nuclear markets as well as hoists and other products for marine applications. The acquired net assets became part of our Pressure Cylinders operating segment upon closing.

The assets acquired and liabilities assumed were recognized at their acquisition-date fair values, with goodwill representing the excess of the purchase price over the fair value of the net identifiable assets acquired. In connection with the acquisition of Westerman, we identified and valued the following identifiable intangible assets:

Category	Amount (In thousands)	Useful Life (Years)
Customer relationships	$12,796	10
Trade name	2,986	3–4
Non-compete agreement	1,050	5
Other	1,486	1–3
Total acquired identifiable intangible assets	$18,318	

The purchase price includes the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value. The purchase price also includes a going-concern element that represents our ability to earn a higher rate of return on this group of assets than would be expected on the separate assets as determined during the valuation process. This additional investment value resulted in goodwill, which is not expected to be deductible for income tax purposes.

The following table summarizes the consideration transferred for Westerman and the fair value assigned to the assets acquired and liabilities assumed at the acquisition date:

(In thousands)	
Cash and cash equivalents	$ 639
Accounts receivable	6,355
Inventories	15,377
Prepaid expenses and other current assets	836
Intangible assets	18,318
Property, plant and equipment	23,503
Total identifiable assets	65,028
Accounts payable	(2,952)
Accrued liabilities	(2,479)
Other current liabilities	(765)
Short-term borrowings	(7,251)
Deferred income taxes	(11,022)
Net identifiable assets	40,559
Goodwill	22,190
Total cash consideration	$62,749

Operating results of Westerman have been included in our consolidated statements of earnings from the acquisition date, forward. Pro forma results, including the acquired business since the beginning of fiscal 2012, would not be materially different than reported results.

Other Noncurrent Assets

RECOGNITION AND MEASUREMENT

2.80 FASB ASC 210 indicates that the concept of current assets excludes resources such as the following:

- Cash restricted regarding withdrawal or use for other than current operations, designated for expenditure in the acquisition or construction of noncurrent assets, or segregated for the liquidation of long-term debts
- Investments or advances for the purposes of control, affiliation, or other continuing business advantage
- Certain receivables (see the "Noncurrent Receivables" section)
- Cash surrender value of life insurance policies
- Land and other natural resources
- Long-term prepayments chargeable to operations over several years

DISCLOSURE

2.81 Rule 5-02 of Regulation S-X requires that any item not classed in another Regulation S-X caption and in excess of 5 percent of total assets be stated separately on the balance sheet or disclosed in the notes.

PRESENTATION AND DISCLOSURE EXCERPTS

ASSETS HELD FOR SALE

2.82 FLOWERS FOODS, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(Amounts in thousands, except share data)	January 3, 2015	December 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 7,523	$ 8,530
Accounts and notes receivable, net of allowances of $2,723 and $1,598, respectively	235,911	253,967

(continued)

(Amounts in thousands, except share data)	January 3, 2015	December 28, 2013
Inventories:		
Raw materials	33,579	37,071
Packaging materials	19,591	21,188
Finished goods	39,930	42,592
	93,100	100,851
Spare parts and supplies	54,058	47,956
Deferred taxes	26,823	31,790
Other	43,148	44,311
Total current assets	460,563	487,405
Property, plant and equipment:		
Land	93,314	99,201
Buildings	441,444	444,357
Machinery and equipment	1,115,129	1,075,467
Furniture, fixtures and transportation equipment	124,173	107,866
Construction in progress	18,566	41,117
	1,792,626	1,768,008
Less: accumulated depreciation	(985,168)	(901,004)
	807,458	867,004
Notes receivable	161,905	142,845
Assets held for sale	39,108	54,752
Other Assets	12,011	12,894
Goodwill	282,960	282,404
Other intangible assets, net	644,969	656,710
Total assets	$2,408,974	$2,504,014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Summary of Significant Accounting Policies (in part)

Revenue Recognition (in part). The company repurchases territories from and sells territories to independent distributors from time to time. At the time the company purchases a territory from an independent distributor, the fair value purchase price of the territory is recorded as "Assets Held for Sale". Upon the sale of that territory to a new independent distributor, generally a note receivable of up to ten years is recorded for the sales price of the territory (for those situations when the company provides direct financing to the distributor) with a corresponding credit to assets held for sale to relieve the carrying amount of the territory. Any difference between the amount of the note receivable (i.e., the sales price) and the territory's carrying value is recorded as a gain or a loss in selling, distribution and administrative expenses because the company considers its distributor activity a cost of distribution. Since the distributor has the right to require the company to repurchase the territory at the original purchase price within the first six-month period following the date of sale, no gain is recorded on the sale of the territory until after the six-month period is completed (except that gains of $5,000 or less are recognized immediately upon the sale). Upon expiration of the six-month period, the amount deferred during this period is recorded and the remaining gain on the sale is recorded over the remaining term of the note. In instances where a territory is sold for less than its carrying value, a loss is recorded at the date of sale and any impairment of a territory held for sale is recorded at such time when the impairment occurs. The deferred gains were $25.7 million and $22.4 million at January 3, 2015 and December 28, 2013, respectively, and are recorded in other short and long-term liabilities on the Consolidated Balance Sheet. The company recorded net gains of $3.8 million during fiscal 2014, $5.5 million during fiscal 2013, and $2.6 million during fiscal 2012 related to the sale of territories as a component of selling, distribution and administrative expenses.

Goodwill. The company accounts for goodwill in a purchase business combination as the excess of the cost over the fair value of net assets acquired. The company tests goodwill for impairment on an annual basis (or an interim basis if an event occurs that indicates the fair value of a reporting unit may be below its carrying value) using a two-step method. This analysis is performed for both of our segments. Goodwill is recorded at the segment level primarily because of reciprocal baking arrangements for plants within each segment. We have elected not to perform the qualitative approach. The company conducts this review during the fourth quarter of each fiscal year absent any triggering events. We use the following four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples. No impairment resulted from the annual review performed in fiscal years 2014, 2013, or 2012. During the second quarter of fiscal 2014, we recorded an impairment of $2.6 million related to the disposition of certain assets as described in Note 6, *Assets Held For Sale*. This goodwill impairment represented the share of goodwill for the disposed assets. See Note 7, *Goodwill and Other Intangible Assets*, for additional disclosure.

Note 6. Assets Held for Sale

The company purchases territories from and sells territories to independent distributors from time to time. The company repurchases territories from independent distributors in circumstances when the company decides to exit a territory or when the distributor elects to terminate their relationship with the company. In the event the company decides to exit a territory or ceases to utilize the independent distribution form of doing business, the company is contractually required to purchase the territory from the independent distributor. In the event an independent distributor terminates their relationship with the company, the company, although not legally obligated, normally repurchases and operates that territory as a company-owned territory. The independent distributors may also sell their territories to another person or entity. Territories purchased from independent distributors and operated as company-owned territories are recorded on the company's Condensed Consolidated Balance Sheet in the line item "Assets Held for Sale " while the company actively seeks another distributor to purchase the territory.

Territories held for sale and operated by the company are sold to independent distributors at the fair market value of the territory. Subsequent to the purchase of a territory by the distributor, in accordance with the terms of the distributor arrangement, the independent distributor has the right to require the company to repurchase the territory and truck, if applicable, at the original purchase price paid by the distributor within the six-month period following the date of sale. The company is not required to repay interest paid by the distributor during such six-month period. If the truck is leased, the company will assume the lease payment if the territory is repurchased during the six-month period. Should the independent distributor wish to sell the territory after the six-month period has expired, the company has the right of first refusal.

The company is also selling certain manufacturing facilities and depots from the Acquired Hostess Bread Assets purchased in July 2013. These assets were originally recorded as held and used in the purchase price allocation in Note 8, *Acquisitions*. Subsequent to the acquisition, we determined that some of the acquired manufacturing facilities and depots do not meet our long-term strategy. As a result, we are in the process of selling them. There are certain other properties not associated with the Acquired Hostess Bread Assets that are also in the process of being sold. These assets are recorded on the Condensed Consolidated Balance Sheet in the line item "Assets Held for Sale" and are included in the "Other" line item in the summary table below. During fiscal 2014, the company received $24.2 million on the sale of 22 Acquired Hostess Bread Asset depots and manufacturing facilities.

During the second quarter of fiscal 2014, we decided to sell certain assets at our Ft. Worth, Texas, tortilla facility (the "disposal group"). The company relocated our flour tortilla equipment to an existing manufacturing facility and continues to sell these products through our DSD Segment. The disposal group sale closed on August 13, 2014 for a sale price of $8.4 million in cash. The carrying value of the assets sold was $7.6 million. Assets not included in the disposal group were either transferred to other plants or were scrapped shortly after closing. We recognized an impairment loss on goodwill of $2.6 million and an additional impairment loss of $1.9 million for the scrapped assets during the second quarter of fiscal 2014. These impairments are recorded on the Consolidated Statements of Income in the line item "Impairment of assets". The total gain on the divestiture was $1.8 million, of which $0.8 million related to property, plant and equipment recorded as held for sale in our second quarter of fiscal 2014, and is recorded on the Consolidated Statements of Income in the line item "Selling, distribution and administrative expenses". We also incurred costs of $0.8 million included in the Consolidated Statements of Income line item "Materials, supplies, labor, and other production costs, excluding depreciation" relating to severance and inventory. The total costs for fiscal 2014 relating to the divestiture were $3.5 million.

In addition to the impairments described above, during the fourth quarter of our fiscal 2014, we recognized an impairment loss of $5.8 million for the difference between the carrying value and the fair value of certain Acquired Hostess Bread Assets classified as held for sale.

Additional assets recorded in assets held for sale are for property, plant and equipment exclusive of the amounts disclosed as part of the Acquired Hostess Bread Assets and the disposal group discussed above. The carrying values of assets held for sale are not amortized and are evaluated for impairment as required. The table below presents the assets held for sale as of January 3, 2015 and December 28, 2013, respectively (amounts in thousands):

	January 3, 2015	December 28, 2013
Distributor territories	$20,491	$26,564
Acquired hostess bread assets plants and depots	13,406	22,743
Other	5,211	5,445
Total assets held for sale	$39,108	$54,752

PENSION ASSETS

2.83 OWENS-ILLINOIS, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	Years Ended December 31,	
Dollars in Millions	**2014**	**2013**
Assets		
Current Assets:		
Cash, including time deposits of $104 ($61 in 2013)	$ 512	$ 383
Receivables	744	943
Inventories	1,035	1,117
Prepaid expenses	80	107
Total current assets	2,371	2,550
Other Assets:		
Equity investments	427	315
Pension assets	22	68
Other assets	700	795
Goodwill	1,893	2,059
Total other assets	3,042	3,237
Property, Plant and Equipment:		
Land, at cost	226	254
Buildings and equipment, at cost:		
Buildings and building equipment	1,097	1,197
Factory machinery and equipment	4,302	4,651
Transportation, office and miscellaneous equipment	105	123
Construction in progress	161	213
	5,891	6,438
Less accumulated depreciation	3,446	3,806
Net property, plant and equipment	2,445	2,632
Total assets	$7,858	$8,419

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Tabular data dollars in millions, except per share amounts

10. Pension Benefit Plans and Other Postretirement Benefits (in part)

Pension Benefit Plans (in part)

The Company has defined benefit pension plans covering a substantial number of employees located in the United States and several other non-U.S. jurisdictions. Benefits generally are based on compensation for salaried employees and on length of service for hourly employees. The Company's policy is to fund pension plans such that sufficient assets will be available to meet future benefit requirements. The Company's defined benefit pension plans use a December 31 measurement date. The following tables relate to the Company's principal defined benefit pension plans.

The changes in the pension benefit obligations for the year are as follows:

	U.S.		Non-U.S.	
	2014	**2013**	**2014**	**2013**
Obligations at beginning of year	$2,275	$2,647	$1,866	$1,911
Change in benefit obligations:				
Service cost	22	27	23	33
Interest cost	105	106	69	72
Actuarial (gain) loss, including the effect of change in discount rates	264	(234)	131	(5)
Curtailment, settlement, and plan amendment	(56)		(567)	(52)
Special termination		8		
Participant contributions			5	7
Benefit payments	(182)	(279)	(91)	(101)
Foreign currency translation			(125)	1
Net change in benefit obligations	153	(372)	(555)	(45)
Obligations at end of year	$2,428	$2,275	$1,311	$1,866

The changes in the fair value of the pension plans' assets for the year are as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Fair value at beginning of year	$2,273	$2,175	$1,578	$1,527
Change in fair value:				
Actual gain on plan assets	155	365	188	61
Benefit payments	(182)	(279)	(91)	(101)
Employer contributions		12	28	92
Participant contributions			5	7
Settlements	(56)		(519)	
Foreign currency translation			(94)	(5)
Other			(1)	(3)
Net change in fair value of assets	(83)	98	(484)	51
Fair value at end of year	$2,190	$2,273	$1,094	$1,578

The employer contributions in the U.S. for 2013 include $8 million related to special termination benefits for a discontinued operation.

The Company recognizes the funded status of each pension benefit plan on the balance sheet. The funded status of each plan is measured as the difference between the fair value of plan assets and actuarially calculated benefit obligations as of the balance sheet date. Actuarial gains and losses are accumulated in Other Comprehensive Income and the portion of each plan that exceeds 10% of the greater of that plan's assets or projected benefit obligation is amortized to income on a straight-line basis over the average remaining service period of employees still accruing benefits or the expected life of participants not accruing benefits if all, or almost all, of the plan's participants are no longer accruing benefits.

The funded status of the pension plans at year end is as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Plan assets at fair value	$2,190	$2,273	$1,094	$1,578
Projected benefit obligations	2,428	2,275	1,311	1,866
Plan assets less than projected benefit obligations	(238)	(2)	(217)	(288)
Items not yet recognized in pension expense:				
Actuarial loss	1,125	935	347	488
Prior service cost (credit)	(2)	2		(25)
	1,123	937	347	463
Net amount recognized	$ 885	$ 935	$ 130	$ 175

The net amount recognized is included in the Consolidated Balance Sheets at December 31, 2014 and 2013 as follows:

	U.S.		Non-U.S.	
	2014	2013	2014	2013
Pension assets	$ —	$ 46	$ 22	$ 22
Current pension liability, included with Other accrued liabilities	(3)	(2)	(9)	(6)
Pension benefits	(235)	(46)	(230)	(304)
Accumulated other comprehensive loss	1,123	937	347	463
Net amount recognized	$885	$935	$130	$175

The following information is for plans with projected and accumulated benefit obligations in excess of the fair value of plan assets at year end:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets				Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets			
	U.S.		Non-U.S.		U.S.		Non-U.S.	
	2014	2013	2014	2013	2014	2013	2014	2013
Projected benefit obligations	$2,428	$674	$1,049	$1,588	$2,428	$674	$1,049	$1,588
Accumulated benefit obligation	2,392	646	1,023	1,537	2,392	646	1,023	1,537
Fair value of plan assets	2,190	626	810	1,278	2,190	626	810	1,278

ADVANCES

2.84 ALLIANCE ONE INTERNATIONAL, INC. (MAR)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands)	March 31, 2014	March 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 234,742	$ 92,026
Trade and other receivables, net	176,459	224,222
Accounts receivable, related parties	44,869	55,696
Inventories	760,607	903,947
Advances to tobacco suppliers	49,598	109,520
Recoverable income taxes	4,789	8,980
Current deferred taxes	10,013	16,776
Prepaid expenses	27,667	36,811
Current derivative asset	—	3,145
Other current assets	12,053	13,632
Total current assets	1,320,797	1,464,755
Other assets		
Investments in unconsolidated affiliates	50,876	25,169
Goodwill and other intangible assets	34,725	31,471
Long-term recoverable income taxes	5,423	—
Deferred income taxes	40,927	56,045
Other deferred charges	19,038	12,971
Other noncurrent assets	42,255	50,190
	193,244	175,846
Property, plant and equipment, net	261,246	270,978
	$1,775,287	$1,911,579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(in thousands)

Note 1—Significant Accounting Policies (in part)

Advances to Tobacco Suppliers

The Company purchases seeds, fertilizer, pesticides and other products related to growing tobacco and advances them to suppliers, which represents prepaid inventory and is recorded as advances to tobacco suppliers. The advances of current crop inputs generally include the original cost of the inputs plus a mark-up and interest as it is earned. Where contractually permitted, the Company charges interest to the suppliers during the period the current crop advance is outstanding. The Company generally advances the inputs at a price that is greater than its cost, which results in a mark-up on the inputs. The suppliers then utilize these inputs to grow tobacco, which the Company is contractually obligated to purchase. Upon delivery of tobacco, part of the purchase price to the supplier is paid in cash and part through a reduction of the advance balance. The advances applied to the delivery are reclassified out of advances and into unprocessed inventory. Advances to tobacco suppliers are accounted for utilizing a cost accumulation methodology.

The Company has current and noncurrent advances to tobacco suppliers. The current advances represent the cost of the seeds, fertilizer and other materials that are advanced for the current crop of inventory. The noncurrent advances generally represent the cost of advances to suppliers for infrastructure, such as curing barns, which is also recovered through the delivery of tobacco to the Company by the suppliers. As a result of various factors in a given crop year (weather, etc.) not all suppliers are able to settle the entire amount of advances that are due that year. In these situations, the Company may allow the suppliers to deliver tobacco over future crop years to recover its advances. The advance balances that are deferred over future crop years are also classified as noncurrent.

Advances to tobacco suppliers are carried at cost and evaluated for recoverability. The realizability evaluation process is similar to that of the LCM evaluation process for inventories. The Company evaluates its advances for recoverability by crop and country. The Company reclasses the advance to inventory at the time suppliers deliver tobacco. The purchase price for the tobacco delivered by the suppliers is based on market prices. Two primary factors determine the market value of the tobacco suppliers deliver: the quantity of tobacco delivered and the quality of the tobacco delivered. Therefore, the Company ensures its advances are appropriately stated at the lower of cost or estimated recoverable amounts.

Upon delivery of tobacco, part of the purchase price to the supplier is paid in cash and part through a reduction of the advance balance. If a sufficient value of tobacco is not delivered to allow the reduction of the entire advance balance, then the Company first determines how much of the deficiency for the current crop is recoverable through future crops. This determination is made by analyzing the suppliers' ability-to-deliver a sufficient supply of tobacco. This analysis includes historical quantity and quality of production with monitoring of crop information provided by field service technicians related to flood, drought and disease. The remaining recoverable advance balance would then be classified as noncurrent. Any increase in the estimate of unrecoverable advances associated with the noncurrent portion is charged to cost of goods and services sold in the income statement when determined. Amounts not expected to be recovered through current or future crops are then evaluated to determine whether the yield is considered to be normal or abnormal. If the yield adjustment is normal, then the Company capitalizes the applicable variance in the current crop of inventory. If the yield adjustment is considered abnormal, then the Company immediately charges the applicable variance to cost of goods and services sold in the income statement. A normal yield adjustment is based on the range of unrecoverability for the previous three years by country.

The Company accounts for its advances to tobacco suppliers using a cost accumulation model, which results in the reporting of its advances at the lower of cost or recoverable amounts exclusive of the mark-up and interest. The mark-up and interest on its advances are recognized upon delivery of tobacco as a decrease in the cost of the current crop. The mark-up and interest capitalized or to be capitalized into inventory for the current crop was $18,180 and $14,464 as of March 31, 2014 and 2013, respectively. Unrecoverable advances and other costs capitalized or to be capitalized into the current crop was $15,314 and $13,347 at March 31, 2014 and 2013, respectively. The following table reflects the classification of advances to tobacco suppliers:

	March 31, 2014	March 31, 2013
Current	$49,598	$109,520
Noncurrent	6,420	6,421
	$56,018	$115,941

Noncurrent advances to tobacco suppliers are recorded in Other Noncurrent Assets in the Consolidated Balance Sheets.

Unrecovered amounts expensed directly to cost of goods and services sold in the income statement for abnormal yield adjustments or unrecovered amounts from prior crops were $11,587 and $1,750 for the years ended March 31, 2014 and 2013, respectively. There were no abnormal yield adjustments for the year ended March 31, 2012. Normal yield adjustments are capitalized into the cost of the current crop and are expensed as cost of goods and services sold as that crop is sold.

Other Noncurrent Assets

For the year ended March 31, 2014, other noncurrent assets consist primarily of long-term VAT and intrastate tax receivables of $15,601, long-term advances to suppliers of $6,420 and cash surrender value of life insurance of $7,903. For the year ended March 31, 2013, other noncurrent assets consist primarily of long-term VAT and intrastate tax receivables of $19,368, long-term advances to suppliers of $6,421 and cash surrender value of life insurance of $10,201.

DEFERRED INCOME TAXES

2.85 HEWLETT-PACKARD COMPANY (OCT)

CONSOLIDATED BALANCE SHEETS (in part)

	As of October 31	
In millions, except par value	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 15,133	$ 12,163
Accounts receivable	13,832	15,876
Financing receivables	2,946	3,144
Inventory	6,415	6,046
Other current assets	11,819	13,135
Total current assets	50,145	50,364
Property, plant and equipment	11,340	11,463
Long-term financing receivables and other assets	8,454	9,556
Goodwill	31,139	31,124
Intangible assets	2,128	3,169
Total assets	$103,206	$105,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Summary of Significant Accounting Policies (in part)

Accounting Pronouncements (in part)

In July 2013, the FASB issued a new accounting standard requiring the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. HP is required to adopt this new standard on a prospective basis in the first quarter of fiscal 2015; however, early adoption is permitted as is retrospective application. HP will adopt the new standard in the first fiscal quarter of 2015 on a prospective basis. Adoption of the new standard is not expected to have a material effect on HP's Consolidated Financial Statements.

Taxes on Earnings

HP recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. HP records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

HP records accruals for uncertain tax positions when HP believes that it is not more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. HP makes adjustments to these accruals when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. The provision for income taxes includes the effects of adjustments for uncertain tax positions, as well as any related interest and penalties.

Note 6: Taxes on Earnings (in part)

Deferred Income Taxes

The significant components of deferred tax assets and deferred tax liabilities were as follows:

	As of October 31			
	2014		2013	
In millions	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Loss carryforwards	$ 9,476	$ —	$ 9,807	$ —
Credit carryforwards	2,377	—	4,261	—
Unremitted earnings of foreign subsidiaries	—	7,828	—	7,469
Inventory valuation	152	8	128	13
Intercompany transactions—profit in inventory	136	—	125	—
Intercompany transactions—excluding inventory	4,403	—	1,923	—
Fixed assets	383	74	289	72
Warranty	616	—	622	—
Employee and retiree benefits	2,790	57	2,350	11
Accounts receivable allowance	107	1	185	1
Intangible assets	212	596	224	886
Restructuring	354	—	340	—
Deferred revenue	1,143	12	1,119	19
Other	1,573	1,145	1,443	759
Gross deferred tax assets and liabilities	23,722	9,721	22,816	9,230
Valuation allowance	(11,915)	—	(11,390)	—
Net deferred tax assets and liabilities	$ 11,807	$ 9,721	$ 11,426	$ 9,230

Current and long-term deferred tax assets and liabilities included in the Consolidated Balance Sheets as follows:

	As of October 31	
In millions	2014	2013
Current deferred tax assets	$ 2,754	$ 3,893
Current deferred tax liabilities	(284)	(375)
Long-term deferred tax assets	740	1,346
Long-term deferred tax liabilities	(1,124)	(2,668)
Net deferred tax assets net of deferred tax liabilities	$ 2,086	$ 2,196

Tax deficits of approximately $43 million, $149 million and $175 million were recorded as a result of employee stock program activity and exercise of employee stock options, as a decrease in stockholders' equity in fiscal 2014, 2013 and 2012, respectively.

HP periodically engages in intercompany licensing arrangements that may result in advance payments between subsidiaries in different tax jurisdictions. When the local tax treatment of the intercompany licensing arrangements differs from their U.S. GAAP treatment, deferred taxes are recognized. During fiscal 2014, HP executed a multi-year intercompany licensing arrangement on which advanced royalty payments of $10.4 billion were received in the U.S., the result of which was the recognition of net U.S. long-term deferred tax assets of $1.3 billion. The remaining intercompany royalty revenues of $9.9 billion will be recognized over the life of the arrangement through 2029 in the respective legal entities and eliminated in consolidation. The amortization expense related to the licensing rights will also be eliminated in consolidation. The decrease in deferred tax assets for credit carryforwards and increase in deferred tax assets for intercompany transactions excluding inventory include the deferred tax attributable to this transaction. This results in an increase in long-term deferred tax assets which is presented as a component of HP's long-term deferred tax liabilities due to the effects of jurisdictional netting.

As of October 31, 2014, HP had $858 million, $4.2 billion and $29.7 billion of federal, state and foreign net operating loss carryforwards, respectively. Amounts included in federal net operating loss carryforwards will begin to expire in fiscal 2021 and amounts included in state and foreign net operating loss carryforwards will begin to expire in 2015. HP also has a capital loss carryforward of approximately $272 million which will expire in fiscal 2015. HP has provided a valuation allowance of $133 million and $8.7 billion for deferred tax assets related to state and foreign net operating losses carryforwards, respectively and $104 million for deferred tax assets related to capital loss carryforwards that HP does not expect to realize.

As of October 31, 2014, HP had recorded deferred tax assets for various tax credit carryforwards as follows:

In millions	Carryforward	Valuation Allowance	Initial Year of Expiration
U.S. foreign tax credits	$1,321	$ 47	2021
U.S. research and development and other credits	662	—	2018
Tax credits in state and foreign jurisdictions	394	204	2015
Balance at end of year	$2,377	$251	

Deferred Tax Asset Valuation Allowance

The deferred tax asset valuation allowance and changes were as follows:

	As of October 31		
In millions	2014	2013	2012
Balance at beginning of year	$11,390	$10,223	$ 9,057
Income tax expense	184	1,644	865
Other comprehensive income, currency translation and charges to other accounts	341	(477)	301
Balance at end of year	$11,915	$11,390	$10,223

Total valuation allowances increased by $525 million and $1.2 billion in fiscal 2014 and 2013, respectively. These increases were associated primarily with foreign net operating losses.

CASH SURRENDER VALUE OF LIFE INSURANCE

2.86 JACK IN THE BOX INC. (SEP)

CONSOLIDATED BALANCE SHEETS (in part)

(Dollars in thousands, except per share data)

	September 28, 2014	September 29, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 10,578	$ 9,644
Accounts and other receivables, net	50,014	41,749
Inventories	7,481	7,181
Prepaid expenses	36,314	19,970
Deferred income taxes	36,810	26,685
Assets held for sale	4,766	11,875
Other current assets	597	108
Total current assets	146,560	117,212

(continued)

	September 28, 2014	September 29, 2013
Property and equipment, at cost:		
Land	113,622	112,673
Buildings	1,090,360	1,068,405
Restaurant and other equipment	291,443	305,769
Construction in progress	24,522	30,066
	1,519,947	1,516,913
Less accumulated depreciation and amortization	(797,818)	(746,054)
Property and equipment, net	722,129	770,859
Intangible assets, net	15,604	16,390
Goodwill	149,074	148,988
Other assets, net	237,298	265,760
	$1,270,665	$1,319,209

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Nature of Operations and Summary of Significant Accounting Policies (in part)

Company-owned life insurance—We have purchased company-owned life insurance ("COLI") policies to support our non-qualified benefit plans. The cash surrender values of these policies were $100.7 million and $94.5 million as of September 28, 2014 and September 29, 2013, respectively, and are included in other assets, net in the accompanying consolidated balance sheets. Changes in cash surrender values are included in selling, general and administrative expenses in the accompanying consolidated statements of earnings. These policies reside in an umbrella trust for use only to pay plan benefits to participants or to pay creditors if the Company becomes insolvent. As of September 28, 2014 and September 29, 2013, the trust also included cash of $0.1 million and $0.2 million, respectively.

DERIVATIVES

2.87 UNITED PARCEL SERVICE, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions)

	December 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 2,291	$ 4,665
Marketable securities	992	580
Accounts receivable, net	6,661	6,502
Deferred income tax assets	590	684
Other current assets	1,274	956
Total current assets	11,808	13,387
Property, plant and equipment, net	18,281	17,961
Goodwill	2,184	2,190
Intangible assets, net	847	775
Investments and restricted cash	489	444
Derivative assets	515	323
Deferred income tax assets	652	110
Other non-current assets	695	1,022
Total assets	$35,471	$36,212

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Accounting Policies (in part)

Derivative Instruments

All financial derivative instruments are recorded on our consolidated balance sheets at fair value. Derivatives not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, changes in its fair value that are considered to be effective, as defined, either (depending on the nature of the hedge) offset the change in fair value of the hedged assets, liabilities or firm commitments through income, or are recorded in AOCI until the hedged item is recorded in income. Any portion of a change in a hedge's fair value that is considered to be ineffective, or is excluded from the measurement of effectiveness, is recorded immediately in income.

Note 14. Derivative Instruments and Risk Management

Risk Management Policies

We are exposed to market risk, primarily related to foreign exchange rates, commodity prices and interest rates. These exposures are actively monitored by management. To manage the volatility relating to certain of these exposures, we enter into a variety of derivative financial instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates, commodity prices and interest rates. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. As we use price sensitive instruments to hedge a certain portion of our existing and anticipated transactions, we expect that any loss in value for those instruments generally would be offset by increases in the value of those hedged transactions. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Credit Risk Management

The forward contracts, swaps and options discussed below contain an element of risk that the counterparties may be unable to meet the terms of the agreements. However, we minimize such risk exposures for these instruments by limiting the counterparties to financial institutions that meet established credit guidelines and monitoring counterparty credit risk to prevent concentrations of credit risk with any single counterparty.

We have agreements with all of our active counterparties (covering the majority of our derivative positions) containing early termination rights and/or zero threshold bilateral collateral provisions whereby cash is required based on the net fair value of derivatives associated with those counterparties. Events such as a counterparty credit rating downgrade (depending on the ultimate rating level) could also allow us to take additional protective measures such as the early termination of trades. At December 31, 2014, we held cash collateral of $548 million under these agreements.

In connection with the agreements described above, we could also be required to provide additional collateral or terminate transactions with certain counterparties in the event of a downgrade of our credit rating. The amount of collateral required would be determined by the net fair value of the associated derivatives with each counterparty. At December 31, 2014, we were required to post $1 million in collateral with our counterparties. At December 31, 2014, there were no instruments in a net liability position that were not covered by the zero threshold bilateral collateral provisions.

We have not historically incurred, and do not expect to incur in the future, any losses as a result of counterparty default.

Accounting Policy for Derivative Instruments

We recognize all derivative instruments as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value 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. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the derivative, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation.

A cash flow hedge refers to hedging the exposure to variability in expected future cash flows that is attributable to a particular risk. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI, and reclassified into earnings in the same period during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, or hedge components excluded from the assessment of effectiveness, are recognized in the statements of consolidated income during the current period.

A fair value hedge refers to hedging the exposure to changes in the fair value of an existing asset or liability on the consolidated balance sheets that is attributable to a particular risk. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument is recognized in the statements of consolidated income during the current period, as well as the offsetting gain or loss on the hedged item.

A net investment hedge refers to the use of cross currency swaps, forward contracts or foreign currency denominated debt to hedge portions of our net investments in foreign operations. For hedges that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in the cumulative translation adjustment within AOCI. The remainder of the change in value of such instruments is recorded in earnings.

Types of Hedges

Commodity Risk Management

Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes on our business. We periodically enter into option contracts on energy commodity products to manage the price risk associated with forecasted transactions involving refined fuels, principally jet-A, diesel and unleaded gasoline. The objective of the hedges is to reduce the variability of cash flows, due to changing fuel prices, associated with the forecasted transactions involving those products. We have designated and account for these contracts as cash flow hedges of the underlying forecasted transactions involving these fuel products and, therefore, the resulting gains and losses from these hedges are recognized as a component of fuel expense or revenue when the underlying transactions occur.

Foreign Currency Risk Management

To protect against the reduction in value of forecasted foreign currency cash flows from our international package business, we maintain a foreign currency cash flow hedging program. Our most significant foreign currency exposures relate to the Euro, British Pound Sterling, Canadian Dollar, Chinese Renminbi and Hong Kong Dollar. We hedge portions of our forecasted revenue denominated in foreign currencies with option contracts. We have designated and account for these contracts as cash flow hedges of anticipated foreign currency denominated revenue and, therefore, the resulting gains and losses from these hedges are recognized as a component of international package revenue when the underlying sales transactions occur.

We also hedge portions of our anticipated cash settlements of intercompany transactions subject to foreign currency remeasurement using foreign currency forward contracts. We have designated and account for these contracts as cash flow hedges of forecasted foreign currency denominated transactions, and therefore the resulting gains and losses from these hedges are recognized as a component of other operating expense when the underlying transactions are subject to currency remeasurement.

We have foreign currency denominated debt obligations and capital lease obligations associated with our aircraft. For some of these debt obligations and leases, we hedge the foreign currency denominated contractual payments using cross-currency interest rate swaps, which effectively convert the foreign currency denominated contractual payments into U.S. Dollar denominated payments. We have designated and account for these swaps as cash flow hedges of the forecasted contractual payments and, therefore, the resulting gains and losses from these hedges are recognized in the statements of consolidated income when the currency remeasurement gains and losses on the underlying debt obligations and leases are incurred.

Interest Rate Risk Management

Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The notional amount, interest payment and maturity dates of the swaps match the terms of the associated debt being hedged. Interest rate swaps allow us to maintain a target range of floating rate debt within our capital structure.

We have designated and account for interest rate swaps that convert fixed rate interest payments into floating rate interest payments as hedges of the fair value of the associated debt instruments. Therefore, the gains and losses resulting from fair value adjustments to the interest rate swaps and fair value adjustments to the associated debt instruments are recorded to interest expense in the period in which the gains and losses occur. We have designated and account for interest rate swaps that convert floating rate interest payments into fixed rate interest payments as cash flow hedges of the forecasted payment obligations. The gains and losses resulting from fair value adjustments to these interest rate swaps are recorded to AOCI.

We periodically hedge the forecasted fixed-coupon interest payments associated with anticipated debt offerings, using forward starting interest rate swaps, interest rate locks or similar derivatives. These agreements effectively lock a portion of our interest rate exposure between the time the agreement is entered into and the date when the debt offering is completed, thereby mitigating the impact of interest rate changes on future interest expense. These derivatives are settled commensurate with the issuance of the debt, and any gain or loss upon settlement is amortized as an adjustment to the effective interest yield on the debt.

Outstanding Positions

The notional amounts of our outstanding derivative positions were as follows as of December 31, 2014 and 2013 (in millions):

		2014	2013
Currency Hedges:			
Euro	EUR	2,833	2,637
British Pound Sterling	GBP	1,149	1,097
Canadian Dollar	CAD	293	218
Indian Rupee	INR	85	—
Malaysian Ringgit	MYR	150	—
Mexican Peso	MXN	152	583
Interest Rate Hedges:			
Fixed to Floating Interest Rate Swaps	USD	5,799	6,799
Floating to Fixed Interest Rate Swaps	USD	779	780
Interest Rate Basis Swaps	USD	1,500	2,500

As of December 31, 2014, we had no outstanding commodity hedge positions. The maximum term over which we are hedging exposures to the variability of cash flow is 35 years.

Balance Sheet Recognition

The following table indicates the location on the consolidated balance sheets in which our derivative assets and liabilities have been recognized, and the related fair values of those derivatives as of December 31, 2014 and 2013 (in millions). The table is segregated between those derivative instruments that qualify and are designated as hedging instruments and those that are not, as well as by type of contract and whether the derivative is in an asset or liability position.

We have master netting arrangements with substantially all of our counterparties giving us the right of offset for our derivative positions. However, we have not elected to offset the fair value positions of our derivative contracts recorded on our consolidated balance sheets. The columns labeled "net amounts if right of offset had been applied" indicate the potential net fair value positions by type of contract and location on the consolidated balance sheets had we elected to apply the right of offset.

		Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
Asset Derivatives	**Balance Sheet Location**	**2014**	**2013**	**2014**	**2013**
Derivatives Designated as Hedges:					
Foreign exchange contracts	Other current assets	$204	$ 10	$204	$ 4
Interest rate contracts	Other current assets	—	7	—	7
Foreign exchange contracts	Other non-current assets	229	59	229	59
Interest rate contracts	Other non-current assets	227	204	194	110
Derivatives not Designated as Hedges:					
Foreign exchange contracts	Other current assets	2	7	2	5
Interest rate contracts	Other non-current assets	59	60	57	57
Total Asset Derivatives		$721	$347	$686	$242

		Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
Liability Derivatives	**Balance Sheet Location**	**2014**	**2013**	**2014**	**2013**
Derivatives Designated as Hedges:					
Foreign exchange contracts	Other current liabilities	$—	$ 6	$—	$—
Foreign exchange contracts	Other non-current liabilities	34	—	34	—
Interest rate contracts	Other non-current liabilities	35	104	2	10
Derivatives not Designated as Hedges:					
Foreign exchange contracts	Other current liabilities	—	7	—	5
Interest rate contracts	Other current liabilities	1	1	1	1
Interest rate contracts	Other non-current liabilities	7	3	5	—
Total Liability Derivatives		$ 77	$121	$ 42	$ 16

SOFTWARE

2.88 AVON PRODUCTS, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except per share data)

December 31	2014	2013
Assets		
Current Assets		
Cash, including cash equivalents of $440.3 and $576.2	$ 960.5	$1,107.9
Accounts receivable (less allowances of $118.0 and $147.2)	563.5	676.3
Inventories	822.2	967.7
Prepaid expenses and other	618.3	689.3
Total current assets	2,964.5	3,441.2
Property, plant and equipment, at cost		
Land	45.8	55.3
Buildings and improvements	1,011.1	1,085.3
Equipment	1,235.7	1,343.9
	2,292.6	2,484.5
Less accumulated depreciation	(1,061.6)	(1,091.2)
Property, plant and equipment, net	1,231.0	1,393.3
Goodwill	249.3	282.5
Other assets	1,052.0	1,375.3
Total assets	$5,496.8	$6,492.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(U.S. dollars in millions, except per share and share data)

Note 1. Description of the Business and Summary of Significant Accounting Policies (in part)

Capitalized Software

Certain systems development costs related to the purchase, development and installation of computer software are capitalized and amortized over the estimated useful life of the related project, generally not to exceed five years. Costs incurred prior to the development stage, as well as maintenance, training costs, and general and administrative expenses are expensed as incurred. The other assets balance included unamortized capitalized software costs of $101.3 at December 31, 2014 and $122.9 at December 31, 2013. The amortization expense associated with capitalized software was $48.4, $55.4 and $41.2 for the years ended December 31, 2014, 2013 and 2012, respectively. In addition, we recorded a capitalized software impairment charge of $117.2 during 2013.

Capitalized software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If such a change in circumstances occurs, the related estimated future pre-tax undiscounted cash flows expected to result from the use of the asset and its eventual disposition are compared to the carrying amount. If the sum of the expected cash flows is less than the carrying amount, an impairment charge is recorded. The impairment charge is measured as the amount by which the carrying amount exceeds the fair value of the asset. The fair value of the asset is determined using revenue and cash flow projections, and royalty and discount rates, as appropriate.

In December 2013, we decided to halt further roll-out of our Service Model Transformation ("SMT") project. SMT was a global program initiated in 2009 to improve our order management system and enable changes to the way Representatives interact with us. SMT was piloted in Canada during 2013, and caused significant business disruption in that market. This decision to halt the further roll-out of SMT was made in light of the potential risk of further disruption. In addition, SMT did not show a clear return on investment.

As Canada was the only market expected to utilize the capitalized software associated with SMT ("SMT asset"), the accounting guidance requires the impairment assessment to consider the cash flows of the Canadian business, which includes the ongoing costs associated with SMT. These expected cash flows were not sufficient to supporting the carrying value of the associated asset group, which includes the SMT asset. In the fourth quarter of 2013, we recorded a non-cash impairment charge of $117.2 before tax ($74.1 after tax), reflecting the write-down of capitalized software. This impairment charge was recorded as a component of our global expenses, within selling, general and administrative expenses in the Consolidated Statements of Income.

The fair value of the SMT asset was determined using a risk-adjusted discounted cash flow ("DCF") model under the relief-from-royalty method. The impairment analysis performed for the asset group, which includes the SMT asset, required several estimates, including revenue and cash flow projections, and royalty and discount rates. As a result of this impairment charge, the remaining carrying amount of the SMT asset is not material.

Note 17. Supplemental Balance Sheet Information

At December 31, 2014 and 2013, prepaid expenses and other included the following:

Prepaid Expenses and Other	2014	2013
Deferred tax assets (Note 7)	$204.7	$233.6
Prepaid taxes and tax refunds receivable	165.7	145.9
Prepaid brochure costs, paper and other literature	77.6	95.7
Receivables other than trade	72.5	86.6
Short-term investments	21.0	31.7
Other	76.8	95.8
Prepaid expenses and other	$618.3	$689.3

At December 31, 2014 and 2013, other assets included the following:

Other Assets	2014	2013
Deferred tax assets (Note 7)	$ 685.8	$ 944.7
Long-term receivables	149.5	168.0
Capitalized software (Note 1)	101.3	122.9
Investments	36.4	33.8
Other intangible assets, net (Note 16)	29.0	33.5
Tooling	21.7	37.9
Other	28.3	34.5
Other assets	$1,052.0	$1,375.3

DEBT ISSUANCE COSTS

2.89 SPECTRUM BRANDS HOLDINGS, INC. (SEP)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in part)

(Amounts in thousands, except per share figures)

	September 30, 2014	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 194,633	$ 207,257
Receivables:		
Trade accounts receivable, net of allowances $48,641 and $37,376, respectively	439,038	481,313
Other	76,236	65,620
Inventories	624,535	632,923
Deferred income taxes	36,708	32,959
Prepaid expenses and other	63,476	62,833
Total current assets	1,434,626	1,482,905
Property, plant and equipment, net	428,877	412,551
Deferred charges and other	37,279	26,050
Goodwill	1,469,561	1,476,672
Intangible assets, net	2,091,539	2,163,166
Debt issuance costs	51,147	65,329
Total assets	$5,513,029	$5,626,673

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Amounts in thousands, except per share figures)

(2) Significant Accounting Policies and Practices (in part)

(j) Debt Issuance Costs

Debt issuance costs are capitalized and amortized to interest expense using the effective interest method over the lives of the related debt agreements.

(6) Debt (in part)

Term Loan

On December 17, 2012, the Company entered into a senior term loan facility, maturing December 17, 2019, which provides for borrowings in an aggregate principal amount of $800,000, with $100,000 in Canadian dollar equivalents (the "HHI Term Loan") in connection with the acquisition of the residential hardware and home improvement business (the "HHI Business"). A portion of the HHI Term Loan proceeds were used to refinance the former term loan facility, which was scheduled to mature on June 17, 2016, and had an aggregate amount outstanding of $370,175 prior to refinancing. In connection with the refinancing, the Company recorded accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs related to the former term loan facility totaling $5,485 as an adjustment to Interest expense during Fiscal 2013.

The HHI Term Loan was issued at a 1.0% discount and recorded net of the $8,000 discount incurred. The discount is reflected as an adjustment to the carrying value of principal, and is being amortized with a corresponding charge to interest expense over the remaining life of the debt. In connection with the issuance of the HHI Term Loan, the Company recorded $19,328 of fees during Fiscal 2013, of which $16,907 is classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and is being amortized as an adjustment to interest expense over the remaining life of the HHI Term Loan, with the remainder of $2,421 reflected as an increase to Interest expense during Fiscal 2013.

On September 4, 2013, the Company amended the senior term loan facility, issuing a tranche maturing September 4, 2017, which provides for borrowings in an aggregate principal amount of $850,000, and a tranche maturing September 4, 2019, which provides borrowings in an aggregate principal amount of $300,000 (together with the HHI Term Loan, the "Term Loan"). The proceeds from the amendment were used to extinguish the former 9.5% Notes, which were scheduled to mature on June 15, 2018, and for general corporate purposes. The 9.5% Notes had an outstanding amount of $950,000 prior to extinguishment.

The tranches related to the amendment of the Term Loan on September 4, 2013, were issued at a .5% discount and recorded net of the $5,750 discount incurred. The discount is reflected as an adjustment to the carrying value of principal, and is being amortized with a corresponding charge to interest expense over the remaining life of the debt. In connection with the amendment of the Term Loan, the Company recorded $16,381 of f ees during Fiscal 2013 which is classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and is being amortized as an adjustment to interest expense over the remaining life of the Term Loan.

On December 18, 2013, the Company amended the Term Loan, issuing two tranches maturing September 4, 2019 which provide for borrowings in aggregate principal amounts of $215,000 and €225,000. The proceeds from the amendment were used to refinance a portion of the Term Loan (formerly Tranche B) which was scheduled to mature December 17, 2019, in an amount outstanding of $513,312 prior to refinancing. The $215,000 additional U.S. dollar denominated portion was combined with the existing Tranche C maturing September 4, 2019. The Company recorded accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs related to the refinancing of the Term Loan totaling $9,216 as an adjustment to interest expense during Fiscal 2014.

The additional Tranche C and Euro Term Loan debt were issued at a .125% discount and recorded net of the discount incurred. Of this discount, $510 is reflected as an adjustment to the carrying value of principal, and is being amortized with a corresponding charge to interest expense over the remaining life of the debt, and the remainder of $146 is reflected as an increase to interest expense during Fiscal 2014. In connection with the refinancing of a portion of the Term Loan, the Company recorded $7,236 of fees during Fiscal 2014 of which $5,150 is classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and is being amortized as an adjustment to interest expense over the remaining life of the Term Loan, with the remainder of $2,086 reflected as an increase to interest expense during Fiscal 2014.

The Term Loan contains financial covenants with respect to debt, including, but not limited to, a fixed charge ratio. In addition, the Term Loan contains customary restrictive covenants, including, but not limited to, restrictions on the Company's ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, the Company, its domestic subsidiaries and its Canadian subsidiaries have guaranteed their respective obligations under the Term Loan and related loan documents and have pledged substantially all of their respective assets to secure such obligations. The Term Loan also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

6.375% Notes and 6.625% Notes

On December 17, 2012, in connection with the acquisition of the HHI Business, the Company assumed $520,000 aggregate principal amount of 6.375% Notes at par value, due November 15, 2020 (the " 6.375% Notes"), and $570,000 aggregate principal amount of 6.625% Notes at par value, due November 15, 2022 (the "6.625% Notes"), previously issued by Spectrum Brands Escrow Corporation. The 6.375% Notes and the 6.625% Notes are unsecured and guaranteed by Spectrum Brands' parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries.

The Company may redeem all or a part of the 6.375% Notes and the 6.625% Notes, upon not less than 30 or more than a 60 day notice, at specified redemption prices. Further, the indenture governing the 6.375% Notes and the 6.625% Notes (the "2020/22 Indenture") requires the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indenture.

The 2020/22 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2020/22 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020/22 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.375% Notes and the 6.625% Notes. If any other event of default under the 2020/22 Indenture occurs and is continuing, the trustee for the 2020/22 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.375% Notes, or the 6.625% Notes, may declare the acceleration of the amounts due under those notes.

The Company recorded $12,906 and $14,127 of fees in connection with the offering of the 6.375% Notes and the 6.625% Notes, respectively, during Fiscal 2013. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are being amortized as an adjustment to interest expense over the respective remaining lives of the 6.375% Notes and the 6.625% Notes.

In connection with the registration of the 6.375% Notes and the 6.625% Notes that were assumed on December 17, 2012 to finance the acquisition of the HHI Business, the Company recorded $261 of fees during Fiscal 2014. The $261 was classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and is being amortized as an adjustment to interest expense over the remaining life of the 6.375% Notes and the 6.625% Notes.

6.75% Notes

On March 15, 2012 the Company offered $300,000 aggregate principal amount of 6.75% Notes at a price of 100% of the par value. The 6.75% Notes are unsecured and guaranteed by SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries.

The Company may redeem all or a part of the 6.75% Notes, upon not less than 30 or more than 60 days notice, at specified redemption prices. Further, the indenture governing the 6.75% Notes (the "2020 Indenture") requires the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indenture.

The 2020 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2020 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.75% Notes. If any other event of default under the 2020 Indenture occurs and is continuing, the trustee for the 2020 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.75% Notes may declare the acceleration of the amounts due under those notes.

The Company recorded $6,265 of fees in connection with the offering of the 6.75% Notes during Fiscal 2012. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the 6.75% Notes.

ABL Facility

On December 17, 2012, the Company exercised its option to increase its asset based lending revolving credit facility (the "ABL Facility") from $300,000 to $400,000 and extend the maturity to May 24, 2017. In connection with the increase and extension, the Company incurred $323 of fees during Fiscal 2013. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are being amortized as an adjustment to interest expense over the remaining life of the ABL Facility.

On March 28, 2013, the Company amended its ABL Facility to conform certain provisions to reflect the acquisition of the HHI Business. In connection with the amendment, the Company incurred $206 of fees during Fiscal 2013. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are being amortized as an adjustment to interest expense over the remaining life of the ABL Facility.

In connection with the December 18, 2013 amendment of the Term Loan, the Company amended the ABL Facility to obtain certain consents to the amendment of the Senior Credit Agreement. In connection with the amendment, the Company incurred fees and expenses that are included in the amounts recorded above related to the amendment of the Term Loan.

As a result of borrowings and payments under the ABL Facility, at September 30, 2014, the Company had aggregate borrowing availability of approximately $266,853, net of lender reserves of $6,398 and outstanding letters of credit of $51,032.

Short-Term Debt

PRESENTATION

2.90 FASB ASC 470, *Debt*, addresses classification determination for specific debt obligations, such as the following:

- Short-term obligations expected to be refinanced on a long-term basis
- Due-on-demand loan arrangements
- Callable debt
- Sales of future revenue
- Increasing-rate debt
- Debt that includes covenants
- Revolving credit agreements subject to lock-box arrangements and subjective acceleration clauses

DISCLOSURE

2.91 Rule 5-02 of Regulation S-X calls for disclosure of the amount and terms of unused lines of credit for short-term financing, if significant. The weighted average interest rate on short-term borrowings outstanding as of the date of each balance sheet presented should be furnished. Further, the amount of these lines of credit that support commercial paper or similar borrowing arrangements should be separately identified.

2.92 By definition, *short-term notes payable*, *loans payable*, and *commercial paper* are financial instruments. FASB ASC 825 requires disclosure of both the fair value and bases for estimating the fair value of short-term notes payable, loans payable, and commercial paper, unless it is not practicable to estimate that value.

2.93 "Pending Content" in FASC ASC 405-40-50-01 lists the required disclosures for obligations resulting from joint and several liability arrangements. Among these required disclosures are the nature of the arrangement; the total outstanding amount under the arrangement; the carrying amount, if any, of an entity's liability and the carrying amount of a receivable recognized, if any; the nature of any recourse provisions that would enable recovery from other entities; and the corresponding entry and where the entry was recorded in the financial statements in the period the liability is initially recognized and measured or in a period the measurement changes significantly.

PRESENTATION AND DISCLOSURE EXCERPTS

SHORT-TERM DEBT

2.94 THE HERSHEY COMPANY (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in thousands, except share data)

December 31,	2014	2013
Liabilities and Stockholders' Equity (in part)		
Current liabilities:		
Accounts payable	$ 482,017	$ 461,514
Accrued liabilities	813,513	699,722
Accrued income taxes	4,616	79,911
Short-term debt	384,696	165,961
Current portion of long-term debt	250,805	914
Total current liabilities	1,935,647	1,408,022
Long-term debt	1,548,963	1,795,142
Other long-term liabilities	526,003	434,068
Deferred income taxes	99,373	104,204
Total liabilities	4,109,986	3,741,436

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(amounts in thousands, except share data or if otherwise indicated)

4. Short and Long-Term Debt (in part)

Short-Term Debt

As a source of short-term financing, we utilize cash on hand and commercial paper or bank loans with an original maturity of three months or less. In October 2011, we entered into a new five-year agreement establishing an unsecured revolving credit facility to borrow up to $1.1 billion, with an option to increase borrowings by an additional $400,000 with the consent of the lenders. In November 2013, this agreement was amended to reduce the amount of borrowings available under the unsecured revolving credit facility to $1.0 billion, maintain the option to increase borrowings by an additional $400,000 with the consent of the lenders, and extend the termination date to November 2018. In November 2014, the termination date of this agreement was extended an additional year to November 2019. At December 31, 2014, we had outstanding commercial paper totaling $54,995, at a weighted average interest rate of 0.09%. We had no commercial paper borrowings at December 31, 2013.

The unsecured committed revolving credit agreement contains a financial covenant whereby the ratio of (a) pre-tax income from operations from the most recent four fiscal quarters to (b) consolidated interest expense for the most recent four fiscal quarters may not be less than 2.0 to 1.0 at the end of each fiscal quarter. The credit agreement also contains customary representations, warranties and events of default. Payment of outstanding advances may be accelerated, at the option of the lenders, should we default in our obligation under the credit agreement. As of December 31, 2014, we complied with all customary affirmative and negative covenants and the financial covenant pertaining to our credit agreement. There were no significant compensating balance agreements that legally restricted these funds.

In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. Our credit limit in various currencies was $447,629 in 2014 and $290,336 in 2013. These lines permit us to borrow at the respective banks' prime commercial interest rates, or lower. We had short-term foreign bank loans against these lines of credit for $329,701 in 2014 and $165,961 in 2013. Commitment fees relating to our revolving credit facility and lines of credit are not material.

The maximum amount of short-term borrowings outstanding during 2014 was $649,195. The weighted-average interest rate on short-term borrowings outstanding was 3.2% as of December 31, 2014 and 1.9% as of December 31, 2013.

Interest Expense

Net interest expense consisted of the following:

For the Years Ended December 31,	2014	2013	2012
Long-term debt and lease obligations	$82,105	$84,604	$81,203
Short-term debt	11,672	8,654	23,084
Capitalized interest	(6,179)	(1,744)	(5,778)
Interest expense	87,598	91,514	98,509
Interest income	(4,066)	(3,158)	(2,940)
Interest expense, net	$83,532	$88,356	$95,569

CONVERTIBLE DEBT

2.95 GILEAD SCIENCES, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions, except per share amounts)

	December 31,	
	2014	2013
Liabilities and Stockholders' Equity (in part)		
Current liabilities:		
Accounts payable	$ 955	$1,256
Accrued government and other rebates	2,316	1,018
Accrued compensation and employee benefits	316	243
Income taxes payable	105	11
Other accrued liabilities	1,452	1,071
Deferred revenues	134	111
Current portion of long-term debt and other obligations, net	483	2,697
Total current liabilities	5,761	6,407
Long-term debt, net	11,921	3,939
Long-term income taxes payable	562	162
Long-term deferred tax liabilities	51	83
Other long-term obligations	535	179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

10. Debt and Credit Facility (in part)

Financing Arrangements (in part)

The following table summarizes the carrying amount of our borrowings under various financing arrangements (in millions):

					December 31,	
Type of Borrowing	Description	Issue Date	Due Date	Interest Rate	2014	2013
Convertible Senior	May 2014 Notes	July 2010	May 2014	1.00%	$ —	$ 234
Convertible Senior	May 2016 Notes	July 2010	May 2016	1.625%	483	1,113
Senior Unsecured	April 2021 Notes	March 2011	April 2021	4.50%	995	994
Senior Unsecured	December 2014 Notes	December 2011	December 2014	2.40%	—	750
Senior Unsecured	December 2016 Notes	December 2011	December 2016	3.05%	700	699
Senior Unsecured	December 2021 Notes	December 2011	December 2021	4.40%	1,248	1,248
Senior Unsecured	December 2041 Notes	December 2011	December 2041	5.65%	998	998
Senior Unsecured	April 2019 Notes	March 2014	April 2019	2.05%	499	—
Senior Unsecured	April 2024 Notes	March 2014	April 2024	3.70%	1,747	—
Senior Unsecured	April 2044 Notes	March 2014	April 2044	4.80%	1,747	—
Senior Unsecured	February 2020 Notes	November 2014	February 2020	2.35%	499	—
Senior Unsecured	February 2025 Notes	November 2014	February 2025	3.50%	1,748	—
Senior Unsecured	February 2045 Notes	November 2014	February 2045	4.50%	1,740	—
Credit Facility	Five-Year Revolver	January 2012	January 2017	Variable	—	600
Total debt, net					12,404	6,636
Less current portion					483	2,697
Total long-term debt, net					$11,921	$3,939

May 2014 and May 2016 Convertible Senior Notes

In July 2010, we issued $1.3 billion of convertible senior notes due in May 2014 (the May 2014 Notes) and $1.3 billion of convertible senior notes due in May 2016 (the May 2016 Notes, and collectively with the May 2014 Notes, the May Notes) in a private placement pursuant to Rule 144 A of the Securities Act of 1933, as amended.

The May 2014 Notes and May 2016 Notes were issued at par. The May 2014 Notes bore an annual interest rates of 1.00% and the May 2016 Notes bear an annual interest rate of 1.625%. Debt issuance costs of $35 million were recorded in other long-term assets and are being amortized to interest expense over the contractual terms of the May Notes. The aggregate principal amount of the May Notes sold reflects the full exercise by the initial purchasers of their option to purchase additional notes to cover over-allotments. The initial conversion rate for the May 2014 Notes was 44.3690 shares per $1,000 principal amount (which represented an initial conversion price of approximately $22.54 per share), and the initial conversion rate for the May 2016 Notes is 44.0428 shares per $1,000 principal amount (which represents an initial conversion price of approximately $22.71 per share). The conversion rates are subject to customary anti-dilution adjustments.

The May 2016 Notes may be converted prior to April 1, 2016 only under the following circumstances: 1) during any calendar quarter commencing after September 30, 2010, if the closing price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is greater than 130% of the applicable conversion price on each applicable trading day, or 2) during the five business day period after any measurement period of ten consecutive trading days in which, for each trading day of such period, the trading price per $1,000 principal amount of notes was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on such trading day, or 3) upon the occurrence of specified corporate transactions, such as the distribution of certain stock rights, cash amounts, or other assets to all of our shareholders or the occurrence of a change in control. On and after April 1, 2016, in the case of the May 2016 Notes, holders may convert their notes at any time, regardless of the foregoing circumstances. Generally, upon conversion, a holder would receive an amount in cash equal to the lesser of (i) the principal amount of the note or (ii) the conversion value for such note, as measured under the indenture governing the relevant notes. If the conversion value exceeds the principal amount, we may also deliver, at our option, cash or common stock or a combination of cash and common stock for the conversion value in excess of the principal amount.

During the year ended December 31, 2014, the May 2014 Notes matured and a portion of the May 2016 Notes were converted. During the year ended December 31, 2014, we repaid $912 million of principal balance related to the May Notes. We also paid $2.5 billion in cash related to the conversion spread of the May Notes, which represents the conversion value in excess of the principal amount, and received $2.5 billion in cash from the convertible note hedges related to the May Notes.

As of December 31, 2014 and 2013, the May 2016 Notes were classified as current given that their conversion criteria were met. As of December 31, 2013, given their maturity date, the May 2014 Notes were classified as current. As a result, the related unamortized discounts of $15 million and $64 million as of December 31, 2014 and 2013, respectively, were classified as an equity component of currently redeemable convertible notes on our Consolidated Balance Sheets.

If the May 2016 Notes are converted in connection with a change in control, we may be required to provide a make whole premium in the form of an increase in the conversion rate, subject to a stated maximum amount. In addition, in the event of a change in control, the holders may require us to purchase all or a portion of their notes at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. As of December 31, 2014, the if-converted value of the May 2016 Notes would exceed the principal amounts of the May 2016 Notes by $1.6 billion.

Concurrent with the issuance of the May Notes, we purchased convertible note hedges in private transactions at a cost of $363 million, which is tax deductible over the life of the notes. We also sold warrants in private transactions to acquire 111 million shares of our common stock and received net proceeds of $155 million from the sale of the warrants. The convertible note hedges and warrants are intended to reduce the potential economic dilution upon future conversions of the May Notes by effectively increasing our conversion price to $28.38 per share for the May 2014 Notes and $30.05 per share for the May 2016 Notes. The net cost of $207 million of the convertible note hedge and warrant transactions was recorded in stockholders' equity on our Consolidated Balance Sheets. In addition, because both of these contracts are classified in stockholders' equity and are indexed to our common stock, they are not accounted for as derivatives.

The convertible note hedges covered, subject to customary anti-dilution adjustments, 111 million shares of our common stock at strike prices that initially correspond to the initial conversion prices of the May Notes and are subject to adjustments similar to those applicable to the conversion price of the related notes. If the market value per share of our common stock at the time of conversion of the May Notes is above the strike price of the applicable convertible note hedges, we will be entitled to receive from the counterparties in the transactions shares of our common stock or, to the extent we have made a corresponding election with respect to the related convertible notes, cash or a combination of cash and shares of our common stock, at our option, for the excess of the market value of the common stock over the strike price of the convertible note hedges. The convertible note hedges will terminate upon the maturity of the May Notes or when none of the May Notes remain outstanding due to conversion or otherwise. There were 111 million shares of our common stock underlying the warrants, subject to customary anti-dilution adjustments. The warrants had a strike price of $28.38 per share (for the warrants that expired in 2014) and $30.05 per share (for the warrants expiring in 2016). Both the warrants that expired in 2014 and the warrants that will expire in 2016 had terms whereby they were or will be exercisable only on their respective expiration dates. If the market value of our common stock at the time of the exercise of the applicable warrants exceeds their respective strike prices, we will be required to net settle in cash or shares of our common stock, at our option, with the respective counterparties for the value of the warrants in excess of the warrant strike prices.

During the year ended December 31, 2014, we exercised our option to settle in cash the warrants expiring in 2014 (the 2014 Warrants) related to the May 2014 Notes. As result, we paid $4.1 billion to settle the 2014 Warrants as the market value of our common stock at the time of the exercise of the 2014 Warrants exceeded their strike price. There were 56 million shares of our common stock underlying the 2014 Warrants, which had a strike price of $28.38 per share and expired during the 40 trading-day period commencing August 1, 2014 and ending on September 26, 2014. Because the 2014 Warrants could have been settled, at our option, in cash or shares of our common stock, and the related contracts met all of the applicable criteria for equity classification, the settlement was recorded as a reduction of additional paid-in capital in our Consolidated Balance Sheets.

Under current accounting guidance, we bifurcated the conversion option of the May Notes from the debt instrument, classified the conversion option in equity and are accreting the resulting debt discount as interest expense over the contractual terms of the May Notes. The following table summarizes information about the equity and liability components of the May Notes (in millions):

	Carrying Value of Equity Component		Net Carrying Amount of Liability Component		Unamortized Discount of Liability Component	
	December 31,		December 31,		December 31,	
	2014	2013	2014	2013	2014	2013
May 2014 Notes	$—	$ 20	$ —	$ 234	$ —	$ (2)
May 2016 Notes	61	143	483	1,113	(15)	(62)
Total May Notes	$ 61	$163	$483	$1,347	$ (15)	$(64)

We recognized $38 million in 2014, $107 million in 2013 and $87 million in 2012 in interest expense related to the contractual coupon rates and amortization of the debt discount and issuance costs for the May Notes. The effective interest rates on the liability components of the May 2014 Notes and May 2016 Notes were 3.50% and 4.00%, respectively.

We used the net proceeds for general corporate purposes, which include the repayment of existing indebtedness and to repurchase shares of our common stock.

Trade Accounts Payable

RECOGNITION AND MEASUREMENT

2.96 FASB ASC 210 states that current liabilities generally include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in the production of goods or in providing services to be offered for sale.

PRESENTATION

2.97 Rule 5.02 of Regulation S-X requires that amounts payable to trade creditors be separately stated.

DISCLOSURE

2.98 Under FASB ASC 825, fair value disclosure is not required for trade payables when the carrying amount of the trade payable approximates its fair value.

Employee-Related Liabilities

PRESENTATION

2.99 FASB ASC 715, *Compensation—Retirement Benefits*, requires that an entity recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or a liability in its statement of financial position. FASB ASC 715 also requires an employer presenting a classified balance sheet to classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation that is payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for an overfunded plan should be classified as a noncurrent asset in a classified balance sheet. The amount classified as a current liability is limited to the amount of the plan's unfunded status recognized in the employer's balance sheet.

DISCLOSURE

2.100 FASB ASC 715 requires that employers recognize changes in that funded status in comprehensive income and disclose in the notes to financial statements additional information about plan assets, the benefit obligation, reconciliations of beginning and ending balances of both plan assets and obligations, and net periodic benefit cost.

2.101 FASB ASC 715-80 requires additional disclosures related to multiemployer plans. An entity should include details in these disclosures including plan names and identifying numbers for significant multiemployer plans, the level of employer's participation in the plans, the financial health of the plans, and the nature of the employer commitments to the plans.

PRESENTATION AND DISCLOSURE EXCERPTS

EMPLOYEE-RELATED LIABILITIES

2.102 THE SCOTTS MIRACLE-GRO COMPANY (SEP)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 9. Associate Medical Benefits

The Company provides comprehensive major medical benefits to certain of its retired associates and their dependents. Substantially all of the Company's domestic associates who were hired before January 1, 1998 become eligible for these benefits if they retire at age 55 or older with more than 10 years of service. The retiree medical plan requires certain minimum contributions from retired associates and includes provisions to limit the overall cost increases the Company is required to cover. The Company funds its portion of retiree medical benefits on a pay-as-you-go basis.

The following table sets forth information about the retiree medical plan for domestic associates. The retiree medical plan is valued using a September 30 measurement date.

(In millions, except percentage figures)	2014	2013
Change in Accumulated Plan Benefit Obligation (APBO)		
Benefit obligation at beginning of year	$ 31.6	$ 36.3
Service cost	0.4	0.5
Interest cost	1.4	1.3
Plan participants' contributions	1.1	1.1
Actuarial gain (loss)	0.7	(4.4)
Benefits paid (net of federal subsidy of $0.3 and $0.3)	(2.9)	(3.2)
Plan changes	0.1	—
Benefit obligation at end of year	$ 32.4	$ 31.6
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contribution	2.1	2.4
Plan participants' contributions	1.1	1.1
Gross benefits paid	(3.2)	(3.5)
Fair value of plan assets at end of year	—	—
Unfunded status at end of year	$(32.4)	$(31.6)

(continued)

(In millions, except percentage figures)	2014	2013
Amounts Recognized in the Consolidated Balance Sheets Consist of:		
Current liabilities	$ (2.3)	$ (2.4)
Noncurrent liabilities	(30.1)	(29.2)
Total amount accrued	$(32.4)	$(31.6)
Amounts Recognized in Accumulated Other Comprehensive Loss Consist of:		
Actuarial loss	$ 1.3	$ 0.4
Unamortized prior service cost	0.1	—
Total amount recognized	$ 1.4	$ 0.4
Total Change in Other Comprehensive Loss Attributable to:		
Benefit loss (gain) during the period	$ 0.9	$ (4.3)
Net prior service cost	0.1	—
Net gain amortized during the year	—	(0.2)
Total change in other comprehensive loss (gain)	$ 1.0	$ (4.5)
Discount rate used in development of APBO	4.08%	4.54%

	2014	2013	2012
Components of Net Periodic Benefit Cost			
Service cost	$ 0.4	$ 0.5	$ 0.6
Interest cost	1.4	1.3	1.6
Amortization of actuarial loss	—	0.1	—
Total postretirement benefit cost	$ 1.8	$ 1.9	$ 2.2
Discount rate used in development of net periodic benefit cost	4.54%	3.66%	4.66%

The estimated actuarial gain that will be amortized from accumulated loss into net periodic benefit cost over the next fiscal year is immaterial.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the "Act") became law. The Act provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the benefit established by the Act. The APBO at September 30, 2014, has been reduced by a deferred actuarial gain in the amount of $0.3 million to reflect the effect of the subsidy related to benefits attributed to past service. The amortization of the actuarial gain and reduction of service and interest costs served to reduce net periodic post retirement benefit cost for fiscal 2014, fiscal 2013 and fiscal 2012 by $0.1 million, $0.3 million and $0.2 million, respectively.

For measurement as of September 30, 2014, management has assumed that health care costs will increase at an annual rate of 7.50% in fiscal 2015, decreasing 0.25% per year to an ultimate trend rate of 5.00% in 2025. A 1% increase in health cost trend rate assumptions would increase the APBO by $1.1 million as of September 30, 2014. A 1% decrease in health cost trend rate assumptions would decrease the APBO by $0.8 million as of September 30, 2014. A 1% increase or decrease in the same rate would not have a material effect on service or interest costs.

The following benefit payments under the plan are expected to be paid by the Company and the retirees for the fiscal years indicated:

	Gross Benefit	Retiree	Medicare Part D	Net Company
(In millions)	Payments	Contributions	Subsidy	Payments
2015	$ 4.0	$ (1.3)	$(0.3)	$ 2.4
2016	4.2	(1.5)	(0.4)	2.3
2017	4.4	(1.8)	(0.4)	2.2
2018	4.7	(2.0)	(0.4)	2.3
2019	5.1	(2.4)	(0.5)	2.2
2020–2024	28.8	(15.8)	(2.8)	10.2

The Company also provides comprehensive major medical benefits to its associates. The Company is self-insured for certain health benefits up to $0.6 million per occurrence per individual. The cost of such benefits is recognized as expense in the period the claim is incurred. This cost was $33.8 million, $35.1 million and $28.7 million in fiscal 2014, fiscal 2013 and fiscal 2012, respectively.

2.103 MOLSON COORS BREWING COMPANY (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions, except par value)

	As of	
	December 31, 2014	December 31, 2013
Liabilities and Equity (in part)		
Current liabilities:		
Accounts payable and other current liabilities (includes affiliate payable amounts of $21.4 and $22.8, respectively)	$1,305.0	$1,429.6
Deferred tax liabilities	164.8	138.1
Current portion of long-term debt and short-term borrowings	849.4	586.9
Discontinued operations	6.1	6.8
Total current liabilities	2,325.3	2,161.4
Long-term debt	2,337.1	3,213.0
Pension and postretirement benefits	542.9	462.6
Deferred tax liabilities	784.3	911.4
Unrecognized tax benefits	25.4	107.1
Other liabilities	79.7	77.2
Discontinued operations	15.5	17.3
Total liabilities	6,110.2	6,950.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Presentation and Summary of Significant Accounting Policies (in part)

Pension and Postretirement Benefits

We maintain retirement plans for the majority of our employees. Depending on the benefit program, we provide either defined benefit or defined contribution plans to our employees in each of our segments. Each plan is managed locally and in accordance with respective local laws and regulations. All retirement plans for our employees in the U.S. and Central Europe are defined contribution pension plans. Additionally, we offer other postretirement benefits ("OPEB") to the majority of our Canadian, U.S. and European employees. These plans are not funded. MillerCoors, BRI and BDL maintain defined benefit pension and postretirement benefit plans as well.

We recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in the consolidated balance sheets and recognize changes in the funded status in the year in which the changes occur within OCI. The funded status of a plan, measured as the difference between the fair value of plan assets and the projected benefit obligation, and the related net periodic pension cost are calculated using a number of significant actuarial assumptions. Changes in net periodic pension cost and funding status may occur in the future due to changes in these assumptions.

Projected benefit obligation is the actuarial present value as of the measurement date of all benefits attributed by the plan benefit formula to employee service rendered before the measurement date using assumptions as to future compensation levels if the plan benefit formula is based on those future compensation levels. Accumulated benefit obligation is the actuarial present value of benefits (whether vested or unvested) attributed by the plan benefit formula to employee service rendered before the measurement date and based on employee service and compensation, if applicable, prior to that date. Accumulated benefit obligation differs from projected benefit obligation in that it includes no assumption about future compensation levels and years of service.

We employ the corridor approach for determining each plan's potential amortization from AOCI of deferred gains and losses, which occur when actual experience differs from estimates, into our net periodic pension and postretirement benefit cost. This approach defines the "corridor" as the greater of 10% of the projected benefit obligation or 10% of the market-related value of plan assets and requires amortization of the excess net gain or loss that exceeds the corridor over the average remaining service periods of active plan participants. As our U.K. plan is closed, the average remaining life expectancy of all plan participants (including retirees) is used.

16. Employee Retirement Plans and Postretirement Benefits

We maintain retirement plans for the majority of our employees. Depending on the benefit program, we provide either defined benefit pension or defined contribution plans to our employees in each of our segments. Each plan is managed locally and in accordance with respective local laws and regulations. We have defined benefit pension plans in the U.K., Canada and Japan. All retirement plans for MCBC employees in the U.S. are defined contribution pension plans. Additionally, we offer OPEB plans to the majority of our Canadian, U.S. and

Central European employees; these plans are not funded. MillerCoors, BRI and BDL maintain defined benefit pension and postretirement benefit plans as well; however, those plans are excluded from this disclosure as they are equity method investments and not consolidated.

Defined Benefit and OPEB Plans

Net Periodic Pension and OPEB Cost

	For the Years Ended								
	December 31, 2014			December 31, 2013			December 29, 2012		
(In millions)	Pension	OPEB	Consolidated	Pension	OPEB	Consolidated	Pension	OPEB	Consolidated
Components of Net Periodic Pension and OPEB Cost:									
Service cost—benefits earned during the year	$13.1	$3.0	$16.1	$15.8	$3.4	$19.2	$16.8	$2.9	$19.7
Interest cost on projected benefit obligation	167.6	7.1	174.7	157.0	7.2	164.2	165.7	8.0	173.7
Expected return on plan assets	(195.6)	—	(195.6)	(177.9)	—	(177.9)	(175.2)	—	(175.2)
Amortization of prior service cost (benefit)	0.6	(3.0)	(2.4)	0.8	(3.6)	(2.8)	0.8	(3.7)	(2.9)
Amortization of net actuarial loss (gain)	36.3	(0.9)	35.4	56.6	(0.1)	56.5	39.4	(0.2)	39.2
Curtailment loss	—	—	—	—	—	—	1.3	—	1.3
Special termination benefits	—	—	—	—	—	—	0.4	—	0.4
Less: expected participant contributions	(1.0)	—	(1.0)	(1.2)	—	(1.2)	(1.5)	—	(1.5)
Net periodic pension and OPEB cost	$21.0	$6.2	$27.2	$51.1	$6.9	$58.0	$47.7	$7.0	$54.7

Obligations and Changes in Funded Status

The changes in the benefit obligation, plan assets and the funded status of the pension and OPEB plans are as follows:

	For the Year Ended December 31, 2014			For the Year Ended December 31, 2013		
(In millions)	Pension	OPEB	Consolidated	Pension	OPEB	Consolidated
Change in Benefit Obligation:						
Prior year benefit obligation	$3,816.9	$ 162.1	$3,979.0	$3,955.5	$ 186.4	$4,141.9
Service cost, net of expected employee contributions	12.1	3.0	15.1	14.7	3.4	18.1
Interest cost	167.6	7.1	174.7	157.0	7.2	164.2
Actual employee contributions	0.7	—	0.7	1.1	—	1.1
Actuarial loss (gain)	477.2	12.6	489.8	(84.6)	(15.7)	(100.3)
Amendments	—	—	—	0.5	(0.1)	0.4
Benefits paid	(208.4)	(7.8)	(216.2)	(201.0)	(8.5)	(209.5)
Adjustment due to change in historical accounting	—	—	—	8.1	—	8.1
Foreign currency exchange rate change	(286.8)	(14.8)	(301.6)	(34.4)	(10.6)	(45.0)
Benefit obligation at end of year	$3,979.3	$ 162.2	$4,141.5	$3,816.9	$ 162.1	$3,979.0
Change in Plan Assets:						
Prior year fair value of assets	$3,596.2	$ —	$3,596.2	$3,353.8	$ —	$3,353.8
Actual return on plan assets	516.5	—	516.5	359.7	—	359.7
Employer contributions	33.6	7.6	41.2	113.1	8.5	121.6
Actual employee contributions	0.7	—	0.7	1.1	—	1.1
Benefits and plan expenses paid	(211.9)	(7.6)	(219.5)	(204.5)	(8.5)	(213.0)
Foreign currency exchange rate change	(267.5)	—	(267.5)	(27.0)	—	(27.0)
Fair value of plan assets at end of year	$3,667.6	$ —	$3,667.6	$3,596.2	$ —	$3,596.2
Funded status:	$ (311.7)	$(162.2)	$ (473.9)	$ (220.7)	$(162.1)	$ (382.8)
Amounts Recognized in the Consolidated Balance Sheets:						
Other non-current assets	$ 79.1	$ —	$ 79.1	$ 91.8	$ —	$ 91.8
Accounts payable and other current liabilities	(2.8)	(7.3)	(10.1)	(3.1)	(8.9)	(12.0)
Pension and postretirement benefits	(388.0)	(154.9)	(542.9)	(309.4)	(153.2)	(462.6)
Net amounts recognized	$ (311.7)	$(162.2)	$ (473.9)	$ (220.7)	$(162.1)	$ (382.8)

The accumulated benefit obligation for our defined benefit pension plans was $3,978.5 million and $3,805.9 million at December 31, 2014, and December 31, 2013, respectively. The $91.1 million increase in the net underfunded status of our aggregate pension and OPEB plans from December 31, 2013, to December 31, 2014, was primarily driven by the decrease in the discount rates used, discussed below, as well as updates to published actuarial mortality tables partially offset by changes in foreign exchange rates and the performance of our plan assets exceeding the expected return for our funded plans by approximately $320 million.

Information for defined benefit pension and OPEB plans with aggregate accumulated benefit and projected benefit obligations in excess of plan assets is as follows:

	As of December 31, 2014			As of December 31, 2013		
(In millions)	Pension	OPEB	Consolidated	Pension	OPEB	Consolidated
Accumulated benefit obligation	$3,272.9	$162.2	$3,435.1	$3,105.7	$162.1	$3,267.8
Projected benefit obligation	$3,273.4	$162.2	$3,435.6	$3,115.5	$162.1	$3,277.6
Fair value of plan assets	$2,882.6	$ —	$2,882.6	$2,803.0	$ —	$2,803.0

Accumulated Other Comprehensive Income

Amounts recognized in AOCI not yet recognized as components of net periodic pension and OPEB cost, pretax were as follows:

	As of December 31, 2014			As of December 31, 2013		
(In millions)	Pension	OPEB	Consolidated	Pension	OPEB	Consolidated
Net actuarial loss (gain)	$924.6	$(7.0)	$917.6	$811.1	$(21.7)	$789.4
Net prior service cost	2.4	(0.5)	1.9	3.1	(3.9)	(0.8)
Total not yet recognized	$927.0	$(7.5)	$919.5	$814.2	$(25.6)	$788.6

Changes in plan assets and benefit obligations recognized in OCI, pretax were as follows:

(In millions)	Pension	OPEB	Consolidated
Accumulated other comprehensive loss (income) as of December 29, 2012	$1,134.3	$(13.3)	$1,121.0
Amortization of prior service costs (benefit)	(0.8)	3.6	2.8
Amortization of net actuarial loss (gain)	(56.6)	0.1	(56.5)
Current year actuarial loss (gain)	(262.3)	(15.7)	(278.0)
Plan amendment	—	(0.1)	(0.1)
Foreign currency exchange rate change	(0.4)	(0.2)	(0.6)
Accumulated other comprehensive loss (income) as of December 31, 2013	$ 814.2	$(25.6)	$ 788.6
Amortization of prior service costs (benefit)	(0.6)	3.0	2.4
Amortization of net actuarial loss (gain)	(36.3)	0.9	(35.4)
Current year actuarial loss (gain)	159.7	12.6	172.3
Foreign currency exchange rate change	(10.0)	1.6	(8.4)
Accumulated other comprehensive loss (income) as of December 31, 2014	$ 927.0	$ (7.5)	$ 919.5

Amortization of AOCI expected to be recognized in net periodic pension and OPEB cost during fiscal year 2015 pretax is as follows:

(In millions)	Pension	OPEB	Consolidated
Amortization of net prior service cost (gain)	$ 0.6	$(0.2)	$ 0.4
Amortization of actuarial net loss (gain)	$(9.3)	$ —	$(9.3)

Assumptions

Periodic pension and OPEB cost is actuarially calculated annually for each individual plan based on data available at the beginning of each year. Assumptions used in the calculation include the settlement discount rate selected and disclosed at the end of the previous year as well as other assumptions detailed in the table below. The weighted-average rates used in determining the periodic pension and OPEB cost for the fiscal years 2014, 2013 and 2012 were as follows:

	For the Years Ended					
	December 31, 2014		December 31, 2013		December 29, 2012	
	Pension	OPEB	Pension	OPEB	Pension	OPEB
Weighted-Average Assumptions:						
Settlement discount rate	4.57%	4.79%	4.18%	4.12%	4.61%	4.66%
Rate of compensation increase[(1)]	2.50%	N/A	2.50%	N/A	2.50%	N/A
Expected return on plan assets[(2)]	6.16%	N/A	5.83%	N/A	5.57%	N/A
Health care cost trend rate	N/A	Ranging ratably from 7.7% in 2014 to 4.5% in 2028	N/A	Ranging ratably from 7.9% in 2013 to 4.5% in 2028	N/A	Ranging ratably from 8.2% in 2012 to 4.5% in 2028

[(1)] U.K. plan was closed to future accrual during 2009.

[(2)] We develop our long term expected return on assets ("EROA") assumptions annually with input from independent investment specialists including our actuaries, investment consultants and other specialists. Each EROA assumption is based on historical data, including historical returns, historical market rates and is calculated for each plan's individual asset class. The calculation includes inputs for interest, inflation, credit, and risk premium (active investment management) rates and fees paid to service providers. We consider our EROA to be a significant management estimate. Any material changes in the inputs to our methodology used in calculating our EROA could have a significant impact on our reported defined benefit pension plans' expense.

Benefit obligations are actuarially calculated annually at the end of each year based on the assumptions detailed in the table below. Obligations under the OPEB plans are determined by the application of the terms of medical and life insurance plans, together with relevant actuarial assumptions and heath care cost trend rates. The weighted-average rates used in determining the projected benefit obligation for defined pension plans and the accumulated postretirement benefit obligation for OPEB plans, as of December 31, 2014, and December 31, 2013, were as follows:

	As of December 31, 2014		As of December 31, 2013	
	Pension	**OPEB**	**Pension**	**OPEB**
Weighted-Average Assumptions:				
Settlement discount rate	3.70%	4.15%	4.57%	4.79%
Rate of compensation increase[1]	2.50%	N/A	2.50%	N/A
Health care cost trend rate	N/A	Ranging ratably from 7.7% in 2015 to 4.5% in 2028	N/A	Ranging ratably from 7.7% in 2014 to 4.5% in 2028

[1] U.K. plan was closed to future accrual during 2009.

The decrease to the weighted-average discount rates used for our defined benefit pension plans and postretirement plans at December 31, 2014, from December 31, 2013, largely resulted from expectations for global GDP growth at a slower rate than prior years, along with global deflationary factors.

Assumed health care cost trend rates have a significant effect on the amounts reported for OPEB health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects on related OPEB plans:

(In millions)	1% Point Increase (Unfavorable)	1% Point Decrease Favorable
Effect on total of service and interest cost components	$ (1.3)	$ 1.5
Effect on postretirement benefit obligations	$(23.0)	$19.6

Investment Strategy

The obligations of our defined benefit pension plans in Canada and the U.K. are supported by assets held in trusts for the payment of future benefits. The business segments are obligated to adequately fund these asset trusts. The underlying investments within our defined benefit pension plans include: cash and short term instruments, debt securities, equity securities, investment funds, and other investments including hedge fund of funds and real estate. Investment allocations reflect the customized strategies of the respective plans.

The plans use liability driven investment strategies in managing defined pension benefits. For all defined benefit pension plan assets the plans have the following primary investment objectives:

1. optimize the long-term return on plan assets at an acceptable level of risk and manage projected future cash contributions;
2. maintain a broad diversification across asset classes and among investment managers;
3. manage the risk level of the plan's assets in relation to the plans' liabilities

Each plan's respective allocation targets promote optimal expected return and volatility characteristics given a focus on a long-term time horizon for fulfilling the plans' obligations. All assets are managed by external investment managers with a mandate to either match or outperform their benchmark. The plans use different asset managers in the U.K. and Canada and each plan's respective asset allocation could be impacted by a change in asset managers. The U.K. plan has committed to investing with certain investment managers but is awaiting their capital calls. As such, the asset allocation is expected to change during 2015.

Our investment strategies for our defined benefit pension plans also consider the funding status for each plan. For defined benefit pension plans that are highly funded, assets are invested primarily in fixed income holdings that have a similar duration to the associated liabilities. For plans with lower funding levels, the fixed income component is managed in a similar manner to the highly funded plans. In addition to this liability-matching fixed income allocation, these plans also contain exposure to return generating assets including: equities, real estate, debt, and other investments held with the goal of producing higher returns, which may also have a higher risk profile. These investments are diversified by investing globally with limitations placed on issuer concentration.

For both our U.K. and Canadian plans, the plans hedge a portion of the foreign exchange exposure between plan assets which are not denominated in the local plan currency and the local currency as the Canadian and U.K. pension liabilities will be settled in CAD and GBP, respectively.

Target Allocations

The following compares target asset allocation percentages with actual asset allocations on a weighted-average asset basis at December 31, 2014:

	Target Allocations	**Actual Allocations**
Equities	30.0%	28.8%
Fixed income[1]	48.3%	46.6%
Hedge funds	7.5%	6.1%
Real estate	4.4%	5.3%
Other	9.8%	13.2%

[1] Target allocation and actual allocation percentages for fixed income include associated repurchase agreements.

Significant Concentration Risks

We periodically evaluate our defined benefit pension plan assets for concentration risks. As of December 31, 2014, we did not have any individual underlying asset position that composed a significant concentration of each plan's overall assets. However, we currently have significant plan assets invested in U.K., U.S. and Canadian government fixed income holdings. A provisional credit rating downgrade for any of these governments could negatively impact the asset values.

Further, as our benefit plans maintain exposure to non-government investments, a significant system-wide increase in credit spreads would also negatively impact the reported plan asset values. In general, equity and fixed income risks have been mitigated by company-specific concentration limits and by utilizing multiple equity managers. We do have significant amounts of assets invested with individual fixed income and hedge fund managers, and so the plans use outside investment consultants to aid in the oversight of these managers and fund performance.

Valuation Techniques

We use a variety of industry accepted valuation techniques to value our plan assets. The techniques vary depending upon instrument type. Whenever possible, we prioritize the use of observable market data in our valuation processes. We use market, income and cost approaches to value our plan assets as of period end. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for additional information on our fair value methodologies and accounting policies. We have not changed our fair value techniques used to value plan assets this year.

Major Categories of Plan Assets

As of December 31, 2014, our major categories of plan assets included the following:

- Cash and short-term instruments—Includes cash, trades awaiting settlement, bank deposits, short-term bills and short-term notes. Our "trades awaiting settlement" category includes payables and receivables associated with asset purchases and sales that are awaiting final cash settlement as of year end due to the use of trade date accounting for our pension plans assets. These payables normally settle within a few business days of the purchase or sale of the respective asset. The respective assets are included in or removed from our year end plan assets and categorized in their respective asset categories in the fair value hierarchy below. We include these items in Level 1 of this hierarchy, as the values are derived from quoted prices in active markets. Short-term instruments are included in Level 2 of the fair value hierarchy as these are highly liquid instruments that are valued using observable inputs, but their asset values are not publicly quoted.
- Debt securities—Includes various government and corporate fixed income securities, interest and inflation-linked assets such as bonds and swaps, collateralized securities, and other debt securities. The majority of the plans' fixed income assets trade on "over the counter" exchanges, which provides observable inputs that are the primary data used to determine each individual investment's fair value. We also use independent pricing vendors, as well as matrix pricing techniques. Matrix pricing uses observable data from other similar investments as the primary input to determine the individual security's fair value. Government and corporate fixed income securities are generally classified as Level 2 in the fair value hierarchy as they are valued using observable inputs. Assets included in our collateralized securities include mortgage backed securities and collateralized mortgage obligations, which are considered Level 3 due to the use of the significant unobservable inputs used in deriving these assets' fair values.
- Equities—Includes publicly traded common and other equity-like holdings, primarily publicly traded common stock, including real estate investment trusts, certain commingled funds investing in equities and other fund holdings. Equity assets are well diversified between international and domestic investments. We consider equities quoted on public exchanges as Level 1 while other assets that are not quoted on public exchanges but valued using significant observable inputs as Level 2 depending on the individual asset's characteristics.

- Investment funds—Includes our debt funds, equity funds, hedge fund of funds, and real estate fund holdings. The market values for these funds are based on the net asset values multiplied by the number of shares owned. For some of our hedge fund of funds, debt funds and equity funds, we have the ability to liquidate without material delays at their net asset value and have recorded these assets at Level 2 as the values were based upon significant observable inputs.
  Other hedge fund of funds, debt funds and real estate funds, where we do not have this flexibility to liquidate the entire portfolio, are considered Level 3. This category does not directly hold physical real estate assets. For our real estate funds, these investment managers employ third-party appraisers to value each fund's underlying real estate holdings, which include apartments, office space, hotels and industrial holdings. Each property is valued at least once a year, but not all assets are valued by the independent appraiser during the same quarter. The highest and best use of each holding is used to determine the value of the holding. The independent appraisers use a combination of comparable sales methods and discounted cash flow techniques to value these holdings.
- Other—Includes credit default swaps, repurchase agreements, recoverable taxes for taxes paid and awaiting reclaim due to the tax exempt nature of the pension plan, venture capital, corporate real estate debt and private equity. Repurchase agreements are agreements where our plan has created an asset exposure using borrowed assets, creating a repurchase agreement liability, to facilitate the trade. The assets associated with the repurchase agreement are included in the other category in the fair value hierarchy, and the repurchase agreement liability is classified as Level 1 in the hierarchy, as the liability is valued using quoted prices in active markets. When determining the presentation of our target and asset allocations for repurchase agreements, we are viewing the asset type, as opposed to the investment vehicle, and accordingly include the associated assets within fixed income, specifically interest and inflation linked assets. We include recoverable tax items in Level 1 of this hierarchy, as these are cash receivables and the values are derived from quoted prices in active markets. Our credit default swaps are included in Level 2 as the values were based upon significant observable inputs and our venture capital and private equity are included in Level 3 as the values are based upon the use of unobservable inputs.

Fair Value Hierarchy

The following presents our fair value hierarchy for our defined benefit pension plan assets:

		Fair Value Measurements as of December 31, 2014		
	Total at December 31, 2014	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and Cash Equivalents				
Cash	$ 108.3	$ 108.3	$ —	$ —
Trades awaiting settlement	(8.3)	(8.3)	—	—
Bank deposits, short-term bills and notes	25.3	—	25.3	—
Debt				
Government securities	1,137.5	—	1,137.5	—
Corporate debt securities	410.4	—	410.1	0.3
Interest and inflation linked assets	1,149.7	—	1,105.7	44.0
Collateralized debt securities	6.9	—	—	6.9
Equities				
Common stock	693.9	693.9	—	—
Investment Funds				
Debt funds	298.0	—	169.4	128.6
Equity funds	572.1	2.6	569.5	—
Real estate funds	65.2	—	—	65.2
Hedge funds of funds	269.5	—	113.2	156.3
Other				
Repurchase agreements	(1,185.8)	(1,185.8)	—	—
Private equity	123.9	—	—	123.9
Recoverable taxes	0.7	0.7	—	—
Venture capital	0.3	—	—	0.3
Total	$3,667.6	$ (388.6)	$3,530.7	$525.5

		Fair Value Measurements as of December 31, 2013		
	Total at December 31, 2013	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents				
Cash	$ 127.5	$127.5	$ —	$ —
Trades awaiting settlement	25.9	25.9	—	—
Bank deposits, short-term bills and notes	33.8	—	33.8	—
Debt				
Government securities	790.4	—	790.4	—
Corporate debt securities	438.7	—	438.1	0.6
Interest and inflation linked assets	1,100.6	—	1,073.4	27.2
Collateralized debt securities	5.0	—	—	5.0
Equities				
Common stock	712.3	711.4	0.9	—
Other equity securities	6.4	6.4	—	—
Investment Funds				
Debt funds	325.0	—	196.2	128.8
Equity funds	515.6	—	515.6	—
Real estate funds	43.6	—	—	43.6
Hedge funds of funds	339.5	—	112.8	226.7
Other				
Repurchase agreements	(917.5)	(917.5)	—	—
Credit default swaps	(5.0)	—	(5.0)	—
Private equity	53.3	—	—	53.3
Recoverable taxes	0.8	0.8	—	—
Venture capital	0.3	—	—	0.3
Total	$3,596.2	$(45.5)	$3,156.2	$485.5

Fair Value: Level Three Rollforward

The following presents our Level 3 Rollforward for our defined pension plan assets.

(In millions)	**Amount**
Balance at December 29, 2012	$393.4
Total gain or loss (realized/unrealized):	
Realized gain (loss)	5.9
Unrealized gain (loss) included in AOCI	63.1
Purchases, issuances, settlements	7.0
Transfers in/(out) of Level 3	1.9
Foreign exchange translation (loss)/gain	14.2
Balance at December 31, 2013	$485.5
Total gain or loss (realized/unrealized):	
Realized gain (loss)	9.6
Unrealized gain (loss) included in AOCI	44.1
Purchases, issuances, settlements	10.9
Transfers in/(out) of Level 3	8.1
Foreign exchange translation (loss)/gain	(32.7)
Balance at December 31, 2014	$525.5

Expected Cash Flows

In 2015, we expect to make contributions to our defined benefit pension plans totaling approximately $260 million to $270 million, including the GBP 150 million lump sum contribution (approximately $230 million) which was paid in January 2015 related to our U.K. pension plan as required by the most recent statutory valuation performed. We expect to make benefit payments under our OPEB plans of approximately $10 million in 2015. MillerCoors, BRI and BDL contributions to their respective defined benefit pension plans are excluded here, as they are not consolidated in our financial statements. Plan funding strategies are influenced by employee benefits, tax laws and plan governance documents.

Expected future benefit payments for defined benefit pension and OPEB plans, based on foreign exchange rates at December 31, 2014, are as follows:

Expected Benefit Payments	Pension	OPEB
	(In millions)	
2015	$ 203.8	$ 7.3
2016	$ 205.7	$ 7.7
2017	$ 209.2	$ 8.0
2018	$ 212.3	$ 8.3
2019	$ 215.0	$ 8.5
2020–2024	$1,187.0	$51.7

Defined Contribution Plans

We offer defined contribution pension plans for the majority of our Canadian, U.S. and U.K. employees. The investment strategy for defined contribution plans are determined by each individual participant. The employer contributions to the U.K. and Canadian plans range from 3% to 8.5% of employee compensation. U.S. employees are eligible to participate in the Molson Coors Savings and Investment Plan, a qualified defined contribution plan, which provides for employer contributions ranging from 5% to 9% of our hourly and salaried employees' compensation (certain employees are also eligible for additional employer contributions). Both employee and employer contributions were made in cash in accordance with participant investment elections.

We recognized costs associated with defined contribution plans of $19.0 million, $20.5 million and $23.0 million in 2014, 2013 and 2012, respectively.

We have a nonqualified defined contribution plan for certain U.S. employees. MCBC has voluntarily funded these liabilities through a Rabbi Trust. These are company assets which are invested in publicly traded mutual funds whose performance is expected to closely match changes in the plan liabilities. As of December 31, 2014, and December 31, 2013, the plan liabilities were equal to the plan assets noted in the table below and were included in other assets and other liabilities on our consolidated balance sheets, respectively.

Fair Value Hierarchy

The following presents our fair value hierarchy for our corporate invested plan assets used in the aforementioned "Rabbi Trust" arrangements.

		Fair Value Measurements as of December 31, 2014		
	Total at December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities				
Mutual funds	$4.7	$4.7	$—	$—
Total—Corporate	$4.7	$4.7	$—	$—

		Fair Value Measurements as of December 31, 2013		
	Total at December 31, 2013	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities				
Mutual funds	$3.9	$3.9	$—	$—
Total—Corporate	$3.9	$3.9	$—	$—

Income Tax Liability

PRESENTATION

2.104 FASB ASC 210 provides general guidance for classification of accounts in balance sheets. FASB 740-10-45 addresses classification matters applicable to income tax accounts and is incremental to the general guidance.

DISCLOSURE

2.105 FASB ASC 740-10-50 provides detailed disclosures for income taxes, including the components of the net deferred tax liability or asset recognized in an entity's balance sheet.

PRESENTATION AND DISCLOSURE EXCERPT

INCOME TAXES PAYABLE

2.106 IAC/INTERACTIVECORP (DEC)

CONSOLIDATED BALANCE SHEET (in part)

	December 31,	
(In thousands, except share data)	**2014**	**2013**
Liabilities and Shareholders' Equity (in part)		
Liabilities:		
Accounts payable, trade	$ 81,163	$ 77,653
Deferred revenue	194,988	158,206
Accrued expenses and other current liabilities	397,803	351,038
Total current liabilities	673,954	586,897
Long-term debt	1,080,000	1,080,000
Income taxes payable	32,635	416,384
Deferred income taxes	409,529	320,748
Other long-term liabilities	45,191	58,393
Redeemable noncontrolling interests	40,427	42,861
Commitments and contingencies		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Policies (in part)

Income Taxes

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

The Company accounts for income taxes under the liability method, and deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the deferred tax asset will not be realized. The Company records interest, net of any applicable related income tax benefit, on potential income tax contingencies as a component of income tax expense.

Note 3—Income Taxes

U.S. and foreign earnings from continuing operations before income taxes are as follows:

	Years Ended December 31,		
(In thousands)	2014	2013	2012
U.S.	$174,792	$331,520	$214,675
Foreign	95,137	84,781	74,387
Total	$269,929	$416,301	$289,062

The components of the (benefit) provision for income taxes attributable to continuing operations are as follows:

	Years Ended December 31,		
(In thousands)	2014	2013	2012
Current Income Tax (Benefit) Provision:			
Federal	$(45,842)	$115,250	$ 56,439
State	(14,787)	13,946	9,204
Foreign	19,132	14,402	16,496
Current income tax (benefit) provision	(41,497)	143,598	82,139
Deferred Income Tax Provision (Benefit):			
Federal	74,255	(821)	40,414
State	3,090	(2,117)	1,978
Foreign	(476)	(6,158)	(5,316)
Deferred income tax provision (benefit)	76,869	(9,096)	37,076
Income tax provision	$ 35,372	$134,502	$119,215

The current income tax payable was reduced by $45.0 million, $32.9 million and $57.1 million for the years ended December 31, 2014, 2013 and 2012, respectively, for excess tax deductions attributable to stock-based compensation. The related income tax benefits are recorded as increases to additional paid-in capital.

Income taxes receivable (payable) and deferred tax assets (liabilities) are included in the following captions in the accompanying consolidated balance sheet at December 31, 2014 and 2013:

	December 31,	
(In thousands)	2014	2013
Income Taxes Receivable (Payable):		
Other current assets	$ 4,505	$ 12,242
Other non-current assets	1,478	19,217
Accrued expenses and other current liabilities	(41,157)	(16,159)
Income taxes payable	(32,635)	(416,384)
Net income taxes payable	$ (67,809)	$(401,084)
Deferred Tax Assets (Liabilities):		
Other current assets	$ 17,993	$ 34,381
Other non-current assets	1,380	26
Accrued expenses and other current liabilities	(255)	(255)
Deferred income taxes	(409,529)	(320,748)
Net deferred tax liabilities	$(390,411)	$(286,596)

The tax effects of cumulative temporary differences that give rise to significant deferred tax assets and deferred tax liabilities are presented below. The valuation allowance relates to deferred tax assets for which it is more likely than not that the tax benefit will not be realized.

	December 31,	
(In thousands)	2014	2013
Deferred Tax Assets:		
Accrued expenses	$ 34,654	$ 28,005
Net operating loss carryforwards	55,579	52,336
Tax credit carryforwards	13,585	6,138
Stock-based compensation	69,342	69,101
Income tax reserves, including related interest	2,247	62,852
Cost method investments	27,581	2,383
Equity method investments	14,998	13,584
Other	10,075	10,212
Total deferred tax assets	228,061	244,611
Less valuation allowance	(98,350)	(62,353)
Net deferred tax assets	129,711	182,258
Deferred Tax Liabilities:		
Investment in subsidiaries	(378,769)	(377,483)
Intangible and other assets	(115,470)	(69,530)
Other	(25,883)	(21,841)
Total deferred tax liabilities	(520,122)	(468,854)
Net deferred tax liabilities	$(390,411)	$(286,596)

At December 31, 2014, the Company has federal and state net operating losses ("NOLs") of $61.5 million and $82.6 million, respectively. If not utilized, the federal NOLs will expire at various times between 2023 and 2034, and the state NOLs will expire at various times between 2015 and 2034. Utilization of federal NOLs will be subject to limitations under Section 382 of the Internal Revenue Code of 1986, as amended. In addition, utilization of certain state NOLs may be subject to limitations under state laws similar to Section 382 of the Internal Revenue Code of 1986. At December 31, 2014, the Company has foreign NOLs of $107.5 million available to offset future income. Of these foreign NOLs, $98.1 million can be carried forward indefinitely and $9.3 million will expire at various times between 2015 and 2034. During 2014, the Company recognized tax benefits related to NOLs of $0.8 million. At December 31, 2014, the Company has $5.1 million of state capital losses. If not utilized, the state capital losses will expire between 2015 and 2017. Utilization of capital losses will be limited to the Company's ability to generate future capital gains.

At December 31, 2014, the Company has tax credit carryforwards of $19.0 million. Of this amount, $5.2 million relates to federal credits for foreign taxes, $8.2 million relates to state tax credits for research activities, and $5.6 million relates to various state and local tax credits. Of these credit carryforwards, $10.0 million can be carried forward indefinitely and $9.0 million will expire within ten years.

During 2014, the Company's valuation allowance increased by $36.0 million primarily due to increases in unrealized capital losses, net operating losses, and tax credits. At December 31, 2014, the Company has a valuation allowance of $98.3 million related to the portion of tax loss carryforwards and other items for which it is more likely than not that the tax benefit will not be realized.

A reconciliation of the income tax provision to the amounts computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes is shown as follows:

	Years Ended December 31,		
(In thousands)	2014	2013	2012
Income tax provision at the federal statutory rate of 35%	$94,475	$145,705	$101,172
Change in tax reserves, net	(86,151)	1,791	17,703
Foreign income taxed at a different statutory tax rate	(8,943)	(17,428)	(16,240)
State income taxes, net of effect of federal tax benefit	7,240	7,469	7,650
Non-deductible goodwill associated with the sale of Urbanspoon	6,982	—	—
Non-deductible impairments for certain cost method investments	23,310	1,756	226
Other, net	(1,541)	(4,791)	8,704
Income tax provision	$35,372	$134,502	$119,215

No income taxes have been provided on indefinitely reinvested earnings of certain foreign subsidiaries aggregating $605.7 million at December 31, 2014. The amount of the unrecognized deferred income tax liability with respect to such earnings is $141.5 million.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest, is as follows:

	December 31,		
(In thousands)	2014	2013	2012
Balance at January 1	$275,813	$379,281	$351,561
Additions based on tax positions related to the current year	2,159	2,887	6,278
Additions for tax positions of prior years	1,622	3,189	45,287
Reductions for tax positions of prior years	(5,611)	(17,116)	(17,545)
Settlements	(5,092)	(78,954)	(5,349)
Expiration of applicable statutes of limitations	(238,505)	(13,474)	(951)
Balance at December 31	$ 30,386	$275,813	$379,281

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in the income tax provision. Included in the income tax provision for continuing operations for the years ended December 31, 2014, 2013 and 2012 is a $58.5 million benefit, $4.8 million expense and $5.2 million expense, respectively, net of related deferred taxes of $35.3 million, $2.8 million and $3.1 million, respectively, for interest on unrecognized tax benefits. Included in the income tax provision for discontinued operations for the years ended December 31, 2014, 2013 and 2012 is a $19.7 million benefit, $1.4 million expense and $2.8 million benefit, respectively, net of related deferred taxes of $11.7 million, $0.8 million and $1.7 million, respectively, for interest on unrecognized tax benefits. At December 31, 2014 and 2013, the Company has accrued $2.8 million and $133.0 million, respectively, for the payment of interest. At December 31, 2014 and 2013, the Company has accrued $2.9 million and $5.1 million, respectively, for penalties.

The Company is routinely under audit by federal, state, local and foreign authorities in the area of income tax. These audits include questioning the timing and the amount of income and deductions and the allocation of income and deductions among various tax jurisdictions. The Internal Revenue Service is currently auditing the Company's federal income tax returns for the years ended December 31, 2010 through 2012. Various other jurisdictions are open to examination for various tax years beginning with 2006. Income taxes payable include reserves considered sufficient to pay assessments that may result from examination of prior year tax returns. Changes to reserves from period to period and differences between amounts paid, if any, upon resolution of audits and amounts previously provided may be material. Differences between the reserves for income tax contingencies and the amounts owed by the Company are recorded in the period they become known.

The statutes of limitations for federal income taxes for the years 2001 through 2009 expired on July 1, 2014. As a result, previously unrecognized tax benefits, including interest, totaling $374.8 million were recognized in the third quarter of 2014. The income tax benefit to continuing operations and discontinued operations was $88.2 million and $175.7 million, respectively. The remaining amount of $110.9 million impacted various balance sheet accounts, primarily non-current deferred tax assets, which were reduced by $100.1 million. At December 31, 2014 and 2013, unrecognized tax benefits, including interest, are $33.2 million and $408.8 million, respectively. If unrecognized tax benefits at December 31, 2014 are subsequently recognized, $30.5 million, net of related deferred tax assets and interest, would reduce income tax provision for continuing operations. The Company believes that it is reasonably possible that its unrecognized tax benefits could decrease by $8.8 million within twelve months of the current reporting date primarily due to expirations of statutes of limitations; $8.4 million of which would reduce the income tax provision for continuing operations.

Current Amount of Long-Term Debt

PRESENTATION

2.107 As noted in 2.90, FASB ASC 470 addresses classification determination for specific debt obligations.

DISCLOSURE

2.108 FASB ASC 470 includes disclosures required for long-term debt (see the "Long-Term Debt" section). FASB ASC 825 requires disclosure of both the fair value and bases for estimating the fair value of the current amount of long-term debt, unless it is not practicable to estimate that value.

PRESENTATION AND DISCLOSURE EXCERPT

CURRENT AMOUNT OF LONG-TERM DEBT

2.109 MICRON TECHNOLOGY, INC. (AUG)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions except par value amounts)

As of	August 28, 2014	August 29, 2013
Liabilities and Equity (in part)		
Accounts payable and accrued expenses	$2,698	$2,115
Deferred income	309	243
Equipment purchase contracts	166	182
Current debt	1,638	1,585
Total current liabilities	4,811	4,125
Long-term debt	4,955	4,452
Other noncurrent liabilities	1,102	535
Total liabilities	10,868	9,112

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(All tabular amounts in millions except per share amounts)

Debt (in part)

			2014			2013		
Instrument[1]	**Stated Rate**	**Effective Rate**	**Current**	**Long-Term**	**Total**	**Current**	**Long-Term**	**Total**
MMJ creditor installment payments	N/A	6.25%	$ 192	$ 939	$1,131	$ 527	$1,117	$1,644
Capital lease obligations[2]	N/A	N/A	323	588	911	407	845	1,252
2014 convertible senior notes	1.875%	7.88%	—	—	—	465	—	465
2019 senior notes	1.258%	1.97%	92	324	416	—	—	—
2022 senior notes	5.875%	6.14%	—	600	600	—	—	—
2025 senior notes	5.500%	5.56%	—	1,150	1,150	—	—	—
2027 convertible senior notes	1.875%	6.95%	—	—	—	—	147	147
2031A convertible senior notes	1.500%	6.55%	—	—	—	—	277	277
2031B convertible senior notes[3]	1.875%	6.98%	362	—	362	—	253	253
2032C convertible senior notes[4]	2.375%	5.95%	—	314	314	—	463	463
2032D convertible senior notes[4]	3.125%	6.33%	—	288	288	—	369	369
2033E convertible senior notes[4][5]	1.625%	4.50%	278	—	278	—	272	272
2033F convertible senior notes[4][5]	2.125%	4.93%	265	—	265	—	260	260
2043G convertible senior notes	3.000%	6.76%	—	636	636	—	—	—
Other notes payable	2.289%	3.40%	126	116	242	186	449	635
			$1,638	$4,955	$6,593	$1,585	$4,452	$6,037

[1] We have either the obligation or the option to pay cash for the aggregate amount due upon conversion for all of our convertible notes. Since it is our current intent to settle in cash the principal amount of all of our convertible notes upon conversion, the dilutive effect of such notes on earnings per share is computed under the treasury stock method.

[2] Weighted-average imputed rate of 4.3% and 4.1% as of August 28, 2014 and August 29, 2013, respectively.

[3] Amount recorded for 2014 includes the debt and equity components, which was reclassified as a result of our obligation to settle the conversions of the 2031B Notes.

[4] Since the closing price of our common stock for at least 20 trading days in the 30 trading day period ending on June 30, 2014 exceeded 130% of the initial conversion price per share, holders have the right to convert their notes at any time during the calendar quarter ended September 30, 2014. The closing price of our common stock also exceeded the thresholds for the calendar quarter ended September 30, 2014; therefore, these notes are convertible by the holders through December 31, 2014.

[5] As a result of these notes being convertible at the option of the holder through September 30, 2014, and because the terms of these notes would require us to pay cash for the principal amount of any converted notes, amounts are classified as current.

Our senior notes are unsecured obligations ranking equally in right of payment with all of our other existing and future unsecured indebtedness, and are effectively subordinated to all of our other existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. Our parent company, MTI, has $3.89 billion of debt including all of our convertible notes, the 2022 Notes and the 2025 Notes, which are structurally subordinated to $1.57 billion of capital lease obligations and notes payable of its subsidiaries. MTI guarantees certain debt obligations of its subsidiaries. MTI does not guarantee the MMJ creditor installment payments. MTI's guarantees of its subsidiary debt obligations are unsecured obligations ranking equally in right of payment with all of MTI's other existing and future unsecured indebtedness.

2014 Debt Restructure (in part)

In 2014, we initiated a series of actions to restructure our debt, including exchanges, conversions and settlements, repurchases, issuances and early repayments. The following table presents the net effect of each of the actions:

	Increase (Decrease) in Principal	Increase (Decrease) in Carrying Value	Increase (Decrease) in Cash	(Decrease) in Equity	Loss[1]
Exchanges	$ 585	$ 282	$ —	$ (238)	$ 49
Conversions and settlements	(770)	(437)	(1,446)	(886)	130
Repurchases	(320)	(269)	(857)	(567)	23
Issuances	2,212	2,212	2,157	—	—
Early repayments	(336)	(334)	(339)	—	3
	$1,371	$1,454	$ (485)	$(1,691)	$205

[1] The loss on 2014 debt restructure activities was recorded as $184 million in other non-operating expense and $21 million in interest expense in 2014.

- *Exchanges*: Exchanged $440 million in aggregate principal amount of our 2027 Notes, 2031A Notes and 2031B Notes into $1.03 billion principal amount at maturity of 2043G Notes.
- *Conversions and Settlements*: Holders of substantially all of our remaining 2014 Notes, 2027 Notes and 2031A Notes (with an aggregate principal amount of $770 million) converted their notes and we settled the conversions in cash for $1.45 billion.
- *Repurchases*: Repurchased $320 million in aggregate principal amount of our 2031B Notes, 2032C Notes and 2032D Notes in privately-negotiated transactions for an aggregate of $857 million in cash.

- *Issuances*: Issued $600 million in principal amount of 5.875% senior notes due February 2022 and $1.15 billion in principal amount of 5.500% senior notes due February 2025. Issued $462 million in principal amount of 1.258% senior notes due 2019 Notes, payable in 10 semi-annual installments commencing in July 2014.
- *Early Repayments*: Repaid $334 million of notes and capital leases prior to their scheduled maturities. (See "Other Notes Payable" below.)

Subsequent to 2014, we settled an aggregate principal amount of $114 million of our remaining 2031B Notes for $389 million in cash and repaid a $120 million note prior to its scheduled maturity. (See "Other Notes Payable" below.)

Redemption of our 2031B Notes—On July 23, 2014, we called for the redemption of our remaining 2031B Notes with a principal amount of $114 million effective on August 22, 2014. Prior to such effective date, substantially all of the holders of our 2031B Notes exercised their option to convert their notes and, in each case, we elected to settle the conversion amount entirely in cash. All conversions of the 2031B Notes were settled in the first quarter of 2015.

As a result of our elections to settle the conversion amounts in cash, each of the settlement obligations became derivative debt liabilities subject to mark-to-market accounting treatment. Under the terms of the indentures for the above notes, cash settlement amounts for these derivative debt liabilities were determined based on the shares underlying the converted notes multiplied by the volume-weighted-average price of our common stock over a period of 20 consecutive trading days, beginning three days after the holder's election to convert their notes. Therefore, we reclassified the fair values of the equity components of each of the converted notes from additional capital to derivative debt liabilities within current debt in our consolidated balance sheet. In connection with the above, we used an aggregate of $1.45 billion in cash in 2014 and $389 million in 2015 to settle conversion activities. A summary of the conversion activities for these notes is as follows:

	Debt Principal	(Increase) Decrease in Carrying Value of Debt	Equity Component Reclassified to Debt[1]	Loss[2]
2014 Notes	$485	$478	$341	$ 9
2027 Notes	95	80	58	42
2031A Notes	190	154	217	70
2031B Notes[3]	—	(275)	270	9
	$770	$437	$886	$130

[1] Based on Level 2 fair value measurements.

[2] The loss on conversion and settlement activities was recorded as $120 million in other non-operating expense and $10 million in interest expense in 2014.

[3] In the first quarter of 2015, we used an aggregate of $389 million in cash to settle the remaining 2031B Notes. In connection therewith, we incurred an additional charge of $24 million for the settlement of the 2031B Notes in the first quarter of 2015.

MMJ Creditor Installment Payments

Under the MMJ Companies' plans of reorganization, which set forth the treatment of the MMJ Companies' pre-petition creditors and their claims, the MMJ Companies were required to pay 200 billion yen, less certain expenses of the reorganization proceedings and other items, to their secured and unsecured creditors in seven annual installment payments (the "MMJ Creditor Installment Payments"). The MMJ Creditor Installment Payments do not provide for interest and were recorded at fair value in the MMJ Acquisition. The fair-value discount is accreted to interest expense over the term of the installment payments.

Under the MMJ Companies' corporate reorganization proceedings, the secured creditors of MMJ will recover 100% of their amount of their fixed claims in 6 annual installment payments through December 2018 and the unsecured creditors will recover at least 17.4% of the amount of their fixed claims in 7 annual installment payments through December 2019. In October 2013, we paid the first installment payment of 51 billion yen to the reorganization creditors of the MMJ Companies. The secured creditors of MAI were paid in full with a portion of the first installment payment made in October 2013, while the unsecured creditors of MAI will recover at least 19% of the amount of their claims in 7 installment payments through December 2019. The remaining portion of the unsecured claims of the creditors of the MMJ Companies not recovered pursuant to the Reorganization Proceedings will be discharged, without payment, through December 2019.

The following table presents the remaining amounts of MMJ Creditor Installment Payments (stated in Japanese yen and U.S. dollars) and the amount of unamortized discount as of August 28, 2014:

	MMJ Creditor Installment Payments	
2015	¥ 20,330	$ 196
2016	20,197	194
2017	20,063	193
2018	19,928	192
2019	28,674	276
2020	33,024	318
	142,216	1,369
Less unamortized discount	(24,700)	(238)
MMJ Creditor Installment Payments	¥ 117,516	$1,131

Pursuant to the terms of the Sponsor Agreement, we entered into a series of agreements with the MMJ Companies, including supply agreements, research and development services agreements and general services agreements, which are intended to generate operating cash flows to meet the requirements of the MMJ Companies' businesses, including the funding of the MMJ Creditor Installment Payments.

Capital Lease Obligations

We have various capital lease obligations due in periodic installments with a weighted-average remaining term of 4.1 years as of August 28, 2014. In 2013, we received $126 million in proceeds from equipment sale-leaseback transactions and as a result recorded capital lease obligations aggregating $126 million at a weighted-average effective interest rate of 4.3%, payable in periodic installments through July 2017.

Convertible Notes With Debt and Equity Components

Accounting standards for convertible debt instruments that may be fully or partially settled in cash upon conversion require the debt and equity components to be separately accounted for in a manner that reflects a nonconvertible borrowing rate when interest expense is recognized in subsequent periods. The amount initially recorded as debt is based on the fair value of the debt component as a standalone instrument, determined using an interest rate for similar nonconvertible debt issued by entities with credit ratings similar to ours at the time of issuance. The difference between the debt recorded at inception and its principal amount is accreted to principal through interest expense through the estimated life of the note.

The terms of our convertible notes give holders the right to require us to repurchase all or a portion of their notes at a date or dates earlier than the contractual maturity of the notes or upon the occurrence of certain events or circumstances. In these cases, we amortize any initial debt discount or imputed interest over the period from issuance of the notes through the earliest date that holders can require us to repurchase all or a portion of their notes. As a result, the period of amortization can be significantly shorter than the contractual maturity. (See "Holder Put Date" in the table below.)

As of August 28, 2014, the trading price of our common stock was higher than the initial conversion prices of all of our outstanding convertible notes. As a result, the conversion values were in excess of principal amounts for such notes. The following table summarizes certain features of our convertible notes outstanding as of August 28, 2014:

	Holder Put Date	Outstanding Principal	Underlying Shares	Initial Conversion Price Per Share	Conversion Price Per Share Threshold[1]	Conversion Value in Excess of Principal[2]
2032C Notes	May 2019	$ 362	38	$ 9.63	$12.52	$ 873
2032D Notes	May 2021	344	34	9.98	12.97	785
2033E Notes	February 2018	300	27	10.93	14.21	600
2033F Notes	February 2020	300	27	10.93	14.21	600
2043G Notes[3]	November 2028	1,025	35	29.16	37.91	128
		$2,331	161			$2,986

[1] Holders have the right to convert all or a portion of their notes at a date or dates earlier than the contractual maturity if, during any calendar quarter, the closing price of our common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the initial conversion price.

[2] Based on our closing share price of $32.81 as of August 28, 2014.

[3] The original principal amount of $820 million accretes up to $917 million in November 2028 and $1.03 billion at maturity in 2043.

The debt and equity components of all of our convertible notes outstanding as of August 28, 2014 were required to be accounted for separately. Principal and carrying amounts of the liability components for our convertible notes were as follows:

As of		2014			2013		
	Term (Years)[1]	Outstanding Principal	Unamortized Discount	Net Carrying Amount	Outstanding Principal	Unamortized Discount	Net Carrying Amount
2014 Notes	N/A	$ —	$ —	$ —	$ 485	$ (20)	$ 465
2027 Notes	N/A	—	—	—	175	(28)	147
2031A Notes	N/A	—	—	—	345	(68)	277
2031B Notes[2]	N/A	114	(27)	362	345	(92)	253
2032C Notes	5	362	(48)	314	550	(87)	463
2032D Notes	7	344	(56)	288	450	(81)	369
2033E Notes	3	300	(22)	278	300	(28)	272
2033F Notes	5	300	(35)	265	300	(40)	260
2043G Notes	14	1,025	(389)	636	—	—	—
		$2,445	$(577)	$2,143	$2,950	$(444)	$2,506

[1] Expected term for amortization of the remaining debt discount as of August 28, 2014. The expected term of the 2031B Notes was not applicable because substantially all of the holders had exercised their option to convert their notes, which were settled in cash in the first quarter of 2015.

[2] As holders had elected to convert these notes and we elected to settle the conversions in cash, net carrying amount for 2014 included the debt and equity components, which was reclassified as a result of our obligation to settle the conversions of the 2031B Notes.

Carrying amounts of the equity components, which are included in additional capital in the accompanying consolidated balance sheets, for our convertible notes, were as follows:

As of	2014	2013
2014 Notes	$ —	$353
2027 Notes	—	40
2031A Notes	—	89
2031B Notes	—	109
2032C Notes	67	101
2032D Notes	69	90
2033E Notes (excludes $22 million as of 2014 in mezzanine equity)	8	30
2033F Notes (excludes $35 million as of 2014 in mezzanine equity)	7	42
2043G Notes	173	—
	$324	$854

2019 Notes

On December 20, 2013, we issued $462 million in principal amount of the 2019 Notes. The 2019 Notes mature on January 15, 2019 and are collateralized by certain equipment, which had a carrying value of $190 million as of August 28, 2014. The principal amount of the 2019 Notes is payable in 10 semi-annual installments in January and July of each year, commencing in July 2014. The Export-Import Bank of the United States (the "Ex-Im Bank") guaranteed payment of all regularly scheduled installment payments of principal of, and interest on, the 2019 Notes. We paid $23 million to Ex-Im Bank for its guarantee upon issuance of the 2019 Notes.

The 2019 Notes contains covenants which are customary for financings of this type, including negative covenants that limit or restrict our ability to create liens or dispose of the equipment securing the 2019 Notes. Events of default also include, among others, the occurrence of any event or circumstance that, in the reasonable judgment of Ex-Im Bank, is likely materially and adversely to affect our ability to perform any payment obligation, or any of our other material obligations under the indenture, the 2019 Notes or under any other related transaction documents to which Ex-Im Bank is a party.

Cash Redemption at Our Option: At any time prior to the maturity date of the 2019 Notes, we may redeem the 2019 Notes, in whole or in part, at a price equal to the principal amount of the 2019 Notes to be redeemed plus a make-whole premium as described in the indenture, together with accrued and unpaid interest.

2031B Notes

On July 26, 2011, we issued $345 million of 2031B Notes due August 2031. During 2014, we exchanged $205 million of aggregate principal amount in the Exchange Transaction, repurchased $26 million of aggregate principal amount for cash and called for the redemption of the remaining $114 million of aggregate principal amount effective on August 22, 2014. Prior to such effective date, substantially all of the holders of the 2031B Notes had converted their notes, which were settled in cash with payments of $389 million in the first quarter of 2015.

2033E and 2033F Notes

On February 12, 2013, we issued $300 million of the 2033E Notes and $300 million of the 2033F Notes. The initial conversion rate for the 2033 Notes is 91.4808 shares of common stock per $1,000 principal amount, equivalent to an initial conversion price of approximately $10.93 per share of common stock. Interest is payable in February and August of each year.

Conversion Rights: Holders may convert their 2033 Notes under the following circumstances: (1) if the 2033 Notes are called for redemption; (2) during any calendar quarter if the closing price of our common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the conversion price of the 2033 Notes (approximately $14.21 per share); (3) if the trading price of the 2033 Notes is less than 98% of the product of the closing price of our common stock and the conversion rate of the 2033 Notes during the periods specified in the indenture; (4) if specified distributions or corporate events occur, as set forth in the indenture for the 2033 Notes; or (5) at any time after November 15, 2032.

Upon conversion, we will pay cash equal to the lesser of the aggregate principal amount and the conversion value of the notes being converted and cash, shares of common stock or a combination of cash and shares of common stock, at our option, for any remaining conversion obligation. As a result, only the amounts payable in excess of the principal amounts upon conversion of the 2033 Notes are considered in diluted earnings per share under the treasury stock method.

Cash Redemption at Our Option: We may redeem for cash the 2033E Notes on or after February 20, 2018 and the 2033F Notes on or after February 20, 2020 at a price equal the principal amount plus accrued and unpaid interest.

Cash Repurchase at the Option of the Holder: We may be required by the holders of the 2033 Notes to repurchase for cash all or a portion of the 2033E Notes on February 15, 2018 and on February 15, 2023 and all or a portion of the 2033F Notes on February 15, 2020 and on February 15, 2023 at a price equal to the principal amount plus accrued and unpaid interest. Upon a change in control or a termination of trading, as defined in the indenture, holders of the 2033 Notes may require us to repurchase for cash all or a portion of their 2033 Notes at a price equal to the principal amount plus accrued and unpaid interest.

Other Notes Payable

On August 27, 2013, we borrowed $312 million under a four -year term loan, collateralized by a security interest in certain production equipment. Principal was payable in equal quarterly installments, commencing on November 27, 2013. Interest accrued at a variable rate equal to the three -month London Interbank Offered Rate ("LIBOR") rate plus a margin of 3.25% per annum. Also on August 27, 2013, we entered into a variable-for-fixed interest rate swap calculated on an aggregate notional amount equal to the scheduled outstanding balance of the loan. The interest rate swap effectively fixed the rate at 4.2% per annum. On August 27, 2014, we repaid the remaining carrying value of $252 million of this note prior to its scheduled maturity and terminated the interest rate swaps.

On October 2, 2012, we entered into a facility agreement to obtain financing collateralized by certain production equipment. Amounts drawn were payable in 10 equal semi-annual installments beginning six months after the draw date. On October 18, 2012, we drew $173 million with interest at 2.4% per annum. On January 31, 2013, we drew the remaining available amount under the facility of $41 million with interest at 2.4% per annum. On July 31, 2014, we repaid $32 million of this facility prior to its scheduled maturity and as of August 28, 2014, the outstanding principal balance was $120 million. On October 17, 2014, subsequent to fiscal 2014, we repaid the remaining carrying value of $120 million on this facility prior to its scheduled maturity date.

On July 31, 2013, in connection with the MMJ Acquisition, we recorded a note payable of $120 million, collateralized by certain property, plant and equipment. Principal on the note is payable in equal quarterly installments through May 2016. Interest accrues at a variable rate of 0.85% above the secondary market rate for 90 -day New Taiwan dollar commercial paper, subject to a minimum interest rate of 2.50% per annum. As of August 28, 2014, the outstanding balance was $70 million.

On February 27, 2014, in connection with our acquisition of an additional 9.9% interest in MMT, we recorded a $127 million note payable to the seller for the present value of the monthly installments, due from March 2014 through December 2014. (See "Equity—Noncontrolling Interests in Subsidiaries—MMT" note.) As of August 28, 2014, the outstanding balance was $52 million.

In connection with the IM Flash joint venture agreements, on April 6, 2012, we borrowed $65 million under a two -year senior unsecured promissory note from Intel, payable in approximately equal quarterly installments with interest at a rate of three-month LIBOR minus 50 basis points. The note was fully repaid in 2014 according to the scheduled terms. (See "Equity—Noncontrolling Interests in Subsidiaries—IMFT" note.)

Maturities of Notes Payable and Future Minimum Lease Payments

As of August 28, 2014, maturities of notes payable (including the MMJ Creditor Installment Payments) and future minimum lease payments under capital lease obligations were as follows:

	Notes Payable	**Capital Lease Obligations**
2015	$ 803	$356
2016	352	301
2017	320	103
2018	602	60
2019	684	55
2020 and thereafter	3,628	123
Unamortized discounts and interest, respectively	(707)	(87)
	$5,682	$911

Other Current Liabilities

PRESENTATION

2.110 Rule 5-02 of Regulation S-X requires that any items in excess of 5 percent of total current liabilities be stated separately on the balance sheet or disclosed in the notes. In addition, registrants should state separately amounts payable to the following:

- Banks for borrowings
- Factors or other financial institutions for borrowings
- Holders of commercial paper
- Trade creditors
- Related parties
- Underwriters, promoters, and employees (other than related parties)
- Others

Amounts applicable to the first three categories may be stated separately in the balance sheet or in a note thereto.

PRESENTATION AND DISCLOSURE EXCERPTS

DEPOSITS

2.111 BASSETT FURNITURE INDUSTRIES, INCORPORATED (NOV)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands, except share and per share data)

	2014	2013
Liabilities and Stockholders' Equity (in part)		
Current liabilities		
Accounts payable	$22,251	$19,892
Accrued compensation and benefits	8,931	6,503
Customer deposits	22,202	16,214
Dividends payable	2,102	2,172
Other accrued liabilities	11,287	6,660
Total current liabilities	66,773	51,441
Long-term liabilities		
Post employment benefit obligations	11,498	11,146
Real estate notes payable	1,902	2,467
Other long-term liabilities	3,741	3,386
Total long-term liabilities	17,141	16,999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In thousands, except share and per share data)

2. Significant Accounting Policies (in part)

Revenue Recognition

Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. We offer terms varying from 30 to 60 days for wholesale customers. For retail sales, we typically collect a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. These deposits are carried on our balance sheet as a current liability until delivery is fulfilled. Estimates for returns and allowances have been recorded as a reduction to revenue. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us. Revenue is reported net of any taxes collected.

Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB 104") outlines the four basic criteria for recognizing revenue as follows: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectability is reasonably assured. SAB 104 further asserts that if collectability of all or a portion of the revenue is not reasonably assured, revenue recognition should be deferred until payment is received. During fiscal 2014 and 2013, there were no dealers for which these criteria were not met. During fiscal 2012 there were two dealers for which these criteria were not met and therefore revenue was being recognized on a cost recovery basis. As of and subsequent to November 24, 2012 there have been no dealers that remained on a cost recovery basis. As of November 24, 2012 there was no deferred gross profit resulting from the cost recovery method carried on our balance sheet as a reduction of accounts receivable. For fiscal 2012, no revenue or cost was deferred during the year under the cost recovery method.

DEFERRED INCOME TAXES

2.112 CHESAPEAKE ENERGY CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
($ in millions)	**2014**	**2013**
Current Liabilities:		
Accounts payable	$2,049	$1,596
Current maturities of long-term debt, net	381	—
Accrued interest	150	200
Deferred income tax liabilities	207	—
Short-term derivative liabilities ($0 and $5 attributable to our VIE)	15	208
Other current liabilities ($15 and $22 attributable to our VIE)	3,061	3,511
Total Current Liabilities	5,863	5,515
Long-Term Liabilities:		
Long-term debt, net	11,154	12,886
Deferred income tax liabilities	4,185	3,407
Long-term derivative liabilities	218	445
Asset retirement obligations, net of current portion	447	405
Other long-term liabilities	679	984
Total Long-Term Liabilities	16,683	18,127

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

6. Income Taxes

The components of the income tax provision (benefit) for each of the periods presented below are as follows:

	Years Ended December 31,		
($ in millions)	**2014**	**2013**	**2012**
Current			
Federal	$ —	$ —	$ —
State	47	22	47
Current Income Taxes	47	22	47
Deferred			
Federal	1,115	502	(358)
State	(18)	24	(69)
Deferred Income Taxes	1,097	526	(427)
Total	$1,144	$548	$(380)

The effective income tax expense (benefit) differed from the computed "expected" federal income tax expense on earnings before income taxes for the following reasons:

	Years Ended December 31,		
($ in millions)	**2014**	**2013**	**2012**
Income tax expense (benefit) at the federal statutory rate (35%)	$1,120	$505	$(341)
State income taxes (net of federal income tax benefit)	68	88	(38)
Remeasurement of state deferred tax liabilities	(114)	(38)	(19)
Change in valuation allowance	74	(12)	—
Other	(4)	5	18
Total	$1,144	$548	$(380)

During the 2014 fourth quarter, Chesapeake simplified its organizational structure which impacts how income (loss) is allocated and apportioned to various states. This change resulted in a $114 million tax benefit due to the remeasurement of state deferred tax liabilities. Additionally, we reassessed the realizability of our deferred tax assets given the decline in commodity prices. We recorded a $74 million tax expense for the increase in our valuation allowance.

Deferred income taxes are provided to reflect temporary differences in the basis of net assets for income tax and financial reporting purposes. The tax-effected temporary differences and tax loss carryforwards which comprise deferred taxes are as follows:

	Years Ended December 31,	
($ in millions)	2014	2013
Deferred tax liabilities:		
Oil and natural gas properties	$(3,950)	$(2,631)
Other property and equipment	(14)	(371)
Volumetric production payments	(920)	(1,216)
Contingent convertible debt	(443)	(439)
Deferred revenue	(102)	—
Derivative instruments	(428)	—
Deferred tax liabilities	(5,857)	(4,657)
Deferred tax assets:		
Net operating loss carryforwards (carrybacks)	945	535
Derivative instruments	—	108
Asset retirement obligations	165	153
Investments	88	130
Deferred stock compensation	50	66
Accrued liabilities	214	120
Noncontrolling interest liabilities	135	152
Alternative minimum tax credits	34	317
Other	56	40
Deferred tax assets	1,687	1,621
Valuation allowance	(222)	(148)
Net deferred tax assets	1,465	1,473
Net deferred tax assets (liabilities)	$(4,392)	$(3,184)
Reflected in accompanying balance sheets as:		
Current deferred income tax asset	—	223
Current deferred income tax liability	(207)	—
Non-current deferred income tax liability	(4,185)	(3,407)
Total	$(4,392)	$(3,184)

As of December 31, 2014, Chesapeake had federal income tax NOL carryforwards of approximately $1.6 billion and state NOL carryforwards of approximately $8.3 billion which excludes the NOL carryforwards related to unrecognized tax benefits and stock compensation windfalls that have not been recognized under U.S. GAAP. The associated deferred tax assets related to these NOL carryforwards were $551 million and $394 million, respectively. Additionally, we had $76 million of alternative minimum tax (AMT) NOL carryforwards, net of unrecognized tax benefits, available as a deduction against future AMT income. The NOL carryforwards expire from 2031 through 2033. The value of these carryforwards depends on the ability of Chesapeake to generate taxable income. As of December 31, 2014 and 2013, we had deferred tax assets of $1.687 billion and $1.621 billion, respectively, upon which we had a valuation allowance of $222 million and $148 million, respectively, for certain state NOL carryforwards and credits that we have concluded are not more likely than not to be utilized prior to expiration. The net change in the valuation allowance of $74 million is reflected as a component of income tax expense.

Deferred tax assets relating to tax benefits of employee share-based compensation have been reduced for stock options exercised and restricted stock that vested in periods in which Chesapeake was in a net operating loss (NOL) position. Some exercises and vestings result in tax deductions in excess of previously recorded benefits based on the stock option or restricted stock value at the time of grant (windfalls). Although these additional tax benefits or windfalls are reflected in NOL carryforwards in the tax return, the additional tax benefit associated with the windfalls is not recognized until the deduction reduces taxes payable pursuant to accounting for stock compensation under U.S. GAAP. Accordingly, since the tax benefit does not reduce Chesapeake's current taxes payable due to NOL carryforwards, these windfall tax benefits are not reflected in Chesapeake's NOLs in deferred tax assets. Windfalls included in NOL carryforwards but not reflected in deferred tax assets as of December 31, 2014 totaled $18 million. Any shortfalls resulting from tax deductions that were less than the previously recorded benefits were recorded as reductions to additional paid-in capital.

The ability of Chesapeake to utilize NOL carryforwards to reduce future federal taxable income and federal income tax is subject to various limitations under the Internal Revenue Code of 1986, as amended. The utilization of these carryforwards may be limited upon the occurrence of certain ownership changes, including the issuance or exercise of rights to acquire stock, the purchase or sale of stock by 5% stockholders, as defined in the Treasury regulations, and the offering of stock by us during any three-year period resulting in an aggregate change of more than 50% in the beneficial ownership of Chesapeake.

As of December 31, 2014, we do not believe that an ownership change has occurred that would limit the carryforwards. Due to the spin-off of SSE, the limitation on previously acquired NOLs was increased such that the remaining carryforward became fully available. Future equity transactions by Chesapeake or by 5% stockholders (including relatively small transactions and transactions beyond our control) could cause an ownership change and therefore a limitation on the annual utilization of NOLs.

Accounting guidance for recognizing and measuring uncertain tax positions prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. As of December 31, 2014 and 2013, the amount of unrecognized tax benefits related to NOL carryforwards and state tax liabilities associated with uncertain tax positions was $303 million and $644 million, respectively. Of the 2014 amount, $23 million and $17 million are related to AMT and state tax liabilities, respectively, while the remainder is related to NOL carryforwards. Of the 2013 amount, $4 million is related to state tax liabilities while the remainder is related to NOL carryforwards. If these unrecognized tax benefits are disallowed and our NOL carryforwards are reduced, the reduction will be offset by additional tax basis that will generate future deductions. The uncertain tax positions identified would not have a material effect on the effective tax rate. No material changes to the current uncertain tax positions are expected within the next 12 months. As of December 31, 2014 and 2013, we had accrued liabilities of $5 million and $13 million, respectively, for interest related to these uncertain tax positions. Chesapeake recognizes interest related to uncertain tax positions in interest expense. Penalties, if any, related to uncertain tax positions would be recorded in other expenses.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

($ in millions)	2014	2013	2012
Unrecognized tax benefits at beginning of period	$644	$599	$369
Additions based on tax positions related to the current year	13	15	134
Additions to tax positions of prior years	—	30	96
Reductions to tax positions of prior years	(354)	—	—
Unrecognized tax benefits at end of period	$303	$644	$599

Chesapeake's federal and state income tax returns are routinely audited by federal and state fiscal authorities. The Internal Revenue Service (IRS) is currently auditing our federal income tax returns for 2007 through 2013. The federal tax returns for 1999 through 2006 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. The 2007 through 2014 years remain open for all purposes of examination by the IRS and other taxing authorities in material jurisdictions.

PRODUCTS LIABILITY

2.113 CUMMINS INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
In millions, except par value	2014	2013
Liabilities		
Current liabilities		
Loans payable (Note 9)	$ 86	$ 17
Accounts payable (principally trade)	1,881	1,557
Current maturities of long-term debt (Note 9)	23	51
Current portion of accrued product warranty (Note 10)	363	360
Accrued compensation, benefits and retirement costs	508	433
Deferred revenue	401	285
Taxes payable (including taxes on income)	70	99
Other accrued expenses	689	566
Total current liabilities	4,021	3,368
Long-term liabilities		
Long-term debt (Note 9)	1,589	1,672
Pensions (Note 11)	289	232
Postretirement benefits other than pensions (Note 11)	369	356
Other liabilities and deferred revenue (Note 12)	1,415	1,230
Total liabilities	$7,683	$6,858

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Warranty

We charge the estimated costs of warranty programs, other than product recalls, to cost of sales at the time products are sold and revenue is recognized. We use historical experience to develop the estimated liability for our various warranty programs. As a result of the uncertainty surrounding the nature and frequency of product recall programs, the liability for such programs is recorded when we commit to a recall action or when a recall becomes probable and estimable, which generally occurs when it is announced. The liability for these programs is reflected in the provision for warranties issued. We review and assess the liability for these programs on a quarterly basis. We also assess our ability to recover certain costs from our suppliers and record a receivable when we believe a recovery is probable. In addition to costs incurred on warranty and recall programs, from time to time we also incur costs related to customer satisfaction programs for items not covered by warranty. We accrue for these costs when agreement is reached with a specific customer. These costs are not included in the provision for warranties but are included in cost of sales.

In addition, we sell extended warranty coverage on most of our engines. The revenue collected is initially deferred and is recognized as revenue in proportion to the costs expected to be incurred in performing services over the contract period. We compare the remaining deferred revenue balance quarterly to the estimated amount of future claims under extended warranty programs and provide an additional accrual when the deferred revenue balance is less than expected future costs. See NOTE 10, "PRODUCT WARRANTY LIABILITY," for additional information.

Note 10. Product Warranty Liability

A tabular reconciliation of the product warranty liability, including the deferred revenue related to our extended warranty coverage and accrued recall programs was as follows:

	December 31,	
In millions	2014	2013
Balance, beginning of year	$1,129	$1,088
Provision for warranties issued	411	431
Deferred revenue on extended warranty contracts sold	263	189
Payments	(404)	(427)
Amortization of deferred revenue on extended warranty contracts	(148)	(115)
Changes in estimates for pre-existing warranties	41	(35)
Foreign currency translation	(9)	(2)
Balance, end of year	$1,283	$1,129

Warranty related deferred revenue, supplier recovery receivables and the long-term portion of the warranty liability on our *Consolidated Balance Sheets* were as follows:

	December 31,		
In millions	2014	2013	Balance Sheet Location
Deferred revenue related to extended coverage programs			
Current portion	$170	$145	Deferred revenue
Long-term portion	438	349	Other liabilities and deferred revenue
Total	$608	$494	
Receivables related to estimated supplier recoveries			
Current portion	$ 12	$ 5	Trade and other receivables
Long-term portion	4	5	Other assets
Total	$ 16	$ 10	
Long-term portion of warranty liability	$312	$275	Other liabilities and deferred revenue

BILLINGS IN EXCESS OF COSTS AND ESTIMATED EARNINGS

2.114 SPX CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions, except share data)

	December 31, 2014	December 31, 2013
Liabilities and Equity (in part)		
Current liabilities:		
Accounts payable	$462.0	$497.5
Accrued expenses	892.3	990.8
Income taxes payable	43.7	73.1
Short-term debt	181.1	26.9
Current maturities of long-term debt	30.8	558.7
Liabilities of discontinued operations	—	27.4
Total current liabilities	1,609.9	2,174.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(All currency and share amounts are in millions, except per share and par value data)

(1) Summary of Significant Accounting Policies (in part)

Revenue Recognition—We recognize revenues from product sales upon shipment to the customer (e.g., FOB shipping point) or upon receipt by the customer (e.g., FOB destination), in accordance with the agreed upon customer terms. Revenues from service contracts and long-term maintenance arrangements are recognized on a straight-line basis over the agreement period. Sales with FOB destination terms are primarily to power transformer industry customers. Sales to distributors with return rights are recognized upon shipment to the distributor with expected returns estimated and accrued at the time of sale. The accrual considers restocking charges for returns and in some cases the distributor must issue a replacement order before the return is authorized. Actual return experience may vary from our estimates. We recognize revenues separately for arrangements with multiple deliverables that meet the criteria for separate units of accounting as defined by the Revenue Recognition Topic of the Codification. The deliverables under these arrangements typically include hardware and software components, installation, maintenance, extended warranties and software upgrades. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price of the product or service when it is sold separately, competitor prices for similar products or our best estimate. The hardware and software components are usually recognized as revenue contemporaneously, as both are required for essential functionality of the products, with the installation being recognized upon completion. Revenues related to maintenance, extended warranties and software upgrades are recognized on a pro-rata basis over the coverage period.

We offer sales incentive programs primarily to effect volume rebates and promotional and advertising allowances. These programs are only significant to one of our business units. The liability for these programs, and the resulting reduction to reported revenues, is determined primarily through trend analysis, historical experience and expectations regarding customer participation.

Amounts billed for shipping and handling are included in revenues. Costs incurred for shipping and handling are recorded in cost of products sold. Taxes assessed by governmental authorities that are directly imposed on a revenue-producing transaction between a seller and a customer are presented on a net basis (excluded from revenues) in our consolidated statements of operations.

In addition, certain of our businesses, primarily within the Flow Technology and Thermal Equipment and Services reportable segments, also recognize revenues from long-term construction/installation contracts under the percentage-of-completion method of accounting. The percentage-of-completion is measured principally by the percentage of costs incurred to date for each contract to the estimated total costs for such contract at completion. We recognize revenues for similar short-term contracts using the completed-contract method of accounting.

Provisions for any estimated losses on uncompleted long-term contracts are made in the period in which such losses are determined. In the case of customer change orders for uncompleted long-term contracts, estimated recoveries are included for work performed in forecasting ultimate profitability on certain contracts. Due to uncertainties inherent in the estimation process, it is possible that completion costs, including those arising from contract penalty provisions and final contract settlements, may be revised in the near-term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

Costs and estimated earnings in excess of billings arise when revenues have been recorded but the amounts have not been billed under the terms of the contracts. These amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Claims related to long-term contracts are recognized as revenue only after we have determined that collection is probable and the amount can be reliably estimated. Claims made by us involve negotiation and, in certain cases, litigation or other dispute-resolution processes. In the event we incur litigation or other dispute-resolution costs in connection with claims, such costs are expensed as incurred, although we may seek to recover these costs. Claims against us are recognized when a loss is considered probable and amounts are reasonably estimable.

We recognized $1,206.4, $1,343.8 and $1,594.7 in revenues under the percentage-of-completion method for the years ended December 31, 2014, 2013 and 2012, respectively. Costs and estimated earnings on uncompleted contracts, from their inception, and related amounts billed as of December 31, 2014 and 2013 were as follows:

	2014	2013
Costs incurred on uncompleted contracts	$3,232.6	$3,767.4
Estimated earnings to date	591.1	813.2
	3,823.7	4,580.6
Less: Billings to date	(3,765.5)	(4,517.9)
	58.2	62.7
Net costs and estimated earnings in excess of billings assumed in the acquisition of Clyde Union (Holdings) S.A.R.L. ("Clyde Union")	—	4.2
Net costs and estimated earnings in excess of billings	$ 58.2	$ 66.9

These amounts are included in the accompanying consolidated balance sheets at December 31, 2014 and 2013 as shown below. Amounts for billed retainages and receivables to be collected in excess of one year are not significant for the periods presented.

	2014	2013
Costs and estimated earnings in excess of billings[1]	$ 237.1	$ 285.3
Billings in excess of costs and estimated earnings on uncompleted contracts[2]	(178.9)	(218.4)
Net costs and estimated earnings in excess of billings	$ 58.2	$ 66.9

[1] Reported as a component of "Accounts receivable, net."

[2] Reported as a component of "Accrued expenses."

Accrued Expenses—We make estimates and judgments in establishing accruals as required under GAAP. Summarized in the table below are the components of accrued expenses at December 31, 2014 and 2013.

	December 31,	
	2014	2013
Employee benefits	$219.6	$215.3
Unearned revenue[1]	375.4	460.9
Warranty	38.3	42.4
Other[2]	259.0	272.2
Total	$892.3	$990.8

[1] Unearned revenue includes billings in excess of costs and estimated earnings on uncompleted contracts accounted for under the percentage-of-completion method of revenue recognition, customer deposits and unearned amounts on service contracts.

[2] Other consists of various items including, among other items, accrued legal costs, interest, restructuring costs and dividends payable, none of which is individually material.

DISCONTINUED OPERATIONS

2.115 XEROX CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
(In millions, except share data in thousands)	2014	2013
Liabilities and Equity (in part)		
Short-term debt and current portion of long-term debt	$1,427	$1,117
Accounts payable	1,584	1,626
Accrued compensation and benefits costs	754	734
Unearned income	431	496
Liabilities of discontinued operations	371	—
Other current liabilities	1,509	1,713

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(in millions, except per-share data and where otherwise noted)

Note 1—Summary of Significant Accounting Policies (in part)

Basis of Consolidation (in part)

In December 2014, we announced an agreement to sell our Information Technology Outsourcing (ITO) business to Atos SE (Atos); the sale is expected to close in the first half of 2015. As a result of the pending sale and having met applicable accounting requirements, we reported the ITO business as held for sale and a discontinued operation at December 31, 2014. In 2014 we also completed the disposal of two smaller businesses—Xerox Audio Visual Solutions, Inc. (XAV) and Truckload Management Services (TMS)—that were also reported as discontinued operations. All prior periods have been reclassified to conform to this presentation. In 2013 we completed the sale of our U.S. and Canadian (North American or N.A.) and Western European (European) Paper businesses. Results from these paper-related businesses are reported as Discontinued Operations and all prior period results have been reclassified to conform to this presentation. Refer to Note 4—Divestitures for additional information regarding discontinued operations.

Note 4—Divestitures (in part)

Information Technology Outsourcing (ITO)

In December 2014, we announced an agreement to sell our **ITO** business to Atos for $1,050, which includes the assumption of approximately $100 of capital lease obligations and pension liabilities. The final sales price is subject to final closing adjustments with additional consideration of $50 contingent on the condition of certain assets at closing. The transaction is subject to customary closing conditions and regulatory approval and is expected to close in the first half of 2015. We expect net after-tax proceeds from the transaction of approximately $850.

ITO services include service arrangements where we manage a customer's IT-related activities, such as application management and development, data center operations or testing and quality assurance. Our ITO business includes approximately 9,800 employees in 45 countries. As part of the transaction, Atos will provide IT services for certain of our existing BPO customers as well as a portion of our internal IT requirements. These continuing cash flows were determined to not be significant, and we will have no significant continuing involvement in the ITO business post-closing.

As a result of this pending transaction and having met applicable accounting requirements, in the fourth quarter 2014, we reported the ITO business as held for sale and a Discontinued Operation and reclassified its results from the Services segment to Discontinued Operations. All prior periods have accordingly been reclassified to conform to this presentation.

In the fourth quarter 2014, we also recorded a net pre-tax loss of $181 related to the pending sale reflecting the write-down of the carrying value of the ITO disposal group, inclusive of goodwill, to its estimated fair value less costs to sell. Goodwill was allocated to the ITO disposal group based on the relative fair value of the business. The estimated fair value may be adjusted, and we are likely to incur additional charges prior to the closing of the transaction, which will be recorded in Discontinued Operations. In addition, upon final disposal of the business, we expect to record additional tax expense of approximately $75 within Discontinued Operations primarily related to the difference between the book basis and the tax basis of allocated goodwill. All the assets and liabilities of the ITO business are reported as held for sale at December 31, 2014 and are included in Assets and Liabilities of discontinued operations, respectively, in the Consolidated Balance Sheet at December 31, 2014.

Since the ITO business comprised a portion of several reporting units, we tested the retained goodwill of those reporting units for impairment and concluded that the goodwill remaining in those reporting units was not impaired since the fair values of those reporting units exceeded their carrying values.

Other Discontinued Operations (in part)

During the third quarter 2014, we completed the closure of **Xerox Audio Visual Solutions, Inc. (XAV)** , a small audio visual business within our Global Imaging Systems subsidiary, and recorded a net pre-tax loss on disposal of $1. XAV provided audio visual equipment and services to enterprise and government customers. As a result of this closure, we reported XAV as a Discontinued Operation and reclassified its results from the Other segment to Discontinued Operations in the third quarter 2014.

In May 2014 we sold our **Truckload Management Services, Inc. (TMS)** business for $15 and recorded a net pre-tax loss on disposal of $1. TMS provided document capture and submission solutions as well as campaign management, media buying and digital marketing services to the long haul trucking and transportation industry. As a result of this transaction, we reported this business as a Discontinued Operation and reclassified its results from the Services segment to Discontinued Operations in the second quarter 2014.

In 2013, in connection with our decision to exit from the Paper distribution business, we completed the sale of our North American and European Paper businesses. As a result of these transactions, we reported these paper-related operations as Discontinued Operations and reclassified the results from the Other segment to Discontinued operations in 2013. We recorded a net pre-tax loss on disposal of $25 in 2013 for the disposition of these businesses. In 2014, we recorded income of $1 in discontinued operations primarily representing adjustments to the loss on disposal recorded in 2013 due to changes in estimates.

Summarized financial information for our Discontinued Operations is as follows:

	Year Ended December 31,								
	2014			2013			2012		
	ITO	Other	Total	ITO	Other	Total	ITO	Other	Total
Revenues	$1,320	$45	$1,365	$1,335	$497	$1,832	$1,213	$756	$1,969
Income (loss) from operations	$ 74	$ (1)	$ 73	$ 70	$ 2	$ 72	$ 47	$ 17	$ 64
Loss on disposal	(181)	(1)	(182)	—	(25)	(25)	—	—	—
Net (loss) income before income taxes	$ (107)	$ (2)	$ (109)	$ 70	$ (23)	$ 47	$ 47	$ 17	$ 64
Income tax expense	(5)	(1)	(6)	(24)	(3)	(27)	(16)	(5)	(21)
(Loss) income from discontinued operations, net of tax	$ (112)	$ (3)	$ (115)	$ 46	$ (26)	$ 20	$ 31	$ 12	$ 43

The following is a summary of the major categories of assets and liabilities of the ITO business held for sale at December 31, 2014:

	2014
Accounts receivable, net	$ 213
Other current assets	146
Land, buildings and equipment, net	220
Intangible assets, net	197
Goodwill	337
Other long-term assets	147
Total Assets of Discontinued Operations	$1,260
Current portion of long-term debt	$ 31
Accounts payable	32
Accrued pension and benefit costs	9
Unearned income	64
Other current liabilities	112
Long-term debt	44
Pension and other benefit liabilities	25
Other long-term liabilities	54
Total Liabilities of Discontinued Operations	$ 371

INSURANCE

2.116 ABM INDUSTRIES INCORPORATED (OCT)

CONSOLIDATED BALANCE SHEETS (in part)

	October 31,	
(In millions, except share and per share amounts)	2014	2013
Liabilities and Stockholders' Equity (in part)		
Current liabilities		
Trade accounts payable	$ 175.9	$ 157.3
Accrued compensation	131.2	138.4
Accrued taxes—other than income	29.4	25.7
Insurance claims	80.0	84.6
Income taxes payable	2.0	0.1
Other accrued liabilities	107.9	102.4
Total current liabilities	526.4	508.5
Noncurrent income taxes payable	53.7	50.4
Line of credit	319.8	314.9
Deferred income tax liability, net	16.4	13.1
Noncurrent insurance claims	269.7	273.4
Other liabilities	38.1	41.4
Total liabilities	1,224.1	1,201.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Basis of Presentation and Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Insurance Reserves

We use a combination of insured and self-insurance programs to cover workers' compensation, general liability, property damage, and other insurable risks. Insurance claim liabilities represent our estimate of retained risks without regard to insurance coverage. Such risks consist of estimates of the loss that will ultimately be incurred on reported claims, as well as estimates of claims that have been incurred but not yet reported.

With the assistance of third-party professionals, we periodically review our estimate of ultimate losses for "incurred but not reported" claim costs and adjust our required self-insurance reserves as appropriate. As part of this evaluation, we review the status of existing and new claim reserves as established by our third-party administrators. Our third-party administrators establish the case reserves based upon known factors related to the type and severity of the claims, demographic factors, legislative matters, and case law, as appropriate. We compare actual trends to expected trends and monitor claims developments. The specific case reserves estimated by the third-party administrators are provided to an actuary who assists us in projecting an actuarial estimate of the overall ultimate losses for our self-insured or high deductible programs, which includes the case reserves plus an actuarial estimate of reserves required for additional developments including "incurred but not reported" claim costs. We utilize the independent third-party administrator's actuarial point estimate, reviewed by our management, to adjust our carried self-insurance reserves.

In general, our reserves are recorded on an undiscounted basis. We allocate current-year insurance expense to our operating segments based upon their underlying exposures, while actuarial adjustments related to prior year claims are recorded within Corporate expenses. Claims are classified as current or long-term based on the expected settlement date. Estimated insurance recoveries related to recorded liabilities are reflected as assets in our consolidated balance sheets when we believe that the receipt of such amounts is probable.

9. Insurance

We use a combination of insured and self-insurance programs to cover workers' compensation, general liability, property damage, and other insurable risks. For the majority of these insurance programs, we retain the initial $1.0 million of exposure on a per-claim basis either through deductibles or self-insured retentions. Beyond the retained exposures, we have varying primary policy limits between $1.0 million and $5.0 million per occurrence. To cover general liability losses above these primary limits, we maintain commercial insurance umbrella policies that provide aggregate limits of $200.0 million. Our insurance policies generally cover workers' compensation losses to the full extent of statutory requirements. Additionally, to cover property damage risks above our retained limits, we maintain policies that provide limits of $75.0 million. We are also self-insured for certain employee medical and dental plans. We retain up to $0.4 million of exposure on a per-claim basis with respect to claims under our medical plan.

During 2014, annual actuarial evaluations were performed for the majority of our casualty insurance programs, including those related to certain previously acquired businesses. For 2014, the evaluations showed a reduction in our 2014 total Occupational Safety and Health Act reportable incidents, which was evidenced by favorable trends during the year.

For certain years prior to 2014, the evaluations showed unfavorable developments in certain general liability, automobile liability, and workers' compensation claims.

Certain general liability claims related to earlier years reflected a loss development that was measurably higher than previously estimated. The majority of the adverse impact seen in the general liability program was the result of claims developments in California and New York. A similar trend was also experienced in our automobile liability program, which was largely attributable to considerable unfavorable changes in a few cases within our automobile liability claim pool.

In California, a jurisdiction in which we maintain a significant presence, the workers' compensation claims development patterns warranted an unfavorable adjustment to our insurance reserves relating to various years prior to 2014. Conversely, the workers' compensation loss patterns in states other than California warranted a favorable adjustment relating to various years prior to 2014, which largely offset the adverse development experienced in California. In response to California's challenging workers' compensation environment, we have engaged third-party resources to assist us in resolving claims at an accelerated pace, where feasible.

After analyzing the recent loss development patterns, comparing the loss development against benchmarks, and applying actuarial projection methods to determine the estimate of ultimate losses relating to years prior to 2014, we increased our expected reserves by $11.5 million during 2014. Insurance reserve adjustments resulting from periodic actuarial evaluations relating to prior years during 2013 and 2012 were increases to the reserve in the amounts of $10.6 million and $7.3 million, respectively.

We had insurance claim reserves totaling $349.7 million and $358.0 million at October 31, 2014 and 2013, respectively. The balance at October 31, 2014 and 2013 includes $4.8 million and $7.0 million in reserves, respectively, related to our medical and dental self-insured plans. We also had insurance recoverables totaling $66.4 million and $68.7 million at October 31, 2014 and 2013, respectively. The adequacy of insurance claims reserves is based upon actuarial estimates of required reserves considering the most recently completed actuarial reports and known events.

We had the following standby letters of credit, surety bonds, and restricted insurance deposits outstanding at October 31, 2014 and 2013, to collateralize our insurance obligations:

	October 31,	
(In millions)	2014	2013
Standby letters of credit	$111.1	$ 97.7
Surety bonds	52.5	40.5
Restricted insurance deposits	11.5	28.5
Total	$175.1	$166.7

DEFERRED REVENUE

2.117 LOWE'S COMPANIES, INC. (JAN)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except par value and percentage data)

	January 31, 2014	% Total	February 1, 2013	% Total
Liabilities and Shareholders' Equity (in part)				
Current liabilities:				
Short-term borrowings	$ 386	1.2%	$ —	—%
Current maturities of long-term debt	49	0.1	47	0.1
Accounts payable	5,008	15.3	4,657	14.3
Accrued compensation and employee benefits	785	2.4	670	2.1
Deferred revenue	892	2.7	824	2.5
Other current liabilities	1,756	5.4	1,510	4.6
Total current liabilities	8,876	27.1	7,708	23.6
Long-term debt, excluding current maturities	10,086	30.8	9,030	27.6
Deferred income taxes—net	291	0.9	455	1.4
Deferred revenue—extended protection plans	730	2.2	715	2.2
Other liabilities	896	2.8	901	2.8
Total liabilities	20,879	63.8%	18,809	57.6%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Summary of Significant Accounting Policies (in part)

Revenue Recognition—The Company recognizes revenues, net of sales tax, when sales transactions occur and customers take possession of the merchandise. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. Revenues from product installation services are recognized when the installation is completed. Deferred revenues associated with amounts received for which customers have not yet taken possession of merchandise or for which installation has not yet been completed were $461 million and $441 million at January 31, 2014, and February 1, 2013, respectively.

Revenues from stored-value cards, which include gift cards and returned merchandise credits, are deferred and recognized when the cards are redeemed. The liability associated with outstanding stored-value cards was $431 million and $383 million at January 31, 2014, and February 1, 2013, respectively, and these amounts are included in deferred revenue on the consolidated balance sheets. The Company recognizes income from unredeemed stored-value cards at the point at which redemption becomes remote. The Company's stored-value cards have no expiration date or dormancy fees. Therefore, to determine when redemption is remote, the Company analyzes an aging of the unredeemed cards based on the date of last stored-value card use.

Extended Protection Plans—The Company sells separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. Changes in deferred revenue for extended protection plan contracts are summarized as follows:

(In millions)	2013	2012
Deferred revenue—extended protection plans, beginning of year	$ 715	$ 704
Additions to deferred revenue	294	251
Deferred revenue recognized	(279)	(240)
Deferred revenue—extended protection plans, end of year	$ 730	$ 715

Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended protection plan contracts were $53 million and $95 million at January 31, 2014 and February 1, 2013, respectively. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets. Changes in the liability for extended protection plan claims are summarized as follows:

(In millions)	2013	2012
Liability for extended protection plan claims, beginning of year	$ 20	$ 21
Accrual for claims incurred	114	102
Claim payments	(116)	(103)
Liability for extended protection plan claims, end of year	$ 18	$ 20

ENVIRONMENT

2.118 FMC CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
(In Millions, Except Share and Par Value Data)	2014	2013
Liabilities and Equity (in part)		
Current liabilities		
Short-term debt and current portion of long-term debt	$ 525.2	$ 697.8
Accounts payable, trade and other	433.5	475.2
Advance payments from customers	190.2	178.9
Accrued and other liabilities	438.8	307.0
Accrued customer rebates	237.6	203.7
Guarantees of vendor financing	50.2	27.9
Accrued pension and other postretirement benefits, current	12.7	12.7
Income taxes	22.2	35.3
Current liabilities of discontinued operations held for sale	—	48.2
Total current liabilities	$1,910.4	$1,986.7
Long-term debt, less current portion	1,153.4	1,154.1
Accrued pension and other postretirement benefits, long-term	238.7	57.8
Environmental liabilities, continuing and discontinued	209.9	175.2
Deferred income taxes	51.3	73.1
Other long-term liabilities	212.8	216.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Principal Accounting Policies and Related Financial Information (in part)

Environmental obligations. We provide for environmental-related obligations when they are probable and amounts can be reasonably estimated. Where the available information is sufficient to estimate the amount of liability, that estimate has been used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used.

Estimated obligations to remediate sites that involve oversight by the United States Environmental Protection Agency ("EPA"), or similar government agencies, are generally accrued no later than when a Record of Decision ("ROD"), or equivalent, is issued, or upon completion of a Remedial Investigation/Feasibility Study ("RI/FS"), or equivalent, that is submitted by us and the appropriate government agency or agencies. Estimates are reviewed quarterly and, if necessary, adjusted as additional information becomes available. The estimates can change substantially as additional information becomes available regarding the nature or extent of site contamination, required remediation methods, and other actions by or against governmental agencies or private parties.

Our environmental liabilities for continuing and discontinued operations are principally for costs associated with the remediation and/or study of sites at which we are alleged to have released hazardous substances into the environment. Such costs principally include, among other items, RI/FS, site remediation, costs of operation and maintenance of the remediation plan, management costs, fees to outside law firms and consultants for work related to the environmental effort, and future monitoring costs. Estimated site liabilities are determined based upon existing remediation laws and technologies, specific site consultants' engineering studies or by extrapolating experience with environmental issues at comparable sites.

Included in our environmental liabilities are costs for the operation, maintenance and monitoring of site remediation plans ("OM&M"). Such reserves are based on our best estimates for these OM&M plans. Over time we may incur OM&M costs in excess of these reserves. However, we are unable to reasonably estimate an amount in excess of our recorded reserves because we cannot reasonably estimate the period for which such OM&M plans will need to be in place or the future annual cost of such remediation, as conditions at these environmental sites change over time. Such additional OM&M costs could be significant in total but would be incurred over an extended period of years.

Included in the environmental reserve balance, other assets balance and disclosure of reasonably possible loss contingencies are amounts from third party insurance policies which we believe are probable of recovery.

Provisions for environmental costs are reflected in income, net of probable and estimable recoveries from named Potentially Responsible Parties ("PRPs") or other third parties. Such provisions incorporate inflation and are not discounted to their present values.

In calculating and evaluating the adequacy of our environmental reserves, we have taken into account the joint and several liability imposed by Comprehensive Environmental Remediation, Compensation and Liability Act ("CERCLA") and the analogous state laws on all PRPs and have considered the identity and financial condition of the other PRPs at each site to the extent possible. We have also considered the identity and financial condition of other third parties from whom recovery is anticipated, as well as the status of our claims against such parties. Although we are unable to forecast the ultimate contributions of PRPs and other third parties with absolute certainty, the degree of uncertainty with respect to each party is taken into account when determining the environmental reserve on a site-by-site basis. Our liability includes our best estimate of the costs expected to be paid before the consideration of any potential recoveries from third parties. We believe that any recorded recoveries related to PRPs are realizable in all material respects. Recoveries are recorded as either an offset in "Environmental liabilities, continuing and discontinued" or as "Other assets" in our consolidated balance sheets in accordance with U.S. accounting literature.

Note 7: Restructuring and Other Charges (Income) (in part)

Other Charges (Income), Net (in part)

	Year Ended December 31,		
(In Millions)	2014	2013	2012
Environmental charges, net	$43.7	$ 6.2	$5.8
Other, net	(4.5)	32.1	4.0
Other Charges (Income), Net	$39.2	$38.3	$9.8

Environmental Charges, Net

Environmental charges represent the net charges associated with environmental remediation at continuing operating sites, see Note 10 for additional details. Environmental obligations for continuing operations primarily represent obligations at shut down or abandoned facilities within businesses that do not meet the criteria for presentation as discontinued operations.

Note 8: Asset Retirement Obligations

We have mining operations in Green River, Wyoming for our soda ash business as well as mining operations in our lithium operations. We have legal reclamation obligations related to these facilities upon closure of the mines. Additionally, we have obligations at the majority of our manufacturing facilities in the event of a permanent plant shutdown. Certain of these obligations are recorded in our environmental reserves described in Note 10. For certain AROs not already accrued, we have calculated the fair value of these AROs and concluded that the present value of these obligations was immaterial at December 31, 2014 and 2013. We have also determined that the liability for certain other AROs cannot currently be calculated as the settlement dates are not reasonably estimable. We will recognize the liability for these AROs when sufficient information exists to estimate a range of potential settlement dates.

The changes in the carrying amounts of AROs for the years ended December 31, 2014 and 2013 are as follows:

(In Millions)	
Balance at December 31, 2012[1]	$25.5
Increase (decrease) to previously recorded ARO liability	4.3
Accretion expense	0.1
Payments	(8.0)
Foreign currency translation adjustments	0.8
Balance at December 31, 2013[1]	$22.7
Increase (decrease) to previously recorded ARO liability	0.2
Payments	(0.9)
Foreign currency translation adjustments	(1.7)
Transfer to environmental obligations[2]	(16.9)
Transfer to restructuring reserves[3]	(1.5)
Balance at December 31, 2014[1]	$ 1.9

[1] Included in "Accrued and other liabilities" and "Other long-term liabilities" on the consolidated balance sheets.

[2] Based on the events that occurred during the year ended December 31, 2014, the remaining activities associated with these obligations are primarily environmental remediation in nature and therefore the cost was reclassified to environmental obligations. Refer to Note 10 within these consolidated financial statements for additional information.

[3] The remaining activities associated with these obligations are related to restructuring activities and therefore transfer to a restructuring reserve is more appropriate based on events that occurred during the year ended December 31, 2014. Refer to Note 7 within these consolidated financial statements for additional information.

Note 10: Environmental Obligations

We are subject to various federal, state, local and foreign environmental laws and regulations that govern emissions of air pollutants, discharges of water pollutants, and the manufacture, storage, handling and disposal of hazardous substances, hazardous wastes and other toxic materials and remediation of contaminated sites. We are also subject to liabilities arising under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and similar state laws that impose responsibility on persons who arranged for the disposal of hazardous substances, and on current and previous owners and operators of a facility for the clean-up of hazardous substances released from the facility into the environment. We are also subject to liabilities under the Resource Conservation and Recovery Act ("RCRA") and analogous state laws that require owners and operators of facilities that have treated, stored or disposed of hazardous waste pursuant to a RCRA permit to follow certain waste management practices and to clean up releases of hazardous substances into the environment associated with past or present practices. In addition, when deemed appropriate, we enter certain sites with potential liability into voluntary remediation compliance programs, which are also subject to guidelines that require owners and operators, current and previous, to clean up releases of hazardous substances into the environment associated with past or present practices.

Environmental liabilities consist of obligations relating to waste handling and the remediation and/or study of sites at which we are alleged to have released or disposed of hazardous substances. These sites include current operations, previously operated sites, and sites associated with discontinued operations. We have provided reserves for potential environmental obligations that we consider probable and for which a reasonable estimate of the obligation can be made. Accordingly, total reserves of $296.2 million and $225.7 million, respectively, before recoveries, existed at December 31, 2014 and 2013.

The estimated reasonably possible environmental loss contingencies, net of expected recoveries, exceed amounts accrued by approximately $210 million at December 31, 2014. This reasonably possible estimate is based upon information available as of the date of the filing and the actual future losses may be higher given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of potentially responsible parties, technology and information related to individual sites.

Additionally, although potential environmental remediation expenditures in excess of the reserves and estimated loss contingencies could be significant, the impact on our future consolidated financial results is not subject to reasonable estimation due to numerous uncertainties concerning the nature and scope of possible contamination at many sites, identification of remediation alternatives under constantly changing requirements, selection of new and diverse clean-up technologies to meet compliance standards, the timing of potential expenditures and the allocation of costs among Potentially Responsible Parties ("PRPs") as well as other third parties. The liabilities arising from potential environmental obligations that have not been reserved for at this time may be material to any one quarter's or year's results of operations in the future. However, we believe any liability arising from such potential environmental obligations is not likely to have a material adverse effect on our liquidity or financial condition as it may be satisfied over many years.

The table below is a roll forward of our total environmental reserves, continuing and discontinued, from December 31, 2011 to December 31, 2014.

(In Millions)	Operating and Discontinued Sites Total
Total environmental reserves, net of recoveries at December 31, 2011	$226.9
2012	
Provision	31.2
Spending, net of recoveries	(42.1)
Net Change	(10.9)
Total environmental reserves, net of recoveries at December 31, 2012	$216.0
2013	
Provision	48.2
Spending, net of recoveries	(59.5)
Net Change	(11.3)
Total environmental reserves, net of recoveries at December 31, 2013	$204.7
2014	
Provision	106.2
Spending, net of recoveries	(42.4)
Transfer from asset retirement obligations[1]	16.9
Foreign currency translation adjustments	(1.1)
Net Change	79.6
Total environmental reserves, net of recoveries at December 31, 2014	$284.3

[1] Based on events that occurred during the year ended December 31, 2014, the remaining activities associated with these obligations are primarily environmental remediation in nature and therefore the cost was transferred to environmental obligations.

To ensure we are held responsible only for our equitable share of site remediation costs, we have initiated, and will continue to initiate, legal proceedings for contributions from other PRPs. At December 31, 2014 and 2013, we have recorded recoveries representing probable realization of claims against U.S. government agencies, insurance carriers and other third parties. Recoveries are recorded as either an offset to the "Environmental liabilities, continuing and discontinued" or as "Other assets" on the consolidated balance sheets.

The table below is a roll forward of our total recorded recoveries from December 31, 2012 to December 31, 2014:

(In Millions)	December 31, 2012	Increase in Recoveries	Cash Received	December 31, 2013	Increase in Recoveries	Cash Received	December 31, 2014
Environmental liabilities, continuing and discontinued	$20.5	$4.5	$ 4.0	$21.0	$ 1.2	$10.3	$11.9
Other assets[1]	51.6	4.7	20.8	35.5	9.4	15.0	29.9
Total	$72.1	$9.2	$24.8	$56.5	$10.6	$25.3	$41.8

[1] The amounts are included within "Prepaid and other current assets" and "Other assets" on the consolidated balance sheets. See Note 20 for more details.

The table below provides detail of current and long-term environmental reserves, continuing and discontinued.

	December 31,	
(In Millions)	2014	2013
Environmental reserves, current, net of recoveries[1]	$ 74.4	$ 29.5
Environmental reserves, long-term continuing and discontinued, net of recoveries[2]	209.9	175.2
Total environmental reserves, net of recoveries	$284.3	$204.7

[1] These amounts are included within "Accrued and other liabilities" on the consolidated balance sheets.

[2] These amounts are included in "Environmental liabilities, continuing and discontinued" on the consolidated balance sheets.

Our net environmental provisions relate to costs for the continued clean-up of both operating sites and for certain discontinued manufacturing operations from previous years. The net provisions are comprised as follows:

	Year Ended December 31,		
(In Millions)	2014	2013	2012
Continuing operations[1]	$43.7	$ 6.2	$ 5.8
Discontinued operations[2]	53.1	37.3	20.4
Net environmental provision	$96.8	$43.5	$26.2

[1] Recorded as a component of "Restructuring and other charges (income)" on our consolidated statements of income. See Note 7. Environmental obligations for continuing operations primarily represent obligations at shut down or abandoned facilities within businesses that do not meet the criteria for presentation as discontinued operations.

[2] Recorded as a component of "Discontinued operations, net" on our consolidated statements of income. See Note 9.

On our consolidated balance sheets, the net environmental provisions affect assets and liabilities as follows:

	Year Ended December 31,		
(In Millions)	2014	2013	2012
Environmental reserves[1]	$106.2	$48.2	$31.2
Other assets[2]	(9.4)	(4.7)	(5.0)
Net environmental provision	$ 96.8	$43.5	$26.2

[1] See above roll forward of our total environmental reserves as presented on our consolidated balance sheets.

[2] Represents certain environmental recoveries. See Note 20 for details of "Other assets" as presented on our consolidated balance sheets.

Significant Environmental Sites

Front Royal

This discontinued manufacturing site, built in 1940 by American Viscose, was once one of the world's largest producers of rayon, an instrumental product for NASA's space shuttle program. The facility also made tire cord, parachutes and jump suits for the Department of War during World War II. We purchased the plant in 1963 and sold it in 1976 to Avtex Fibers Corporation. In 1989, this Avtex site was cited for violations of Virginia environmental laws, associated primarily with wastewater discharges into the Shenandoah River and was subsequently shut down. We, as the sole surviving owner of the plant, became the mandated "potentially responsible party" for cleanup purposes.

On October 21, 1999, the Federal District Court for the Western District of Virginia approved a Consent Decree signed by FMC, the EPA (Region III) and the Department of Justice ("DOJ") regarding past response costs and future clean-up work at this site. In January 2010, the EPA issued a Record of Decision ("ROD") for Operable Unit 7 ("OU-7") primarily addressing waste basins and ground water, which should be the last operable unit to be remediated at the site. Included in our reserves for this site is the cost associated with a groundwater treatment plant which is an integral component of the remedy required to address the OU-7 ROD. This groundwater treatment plant was completed in 2014. As part of a prior settlement, government agencies have reimbursed us for approximately one-third of the clean-up costs due to the government's role at the site, and we expect reimbursement to continue in the future. The amount of the reserve for this site was $16.9 million and $25.6 million at December 31, 2014 and 2013, respectively.

Pocatello

From 1949 until 2001, we operated the world's largest elemental phosphorus plant in Power County, Idaho, just outside the city of Pocatello. Since the plant's closure, FMC has worked with the EPA, the State of Idaho, and the Shoshone-Bannock Tribes to develop a proposed cleanup plan for the property. In September of 2012, the EPA issued an Interim Record of Decision ("IROD") that is environmentally protective and that ensures the health and safety of both workers and the general public. Since the plant's closure, we have successfully decommissioned our Pocatello plant, completed closure of the RCRA ponds and formally requested that the EPA acknowledge completion of work under a June 1999 RCRA Consent Decree. Future remediation costs include completion of the IROD that addresses groundwater contamination and existing waste disposal areas on the Pocatello plant portion of the Eastern Michaud Flats Superfund Site. In June 2013 EPA issued a Unilateral Administrative Order to us under which we will implement the IROD remedy. Our current reserves factor in the estimated costs associated with implementing the IROD. In addition to implementing the IROD, we continue to conduct work pursuant to CERCLA unilateral administrative orders to address air emissions from beneath the cap of several of the closed RCRA ponds.

The amount of the reserve for this site was $68.6 million and $61.3 million at December 31, 2014 and 2013, respectively.

Pocatello Tribal Litigation

For a number of years, we engaged in disputes with the Tribes concerning their attempts to regulate our activities on the reservation. On March 6, 2006, a U.S. District Court Judge found that the Tribes were a third-party beneficiary of a 1998 RCRA Consent Decree and ordered us to apply for any applicable Tribal permits relating to the nearly-complete RCRA Consent Decree work. The third-party beneficiary ruling was later reversed by the Ninth Circuit Court of Appeals, but the permitting process continued in the tribal legal system. We applied for the tribal permits, but preserved objections to the Tribes' jurisdiction.

In addition, in 1998, the Tribes and we entered into an agreement ("1998 Agreement") that required us to pay the Tribes $1.5 million per year for waste generated from operating our Pocatello plant and stored on site. We paid $1.5 million per year until December 2001 when the plant closed. In our view the agreement was terminated, as the plant was no longer generating waste. The Tribes claim that the 1998 Agreement has no end date.

On April 25, 2006, the Tribes' Land Use Policy Commission issued us a Special Use Permit for the "disposal and storage of waste" at the Pocatello plant and imposed a $1.5 million per annum permit fee. The permit and fee were affirmed by the Tribal Business Council on July 21, 2006. We sought review of the permit and fee in Tribal Court, in which the Tribes also brought a claim for breach of the 1998 Agreement. On May 21, 2008, the Tribal Court reversed the permit and fee, finding that they were not authorized under tribal law, and dismissed the Tribes' breach of contract claim. The Tribes appealed to the Tribal Court of Appeals.

On May 8, 2012, the Tribal Court of Appeals reversed the May 21, 2008 Tribal Court decision and issued a decision finding the permit and fee validly authorized and ordering us to pay waste permit fees in the amount of $1.5 million per annum for the years 2002–2007 ($9.0 million in total), the Tribes' demand as set forth in the lawsuit. It also reinstated the breach of contract claim. The Tribes have filed additional litigation to recover the permit fees for the years since 2007, but that litigation has been stayed pending the outcome of the appeal in the Tribal Court of Appeals.

Following a trial on certain jurisdictional issues which occurred during April 2014, the Shoshone-Bannock Tribal Appellate Court issued a Statement of Decision finding in favor of the Tribes' jurisdiction over FMC and awarding costs on appeal to the Tribes. The Tribal Appellate Court conducted further post-trial proceedings and on May 6, 2014 issued Finding and Conclusions and a Final Judgment consistent with its earlier Statement of Decision.

The finding by the Shoshone-Bannock Tribal Appellate Court in May 2014 does not impact our reserves for the period ended December 31, 2014. Having now exhausted the Tribal administrative and judicial process, in November 2014 we filed an action in the United States District Court seeking declaratory and injunctive relief on the grounds that the Tribes lacked jurisdiction over us.

We have estimated a reasonably possible loss for this matter and it has been reflected in our total reasonably possible loss estimate previously discussed within this note.

Middleport

Our Middleport, NY facility is currently an Agricultural Solutions formulation and packaging plant that formerly manufactured arsenic-based and other products. As a result of past manufacturing operations and waste disposal practices at this facility, releases of hazardous substances have occurred at the the site that have affected soil, sediment, surface water and groundwater at the facility's property and also in adjacent off-site areas. The impact of our discontinued operations was the subject of an Administrative Order on Consent ("AOC") entered into with the EPA and New York State Department of Environmental Conservation (the "Agencies") in 1991. The AOC requires us to (1) define the nature and extent of contamination caused by our historical plant operations, (2) take interim corrective measures and (3) evaluate Corrective Action Management Alternatives ("CMA") for discrete contaminated areas.

We have defined the nature and extent of the contamination and have constructed an engineered cover, closed the RCRA regulated surface water impoundments and are collecting and treating both surface water runoff and ground water, which has satisfied the first two requirements of the AOC.

In 2013 we received from the New York State Department of Environmental Conservation ("NYSDEC"), the Final Statement of Basis ("FSOB"). The FSOB includes the same CMA as the Preliminary Statement of Basis, which we continue to believe is overly conservative and is not consistent with the 1991 AOC, which governs the remedy selection.

In order to negotiate with the NYSDEC with respect to the FSOB, we entered into a tolling agreement with the NYSDEC. The tolling agreement serves as a "standstill" agreement to the FSOB so that time spent negotiating with the NYSDEC does not go against the statute of limitations under the FSOB. The tolling agreement expired on April 30, 2014. We were not able to reach an agreement with the NYSDEC; thus, on May 1, 2014, we submitted a Notice of Dispute to the EPA seeking review of the remedy chosen by the NYSDEC. On May 30, 2014, 30 days after the tolling period expired, we filed an action in the Supreme Court of New York formally challenging the NYSDEC's FSOB. In that lawsuit, we are contending that NYSDEC breached the 1991 AOC by not following the procedures set forth in the AOC for remedy selection. On June 3, 2014, we received a letter from EPA (dated May 22, 2014) declining to review the Notice of Dispute. On June 20, 2014, we filed an action in the United States District Court for the Western District of New York seeking a declaratory judgment that the EPA is obligated under the 1991 AOC to hear the dispute.

The amount of the reserve for this site is $44.9 million and $41.7 million at December 31, 2014 and 2013, respectively. Our reserve continues to include the estimated liability for clean-up to reflect the costs associated with our recommended CMA. Our estimated reasonably possible environmental loss contingencies exposure reflects the additional cost of the CMA proposed in the FSOB.

Other Potentially Responsible Party ("PRP") Sites

We have been named a PRP at 32 sites on the federal government's National Priorities List ("NPL"), at which our potential liability has not yet been settled. In addition, we received notice from the EPA or other regulatory agencies that we may be a PRP, or PRP equivalent, at other sites, including 37 sites at which we have determined that it is reasonably possible that we have an environmental liability. In cooperation with appropriate government agencies, we are currently participating in, or have participated in, a Remedial Investigation/Feasibility Study ("RI/FS"), or equivalent, at most of the identified sites, with the status of each investigation varying from site to site. At certain sites, a RI/FS has only recently begun, providing limited information, if any, relating to cost estimates, timing, or the involvement of other PRPs; whereas, at other sites, the studies are complete, remedial action plans have been chosen, or a ROD has been issued.

One site where FMC is listed as a PRP is the Portland Harbor Superfund Site ("Portland Harbor"), that includes the river and sediments of a 12 mile section of the lower reach of the Willamette River in Portland, Oregon that runs through an industrialized area. Portland Harbor is listed on the NPL. FMC formerly owned and operated a manufacturing site adjacent to this section of the river and has since sold its interest in this business. When the EPA determines the cleanup remedy from the RI/FS conducted during the last decade at the site, it will issue a ROD. Currently, FMC and 70 other parties including the current owner of the former FMC site are involved in a non-judicial allocation process to determine each party's respective share of the cleanup costs. The EPA is expected to develop a ROD by 2017. It is anticipated that the cleanup activities will begin within one year of the issuance of the ROD.

Any potential liability to FMC will represent a portion of the costs of the remedy the EPA is expected to select for Portland Harbor. The cost of that remedy is expected to be allocated among more than 70 potentially responsible parties. Because of the large number of responsible parties and the variability in range of remediation alternatives, we are unable to develop a reasonable estimate of our potential exposure for Portland Harbor at this time. Based on information currently available, we have no reason to believe that the ultimate resolution of our potential obligations at Portland Harbor will have a material adverse effect on our consolidated financial position, liquidity or results of operations. However, there can be no assurance that the outcome will be favorable. Adverse results in the outcome of the EPA decision could have a material adverse effect on our consolidated financial position, results of operations in any one reporting period, or liquidity.

Note 20: Supplemental Information (in part)

Accrued and Other Liabilities	**December 31,**	
(In Millions)	**2014**	**2013**
Asset retirement obligations, current (Note 8)	$ 0.1	$ 17.9
Restructuring reserves (Note 7)	10.3	6.1
Dividend payable (Note 15)	20.1	18.0
Accrued payroll	62.3	74.6
Environmental reserves, current, net of recoveries (Note 10)	74.4	29.5
Derivative liabilities (Note 17)	121.1	12.0
Other accrued and other liabilities	150.5	148.9
Total	$438.8	$307.0

CONTINGENT CONSIDERATION

2.119 AIRGAS, INC. (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(3) Acquisitions and Divestitures (in part)

Acquisitions have been recorded using the acquisition method of accounting and accordingly, results of their operations have been included in the Company's consolidated financial statements since the effective date of each respective acquisition.

Fiscal 2014 (in part)

During fiscal 2014, the Company purchased eleven businesses with historical annual sales of approximately $82 million. The largest of these businesses was The Encompass Gas Group, Inc. ("Encompass"), headquartered in Rockford, Illinois. With eleven locations in Illinois, Wisconsin, and Iowa, Encompass was one of the largest privately-owned suppliers of industrial, medical, and specialty gases and related hardgoods in the United States, generating approximately $55 million in annual sales in calendar 2012. The Company paid a total of $205 million in net cash consideration for the eleven businesses and for the settlement of holdback liabilities and payments related to contingent consideration arrangements associated with prior year acquisitions. Transaction and other integration costs incurred in fiscal 2014 were

$1.5 million and were included in selling, distribution and administrative expenses in the Company's consolidated statement of earnings. These acquisitions contributed approximately $33 million in net sales in fiscal 2014.

Fiscal 2013 (in part)

During fiscal 2013, the Company purchased eighteen businesses with historical annual sales of more than $95 million. A total of $98 million in net cash consideration was paid for the eighteen businesses and for the settlement of holdback liabilities and payments related to contingent consideration arrangements associated with prior year acquisitions. Transaction and other integration costs incurred in fiscal 2013 were $1.3 million and were included in selling, distribution and administrative expenses in the Company's consolidated statement of earnings. These acquisitions contributed approximately $30 million in net sales in fiscal 2013.

Fiscal 2012 (in part)

During fiscal 2012, the Company purchased eight businesses. The largest of these businesses were ABCO Gases, Welding and Industrial Supply Company, Inc. ("ABCO"), Pain Enterprises, Inc. ("Pain") and Industrial Welding Supplies of Hattiesburg, LLC (d/b/a "Nordan Smith"). ABCO was a New England-based industrial gas and welding supply distributor with 12 locations throughout Connecticut, New Hampshire, Massachusetts and Rhode Island with historical annual sales of approximately $35 million. Pain, a producer and distributor of dry ice and liquid carbon dioxide with 20 locations throughout the Midwestern United States, generated historical annual sales of approximately $33 million. Nordan Smith was a Mississippi-based industrial gas and welding supply distributor with 17 locations throughout Mississippi, Arkansas and Alabama with historical annual sales of approximately $31 million. A total of $160 million in net cash consideration was paid for the eight businesses and for the settlement of holdback liabilities and payments related to contingent consideration arrangements associated with prior year acquisitions. Transaction and other integration costs incurred in fiscal 2012 were $1.8 million and were included in selling, distribution and administrative expenses in the Company's consolidated statement of earnings. The businesses acquired in fiscal 2012 had aggregate historical annual sales of approximately $106 million. These acquisitions contributed approximately $58 million in net sales in fiscal 2012. The Company acquired these businesses in order to expand its geographic coverage and strengthen its national network of branch-store locations, and to expand its dry ice and liquid carbon dioxide production and distribution.

(11) Fair Value of Financial Assets and Liabilities (in part)

Assets and Liabilities Measured at Fair Value on a Recurring Basis (in part)

Contingent consideration liabilities—As part of the consideration for certain acquisitions, the Company has arrangements in place whereby future consideration in the form of cash may be transferred to the sellers contingent upon the achievement of certain earnings targets. The fair values of the contingent consideration arrangements were estimated using the income approach with inputs that are not observable in the market. Key assumptions for each arrangement, as applicable, include a discount rate commensurate with the level of risk of achievement, time horizon and other risk factors, and probability adjusted earnings growth, all of which the Company believes are appropriate and representative of market participant assumptions. As of March 31, 2014, the contingent consideration liability is included within accrued expenses and other current liabilities on the consolidated balance sheet. The impact on the Company's earnings as a result of the contingent consideration arrangements is recorded within selling, distribution and administrative expenses in the statement of earnings, and was $1.5 million for the year ended March 31, 2014. There was no material impact on the Company's earnings as a result of the contingent consideration arrangements for the year ended March 31, 2013.

Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the years ended March 31, 2014 and 2013 were as follows (in thousands):

Balance at March 31, 2012	$ 2,512
Contingent consideration liabilities recorded	1,750
Settlements made during the period	(669)
Adjustments to fair value measurement	39
Balance at March 31, 2013	$ 3,632
Contingent consideration liabilities recorded	—
Settlements made during the period	(1,841)
Adjustments to fair value measurement	(1,468)
Balance at March 31, 2014	$ 323

LITIGATION

2.120 ANADARKO PETROLEUM CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
Millions	2014	2013
Liabilities and Equity (in part)		
Current Liabilities		
Accounts payable	$ 3,683	$ 3,530
Current asset retirement obligations	257	409
Accrued expenses	994	1,264
Current portion of long-term debt	—	500
Deepwater Horizon settlement and related costs	90	—
Tronox-related contingent liability	5,210	—
Total	10,234	5,703

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

17. Contingencies (in part)

Litigation. The Company is a defendant in a number of lawsuits, is involved in governmental proceedings, and is subject to regulatory controls arising in the ordinary course of business, including, but not limited to, personal injury claims; property damage claims; title disputes; tax disputes; royalty claims; contract claims; contamination claims relating to oil and gas production, transportation, and processing; and environmental claims, including claims involving assets owned by acquired companies and claims involving assets previously sold to third parties and no longer a part of the Company's current operations. The Company's Consolidated Balance Sheets include liabilities of $5.3 billion at December 31, 2014, and $854 million at December 31, 2013, for litigation-related contingencies. Anadarko is also subject to various environmental-remediation and reclamation obligations arising from federal, state, and local laws and regulations. While the ultimate outcome and impact on the Company cannot be predicted with certainty, after consideration of recorded expense and liability accruals, management believes that the resolution of pending proceedings will not have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows.

Tronox Litigation. On November 28, 2005, Tronox Incorporated (Tronox), at the time a subsidiary of Kerr-McGee Corporation, completed an IPO and was subsequently spun-off from Kerr-McGee Corporation. In August 2006, Anadarko acquired all of the stock of Kerr-McGee Corporation. In January 2009, Tronox and certain of Tronox's subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York (Bankruptcy Court), which is the court that presided over the Adversary Proceeding (defined below). In May 2009, Tronox and certain of its affiliates filed a lawsuit against Anadarko and Kerr-McGee Corporation and certain of its subsidiaries (collectively, Kerr-McGee) asserting several claims, including claims for actual and constructive fraudulent conveyance (Adversary Proceeding). Tronox alleged, among other things, that it was insolvent or undercapitalized at the date of its IPO and sought, among other things, to recover damages in excess of $18.85 billion from Kerr-McGee and Anadarko, as well as interest and attorneys' fees and costs. In accordance with Tronox's Bankruptcy Court-approved Plan of Reorganization (Plan), the Adversary Proceeding was pursued by a litigation trust (Litigation Trust). Pursuant to the Plan, the Litigation Trust was "deemed substituted" for the Tronox plaintiffs in the Adversary Proceeding. For purposes of this Form 10-K, references to "Tronox" after February 2011 refer to the Litigation Trust.

The U.S. government intervened in the Adversary Proceeding, and in May 2009 asserted separate claims against Anadarko and Kerr-McGee under the Federal Debt Collection Procedures Act (FDCPA Complaint). The Litigation Trust and the U.S. government agreed that the recovery of damages under the Adversary Proceeding, if any, would cover both the Adversary Proceeding and the FDCPA Complaint.

Liability Accrual. On April 3, 2014, Anadarko and Kerr-McGee entered into a settlement agreement with the Litigation Trust and the U.S. government (in its capacity as plaintiff-intervenor and acting for and on behalf of certain U.S. government agencies) to resolve all claims asserted in the Adversary Proceeding and FDCPA Complaint for $5.15 billion, which represents principal of approximately $3.98 billion plus 6% interest from the filing of the Adversary Proceeding on May 12, 2009, through April 3, 2014. In addition, the Company agreed to pay interest on the above amount from April 3, 2014, through the payment of the settlement, with an annual interest rate of 1.5% for the first 180 days and 1.5% plus the one-month LIBOR thereafter. Under the terms of the settlement agreement, the Litigation Trust, Anadarko, and Kerr-McGee agreed to mutually release all claims that were or could have been asserted in the Adversary Proceeding. The U.S. government (representing federal agencies that filed claims in the Tronox bankruptcy), Anadarko, and Kerr-McGee also provided covenants not to sue each other with respect to certain claims and causes of action. The U.S. government also provided contribution protection from third-party claims seeking reimbursement from Anadarko and certain of its affiliates for the sites identified in the settlement agreement. In January 2015, the Company paid $5.2 billion after the settlement agreement became effective.

Anadarko recognized Tronox-related contingent losses of $850 million in the fourth quarter of 2013 and $4.3 billion in the first quarter of 2014. In addition, Anadarko recognized settlement-related interest expense of $60 million, included in Tronox-related contingent loss in the Company's Consolidated Statement of Income, during the year ended December 31, 2014, for an aggregate $5.2 billion Tronox-related contingent liability on the Company's Consolidated Balance Sheet at December 31, 2014. For information on the tax effects of the Tronox settlement agreement, see *Note 18—Income Taxes*.

DERIVATIVES

2.121 UNITED CONTINENTAL HOLDINGS, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In millions, except shares)

	At December 31,	
	2014	**2013**
Liabilities and Stockholders' Equity (in part)		
Current liabilities:		
Advance ticket sales	$ 3,701	$ 3,405
Frequent flyer deferred revenue	2,058	2,369
Accounts payable	1,882	2,087
Accrued salaries and benefits	1,818	1,696
Current maturities of long-term debt	1,313	1,368
Current maturities of capital leases	110	117
Fuel derivative instruments	694	—
Other	932	1,065
	12,508	12,107

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 10—Hedging Activities (in part)

Fuel Derivatives

The Company routinely hedges a portion of its future fuel requirements. As of December 31, 2014, the Company had hedged approximately 22% and 1% of its projected fuel requirements (859 million and 35 million gallons, respectively) for 2015 and 2016, respectively, with commonly used financial hedge instruments based on aircraft fuel or crude oil. As of December 31, 2014, the Company had fuel hedges expiring through March 2016. The Company does not enter into derivative instruments for non-risk management purposes.

As required, the Company assesses the effectiveness of each of its individual hedges on a quarterly basis. The Company also examines the effectiveness of its entire hedging program on a quarterly basis utilizing statistical analysis. This analysis involves utilizing regression and other statistical analyses that compare changes in the price of aircraft fuel to changes in the prices of the commodities used for hedging purposes.

Upon proper qualification, the Company accounts for certain fuel derivative instruments as cash flow hedges. All derivatives designated as hedges that meet certain requirements are granted hedge accounting treatment. The types of instruments the Company utilizes that qualify for special hedge accounting treatment typically include swaps, call options, collars (which consist of a purchased call option and a sold put option) and four-way collars (a collar with a higher strike sold call option and a lower strike purchased put option). Generally, utilizing hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective are recorded in AOCI until the underlying fuel is consumed and recorded in fuel expense. The Company is exposed to the risk that its hedges may not be effective in offsetting changes in the cost of fuel and that its hedges may not continue to qualify for hedge accounting. Hedge ineffectiveness results when the change in the fair value of the derivative instrument exceeds the change in the value of the Company's expected future cash outlay to purchase and consume fuel. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is classified as Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

The Company also utilizes certain derivative instruments that are economic hedges but do not qualify for hedge accounting under U.S. GAAP. As with derivatives that qualify for hedge accounting, the purpose of these economic hedges is to mitigate the adverse financial impact of potential increases in the price of fuel. Currently, the only such economic hedges in the Company's hedging portfolio are three-way collars (a collar with a higher strike sold call option). The Company records changes in the fair value of three-way collars to Nonoperating income (expense): Miscellaneous, net in the statements of consolidated operations.

If the Company settles a derivative prior to its contractual settlement date, then the cumulative gain or loss recognized in AOCI at the termination date remains in AOCI until the forecasted transaction occurs. In a situation where it becomes probable that a hedged forecasted transaction will not occur, any gains and/or losses that have been recorded to AOCI would be required to be immediately reclassified into earnings. All cash flows associated with purchasing and settling derivatives are classified as operating cash flows in the statements of consolidated cash flows.

The Company records each derivative instrument as a derivative asset or liability (on a gross basis) in its consolidated balance sheets, and, accordingly, records any related collateral on a gross basis. The table below presents the fair value amounts of fuel derivative assets and liabilities and the location of amounts recognized in the Company's financial statements.

At December 31, the Company's derivatives were reported in its consolidated balance sheets as follows (in millions):

Classification	**Balance Sheet Location**	**2014**	**2013**
Derivatives Designated as Cash Flow Hedges			
Assets:			
Fuel contracts due within one year	Receivables	$ —	$ 19
Fuel contracts with maturities greater than one year	Other assets: Other, net	—	6
Total assets		$ —	$ 25
Liabilities:			
Fuel contracts due within one year	Fuel derivative instruments	$450	$ —
Fuel contracts with maturities greater than one year	Other liabilities and deferred credits: Other	27	—
		$477	$ —
Derivatives not Designated for Hedge Accounting			
Assets:			
Fuel contracts due within one year	Receivables	$ 6	$ 70
Fuel contracts with maturities greater than one year	Other assets: Other, net	—	9
Total assets		$ 6	$ 79
Liabilities:			
Fuel contracts due within one year	Fuel derivative instruments	$244	$ —
Fuel contracts with maturities greater than one year	Other liabilities and deferred credits: Other	2	—
Total liabilities		$246	$ —
Total Derivatives			
Assets:			
Fuel contracts due within one year	Receivables	$ 6	$ 89
Fuel contracts with maturities greater than one year	Other assets: Other, net	—	15
Total assets		$ 6	$104
Liabilities:			
Fuel contracts due within one year	Fuel derivative instruments	$694	$ —
Fuel contracts with maturities greater than one year	Other liabilities and deferred credits: Other	29	—
Total liabilities		$723	$ —

CLAIMS AND DISCOUNTS

2.122 CVS HEALTH CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	December 31,	
In millions, except per share amounts	**2014**	**2013**
Liabilities: (in part)		
Accounts payable	$ 6,547	$ 5,548
Claims and discounts payable	5,404	4,548
Accrued expenses	5,816	4,768
Short-term debt	685	—
Current portion of long-term debt	575	561
Total current liabilities	19,027	15,425

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Significant Accounting Policies (in part)

Revenue Recognition

Pharmacy Services Segment

The PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service dispensing pharmacies and under retail pharmacy network contracts where it is the principal using the gross method at the contract prices negotiated with its clients. Net revenues include: (i) the portion of the price the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" below), (ii) the price paid to the PSS by client plan members for mail order prescriptions ("Mail Co-Payments") and the price paid to retail network pharmacies by client plan members for retail prescriptions ("Retail Co-Payments"), and (iii) administrative fees for retail pharmacy network contracts where the PSS is not the principal as discussed below. Sales taxes are not included in revenue.

Revenue is recognized when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. The following revenue recognition policies have been established for the PSS:

- Revenues generated from prescription drugs sold by mail service dispensing pharmacies are recognized when the prescription is delivered. At the time of delivery, the PSS has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.
- Revenues generated from prescription drugs sold by third party pharmacies in the PSS' retail pharmacy network and associated administrative fees are recognized at the PSS' point-of-sale, which is when the claim is adjudicated by the PSS online claims processing system.

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS' obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS' responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically appropriate and approving the prescription for dispensing. Although the PSS does not have credit risk with respect to Retail Co-Payments, management believes that all of the other applicable indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, revenue is recognized using the net method.

Drug Discounts—The PSS deducts from its revenues any rebates, inclusive of discounts and fees, earned by its clients. Rebates are paid to clients in accordance with the terms of client contracts, which are normally based on fixed rebates per prescription for specific products dispensed or a percentage of manufacturer discounts received for specific products dispensed. The liability for rebates due to clients is included in "Claims and discounts payable" in the accompanying consolidated balance sheets.

Medicare Part D—The PSS, through its SilverScript subsidiary, participates in the federal government's Medicare Part D program as a Prescription Drug Plan ("PDP"). Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

In addition to these premiums, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in net revenues. SilverScript assumes no risk for these amounts. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses.

The PSS accounts for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with its revenue recognition policies for Mail Co-Payments and Retail Co-Payments (discussed previously in this document).

Retail Pharmacy Segment

The RPS recognizes revenue at the time the customer takes possession of the merchandise. Customer returns are not material. Revenue generated from the performance of services in the RPS' health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Loyalty Program—The Company's customer loyalty program, ExtraCare®, is comprised of two components, ExtraSavings TM and ExtraBucks® Rewards. ExtraSavings coupons redeemed by customers are recorded as a reduction of revenues when redeemed. ExtraBucks Rewards are accrued as a charge to cost of revenues when earned, net of estimated breakage. The Company determines breakage based on historical redemption patterns.

See Note 12 for additional information about the revenues of the Company's business segments.

Cost of Revenues

Pharmacy Services Segment—The PSS' cost of revenues includes: (i) the cost of prescription drugs sold during the reporting period directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network, (ii) shipping and handling costs, and (iii) the operating costs of its mail service dispensing pharmacies and client service operations and related information technology support costs including depreciation and amortization. The cost of prescription drugs sold component of cost of revenues includes: (i) the cost of the prescription drugs purchased from manufacturers or distributors and shipped to members in clients' benefit plans from the PSS' mail service dispensing pharmacies, net of any volume-related or other discounts (see "Vendor allowances and purchase discounts" below) and (ii) the cost of prescription drugs sold (including Retail Co-Payments) through the PSS' retail pharmacy network under contracts where it is the principal, net of any volume-related or other discounts.

Retail Pharmacy Segment—The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses.

See Note 12 for additional information about the cost of revenues of the Company's business segments.

Vendor Allowances and Purchase Discounts

The Company accounts for vendor allowances and purchase discounts as follows:

Pharmacy Services Segment—The PSS receives purchase discounts on products purchased. The PSS' contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the PSS to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices, or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the PSS' results of operations. The PSS accounts for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The PSS also receives additional discounts under its wholesaler contracts if it exceeds contractually defined annual purchase volumes. In addition, the PSS receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

Retail Pharmacy Segment—Vendor allowances received by the RPS reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract. The total amortization of these upfront payments was not material to the accompanying consolidated financial statements.

ASSET RETIREMENT OBLIGATIONS

2.123 ALCOA INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(dollars in millions, except per-share amounts)

A. Summary of Significant Accounting Policies (in part)

Asset Retirement Obligations. Alcoa recognizes asset retirement obligations (AROs) related to legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. Alcoa also recognizes AROs for any significant lease restoration obligation, if required by a lease agreement, and for the disposal of regulated waste materials related to the demolition of certain power facilities. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, Alcoa capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over their remaining useful life.

Certain conditional asset retirement obligations (CAROs) related to alumina refineries, aluminum smelters, and fabrication facilities have not been recorded in the Consolidated Financial Statements due to uncertainties surrounding the ultimate settlement date. A CARO is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within Alcoa's control. Such uncertainties exist as a result of the perpetual nature of the structures, maintenance and upgrade programs, and other factors. At the date a reasonable estimate of the ultimate settlement date can be made, Alcoa would record an ARO for the removal, treatment, transportation, storage, and/or disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, polychlorinated biphenyls (PCBs), various process residuals, solid wastes, electronic equipment waste, and various other materials. Such amounts may be material to the Consolidated Financial Statements in the period in which they are recorded.

C. Asset Retirement Obligations

Alcoa has recorded AROs related to legal obligations associated with the normal operations of bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. Alcoa also recognizes AROs for any significant lease restoration obligation, if required by a lease agreement, and for the disposal of regulated waste materials related to the demolition of certain power facilities.

In addition to AROs, certain CAROs related to alumina refineries, aluminum smelters, and fabrication facilities have not been recorded in the Consolidated Financial Statements due to uncertainties surrounding the ultimate settlement date. Such uncertainties exist as a result of the perpetual nature of the structures, maintenance and upgrade programs, and other factors. At the date a reasonable estimate of the ultimate settlement date can be made (e.g., planned demolition), Alcoa would record an ARO for the removal, treatment, transportation, storage, and/or disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, PCBs, various process residuals, solid wastes, electronic equipment waste, and various other materials. If Alcoa was required to demolish all such structures immediately, the estimated CARO as of December 31, 2014 ranges from less than $1 to $46 per structure (136 structures) in today's dollars.

The following table details the carrying value of recorded AROs by major category (of which $76 and $85 was classified as a current liability as of December 31, 2014 and 2013, respectively):

December 31,	2014	2013
Spent pot lining disposal	$170	$182
Closure of bauxite residue areas	178	179
Mine reclamation	167	178
Demolition*	114	68
Landfill closure	31	18
Other	3	4
	$663	$629

* In 2014 and 2013, AROs were recorded as a result of management's decision to permanently shut down and demolish certain structures (see Note D).

The following table details the changes in the total carrying value of recorded AROs:

December 31,	2014	2013
Balance at beginning of year	$629	$610
Accretion expense	25	24
Payments	(84)	(71)
Liabilities incurred	144	118
Divestitures*	(20)	-
Foreign currency translation and other	(31)	(52)
Balance at end of year	$663	$629

* In 2014, this amount relates to the sale of an interest in a bauxite mine and alumina refinery in Jamaica and a smelter in the United States (see Note F).

Long-Term Debt

PRESENTATION

2.124 FASB ASC 470 addresses classification determination for specific debt obligations. FASB ASC 470-10-45-11 states that the current liability classification is intended to include long-term obligations that are or will be callable by the creditor either because the debtor's violation of a provision of the debt agreement at the balance sheet date makes the obligation callable, or the violation, if not cured within a specified grace period, will make the obligation callable. Accordingly, such callable obligations should be classified as current liabilities, unless one of the following conditions is met:

- The creditor has waived or subsequently lost the right to demand repayment for more than one year, or operating cycle if longer, from the balance sheet date. For example, the debtor may have cured the violation after the balance sheet date, and the obligation is not callable at the time the financial statements are issued or available to be issued.
- For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

DISCLOSURE

2.125 FASB ASC 470 requires, for each of the five years following the date of the latest balance sheet presented, disclosure of the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings. In addition, FASB ASC 440, *Commitments*, requires disclosure of terms and conditions provided in loan agreements, such as assets pledged as collateral and covenants to limit additional debt, maintain working capital, and restrict dividends. Regulation S-X has similar or expanded requirements for matters such as debt details, assets subject to lien, defaults, dividend restrictions, and changes in long-term debt.

2.126 FASB ASC 825 requires disclosure of both the fair value and bases for estimating the fair value of long-term debt, unless it is not practicable to estimate the value.

PRESENTATION AND DISCLOSURE EXCERPTS

UNSECURED

2.127 TOLL BROTHERS, INC. (OCT)

CONSOLIDATED BALANCE SHEETS (in part)

(Amounts in thousands)

	October 31,	
	2014	2013
Liabilities and Equity (in part)		
Liabilities		
Loans payable	$ 654,261	$ 107,222
Senior notes	2,655,044	2,321,442
Mortgage company loan facility	90,281	75,000
Customer deposits	223,799	212,669
Accounts payable	225,347	167,787
Accrued expenses	581,477	522,987
Income taxes payable	125,996	81,188
Total liabilities	4,556,205	3,488,295

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

6. Loans Payable, Senior Notes, and Mortgage Company Loan Facility

Loans Payable

At October 31, 2014 and 2013, loans payable consisted of the following (amounts in thousands):

	2014	2013
Senior unsecured term loan	$500,000	
Loans payable—other	154,261	$107,222
	$654,261	$107,222

Credit Facility

On August 1, 2013, we entered into a $1.035 billion unsecured, five -year revolving credit facility ("Credit Facility") with a syndicate of 15 banks ("Aggregate Credit Commitment"), which extends to August 1, 2018. Up to 75% of the Aggregate Credit Commitment is available for letters of credit. The Credit Facility has an accordion feature under which we may, subject to certain conditions set forth in the agreement, increase the Credit Facility up to a maximum aggregate amount of $2.0 billion. We may select interest rates for the Credit Facility equal to (i) the London Interbank Offering Rate ("LIBOR") plus an applicable margin or (ii) the lenders' base rate plus an applicable margin, which in each case is based on our credit rating and leverage ratio. At October 31, 2014, the interest rate on outstanding borrowings under the Credit Facility would have been 2.10% per annum. We are obligated to pay an undrawn commitment fee that is based on the average daily unused amount of the Aggregate Credit Commitment and our credit ratings and leverage ratio. Any proceeds from borrowings under the Credit Facility may be used for general corporate purposes. We and substantially all of our 100%-owned home building subsidiaries are guarantors under the Credit Facility.

Under the terms of the Credit Facility, our maximum leverage ratio (as defined in the Credit Agreement) may not exceed 1.75 to 1.00 and we are required to maintain a minimum tangible net worth (as defined in the Credit Facility) of no less than approximately $2.48 billion. Under the terms of the Credit Facility, at October 31, 2014, our leverage ratio was approximately 0.71 to 1.00 and our tangible net worth was approximately $3.80 billion. Based upon the minimum tangible net worth requirement, our ability to repurchase our common stock was limited to approximately $1.74 billion as of October 31, 2014.

The Credit Facility replaced our revolving credit facility entered into as of October 22, 2010 (the "2010 Facility"). Upon entering into the Credit Facility, we voluntarily terminated the 2010 Facility on August 1, 2013. No early termination penalties were incurred by us as a result of the termination of the 2010 Facility.

At October 31, 2014, we had no borrowings outstanding under the Credit Facility and had outstanding letters of credit of approximately $94.8 million. As part of the Acquisition, we borrowed $370.0 million under the Credit Facility on February 3, 2014, all of which had been repaid as of October 31, 2014.

Senior Unsecured Term Loan

On February 3, 2014, we entered into a 5-year senior, $485.0 million, unsecured term loan facility (the "Term Loan Facility") with a syndicate of 10 banks. We borrowed the full amount of the Term Loan Facility on February 3, 2014. In October 2014, we added an additional lender to the Term Loan Facility and increased the Term Loan Facility by $15.0 million. We drew down the $15.0 million from the facility in October 2014.

We may select interest rates for the Term Loan Facility equal to (i) LIBOR plus an applicable margin, (ii) the base rate (which is defined as the greatest of (a) SunTrust Bank's prime rate, (b) the federal funds effective rate plus 0.5%, and (c) one-month LIBOR plus 1%) plus an applicable margin, or (iii) the federal funds/Euro rate (which is defined as the greater of (a) the sum of the federal funds effective rate plus an applicable margin plus 0.25%, and (b) one-month LIBOR), with the applicable margin, in each case, based on our leverage ratio. At October 31, 2014, the interest rate on the Term Loan Facility was 1.81% per annum.

We and substantially all of our 100%-owned home building subsidiaries are guarantors under the Term Loan Facility. The Term Loan Facility contains substantially the same financial covenants as the Credit Facility. The Term Loan Facility will mature, and amounts owing thereunder will become due and payable, on February 3, 2019.

364-Day Senior Unsecured Revolving Credit Facility

On February 4, 2014, we entered into a 364-day senior unsecured revolving credit facility (the "364-Day Facility") with five banks. The 364-Day Facility provided for an unsecured revolving credit facility to be made available to us until February 3, 2015 in the amount of $500.0 million. The 364-Day Facility allowed us to select interest rates for the 364-Day Facility equal to (i) LIBOR plus an applicable margin, (ii) the base rate (which is defined as the greatest of (a) Citibank's prime rate, (b) the federal funds effective rate plus 0.5%, and (c) one-month LIBOR plus 1%) plus an applicable margin, or (iii) the federal funds/Euro rate (which is defined as the greater of (a) the sum of the federal funds effective rate plus an applicable margin plus 0.25%, and (b) one-month LIBOR), with the applicable margin, in each case, based on our leverage ratio. We were obligated to pay an undrawn commitment fee.

We and substantially all of our 100%-owned home building subsidiaries were guarantors under the 364-Day Facility. The 364-Day Facility contained substantially the same financial covenants as the Credit Facility.

In October 2014, we voluntarily terminated the 364-Day Facility. No amounts were ever borrowed under the 364-Day Facility.

Loans Payable—Other

Our loans payable—other represent purchase money mortgages on properties we had acquired that the seller had financed and various revenue bonds that were issued by government entities on behalf of us to finance community infrastructure and our manufacturing facilities. Information regarding our loans payable at October 31, 2014 and 2013, is included in the table below ($ amounts in thousands):

	2014	2013
Aggregate loans payable at October 31	$ 154,261	$ 107,222
Weighted-average interest rate	4.34%	4.53%
Interest rate range	0.15%–7.87%	0.14%–7.87%
Loans secured by assets		
Carrying value of loans secured by assets	$154,111	$106,358
Carrying value of assets securing loans	$ 428,122	$ 372,833

The contractual maturities of loans payable—other as of October 31, 2014, ranged from less than one month to 32 years.

Senior Notes

At October 31, 2014 and 2013, senior notes consisted of the following (amounts in thousands):

	2014	2013
4.95% Senior Notes due March 15, 2014	$ —	$ 267,960
5.15% Senior Notes due May 15, 2015	300,000	300,000
8.91% Senior Notes due October 15, 2017	400,000	400,000
4.00% Senior Notes due December 31, 2018	350,000	—
6.75% Senior Notes due November 1, 2019	250,000	250,000
5.875% Senior Notes due February 15, 2022	419,876	419,876
4.375% Senior Notes due April 15, 2023	400,000	400,000
5.625% Senior Notes due January 15, 2024	250,000	—
0.5% Exchangeable Senior Notes due September 15, 2032	287,500	287,500
Bond discount	(2,332)	(3,894)
	$2,655,044	$2,321,442

The senior notes are the unsecured obligations of Toll Brothers Finance Corp., our 100%-owned subsidiary. The payment of principal and interest is fully and unconditionally guaranteed, jointly and severally, by us and substantially all of our 100%-owned home building subsidiaries (together with Toll Brothers Finance Corp., the "Senior Note Parties"). The senior notes rank equally in right of payment with all the Senior Note Parties' existing and future unsecured senior indebtedness, including the Credit Facility. The senior notes are structurally subordinated to the prior claims of creditors, including trade creditors, of our subsidiaries that are not guarantors of the senior notes. The senior notes, other than the 0.5% Exchangeable Senior Notes due 2032 ("0.5% Senior Notes"), are redeemable in whole or in part at any time at our option, at prices that vary based upon the then-current rates of interest and the remaining original term of the notes. The 0.5% Senior Notes are not redeemable by us prior to September 15, 2017.

In March 2014, we repaid the $268.0 million of outstanding principal amount of 4.95% Senior Notes due March 15, 2014.

In November 2013, we issued $350.0 million aggregate principal amount of 4.0% Senior Notes due 2018 (the "4.0% Senior Notes") and $250.0 million aggregate principal amount of 5.625% Senior Notes due 2024 (the "5.625% Senior Notes"). We received $596.2 million of net proceeds from the issuance of the 4.0% Senior Notes and the 5.625% Senior Notes.

In September 2013, we repaid the outstanding principal amount of $104.8 million of our 5.95% Senior Notes due September 15, 2013.

In April 2013, we issued $300.0 million aggregate principal amount of 4.375% Senior Notes due 2023 (the "4.375% Senior Notes") at par. We received $298.1 million of net proceeds from this issuance of 4.375% Senior Notes.

In May 2013, we issued an additional $100.0 million aggregate principal amount of 4.375% Senior Notes at a price equal to 103% of par value. We received $102.3 million of net proceeds from this additional issuance of 4.375% Senior Notes.

In November 2012, we repaid the $59.1 million of outstanding principal amount of 6.875% Senior Notes due November 15, 2012.

In September 2012, we issued $287.5 million aggregate principal amount of 0.5% Senior Notes. We received $282.5 million of net proceeds from the issuance of the 0.5% Senior Notes. The 0.5% Senior Notes are exchangeable into shares of our common stock at an exchange rate of 20.3749 shares per $1,000 principal amount of notes, corresponding to an initial exchange price of approximately $49.08 per share of common stock. If all of the 0.5% Senior Notes are exchanged, we would issue approximately 5.9 million shares of our common stock. Shares issuable upon conversion of the 0.5% Senior Notes are included in the calculation of diluted earnings per share. See Note 11, "Income Per Share Information," for more information regarding the number of shares included in the calculation of diluted earnings per share. Holders of the 0.5% Senior Notes will have the right to require Toll Brothers Finance Corp. to repurchase their notes for cash equal to 100% of their principal amount, plus accrued but unpaid interest, on each of December 15, 2017; September 15, 2022; and September 15, 2027. Toll Brothers Finance Corp. will have the right to redeem the 0.5% Senior Notes on or after September 15, 2017, for cash equal to 100% of their principal amount, plus accrued but unpaid interest.

In February 2012, we issued $300 million aggregate principal amount of 5.875% Senior Notes due 2022 (the "5.875% Senior Notes"). We received $296.2 million of net proceeds from the issuance of the 5.875% Senior Notes. In March 2012, we issued an additional $119.9 million aggregate principal amount of our 5.875% Senior Notes in exchange for $80.7 million principal amount of our 6.875% Senior Notes due 2012 and $36.9 million principal amount of our 5.95% Senior Notes due 2013. We recognized a charge of $1.2 million in fiscal 2012 representing the aggregate costs associated with the exchange of both series of notes; these expenses are included in "Selling, general and administrative" expense in the Consolidated Statements of Operations and Comprehensive Income.

Mortgage Company Loan Facility

In July 2014, TBI Mortgage® Company ("TBI Mortgage"), our wholly-owned mortgage subsidiary, amended its Master Repurchase Agreement (the "Repurchase Agreement") with Comerica Bank. The purpose of the Repurchase Agreement is to finance the origination of mortgage loans by TBI Mortgage, and the Repurchase Agreement is accounted for as a secured borrowing under ASC 860. The Repurchase Agreement, as amended, provides for loan purchases up to $50 million, subject to certain sublimits. In addition, the Repurchase Agreement provides for an accordion feature under which TBI Mortgage may request that the aggregate commitments under the Repurchase Agreement be increased to an amount up to $100 million for a short period of time. The Repurchase Agreement, as amended, expires on July 21, 2015, and bears interest at LIBOR plus 2.00%, with a minimum rate of 2.00%. Borrowings under this facility are included in the fiscal 2014 maturities.

At October 31, 2014 and 2013, there were $90.3 million and $75.0 million, respectively, outstanding under the Repurchase Agreement, which are included in liabilities in the accompanying Consolidated Balance Sheets. At October 31, 2014 and 2013, amounts outstanding under the Repurchase Agreement were collateralized by $93.9 million and $113.5 million, respectively, of mortgage loans held for sale, which are included in assets in our Consolidated Balance Sheets. As of October 31, 2014, there were no aggregate outstanding purchase price limitations reducing the amount available to TBI Mortgage. There are several restrictions on purchased loans under the Repurchase Agreement, including that they cannot be sold to others, they cannot be pledged to anyone other than the agent, and they cannot support any other borrowing or repurchase agreement.

General

As of October 31, 2014, the annual aggregate maturities of our loans and notes during each of the next five fiscal years are as follows (amounts in thousands):

	Amount
2015	$455,382
2016	$ 25,528
2017	$407,932
2018	$ 4,890
2019	$858,808

COLLATERALIZED

2.128 RITE AID CORPORATION (FEB)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands, except per share amounts)

	March 1, 2014	March 2, 2013
Liabilities and Stockholders' Deficit (in part)		
Current liabilities:		
Current maturities of long-term debt and lease financing obligations	$ 49,174	$ 37,311
Accounts payable	1,292,419	1,384,644
Accrued salaries, wages and other current liabilities	1,165,859	1,156,315
Total current liabilities	2,507,452	2,578,270
Long-term debt, less current maturities	5,632,798	5,904,370
Lease financing obligations, less current maturities	75,171	91,850
Other noncurrent liabilities	843,152	963,663
Total liabilities	9,058,573	9,538,153

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In thousands, except per share amounts)

11. Indebtedness and Credit Agreement

Following is a summary of indebtedness and lease financing obligations at March 1, 2014 and March 2, 2013:

	2014	2013
Secured Debt:		
Senior secured revolving credit facility due February 2018	$ 400,000	$ 665,000
Tranche 6 Term Loan due February 2020	1,152,293	1,161,000
8.00% senior secured notes (senior lien) due August 2020	650,000	650,000
7.5% senior secured notes (second lien) due March 2017	—	500,000
Tranche 1 Term Loan (second lien) due August 2020	470,000	470,000
Tranche 2 Term Loan (second lien) due June 2021	500,000	—
10.25% senior secured notes (second lien) due October 2019 ($270,000 face value less unamortized discount of $1,160 and $1,364)	268,840	268,636
Other secured	5,324	5,298
	3,446,457	3,719,934
Guaranteed Unsecured Debt:		
9.5% senior notes due June 2017 ($810,000 face value less unamortized discount of $5,529)	—	804,471
6.75% senior notes due June 2021	810,000	—
9.25% senior notes due March 2020 ($902,000 face value plus unamortized premium of $4,087 and $4,759)	906,087	906,759
	1,716,087	1,711,230
Unguaranteed Unsecured Debt:		
8.5% convertible notes due May 2015	64,188	64,188
7.7% notes due February 2027	295,000	295,000
6.875% fixed-rate senior notes due December 2028	128,000	128,000
	487,188	487,188
Lease financing obligations	107,411	115,179
Total debt	5,757,143	6,033,531
Current maturities of long-term debt and lease financing obligations	(49,174)	(37,311)
Long-term debt and lease financing obligations, less current maturities	$5,707,969	$5,996,220

Credit Facility

The Company has a senior secured credit facility that consists of a $1,795,000 revolving credit facility and a $1,152,293 senior secured term loan (the "Tranche 7 Term Loan"). Borrowings under the revolving credit facility bear interest at a rate per annum between LIBOR plus 2.25% and LIBOR plus 2.75%, if the Company chooses to make LIBOR borrowings, or between Citibank's base rate plus 1.25% and Citibank's base rate plus 1.75% in each case based upon the amount of revolver availability as defined in the senior secured credit facility. The Company is required to pay fees between 0.375% and 0.50% per annum on the daily unused amount of the revolver, depending on the amount of revolver availability. Amounts drawn under the revolver become due and payable on February 21, 2018. On March 14, 2014, the Company amended and restated its credit agreement governing its senior secured credit facility, pursuant to which, it prepaid its outstanding Tranche 6 Term Loan with the proceeds of a new $1,152,293 Tranche 7 Term Loan. The Tranche 7 Term Loan matures on February 21, 2020 and currently bears interest at a rate per annum equal to LIBOR plus 2.75%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 1.75%. The Tranche 7 Term Loan is subject to a 0.75% LIBOR floor per annum.

The Company's ability to borrow under the revolver is based upon a specified borrowing base consisting of accounts receivable, inventory and prescription files. At March 1, 2014, the Company had $400,000 of borrowings outstanding under the revolver and had letters of credit outstanding against the revolver of $79,874, which resulted in additional borrowing capacity of $1,315,126.

The senior secured credit facility contains certain restrictions on the ability of the Company and the subsidiary guarantors to accumulate cash on hand, and under certain circumstances, requires the funds in the Company's deposit accounts to be applied first to the repayment of outstanding revolving loans under the senior secured credit facility and then to be held as collateral for the senior obligations.

The senior credit facility restricts the amount of secured and unsecured debt the Company may have outstanding. The senior secured credit facility allows the Company to incur an unlimited amount of unsecured debt with a maturity beyond May 21, 2020. However, the Company's second priority secured term loan facilities and the indentures that govern the Company's secured and guaranteed unsecured notes contain restrictions on the amount of additional secured and unsecured debt that can be incurred by the Company. Pursuant to certain of the Company's existing indentures, the Company could not incur any additional secured debt assuming a fully drawn revolver and the outstanding letters of credit. The ability to issue additional unsecured debt under the second priority secured term loan facilities and the indentures is generally governed by an interest coverage ratio test. As of March 1, 2014, the Company had the ability to issue additional unsecured debt under the second lien credit facilities and other indentures.

The senior secured credit facility contains additional covenants which place restrictions on the incurrence of debt, the payments of dividends, sale of assets, mergers and acquisitions and the granting of liens. The credit facility has a financial covenant, which is the maintenance of a fixed charge coverage ratio. The covenant requires that, if availability on the revolving credit facility is less than $150,000, the Company must maintain a minimum fixed charge coverage ratio of 1.00 to 1.00. As of March 1, 2014, availability under the revolving credit facility was in excess of $150,000 and our fixed charge coverage ratio was greater than 1.00 to 1.00. The senior secured credit facility also provides for customary events of default.

The Company also has a second priority secured term loan facility, which includes a $470,000 second priority secured term loan (the "Tranche 1 Term Loan"). The Tranche 1 Term Loan matures on August 21, 2020 and currently bears interest at a rate per annum equal to LIBOR plus 4.75%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 3.75%. The Tranche 1 Term Loan is subject to a 1.00% LIBOR floor per annum.

On June 21, 2013, the Company entered into a new second priority secured term loan facility, which includes a $500,000 second priority secured term loan (the "Tranche 2 Term Loan"). The Tranche 2 Term Loan matures on June 21, 2021 and currently bears interest at a rate per annum equal to LIBOR plus 3.875% with a LIBOR floor of 1.00%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 2.875%.

Substantially all of Rite Aid Corporation's 100 percent owned subsidiaries guarantee the obligations under the senior secured credit facility, second priority secured term loan facilities, secured guaranteed notes and unsecured guaranteed notes. The senior secured credit facility, second priority secured term loan facilities and secured guaranteed notes are secured, on a senior or second priority basis, as applicable, by a lien on, among other things, accounts receivable, inventory and prescription files of the subsidiary guarantors. The subsidiary guarantees related to the Company's senior secured credit facility, second priority secured term loan facilities and secured guaranteed notes and, on an unsecured basis, the unsecured guaranteed notes are full and unconditional and joint and several, and there are no restrictions on the ability of the Company to obtain funds from its subsidiaries. Also, the Company has no independent assets or operations, and subsidiaries not guaranteeing the credit facility, second priority secured term loan facilities and applicable notes are minor. Accordingly, condensed consolidating financial information for the Company and subsidiaries is not presented.

Other 2014 Transactions

In June 2013, the Company completed a tender offer for its 7.5% senior secured notes due 2017 in which $419,237 aggregate principal amount of the outstanding 7.5% notes were tendered and repurchased. In July 2013, the Company redeemed the remaining 7.5% notes for $85,154, which included the call premium and interest to the redemption date. The tender offer for, and redemption of, the 7.5% notes were funded using the proceeds from the Tranche 2 Term Loan, borrowings under the Company's revolving credit facility and available cash.

On July 2, 2013, the Company issued $810,000 of its 6.75% senior notes due 2021. The Company's obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsubordinated basis, by all of its subsidiaries that guarantee the Company's obligations under the senior secured credit facility, the second priority secured term loan facilities and the outstanding 8.00% senior secured notes due 2020, 10.25% senior secured notes due 2019 and 9.25% senior notes due 2020. The Company used the net proceeds of the 6.75% notes, borrowings under its revolving credit facility and available cash to repurchase and repay all of the Company's outstanding $810,000 aggregate principal of 9.5% senior notes due 2017.

In July 2013, the Company completed a tender offer for its 9.5% notes in which $739,642 aggregate principal amount of the outstanding 9.5% notes were tendered and repurchased. In August 2013, the Company redeemed the remaining 9.5% notes for $73,440, which included the call premium and interest to the redemption date.

In connection with these refinancing transactions, the Company recorded a loss on debt retirement, including tender and call premium and interest, unamortized debt issue costs and unamortized discount of $62,172.

As of March 2, 2013, Rite Aid Lease Management Company, a 100 percent owned subsidiary of the Company, had 213,000 shares of its Cumulative Preferred Stock, Class A, par value $100 per share ("RALMCO Cumulative Preferred Stock"), outstanding. The carrying amount of the RALMCO Cumulative Preferred Stock as of November 29, 2013 was $20,763 and was recorded in Other Noncurrent Liabilities. On

November 29, 2013, the Company repurchased all of the outstanding RALMCO Cumulative Preferred Stock for $21,034. In connection with this transaction, the Company recorded a loss on debt retirement of $271.

2013 Transactions

In February 2013, the Company repurchased all of its outstanding $410,000 aggregate principal of 9.750% senior secured notes, $470,000 aggregate principal of 10.375% senior secured notes and $180,277 aggregate principal amount of 6.875% senior debentures. In February 2013, $257,261 aggregate principal amount of the 9.750% notes, $401,999 aggregate principal amount of the 10.375% notes and $119,119 aggregate principal amount of the 6.875% debentures, respectively, were tendered and repurchased by the Company. The Company redeemed the remaining 9.750% notes and 10.375% notes for $171,432 and $72,901, respectively, which included the call premium and interest through the redemption date. Additionally, the Company discharged the remaining 6.875% debentures for $63,416, which included interest through maturity.

In February 2013, the Company redeemed $6,015 aggregate principal amount of 9.25% senior notes for $6,147, which included interest through the redemption date.

In connection with the above transactions, the Company recorded a loss on debt retirement, including tender and call premium and interest, unamortized debt issue costs and unamortized discount of $122,660.

In February 2012, the Company issued $481,000 of its 9.25% senior notes and in May 2012, the Company issued an additional $421,000 of its 9.25% senior notes. The proceeds of the notes, together with available cash, were used to repurchase the 8.625% senior notes and the 9.375% senior notes, respectively. These notes are unsecured, unsubordinated obligations of Rite Aid Corporation and rank equally in right of payment with all other unsubordinated indebtedness. The Company's obligations under the notes are fully and unconditionally guaranteed, jointly and severally, on an unsubordinated basis, by all of its subsidiaries that guarantee the Company's obligations under the senior secured credit facility, the second priority secured term loan facility and the outstanding 8.00% senior secured notes, 7.5% senior secured notes, 10.25% senior secured notes and 9.5% senior notes.

In May 2012, the Company completed a tender offer for the 9.375% notes in which $296,269 aggregate principal amount of the outstanding 9.375% notes were tendered and repurchased. In June 2012, the Company redeemed the remaining 9.375% notes for $108,731, which included the call premium and interest through the redemption date. The May 2012 refinancing resulted in an aggregate loss on debt retirement of $17,842.

2012 Transactions

In February 2012, the Company completed a tender offer for the 8.625% notes in which $404,844 aggregate principal amount of the outstanding 8.625% notes were tendered and repurchased, resulting in an aggregate loss on debt retirement of $16,066, recorded in the fourth quarter of fiscal 2012. In March 2012, the Company redeemed the remaining 8.625% notes for $55,644, which included the call premium and interest through the redemption date.

During August 2011, the Company repurchased $41,000 of its 8.625% notes, $5,000 of its 9.375% notes and $4,496 of its 6.875% debentures. These repurchases resulted in a gain for the period of $4,924.

Interest Rates and Maturities

The annual weighted average interest rate on the Company's indebtedness was 6.4%, 7.1%, and 7.4% for fiscal 2014, 2013, and 2012, respectively.

The aggregate annual principal payments of long-term debt for the five succeeding fiscal years are as follows: 2015—$16,934; 2016—$75,798; 2017—$11,610; 2018—$411,610 and $5,130,853 in 2019 and thereafter.

CONVERTIBLE

2.129 ALLIANT TECHSYSTEMS INC. (MAR)

CONSOLIDATED BALANCE SHEETS (in part)

	March 31	
(Amounts in thousands except share data)	**2014**	**2013**
Liabilities and Equity (in part)		
Current liabilities:		
Current portion of long-term debt	249,228	50,000
Accounts payable	315,605	337,713
Contract advances and allowances	105,787	119,491
Accrued compensation	128,821	137,630
Accrued income taxes	7,877	—
Other accrued liabilities	322,832	262,021
Total current liabilities	1,130,150	906,855
Long-term debt	1,843,750	1,023,877
Noncurrent deferred income tax liabilities	117,515	—
Postretirement and postemployment benefits liabilities	74,874	94,087
Accrued pension liability	557,775	719,172
Other long-term liabilities	124,944	126,458
Total liabilities	3,849,008	2,870,449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Amounts in thousands except share and per share data and unless otherwise indicated)

9. Long-Term Debt (in part)

Long-term debt, including the current portion, consisted of the following:

	March 31, 2014	March 31, 2013
Senior Credit Facility dated November 1, 2013:		
Term A Loan due 2018	$ 997,375	$ —
Term B Loan due 2020	249,375	—
Revolving Credit Facility due 2018	—	—
Senior Credit Facility dated October 7, 2010:		
Term A Loan due 2015	—	340,000
Term A Loan due 2017	—	195,000
Revolving Credit Facility due 2015	—	—
5.25% Senior Notes due 2021	300,000	—
6.875% Senior Subordinated Notes due 2020	350,000	350,000
3.00% Convertible Senior Subordinated Notes due 2024	199,440	199,453
Principal amount of long-term debt	2,096,190	1,084,453
Less: Unamortized discounts	3,212	10,576
Carrying amount of long-term debt	2,092,978	1,073,877
Less: current portion	249,228	50,000
Carrying amount of long-term debt, excluding current portion	$1,843,750	$1,023,877

3.00% Convertible Notes

In fiscal 2005, ATK issued $200,000 aggregate principal amount of 3.00% Convertible Senior Subordinated Notes (the 3.00% Convertible Notes) that mature on August 15, 2024. Interest on these notes is payable on February 15 and August 15 of each year. Starting with the period beginning on August 20, 2014 and ending on February 14, 2015, and for each of the 6 -month periods thereafter beginning on February 15, 2015, ATK will pay contingent interest of 0.30% of the average trading price of these notes if the average trading price of the notes is 120% or more of the principal amount during the five trading days ending on the third day immediately preceding the first day of the applicable interest period. The contingent interest feature is treated as an embedded derivative and the fair value of this feature was insignificant at March 31, 2014 and 2013.

ATK may redeem some or all of these notes in cash at any time on or after August 20, 2014. Holders of these notes may require ATK to repurchase in cash some or all of these notes on August 15, 2014 and August 15, 2019. Holders may also convert their 3.00% Convertible Notes into shares of ATK's common stock under the following circumstances: (1) when, during any fiscal quarter, the last reported sale price of ATK stock is greater than or equal to 130% of the conversion price, currently $99.22, for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) if ATK calls these notes for redemption; or (3) upon the occurrence of certain corporate transactions. These notes had an initial conversion rate of 12.5392 shares per $1 principal amount (a conversion price of $79.75). Pursuant to provisions in the indenture requiring adjustment of the conversion rate upon the payment of dividends, the conversion rate for these notes is now 13.1023, which correspondingly has changed the conversion price per share to $76.32. The stock price condition was first satisfied during fiscal 2008, so ATK wrote-off the unamortized debt issuance costs of approximately $3,200 at that time. The stock price condition was again met during fiscal 2009, and $547 of these notes were then converted. The stock price condition was again met during the quarters ended December 29, 2013 and March 31, 2014. Holders of $13 of these notes converted their notes in fiscal 2014. The notes continue to be convertible, at the option of the holder, through June 29, 2014, and will remain convertible so long as ATK's stock price continues to meet the 130% -of-conversion-price condition, as described above. Because the notes are now convertible and also will be putable within the next year, the remaining principal amount of $199,440 as of March 31, 2014, is classified as short-term.

In fiscal 2005, ATK amended the indenture to require ATK to satisfy 100% of the principal amount of these notes solely in cash, with any amounts above the principal amount to be satisfied in cash, common stock, or a combination of cash and common stock, at the sole election of ATK. If certain fundamental changes occur on or prior to August 15, 2014, ATK will in certain circumstances increase the conversion rate by a number of additional shares of common stock or, in lieu thereof, ATK may in certain circumstances elect to adjust the conversion rate and related conversion obligation so that these notes are convertible into shares of the acquiring or surviving company. The convertible shares had an impact on diluted shares outstanding for the year ended March 31, 2014 of 676,000 shares because ATK's average stock price exceeded the conversion price during those periods. These shares had no impact on diluted shares outstanding for fiscal 2013, or 2012 as the average stock price did not exceed the conversion price during those years.

The following tables provide additional information about the 3.00% Convertible Notes:

	March 31, 2014	**March 31, 2013**
Carrying amount of the equity component	$ 56,849	$ 56,849
Principal amount of the liability component	$199,440	$199,453
Unamortized discount of liability component	$ 3,212	$ 10,576
Net carrying amount of liability component	$196,228	$188,877
Remaining amortization period of discount (months)	5	17
Effective interest rate on liability component	7.000%	7.000%

Based on ATK's closing stock price of $142.15 on March 31, 2014, the if-converted value of these notes exceeded the aggregate principal amount of the notes by $172,028.

Rank and Guarantees

The 5.25% Notes rank senior in right of payment to the 3.00% Convertible Notes and the 6.875% Notes (the latter two of which rank equal with each other), and all of ATK's future senior subordinated indebtedness and are subordinated in right of payment to all existing and future senior indebtedness, including the Senior Credit Facility. The outstanding notes are guaranteed on an unsecured basis, jointly and severally and fully and unconditionally, by substantially all of ATK's domestic subsidiaries. The parent company has no independent assets or operations. As a result of the acquisition of Bushnell during the third quarter, ATK's non-guarantor subsidiaries become more than minor. See Note 16 for consolidating financial information of the guarantor and non-guarantor subsidiaries. All of these guarantor subsidiaries are 100% owned by ATK. These guarantees are senior or senior subordinated obligations, as applicable, of the applicable subsidiary guarantors. The guarantee by any Subsidiary Guarantor of ATK's obligations in respect of the 5.25% Notes and the 6.875% Notes will be released in each of the following circumstances:

- if, as a result of the sale of its capital stock, such Subsidiary Guarantor ceases to be a Restricted Subsidiary;
- if such Subsidiary Guarantor is designated as an "Unrestricted Subsidiary";
- upon defeasance or satisfaction and discharge of the 5.25% Notes or the 6.875% Notes, as applicable; and
- if such Subsidiary Guarantor has been released from its guarantees of indebtedness under the Credit Agreement and all capital markets debt securities.

The guarantee by any Subsidiary Guarantor of the Company's obligations in respect of the 3.00% Convertible Notes will be released if such Subsidiary Guarantor is released from its guarantee of the 5.25% Notes and the 6.875% Notes.

Covenants and Default Provisions

ATK's Senior Credit Facility and the indentures governing the 5.25% Notes, the 6.875% Notes and the 3.00% Convertible Notes impose restrictions on ATK, including limitations on its ability to incur additional debt, enter into capital leases, grant liens, pay dividends and make certain other payments, sell assets, or merge or consolidate with or into another entity. In addition, the Senior Credit Facility limits ATK's ability to enter into sale-and-leaseback transactions. ATK's 5.25% Notes and its 6.875% Notes limit the aggregate sum of dividends, share repurchases, and other designated restricted payments to an amount based on ATK's net income, stock issuance proceeds, and certain other items, less restricted payments made, since April 1, 2001. As of March 31, 2014, this limit was approximately $879,033. The 2013 Senior Credit Facility allows ATK to make unlimited "restricted payments" (as defined in the credit agreement), which, among other items, would allow payments for future share repurchases, as long as ATK maintains a certain amount of liquidity and maintains certain senior debt limits, with a limit, when those senior debt limits are not met, of $250,000 plus proceeds of any equity issuances plus 50% of net income since October 7, 2010. The Senior Credit Facility also requires that ATK meet and maintain specified financial ratios, including a minimum interest coverage ratio, a maximum consolidated senior leverage ratio, and a maximum consolidated leverage ratio. Many of ATK's debt agreements contain cross-default provisions so that non-compliance with the covenants within one debt agreement could cause a default under other debt agreements as well. ATK's ability to comply with these covenants and to meet and maintain the financial ratios may be affected by events beyond its control. Borrowings under the 2013 Senior Credit Facility are subject to compliance with these covenants. As of March 31, 2014, ATK was in compliance with the financial covenants.

19. Subsequent Events (in part)

On April 28, 2014, we entered into a Transaction Agreement (the "Transaction Agreement") with Vista SpinCo Inc., a Delaware corporation and a wholly owned subsidiary of ATK ("Sporting"), Vista Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of ATK, and Orbital Sciences Corporation, a Delaware corporation ("Orbital"), providing for the spin-off of our Sporting Group business to our stockholders (the "Distribution"), which will be immediately followed by the merger of Vista Merger Sub Inc. with and into Orbital (the "Merger" and together with the Distribution, the "Transaction"), with Orbital surviving the Merger as a wholly owned subsidiary of ATK. This transaction is subject to stockholder approval prior to closing.

On April 28, 2014, Sporting Group, ATK and certain financial institutions executed a commitment letter pursuant to which the financial institutions have agreed to provide debt financing to Sporting in an aggregate principal amount of $750 million, comprised of a $350 million senior secured term loan and a $400 million senior secured revolving credit facility, in each case on the terms and conditions set forth therein. Sporting will use a portion of the proceeds of the debt financing to pay a cash dividend (the "Sporting Dividend") to ATK in an amount equal to the amount by which ATK's gross indebtedness for borrowed money as of the closing date exceeds $1,740 million, subject to certain adjustments. The proceeds of the Sporting Dividend will be used by ATK to repay a portion of ATK's debt including the 6.875% Senior Subordinated Notes due 2020 and 3.00% Convertible Senior Subordinated Notes due 2024.

In connection with the transaction, ATK intends, at the time such notes become redeemable at ATK's option, to issue a notice of redemption with respect to its 3.00% Convertible Senior Subordinated Notes due 2024 (the "2024 Notes") in accordance with the redemption provisions of the indenture governing the 2024 Notes. ATK has agreed to settle any 2024 Notes that are converted (whether prior to or following ATK's notice of redemption) entirely in cash. In connection with the transaction, ATK also intends to refinance its 6.875% Senior Subordinated Notes due 2020.

Credit Agreements

DISCLOSURE

2.130 Regulation S-X requires disclosure of the amounts and terms, including commitment fees and conditions for draw-downs, of unused commitments for short-term and long-term financing.

PRESENTATION AND DISCLOSURE EXCERPTS

CREDIT AGREEMENTS

2.131 CAREER EDUCATION CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

h. Cash and Cash Equivalents (in part)

Cash equivalents include short-term investments with a term to maturity of less than 90 days at the date of purchase. Loans which are disbursed under our current credit agreement are secured by 100% cash collateral. The Company has funds which are restricted in use under our credit agreement and additional restricted funds which provide collateral for letters of credit. See Note 11 "Credit Agreement" for further details of our current credit agreement.

Restricted cash balances as of December 31, 2014 and 2013 total $22.9 million and $12.6 million, respectively. Restricted cash balances were comprised of $12.9 million and $12.6 million of certificates of deposit to provide securitization of our letters of credit as of December 31, 2014 and 2013, respectively. Additionally, $10.0 million of restricted cash to provide securitization of borrowings under our credit agreement was included in restricted cash balances as of December 31, 2014.

11. Credit Agreement

On October 31, 2014, the Company; its wholly-owned subsidiary, CEC Educational Services, LLC ("CEC-ES"); and the subsidiary guarantors thereunder entered into a First Amendment (the "First Amendment") to its Amended and Restated Credit Agreement dated as of December 30, 2013 (as amended, the "Credit Agreement") with BMO Harris Bank N.A. ("BMO Harris"), in its capacities as the initial lender and letter of credit issuer thereunder and the administrative agent for the lenders which from time to time may be parties to the Credit Agreement, to among other things, increase the revolving credit facility to $120.0 million. The revolving credit facility under the Credit Agreement is scheduled to mature on June 30, 2016. The Credit Agreement requires that fees and interest are payable monthly and quarterly in arrears, respectively, and principal is payable at maturity. Any borrowings bear interest at fluctuating interest rates based on either the base rate or the London Interbank Offered Rate (LIBOR), plus the applicable rate based on the type of loan.

We may prepay amounts outstanding, or terminate or reduce the commitments, under the Credit Agreement upon three or five business days' prior notice, respectively, in each case without premium or penalty. The Credit Agreement contains customary affirmative, negative and financial maintenance covenants, including a requirement to maintain a three month average balance of cash, cash equivalents and permitted investments in our domestic accounts of at least $190.0 million at all times, subject to adjustment for certain cash payments made by the Company in connection with buyouts of leases for campus locations and other facilities. The loans and letter of credit obligations under the Credit Agreement are secured by 100% cash collateral. The agreement also contains customary representations and warranties, events of default, and rights and remedies upon the occurrence of any event of default, including rights to accelerate the loans, terminate the commitments and rights to realize upon the collateral securing the obligations under the Credit Agreement.

We have $10.0 million outstanding as of December 31, 2014, pursuant to the revolving credit facility under the Credit Agreement. The full amount borrowed as of December 31, 2014 is classified as short-term borrowings on our consolidated balance sheet.

Selected details of our credit agreements as of and for the years ended December 31, 2014 and 2013 were as follows (dollars in thousands):

	As of December 31,	
	2014	2013
Credit Agreement:		
Credit facility remaining availability	$98,437	$70,000
Credit facility borrowings	$10,000	$ —
Outstanding letters of credit[1][2]	$11,563	$12,318
Availability of additional letters of credit[3]	$ 8,437	$ 7,682
Weighted average daily revolving credit borrowings for the year ended	$ 9	$ 40
Weighted average annual interest rate	1.67%	5.25%
Commitment fee rate	0.25%	0.25%
Letter of credit fee rate	0.75%	0.75%

[1] Represents letters of credit which are fully collateralized with $11.6 million and $12.6 million of restricted cash as of December 31, 2014 and 2013, respectively.

[2] As of December 31, 2014, outstanding letters of credit not related to the Credit Agreement totaled $1.3 million, which amount is fully collateralized with restricted cash, which is in addition to the $11.6 million reflected above.

[3] The letters of credit sublimit of $20.0 million under the Credit Agreement is part of, not in addition to, the $120.0 million aggregate commitments.

2.132 GREIF, INC. (OCT)

CONSOLIDATED BALANCE SHEETS (in part)

(Dollars in millions)

As of October 31,	2014	2013
Liabilities and Shareholders' Equity (in part)		
Current Liabilities		
Accounts payable	$ 471.1	$ 431.3
Accrued payroll and employee benefits	102.4	103.0
Restructuring reserves	4.1	3.0
Current portion of long-term debt	17.6	10.0
Short-term borrowings	48.1	64.1
Deferred tax liabilities	17.8	11.5
Liabilities held for sale	1.5	—
Other current liabilities	189.1	186.5
	851.7	809.4
Long-Term Liabilities		
Long-term debt	1,087.4	1,207.2
Deferred tax liabilities	219.0	246.4
Pension liabilities	136.0	82.5
Postretirement benefit obligations	17.3	18.5
Liabilities held by special purpose entities	43.3	43.3
Other long-term liabilities	89.5	99.5
	1,592.5	1,697.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 9—Long-Term Debt (in debt)

Long-term debt is summarized as follows (Dollars in millions):

	October 31, 2014	October 31, 2013
Amended Credit Agreement	$ 169.2	$ 222.9
Senior Notes due 2017	301.2	301.8
Senior Notes due 2019	245.2	244.4
Senior Notes due 2021	252.5	272.9
Amended Receivables Facility	110.0	140.0
Other long-term debt	26.9	35.2
	1,105.0	1,217.2
Less current portion	(17.6)	(10.0)
Long-term debt	$1,087.4	$1,207.2

Credit Agreement

On December 19, 2012, the Company and two of its international subsidiaries amended and restated the Company's existing $1.0 billion senior secured credit agreement with a syndicate of financial institutions (the "Amended Credit Agreement"). The Amended Credit Agreement provides the Company with an $800 million revolving multicurrency credit facility and a $200 million term loan, both expiring in December 2017, with an option to add $250 million to the facilities with the agreement of the lenders. The $200 million term loan was scheduled to amortize by the payment of principal in the amount of $2.5 million each quarter-end for the first eight quarters, beginning January 2013, the payment of $5.0 million each quarter-end for the next twelve quarters and the payment of the remaining balance on the maturity date. In August 2014, the Company made an unscheduled principal payment of $25 million on the term loan portion of the Amended Credit Agreement. The remaining loan balance is scheduled to amortize, beginning January 2015, by the payment of principal in the amount of $4.3 million over the next twelve quarters and the payment of the remaining balance on the maturity date. The revolving credit facility under the Amended Credit Agreement is available to fund ongoing working capital and capital expenditure needs, for general corporate purposes and to finance acquisitions. Interest is based on a Eurodollar rate or a base rate that resets periodically plus an agreed upon margin amount. The total available borrowing under this facility was $770.2 million as of October 31, 2014, all of which is available without violating covenants, which has been reduced by $15.9 million for outstanding letters of credit.

The Amended Credit Agreement contains financial covenants that require the Company to maintain a certain leverage ratio and an interest coverage ratio. The leverage ratio generally requires that at the end of any fiscal quarter the Company will not permit the ratio of (a) the Company's total consolidated indebtedness, to (b) the Company's consolidated net income plus depreciation, depletion and amortization, interest expense (including capitalized interest), income taxes, and minus certain extraordinary gains and non-recurring gains (or plus certain extraordinary losses and non-recurring losses) and plus or minus certain other items for the preceding twelve months ("adjusted EBITDA") to be greater than 4.00 to 1. The interest coverage ratio generally requires that at the end of any fiscal quarter the Company will not permit the ratio of (a) the Company's consolidated adjusted EBITDA to (b) the Company's consolidated interest expense to the extent paid or payable, to be less than 3.00 to 1, during the preceding twelve month period (the "Interest Coverage Ratio Covenant"). As of October 31, 2014, the Company was in compliance with these covenants.

The terms of the Amended Credit Agreement limit the Company's ability to make "restricted payments," which include dividends and purchases, redemptions and acquisitions of the Company's equity interests. The repayment of amounts borrowed under the Amended Credit Agreement are secured by a security interest in the personal property of Greif, Inc. and certain of the Company's United States subsidiaries, including equipment and inventory and certain intangible assets, as well as a pledge of the capital stock of substantially all of the Company's United States subsidiaries. The repayment of amounts borrowed under the Amended Credit Agreement is also secured, in part, by capital stock of the non-U.S. subsidiaries that are parties to the Amended Credit Agreement. However, in the event that the Company receives and maintains an investment grade rating from either Moody's Investors Service, Inc. or Standard & Poor's Corporation, the Company may request the release of such collateral. The payment of outstanding principal under the Amended Credit Agreement and accrued interest thereon may be accelerated and become immediately due and payable upon the Company's default in its payment or other performance obligations or its failure to comply with the financial and other covenants in the Amended Credit Agreement, subject to applicable notice requirements and cure periods as provided in the Amended Credit Agreement.

During the twelve months ended October 31, 2013 the Company recorded debt extinguishment charges of $1.3 million resulting from the write off of unamortized deferred financing costs associated with our previous $1 billion senior secured credit agreement entered into in February 2010 with substantially the same syndicate of banks as the Amended Credit Agreement (the "2010 Credit Agreement"). The Company recorded no debt extinguishment charges for the twelve months ended October 31, 2014 and 2012. Financing costs associated with the Amended Credit Agreement totaling $3.4 million have been capitalized and included in other long term assets.

As of October 31, 2014, $169.2 million was outstanding under the Amended Credit Agreement. The current portion of the Amended Credit Agreement was $17.3 million and the long-term portion was $151.9 million. The weighted average interest rate on the Amended Credit Agreement was 1.65% for the year ended October 31, 2014. The actual interest rate on the Amended Credit Agreement was 1.62% as of October 31, 2014.

Long-Term Leases

RECOGNITION AND MEASUREMENT

2.133 FASB ASC 840 establishes standards of financial accounting and reporting for leases on the financial statements of lessees and lessors. FASB ASC 840 classifies leases as capital or operating. Capital leases are accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee and as a sale or financing by the lessor. All other leases are accounted for as operating leases.

PRESENTATION

2.134 Under FASB ASC 840-30-45-1, lessees should separately identify on the balance sheet or notes thereto assets recorded under capital leases, the accumulated amortization thereon, and obligations. Capital lease obligations are subject to the same considerations as other obligations in classifying them with current and noncurrent liabilities in classified balance sheets. Similarly, a lessor's net investment in a sales-type or direct financing lease is also subject to the same considerations as other assets in classification as current or noncurrent assets.

2.135 FASB ASC 840-20-45-2 requires that lessors include property subject to operating leases with or near property, plant, and equipment in the balance sheet. Accumulated depreciation should be deducted by lessors from the investments in the leased property, as explained in FASB ASC 840-20-45-3.

DISCLOSURE

2.136 FASB ASC 840-20-50 and 840-30-50 contain detailed disclosure requirements for lessors and lessees under operating and capital leases, respectively.

PRESENTATION AND DISCLOSURE EXCERPTS

LESSEE LEASES

2.137 WAL-MART STORES, INC. (JAN)

CONSOLIDATED BALANCE SHEETS (in part)

	As of January 31,	
(Amounts in millions)	2014	2013
Liabilities, Redeemable Noncontrolling Interest and Equity (in part)		
Current Liabilities:		
Short-term borrowings	$ 7,670	$ 6,805
Accounts payable	37,415	38,080
Accrued liabilities	18,793	18,808
Accrued income taxes	966	2,211
Long-term debt due within one year	4,103	5,587
Obligations under capital leases due within one year	309	327
Current liabilities of discontinued operations	89	—
Total current liabilities	69,345	71,818
Long-term debt	41,771	38,394
Long-term obligations under capital leases	2,788	3,023
Deferred income taxes and other	8,017	7,613
Redeemable noncontrolling interest	1,491	519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Leases

The Company estimates the expected term of a lease by assuming the exercise of renewal options where an economic penalty exists that would preclude the abandonment of the lease at the end of the initial non-cancelable term and the exercise of such renewal is at the sole discretion of the Company. The expected term is used in the determination of whether a store or club lease is a capital or operating lease and in the calculation of straight-line rent expense. Additionally, the useful life of leasehold improvements is limited by the expected lease term or the economic life of the asset, whichever is shorter. If significant expenditures are made for leasehold improvements late in the expected term of a lease and renewal is reasonably assured, the useful life of the leasehold improvement is limited to the end of the renewal period or economic life of the asset, whichever is shorter.

Rent abatements and escalations are considered in the calculation of minimum lease payments in the Company's capital lease tests and in determining straight-line rent expense for operating leases.

Note 11. Commitments

The Company has long-term leases for stores and equipment. Rentals (including amounts applicable to taxes, insurance, maintenance, other operating expenses and contingent rentals) under operating leases and other short-term rental arrangements were $ 2.8 billion, $ 2.6 billion and $ 2.4 billion in fiscal 2014, 2013 and 2012, respectively.

Aggregate minimum annual rentals at January 31, 2014, under non-cancelable leases are as follows:

(Amounts in millions) **Fiscal Year**	**Operating Leases**	**Capital Leases**
2015	$ 1,734	$ 586
2016	1,632	558
2017	1,462	519
2018	1,314	479
2019	1,192	438
Thereafter	9,836	3,711
Total minimum rentals	$17,170	$6,291
Less estimated executory costs		60
Net minimum lease payments		6,231
Less imputed interest		3,134
Present value of minimum lease payments		$3,097

Certain of the Company's leases provide for the payment of contingent rentals based on a percentage of sales. Such contingent rentals were immaterial for fiscal 2014, 2013 and 2012. Substantially all of the Company's store leases have renewal options, some of which may trigger an escalation in rentals.

The Company has future lease commitments for land and buildings for approximately 317 future locations. These lease commitments have lease terms ranging from 4 to 40 years and provide for certain minimum rentals. If executed, payments under operating leases would increase by $ 49 million for fiscal 2015, based on current cost estimates.

In connection with certain long-term debt issuances, the Company could be liable for early termination payments if certain unlikely events were to occur. At January 31, 2014, the aggregate termination payment would have been $ 74 million. The arrangement pursuant to which this payment could be made will expire in fiscal 2019.

2.138 CAREER EDUCATION CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

r. Deferred Rent Obligations

Certain of the real estate operating lease agreements to which we are party contain rent escalation clauses or lease incentives, such as rent abatements or tenant improvement allowances. Rent escalation clauses and lease incentives are taken into account in determining total rent expense to be recognized during the term of the lease, which begins on the date that we take control of the leased space. Renewal options are considered when evaluating the overall term of the lease. In accordance with FASB ASC Topic 840—*Leases,* differences between periodic rent expense and periodic cash rental payments, caused primarily by the recognition of rent expense on a straight-line basis and tenant improvement allowances due or received from lessors, are recorded as deferred rent obligations on our consolidated balance sheets.

We record tenant improvement allowances as a deferred rent obligation on our consolidated balance sheets and as a cash inflow from operating activities in our consolidated statements of cash flows. We record capital expenditures funded by tenant improvement allowances received as a leasehold improvement on our consolidated balance sheets and as an investing activity within our consolidated statements of cash flows.

8. Leases

We lease most of our administrative and educational facilities and certain equipment under non-cancelable operating leases expiring at various dates through 2023. Lease terms generally range from five to ten years with one to two renewal options for extended terms. In most cases, we are required to make additional payments under facility operating leases for taxes, insurance and other operating expenses incurred during the operating lease period.

Certain of our leases contain rent escalation clauses or lease incentives, including rent abatements and tenant improvement allowances. Rent escalation clauses and lease incentives are taken into account in determining total rent expense to be recognized during the term of the lease, which begins on the date we take control of the leased space. Renewal options are considered when determining the overall lease term. In accordance with FASB ASC Topic 840—*Leases*, differences between periodic rent expense and periodic cash rental payments, caused primarily by the recognition of rent expense on a straight-line basis and tenant improvement allowances due or received from lessors, are recorded as deferred rent obligations on our consolidated balance sheets.

Rent expense, exclusive of related taxes, insurance, and maintenance costs, for continuing operations totaled approximately $48.5 million, $55.0 million and $58.5 million for the years ended December 31, 2014, 2013 and 2012, respectively, and is reflected in educational services and facilities expense in our consolidated statements of loss and comprehensive loss. Rent expense for discontinued operations, which is included in loss from discontinued operations, was approximately $34.5 million, $54.4 million and $51.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Remaining Lease Obligations

We have recorded lease exit costs associated with the exit of real estate space for certain campuses related to our continuing operations. These costs are recorded within educational services and facilities expense on our consolidated statements of loss and comprehensive loss. The current portion of the liability for these charges is reflected within other accrued expenses under current liabilities and the long-term portion of these charges are included in other liabilities under the non-current liabilities section of our consolidated balance sheets. Changes in our future minimum lease obligations for exited space related to our continuing operations for the years ended December 31, 2014, 2013 and 2012 were as follows (dollars in thousands):

	Balance, Beginning of Period	Charges Incurred[1]	Net Cash Payments	Other[2]	Balance, End of Period
For the year ended December 31, 2014	$4,588	$4,043	$(3,783)	$ (7)	$4,841
For the year ended December 31, 2013	$6,147	$1,905	$(6,746)	$3,282	$4,588
For the year ended December 31, 2012	$4,915	$2,931	$(1,699)	$ —	$6,147

[1] Includes charges for newly vacated spaces and subsequent adjustments for accretion, revised estimates and variances between estimated and actual charges, net of any reversals for terminated lease obligations.

[2] Includes existing prepaid rent and deferred rent liability balances for newly vacated spaces that offset the losses incurred in the period recorded.

As of December 31, 2014, future minimum lease payments under operating leases for continuing and discontinued operations are as follows (dollars in thousands):

	Operating Leases		
	Continuing Operations	Discontinued Operations	Total
2015	$ 47,467	$ 40,473	$ 87,940
2016	41,093	36,273	77,366
2017	36,754	29,403	66,157
2018	35,738	22,077	57,815
2019	27,850	13,116	40,966
2020 and thereafter	35,917	11,009	46,926
Total	$224,819	$152,351	$377,170

Of the remaining $224.8 million of lease payments for continuing operations, $40.3 million relates to our Transitional Group leases and of the remaining $152.4 million lease obligations for discontinued operations, $98.8 million relate to our assets held for sale. See Note 4 "Discontinued Operations" and Note 10 "Restructuring Charges" for further discussion.

As of December 31, 2014, future minimum sublease rental income under operating leases, which will decrease our future minimum lease payments presented above, for continuing and discontinued operations is as follows (dollars in thousands):

	Operating Subleases		
	Continuing Operations	Discontinued Operations	Total
2015	$2,376	$6,202	$8,578
2016	981	6,216	7,197
2017	796	6,206	7,002
2018	656	1,955	2,611
2019	674	1,147	1,821
2020 and thereafter	691	376	1,067
Total	$6,174	$22,102	$28,276

LESSOR LEASES

2.139 JACK IN THE BOX INC. (SEP)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

8. Leases (in part)

As lessor — We lease or sublease restaurants to certain franchisees and others under agreements that generally provide for the payment of percentage rentals in excess of stipulated minimum rentals, usually for a period of 20 years. Most of our leases have rent escalation clauses and renewal clauses of 5 to 20 years. The following details rents received under these agreements in each fiscal year (*in thousands*):

	2014	2013	2012
Total rental income[1]	$222,443	$213,009	$200,760
Contingent rentals	$ 19,551	$ 16,966	$ 16,341

[1] Includes contingent rentals.

The minimum rents receivable expected to be received under these non-cancelable operating leases and subleases, excluding contingent rentals, as of September 28, 2014 are as follows (*in thousands*):

Fiscal Year	
2015	$ 206,015
2016	221,923
2017	202,867
2018	183,145
2019	197,287
Thereafter	1,550,311
Total minimum future rentals	$2,561,548

Assets held for lease and included in property and equipment consisted of the following at each year-end (*in thousands*):

	2014	2013
Land	$ 72,143	$ 79,015
Buildings	689,056	684,288
Equipment	4,492	3,887
	765,691	767,190
Less accumulated depreciation	(434,526)	(400,211)
	$ 331,165	$ 366,979

Other Noncurrent Liabilities

PRESENTATION

2.140 FASB ASC 210 indicates that liabilities classified as noncurrent (that is, beyond the operating cycle) include long-term deferments of the delivery of goods or services, such as the issuance of a long-term warranty or the advance receipt by a lessor of rent for the final period of a 10-year lease. Similarly, a loan on a life insurance policy with the intent that it will not be paid but will be liquidated by deduction from the proceeds of the policy upon maturity or cancellation should be excluded from current liabilities.

2.141 FASB ASC 480, *Distinguishing Liabilities from Equity*, requires that an issuer classify certain financial instruments with characteristics of both liabilities and equity as liabilities. Some issuances of stock, such as mandatorily redeemable preferred stock, impose unconditional obligations requiring the issuer to transfer assets or issue its equity shares. FASB ASC 480 requires an issuer to classify such financial instruments as liabilities, not present them between the "Liabilities" and "Equity" sections of the balance sheet. Rule 5-02 of Regulation S-X includes matters related to redeemable preferred stocks to be stated on the face of the balance sheet or included in the notes.

2.142 Rule 5-02 of Regulation S-X requires that any item not classed in another Regulation S-X liability caption and in excess of 5 percent of total liabilities be stated separately on the balance sheet or disclosed in the notes. Regulation S-X also requires that deferred income taxes, deferred tax credits, and material items of deferred income be stated separately in the balance sheet.

2.143 Rule 5-02 of Regulation S-X includes a balance sheet caption for commitments and contingent liabilities. When commitments or contingent liabilities exist and are disclosed in footnotes, registrants customarily include a caption on the balance sheet without an amount but with a reference to the related footnote.

PRESENTATION AND DISCLOSURE EXCERPTS

DEFERRED INCOME TAXES

2.144 BOSTON SCIENTIFIC CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	As of December 31,	
In millions, except share and per share data	2014	2013
Liabilities and Stockholders' Equity (in part)		
Current liabilities:		
Current debt obligations	$ 403	$ 3
Accounts payable	262	246
Accrued expenses	1,950	1,348
Other current liabilities	231	227
Total current liabilities	2,846	1,824
Long-term debt	3,859	4,237
Deferred income taxes	1,214	1,402
Other long-term liabilities	2,666	2,569

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note A—Significant Accounting Policies (in part)

Reclassifications (in part)

In addition, we restated components of our tabular disclosures of our deferred tax assets and liabilities along with our tabular rollforward of unrecognized tax benefit from prior year's presentation, to include certain deferred tax assets that have been recorded net of valuation allowance and uncertain tax position. This restatement was performed to better present our overall deferred tax inventory and unrecognized tax positions but had no material impact on the prior year presentations of our consolidated statement of operation or consolidated balance sheet. See *Note J—Income Taxes* for further details.

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 have not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2014 because we intend to permanently reinvest such earnings outside the U.S. As of December 31, 2014, the cumulative amount of excess financial reporting basis over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested is approximately $7.7 billion. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

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.

Note J—Income Taxes (in part)

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

	Year Ended December 31,		
(In millions)	2014	2013	2012
Domestic	$(1,263)	$(774)	$(1,265)
Foreign	754	551	(2,842)
	$ (509)	$(223)	$(4,107)

The related benefit for income taxes consisted of the following:

	Year Ended December 31,		
(In millions)	2014	2013	2012
Current			
Federal	$ (2)	$ 46	$ 33
State	(5)	(9)	—
Foreign	111	105	139
	104	142	172
Deferred			
Federal	(458)	(212)	(204)
State	(23)	(17)	(7)
Foreign	(13)	(15)	—
	(494)	(244)	(211)
	$(390)	$(102)	$ (39)

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

	Year Ended December 31,		
	2014	2013	2012
U.S. federal statutory income tax rate	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of federal benefit	(6.5)%	(7.9)%	(0.2)%
Effect of foreign taxes	(29.1)%	(63.4)%	(3.7)%
Acquisition-related	(7.5)%	3.5%	—%
Research credit	(7.0)%	(12.2)%	—%
Valuation allowance	4.0%	(12.0)%	0.3%
Goodwill impairment charges	—%	65.2%	36.4%
Compensation-related	0.7%	1.7%	0.3%
Non-deductible expenses	1.9%	9.0%	(0.2)%
Uncertain domestic tax positions	2.0%	7.0%	0.8%
Other, net	(0.2)%	(1.9)%	0.3%
	(76.7)%	(46.0)%	(1.0)%

We had net deferred tax liabilities of $799 million as of December 31, 2014 and $1.140 billion as of December 31, 2013. Gross deferred tax liabilities of $2.096 billion as of December 31, 2014 and $2.203 billion as of December 31, 2013 relate primarily to intangible assets acquired in connection with our prior acquisitions. Gross deferred tax assets of $1.297 billion as of December 31, 2014 and $1.063 billion as of December 31, 2013 relate primarily to the establishment of inventory and product-related reserves; litigation, product liability and other reserves and accruals; compensation related accruals; 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.

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

	As of December 31,	
(In millions)	2014	2013 (restated)
Deferred Tax Assets:		
Inventory costs and related reserves	$ 46	$ 50
Tax benefit of net operating loss and credits	525	647
Reserves and accruals	232	221
Restructuring-related charges and purchased research and development	20	17
Litigation and product liability reserves	556	198
Investment write-down	4	15
Compensation related	150	143
Federal benefit of uncertain tax positions	178	166
Other	36	39
	1,747	1,496
Less valuation allowance	(450)	(433)
	1,297	1,063
Deferred Tax Liabilities:		
Property, plant and equipment	67	78
Unrealized gains and losses on derivative financial instruments	146	80
Intangible assets	1,883	2,045
	2,096	2,203
Net deferred tax liabilities	799	1,140
Prepaid on intercompany profit	69	66
Total net deferred tax liabilities and prepaid on intercompany profit	$ 730	$1,074

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

	Location in	As of December 31,	
Component	Balance Sheet	2014	2013
Current deferred tax asset and prepaid on intercompany profit	Deferred and prepaid income taxes	$ 447	$ 288
Non-current deferred tax asset	Other long-term assets	39	42
Deferred Tax Assets and Prepaid on Intercompany Profit		486	330
Current deferred tax liability	Other current liabilities	2	2
Non-current deferred tax liability	Deferred income taxes	1,214	1,402
Deferred Tax Liabilities		1,216	1,404
Net Deferred Tax Liabilities and Prepaid on Intercompany Profit		$ 730	$1,074

As of December 31, 2014, we had U.S. tax net operating loss carryforwards and tax credits, the tax effect of which was $335 million, as compared to $351 million as of December 31, 2013. In addition, we had foreign tax net operating loss carryforwards and tax credits, the tax effect of which was $304 million as of December 31, 2014, as compared to $313 million as of December 31, 2013. These tax attributes will expire periodically beginning in 2015. 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 $450 million as of December 31, 2014 and $433 million as of December 31, 2013, representing an increase of $17 million. The increase in the valuation allowance as of December 31, 2014, as compared to December 31, 2013, is attributable primarily due to increase in certain deferred tax assets that are more likely than not that we will not be realizable. The income tax impact of the unrealized gain or loss component of other comprehensive income and stockholders' equity was a charge of $21 million in 2014, a charge of $76 million in 2013, and a charge of $70 million in 2012.

We have not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2014 because we intend to permanently reinvest such earnings outside the U.S. As of December 31, 2014, the cumulative amount of excess financial reporting basis over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested is approximately $7.7 billion. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

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 $7 million for 2014, $6 million for 2013, and $7 million for 2012. The tax incentive for 100% exemption from income tax is expected to expire in 2023. The impact of per share earnings is immaterial for 2014, 2013 and 2012.

As of December 31, 2014, we had $1.047 billion of gross unrecognized tax benefits, of which a net $903 million, if recognized, would affect our effective tax rate. As of December 31, 2013, we had $1.102 billion of gross unrecognized tax benefits, of which a net $941 million, if recognized, would affect our effective tax rate. As of December 31, 2012, we had $1.088 billion of gross unrecognized tax benefits, of which a net $919 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,		
	2014	2013 (restated)	2012 (restated)
Beginning balance	$1,102	$1,088	$1,022
Additions based on positions related to the current year	44	59	54
Additions based on positions related to prior years	3	43	45
Reductions for tax positions of prior years	(87)	(42)	(28)
Settlements with taxing authorities	(5)	(15)	(1)
Statute of limitation expirations	(10)	(31)	(4)
Ending balance	$1,047	$1,102	$1,088

UNRECOGNIZED TAX BENEFITS

2.145 POLARIS INDUSTRIES INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(In thousands, except per share data)

	December 31, 2014	December 31, 2013
Liabilities and Shareholders' Equity (in part)		
Current liabilities:		
Current portion of capital lease obligations	$ 2,528	$ 3,281
Accounts payable	343,470	238,044
Accrued expenses:		
Compensation	102,379	143,504
Warranties	53,104	52,818
Sales promotions and incentives	138,630	123,089
Dealer holdback	120,093	100,600
Other	79,262	77,480
Income taxes payable	11,344	9,254
Total current liabilities	850,810	748,070
Long-term income taxes payable	10,568	14,292
Capital lease obligations	23,620	3,842
Long-term debt	200,000	280,500
Deferred tax liabilities	18,191	25,028
Other long-term liabilities	96,951	69,730
Total liabilities	$1,200,140	$1,141,462

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 6. Income Taxes

Polaris' income from continuing operations before income taxes was generated from its United States and foreign operations as follows (in thousands):

	For the Years Ended December 31,		
	2014	2013	2012
United States	$666,323	$535,265	$458,635
Foreign	32,994	39,164	21,208
Income from continuing operations before income taxes	$699,317	$574,429	$479,843

Components of Polaris' provision for income taxes for continuing operations are as follows (in thousands):

	For the Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	$255,299	$167,690	$169,833
State	20,438	12,942	15,366
Foreign	21,584	15,457	8,593
Deferred	(52,033)	(2,729)	(26,259)
Total provision for income taxes for continuing operations	$245,288	$193,360	$167,533

Reconciliation of the Federal statutory income tax rate to the effective tax rate is as follows:

	For the Years Ended December 31,		
	2014	2013	2012
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	1.5	1.5	1.8
Domestic manufacturing deduction	(1.1)	(1.0)	(1.5)
Research and development tax credit	(1.1)	(2.2)	—
Valuation allowance for foreign subsidiaries net operating losses	—	0.3	—
Other permanent differences	0.8	0.1	(0.4)
Effective income tax rate for continuing operations	35.1%	33.7%	34.9%

In December 2014, the President of the United States signed the Tax Increase Prevention Act, which retroactively reinstated the research and development tax credit for 2014. In January 2013, the President of the United States signed the American Taxpayers Relief Act of 2012, which reinstated the research and development tax credit. As a result, the impact of both the 2012 and 2013 research and development tax credits were recorded in the 2013 tax provision.

Undistributed earnings relating to certain non-U.S. subsidiaries of approximately $105,782,000 and $75,487,000 at December 31, 2014 and 2013, respectively, are considered to be permanently reinvested; accordingly, no provision for U.S. federal income taxes has been provided thereon. If the Company were to distribute these earnings, it would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits reflecting the amounts paid to non-U.S. taxing authorities) and withholding taxes payable to the non-U.S. countries. Determination of the unrecognized deferred U.S. income tax liability related to these undistributed earnings is not practicable due to the complexities associated with this hypothetical calculation.

Polaris utilizes the liability method of accounting for income taxes whereby deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. The net deferred income taxes consist of the following (in thousands):

	December 31,	
	2014	2013
Current deferred income taxes:		
Inventories	$ 9,034	$ 6,306
Accrued expenses	104,279	87,157
Derivative instruments	864	(107)
Total current	114,177	93,356
Noncurrent deferred income taxes:		
Cost in excess of net assets of business acquired	(13,111)	(13,594)
Property and equipment	(28,921)	(36,069)
Compensation payable in common stock	58,446	42,528
Net operating loss carryforwards and impairments	12,693	5,782
Valuation allowance	(6,097)	(5,059)
Total noncurrent	23,010	(6,412)
Total net deferred income tax asset	$137,187	$86,944

At December 31, 2014, the Company had available unused international and acquired federal net operating loss carryforwards of $32,640,000. The net operating loss carryforwards will expire at various dates from 2015 to 2033, with certain jurisdictions having indefinite carryforward terms.

Polaris classified liabilities related to unrecognized tax benefits as long-term income taxes payable in the accompanying consolidated balance sheets in accordance with ASC Topic 740. Polaris recognizes potential interest and penalties related to income tax positions as a component of the provision for income taxes on the consolidated statements of income. Reserves related to potential interest are recorded as a component of long-term income taxes payable. The entire balance of unrecognized tax benefits at December 31, 2014, if recognized, would affect the Company's effective tax rate. The Company does not anticipate that total unrecognized tax benefits will materially change in the next twelve months. Tax years 2010 through 2014 remain open to examination by certain tax jurisdictions to which the Company is subject. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

	For the Years Ended December 31,	
	2014	2013
Balance at January 1,	$13,199	$ 6,704
Increases due to acquisition opening balance sheet positions	—	6,420
Gross increases for tax positions of prior years	55	561
Gross increases for tax positions of current year	1,456	3,755
Decreases due to settlements and other prior year tax positions	(2,346)	(3,310)
Decreases for lapse of statute of limitations	(1,586)	(1,344)
Currency translation effect on foreign balances	(942)	413
Balance at December 31,	9,836	13,199
Reserves related to potential interest at December 31,	732	1,093
Unrecognized tax benefits at December 31,	$10,568	$14,292

INSURANCE

2.146 REPUBLIC SERVICES, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions, except per share data)

	December 31, 2014	December 31, 2013
Liabilities and Stockholders' Equity (in part)		
Current liabilities:		
Accounts payable	$ 527.3	$ 511.4
Notes payable and current maturities of long-term debt	10.4	15.7
Deferred revenue	306.3	301.8
Accrued landfill and environmental costs, current portion	164.3	178.7
Accrued interest	67.0	68.2
Other accrued liabilities	750.7	641.3
Total current liabilities	1,826.0	1,717.1
Long-term debt, net of current maturities	7,050.8	7,002.4
Accrued landfill and environmental costs, net of current portion	1,677.5	1,464.3
Deferred income taxes and other long-term tax liabilities	1,149.0	1,185.4
Insurance reserves, net of current portion	298.0	294.9
Other long-term liabilities	344.9	379.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Insurance Reserves

Our insurance programs for workers' compensation, commercial general and auto liability, environmental and remediation liability, and employee-related health care benefits are subject to high deductible insurance policies. Accruals for insurance reserves are based on claims filed and estimates of claims incurred but not reported. We consider our past claims experience, including both frequency and settlement amount of claims, in determining these estimates. It is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in the consolidated statements of income in the periods in which such adjustments are known. In general, our insurance reserves are recorded on an undiscounted basis; however, the insurance liabilities we acquired in the Allied acquisition have been recorded at estimated fair value, and therefore have been discounted to present value based on our estimate of the timing of the related cash flows.

7. Other Liabilities (in part)

Insurance Reserves

Our liabilities for unpaid and incurred but not reported claims as of December 31, 2014 and 2013 (which include claims for workers' compensation, commercial general and auto liability, and employee-related health care benefits) were $416.6 million and $431.5 million, respectively, under our risk management program and are included in other accrued liabilities and insurance reserves, net of current portion, in our consolidated balance sheets. While the ultimate amount of claims incurred depends on future developments, we believe the recorded reserves are adequate to cover the future payment of claims; however, it is possible that these recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in our consolidated statements of income in the periods in which such adjustments are known. The following table summarizes the activity in our insurance reserves for the years ended December 31:

	2014	2013	2012
Balance at beginning of year	$431.5	$426.4	$418.3
Additions charged to expense	354.8	379.1	385.5
Payments	(372.2)	(377.2)	(381.6)
Accretion expense	2.5	3.2	4.2
Balance at end of year	416.6	431.5	426.4
Less: current portion	(118.6)	(136.6)	(135.5)
Long-term portion	$298.0	$294.9	$290.9

LIABILITIES HELD FOR SALE

2.147 BRUNSWICK CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

	As of December 31	
(In millions)	2014	2013
Liabilities and Shareholders' Equity (in part)		
Current liabilities		
Short-term debt, including $5.5 and $6.4 of current maturities of long-term debt	$ 5.5	$ 6.4
Accounts payable	317.4	297.6
Accrued expenses	561.5	529.4
Current liabilities held for sale	15.7	49.7
Current liabilities	900.1	883.1
Long-term liabilities		
Debt	450.2	453.4
Deferred income taxes	3.2	—
Postretirement benefits	398.2	339.4
Other	203.0	192.3
Long-term liabilities held for sale	8.2	9.2
Long-term liabilities	1,062.8	994.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Discontinued Operations

On July 17, 2014, the Company entered into an agreement to sell its retail bowling business to AMF Bowling Centers, Inc. In connection with its decision to sell its bowling centers, the Company also announced its intention to divest its bowling products business. On December 31, 2012, the Board of Directors authorized the Company to exit its Hatteras and Cabo boat businesses. As a result of these actions, these businesses, which were previously recorded in the Company's former Bowling & Billiards segment and the Boat segment, respectively, are being reported as discontinued operations in the Consolidated Statements of Operations for all periods presented. The Company does not have or anticipate having any significant continuing involvement or continuing cash flows associated with these businesses. The assets and liabilities of these businesses met the accounting criteria to be classified as held for sale and have been aggregated and reported on separate lines of the Consolidated Balance Sheets for all periods presented.

On September 18, 2014, the Company completed the sale of its retail bowling business to AMF Bowling Centers, Inc. as well as, in separate transactions, completed the sale of two retail bowling centers in California. The sales resulted in net cash proceeds of $264.3 million and an after-tax gain of $52.6 million. In connection with the sale of its retail bowling business, the Company entered into a trademark licensing agreement allowing AMF Bowling Centers, Inc. to use the Company's bowling retail related trademarks and trade names over a five year period from the date of acquisition. As a result, the Company recorded deferred income of $20.7 million related to this agreement, which will be recognized as Other income in the Consolidated Statements of Operations over five years. In connection with the sale of its retail bowling business, the Company has retained certain liabilities and provided guarantees on certain leased bowling centers.

In August 2013, the Company completed the sale of its Hatteras and Cabo boat businesses resulting in an after-tax gain of $1.6 million.

The following table discloses the results of operations of the businesses reported as discontinued operations for the years ended December 31, 2014, 2013 and 2012, respectively:

(In millions)	2014	2013	2012
Net sales	$236.0	$310.8	$357.0
Earnings (loss) from discontinued operations before income taxes	$ (3.8)	$ 13.7	$ (71.7)
Income tax provision (benefit)	(2.0)	2.9	2.9
Earnings (loss) from discontinued operations, net of tax[A]	(1.8)	10.8	(74.6)
Gain on disposal of discontinued operations, net of tax[B]	52.6	1.6	—
Net earnings (loss) from discontinued operations, net of tax	$ 50.8	$ 12.4	$ (74.6)

[A] Earnings (loss) from discontinued operations for 2013 includes restructuring, exit and impairment charges, net of tax of $4.9 million. Earnings (loss) from discontinued operations for 2012 includes an asset impairment charge of $52.7 million, $53.2 million after-tax, and other restructuring and impairment charges, net of tax of $14.9 million.

[B] The Gain on disposal of discontinued operations for 2014 includes a pre-tax gain of $65.6 million and a net tax provision of $13.0 million. The Gain on disposal of discontinued operations for 2013 includes a pre-tax loss of $1.4 million and a net tax benefit of $3.0 million.

The following table reflects the summary of assets and liabilities held for sale for the bowling products business as of December 31, 2014 and for the retail bowling and bowling products businesses as of December 31, 2013:

(In millions)	December 31, 2014	December 31, 2013
Accounts and notes receivable, net	$14.0	$ 18.9
Net inventory	15.3	15.4
Prepaid expenses and other	0.7	2.5
Current assets held for sale	30.0	36.8
Net property	8.8	197.9
Other long-term assets	3.8	6.4
Long-term assets held for sale	12.6	204.3
Assets held for sale	$42.6	$241.1
Accounts payable	$4.5	$18.0
Accrued expenses	11.2	31.7
Current liabilities held for sale	15.7	49.7
Other liabilities	8.2	9.2
Long-term liabilities held for sale	8.2	9.2
Liabilities held for sale	$23.9	$ 58.9

WARRANTY

2.148 ALLERGAN, INC. (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions, except share data)

	As of December 31,	
	2014	2013
Liabilities and Equity (in part)		
Current liabilities:		
Notes payable	$ 72.1	$ 55.6
Accounts payable	287.4	283.2
Accrued compensation	292.8	269.1
Other accrued expenses	905.0	597.5
Income taxes	—	38.9
Total current liabilities	1,557.3	1,244.3
Long-term debt	2,085.3	2,098.3
Other liabilities	1,010.1	762.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 5: Composition of Certain Financial Statement Captions (in part)

Other Liabilities		
Postretirement benefit plan	$ 56.5	$ 44.3
Qualified and non-qualified pension plans	267.3	194.5
Deferred executive compensation	116.3	105.3
Deferred income	72.8	67.0
Contingent consideration	312.1	215.3
Product warranties—breast implant products	28.5	26.0
Unrecognized tax benefit liabilities	82.6	67.7
Other	74.0	42.1
	$1,010.1	$762.2

Note 15: Product Warranties

The Company provides warranty programs for breast implant sales primarily in the United States, Europe and certain other countries. Management estimates the amount of potential future claims from these warranty programs based on actuarial analyses. Expected future obligations are determined based on the history of product shipments and claims and are discounted to a current value. The liability is included in both current and long-term liabilities in the Company's consolidated balance sheets. The U.S. programs include the *ConfidencePlus*® and *ConfidencePlus*® Premier warranty programs. The *ConfidencePlus*® program, which is limited to saline breast implants, currently provides lifetime product replacement and contralateral implant replacement. The *ConfidencePlus*® Premier program, which is standard for silicone gel implants and requires a low enrollment fee for saline breast implants, generally provides lifetime product replacement, $2,400 of financial assistance for saline breast implants and $3,500 of financial assistance for silicone gel breast implants for surgical procedures within ten years of implantation and contralateral implant replacement. The warranty programs in non-U.S. markets generally have similar terms and conditions to the U.S. programs. The Company does not warrant any level of aesthetic result and, as required by government regulation, makes extensive disclosures concerning the risks of the use of its products and breast implant surgery. Changes to actual warranty claims incurred and interest rates could have a material impact on the actuarial analysis and the Company's estimated liabilities. A large majority of the product warranty liability arises from the U.S. warranty programs. The Company does not currently offer any similar warranty program on any other product.

The following table provides a reconciliation of the change in estimated product warranty liabilities for the years ended December 31, 2014 and 2013:

(In millions)	2014	2013
Balance, beginning of year	$33.6	$34.4
Provision for warranties issued during the year	12.0	8.0
Settlements made during the year	(9.4)	(8.1)
Decreases in warranty estimates	—	(0.7)
Balance, end of year	$36.2	$33.6
Current portion	$7.7	$7.6
Non-current portion	28.5	26.0
Total	$36.2	$33.6

ENVIRONMENTAL

2.149 LOUISIANA-PACIFIC CORPORATION (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Other Operating Credits and Charges, Net

LP classifies significant amounts that management considers unrelated to ongoing core operating activities as "Other operating credits and charges, net" in the Consolidated Statements of Income. Such items include, but are not limited to, amounts related to restructuring charges (including severance charges), charges to establish and maintain litigation or environmental reserves, product reserves, prior year inventory profit adjustments, retirement charges and gains or losses from settlements with governmental or other organizations. Due to the nature of these items, amounts in the income statement can fluctuate from year to year. The determination of which items are considered significant and unrelated to core operations is based upon management's judgment. See Note 16 for a discussion of specific amounts in 2014, 2013 and 2012.

16. Other Operating Credits and Charges, Net (in part)

The major components of "Other operating credits and charges, net" in the Consolidated Statements of Income for the years ended December 31 are reflected in the table below and described in the paragraphs following the table:

	Year Ended December 31,		
Dollar amounts in millions	2014	2013	2012
Adjustment related to a change in inventory convention for spare parts	$ —	$ (4.8)	$ —
Adjustment related to prior year inventory	—	(1.6)	(1.5)
Adjustment related to prior year depreciation	—	(1.6)	—
Refundable value added tax receivable	—	1.4	—
Insurance recovery	0.5	1.9	—
Contingent consideration fair value adjustment	3.2	20.5	—
Addition to workers compensation reserves	(0.4)	(1.0)	—
Adjustments to retirement accounts	—	—	(3.8)
Gain due to forfeiture of deposit	1.0	—	—
Reductions, net of additions, to product related contingency reserves	—	—	5.0
Adjustment to product related warranty reserves	(11.3)	(17.7)	1.8
Additions to environmental related contingency reserves	(0.5)	(1.0)	—
Timber related reserves	—	—	0.8
Other	—	0.1	0.6
	$ (7.5)	$ (3.8)	$ 2.9
Other operating charges and credits associated with unconsolidated affiliates:			
Valuation allowance associated with deferred taxes	$ 1.0	$ (1.8)	$ —
Addition to contingency reserves	$ —	$ (0.9)	$ —
	$ 1.0	$ (2.7)	$ —

2014

During 2014, LP recorded a $7.5 million loss in "Other operating credits and charges, net". The components of the net charges include:

- a gain of $0.5 million related to proceeds received from an insurance claim;
- a gain of $3.2 million related to fair market value adjustment to the contingent consideration payable in connection with a business combination (see Note 3 and Note 23 for additional discussions on fair value measurements and the acquisition of Peace Valley OSB);
- a loss of $0.4 million associated with a workers compensation reserve adjustment at an siding mill;
- a gain of $1.0 million due to the forfeiture of a deposit posted with LP in relation to assets held for sale;
- a loss of $11.3 million related to an increase in product related warranty reserves associated with CanExel products sold in specific geographic locations and for a specific time period;
- a loss of $0.5 million related to an increase in environmental reserves associated with a previously owned plywood mill.

Additionally, other operating charges and credits reflected in Equity in (income) loss from unconsolidated affiliates includes a gain of $1.0 million associated with the reduction of a valuation allowance on the joint venture's books associated with deferred tax assets

2013

During 2013, LP recorded a $3.8 million loss in "Other operating credits and charges, net". The components of the net charges include:

- a loss of $4.8 million related to a change in inventory convention for spare parts;
- a loss of $1.6 million related to a prior year inventory adjustment;
- a loss of $1.6 million related to a correction of prior years depreciation amounts associated with LP's South American operations;
- a loss of $17.7 million related to an increase in product related warranty reserves associated with CanExel products sold in specific geographic locations and for a specific time period;
- a gain of $1.4 million related to value added taxes;
- a gain of $1.9 million related to proceeds received from insurance claims associated with an OSB mill in Canada and and earthquake in Chile;
- a gain of $20.5 million in relation to the fair market value adjustment of the contingent consideration payable in connection with a business combination. See Note 3 and Note 24 for additional discussions on fair value measurements and the acquisition of Peace Valley OSB;
- a loss of $1.0 million associated with a workers compensation reserve adjustment at an OSB mill; and
- a loss of $1.0 million related to an increase in environmental reserves associated with a previously owned plywood mill.

Additionally, other operating charges and credits reflected in Equity in (income) loss from unconsolidated affiliates includes a charge of $1.8 million associated with a valuation allowance on the joint venture's books associated with deferred tax assets as well as a loss of $0.9 million associated with the recording of a contingent liability from past years.

18. Contingencies (in part)

LP maintains reserves for various contingent liabilities as follows:

	December 31,	
Dollar amounts in millions	**2014**	**2013**
Environmental reserves	$13.6	$14.9
Other reserves	0.6	0.4
Total contingencies	14.2	15.3
Current portion	(2.0)	(2.0)
Long-term portion	$12.2	$13.3

LP's estimates of its loss contingencies are based on various assumptions and judgments. Due to the numerous uncertainties and variables associated with these assumptions and judgments, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. LP regularly monitors its estimated exposure to contingencies and, as additional information becomes known, may change its estimates significantly. While no estimate of the range of any such change can be made at this time, the amount that LP may ultimately pay in connection with these matters could materially exceed, in either the near term or the longer term, the amounts accrued to date. LP's estimates of its loss contingencies do not reflect potential future recoveries from insurance carriers except to the extent that recovery may from time to time be deemed probable as a result of an insurer's agreement to payment terms.

Environmental Proceedings

LP is involved in a number of environmental proceedings and activities, and may be wholly or partially responsible for known or unknown contamination existing at a number of other sites at which it has conducted operations or disposed of wastes. Based on the information currently available, management believes that any fines, penalties or other costs or losses resulting from these matters will not have a material effect on the financial position, results of operations, cash flows or liquidity of LP.

LP maintains a reserve for undiscounted estimated environmental loss contingencies. This reserve is primarily for estimated future costs of remediation of hazardous or toxic substances at numerous sites currently or previously owned by the Company. LP's estimates of its environmental loss contingencies are based on various assumptions and judgments, the specific nature of which varies in light of the particular facts and circumstances surrounding each environmental loss contingency. These estimates typically reflect assumptions and judgments as to the probable nature, magnitude and timing of required investigation, remediation and/or monitoring activities and the probable cost of these activities, and in some cases reflect assumptions and judgments as to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of the cost of these activities. Due to the numerous uncertainties and variables associated with these assumptions and judgments, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. LP regularly monitors its estimated exposure to environmental loss contingencies and, as additional information becomes known, may change its estimates significantly. However, no estimate of the range of any such change can be made at this time.

In those instances in which LP's estimated exposure reflects actual or anticipated cost-sharing arrangements with third parties, LP does not believe that it will be exposed to additional material liability as a result of non-performance by such third parties. There are three forms of cost-sharing arrangements under which costs are apportioned to others and are therefore not reflected in LP's environmental reserves. The amounts involved, the number of sites and a description of each are as follows:

- Approximately $2.3 million of costs, relating to three sites, pursuant to formal cost-sharing arrangements between LP and one or more third parties.
- Approximately $2.7 million of costs, related to two transactions each covering multiple sites, pursuant to agreements contained in purchase and sale documents where LP has sold an asset to a third party and that third party has assumed responsibility for all or a portion of any remediation costs required for the sold asset.
- Approximately $0.2 million of costs, related to one site undergoing cleanup pursuant to federal or state environmental laws, where multiple parties are involved.

LP considers the financial condition of third parties subject to the cost-sharing arrangements discussed above in determining the amounts to be reflected in LP's environmental reserves. In addition, LP is a party to clean-up activities at two additional sites for which LP does not believe that the failure of a third party to discharge its allocated responsibility would significantly increase LP's financial responsibility based on the manner in which financial responsibility has been, or is expected to be, allocated.

LP's estimates of its environmental loss contingencies do not reflect potential future recoveries from insurance carriers except to the extent that recovery may from time to time be deemed probable as a result of a carrier's agreement to payment terms.

The activity in LP's reserve for estimated environmental loss contingency reserves for the last three years is summarized in the following table.

	Year Ended December 31,		
Dollar amounts in millions	**2014**	**2013**	**2012**
Beginning balance	$14.9	$14.1	$15.0
Adjusted to expense (income) during the year	1.3	1.3	0.7
Payments made for claims	(3.1)	(0.5)	—
Adjusted to expense (income) through other operating credits and charges, net	0.5	—	—
Payments made for administrative costs	—	—	(1.6)
Ending balance	$13.6	$14.9	$14.1

During 2014, 2013 and 2012, LP adjusted its reserves at a number of sites to reflect current estimates of remediation costs and environmental settlements.

ASSET RETIREMENT OBLIGATIONS

2.150 CONOCOPHILLIPS (DEC)

CONSOLIDATED BALANCE SHEET (in part)

	Millions of Dollars	
At December 31	**2014**	**2013**
Liabilities		
Accounts payable	$ 7,982	9,250
Accounts payable—related parties	44	64
Short-term debt	182	589
Accrued income and other taxes	1,051	2,713
Employee benefit obligations	878	842
Other accruals	1,400	1,671
Total current liabilities	11,537	15,129
Long-term debt	22,383	21,073
Asset retirement obligations and accrued environmental costs	10,647	9,883
Deferred income taxes	15,070	15,220
Employee benefit obligations	2,964	2,459
Other liabilities and deferred credits	1,665	1,801
Total liabilities	64,266	65,565

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Accounting Policies (in part)

Asset Retirement Obligations and Environmental Costs (in part)—The fair value of legal obligations to retire and remove long-lived assets are recorded in the period in which the obligation is incurred (typically when the asset is installed at the production location). When the liability is initially recorded, we capitalize this cost by increasing the carrying amount of the related PP&E. If, in subsequent periods, our estimate of this liability changes, we will record an adjustment to both the liability and PP&E. Over time the liability is increased for the change in its present value, and the capitalized cost in PP&E is depreciated over the useful life of the related asset. For additional information, see Note 9—Asset Retirement Obligations and Accrued Environmental Costs.

Note 9—Asset Retirement Obligations and Accrued Environmental Costs (in part)

Asset retirement obligations and accrued environmental costs at December 31 were:

	Millions of Dollars	
	2014	**2013**
Asset retirement obligations	$10,939	10,076
Accrued environmental costs	344	348
Total asset retirement obligations and accrued environmental costs	11,283	10,424
Asset retirement obligations and accrued environmental costs due within one year*	(636)	(541)
Long-term asset retirement obligations and accrued environmental costs	$10,647	9,883

* Classified as a current liability on the balance sheet under "Other accruals" and includes $14 million of liabilities associated with assets held for sale at December 31, 2013.

Asset Retirement Obligations

We record the fair value of a liability for an asset retirement obligation when it is incurred (typically when the asset is installed at the production location). When the liability is initially recorded, we capitalize the associated asset retirement cost by increasing the carrying amount of the related PP&E. If, in subsequent periods, our estimate of this liability changes, we will record an adjustment to both the liability and PP&E. Over time, the liability increases for the change in its present value, while the capitalized cost depreciates over the useful life of the related asset.

We have numerous asset retirement obligations we are required to perform under law or contract once an asset is permanently taken out of service. Most of these obligations are not expected to be paid until several years, or decades, in the future and will be funded from general company resources at the time of removal. Our largest individual obligations involve plugging and abandonment of wells and removal and disposal of offshore oil and gas platforms around the world, as well as oil and gas production facilities and pipelines in Alaska.

During 2014 and 2013, our overall asset retirement obligation changed as follows:

	Millions of Dollars	
	2014	**2013**
Balance at January 1	$10,076	9,164
Accretion of discount	479	434
New obligations	368	410
Changes in estimates of existing obligations	1,175	707
Spending on existing obligations	(365)	(298)
Property dispositions	(20)	(163)
Foreign currency translation	(774)	(178)
Balance at December 31	$10,939	10,076

LITIGATION

2.151 ITT CORPORATION (DEC)

CONSOLIDATED BALANCE SHEETS (in part)

(in millions, except per share amounts)

December 31	**2014**	**2013**
Liabilities and Shareholders' Equity (in part)		
Current liabilities:		
Accounts payable	$309.6	$332.7
Accrued liabilities	465.8	499.9
Total current liabilities	775.4	832.6
Asbestos-related liabilities	1,116.6	1,179.6
Postretirement benefits	249.7	243.3
Other non-current liabilities	269.5	277.8
Total non-current liabilities	1,635.8	1,700.7
Total liabilities	2,411.2	2,533.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(dollars and share amounts in millions, unless otherwise stated)

Note 1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Asbestos-Related Liabilities and Assets

ITT has been named as a defendant in numerous product liability lawsuits alleging personal injury due to asbestos exposure. We accrue the estimated value of pending claims and unasserted claims estimated to be filed over the next 10 years, including legal fees, on an undiscounted basis, due to the inability to reliably forecast the timing of future cash flows. Assumptions utilized in estimating the liability for both pending and unasserted claims include: disease type, average settlement costs, percentage of claims settled or dismissed, the number of claims estimated to be filed against the Company in the future and the costs to defend such claims.

The Company has also recorded an asbestos-related asset, composed of insurance receivables. The asbestos-related asset represents our best estimate of probable recoveries from third parties for pending claims, as well as unasserted claims estimated to be filed over the next 10 years. In developing this estimate, the Company considers coverage-in-place and other settlement agreements with its insurers, as well as a review of expected levels of future cost recovery, the financial viability of the insurance companies, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, and interpretation of the various policy and contract terms and limits and their interrelationships. Consistent with the asbestos liability, the asbestos-related asset has not been discounted to present value due to the inability to reliably forecast the timing of future cash flows. Under coverage-in-place agreements, an insurer's policies remain in force and the insurer undertakes to provide coverage for the Company's pending and future asbestos claims on specified terms and conditions. Insurance payments under coverage-in-place agreements are made to the Company as asbestos claims are settled or adjudicated. The Company's buyout agreements provide an agreed upon amount of available coverage for future asbestos claims under the subject policies to be paid to a Qualified Settlement Fund (QSF) on a specific schedule as agreed upon by the Company and its insurer. However, assets in the QSF are only available and distributed when qualifying asbestos expenditures are submitted for reimbursement as defined in the QSF agreement. Therefore, recovery of insurance reimbursements under these types of agreements is dependent on the timing of the payment of the liability and, consistent with the asbestos liability, have not been discounted to present value.

In the third quarter each year we conduct an asbestos remeasurement with the assistance of outside consultants to review and update, as appropriate, the underlying assumptions used to estimate our asbestos liability and related assets, including a reassessment of the time horizon over which a reasonable estimate of unasserted claims can be projected. In addition, as part of our ongoing review of our net asbestos exposure, each quarter we assess the most recent data available for the key inputs and assumptions, comparing the data to the expectations on which the most recent annual liability and asset estimates were based. Provided the quarterly review does not indicate a more detailed evaluation of our asbestos exposure is required, each quarter we record a net asbestos expense to maintain a rolling 10-year time horizon.

Note 18. Commitments and Contingencies (in part)

From time to time, we are involved in legal proceedings that are incidental to the operation of our businesses. Some of these proceedings allege damages relating to environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues and commercial or contractual disputes, sometimes related to acquisitions or divestitures. We will continue to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information including our assessment of the merits of the particular claim, as well as our current reserves and insurance coverage, we do not expect that such legal proceedings will have any material adverse impact on our financial statements, unless otherwise noted below.

Asbestos Matters

ITT, including its subsidiary Goulds Pumps, Inc., has been sued, along with many other companies in product liability lawsuits alleging personal injury due to asbestos exposure. These claims generally allege that certain products sold by us or our subsidiaries prior to 1985 contained a part manufactured by a third party (e.g., a gasket) which contained asbestos. To the extent these third-party parts may have contained asbestos, it was encapsulated in the gasket (or other) material and was non-friable. As of December 31, 2014, there were 49 thousand pending active claims against ITT, including Goulds Pumps, filed in various state and federal courts alleging injury as a result of exposure to asbestos. Activity related to these asserted asbestos claims during the period was as follows:

(In thousands)	2014	2013	2012
Pending claims—Beginning	79	96	105
New claims	4	5	4
Settlements	(2)	(3)	(1)
Dismissals[a]	(19)	(19)	(12)
Pending claims—Ending	62	79	96
Pending inactive claims[a]	13	13	29
Pending active claims	49	66	67

[a] Dismissals reported in the table above include the dismissal of approximately 16 thousand claims in 2013 and 12 thousand in 2012, which were considered pending inactive claims. There were no inactive claims dismissed during 2014. Inactive claims represent pending claims in Mississippi filed in 2004 or prior, which have been excluded from our asbestos measurement because the plaintiffs cannot demonstrate a significant compensable loss. As such, management believes these claims have little to no value.

Frequently, plaintiffs are unable to identify any ITT or Goulds Pumps product as a source of asbestos exposure. Our experience to date is that a majority of resolved claims are dismissed without any payment from the Company. Management believes that a large majority of the pending claims have little or no value. In addition, because claims are sometimes dismissed in large groups, the average cost per resolved claim, as well as the number of open claims, can fluctuate significantly from period to period. ITT expects more asbestos-related suits will be filed in the future, and ITT will aggressively defend or seek a reasonable resolution, as appropriate.

Estimating the Liability and Related Asset

The Company records an asbestos liability, including legal fees, for costs estimated to be incurred to resolve all pending claims, as well as unasserted claims estimated to be filed against the Company over the next ten years. The asbestos liability has not been discounted to present value due to an inability to reliably forecast the timing of future cash flows. The methodology used to estimate our asbestos liability for pending claims and claims estimated to be filed over the next 10 years relies on and includes the following:

- interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos in the workplace;
- widely accepted epidemiological studies estimating the number of people likely to develop mesothelioma and lung cancer from exposure to asbestos;
- the Company's historical experience with the filing of non-malignant claims against it and the historical relationship between non-malignant and malignant claims filed against the Company;
- analysis of the number of likely asbestos personal injury claims to be filed against the Company based on such epidemiological and historical data and the Company's recent claims experience;
- analysis of the Company's pending cases, by disease type;

- analysis of the Company's recent experience to determine the average settlement value of claims, by disease type;
- analysis of the Company's recent experience in the ratio of settled claims to total resolved claims, by disease type;
- analysis of the Company's defense costs in relation to its indemnity costs;
- adjustment for inflation in the average settlement value of claims and defense costs estimated to be paid in the future; and
- analysis of the Company's recent experience with regard to the length of time to resolve asbestos claims.

Asbestos litigation is a unique form of litigation. Frequently, the plaintiff sues a large number of defendants and does not state a specific claim amount. After filing of the complaint, the plaintiff engages defendants in settlement negotiations to establish a settlement value based on certain criteria, including the number of defendants in the case. Rarely do the plaintiffs seek to collect all damages from one defendant. Rather, they seek to spread the liability, and thus the payments, among many defendants. As a result, the Company is unable to estimate the maximum potential exposure to pending claims and claims estimated to be filed over the next 10 years.

The forecast period used to estimate our potential liability to pending and projected asbestos claims is a judgment based on a number of factors, including the number and type of claims filed, recent experience with pending claims activity and whether that experience is expected to continue into the future, the jurisdictions where claims are filed, the effect of any legislative or judicial developments, and the likelihood of any comprehensive asbestos legislation at the federal level. These factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and, accordingly, our estimate of the asbestos exposure. Developments related to asbestos tend to be long-cycle, changing over multi-year periods. Accordingly, we monitor these and other factors and periodically assess whether an alternative forecast period is appropriate.

The Company retains a consulting firm to assist management in estimating the potential liability for pending asbestos claims and for claims estimated to be filed over the next 10 years based on the methodology described above. Our methodology determines a point estimate based on our assessment of the value of each underlying assumption, rather than a range of reasonably possible outcomes. Projecting future asbestos costs is subject to numerous variables and uncertainties that are inherently difficult to predict. In addition to the uncertainties surrounding the key assumptions discussed above, additional uncertainty related to asbestos claims and estimated costs arises from the long latency period prior to the manifestation of an asbestos-related disease, changes in available medical treatments and changes in medical costs, changes in plaintiff behavior resulting from bankruptcies of other companies that are or could be co-defendants, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential legislative or judicial changes. At December 31, 2014, approximately 30% of the recorded asbestos liability relates to pending claims, with the remainder relating to claims estimated to be filed over the next 10 years.

We record a corresponding undiscounted asbestos-related asset that represents our best estimate of probable recoveries from our insurers for the estimated asbestos liabilities. In developing this estimate, the Company considers coverage-in-place and other agreements with its insurers, as well as a number of additional factors. These additional factors reviewed include the financial viability of our insurance carriers and any related solvency issues, the method by which losses will be allocated to the various insurance policies and the years covered by those policies, the extent to which settlement and defense costs will be reimbursed by the insurance policies and interpretation of the various policy and contract terms and limits and their interrelationships, and various judicial determinations relevant to our insurance programs. The timing and amount of reimbursements will vary due to a time lag between when ITT pays an amount to defend or settle a claim and when a reimbursement is received from an insurer, differing policy terms and certain gaps in our insurance coverage as a result of uninsured periods, insurer insolvencies, and prior insurance settlements. Approximately 84% of our estimated receivables are due from insurers that had credit ratings of A- or better from A.M. Best as of December 31, 2014.

In addition, the Company retains an insurance consulting firm to assist management in estimating probable recoveries for pending asbestos claims and for claims estimated to be filed over the next 10 years based on the analysis of policy terms, the likelihood of recovery provided by external legal counsel, and incorporating risk mitigation judgments where policy terms or other factors are not certain. The aggregate amount of insurance available to the Company for asbestos-related claims was acquired over many years and from many different carriers. Amounts deemed not recoverable generally are due from insurers that are insolvent, or result from disagreements with the insurers over policy terms, coverage limits or coverage disputes. Such limitations in our insurance coverage are expected to result in projected payments to claimants substantially exceeding the probable insurance recovery.

The Company has negotiated with certain of its insurers to reimburse the Company for a portion of its indemnity and defense costs through "coverage-in-place" agreements or policy buyout agreements. The agreements are designed to facilitate the collection of ITT's insurance portfolio, to mitigate issues that insurers may raise regarding their responsibility to respond to claims, and to promote an orderly exhaustion of the policies. As of December 31, 2014, approximately 55% of our asbestos-related assets were related to coverage-in-place agreements and buyout agreements with insurers.

After reviewing our portfolio of insurance policies, with consideration given to applicable deductibles, retentions and policy limits, the solvency and historical payment experience of various insurance carriers, existing insurance settlements, and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, ITT believes that its recorded receivable for insurance recoveries is probable of collection.

Estimating our exposure to pending asbestos claims and those that may be filed in the future is subject to significant uncertainty and risk as there are multiple variables that can affect the timing, severity, quality, quantity and resolution of claims. Any predictions with respect to the variables impacting the estimate of the asbestos liability and related asset are subject to even greater uncertainty as the projection period lengthens. In light of the uncertainties and variables inherent in the long-term projection of the Company's asbestos exposures, although it is probable that the Company will incur additional costs for asbestos claims filed beyond the next 10 years which could be material to the financial statements, we do not believe there is a reasonable basis for estimating those costs at this time.

The asbestos liability and related receivables reflect management's best estimate of future events. However, future events affecting the key factors and other variables for either the asbestos liability or the related receivables could cause actual costs or recoveries to be materially higher or lower than currently estimated. Due to these uncertainties, as well as our inability to reasonably estimate any additional asbestos liability for claims which may be filed beyond the next 10 years, it is not possible to predict the ultimate cost of resolving all pending and unasserted asbestos claims. We believe it is possible that future events affecting the key factors and other variables within the next 10 years, as well as the cost of asbestos claims filed beyond the next 10 years, net of expected recoveries, could have a material adverse effect on our financial statements.

Settlement Agreements

During 2014, ITT executed a final settlement agreement (the 2014 Settlement) with an insurer to settle responsibility for multiple insurance claims, resulting in a one-time lump sum payment to the Qualified Settlement Fund (QSF) of $2.2 in 2015. During 2013, ITT executed a final settlement agreement (the 2013 Settlement) with an insurer to settle responsibility for multiple categories of insured claims, including pending and future product liability claims. Under the terms of the 2013 Settlement, the insurer agreed to a specified series of payments over the course of the next five years, resulting in a one-time benefit of $31.0. In 2012, we executed an agreement (the 2012 Settlement) with the entity (the counterparty) that acquired a business disposed by ITT in 1986. The 2012 Settlement accelerated the cost sharing provisions of a previous agreement with the counterparty. Under the terms of the 2012 Settlement, the counterparty assumed full responsibility for all pending and future asbestos-related claims filed against the disposed business, whether they were served on ITT or the counterparty. ITT also agreed that certain insurance rights will remain with the pending and future claims filed against the disposed business, benefiting the counterparty. Income from continuing operations reflects a benefit of $5.8 from the 2012 Settlement, while income from discontinued operations reflects a benefit of $5.6 from the 2012 Settlement.

Income Statement Charges

The table below summarizes the total net asbestos charge for the years ended December 31, 2014, 2013, and 2012.

	2014	2013	2012
Continuing operations:			
Asbestos provision	$64.9	$63.3	$53.8
Asbestos remeasurement, net	(58.8)	0.5	2.9
Settlement agreement	(2.2)	(31.0)	(5.8)
Net asbestos charge—continuing operations	3.9	32.8	50.9
Discontinued operations:			
Asbestos provision	—	—	0.5
Settlement agreement	—	—	(5.6)
Net asbestos charge—discontinued operations	—	—	(5.1)
Total net asbestos charge	$ 3.9	$32.8	$45.8

Changes in Financial Position

The following table provides a rollforward of the estimated asbestos liability and related assets for the years ended December 31, 2014 and 2013.

	2014			2013		
	Liability	**Asset**	**Net**	**Liability**	**Asset**	**Net**
Balance as of January 1	$1,264.7	$517.8	$746.9	$1,347.4	$607.9	$739.5
Changes in estimate	32.4	26.3	6.1	11.4	(52.4)	63.8
Settlement Agreement	—	2.2	(2.2)	—	31.0	(31.0)
Net cash activity and other	(73.9)	(69.9)	(4.0)	(94.1)	(68.7)	(25.4)
Balance as of December 31	$1,223.2	$476.4	$746.8	$1,264.7	$517.8	$746.9
Current portion	106.6	102.4		85.1	84.5	
Noncurrent portion	1,116.6	374.0		1,179.6	433.3	

DERIVATIVES

2.152 INTERNATIONAL BUSINESS MACHINES CORPORATION (DEC)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in part)

($ in millions except per share amounts)

At December 31:	Notes	2014	2013
Liabilities and Equity (in part)			
Current liabilities			
Taxes	N	$ 5,084	$ 4,633
Short-term debt	D&J	5,731	6,862
Accounts payable		6,864	7,461
Compensation and benefits		4,031	3,893
Deferred income		11,877	12,557
Other accrued expenses and liabilities		6,013	4,748
Total current liabilities		39,600	40,154
Long-term debt	D&J	35,073	32,856
Retirement and nonpension postretirement benefit obligations	S	18,261	16,242
Deferred income		3,691	4,108
Other liabilities	K	8,892	9,934
Total liabilities		105,518	103,294

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note A. Significant Accounting Policies (in part)

Derivative Financial Instruments

Derivatives are recognized in the Consolidated Statement of Financial Position at fair value and are reported in prepaid expenses and other current assets, investments and sundry assets, other accrued expenses and liabilities or other liabilities. Classification of each derivative as current or noncurrent is based upon whether the maturity of the instrument is less than or greater than 12 months. To qualify for hedge accounting, the company requires that the instruments be effective in reducing the risk exposure that they are designated to hedge. For instruments that hedge cash flows, hedge designation criteria also require that it be probable that the underlying transaction will occur. Instruments that meet established accounting criteria are formally designated as hedges. These criteria demonstrate that the derivative is expected to be highly effective at offsetting changes in fair value or cash flows of the underlying exposure both at inception of the hedging relationship and on an ongoing basis. The method of assessing hedge effectiveness and measuring hedge ineffectiveness is formally documented at hedge inception. The company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly throughout the designated hedge period.

Where the company applies hedge accounting, the company designates each derivative as a hedge of: (1) the fair value of a recognized financial asset or liability, or of an unrecognized firm commitment (fair value hedge attributable to interest rate or foreign currency risk); (2) the variability of anticipated cash flows of a forecasted transaction, or the cash flows to be received or paid related to a recognized financial asset or liability (cash flow hedge attributable to interest rate or foreign currency risk); or (3) a hedge of a long-term investment (net investment hedge) in a foreign operation. In addition, the company may enter into derivative contracts that economically hedge certain of its risks, even though hedge accounting does not apply or the company elects not to apply hedge accounting. In these cases, there exists a natural hedging relationship in which changes in the fair value of the derivative, which are recognized currently in net income, act as an economic offset to changes in the fair value of the underlying hedged item(s).

Changes in the fair value of a derivative that is designated as a fair value hedge, along with offsetting changes in the fair value of the underlying hedged exposure, are recorded in earnings each period. For hedges of interest rate risk, the fair value adjustments are recorded as adjustments to interest expense and cost of financing in the Consolidated Statement of Earnings. For hedges of currency risk associated with recorded financial assets or liabilities, derivative fair value adjustments are recognized in other (income) and expense in the Consolidated Statement of Earnings. Changes in the fair value of a derivative that is designated as a cash flow hedge are recorded, net of applicable taxes, in OCI, in the Consolidated Statement of Comprehensive Income. When net income is affected by the variability of the underlying cash flow, the applicable offsetting amount of the gain or loss from the derivative that is deferred in AOCI is released to net income and reported in interest expense, Cost, SG&A expense or other (income) and expense in the Consolidated Statement of Earnings based on the nature of the underlying cash flow hedged. Effectiveness for net investment hedging derivatives is measured on a spot-to-spot basis. The effective portion of changes in the fair value of net investment hedging derivatives and other non-derivative financial instruments designated as net investment hedges are recorded as foreign currency translation adjustments in OCI. Changes in the fair value of the portion of a net investment hedging derivative excluded from the effectiveness assessment are recorded in interest expense. If the underlying hedged item in a fair value hedge ceases to exist, all changes in the fair value of the derivative are included in net income each period until the instrument matures. When the derivative transaction ceases to exist, a hedged asset or liability is no longer adjusted for changes in its fair value except as required under other relevant accounting standards. Derivatives that are not designated as hedges, as well as changes in the fair value of derivatives that do not effectively offset changes in the fair value of the underlying hedged item throughout the designated hedge period (collectively, "ineffectiveness"), are recorded in net income for each period and are primarily reported in other (income) and expense. When a cash flow hedging relationship is discontinued, the net gain or loss in AOCI must generally remain in AOCI until the item that was hedged affects earnings. However, when it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period thereafter, the net gain or loss in AOCI must be reclassified into earnings immediately. The company reports cash flows arising from derivative financial instruments designated as fair value or cash flow hedges consistent with the classification of cash flows from the underlying hedged items that these derivatives are hedging. Accordingly, the cash flows associated with derivatives designated as fair value or cash flow hedges are classified in cash flows from operating activities in the Consolidated Statement of Cash Flows. Cash flows from derivatives designated as net investment hedges and derivatives that do not qualify as hedges are reported in cash flows from investing activities in the Consolidated Statement of Cash Flows. For currency swaps designated as hedges of foreign currency denominated debt (included in the company's debt risk management program as addressed in note D, "Financial Instruments," on pages 105 through 109), cash flows directly associated with the settlement of the principal element of these swaps are reported in payments to settle debt in cash flows from financing activities in the Consolidated Statement of Cash Flows.

Note D. Financial Instruments (in part)

Derivative Financial Instruments

The company operates in multiple functional currencies and is a significant lender and borrower in the global markets. In the normal course of business, the company is exposed to the impact of interest rate changes and foreign currency fluctuations, and to a lesser extent equity and commodity price changes and client credit risk. The company limits these risks by following established risk management policies and procedures, including the use of derivatives, and, where cost effective, financing with debt in the currencies in which assets are denominated. For interest rate exposures, derivatives are used to better align rate movements between the interest rates associated with the company's lease and other financial assets and the interest rates associated with its financing debt. Derivatives are also used to manage the related cost of debt. For foreign currency exposures, derivatives are used to better manage the cash flow volatility arising from foreign exchange rate fluctuations.

As a result of the use of derivative instruments, the company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the company has a policy of only entering into contracts with carefully selected major financial institutions based upon their overall credit profile. The company's established policies and procedures for mitigating credit risk on principal transactions include reviewing and establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. The right of set-off that exists under certain of these arrangements enables the legal entities of the company subject to the arrangement to net amounts due to and from the counterparty reducing the maximum loss from credit risk in the event of counterparty default.

The company is also a party to collateral security arrangements with most of its major derivative counterparties. These arrangements require the company to hold or post collateral (cash or U.S. Treasury securities) when the derivative fair values exceed contractually established thresholds. Posting thresholds can be fixed or can vary based on credit default swap pricing or credit ratings received from the major credit agencies. The aggregate fair value of all derivative instruments under these collateralized arrangements that were in a liability position at December 31, 2014 and 2013 was $21 million and $216 million, respectively, for which no collateral was posted at either date. Full collateralization of these agreements would be required in the event that the company's credit rating falls below investment grade or if its credit default swap spread exceeds 250 basis points, as applicable, pursuant to the terms of the collateral security arrangements. The aggregate fair value of derivative instruments in net asset positions as of December 31, 2014 and 2013 was $1,432 million and $719 million, respectively. This amount represents the maximum exposure to loss at the reporting date as a result of the counterparties failing to perform as contracted. This exposure was reduced by $97 million and $251 million at December 31, 2014 and 2013, respectively, of liabilities included in master netting arrangements with those counterparties. Additionally, at December 31, 2014 and 2013, this exposure was reduced by $487 million and $29 million of cash collateral, respectively, received by the company. At December 31, 2014 and 2013, the net exposure related to derivative assets recorded in the Statement of Financial Position was $817 million and $439 million, respectively. At December 31, 2014 and 2013, the net amount related to derivative liabilities recorded in the Statement of Financial Position was $99 million and $250 million, respectively.

In the Consolidated Statement of Financial Position, the company does not offset derivative assets against liabilities in master netting arrangements nor does it offset receivables or payables recognized upon payment or receipt of cash collateral against the fair values of the related derivative instruments. No amount was recognized in other receivables at December 31, 2014 and 2013 for the right to reclaim cash collateral. The amount recognized in accounts payable for the obligation to return cash collateral totaled $487 million and $29 million at December 31, 2014 and 2013, respectively. The company restricts the use of cash collateral received to rehypothecation, and therefore reports it in prepaid expenses and other current assets in the Consolidated Statement of Financial Position. No amount was rehypothecated at December 31, 2014 and 2013. At December 31, 2014 the company held $31 million in non-cash collateral in U.S. Treasury securities, and at December 31, 2013, no non-cash collateral was held.

The company may employ derivative instruments to hedge the volatility in stockholders' equity resulting from changes in currency exchange rates of significant foreign subsidiaries of the company with respect to the U.S. dollar. These instruments, designated as net investment hedges, expose the company to liquidity risk as the derivatives have an immediate cash flow impact upon maturity which is not offset by a cash flow from the translation of the underlying hedged equity. The company monitors this cash loss potential on an ongoing basis, and may discontinue some of these hedging relationships by de-designating or terminating the derivative instrument in order to manage the liquidity risk. Although not designated as accounting hedges, the company may utilize derivatives to offset the changes in the fair value of the de-designated instruments from the date of de-designation until maturity.

In its hedging programs, the company uses forward contracts, futures contracts, interest-rate swaps and cross-currency swaps, depending upon the underlying exposure. The company is not a party to leveraged derivative instruments.

A brief description of the major hedging programs, categorized by underlying risk, follows.

Interest Rate Risk

Fixed and Variable Rate Borrowings

The company issues debt in the global capital markets, principally to fund its financing lease and loan portfolio. Access to cost-effective financing can result in interest rate mismatches with the underlying assets. To manage these mismatches and to reduce overall interest cost, the company uses interest rate swaps to convert specific fixed-rate debt issuances into variable-rate debt (i.e., fair value hedges) and to convert specific variable-rate debt issuances into fixed-rate debt (i.e., cash flow hedges). At December 31, 2014 and 2013, the total notional amount of the company's interest rate swaps was $5.8 billion and $3.1 billion, respectively. The weighted-average remaining maturity of these instruments at December 31, 2014 and 2013 was approximately 8.7 years and 10.6 years, respectively.

Forecasted Debt Issuance

The company is exposed to interest rate volatility on future debt issuances. To manage this risk, the company may use forward-starting interest rate swaps to lock in the rate on the interest payments related to the forecasted debt issuance. These swaps are accounted for as cash flow hedges. The company did not have any derivative instruments relating to this program outstanding at December 31, 2014 and 2013.

At December 31, 2014 and 2013, net gains of approximately $1 million (before taxes), respectively, were recorded in AOCI in connection with cash flow hedges of the company's borrowings. Within these amounts, less than $1 million of gains, respectively, are expected to be reclassified to net income within the next 12 months, providing an offsetting economic impact against the underlying transactions.

Foreign Exchange Risk

Long-Term Investments in Foreign Subsidiaries (Net Investment)

A large portion of the company's foreign currency denominated debt portfolio is designated as a hedge of net investment in foreign subsidiaries to reduce the volatility in stockholders' equity caused by changes in foreign currency exchange rates in the functional currency of major foreign subsidiaries with respect to the U.S. dollar. The company also uses cross-currency swaps and foreign exchange forward contracts for this risk management purpose. At December 31, 2014 and 2013, the total notional amount of derivative instruments designated as net investment hedges was $2.2 billion and $3.0 billion, respectively. The weighted-average remaining maturity of these instruments at December 31, 2014 and 2013 was approximately 0.2 and 0.4 years, respectively.

Anticipated Royalties and Cost Transactions

The company's operations generate significant nonfunctional currency, third-party vendor payments and intercompany payments for royalties and goods and services among the company's non-U.S. subsidiaries and with the parent company. In anticipation of these foreign currency cash flows and in view of the volatility of the currency markets, the company selectively employs foreign exchange forward contracts to manage its currency risk. These forward contracts are accounted for as cash flow hedges. The maximum length of time over which the company is hedging its exposure to the variability in future cash flows is four years. At December 31, 2014 and 2013, the total notional amount of forward contracts designated as cash flow hedges of forecasted royalty and cost transactions was $9.3 billion and $10.2 billion, respectively, with a weighted-average remaining maturity of 0.7 years for both periods.

At December 31, 2014 and 2013, in connection with cash flow hedges of anticipated royalties and cost transactions, the company recorded net gains of $602 million and net losses of $252 million (before taxes), respectively, in AOCI. Within these amounts $572 million of gains and $166 million of losses, respectively, are expected to be reclassified to net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Foreign Currency Denominated Borrowings

The company is exposed to exchange rate volatility on foreign currency denominated debt. To manage this risk, the company employs cross-currency swaps to convert fixed-rate foreign currency denominated debt to fixed-rate debt denominated in the functional currency of the borrowing entity. These swaps are accounted for as cash flow hedges. The maximum length of time over which the company hedges its exposure to the variability in future cash flows is approximately seven years. At December 31, 2014, no instruments relating to this program were outstanding. At December 31, 2013, the total notional amount of cross currency swaps designated as cash flow hedges of foreign currency denominated debt was $1.2 billion.

At December 31, 2014 and 2013, in connection with cash flow hedges of foreign currency denominated borrowings, the company recorded net losses of $2 million and net losses of $9 million (before taxes) in AOCI, respectively. Within these amounts, less than $1 million and $3 million of losses, respectively, are expected to be reclassified to net income within the next 12 months, providing an offsetting economic impact against the underlying exposure.

Subsidiary Cash and Foreign Currency Asset/Liability Management

The company uses its Global Treasury Centers to manage the cash of its subsidiaries. These centers principally use currency swaps to convert cash flows in a cost-effective manner. In addition, the company uses foreign exchange forward contracts to economically hedge, on a net basis, the foreign currency exposure of a portion of the company's nonfunctional currency assets and liabilities. The terms of these forward and swap contracts are generally less than one year. The changes in the fair values of these contracts and of the underlying hedged exposures are generally offsetting and are recorded in other (income) and expense in the Consolidated Statement of Earnings. At December 31, 2014 and 2013, the total notional amount of derivative instruments in economic hedges of foreign currency exposure was $13.1 billion and $14.7 billion, respectively.

Equity Risk Management

The company is exposed to market price changes in certain broad market indices and in the company's own stock primarily related to certain obligations to employees. Changes in the overall value of these employee compensation obligations are recorded in SG&A expense in the Consolidated Statement of Earnings. Although not designated as accounting hedges, the company utilizes derivatives, including equity swaps and futures, to economically hedge the exposures related to its employee compensation obligations. The derivatives are linked to the total return on certain broad market indices or the total return on the company's common stock. They are recorded at fair value with gains or losses also reported in SG&A expense in the Consolidated Statement of Earnings. At December 31, 2014 and 2013, the total notional amount of derivative instruments in economic hedges of these compensation obligations was $1.3 billion for both periods.

Other Risks

The company may hold warrants to purchase shares of common stock in connection with various investments that are deemed derivatives because they contain net share or net cash settlement provisions. The company records the changes in the fair value of these warrants in other (income) and expense in the Consolidated Statement of Earnings. The company did not have any warrants qualifying as derivatives outstanding at December 31, 2014 and 2013.

The company is exposed to a potential loss if a client fails to pay amounts due under contractual terms. The company may utilize credit default swaps to economically hedge its credit exposures. These derivatives have terms of one year or less. The swaps are recorded at fair value with gains and losses reported in other (income) and expense in the Consolidated Statement of Earnings. The company did not have any derivative instruments relating to this program outstanding at December 31, 2014 and 2013.

The company is exposed to market volatility on certain investment securities. The company may utilize options or forwards to economically hedge its market exposure. The derivatives are recorded at fair value with gains and losses reported in other (income) and expense in the Consolidated Statement of Earnings. At December 31, 2014, the total notional amount of derivative instruments in economic hedges of investment securities was $0.1 billion. No amounts were outstanding under this program at December 31, 2013.

The following tables provide a quantitative summary of the derivative and non-derivative instrument- related risk management activity as of December 31, 2014 and 2013, as well as for the years ended December 31, 2014, 2013 and 2012, respectively.

Fair Values of Derivative Instruments in the Consolidated Statement of Financial Position

($ in millions)

	Fair Value of Derivative Assets			**Fair Value of Derivative Liabilities**		
At December 31:	**Balance Sheet Classification**	**2014**	**2013**	**Balance Sheet Classification**	**2014**	**2013**
Designated as Hedging Instruments:						
Interest rate contracts	Prepaid expenses and other current assets	$ 5	$ —	Other accrued expenses and liabilities	$ 0	$ 0
	Investments and sundry assets	628	308	Other liabilities	—	13
Foreign exchange contracts	Prepaid expenses and other current assets	632	187	Other accrued expenses and liabilities	50	331
	Investments and sundry assets	17	26	Other liabilities	21	112
	Fair value of derivative assets	$1,281	$522	Fair value of derivative labilities	$ 72	$ 456
Not Designated as Hedging Instruments:						
Foreign exchange contracts	Prepaid expenses and other current assets	$ 90	$ 94	Other accrued expenses and liabilities	$ 101	$ 40
	Investments and sundry assets	37	67	Other liabilities	4	1
Equity contracts	Prepaid expenses and other current assets	24	36	Other accrued expenses and liabilities	14	4
	Investments and sundry assets	0	—	Other liabilities	5	—
	Fair value of derivative assets	$ 151	$197	Fair value of derivative liabilities	$ 125	$ 45
Total Debt Designated as Hedging Instruments						
Short-term debt		N/A	N/A		$ 0	$ 190
Long-term debt		N/A	N/A		$7,766	$6,111
Total		$1,432	$719		$7,963	$6,802

N/A—Not applicable

Note K. Other Liabilities (in part)

($ in millions)

At December 31:	**2014**	**2013**
Income tax reserves	$3,146	$3,189
Excess 401(k) Plus Plan	1,658	1,673
Disability benefits	675	699
Derivative liabilities	31	126
Special restructuring actions	431	440
Workforce reductions	469	500
Deferred taxes	288	1,741
Other taxes payable	17	186
Environmental accruals	240	231
Warranty accruals	91	171
Asset retirement obligations	136	129
Acquisition related	50	205
Divestiture related*	1,124	40
Other	536	604
Total	$8,892	$9,934

* Primarily includes accruals in 2014 related to the expected divestiture of the Microelectronics business.

DEFERRED REVENUES

2.153 ORACLE CORPORATION (MAY)

CONSOLIDATED BALANCE SHEETS (in part)

	May 31,	
(In millions, except per share data)	2014	2013
Liabilities and Equity (in part)		
Current liabilities:		
Notes payable, current and other current borrowings	$1,508	$ —
Accounts payable	471	419
Accrued compensation and related benefits	1,940	1,851
Income taxes payable	416	911
Deferred revenues	7,269	7,118
Other current liabilities	2,785	2,573
Total current liabilities	14,389	12,872
Non-current liabilities:		
Notes payable and other non-current borrowings	22,667	18,494
Income taxes payable	4,184	3,899
Other non-current liabilities	1,657	1,402
Total non-current liabilities	28,508	23,795

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

10. Deferred Revenues

Deferred revenues consisted of the following:

	May 31,	
(In millions)	2014	2013
Software license updates and product support	$5,909	$5,705
Hardware systems support and other	664	706
Services	364	355
Cloud SaaS, PaaS and IaaS	248	223
New software licenses	84	129
Deferred revenues, current	7,269	7,118
Deferred revenues, non-current (in other non-current liabilities)	404	312
Total deferred revenues	$7,673	$7,430

Deferred software license updates and product support revenues and deferred hardware systems support revenues represent customer payments made in advance for support contracts that are typically billed on a per annum basis in advance with corresponding revenues being recognized ratably over the support periods. Deferred services revenues include prepayments for our services business and revenues for these services are generally recognized as the services are performed. Deferred cloud SaaS, PaaS and IaaS revenues typically result from our cloud-based offerings that are typically billed in advance and recognized over the corresponding contractual term. Deferred new software licenses revenues typically result from undelivered products or specified enhancements, customer specific acceptance provisions, customer payments made in advance for time-based license arrangements and software license transactions that cannot be segmented from undelivered consulting or other services.

In connection with our acquisitions, we have estimated the fair values of the cloud SaaS and PaaS, software license updates and product support, and hardware systems support obligations, amongst others, assumed from our acquired companies. We generally have estimated the fair values of these obligations assumed using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume these acquired obligations. These aforementioned fair value adjustments recorded for obligations assumed from our acquisitions reduced the cloud SaaS and PaaS, software license updates and product support and hardware systems support deferred revenues balances that we recorded as liabilities from these acquisitions and also reduced the resulting revenues that we recognized or will recognize over the terms of the acquired obligations during the post-combination periods.

Accumulated Other Comprehensive Income

PRESENTATION

2.154 FASB ASC 220, *Comprehensive Income*, requires that a separate caption for accumulated other comprehensive income be presented in the "Equity" section of a balance sheet. An entity should disclose accumulated balances for each classification in that separate component of equity on the face of a balance sheet or in notes to the financial statements.

PRESENTATION AND DISCLOSURE EXCERPTS

ACCUMULATED OTHER COMPREHENSIVE INCOME—EQUITY SECTION OF BALANCE SHEET

2.155 VISA INC. (SEP)

CONSOLIDATED BALANCE SHEETS

(In millions, except par value data)	September 30, 2014	September 30, 2013
Assets		
Cash and cash equivalents	$ 1,971	$ 2,186
Restricted cash—litigation escrow (Note 3)	1,498	49
Investment securities (Note 4):		
Trading	69	75
Available-for-sale	1,910	1,994
Income tax receivable (Note 19)	91	142
Settlement receivable	786	799
Accounts receivable	822	761
Customer collateral (Note 11)	961	866
Current portion of client incentives	210	282
Deferred tax assets (Note 19)	1,028	481
Prepaid expenses and other current assets (Note 5)	216	187
Total current assets	9,562	7,822
Investment securities, available-for-sale (Note 4)	3,015	2,760
Client incentives	81	89
Property, equipment and technology, net (Note 6)	1,892	1,732
Other assets (Note 5)	855	521
Intangible assets, net (Note 7)	11,411	11,351
Goodwill (Note 7)	11,753	11,681
Total assets	$38,569	$35,956
Liabilities		
Accounts payable	$ 147	$ 184
Settlement payable	1,332	1,225
Customer collateral (Note 11)	961	866
Accrued compensation and benefits	450	523
Client incentives	1,036	919
Accrued liabilities (Note 8)	624	613
Accrued litigation (Note 20)	1,456	5
Total current liabilities	6,006	4,335
Deferred tax liabilities (Note 19)	4,145	4,149
Other liabilities (Note 8)	1,005	602
Total liabilities	11,156	9,086
Commitments and contingencies (Note 17)		
Equity		
Preferred stock, $0.0001 par value, 25 shares authorized and none issued	$ —	$ —
Class A common stock, $0.0001 par value, 2,001,622 shares authorized, 495 and 508 shares issued and outstanding at September 30, 2014 and 2013, respectively (Note 14)	—	—
Class B common stock, $0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at September 30, 2014 and 2013 (Note 14)	—	—
Class C common stock, $0.0001 par value, 1,097 shares authorized, 22 and 27 shares issued and outstanding at September 30, 2014 and 2013, respectively (Note 14)	—	—
Additional paid-in capital	18,299	18,875
Accumulated income	9,131	7,974

(continued)

(In millions, except par value data)	September 30, 2014	September 30, 2013
Accumulated other comprehensive (loss) income, net:		
Investment securities, available-for-sale	31	59
Defined benefit pension and other postretirement plans	(84)	(60)
Derivative instruments classified as cash flow hedges	38	23
Foreign currency translation adjustments	(2)	(1)
Total accumulated other comprehensive (loss) income, net	(17)	21
Total equity	27,413	26,870
Total liabilities and equity	$38,569	$35,956

ACCUMULATED OTHER COMPREHENSIVE INCOME—STATEMENT OF CHANGES IN EQUITY

2.156 AMETEK, INC. (DEC)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Capital Stock			
Preferred stock, $0.01 par value	$ —	$ —	$ —
Common stock, $0.01 par value			
Balance at the beginning of the year	2,581	2,565	2,538
Shares issued	8	16	27
Balance at the end of the year	2,589	2,581	2,565
Capital in Excess of Par Value			
Balance at the beginning of the year	448,700	387,871	315,688
Issuance of common stock under employee stock plans	15,290	23,053	37,829
Share-based compensation costs	19,871	21,591	19,384
Excess tax benefits from exercise of stock options	7,889	16,185	14,970
Balance at the end of the year	491,750	448,700	387,871
Retained Earnings			
Balance at the beginning of the year	2,966,015	2,507,419	2,101,615
Net income	584,460	516,999	459,132
Cash dividends paid	(80,551)	(58,405)	(53,083)
Other	(1)	2	(245)
Balance at the end of the year	3,469,923	2,966,015	2,507,419
Accumulated Other Comprehensive (Loss) Income			
Foreign currency translation:			
Balance at the beginning of the year	(1,089)	(31,624)	(58,901)
Translation adjustments	(59,712)	2,550	17,722
Change in long-term intercompany notes	(54,906)	25,047	6,926
Net investment hedges, net of tax of $4,961, ($1,587) and ($1,416) in 2014, 2013 and 2012, respectively	(9,213)	2,938	2,629
Balance at the end of the year	(124,920)	(1,089)	(31,624)
Defined benefit pension plans:			
Balance at the beginning of the year	(64,068)	(119,838)	(98,433)
Net actuarial gain (loss), net of tax of $42,755, ($28,884) and $15,222 in 2014, 2013 and 2012, respectively	(83,040)	47,498	(30,509)
Amortization of net actuarial loss, net of tax of ($1,650), ($5,038) and ($4,598) in 2014, 2013 and 2012, respectively	2,834	8,446	7,563
Amortization of prior service costs, net of tax of ($753), $66 and ($441) in 2014, 2013 and 2012, respectively	2,292	(174)	1,541
Balance at the end of the year	(141,982)	(64,068)	(119,838)
Unrealized holding gain (loss) on available-for-sale securities:			
Balance at the beginning of the year	(82)	132	71
Increase (decrease) during the year, net of tax	90	(214)	61
Balance at the end of the year	8	(82)	132
Accumulated other comprehensive loss at the end of the year	(266,894)	(65,239)	(151,330)
Treasury Stock			
Balance at the beginning of the year	(215,936)	(211,374)	(209,773)
Issuance of common stock under employee stock plans	3,412	3,905	3,041
Purchase of treasury stock	(245,283)	(8,467)	(4,642)
Balance at the end of the year	(457,807)	(215,936)	(211,374)
Total Stockholders' Equity	$3,239,561	$3,136,121	$2,535,151

2.157 UNIVERSAL CORPORATION (MAR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(All dollar amounts are in thousands, except per share amounts or as otherwise noted.)

Note 16. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in the balances for each component of accumulated other comprehensive income attributable to the Company for the fiscal years ended March 31, 2014, 2013, and 2012:

	Fiscal Year Ended March 31,		
(In thousands of dollars)	2014	2013	2012
Foreign Currency Translation:			
Balance at beginning of year	$(15,555)	$(11,850)	$ (3,611)
Other comprehensive income (loss) attributable to Universal Corporation:			
Net gain (loss) on foreign currency translation (net of tax (expense) benefit of $(3,489), $1,815, and $3,230))	6,480	(3,370)	(8,158)
Less: Net loss (gain) on foreign currency translation attributable to noncontrolling interests	599	(335)	(81)
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	7,079	(3,705)	(8,239)
Balance at end of year	$ (8,476)	$(15,555)	$(11,850)
Foreign Currency Hedge:			
Balance at beginning of year	$ (855)	$ (942)	$ 2,482
Other comprehensive income (loss) attributable to Universal Corporation:			
Net gain (loss) on derivative instruments (net of tax (expense) benefit of $(312), $3,234, and $608)	580	(6,006)	(1,129)
Reclassification to earnings (net of tax (expense) benefit of $(563), $(3,281), and $1,236)[1]	1,044	6,093	(2,295)
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	1,624	87	(3,424)
Balance at end of year	$ 769	$ (855)	$ (942)
Interest Rate Hedge:			
Balance at beginning of year	$ (1,091)	$ (727)	$ —
Other comprehensive income (loss) attributable to Universal Corporation:			
Net gain (loss) on derivative instruments (net of tax benefit of $49, $515, and $302)	(93)	(955)	(727)
Reclassification to earnings (net of tax (expense) benefit of $(399) and $(319))[2]	576	591	—
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	483	(364)	(727)
Balance at end of year	$ (608)	$ (1,091)	$ (727)
Pension and other Postretirement Benefit Plans:			
Balance at beginning of year	$(58,039)	$(66,842)	$(43,647)
Other comprehensive income (loss) attributable to Universal Corporation:			
Gains (losses) arising during the year (net of tax (expense) benefit of $(6,449), $96, and $14,596))[3]	11,977	(187)	(26,517)
Prior service (cost) credit arising during the year (net of tax (expense) benefit of $(7,751) and $250))[3]	14,394	—	(500)
Amortization included in earnings (net of tax benefit (expense) of $(3,042), $(4,841), and $(2,059))[4]	5,651	8,990	3,822
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	32,022	8,803	(23,195)
Balance at end of year	$(26,017)	$(58,039)	$(66,842)
Total accumulated other comprehensive income (loss) at end of year	$(34,332)	$(75,540)	$(80,361)

[1] Gain (loss) on foreign currency cash flow hedges is reclassified from accumulated other comprehensive income (loss) to cost of goods sold when the related tobacco is sold to customers. See Note 9 for additional information.

[2] Gain (loss) on interest rate cash flow hedges is reclassified from accumulated other comprehensive income (loss) to interest expense when the related interest payments are made on the debt. See Note 9 for additional information.

[3] These items arise from the remeasurement of the assets and liabilities of the Company's defined benefit pension plans. Those remeasurements are made on an annual basis at the end of the fiscal year. In addition, the assets and liabilities of the Company's U.S.-based pension plans were also remeasured on an interim basis during the second quarter of fiscal year 2014 to reflect the effect of plan amendments adopted during the period. See Note 11 for additional information.

[4] This accumulated other comprehensive income (loss) component is included in the computation of net periodic benefit cost. See Note 9 for additional information.

Section 3: Income Statement

Income Statement Format

PRESENTATION

3.01 Either a single-step or multi-step format is acceptable for preparing a statement of income. In a single-step format, the operating and non-operating revenues are grouped and totaled and the operating and non-operating expenses are grouped and totaled. Then there is one subtraction of the combined expenses from the combined revenues. In a multi-step format, either costs are deducted from sales to show the gross margin or costs and expenses are deducted from sales to show operating income. The multi-step income statement is divided into two main sections: the operating section and the non-operating sections. Net income should reflect all items of profit and loss recognized during the period, except for certain entities (investment companies, insurance entities, and certain not-for-profit entities) and with the sole exception of error corrections, as discussed in FASB *Accounting Standards Codification* (ASC) 250, *Accounting Changes and Error Corrections*.

3.02 FASB ASC 220, *Comprehensive Income*, requires that comprehensive income and its components be reported in a financial statement. Comprehensive income and its components can be reported in an income statement or a separate statement of comprehensive income.

PRESENTATION AND DISCLOSURE EXCERPT

RECLASSIFICATIONS

3.03 NACCO INDUSTRIES, INC. (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31		
(In Thousands)	**2014**	**2013**	**2012**
Net income (loss)	$(38,118)	$44,450	$108,698
Other comprehensive income (loss)			
Foreign currency translation adjustment	(1,896)	(229)	145
Deferred gain on available for sale securities	442	729	265
Current period cash flow hedging activity, net of $838 tax benefit in 2014, $477 tax expense in 2013 and $2,471 tax expense in 2012	(1,518)	810	7,658
Reclassification of hedging activities into earnings, net of $489 tax benefit in 2014, $95 tax benefit in 2013 and $2,630 tax expense in 2012	898	152	(2,757)
Current period pension and postretirement plan adjustment, net of $3,292 tax benefit in 2014, $5,531 tax expense in 2013 and $1,553 tax benefit in 2012	(6,483)	8,022	(1,716)
Curtailment gain into earnings, net of $718 tax expense in 2013	—	(983)	—
Reclassification of pension and postretirement adjustments into earnings, net of $313 tax benefit in 2014, $740 tax benefit in 2013 and $2,056 tax benefit in 2012	627	1,101	5,885
Total other comprehensive income (loss)	$ (7,930)	$ 9,602	$ 9,480
Comprehensive income (loss)	$(46,048)	$54,052	$118,178

					Accumulated Other Comprehensive Income (Loss)						
(In Thousands, Except Per Share Data)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Available for Sale Securities	Deferred Gain (Loss) on Cash Flow Hedging	Pension and Post-Retirement Plan Adjustment	Total Stock-Holders' Equity	Non-Controlling Interest	Total Equity
Balance, January 1, 2012	$6,778	$1,596	$ 22,786	$ 619,614	$ 13,210	$ 27	$ 2,597	$(90,398)	$ 576,210	$ 882	$ 577,092
Stock-based compensation	30	—	4,953	—	—	—	—	—	4,983	—	4,983
Purchase of treasury shares	(51)	—	(3,127)	—	—	—	—	—	(3,178)	—	(3,178)
Conversion of Class B to Class A shares	14	(14)	—	—	—	—	—	—	—	—	—
Net income attributable to stockholders	—	—	—	108,698	—	—	—	—	108,698	—	108,698
Cash dividends on Class A and Class B common stock: $5.3775 per share	—	—	—	(45,130)	—	—	—	—	(45,130)	—	(45,130)
Stock dividend	—	—	—	(412,955)	(13,929)	—	(7,784)	64,936	(369,732)	(882)	(370,614)
Current period other comprehensive income (loss)	—	—	—	—	145	265	7,658	(1,716)	6,352	—	6,352
Reclassification adjustment to net income	—	—	—	—	—	—	(2,757)	5,885	3,128	—	3,128
Balance, December 31, 2012	$6,771	$1,582	$ 24,612	$ 270,227	$ (574)	$ 292	$ (286)	$(21,293)	$ 281,331	$ —	$ 281,331
Stock-based compensation	83	—	1,724	—	—	—	—	—	1,807	—	1,807
Purchase of treasury shares	(565)	—	(26,336)	(4,405)	—	—	—	—	(31,306)	—	(31,306)
Conversion of Class B to Class A shares	1	(1)	—	—	—	—	—	—	—	—	—
Net income	—	—	—	44,450	—	—	—	—	44,450	—	44,450
Cash dividends on Class A and Class B common stock: $1.000 per share	—	—	—	(8,104)	—	—	—	—	(8,104)	—	(8,104)
Current period other comprehensive income (loss)	—	—	—	—	(229)	729	810	8,022	9,332	—	9,332
Current period curtailment gain	—	—	—	—	—	—	—	(983)	(983)	—	(983)
Reclassification adjustment to net income	—	—	—	—	—		152	1,101	1,253	—	1,253
Balance, December 31, 2013	$6,290	$1,581	$ —	$ 302,168	$ (803)	$1,021	$ 676	$(13,153)	$ 297,780	$ —	$ 297,780
Stock-based compensation	28	—	2,544	—	—	—	—	—	2,572	—	2,572
Purchase of treasury shares	(664)	—	(2,544)	(31,867)	—	—	—	—	(35,075)	—	(35,075)
Conversion of Class B to Class A shares	8	(8)	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	(38,118)	—	—	—	—	(38,118)	—	(38,118)
Cash dividends on Class A and Class B common stock: $1.0225 per share	—	—	—	(7,755)	—	—	—	—	(7,755)	—	(7,755)
Current period other comprehensive income (loss)	—	—	—	—	(1,896)	442	(1,518)	(6,483)	(9,455)	—	(9,455)
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	898	627	1,525	—	1,525
Balance, December 31, 2014	$5,662	$1,573	$ —	$ 224,428	$ (2,699)	$1,463	$ 56	$(19,009)	$ 211,474	$ —	$ 211,474

(In thousands, Except as noted and Per Share and Percentage Data)

NOTE 2—Significant Accounting Policies (in part)

Financial Instruments and Derivative Financial Instruments (in part): Financial instruments held by the Company include cash and cash equivalents, accounts receivable, accounts payable, revolving credit agreements, long-term debt, interest rate swap agreements and forward foreign currency exchange contracts. The Company does not hold or issue financial instruments or derivative financial instruments for trading purposes.

The Company uses forward foreign currency exchange contracts to partially reduce risks related to transactions denominated in foreign currencies. The Company offsets fair value amounts related to foreign currency exchange contracts executed with the same counterparty. These contracts hedge firm commitments and forecasted transactions relating to cash flows associated with sales and purchases denominated in currencies other than the subsidiaries' functional currencies. Changes in the fair value of forward foreign currency exchange contracts that are effective as hedges are recorded in Accumulated other comprehensive income (loss) ("AOCI"). Deferred gains or losses are reclassified from AOCI to the Consolidated Statement of Operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in cost of sales. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and generally recognized in cost of sales.

The Company uses interest rate swap agreements to partially reduce risks related to floating rate financing agreements that are subject to changes in the market rate of interest. Terms of the interest rate swap agreements require the Company to receive a variable interest rate and pay a fixed interest rate. The Company's interest rate swap agreements and its variable rate financings are predominately based upon the three-month LIBOR (London Interbank Offered Rate). Changes in the fair value of interest rate swap agreements that are effective as hedges are recorded in AOCI. Deferred gains or losses are reclassified from AOCI to the Consolidated Statement of Operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in interest expense. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and included on the line "Other" in the "Other income (expense)" section of the Consolidated Statements of Operations.

Interest rate swap agreements and forward foreign currency exchange contracts held by the Company have been designated as hedges of forecasted cash flows. The Company does not currently hold any nonderivative instruments designated as hedges or any derivatives designated as fair value hedges.

Note 9—Derivative Financial Instruments (in part)

The Company measures its derivatives at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the fair value hierarchy. The Company uses a present value technique that incorporates the LIBOR swap curve, foreign currency spot rates and foreign currency forward rates to value its derivatives, including its interest rate swap agreements and foreign currency exchange contracts, and also incorporates the effect of its subsidiary and counterparty credit risk into the valuation.

Foreign Currency Derivatives: HBB held forward foreign currency exchange contracts with total notional amounts of $7.2 million and $5.0 million at December 31, 2014 and December 31, 2013, respectively, denominated primarily in Canadian dollars. The fair value of these contracts approximated a net receivable of $0.3 million and $0.1 million at December 31, 2014 and 2013, respectively.

Forward foreign currency exchange contracts that qualify for hedge accounting are used to hedge transactions expected to occur within the next twelve months. The mark-to-market effect of forward foreign currency exchange contracts that are considered effective as hedges has been included in AOCI. Based on market valuations at December 31, 2014, $0.1 million of the amount included in AOCI is expected to be reclassified as income into the Consolidated Statement of Operations over the next twelve months, as the hedged transactions occur.

Interest Rate Derivatives: HBB has interest rate swaps that hedge interest payments on its one-month LIBOR borrowings. The following table summarizes the notional amounts, related rates and remaining terms of interest rate swap agreements active at December 31 in millions:

	Notional Amount		Average Fixed Rate		Remaining Term at
	2014	2013	2014	2013	December 31, 2014
HBB	$20.0	$20.0	1.4%	1.4%	extending to January 2020

The fair value of HBB's interest rate swap agreements was a net receivable of $0.2 million and $0.8 million at December 31, 2014 and 2013, respectively. The mark-to-market effect of interest rate swap agreements that are considered effective as hedges has been included in AOCI. Based on market valuations at December 31, 2014, less than $0.1 million of the amount included in AOCI is expected to be reclassified as income into the Consolidated Statement of Operations over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreements. The interest rate swap agreements held by HBB on December 31, 2014 are expected to continue to be effective as hedges.

NACoal has interest rate swaps that hedge interest payments on its one-month LIBOR borrowings. The following table summarizes the notional amounts, related rates and remaining terms of the interest rate swap agreement active at December 31 in millions:

	Notional Amount		Average Fixed Rate		Remaining Term at
	2014	2013	2014	2013	December 31, 2014
NACoal	$100.0	$100.0	1.4%	1.4%	extending to May 2018

The fair value of NACoal's interest rate swap agreement was a net payable of $0.4 million at December 31, 2014. The mark-to-market effect of the interest rate swap agreement that is considered effective as a hedge has been included in AOCI. Based on market valuations at December 31, 2014, $0.8 million of the amount included in AOCI is expected to be reclassified as income into the Consolidated Statement of Operations over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreement. The interest rate swap agreement held by NACoal on December 31, 2014 is expected to continue to be effective as a hedge.

The following table summarizes the fair value of derivative instruments at December 31 as recorded in the Consolidated Balance Sheets:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	2014	2013	Balance Sheet Location	2014	2013
Derivatives Designated as Hedging Instruments						
Interest rate swap agreements						
Current	Prepaid expenses and other	$ 39	$ 128	Other current liabilities	$121	$—
Long-term	Other non-current assets	142	809	Other long-term liabilities	291	—
Foreign currency exchange contracts						
Current	Prepaid expenses and other	292	83	Other current liabilities	—	—
Long-term	Other non-current assets	—	—	Other long-term liabilities	—	—
Total derivatives designated as hedging instruments		$473	$1,020		$412	$—
Derivatives not Designated as Hedging Instruments						
Foreign currency exchange contracts						
Current	Prepaid expenses and other	$ —	$ —	Prepaid expenses and other	$ —	$ 14
Total derivatives not designated as hedging instruments		$ —	$ —		$ —	$ 14
Total derivatives		$473	$1,020		$412	$ 14

The following table summarizes the pre-tax impact of derivative instruments for each year ended December 31 as recorded in the Consolidated Statements of Operations:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion)			Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)			Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	2014	2013	2012		2014	2013	2012		2014	2013	2012
Interest rate swap agreements	$(2,664)	$933	$(138)	Interest expense	$(1,495)	$(460)	$(1,207)	N/A	$—	$—	$—
Foreign currency exchange contracts	308	354	(282)	Cost of sales	108	213	87	N/A	—	—	—
Total	$(2,356)	$1,287	$(420)		$(1,387)	$(247)	$(1,120)		$—	$—	$—

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative		
		2014	2013	2012
Foreign currency exchange contracts	Cost of sales or Other	$25	$(14)	$(162)
Total		$25	$(14)	$(162)

NOTE 14—Stockholders' Equity and Earnings Per Share (in part)

Amounts Reclassified out of Accumulated Other Comprehensive Income: The following table summarizes the amounts reclassified out of AOCI and recognized in the Consolidated Statement of Operations:

	Amount Reclassified from AOCI		
Details About AOCI Components	2014	2013	Location of Loss (Gain) Reclassified from AOCI Into Income
	(In thousands)		
Loss (gain) on cash flow hedging			
Foreign exchange contracts	$ (108)	$ (213)	Cost of sales
Interest rate contracts	1,495	460	Interest expense
	1,387	247	Total before income tax expense
	(489)	(95)	Income tax expense (benefit)
	$ 898	$ 152	Net of tax
Pension and postretirement plan			
Actuarial loss	$1,015	$1,995	[a]
Prior-service credit	(75)	(154)	[a]
	940	1,841	Total before income tax expense
	(313)	(740)	Income tax expense (benefit)
	$627	$1,101	Net of tax
Total reclassifications for the period	$1,525	$1,253	Net of tax

[a] These AOCI components are included in the computation of pension expense. See Note 16 for a discussion of the Company's pension expense.

Revenues and Gains

Author's Note

In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which creates FASB ASC 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the industry topics of the codification. In addition, the ASU supersedes some cost guidance in FASB ASC 605-35 and creates FASB ASC 340-40. The core principle of FASB ASC 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities are required to apply the amendments in this ASU for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 . A nonpublic entity may elect to apply this guidance earlier, however only as of the following:

1. An annual reporting period beginning after December 15, 2016, including interim periods within that reporting period
2. An annual reporting period beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017
3. An annual reporting period beginning after December 15, 2017, including interim periods within that reporting period.

Given the effective date of this ASU, no survey entity will have adopted these requirements in its 2014 financial statements.

RECOGNITION AND MEASUREMENT

3.04 As explained by FASB ASC 605-10-25-1, the recognition of revenue and gains of an entity during a period involves consideration of the following two factors, with sometimes one and sometimes the other being the more important consideration:

- *Being realized or realizable*. Revenue and gains generally are not recognized until realized or realizable. Paragraph 83(a) of FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, states that revenue and gains are realized when products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash. That paragraph states that revenue and gains are realizable when related assets received or held are readily convertible to known amounts of cash or claims to cash.

- *Being earned*. Paragraph 83(b) of FASB Concepts Statement No. 5 states that revenue is not recognized until earned. That paragraph states that an entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. That paragraph states that gains commonly result from transactions and other events that involve no earning process, and for recognizing gains, being earned is generally less significant than being realized or realizable.

3.05 FASB ASC 605-25 contains guidance on segmenting of transactions, referred to as *multiple element arrangements*, for both recognition and measurement. FASB ASC 605-25-25-2 requires that an entity should divide revenue arrangements with multiple deliverables into separate units of accounting if both the delivered item(s) have value to the customer on a standalone basis and, if the arrangement includes a general right of return, delivery and performance of the undelivered item(s) is probable and substantially in the vendor's control. FASB ASC 605-25-30-2 requires an entity to allocate the arrangement consideration at the inception of the arrangement to all deliverables based on their relative selling price (relative selling price method), except when another Topic in the FASB ASC requires a unit of accounting in the arrangement to be recorded at fair value or the amount that can be allocated to a unit of accounting is limited to an amount that is not contingent on delivery of additional deliverables or specified performance conditions. When a vendor applies the relative selling price method, an entity should determine the selling price using vendor-specific objective evidence of selling price, if it exists. Otherwise, the vendor should use its best estimate of selling price for that deliverable. Vendors should not ignore information that is reasonably available without undue cost or effort.

DISCLOSURE

3.06 FASB ASC 605-25-50-1 requires an entity to provide specific disclosures regarding multiple element arrangements, including the accounting policy for such arrangements (for example, whether deliverables are separable into units of accounting) and the nature of such arrangements (for example, provisions for performance, termination, or cancellation of the arrangement). FASB ASC 605-25-50-1 explains that the objective of the disclosure guidance is to provide both qualitative and quantitative information about a vendor's revenue arrangements and about the significant judgments made about the application of FASB ASC 605-25, changes in those judgments, or the application of FASB ASC 605-25 that may significantly affect the timing or amount of revenue recognition. Therefore, in addition to the required disclosures, a vendor shall also disclose other qualitative and quantitative information as necessary to comply with this objective. FASB ASC 605-25-50-2 requires a vendor to disclose specific information by similar arrangements including the nature of multiple deliverable arrangements; significant deliverables and the general timing of delivery or performance of service; contract provisions including performance, termination, and refund-type; discussion of significant factors, inputs, assumptions, and methods used to determine selling price; information about whether significant deliverables qualify as separate units of accounting; general timing of revenue recognition for significant deliverables; and effects of changes in selling price or methods for determining selling price.

PRESENTATION AND DISCLOSURE EXCERPTS

REVENUES

3.07 ORACLE CORPORATION (MAY)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

	Year Ended May 31,		
(In millions, except per share data)	**2014**	**2013**	**2012**
Revenues:			
New software licenses	$ 9,416	$ 9,411	$ 9,451
Cloud software-as-a-service and platform-as-a-service	1,121	910	455
Cloud infrastructure-as-a-service	456	457	444
Software license updates and product support	18,206	17,142	16,210
Software and cloud revenues	29,199	27,920	26,560
Hardware systems products	2,976	3,033	3,827
Hardware systems support	2,396	2,313	2,475
Hardware systems revenues	5,372	5,346	6,302
Services revenues	3,704	3,914	4,259
Total revenues	38,275	37,180	37,121

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Organization and Significant Accounting Policies (in part)

Revenue Recognition

Our sources of revenues include: (1) software and cloud revenues, including new software licenses revenues earned from granting licenses to use our software products; cloud SaaS and PaaS revenues generated from fees for granting customers access to a broad range of our software and related support offerings on a subscription basis in a secure, standards-based cloud computing environment; cloud IaaS revenues generated from fees for deployment and management offerings for our software and hardware and related IT infrastructure generally on a subscription basis; and software license updates and product support revenues; (2) hardware systems revenues, which include the sale of hardware systems products including computer servers, storage products, networking and data center fabric products, and hardware systems support revenues; and (3) services, which includes software and hardware related services including consulting, advanced customer support and education revenues. Revenues generally are recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

Revenue Recognition for Software Products and Software Related Services (Software Elements)

New software licenses revenues primarily represent fees earned from granting customers licenses to use our database, middleware and application software and exclude cloud SaaS and PaaS revenues and revenues derived from software license updates, which are included in software license updates and product support revenues. The basis for our new software licenses revenue recognition is substantially governed by the accounting guidance contained in ASC 985-605, *Software-Revenue Recognition*. We exercise judgment and use estimates in connection with the determination of the amount of software and software related services revenues to be recognized in each accounting period.

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize new software licenses revenues when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) the sale price is fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Revenues that are not recognized at the time of sale because the foregoing conditions are not met, are recognized when those conditions are subsequently met.

Substantially all of our software license arrangements do not include acceptance provisions. However, if acceptance provisions exist as part of public policy, for example, in agreements with government entities where acceptance periods are required by law, or within previously executed terms and conditions that are referenced in the current agreement and are short-term in nature, we generally recognize revenues upon delivery provided the acceptance terms are perfunctory and all other revenue recognition criteria have been met. If acceptance provisions are not perfunctory (for example, acceptance provisions that are long-term in nature or are not included as standard terms of an arrangement), revenues are recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

The vast majority of our software license arrangements include software license updates and product support contracts, which are entered into at the customer's option and are recognized ratably over the term of the arrangement, typically one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period. Product support includes internet access to technical content, as well as internet and telephone access to technical support personnel. Software license updates and product support contracts are generally priced as a percentage of the net new software licenses fees. Substantially all of our customers renew their software license updates and product support contracts annually.

Revenue Recognition for Multiple-Element Arrangements—Software Products and Software Related Services (Software Arrangements)

We often enter into arrangements with customers that purchase both software related products and software related services from us at the same time, or within close proximity of one another (referred to as software related multiple-element arrangements). Such software related multiple-element arrangements include the sale of our software products, software license updates and product support contracts and other software related services whereby software license delivery is followed by the subsequent or contemporaneous delivery of the other elements. For those software related multiple-element arrangements, we have applied the residual method to determine the amount of new software license revenues to be recognized pursuant to ASC 985-605. Under the residual method, if fair value exists for undelivered elements in a multiple-element arrangement, such fair value of the undelivered elements is deferred with the remaining portion of the arrangement consideration generally recognized upon delivery of the software license. We allocate the fair value of each element of a software related multiple-element arrangement based upon its fair value as determined by our vendor specific objective evidence (VSOE—described further below), with any remaining amount allocated to the software license.

Revenue Recognition for Cloud SaaS, PaaS and IaaS Offerings, Hardware Systems Products, Hardware Systems Support and Related Services (Nonsoftware Elements)

Our revenue recognition policy for nonsoftware deliverables including cloud SaaS, PaaS and IaaS offerings, hardware systems products and hardware systems related services is based upon the accounting guidance contained in ASC 605-25, *Revenue Recognition, Multiple-Element Arrangements,* and we exercise judgment and use estimates in connection with the determination of the amount of cloud SaaS, PaaS and IaaS revenues, hardware systems products revenues and hardware related services revenues to be recognized in each accounting period.

Revenues from the sales of our nonsoftware elements are recognized when: (1) persuasive evidence of an arrangement exists; (2) we deliver the products and passage of the title to the buyer occurs; (3) the sale price is fixed or determinable; and (4) collection is reasonably assured. Revenues that are not recognized at the time of sale because the foregoing conditions are not met are recognized when those conditions are subsequently met. When applicable, we reduce revenues for estimated returns or certain other incentive programs where we have the ability to sufficiently estimate the effects of these items. Where an arrangement is subject to acceptance criteria and the acceptance provisions are not perfunctory (for example, acceptance provisions that are long-term in nature or are not included as standard terms of an arrangement), revenues are recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

Our cloud SaaS and PaaS offerings generally provide customers access to certain of our software within a cloud-based IT environment that we manage, host and support and offer to customers on a subscription basis. Revenues for our cloud SaaS and PaaS offerings are generally recognized ratably over the contract term commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied.

Our cloud IaaS offerings provide deployment and management offerings for our software and hardware and related IT infrastructure including comprehensive software and hardware management and maintenance services arrangements for customer IT infrastructure for a stated term that is hosted at our data center facilities, select partner data centers or physically on-premise at customer facilities generally for a term-based fee; and virtual machine instances that are subscription-based and designed for computing and reliable and secure object storage. Revenues for these cloud IaaS offerings are generally recognized ratably over the contract term commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied. Our cloud IaaS offerings also include our Oracle Engineered Systems hardware and related support that are deployed on-premise in our customers' data centers for a monthly fee and provide for the purchase of additional capacity on demand. Our revenue recognition policy for these on-premise offerings is in accordance with ASC 605 and ASC 840, *Leases*, and substantially all of these offerings are accounted for as operating leases as our contracts are structured so that the term of the arrangement is less than 75% of the economic life of the equipment and the present value of the minimum fixed payments are less than 90% of the fair market value of the equipment at the inception of the arrangement. Our evaluation of useful life is based on our historical product development cycles and our historical customer hardware upgrade cycles. Capacity on demand is a contingent payment and is therefore excluded from our assessment of the net present value of fixed payments. Revenue for capacity on demand is recognized in the period our customers access additional capacity provided all other revenue recognition criteria have been met.

Revenues from the sale of hardware systems products represent amounts earned primarily from the sale of computer servers, storage, and networking products, including the sales of our Oracle Engineered Systems.

Our hardware systems support offerings generally provide customers with software updates for the software components that are essential to the functionality of our server and storage products and can also include product repairs, maintenance services and technical support services. Hardware systems support contracts are generally priced as a percentage of the net hardware systems products fees. Hardware systems support contracts are entered into at the customer's option and are recognized ratably over the contractual term of the arrangements, which are typically one year.

Revenue Recognition for Multiple-Element Arrangements—Cloud SaaS, PaaS and IaaS Offerings, Hardware Systems Products, Hardware Systems Support and Related Services (Nonsoftware Arrangements)

We enter into arrangements with customers that purchase both nonsoftware related products and services from us at the same time, or within close proximity of one another (referred to as nonsoftware multiple-element arrangements). Each element within a nonsoftware multiple-element arrangement is accounted for as a separate unit of accounting provided the following criteria are met: the delivered products or services have value to the customer on a standalone basis; and for an arrangement that includes a general right of return relative to the delivered products or services, delivery or performance of the undelivered product or service is considered probable and is substantially controlled by us. We consider a deliverable to have standalone value if the product or service is sold separately by us or another vendor or could be resold by the customer. Further, our revenue arrangements generally do not include a general right of return relative to the delivered products. Where the aforementioned criteria for a separate unit of accounting are not met, the deliverable is combined with the undelivered element(s) and treated as a single unit of accounting for the purposes of allocation of the arrangement consideration and revenue recognition. For those units of accounting that include more than one deliverable but are treated as a single unit of accounting, we generally recognize revenues over the delivery period or in the case of our cloud offerings, generally over the estimated customer relationship period. For the purposes of revenue classification of the elements that are accounted for as a single unit of accounting, we allocate revenue to the respective revenue line items within our consolidated statements of operations based on a rational and consistent methodology utilizing our best estimate of relative selling prices of such elements.

For our nonsoftware multiple-element arrangements, we allocate revenue to each element based on a selling price hierarchy at the arrangement's inception. The selling price for each element is based upon the following selling price hierarchy: VSOE if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE are available (a description as to how we determine VSOE, TPE and ESP is provided below). If a tangible hardware systems product includes software, we determine whether the tangible hardware systems product and the software work together to deliver the product's essential functionality and, if so, the entire product is treated as a nonsoftware deliverable. The total arrangement consideration is allocated to each separate unit of accounting for each of the nonsoftware deliverables using the relative selling prices of each unit based on the aforementioned selling price hierarchy. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or services or meeting of any specified performance conditions.

When possible, we establish VSOE of selling price for deliverables in software and nonsoftware multiple-element arrangements using the price charged for a deliverable when sold separately and for software license updates and product support and hardware systems support, based on the renewal rates offered to customers. TPE is established by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated customers. If we are unable to determine the selling price because VSOE or TPE does not exist, we determine ESP for the purposes of allocating the arrangement by reviewing historical transactions, including transactions whereby the deliverable was sold on a standalone basis and considering several other external and internal factors including, but not limited to, pricing practices including discounting, margin objectives, competition, contractually stated prices, the geographies in which we offer our products and services, the type of customer (i.e., distributor, value added reseller, government agency and direct end user, among others) and the stage of the product lifecycle. The determination of ESP is made through consultation with and approval by our management, taking into consideration our pricing model and go-to-market strategy. As our, or our competitors', pricing and go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to our determination of VSOE, TPE and ESP. As a result, our future revenue recognition for multiple-element arrangements could differ materially from our results in the current period. Selling prices are analyzed on an annual basis or more frequently if we experience significant changes in our selling prices.

Revenue Recognition Policies Applicable to both Software and Nonsoftware Elements

Revenue Recognition for Multiple-Element Arrangements—Arrangements with Software and Nonsoftware Elements

We also enter into multiple-element arrangements that may include a combination of our various software related and nonsoftware related products and services offerings including new software licenses, software license updates and product support, cloud SaaS, PaaS and IaaS offerings, hardware systems products, hardware systems support, consulting, advanced customer support services and education. In such arrangements, we first allocate the total arrangement consideration based on the relative selling prices of the software group of elements as a whole and to the nonsoftware elements. We then further allocate consideration within the software group to the respective elements within that group following the guidance in ASC 985-605 and our policies as described above. After the arrangement consideration has been allocated to the elements, we account for each respective element in the arrangement as described above.

Other Revenue Recognition Policies Applicable to Software and Nonsoftware Elements

Many of our software arrangements include consulting implementation services sold separately under consulting engagement contracts and are included as a part of our services business. Consulting revenues from these arrangements are generally accounted for separately from new software licenses revenues because the arrangements qualify as services transactions as defined in ASC 985-605. The more significant factors considered in determining whether the revenues should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments and impact of milestones or acceptance criteria on the realizability of the software license fee. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenues are deferred until the uncertainty is sufficiently resolved. We estimate the proportional performance on contracts with fixed or "not to exceed" fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If we do not have a sufficient basis to measure progress towards completion, revenues are recognized when we receive final acceptance from the customer that the services have been completed. When total cost estimates exceed revenues, we accrue for the estimated losses immediately using cost estimates that are based upon an average fully burdened daily rate applicable to the consulting organization delivering the services. The complexity of the estimation process and factors relating to the assumptions, risks and uncertainties inherent with the application of the proportional performance method of accounting affects the amounts of revenues and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes.

Our advanced customer support services are offered as standalone arrangements or as a part of arrangements to customers buying other software and non-software products and services. We offer these advanced support services, both on-premise and remote, to Oracle customers to enable increased performance and higher availability of their products and services. Depending upon the nature of the arrangement, revenues from these services are recognized as the services are performed or ratably over the term of the service period, which is generally one year or less.

Education revenues are also a part of our services business and include instructor-led, media-based and internet-based training in the use of our software and hardware products. Education revenues are recognized as the classes or other education offerings are delivered.

If an arrangement contains multiple elements and does not qualify for separate accounting for the product and service transactions, then new software licenses revenues and/or hardware systems products revenues, including the costs of hardware systems products, are generally recognized together with the services based on contract accounting using either the percentage-of-completion or completed-contract method. Contract accounting is applied to any bundled software and cloud, hardware systems and services arrangements: (1) that include milestones or customer specific acceptance criteria that may affect collection of the software license or hardware systems product fees; (2) where consulting services include significant modification or customization of the software or hardware systems product or are of a specialized nature and generally performed only by Oracle; (3) where significant consulting services are provided for in the software license contract or hardware systems product contract without additional charge or are substantially discounted; or (4) where the software license or hardware systems product payment is tied to the performance of consulting services. For the purposes of revenue classification of the elements that are accounted for as a single unit of accounting, we allocate revenues to software and nonsoftware elements based on a rational and consistent methodology utilizing our best estimate of the relative selling price of such elements.

We also evaluate arrangements with governmental entities containing "fiscal funding" or "termination for convenience" provisions, when such provisions are required by law, to determine the probability of possible cancellation. We consider multiple factors, including the history with the customer in similar transactions, the "essential use" of the software or hardware systems products and the planning, budgeting and approval processes undertaken by the governmental entity. If we determine upon execution of these arrangements that the likelihood of cancellation is remote, we then recognize revenues once all of the criteria described above have been met. If such a determination cannot be made, revenues are recognized upon the earlier of cash receipt or approval of the applicable funding provision by the governmental entity.

We assess whether fees are fixed or determinable at the time of sale and recognize revenues if all other revenue recognition requirements are met. Our standard payment terms are net 30 days. However, payment terms may vary based on the country in which the agreement is executed. Payments that are due within six months are generally deemed to be fixed or determinable based on our successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition.

While most of our arrangements for sales within our businesses include short-term payment terms, we have a standard practice of providing long-term financing to creditworthy customers primarily through our financing division. Since fiscal 1989, when our financing division was formed, we have established a history of collection, without concessions, on these receivables with payment terms that generally extend up to five years from the contract date. Provided all other revenue recognition criteria have been met, we recognize new software licenses revenues and hardware systems products revenues for these arrangements upon delivery, net of any payment discounts from financing transactions. We have generally sold receivables financed through our financing division on a non-recourse basis to third party financing institutions within 90 days of the contracts' dates of execution and we classify the proceeds from these sales as cash flows from operating activities in our consolidated statements of cash flows. We account for the sales of these receivables as "true sales" as defined in ASC 860, *Transfers and Servicing*, as we are considered to have surrendered control of these financing receivables. During fiscal 2014, 2013 and 2012, $2.0 billion, $2.2 billion and $1.6 billion of our financing receivables were sold to financial institutions, respectively.

In addition, we enter into arrangements with leasing companies for the sale of our hardware systems products. These leasing companies, in turn, lease our products to end-users. The leasing companies generally have no recourse to us in the event of default by the end-user and we recognize revenue upon delivery, if all other revenue recognition criteria have been met.

Our customers include several of our suppliers and occasionally, we have purchased goods or services for our operations from these vendors at or about the same time that we have sold our products to these same companies (Concurrent Transactions). Software license agreements or sales of hardware systems that occur within a three-month time period from the date we have purchased goods or services from that same customer are reviewed for appropriate accounting treatment and disclosure. When we acquire goods or services from a customer, we negotiate the purchase separately from any sales transaction, at terms we consider to be at arm's length and settle the purchase in cash. We recognize revenues from Concurrent Transactions if all of our revenue recognition criteria are met and the goods and services acquired are necessary for our current operations.

Revenue Recognition: In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers: Topic* 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us in our first quarter of fiscal 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

INCOME FROM INVESTEES

3.08 UNITED STATES STEEL CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

	Year Ended December 31,		
(Dollars in millions, except per share amounts)	2014	2013	2012
Net Sales:			
Net sales	$16,149	$16,269	$18,025
Net sales to related parties (Note 21)	1,358	1,155	1,303
Total	17,507	17,424	19,328
Operating Expenses (Income):			
Cost of sales (excludes items shown below)	15,455	16,016	17,630
Selling, general and administrative expenses	523	610	654
Depreciation, depletion and amortization (Notes 11 and 12)	627	684	661
Income from investees (Note 10)	(142)	(40)	(144)
Impairment of goodwill (Note 12)	—	1,806	—
Restructuring and other charges (Note 23)	250	248	—
Loss on deconsolidation of U.S. Steel Canada and other charges (Note 4)	416	—	—
Net (gain) loss on disposals of assets (Notes 5 and 24)	(23)	—	296
Other income, net	(12)	—	(16)
Total	17,094	19,324	19,081
Income (loss) from operations	413	(1,900)	247
Interest income	(12)	(3)	(7)
Interest expense (Note 6 and 14)	234	266	214
Other financial costs (Note 6)	21	69	34
Net interest and other financial costs	243	332	241
Income (loss) before income taxes and noncontrolling interests	170	(2,232)	6

1. Nature of Business and Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Principles applied in consolidation (in part)

Investments in entities over which U.S. Steel has significant influence are accounted for using the equity method of accounting and are carried at U.S. Steel's share of net assets plus loans, advances and our share of earnings less distributions. Differences in the basis of the investment and the underlying net asset value of the investee, if any, are amortized into earnings over the remaining useful life of the associated assets.

Income or loss from investees includes U.S. Steel's share of income or loss from equity method investments, which is generally recorded a month in arrears, except for significant and unusual items which are recorded in the period of occurrence. Gains or losses from changes in ownership of unconsolidated investees are recognized in the period of change. Intercompany profits and losses on transactions with equity investees have been eliminated in consolidation.

U.S. Steel evaluates impairment of its equity method investments whenever circumstances indicate that a decline in value below carrying value is other than temporary. Under these circumstances, we adjust the investment down to its estimated fair value, which then becomes its new carrying value.

Investments in companies whose equity has no readily determinable fair value are carried at cost and are periodically reviewed for impairment.

10. Investments and Long-Term Receivables

	December 31,	
(In millions)	2014	2013
Equity method investments	$532	$558
Receivables due after one year, less allowance of $8 and $10	39	58
Other	6	5
Total	$577	$621

Summarized financial information of all investees accounted for by the equity method of accounting is as follows (amounts represent 100% of investee financial information):

(In millions)	2014	2013	2012
Income Data—Year Ended December 31:			
Net Sales	$3,794	$3,735	$4,019
Operating income	584	449	650
Net income	545	413	602
Balance Sheet Date—December 31:			
Current Assets	$ 886	$ 912	
Noncurrent Assets	1,694	1,876	
Current liabilities	642	677	
Noncurrent Liabilities	722	852	

U.S. Steel's portion of the equity in net income for its equity investments as reported in the income from investees line on the Consolidated Statement of Operations was $142 million, $40 million and $144 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Financial information for equity method investees that are significant to our results for the year ended December 31, 2014 is as follows:

(In millions)	PRO-TEC Coating Company	Tilden Mining Company, L.C.	Others	Total
Net Sales	$1,271	$1,209	$ 1,314	$3,794
Operating income	69	450	65	584
Net income	50	451	44	545
Percentage of ownership in equity investees	50%	15%	5%–50%	
Equity in net income of affiliated companies, before consolidating and reconciling adjustments	$ 25	$ 68	$ 39	$ 132
Consolidation and reconciling adjustments:				
Intercompany profit elimination	—	(9)	—	(9)
Basis adjustments	6	(1)	(11)	(6)
Other	7	20	(2)	25
Equity in net income of affiliated companies	$ 38	$ 78	$ 26	$ 142

Investees accounted for using the equity method include:

		December 31, 2014
Investee	**Country**	**Interest**
Acero Prime, S. R. L. de CV	Mexico	40%
Apolo Tubulars S.A.	Brazil	50%
Chrome Deposit Corporation	United States	50%
Daniel Ross Bridge, LLC	United States	50%
Double Eagle Steel Coating Company	United States	50%
Double G Coatings Company L.P.	United States	50%
Feralloy Processing Company	United States	49%
Hibbing Development Company	United States	24.1%
Hibbing Taconite Company[(a)]	United States	14.7%
Leeds Retail Center, LLC	United States	38%
Patriot Premium Threading Services	United States	50%
PRO-TEC Coating Company	United States	50%
Strategic Investment Fund Partners I[(b)]	United States	8.6%
Strategic Investment Fund Partners II[(b)]	United States	5.1%
Swan Point Development Company, Inc.	United States	50%
Tilden Mining Company, L.C.[(c)]	United States	15%
USS-POSCO Industries	United States	50%
Worthington Specialty Processing	United States	49%

[(a)] Hibbing Taconite Company (HTC) is an unincorporated joint venture that is owned, in part, by Hibbing Development Company (HDC), which is accounted for using the equity method. Through HDC we are able to influence the activities of HTC, and as such, its activities are accounted for using the equity method.

[(b)] Strategic Investment Fund Partners I and II are limited partnerships and in accordance with ASC Topic 323, the financial activities are accounted for using the equity method.

[(c)] Tilden Mining Company, L.C. is a limited liability company and in accordance with ASC Topic 323 "Partnerships and Unincorporated Joint Ventures," (ASC Topic 323) its financial activities are accounted for using the equity method.

Dividends and partnership distributions received from equity investees were $8 million in 2014, $13 million in 2013 and $98 million in 2012.

During 2013, U.S. Steel recognized a non-cash charge of $16 million to write its investment in United Spiral Pipe, LLC (USP) down to zero, recorded a $6 million non-cash charge to write-off an interest receivable due from USP and recorded a liability for a guarantee of approximately $22 million for USP's bank debt. During 2014, the liability for USP's bank debt increased to $24 million, which was subsequently paid by the Company. On February 2, 2015, the pipe making assets of USP were sold to a third party. We do not expect any significant financial impact from this sale.

We supply substrate to certain of our equity method investees and from time to time will extend the payment terms for their trade receivables. For discussion of transactions and related receivable and payable balances between U.S. Steel and its investees, see Note 21.

EQUITY, ROYALTY AND INTEREST INCOME FROM INVESTEES

3.09 CUMMINS INC. (DEC)

CONSOLIDATED STATEMENTS OF INCOME (in part)

	Years Ended December 31,		
In millions, except per share amounts	**2014**	**2013**	**2012**
Net Sales (a)	$19,221	$17,301	$17,334
Cost of sales (Note 1)	14,360	13,021	12,918
Gross Margin	4,861	4,280	4,416
Operating Expenses and Income			
Selling, general and administrative expenses (Note 1)	2,095	1,817	1,808
Research, development and engineering expenses	754	713	728
Equity, royalty and interest income from investees (Note 3)	370	361	384
Other operating income (expense), net	(17)	(10)	(10)
Operating Income	2,365	2,101	2,254

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Investments in Equity Investees

We use the equity method to account for our investments in joint ventures, affiliated companies and alliances in which we have the ability to exercise significant influence, generally represented by equity ownership or partnership equity of at least 20 percent but not more than 50 percent. Generally, under the equity method, original investments in these entities are recorded at cost and subsequently adjusted by our share of equity in income or losses after the date of acquisition. Investment amounts in excess of our share of an investee's net assets are amortized over the life of the related asset creating the excess. If the excess is goodwill, then it is not amortized. Equity in income or losses of each investee is recorded according to our level of ownership; if losses accumulate, we record our share of losses until our investment has been fully depleted. If our investment has been fully depleted, we recognize additional losses only when we are the primary funding source. We eliminate (to the extent of our ownership percentage) in our *Consolidated Financial Statements* the profit in inventory held by our equity method investees that has not yet been sold to a third-party. Our investments are classified as "Investments and advances related to equity method investees" in our *Consolidated Balance Sheets*. Our share of the results from joint ventures, affiliated companies and alliances is reported in our *Consolidated Statements of Income* as "Equity, royalty and interest income from investees," and is reported net of all applicable income taxes.

Our foreign equity investees are presented net of applicable foreign income taxes in our *Consolidated Statements of Income*. Our remaining United States (U.S.) equity investees are partnerships (non-taxable), thus there is no difference between gross or net of tax presentation as the investees are not taxed. See NOTE 3, " INVESTMENTS IN EQUITY INVESTEES," for additional information.

Note 3. Investments in Equity Investees

Investments in and advances to equity investees and our ownership percentage was as follows:

		December 31,	
In millions	**Ownership%**	**2014**	**2013**
Komatsu alliances	20–50%	$160	$132
Dongfeng Cummins Engine Company, Ltd.	50%	136	135
Beijing Foton Cummins Engine Co., Ltd.[(1)]	50%	117	103
Chongqing Cummins Engine Company, Ltd.	50%	92	67
Cummins-Scania XPI Manufacturing, LLC	50%	85	71
Tata Cummins, Ltd.	50%	57	50
North American distributors[(2)]	49–50%	41	114
Other	Various	293	259
Total		$981	$931

[(1)] Includes both the light-duty and the heavy-duty businesses.

[(2)] Current ownership percentage of North American distributor investments as of December 31, 2014.

Equity, royalty and interest income from investees, net of applicable taxes, was as follows:

	Years Ended December 31,		
In millions	**2014**	**2013**	**2012**
Distribution Entities			
North American distributors	$107	$129	$147
Komatsu Cummins Chile, Ltda.	29	25	26
All other distributors	4	1	4
Manufacturing Entities			
Dongfeng Cummins Engine Company, Ltd.	67	63	52
Chongqing Cummins Engine Company, Ltd.	51	58	61
Beijing Foton Cummins Engine Co., Ltd. (Light-duty)	28	17	5
Beijing Foton Cummins Engine Co., Ltd. (Heavy-duty)	(30)	(21)	(13)
All other manufacturers	74	53	65
Cummins share of net income	330	325	347
Royalty and interest income	40	36	37
Equity, royalty and interest income from investees	$370	$361	$384

Distribution Entities

We have an extensive worldwide distributor and dealer network through which we sell and distribute our products and services. Generally, our distributors are divided by geographic region with some of our distributors being wholly-owned by Cummins, some partially-owned and the majority independently owned. We consolidate all wholly-owned distributors and partially-owned distributors where we are the primary beneficiary and account for other partially-owned distributors using the equity method of accounting.

- ***North American Distributors***— As of December 31, 2014, our distribution channel in North America included three unconsolidated partially-owned distributors. Our equity interests in these nonconsolidated entities ranged from 49 percent to 50 percent. We also had more than a 50 percent ownership interest in two partially owned distributors which we consolidate. While each distributor is a separate legal entity, the business of each is substantially the same as that of our wholly-owned distributors based in other parts of the world. All of our distributors, irrespective of their legal structure or ownership, offer the full range of our products and services to customers and end-users in their respective markets.
- ***Komatsu Cummins Chile, Ltda.***— Komatsu Cummins Chile, Ltda. is a joint venture with Komatsu America Corporation. The joint venture is a distributor that offers the full range of our products and services to customers and end-users in the Chilean and Peruvian markets.

We also have 50 percent equity interests in five other international distributors.

We are contractually obligated to repurchase new engines, parts and components, special tools and signage from our North American distributors following an ownership transfer or termination of the distributor. In addition, in certain cases where we own a partial interest in a distributor, we are obligated to purchase the other equity holders' interests if certain events occur (such as the death or resignation of the distributor principal or a change in control of Cummins Inc.). The purchase consideration of the equity interests is determined based on the fair value of the distributor's assets. Outside of North America, repurchase obligations and practices vary by region. All distributors that are partially-owned are considered to be related parties in our *Consolidated Financial Statements*.

Manufacturing Entities

Our manufacturing joint ventures have generally been formed with customers and generally are intended to allow us to increase our market penetration in geographic regions, reduce capital spending, streamline our supply chain management and develop technologies. Our largest manufacturing joint ventures are based in China and are included in the list below. Our engine manufacturing joint ventures are supplied by our Components segment in the same manner as it supplies our wholly-owned Engine segment and Power Generation segment manufacturing facilities. Our Components segment joint ventures and wholly owned entities provide fuel systems, filtration, after treatment systems and turbocharger products that are used in our engines as well as some competitors' products. The results and investments in our joint ventures in which we have 50 percent or less ownership interest are included in "Equity, royalty and interest income from investees" and "Investments and advances related to equity method investees" in our *Consolidated Statements of Income* and *Consolidated Balance Sheets*, respectively.

- ***Dongfeng Cummins Engine Company, Ltd.***— Dongfeng Cummins Engine Company, Ltd. (DCEC) is a joint venture in China with Dongfeng Automotive Co. Ltd., a subsidiary of Dongfeng Motor Corporation (Dongfeng), one of the largest medium-duty and heavy-duty truck manufacturers in China. DCEC produces Cummins 4- to 13-liter mechanical engines, full-electric diesel engines, with a power range from 125 to 545 horsepower, and natural gas engines.
- ***Chongqing Cummins Engine Company, Ltd.***— Chongqing Cummins Engine Company, Ltd. (CCEC) is a joint venture in China with Chongqing Machinery and Electric Co. Ltd. This joint venture manufactures several models of our heavy-duty and high-horsepower diesel engines, primarily serving the industrial and stationary power markets in China.
- ***Beijing Foton Cummins Engine Co., Ltd.***— Beijing Foton Cummins Engine Co., Ltd. is a joint venture in China with Beiqi Foton Motor Co., Ltd., a commercial vehicle manufacturer, which consists of two distinct lines of business, a light-duty business and a heavy-duty business. The light-duty business produces ISF 2.8 liter and ISF 3.8 liter families of our high performance light-duty diesel engines in Beijing. These engines are used in light-duty commercial trucks, pickup trucks, buses, multipurpose and sport utility vehicles with main markets in China, Brazil and Russia. Certain types of marine, small construction equipment and industrial applications are also served by these engine families. The heavy-duty business has been in the development stage for the past several years but started production of ISG 10.5 liter and ISG 11.8 liter families of our high performance heavy-duty diesel engines in the second quarter of 2014 in Beijing. These engines are used in heavy-duty commercial trucks in China and will be used in world wide markets. Certain types of construction equipment and industrial applications will also be served by these engine families in the future.

Equity Investee Financial Summary

We have approximately $489 million in our investment account at December 31, 2014, that represents cumulative undistributed income in our equity investees. Dividends received from our unconsolidated equity investees were $227 million, $271 million and $329 million in 2014, 2013 and 2012, respectively. Summary financial information for our equity investees was as follows:

	As of and for the Years Ended December 31,		
In millions	2014	2013	2012
Net sales	$ 7,426	$ 7,799	$8,296
Gross margin	1,539	1,719	1,870
Net income	630	690	747
Cummins share of net income	$ 330	$ 325	$ 347
Royalty and interest income	40	36	37
Total equity, royalty and interest from investees	$ 370	$ 361	$ 384
Current assets	$ 2,476	$ 2,742	
Non-current assets	1,667	1,794	
Current liabilities	(1,875)	(2,090)	
Non-current liabilities	(420)	(541)	
Net assets	$ 1,848	$ 1,905	
Cummins share of net assets	$956	$967	

FOREIGN CURRENCY CONTRACTS

3.10 ALLERGAN, INC. (DEC)

CONSOLIDATED STATEMENTS OF EARNINGS (in part)

(in millions, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Product net sales	$7,126.1	$6,197.5	$5,549.3
Other revenues	111.8	102.9	97.3
Total revenues	7,237.9	6,300.4	5,646.6
Operating costs and expenses:			
Cost of sales (excludes amortization of intangible assets)	842.4	795.8	751.2
Selling, general and administrative	2,837.2	2,519.4	2,193.1
Research and development	1,191.6	1,042.3	977.3
Amortization of intangible assets	112.4	116.7	90.2
Impairment of intangible assets and related costs	—	11.4	22.3
Restructuring charges	245.0	5.5	1.5
Operating income	2,009.3	1,809.3	1,611.0
Non-operating income (expense):			
Interest income	7.7	6.8	6.7
Interest expense	(69.4)	(75.0)	(63.6)
Other, net	41.7	(10.3)	(23.1)
	(20.0)	(78.5)	(80.0)
Earnings from continuing operations before income taxes	1,989.3	1,730.8	1,531.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Summary of Significant Accounting Policies (in part)

Foreign Currency Translation

The financial position and results of operations of the Company's foreign subsidiaries are generally determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss in equity. Aggregate net realized and unrealized gains (losses) resulting from foreign currency transactions and derivative contracts of approximately $44.9 million, $(7.4) million and $(23.4) million for the years ended December 31, 2014, 2013 and 2012, respectively, are included in "Other, net" in the Company's consolidated statements of earnings.

Note 11: Financial Instruments (in part)

In the normal course of business, operations of the Company are exposed to risks associated with fluctuations in interest rates and foreign currency exchange rates. The Company addresses these risks through controlled risk management that includes the use of derivative financial instruments to economically hedge or reduce these exposures. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company assesses the adequacy and effectiveness of its interest rate and foreign exchange hedge positions by continually monitoring its interest rate swap and foreign exchange forward and option positions both on a stand-alone basis and in conjunction with its underlying interest rate and foreign currency exposures, from an accounting and economic perspective.

However, given the inherent limitations of forecasting and the anticipatory nature of the exposures intended to be hedged, the Company cannot assure that such programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in either interest or foreign exchange rates. In addition, the timing of the accounting for recognition of gains and losses related to mark-to-market instruments for any given period may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Company's consolidated operating results and financial position.

Foreign Exchange Risk Management

Overall, the Company is a net recipient of currencies other than the U.S. dollar and, as such, benefits from a weaker dollar and is adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may negatively affect the Company's consolidated revenues or operating costs and expenses as expressed in U.S. dollars.

From time to time, the Company enters into foreign currency option and forward contracts to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to economically offset the effect of changes in the value of foreign currency assets and liabilities, commitments and anticipated foreign currency denominated sales and operating expenses. The Company enters into foreign currency option and forward contracts in amounts between minimum and maximum anticipated foreign exchange exposures. The Company does not designate these derivative instruments as accounting hedges.

The Company uses foreign currency option contracts, which provide for the sale or purchase of foreign currencies to economically hedge the currency exchange risks associated with probable but not firmly committed transactions that arise in the normal course of the Company's business. Probable but not firmly committed transactions are comprised primarily of sales of products and purchases of raw material in currencies other than the U.S. dollar. The foreign currency option contracts are entered into to reduce the volatility of earnings generated in currencies other than the U.S. dollar. While these instruments are subject to fluctuations in value, such fluctuations are anticipated to offset changes in the value of the underlying exposures.

Changes in the fair value of open foreign currency option contracts and any realized gains (losses) on settled contracts are recorded through earnings as "Other, net" in the accompanying consolidated statements of earnings. During 2014, 2013 and 2012, the Company recognized realized gains on settled foreign currency option contracts of $16.5 million, $6.4 million and $14.2 million, respectively, and net unrealized gains (losses) on open foreign currency option contracts of $37.2 million, $10.4 million and $(15.3) million, respectively. The premium costs of purchased foreign exchange option contracts are recorded in "Other current assets" and amortized to "Other, net" over the life of the options.

All of the Company's outstanding foreign exchange forward contracts are entered into to offset the change in value of certain intercompany receivables or payables that are subject to fluctuations in foreign currency exchange rates. The realized and unrealized gains and losses from foreign currency forward contracts and the revaluation of the foreign denominated intercompany receivables or payables are recorded through "Other, net" in the accompanying consolidated statements of earnings. During 2014, 2013 and 2012, the Company recognized total realized and unrealized gains (losses) from foreign exchange forward contracts of $2.0 million, $5.3 million and $(0.9) million, respectively.

The fair value of outstanding foreign exchange option and forward contracts, collectively referred to as foreign currency derivative financial instruments, are recorded in "Other current assets" and "Accounts payable." At December 31, 2014 and 2013, foreign currency derivative assets associated with the foreign exchange option contracts of $75.1 million and $20.2 million, respectively, were included in "Other current assets." At December 31, 2014, net foreign currency derivative liabilities associated with the foreign exchange forward contracts of

$3.9 million were included in "Accounts payable."At December 31, 2013, net foreign currency derivative assets associated with the foreign exchange forward contracts of $0.2 million were included in "Other current assets."

At December 31, 2014 and 2013, the notional principal and fair value of the Company's outstanding foreign currency derivative financial instruments were as follows:

	2014		2013	
(In millions)	Notional Principal	Fair Value	Notional Principal	Fair Value
Foreign currency forward exchange contracts (Receive U.S. dollar/pay foreign currency)	$ 32.8	$ (2.8)	$ 35.0	$ 0.1
Foreign currency forward exchange contracts (Pay U.S. dollar/receive foreign currency)	37.5	(1.1)	41.3	0.1
Foreign currency sold—put options	849.3	75.1	560.8	20.2

The notional principal amounts provide one measure of the transaction volume outstanding as of December 31, 2014 and 2013, and do not represent the amount of the Company's exposure to market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of December 31, 2014 and 2013. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

GAIN ON ASSET DISPOSALS

3.11 BRUNSWICK CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

	For the Years Ended December 31		
(In millions, except per share data)	2014	2013	2012
Net sales	$3,838.7	$3,599.7	$3,416.8
Cost of sales	2,801.9	2,650.4	2,540.5
Selling, general and administrative expense	556.6	536.2	512.7
Research and development expense	119.6	114.8	101.0
Pension settlement charge—lump sum payout	27.9	—	—
Restructuring, exit and impairment charges	4.2	16.5	25.4
Operating earnings	328.5	281.8	237.2
Impairment of equity method investment	(20.2)	—	—
Equity earnings (loss)	1.8	(2.1)	(3.7)
Other income, net	6.5	2.4	2.2
Earnings before interest, loss on early extinguishment of debt and income taxes	316.6	282.1	235.7
Interest expense	(29.8)	(41.9)	(66.3)
Interest income	1.2	1.5	2.9
Loss on early extinguishment of debt	(0.1)	(32.8)	(16.3)
Earnings before income taxes	287.9	208.9	156.0
Income tax provision (benefit)	93.0	(547.9)	31.4
Net earnings from continuing operations	194.9	756.8	124.6
Discontinued operations:			
Earnings (loss) from discontinued operations, net of tax	(1.8)	10.8	(21.4)
Gain on disposal of discontinued operations, net of tax	52.6	1.6	—
Impairment charges on assets held for sale, net of tax	—	—	(53.2)
Net earnings (loss) from discontinued operations, net of tax	50.8	12.4	(74.6)
Net earnings	$ 245.7	$ 769.2	$ 50.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Discontinued Operations

On July 17, 2014, the Company entered into an agreement to sell its retail bowling business to AMF Bowling Centers, Inc. In connection with its decision to sell its bowling centers, the Company also announced its intention to divest its bowling products business. On December 31, 2012, the Board of Directors authorized the Company to exit its Hatteras and Cabo boat businesses. As a result of these actions, these businesses, which were previously recorded in the Company's former Bowling & Billiards segment and the Boat segment, respectively, are being reported as discontinued operations in the Consolidated Statements of Operations for all periods presented. The Company does not have or anticipate having any significant continuing involvement or continuing cash flows associated with these businesses. The assets and liabilities of these businesses met the accounting criteria to be classified as held for sale and have been aggregated and reported on separate lines of the Consolidated Balance Sheets for all periods presented.

On September 18, 2014, the Company completed the sale of its retail bowling business to AMF Bowling Centers, Inc. as well as, in separate transactions, completed the sale of two retail bowling centers in California. The sales resulted in net cash proceeds of $264.3 million and an after-tax gain of $52.6 million. In connection with the sale of its retail bowling business, the Company entered into a trademark licensing agreement allowing AMF Bowling Centers, Inc. to use the Company's bowling retail related trademarks and trade names over a five year period from the date of acquisition. As a result, the Company recorded deferred income of $20.7 million related to this agreement, which will be recognized as Other income in the Consolidated Statements of Operations over five years. In connection with the sale of its retail bowling business, the Company has retained certain liabilities and provided guarantees on certain leased bowling centers.

In August 2013, the Company completed the sale of its Hatteras and Cabo boat businesses resulting in an after-tax gain of $1.6 million.

The following table discloses the results of operations of the businesses reported as discontinued operations for the years ended December 31, 2014, 2013 and 2012, respectively:

(In millions)	2014	2013	2012
Net sales	$236.0	$310.8	$357.0
Earnings (loss) from discontinued operations before income taxes	$ (3.8)	$ 13.7	$ (71.7)
Income tax provision (benefit)	(2.0)	2.9	2.9
Earnings (loss) from discontinued operations, net of tax[A]	(1.8)	10.8	(74.6)
Gain on disposal of discontinued operations, net of tax[B]	52.6	1.6	—
Net earnings (loss) from discontinued operations, net of tax	$ 50.8	$ 12.4	$ (74.6)

[A] Earnings (loss) from discontinued operations for 2013 includes restructuring, exit and impairment charges, net of tax of $4.9 million. Earnings (loss) from discontinued operations for 2012 includes an asset impairment charge of $52.7 million, $53.2 million after-tax, and other restructuring and impairment charges, net of tax of $14.9 million.

[B] The Gain on disposal of discontinued operations for 2014 includes a pre-tax gain of $65.6 million and a net tax provision of $13.0 million. The Gain on disposal of discontinued operations for 2013 includes a pre-tax loss of $1.4 million and a net tax benefit of $3.0 million.

The following table reflects the summary of assets and liabilities held for sale for the bowling products business as of December 31, 2014 and for the retail bowling and bowling products businesses as of December 31, 2013:

(In millions)	December 31, 2014	December 31, 2013
Accounts and notes receivable, net	$14.0	$ 18.9
Net inventory	15.3	15.4
Prepaid expenses and other	0.7	2.5
Current assets held for sale	30.0	36.8
Net property	8.8	197.9
Other long-term assets	3.8	6.4
Long-term assets held for sale	12.6	204.3
Assets held for sale	$42.6	$241.1
Accounts payable	$ 4.5	$ 18.0
Accrued expenses	11.2	31.7
Current liabilities held for sale	15.7	49.7
Other liabilities	8.2	9.2
Long-term liabilities held for sale	8.2	9.2
Liabilities held for sale	$23.9	$ 58.9

GAIN ON REMEASUREMENT

3.12 CONSTELLATION BRANDS, INC. (FEB)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

(in millions, except per share data)

	For the Years Ended		
	February 28, 2014	February 28, 2013	February 29, 2012
Sales	$ 5,411.0	$ 3,171.4	$ 2,979.1
Less—excise taxes	(543.3)	(375.3)	(324.8)
Net sales	4,867.7	2,796.1	2,654.3
Cost of Product Sold	(2,876.0)	(1,687.8)	(1,592.2)
Gross profit	1,991.7	1,108.3	1,062.1
Selling, General and Administrative Expenses	(895.1)	(585.4)	(537.5)
Impairment Of Goodwill and Intangible Assets	(300.9)	—	(38.1)
Gain on Remeasurement to Fair Value of Equity Method Investment	1,642.0	—	—
Operating income	2,437.7	522.9	486.5

3. Acquisitions (in part)

Beer Business Acquisition—

On June 7, 2013, the Company acquired (i) the remaining 50% equity interest in Crown Imports (as defined in Note 10) (the "Crown Acquisition") and (ii)(a) all of the issued and outstanding equity interests of Compañía Cervecera de Coahuila, S. de R.L. de C.V. (the "Brewery Company"), which owns and operates a brewery located in Nava, Coahuila, Mexico (the "Brewery"), (ii)(b) all of the issued and outstanding equity interests of Servicios Modelo de Coahuila, S. de R.L. de C.V., which provides personnel and services for the operation and maintenance of the Brewery (the "Service Company"), and (ii)(c) an irrevocable, fully-paid license to produce in Mexico (or worldwide under certain circumstances) and exclusively import, market and sell the Mexican Beer Brands (as defined in Note 10) as of the date of acquisition, and certain extensions (all collectively referred to as the "Brewery Purchase"). The business of the Brewery Company and Service Company acquired by the Company is referred to as the "Brewery Business." The Crown Acquisition and the Brewery Purchase are collectively referred to as the "Beer Business Acquisition." In connection with the Beer Business Acquisition, the Company is required to build out and expand the Brewery to a nominal capacity of at least 20.0 million hectoliters of packaged beer annually by December 31, 2016. In addition, an interim supply agreement and a transition services agreement were entered into in association with the Beer Business Acquisition. The interim supply agreement obligates the supplier to provide Crown Imports with a supply of product not produced by the Brewery and the transition services agreement provides for certain specified services and production materials, both for a specified period of time. The associated agreements provide, among other things, that the United States will have approval rights, in its sole discretion, for amendments or modifications to the associated agreements and the United States will have a right of approval, in its sole discretion, of any extension of the term of the interim supply agreement beyond three years. The aggregate purchase price of $5,226.4 million consists of cash paid at closing of $4,745.0 million, net of cash acquired of $106.8 million, plus the estimated fair value of an additional purchase price for the finalization of the Final EBITDA Amount (as defined in the stock purchase agreement) of $543.3 million, as well as additional estimated cash payments for certain working capital adjustments. The fair value of the additional purchase price related to the Final EBITDA Amount was estimated by discounting future cash flows. In the third quarter of fiscal 2014, the calculation of the Final EBITDA Amount was finalized requiring the Company to make a payment of $558.0 million no later than June 7, 2014, consisting of the additional purchase price of $543.3 million plus imputed interest of $14.7 million.

The aggregate cash paid at closing was financed with:

- The proceeds from the issuance of $1,550.0 million aggregate principal amount of May 2013 Senior Notes (as defined in Note 12);
- $1,500.0 million in term loans consisting of a $500.0 million European Term A Facility (as defined in Note 12) and a $1,000.0 million European Term B Facility (as defined in Note 12) under the 2013 Credit Agreement (as defined in Note 12);
- $675.0 million in term loans under the U.S. Term A-2 Facility (as defined in Note 12) under the 2013 Credit Agreement;
- $208.0 million in proceeds of borrowings under the Company's then existing accounts receivable securitization facility;
- $580.0 million in borrowings under the revolving credit facility under the 2013 Credit Agreement; and
- Approximately $232.0 million of cash on hand (inclusive of $13.0 million of borrowings under a subsidiary working capital facility).

As a result of the closing of the Beer Business Acquisition without utilizing any of the commitments under an amended and restated bridge financing, this agreement terminated pursuant to its terms on June 7, 2013.

Prior to the Beer Business Acquisition, the Company accounted for its investment in Crown Imports under the equity method of accounting. In connection with the acquisition method of accounting, the Company's preexisting 50% equity interest was remeasured to its estimated fair value of $1,845.0 million, and the Company recognized a gain of $1,642.0 million on its Consolidated Statements of Comprehensive Income for the second quarter of fiscal 2014. The estimated fair value of the Company's preexisting 50% equity interest was based upon the estimated fair value of the acquired 50% equity interest in Crown Imports.

10. Other Assets (in part)

The major components of other assets are as follows:

(In millions)	February 28, 2014	February 28, 2013
Deferred financing costs	$ 85.2	$ 54.4
Investments in equity method investees	73.3	243.6
Investment in Accolade	11.5	42.8
Other	18.2	17.3
	188.2	358.1
Less—Accumulated amortization	(25.5)	(13.9)
	$162.7	$344.2

Investments in Equity Method Investees—

Crown Imports:

Prior to June 7, 2013, Constellation Beers Ltd., an indirect wholly-owned subsidiary of the Company, and Diblo, S.A. de C.V., an entity majority-owned by Grupo Modelo, S.A.B. de C.V. ("Modelo"), each had, directly or indirectly, equal interests in a joint venture, Crown Imports LLC ("Crown Imports"). Crown Imports had the exclusive right to import, market and sell primarily Modelo's Mexican beer portfolio sold in the U.S. and Guam (the "Mexican Beer Brands").

In addition, prior to June 7, 2013, the Company accounted for its investment in Crown Imports under the equity method. Accordingly, the results of operations of Crown Imports were included in equity in earnings of equity method investees on the Company's Consolidated Statements of Comprehensive Income through June 6, 2013. The Company received $30.3 million, $230.2 million and $222.0 million of cash distributions from Crown Imports for the years ended February 28, 2014, February 28, 2013, and February 29, 2012, respectively, all of which represent distributions of earnings. As of February 28, 2013, the Company's investment in Crown Imports was $169.3 million. As of February 28, 2013, the carrying amount of the investment was greater than the Company's equity in the underlying assets of Crown Imports by $13.6 million due to the difference in the carrying amounts of the indefinite lived intangible assets contributed to Crown Imports by each party.

Other:

In connection with prior acquisitions, the Company acquired several investments which are being accounted for under the equity method. The primary investment consists of Opus One Winery LLC ("Opus One"), a 50% owned joint venture arrangement. As of February 28, 2014, and February 28, 2013, the Company's investment in Opus One was $63.5 million and $59.3 million, respectively. The percentage of ownership of the remaining investments ranges from 20% to 50%.

The following table presents summarized financial information for the Company's Crown Imports equity method investment and the other material equity method investments discussed above. The amounts shown represent 100% of these equity method investments' financial position and results of operations for those investments accounted for under the equity method as of February 28, 2014. As the financial position and results of operations of Crown Imports and Ruffino have been included in the Company's consolidated financial position and results of operations from the dates of acquisition, amounts included for Crown Imports and Ruffino each represent 100% of the respective equity method investment's results of operations prior to each of their respective dates of acquisition.

	February 28, 2014			February 28, 2013		
(In millions)	**Crown Imports**	**Other**	**Total**	**Crown Imports**	**Other**	**Total**
Current assets	$—	$32.0	$32.0	$404.1	$27.4	$431.5
Noncurrent assets	$—	$50.5	$50.5	$ 36.4	$50.8	$ 87.2
Current liabilities	$—	$ 4.2	$ 4.2	$123.2	$ 4.7	$127.9
Noncurrent liabilities	$—	$19.5	$19.5	$ 6.0	$22.6	$ 28.6

(In millions)	**Crown Imports**	**Other**	**Total**
For the Year Ended February 28, 2014			
Net sales	$ 813.4	$ 62.8	$ 876.2
Gross profit	$ 241.5	$ 49.9	$ 291.4
Income from continuing operations	$ 142.1	$ 34.5	$ 176.6
Net income	$ 142.1	$ 34.5	$ 176.6
For the Year Ended February 28, 2013			
Net sales	$2,588.1	$ 52.6	$2,640.7
Gross profit	$ 755.4	$ 39.0	$ 794.4
Income from continuing operations	$ 446.2	$ 24.8	$ 471.0
Net income	$ 446.2	$ 24.8	$ 471.0
For the Year Ended February 29, 2012			
Net sales	$2,469.5	$106.2	$2,575.7
Gross profit	$ 721.0	$ 61.5	$ 782.5
Income from continuing operations	$ 430.2	$ 28.1	$ 458.3
Net income	$ 430.2	$ 28.1	$ 458.3

LITIGATION

3.13 AVNET, INC. (JUN)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

	Years Ended		
(Thousands, except share amounts)	**June 28, 2014**	**June 29, 2013**	**June 30, 2012**
Sales	$27,499,654	$25,458,924	$25,707,522
Cost of sales	24,273,923	22,479,123	22,656,965
Gross profit	3,225,731	2,979,801	3,050,557
Selling, general and administrative expenses	2,341,168	2,204,319	2,092,807
Restructuring, integration and other expenses	94,623	149,501	73,585
Operating income	789,940	625,981	884,165
Other (expense) income, net	(6,092)	(74)	(5,442)
Interest expense	(104,823)	(107,653)	(90,859)
Gain on legal settlement, bargain purchase and other (Notes 2 and 13)	22,102	31,011	2,918
Income before income taxes	701,127	549,265	790,782

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

13. Commitments and Contingencies (in part)

LCD Class Action Settlement

The Company filed a proof of claim in the settlement of a class action proceeding that sought damages from certain manufacturers of LCD flat panel displays. A settlement was reached in the proceedings and in the first quarter of fiscal 2014 the federal district judge overseeing the proceeding issued an order approving the distribution of settlement funds to the class claimants and the Company received an award payment of $19.1 million. In the third quarter of fiscal 2014, the federal district judge overseeing the proceedings issued an order approving a final distribution of funds and the Company received a final award payment of $3.0 million. The total award of $22.1 million is classified within "gain on legal settlement, bargain purchase and other" in the consolidated statements of operations.

DERIVATIVES

3.14 NOBLE ENERGY, INC. (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(millions, except per share amounts)

	Year Ended December 31,		
	2014	**2013**	**2012**
Revenues			
Oil, gas and NGL sales	$4,931	$4,809	$4,037
Income from equity method investees	170	206	186
Total revenues	5,101	5,015	4,223
Costs and Expenses			
Production expense	958	850	673
Exploration expense	498	415	409
Depreciation, depletion and amortization	1,759	1,568	1,370
General and administrative	503	433	384
Gain on divestitures	(73)	(36)	(154)
Asset impairments	500	86	104
Other operating (income) expense, net	38	43	25
Total operating expenses	4,183	3,359	2,811
Operating income	918	1,656	1,412
Other (Income) Expense			
(Gain) loss on commodity derivative instruments	(976)	133	(75)
Interest, net of amount capitalized	210	158	125
Other non-operating (income) expense, net	(26)	21	6
Total other (income) expense	(792)	312	56
Income from continuing operations before income taxes	1,710	1,344	1,356
Income tax provision	496	437	391
Income from continuing operations	1,214	907	965

Note 1. Summary of Significant Accounting Policies (in part)

Derivative Instruments and Hedging Activities. All derivative instruments (including certain derivative instruments embedded in other contracts) are recorded in our consolidated balance sheets as either an asset or liability and measured at fair value. Changes in the derivative instrument's fair value are recognized currently in earnings, unless the derivative instrument has been designated as a cash flow hedge and specific cash flow hedge accounting criteria are met. Under cash flow hedge accounting, unrealized gains and losses are reflected in shareholders' equity as accumulated other comprehensive loss (AOCL) until the forecasted transaction occurs. The derivative's gains or losses are then offset against related results on the hedged transaction in the statements of operations.

A company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Only derivative instruments that are expected to be highly effective in offsetting anticipated gains or losses on the hedged cash flows and that are subsequently documented to have been highly effective can qualify for hedge accounting. Effectiveness must be assessed both at inception of the hedge and on an ongoing basis. Any ineffectiveness in hedging instruments whereby gains or losses do not exactly offset anticipated gains or losses of hedged cash flows is measured and recognized in earnings in the period in which it occurs. When using hedge accounting, we assess hedge effectiveness quarterly based on total changes in the derivative instrument's fair value by performing regression analysis. A hedge is considered effective if certain statistical tests are met. We record hedge ineffectiveness in (gain) loss on commodity derivative instruments.

Accounting for Commodity Derivative Instruments. We account for our commodity derivative instruments using mark-to-market accounting and recognize all gains and losses in earnings during the period in which they occur. Our consolidated statements of cash flows includes the non-cash portion of gain and loss on commodity derivative instruments, which represented the difference between the total gain and loss on commodity derivative instruments and the cash received or paid on settlements of commodity derivative instruments during the period.

We offset the fair value amounts recognized for derivative instruments and the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. The cash collateral (commonly referred to as a "margin") must arise from derivative instruments recognized at fair value that are executed with the same counterparty under a master arrangement with netting clauses.

Accounting for Interest Rate Derivative Instruments. We designate interest rate derivative instruments as cash flow hedges. Changes in fair value of interest rate swaps or interest rate "locks" used as cash flow hedges are reported in AOCL, to the extent the hedge is effective, until the forecasted transaction occurs, at which time they are recorded as adjustments to interest expense over the term of the related notes.

Note 7. Derivative Instruments and Hedging Activities

Objective and Strategies for Using Derivative Instruments In order to mitigate the effect of commodity price volatility and enhance the predictability of cash flows relating to the marketing of our crude oil and natural gas, we enter into crude oil and natural gas price hedging arrangements with respect to a portion of our expected production. The derivative instruments we use may include variable to fixed price commodity swaps, two-way and three-way collars, basis swaps and put options.

The fixed price swap and two-way collar contracts entitle us (floating price payor) to receive settlement from the counterparty (fixed price payor) for each calculation period in amounts, if any, by which the settlement price for the scheduled trading days applicable for each calculation period is less than the fixed strike price or floor price. We would pay the counterparty if the settlement price for the scheduled trading days applicable for each calculation period is more than the fixed strike price or ceiling price. The amount payable by us, if the floating price is above the fixed or ceiling price, is the product of the notional quantity per calculation period and the excess of the floating price over the fixed or ceiling price in respect of each calculation period. The amount payable by the counterparty, if the floating price is below the fixed or floor price, is the product of the notional quantity per calculation period and the excess of the fixed or floor price over the floating price in respect of each calculation period.

A three-way collar consists of a two-way collar contract combined with a put option contract sold by us with a strike price below the floor price of the two-way collar. We receive price protection at the purchased put option floor price of the two-way collar if commodity prices are above the sold put option strike price. If commodity prices fall below the sold put option strike price, we receive the cash market price plus the delta between the two put option strike prices. This type of instrument allows us to capture more value in a rising commodity price environment, but limits our benefits in a downward commodity price environment.

For put options, we typically pay a premium to the counterparty in exchange for the sale of the instrument. If the index price is below the floor price of the put option, we receive the difference between the floor price and the index price multiplied by the contract volumes less the option premium at the time of settlement. If the index price settles at or above the floor price of the put option, we pay only the put option premium at the time of settlement. We had no outstanding put options as of December 31, 2014.

We also may enter into forward contracts to hedge anticipated exposure to interest rate risk associated with public debt financing.

While these instruments mitigate the cash flow risk of future reductions in commodity prices or increases in interest rates, they may also curtail benefits from future increases in commodity prices or decreases in interest rates.

See Note 12. Fair Value Measurements and Disclosures for a discussion of methods and assumptions used to estimate the fair values of our derivative instruments.

Counterparty Credit Risk. Derivative instruments expose us to counterparty credit risk. Our commodity derivative instruments are currently with a diversified group of major banks or market participants, and we monitor and manage our level of financial exposure. Our commodity derivative contracts are executed under master agreements which allow us, in the event of default, to elect early termination of all contracts with the defaulting counterparty. If we choose to elect early termination, all asset and liability positions with the defaulting counterparty would be net settled at the time of election.

We monitor the creditworthiness of our commodity derivatives counterparties. However, we are not able to predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, we may be limited in our ability to mitigate an increase in counterparty credit risk.

Possible actions would be to transfer our position to another counterparty or request a voluntary termination of the derivative contracts resulting in a cash settlement. Should one of these financial counterparties not perform, we may not realize the benefit of some of our derivative instruments under lower commodity prices or higher interest rates, and could incur a loss.

Unsettled Derivative Instruments. As of December 31, 2014, we had entered into the following crude oil derivative instruments:

				Swaps	Collars		
Settlement Period	Type of Contract	Index	Bbls Per Day	Weighted Average Fixed Price	Weighted Average Short Put Price	Weighted Average Floor Price	Weighted Average Ceiling Price
Instruments Entered into as of December 31, 2014							
2015	Swaps	NYMEX WTI	27,000	$ 88.80	$ —	$ —	$ —
2015	Swaps	Dated Brent	8,000	100.31	—	—	—
2015	Three-Way Collars	NYMEX WTI	20,000	—	70.50	87.55	94.41
2015	Three-Way Collars	Dated Brent	13,000	—	76.92	96.00	108.49
2016	Swaps	NYMEX WTI	6,000	87.95	—	—	—
2016	Swaps	Dated Brent	9,000	97.96	—	—	—
2016	Three-Way Collars	NYMEX WTI	3,000	—	72.00	85.00	94.82
2016	Three-Way Collars	Dated Brent	6,000	—	80.00	95.00	105.87

As of December 31, 2014, we had entered into the following natural gas derivative instruments:

				Swaps	Collars		
Settlement Period	Type of Contract	Index	MMBtu Per Day	Weighted Average Fixed Price	Weighted Average Short Put Price	Weighted Average Floor Price	Weighted Average Ceiling Price
Instruments Entered into as of December 31, 2014							
2015	Swaps	NYMEX HH	140,000	$4.30	$ —	$ —	$ —
2015	Three-Way Collars	NYMEX HH	150,000	—	3.58	4.25	5.04
2016	Swaps	NYMEX HH	10,000	3.90	—	—	—
2016	Three-Way Collars	NYMEX HH	30,000	—	3.00	3.75	4.40

Fair Value Amounts and Gains and Losses on Derivative Instruments The fair values of derivative instruments in our consolidated balance sheets were as follows:

	Fair Value of Derivative Instruments							
	Asset Derivative Instruments				**Liability Derivative Instruments**			
	December 31, 2014		**December 31, 2013**		**December 31, 2014**		**December 31, 2013**	
(Millions)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Commodity Derivative Instruments	Current Assets	$710	Current Assets	$ 1	Current Liabilities	$—	Current Liabilities	$65
	Noncurrent Assets	180	Noncurrent Assets	16	Noncurrent Liabilities	—	Noncurrent Liabilities	10
Total		$890		$17		$—		$75

The effect of derivative instruments on our consolidated statements of operations was as follows:

	Year Ended December 31,		
(Millions)	**2014**	**2013**	**2012**
(Gain) Loss on Commodity Derivative Instruments			
Crude Oil	$(897)	$139	$ (37)
Natural Gas	(79)	(6)	(38)
Total (Gain) Loss on Commodity Derivative Instruments	(976)	133	(75)
Cash (Received) Paid in settlement of Commodity Derivative Instruments			
Crude Oil	(34)	52	83
Natural Gas	5	(50)	(49)
Total Cash (Received) Paid in settlement of Commodity Derivative Instruments	(29)	2	34
Non-cash Portion of (Gain) Loss on Commodity Derivative Instruments			
Crude Oil	(863)	87	(120)
Natural Gas	(84)	44	11
Total Non-cash Portion of (Gain) Loss on Commodity Derivative Instruments	$(947)	$131	$(109)

Note 12. Fair Value Measurements and Disclosures (in part)

Commodity Derivative Instruments. Our commodity derivative instruments consist of variable to fixed price commodity swaps, two-way and/or three-way collars. We estimate the fair values of these instruments based on published forward commodity price curves as of the date of the estimate. The discount rate used in the discounted cash flow projections is based on published LIBOR rates, Eurodollar futures rates and interest swap rates. The fair values of commodity derivative instruments in an asset position include a measure of counterparty nonperformance risk, and the fair values of commodity derivative instruments in a liability position include a measure of our own nonperformance risk, each based on the current published credit default swap rates. In addition, for collars, we estimate the option values of the put options sold and the contract floors and ceilings using an option pricing model which takes into account market volatility, market prices and contract terms. See Note 7. Derivative Instruments and Hedging Activities.

CHANGE IN VALUE OF INVESTMENTS

3.15 ANTHEM, INC. (DEC)

CONSOLIDATED STATEMENTS OF INCOME (in part)

	Years Ended December 31		
(In millions, except per share data)	**2014**	**2013**	**2012**
Revenues			
Premiums	$68,389.8	$66,119.1	$56,496.7
Administrative fees	4,590.6	4,031.9	3,934.1
Other revenue	41.3	40.4	83.2
Total operating revenue	73,021.7	70,191.4	60,514.0
Net investment income	724.4	659.1	686.1
Net realized gains on investments	177.0	271.9	334.9
Other-than-temporary impairment losses on investments:			
Total other-than-temporary impairment losses on investments	(56.2)	(100.6)	(41.2)
Portion of other-than-temporary impairment losses recognized in other comprehensive income	7.2	1.7	3.4
Other-than-temporary impairment losses recognized in income	(49.0)	(98.9)	(37.8)
Total revenues	73,874.1	71,023.5	61,497.2

(continued)

	Years Ended December 31		
(In millions, except per share data)	2014	2013	2012
Expenses			
Benefit expense	56,854.9	56,237.1	48,213.6
Selling, general and administrative expense:			
Selling expense	1,490.1	1,526.9	1,586.9
General and administrative expense	10,258.3	8,426.0	7,093.6
Total selling, general and administrative expense	11,748.4	9,952.9	8,680.5
Interest expense	600.7	602.7	511.8
Amortization of other intangible assets	220.9	245.3	233.0
Loss on extinguishment of debt	81.1	145.3	—
Total expenses	69,506.0	67,183.3	57,638.9
Income from continuing operations before income tax expense	4,368.1	3,840.2	3,858.3
Income tax expense	1,808.0	1,205.9	1,207.3
Income from continuing operations	2,560.1	2,634.3	2,651.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In Millions, Except Per Share Data or As Otherwise Stated Herein)

2. Basis of Presentation and Significant Accounting Policies (in part)

Investments: Certain Financial Accounting Standards Board, or FASB, other-than-temporary impairment, or OTTI, guidance applies to fixed maturity securities and provides guidance on the recognition, presentation of, and disclosures for OTTIs. If a fixed maturity security is in an unrealized loss position and we have the intent to sell the fixed maturity security, or it is more likely than not that we will have to sell the fixed maturity security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is presented within the Other-than-temporary impairment losses recognized in income line item on our consolidated statements of income. For impaired fixed maturity securities that we do not intend to sell or it is more likely than not that we will not have to sell such securities, but we expect that we will not fully recover the amortized cost basis, the credit component of the OTTI is presented within the Other-than-temporary impairment losses recognized in income line item on our consolidated statements of income and the non-credit component of the OTTI is recognized in other comprehensive income. Furthermore, unrealized losses entirely caused by non-credit related factors related to fixed maturity securities for which we expect to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income, or AOCI.

The credit component of an OTTI is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the fixed maturity security. The net present value is calculated by discounting our best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security at the date of acquisition. For mortgage-backed and asset-backed securities, cash flow estimates are based on assumptions regarding the underlying collateral including prepayment speeds, vintage, type of underlying asset, geographic concentrations, default rates, recoveries and changes in value. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default.

The unrealized gains or losses on our current and long-term equity securities classified as available-for-sale are included in accumulated other comprehensive income as a separate component of shareholders' equity, unless the decline in value is deemed to be other-than-temporary and we do not have the intent and ability to hold such equity securities until their full cost can be recovered, in which case such equity securities are written down to fair value and the loss is charged to other-than-temporary impairment losses recognized in income.

We maintain various rabbi trusts to account for the assets and liabilities under certain deferred compensation plans. Under these plans, the participants can defer certain types of compensation and elect to receive a return on the deferred amounts based on the changes in fair value of various investment options, primarily a variety of mutual funds. We have corporate-owned life insurance policies on certain participants in the deferred compensation plans. The cash surrender value of the corporate-owned life insurance policies is reported in other invested assets, long-term, in the consolidated balance sheets. The remaining rabbi trust assets are generally invested according to the participant's investment election, and are classified as trading, which are reported in other invested assets, current, in the consolidated balance sheets.

We use the equity method of accounting for investments in companies in which our ownership interest enables us to influence the operating or financial decisions of the investee company. Our proportionate share of equity in net income of these unconsolidated affiliates is reported with net investment income.

For asset-backed securities included in fixed maturity securities, we recognize income using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reported with net investment income.

Investment income is recorded when earned. All securities sold resulting in investment gains and losses are recorded on the trade date. Realized gains and losses are determined on the basis of the cost or amortized cost of the specific securities sold.

We participate in securities lending programs whereby marketable securities in our investment portfolio are transferred to independent brokers or dealers based on, among other things, their creditworthiness in exchange for cash and securities collateral initially equal to at least 102% of the market value of the securities on loan and is thereafter maintained at a minimum of 100% of the market value of the securities loaned (calculated as the ratio of the market value of collateral to the market value of the securities on loan). Accordingly, the market value of the securities on loan to each borrower is monitored daily and the borrower is required to deliver additional collateral if the market value of the securities on loan exceeds the market value of collateral delivered. The fair value of the collateral received at the time of the transactions amounted to $1,515.3 and $969.7 at December 31, 2014 and 2013, respectively. The value of the collateral represented 103% and 102% of the market value of the securities on loan at December 31, 2014 and 2013, respectively. Under FASB guidance related to accounting for transfers and servicing of financial assets and extinguishments of liabilities, we recognize the collateral as an asset, which is reported as "securities lending collateral" on our consolidated balance sheets and we record a corresponding liability for the obligation to return the collateral to the borrower, which is reported as "securities lending payable." The securities on loan are reported in the applicable investment category on the consolidated balance sheets. Unrealized gains or losses on securities lending collateral are included in accumulated other comprehensive income as a separate component of shareholders' equity.

4. Investments

A summary of current and long-term investments, available-for-sale, at December 31, 2014 and 2013 is as follows:

			Gross Unrealized Losses			
	Cost or Amortized Cost	Gross Unrealized Gains	Less Than 12 Months	12 Months or Greater	Estimated Fair Value	Non-Credit Component of Other-Than-Temporary Impairments Recognized in AOCI
December 31, 2014						
Fixed maturity securities:						
United States Government securities	$ 315.7	$ 4.6	$ (0.3)	$ —	$ 320.0	$ —
Government sponsored securities	94.6	0.8	—	(0.4)	95.0	—
States, municipalities and political subdivisions, tax-exempt	5,451.4	287.0	(1.8)	(3.0)	5,733.6	—
Corporate securities	8,335.9	162.9	(123.1)	(43.2)	8,332.5	(6.8)
Options embedded in convertible securities	98.7	—	—	—	98.7	—
Residential mortgage-backed securities	2,099.7	68.9	(1.0)	(8.6)	2,159.0	—
Commercial mortgage-backed securities	504.8	6.1	(0.6)	(0.4)	509.9	—
Other debt securities	720.3	6.1	(1.7)	(1.6)	723.1	—
Total fixed maturity securities	17,621.1	536.4	(128.5)	(57.2)	17,971.8	$(6.8)
Equity securities	1,330.7	618.5	(11.1)	—	1,938.1	
Total investments, available-for-sale	$18,951.8	$1,154.9	$(139.6)	$(57.2)	$19,909.9	
December 31, 2013						
Fixed maturity securities:						
United States Government securities	$ 300.8	$ 2.5	$ (3.4)	$ —	$ 299.9	$ —
Government sponsored securities	174.4	0.4	(1.3)	—	173.5	—
States, municipalities and political subdivisions, tax-exempt	5,899.5	202.9	(90.1)	(9.6)	6,002.7	(0.6)
Corporate securities	7,614.1	205.2	(95.2)	(15.5)	7,708.6	(0.1)
Options embedded in convertible securities	89.2	—	—	—	89.2	—
Residential mortgage-backed securities	2,269.4	48.0	(41.4)	(7.1)	2,268.9	—
Commercial mortgage-backed securities	479.0	10.5	(2.6)	(0.3)	486.6	—
Other debt securities	456.2	5.8	(2.5)	(0.8)	458.7	(0.1)
Total fixed maturity securities	17,282.6	475.3	(236.5)	(33.3)	17,488.1	$(0.8)
Equity securities	1,195.9	578.9	(8.0)	—	1,766.8	
Total investments, available-for-sale	$18,478.5	$1,054.2	$(244.5)	$(33.3)	$19,254.9	

At December 31, 2014, we owned $2,668.9 of mortgage-backed securities and $633.8 of asset-backed securities out of a total available-for-sale investment portfolio of $19,909.9. These securities included sub-prime and Alt-A securities with fair values of $37.5 and $81.0, respectively. These sub-prime and Alt-A securities had accumulated net unrealized gains of $1.5 and $5.3, respectively. The average credit rating of the sub-prime and Alt-A securities was "CCC" and "CC", respectively.

The following tables summarize for available-for-sale fixed maturity securities and available-for-sale equity securities in an unrealized loss position at December 31, 2014 and 2013, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

	Less Than 12 Months			**12 Months or Greater**		
(Securities are whole amounts)	**Number of Securities**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Number of Securities**	**Estimated Fair Value**	**Gross Unrealized Loss**
December 31, 2014						
Fixed maturity securities:						
United States Government securities	17	$ 145.3	$ (0.3)	2	$ 0.9	$ —
Government sponsored securities	2	0.3	—	16	29.3	(0.4)
States, municipalities and political subdivisions, tax-exempt	136	315.6	(1.8)	80	174.3	(3.0)
Corporate securities	1,802	3,213.3	(123.1)	314	514.6	(43.2)
Residential mortgage-backed securities	78	155.0	(1.0)	186	398.3	(8.6)
Commercial mortgage-backed securities	43	156.2	(0.6)	10	33.2	(0.4)
Other debt securities	79	270.6	(1.7)	21	65.0	(1.6)
Total fixed maturity securities	2,157	4,256.3	(128.5)	629	1,215.6	(57.2)
Equity securities	407	125.4	(11.1)	—	—	—
Total fixed maturity and equity securities	2,564	$4,381.7	$(139.6)	629	$1,215.6	$(57.2)
December 31, 2013						
Fixed maturity securities:						
United States Government securities	27	$ 179.2	$ (3.4)	—	$ —	$ —
Government sponsored securities	22	73.4	(1.3)	—	—	—
States, municipalities and political subdivisions, tax-exempt	806	2,070.9	(90.1)	42	82.4	(9.6)
Corporate securities	1,448	2,586.6	(95.2)	107	81.3	(15.5)
Residential mortgage-backed securities	605	1,243.0	(41.4)	80	116.2	(7.1)
Commercial mortgage-backed securities	52	177.7	(2.6)	4	5.6	(0.3)
Other debt securities	65	185.3	(2.5)	17	16.2	(0.8)
Total fixed maturity securities	3,025	6,516.1	(236.5)	250	301.7	(33.3)
Equity securities	426	120.8	(8.0)	—	—	—
Total fixed maturity and equity securities	3,451	$6,636.9	$(244.5)	250	$ 301.7	$(33.3)

The amortized cost and fair value of available-for-sale fixed maturity securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

	Amortized Cost	**Estimated Fair Value**
Due in one year or less	$ 507.3	$ 510.8
Due after one year through five years	4,649.6	4,702.9
Due after five years through ten years	5,227.9	5,360.8
Due after ten years	4,631.8	4,728.4
Mortgage-backed securities	2,604.5	2,668.9
Total available-for-sale fixed maturity securities	$17,621.1	$17,971.8

The major categories of net investment income for the years ended December 31 are as follows:

	2014	**2013**	**2012**
Fixed maturity securities	$644.1	$638.9	$671.2
Equity securities	57.7	45.9	38.4
Cash and cash equivalents	0.8	1.0	2.5
Other	66.3	19.8	16.2
Investment income	768.9	705.6	728.3
Investment expense	(44.5)	(46.5)	(42.2)
Net investment income	$724.4	$659.1	$686.1

Net realized investment gains/losses and net change in unrealized appreciation/depreciation in investments for the years ended December 31 are as follows:

	2014	2013	2012
Net realized gains (losses) on investments:			
Fixed maturity securities:			
Gross realized gains from sales	$198.2	$ 225.9	$ 401.0
Gross realized losses from sales	(50.6)	(125.7)	(54.8)
Net realized gains from sales of fixed maturity securities	147.6	100.2	346.2
Equity securities:			
Gross realized gains from sales	106.5	224.1	82.0
Gross realized losses from sales	(90.2)	(100.5)	(93.8)
Net realized gains (losses) from sales of equity securities	16.3	123.6	(11.8)
Other realized gains on investments	13.1	48.1	0.5
Net realized gains on investments	177.0	271.9	334.9
Other-than-temporary impairment losses recognized in income:			
Fixed maturity securities	(22.3)	(42.5)	(11.8)
Equity securities	(13.5)	(13.9)	(17.5)
Other invested assets, long-term	(13.2)	(42.5)	(8.5)
Other-than-temporary impairment losses recognized in income	(49.0)	(98.9)	(37.8)
Change in net unrealized gains (losses) on investments:			
Fixed maturity securities	145.2	(679.8)	199.8
Equity securities	36.5	225.4	94.7
Total change in net unrealized gains (losses) on investments	181.7	(454.4)	294.5
Deferred income tax (expense) benefit	(63.1)	159.7	(104.6)
Net change in net unrealized gains (losses) on investments	118.6	(294.7)	189.9
Net realized gains on investments, other-than-temporary impairment losses recognized in income and net change in net unrealized gains (losses) on investments	$246.6	$(121.7)	$ 487.0

A primary objective in the management of our fixed maturity and equity portfolios is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities as well as tax considerations. Sales will generally produce realized gains and losses. In the ordinary course of business, we may sell securities at a loss for a number of reasons, including, but not limited to: (i) changes in the investment environment; (ii) expectations that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; (iv) changes in credit quality; or (v) changes in expected cash flow.

Proceeds from fixed maturity securities, equity securities and other invested assets and the related gross realized gains and gross realized losses for the years ended December 31 are as follows:

	2014	2013	2012
Proceeds	$10,255.9	$13,662.8	$15,915.6
Gross realized gains	317.8	498.1	483.5
Gross realized losses	(140.8)	(226.2)	(148.6)

A significant judgment in the valuation of investments is the determination of when an other-than-temporary decline in value has occurred. We follow a consistent and systematic process for recognizing impairments on securities that sustain other-than-temporary declines in value. We have established a committee responsible for the impairment review process. The decision to impair a security incorporates both quantitative criteria and qualitative information. The impairment review process considers a number of factors including, but not limited to: (i) the length of time and the extent to which the fair value has been less than book value, (ii) the financial condition and near term prospects of the issuer, (iii) our intent and ability to retain impaired equity security investments for a period of time sufficient to allow for any anticipated recovery in fair value, (iv) our intent to sell or the likelihood that we will need to sell a fixed maturity security before recovery of its amortized cost basis, (v) whether the debtor is current on interest and principal payments, (vi) the reasons for the decline in value (i.e., credit event compared to liquidity, general credit spread widening, currency exchange rate or interest rate factors) and (vii) general market conditions and industry or sector specific factors. For securities that are deemed to be other-than-temporarily impaired, the security is adjusted to fair value and the resulting losses are recognized in the consolidated statements of income. The new cost basis of the impaired securities is not increased for future recoveries in fair value.

Other-than-temporary impairments recorded in 2014, 2013 and 2012 were primarily the result of the continued credit deterioration on specific issuers in the bond markets and the fair values of certain equity securities remaining below cost for an extended period of time. There were no individually significant OTTI losses on investments by issuer during 2014, 2013 or 2012.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in these risk factors in the near term could have an adverse material impact on our results of operations or shareholders' equity.

The changes in the amount of the credit component of OTTI losses on fixed maturity securities recognized in income, for which a portion of the OTTI losses was recognized in other comprehensive income, was not material for the years ended December 31, 2014, 2013 or 2012.

At December 31, 2014 and 2013, no investments exceeded 10% of shareholders' equity.

At December 31, 2014, the carrying value of fixed maturity investments that did not produce income during 2014 was $9.2. At December 31, 2013, we did not hold any fixed maturity investments that did not produce income during 2013.

As of December 31, 2014 we had committed approximately $555.0 to future capital calls from various third-party investments in exchange for an ownership interest in the related entities.

At December 31, 2014 and 2013, securities with carrying values of approximately $504.4 and $449.9, respectively, were deposited by our insurance subsidiaries under requirements of regulatory authorities.

INSURANCE RECOVERIES

3.16 ACUITY BRANDS, INC. (AUG)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

	Years Ended August 31,		
(In millions, except per-share data)	**2014**	**2013**	**2012**
Net Sales	$2,393.5	$2,089.1	$1,933.7
Cost of Products Sold	1,414.3	1,251.5	1,145.7
Gross Profit	979.2	837.6	788.0
Selling, Distribution, and Administrative Expenses	680.3	607.6	566.7
Special Charge	(0.2)	8.5	13.3
Operating Profit	299.1	221.5	208.0
Other Expense (Income):			
Interest expense, net	32.1	31.2	30.7
Miscellaneous expense (income), net	1.3	(2.8)	(1.7)
Total Other Expense	33.4	28.4	29.0
Income before Provision for Income Taxes	265.7	193.1	179.0
Provision for Income Taxes	89.9	65.7	62.7
Net Income	$ 175.8	$ 127.4	$ 116.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Amounts in millions, except per-share data and as indicated)

10. Commitments and Contingencies (in part)

Litigation

The Company is subject to various legal claims arising in the normal course of business, including patent infringement and product recall claims. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on the financial condition, results of operations, or cash flows of the Company. However, in the event of unexpected future developments, it is possible that the ultimate resolution of any such matters, if unfavorable, could have a material adverse effect on the financial condition, results of operations, or cash flows of the Company in future periods. The Company establishes reserves for legal claims when associated costs become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher than the amounts reserved for such claims. However, the Company cannot make a meaningful estimate of actual costs to be incurred that could possibly be higher or lower than the amounts reserved.

As reported in prior periods, on March 25, 2013, a freight payment and audit service provider, Trendset, Inc. ("Trendset"), provided notice to its customers that all freight payment services would immediately cease as a result of fraud at Trendset. Management believes that the Company incurred a loss primarily related to funds disbursed by the Company to Trendset that were not subsequently remitted to freight carriers that provided services on behalf of the Company and additional costs related to recovery efforts. Based on then available information, management estimated that the Company's loss was approximately $8.1 which was previously included in *Selling, Distribution, and Administrative Expenses* in the *Consolidated Statements of Comprehensive Income* during fiscal 2013. During fiscal 2014, the Company received $5.8 in recovery payments related to this loss, consisting primarily of payments under an insurance policy maintained by the Company. These recoveries are included as an offset to expense in *Selling, Distribution and Administrative Expenses* in the *Consolidated Statements of Comprehensive Income* and cover a portion of, but not the entirety of, the Company's loss related to this matter.

GAINS ON EXTINGUISHMENT OF DEBT

3.17 WALTER ENERGY, INC. (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(in thousands, except per share amounts)

	For the Years Ended December 31,		
	2014	2013	2012
Revenues:			
Sales	$1,374,422	$1,836,343	$ 2,381,760
Miscellaneous income	32,923	24,288	18,135
	1,407,345	1,860,631	2,399,895
Costs and Expenses:			
Cost of sales (exclusive of depreciation and depletion)	1,266,757	1,558,305	1,796,991
Depreciation and depletion	262,525	311,514	316,232
Selling, general and administrative	72,015	99,994	133,467
Other postretirement benefits	55,476	58,900	52,852
Restructuring and asset impairments	57,508	2,883	49,070
Goodwill impairment	—	—	1,064,409
	1,714,281	2,031,596	3,413,021
Operating loss	(306,936)	(170,965)	(1,013,126)
Interest expense, net	(295,903)	(221,583)	(132,997)
Gain (loss) on extinguishment of debt	33,673	(6,875)	(5,555)
Other income (loss), net	646	(1,418)	(13,081)
Loss from continuing operations before income tax benefit	(568,520)	(400,841)	(1,164,759)
Income tax benefit	(97,952)	(41,838)	(99,204)
Loss from continuing operations	(470,568)	(359,003)	(1,065,555)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Business and Basis of Presentation (in part)

Basis of Presentation (in part)

During the second quarter of 2014, the Company corrected its classification of accelerated amortization of debt issuance costs that it recognized upon the extinguishment or partial extinguishment of debt to present these amounts as a component of the gain (loss) recognized upon the extinguishment of debt as one line item in the accompanying Consolidated Statements of Operations in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 470-50. Components of the gain (loss) on the extinguishment of debt were previously recognized within interest expense and other income (loss) in the accompanying Consolidated Statements of Operations. The Company has concluded that this revision is not material to previously issued financial statements, as the net effect of these revisions did not impact operating loss, net loss, stockholders' equity or cash flows. Previously reported interest expense and other income (loss) have decreased by the same amount to correct the classification and interest income and interest expense have been netted in the current presentation. The following reflects the revisions for the years ended December 31, 2013 and 2012:

	2013	2012
Interest expense, prior to revision	$(233,854)	$(139,356)
Interest income	1,103	804
Revision of loss on extinguishment of debt	11,168	5,555
Interest expense, net revised	$(221,583)	$(132,997)

	2013	2012
Other income (loss), net, prior to revision	$2,875	$(13,081)
Revision of gain on extinguishment of debt	(4,293)	—
Other loss, net revised	$(1,418)	$(13,081)

Note 13—Debt (in part)

2011 Credit Agreement (in part)

Credit Agreement Amendments (in part)

During 2014, the Company entered into the Sixth, Seventh and Eighth Amendments to the 2011 Credit Agreement (collectively, the "Amendments") which, among other things, (1) permitted repayment of term loan A without a pro-rata repayment to term loan B, (2) extended the maturity of 81.6% of its revolving commitments (the "2017 revolver") to October 2017 with reduced availability of $60.0 million, (3) reduced availability of the non-extending revolving lenders (the "2016 revolver") to $16.9 million, (4) eliminated the liquidity and fixed charge coverage maintenance covenants, (5) provided for a 0.50% increase in the interest rate payable on the term loan B, and (6) suspended the senior secured leverage ratio covenant until the aggregate amount outstanding, excluding outstanding letters of credit, under the 2016 revolver and the 2017 revolver (collectively, the "revolver) exceeds 30%, or $23.1 million, of the total revolving commitment of $76.9 million. In connection with these Amendments, the Company recognized a loss on early extinguishment of debt of $6.5 million.

First Lien Notes (in part)

On March 27, 2014 and July 14, 2014, the Company issued $200.0 million and $320.0 million aggregate principal amount of 9.50% Senior Secured Notes, respectively. These notes are an addition to the $450.0 million of the Company's 9.50% Senior Secured Notes that were issued on September 27, 2013 (collectively, the "First Lien Notes"). The First Lien Notes will mature on October 15, 2019, and interest is payable on April 15 and October 15 of each year.

The Company utilized $245.7 million of the net proceeds from the $450.0 million in First Lien Notes issued in September 2013 to extinguish $250.0 million of term loan A debt through a dutch auction process. In 2013, the Company recognized a net gain on early extinguishment of debt of approximately $1.0 million. In March 2014, the Company issued $200.0 million First Lien Notes and $350.0 million Second Lien Notes to repay in full its term loan A debt, increase liquidity and pay related fees and expenses. The Company recognized a loss on early extinguishment of debt of approximately $13.9 million.

9.875% Senior Notes due 2020 (in part)

During 2014, in three separate transactions, the Company issued an aggregate of 9.3 million shares of its common stock and paid $5.2 million in cash, in exchange for $112.0 million of the 9.875% Senior Notes and recognized a net gain of $54.1 million, or $0.81 per basic and diluted share, for the year ended December 31, 2014 in gain (loss) on extinguishment of debt.

Expenses and Losses

PRESENTATION

3.18 Paragraphs 80 and 83 of FASB Concepts Statement No. 6, *Elements of Financial Statements—a replacement of* FASB *Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)*, define expenses and losses as follows:

80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

PRESENTATION AND DISCLOSURE EXCERPTS

SELLING, GENERAL, AND ADMINISTRATIVE

3.19 ANN INC. (JAN)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

	Fiscal Year Ended		
(In thousands, except per share amounts)	**February 1, 2014**	**February 2, 2013**	**January 28, 2012**
Net sales	$2,493,491	$2,375,509	$2,212,493
Cost of sales	1,150,183	1,073,167	1,004,350
Gross margin	1,343,308	1,302,342	1,208,143
Selling, general and administrative expenses	1,173,234	1,135,551	1,062,644
Operating income	170,074	166,791	145,499
Interest and investment income/(expense), net	(94)	1,051	(1,052)
Other non-operating expense, net	(17)	(189)	—
Income before income taxes	169,963	167,653	144,447
Income tax provision	67,533	65,068	57,881
Net income	$ 102,430	$ 102,585	$ 86,566

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Cost of Sales and Selling, General and Administrative Expenses

The following table illustrates the primary costs classified in each major expense category:

Cost of Sales	**Selling, General and Administrative Expenses**
• Cost of merchandise sold;	• Payroll, bonus and benefit costs for retail and corporate associates;
• Costs associated with the Company's sourcing operations;	• Design and merchandising costs;
• Freight costs associated with moving merchandise from suppliers to the Company's distribution center;	• Occupancy costs for retail and corporate facilities;
• Costs associated with the movement of merchandise through customs;	• Depreciation related to retail and corporate assets;
• Costs associated with the fulfillment and shipment of client orders from the Company's Websites, including omni-channel sales;	• Advertising and marketing costs;
• Depreciation related to merchandise management systems;	• Occupancy and other costs associated with operating the Company's distribution center;
• Sample development costs;	• Freight expenses associated with moving merchandise from the Company's distribution center to its retail stores or from store to store; and
• Direct costs of the credit card client loyalty program;	• Legal, finance, information systems and other corporate overhead costs.
• Merchandise shortage; and	
• Client shipping costs for store merchandise shipments.	

RESEARCH AND DEVELOPMENT

3.20 MERCK & CO., INC. (DEC)

ITEM 1. BUSINESS (in part)

Research and Development (in part)

The Company's business is characterized by the introduction of new products or new uses for existing products through a strong research and development program. Approximately 11,400 people are employed in the Company's research activities. Research and development expenses were $7.2 billion in 2014, $7.5 billion in 2013 and $8.2 billion in 2012 (which included restructuring costs and acquisition-related costs in all years). The Company prioritizes its research and development efforts and focuses on candidates that it believes represent breakthrough science that will make a difference for patients and payers.

The Company maintains a number of long-term exploratory and fundamental research programs in biology and chemistry as well as research programs directed toward product development. The Company's research and development model is designed to increase productivity and improve the probability of success by prioritizing the Company's research and development resources on candidates the

Company believes are capable of providing unambiguous, promotable advantages to patients and payers and delivering the maximum value of its approved medicines and vaccines through new indications and new formulations. Merck is pursuing emerging product opportunities independent of therapeutic area or modality (small molecule, biologics and vaccines) and is building its biologics capabilities. Further, Merck has moved to diversify its portfolio through a collaboration on the development of biosimilars, which have the potential to harness the market opportunity presented by biological medicine patent expiries by delivering high quality biosimilars to enhance access for patients worldwide. The Company is committed to making externally sourced programs a greater component of its pipeline strategy, with a renewed focus on supplementing its internal research with a licensing and external alliance strategy focused on the entire spectrum of collaborations from early research to late-stage compounds, as well as access to new technologies.

The Company also reviews its pipeline to examine candidates which may provide more value through out-licensing. The Company is evaluating certain late-stage clinical development and platform technology assets to determine their out-licensing or sale potential. In 2014, the Company entered into an agreement to divest its Sirna Therapeutics, Inc. subsidiary and related RNAi technology assets and out-licensed an investigational therapeutic antibody candidate to Sun Pharmaceutical Industries Ltd. ("Sun Pharma").

The Company's clinical pipeline includes candidates in multiple disease areas, including atherosclerosis, cancer, cardiovascular diseases, diabetes, infectious diseases, inflammatory/autoimmune diseases, neurodegenerative diseases, osteoporosis, respiratory diseases and women's health.

In the development of human health products, industry practice and government regulations in the United States and most foreign countries provide for the determination of effectiveness and safety of new chemical compounds through preclinical tests and controlled clinical evaluation. Before a new drug or vaccine may be marketed in the United States, recorded data on preclinical and clinical experience are included in the New Drug Application ("NDA") for a drug or the Biologics License Application ("BLA") for a vaccine or biologic submitted to the FDA for the required approval.

Once the Company's scientists discover a new small molecule compound or biologics molecule that they believe has promise to treat a medical condition, the Company commences preclinical testing with that compound. Preclinical testing includes laboratory testing and animal safety studies to gather data on chemistry, pharmacology, immunogenicity and toxicology. Pending acceptable preclinical data, the Company will initiate clinical testing in accordance with established regulatory requirements. The clinical testing begins with Phase 1 studies, which are designed to assess safety, tolerability, pharmacokinetics, and preliminary pharmacodynamic activity of the compound in humans. If favorable, additional, larger Phase 2 studies are initiated to determine the efficacy of the compound in the affected population, define appropriate dosing for the compound, as well as identify any adverse effects that could limit the compound's usefulness. In some situations, the clinical program incorporates adaptive design methodology to use accumulating data to decide how to modify aspects of the ongoing clinical study as it continues, without undermining the validity and integrity of the trial. One type of adaptive clinical trial is an adaptive Phase 2 a/2b trial design, a two-stage trial design consisting of a Phase 2 a proof-of-concept stage and a Phase 2b dose-optimization finding stage. If data from the Phase 2 trials are satisfactory, the Company commences large-scale Phase 3 trials to confirm the compound's efficacy and safety. Another type of adaptive clinical trial is an adaptive Phase 2/3 trial design, a study that includes an interim analysis and an adaptation that changes the trial from having features common in a Phase 2 study (e.g. multiple dose groups) to a design similar to a Phase 3 trial. An adaptive Phase 2/3 trial design reduces timelines by eliminating activities which would be required to start a separate study. Upon completion of Phase 3 trials, if satisfactory, the Company submits regulatory filings with the appropriate regulatory agencies around the world to have the product candidate approved for marketing. There can be no assurance that a compound that is the result of any particular program will obtain the regulatory approvals necessary for it to be marketed.

Vaccine development follows the same general pathway as for drugs. Preclinical testing focuses on the vaccine's safety and ability to elicit a protective immune response (immunogenicity). Pre-marketing vaccine clinical trials are typically done in three phases. Initial Phase 1 clinical studies are conducted in normal subjects to evaluate the safety, tolerability and immunogenicity of the vaccine candidate. Phase 2 studies are dose-ranging studies. Finally, Phase 3 trials provide the necessary data on effectiveness and safety. If successful, the Company submits regulatory filings with the appropriate regulatory agencies. Also during this stage, the proposed manufacturing facility undergoes a pre-approval inspection during which production of the vaccine as it is in progress is examined in detail.

In the United States, the FDA review process begins once a complete NDA or BLA is submitted, received and accepted for review by the agency. Within 60 days after receipt, the FDA determines if the application is sufficiently complete to permit a substantive review. The FDA also assesses, at that time, whether the application will be granted a priority review or standard review. Pursuant to the Prescription Drug User Fee Act V, the FDA review period target for NDAs or original BLAs is either six months, for priority review, or ten months, for a standard review, from the time the application is deemed sufficiently complete. Once the review timelines are determined, the FDA will generally act upon the application within those timelines, unless a major amendment has been submitted (either at the Company's own initiative or the FDA's request) to the pending application. If this occurs, the FDA may extend the review period to allow for review of the new information, but by no more than three months. Extensions to the review period are communicated to the Company. The FDA can act on an application either by issuing an approval letter or by issuing a Complete Response Letter ("CRL") stating that the application will not be approved in its present form and describing all deficiencies that the FDA has identified. Should the Company wish to pursue an application after receiving a CRL, it can resubmit the application with information that addresses the questions or issues identified by the FDA in order to support approval. Resubmissions are subject to review period targets, which vary depending on the underlying submission type and the content of the resubmission.

The FDA has four program designations—Fast Track, Breakthrough Therapy, Accelerated Approval, and Priority Review—to facilitate and expedite development and review of new drugs to address unmet medical needs in the treatment of serious or life-threatening conditions. The Fast Track designation provides pharmaceutical manufacturers with opportunities for frequent interactions with FDA reviewers during the product's development and the ability for the manufacturer to do a rolling submission of the NDA/BLA. A rolling submission allows completed portions of the application to be submitted and reviewed by the FDA on an ongoing basis. The Breakthrough Therapy designation provides manufacturers with all of the features of the Fast Track designation as well as intensive guidance on implementing an efficient development program for the product and a commitment by the FDA to involve senior managers and experienced review staff in the review. The Accelerated Approval designation allows the FDA to approve a product based on an effect on a surrogate or intermediate endpoint that is reasonably likely to predict a product's clinical benefit and generally requires the manufacturer to conduct required post-approval confirmatory trials to verify the clinical benefit. The Priority Review designation means that the FDA's goal is to take action on the NDA/BLA within six months, compared to ten months under standard review.

In addition, under the Generating Antibiotic Incentives Now Act, the FDA may grant Qualified Infectious Disease Product ("QIDP") status to antibacterial or antifungal drugs intended to treat serious or life threatening infections including those caused by antibiotic or antifungal resistant pathogens, novel or emerging infectious pathogens, or other qualifying pathogens. QIDP designation offers certain incentives for development of qualifying drugs, including Priority Review of the NDA when filed, eligibility for Fast Track designation, and a five-year extension of applicable exclusivity provisions under the Food, Drug and Cosmetic Act.

The primary method the Company uses to obtain marketing authorization of pharmaceutical products in the EU is through the "centralized procedure." This procedure is compulsory for certain pharmaceutical products, in particular those using biotechnological processes, and is also available for certain new chemical compounds and products. A company seeking to market an innovative pharmaceutical product through the centralized procedure must file a complete set of safety data and efficacy data as part of a Marketing Authorization Application ("MAA") with the European Medicines Agency ("EMA"). After the EMA evaluates the MAA, it provides a recommendation to the EC and the EC then approves or denies the MAA. It is also possible for new chemical products to obtain marketing authorization in the EU through a "mutual recognition procedure" in which an application is made to a single member state and, if the member state approves the pharmaceutical product under a national procedure, the applicant may submit that approval to the mutual recognition procedure of some or all other member states.

Outside of the United States and the EU, the Company submits marketing applications to national regulatory authorities. Examples of such are the Pharmaceutical Medical Devices Agency in Japan, Health Canada, Agencia Nacional de Vigilancia in Brazil, Korea Food and Drug Administration in South Korea, and Therapeutic Goods Administration in Australia. Each country has a separate and independent review process and timeline. In many markets, approval times can be longer as the regulatory authority requires approval in a major market, such as the United States or the EU, and issuance of a Certificate of Pharmaceutical Product from that market before initiating their local review process.

Research and Development Update (in part)

The Company currently has several candidates under regulatory review in the United States or internationally.

Keytruda is an anti-PD-1 (programmed death receptor-1) therapy under review by the EMA for the treatment of advanced melanoma. In September 2014, the FDA approved *Keytruda* at a dose of 2 mg/kg every three weeks for the treatment of patients with unresectable or metastatic melanoma and disease progression following ipilimumab and, if BRAF V600 mutation positive, a BRAF inhibitor. *Keytruda* is the first anti-PD-1 therapy approved in the United States.

The *Keytruda* clinical development program also includes studies in more than 30 cancers including: bladder, colorectal, gastric, head and neck, melanoma, non-small-cell lung, renal, triple negative breast and hematological malignancies. In addition, the Company has announced a number of collaborations with other pharmaceutical companies to evaluate novel combination regimens with *Keytruda*. In October 2014, *Keytruda* was granted Breakthrough Therapy Designation by the FDA for the treatment of patients with Epidermal Growth Factor Receptor mutation-negative, and Anaplastic Lymphoma Kinase rearrangement-negative non-small-cell lung cancer whose disease has progressed on or following platinum-based chemotherapy. The Company anticipates submitting a supplemental BLA to the FDA in mid-2015 for *Keytruda*.

MK-8616, *Bridion* (sugammadex) Injection, is an investigational agent for the reversal of neuromuscular blockade induced by rocuronium or vecuronium (neuromuscular blocking agents). Neuromuscular blockade is used in anesthesiology to induce muscle relaxation during surgery. In September 2013, Merck announced that it had received a CRL from the FDA for the resubmission of the NDA for *Bridion*. To address the CRL, the Company conducted a new hypersensitivity study and, in October 2014, resubmitted the NDA to the FDA. The Company anticipates an FDA advisory committee meeting will be held on March 18, 2015 to review *Bridion*. If approved, the Company expects to launch *Bridion* in the United States later in 2015. *Bridion* is approved and has been launched in many countries outside of the United States.

V419, DTaP5-IPV-Hib-HepB, is an investigational pediatric hexavalent vaccine that the Company is developing in partnership with Sanofi Pasteur under review by the FDA and the EMA. If approved,V419 would be the first pediatric combination vaccine in the United States designed to help protect against six important diseases—diphtheria, tetanus, pertussis (whooping cough), polio (poliovirus types 1, 2, and 3), invasive disease caused by *Haemophilus influenzae* type b (Hib), and hepatitis B. If approved, V419 will be co-promoted in the United States via a partnership with Sanofi Pasteur and marketed via the SPMSD joint venture in Europe.

MK-3102, omarigliptin, is an investigational once-weekly dipeptidyl peptidase-4 ("DPP-4") inhibitor in development for the treatment of type 2 diabetes. In November 2014, Merck announced that the Company has submitted a new drug application for omarigliptin to the Japanese Pharmaceuticals and Medical Devices Agency. Omarigliptin is in Phase 3 clinical development in the United States.

MK-1986, *Sivextro* (tedizolid phosphate), a once-daily oxazolidinone antibiotic developed for both intravenous and oral administration for the treatment of acute bacterial skin and skin structuring infections ("ABSSSI") caused by certain Gram-positive organisms, is under review by the EMA. In January 2015, Merck announced that the Committee for Medicinal Products for Human Use (the "CHMP") of the EMA has adopted a positive opinion recommending approval of *Sivextro* for the treatment of ABSSSI in adults. Merck acquired *Sivextro* as a part of its purchase of Cubist. If the EC affirms the CHMP opinion, it will grant a centralized marketing authorization with unified labeling that is valid in the 28 countries that are members of the EU, as well as European Economic Area members, Iceland, Liechtenstein and Norway. *Sivextro* is approved in the United States and is indicated for the treatment of adults with ABSSSI caused by designated susceptible Gram-positive organisms. The Company is conducting a Phase 3 clinical trial to assess the safety and efficacy of *Sivextro* in adult patients with ventilated nosocomial pneumonia, including ventilator-associated bacterial pneumonia ("VABP") and ventilated hospital-acquired bacterial pneumonia ("ventilated HABP"). In 2013, the FDA designated *Sivextro* as a QIDP for its now approved indication in ABSSSI, as well as for its potential indication in ventilated nosocomial pneumonia, including VABP and ventilated HABP, in each of the I.V. and oral dosage forms.

MK-7625 A, *Zerbaxa*, a combination product for the treatment of certain serious bacterial infections in adults, is under review by the EMA. Merck acquired *Zerbaxa* as a part of its purchase of Cubist. In December 2014, *Zerbaxa* was approved by the FDA for the treatment of adults with complicated urinary tract infections caused by designated susceptible Gram-negative organisms or with complicated intra-abdominal infections caused by designated susceptible Gram-negative and Gram-positive organisms. The Company is conducting a Phase 3 clinical trial to assess the safety and efficacy of *Zerbaxa* in adult patients with ventilated nosocomial pneumonia, including VABP and ventilated HABP. The FDA designated *Zerbaxa* as a QIDP for its now approved indications as well as for its potential indication in ventilated nosocomial pneumonia, including VABP and ventilated HABP.

V503, *Gardasil* 9, the Company's nine-valent HPV vaccine that helps protect against certain HPV-related diseases, is under review by the EMA. V503 incorporates antigens against five additional cancer-causing HPV types as compared with *Gardasil*. *Gardasil* 9 was approved by the FDA in December 2014.

MK-8962, corifollitropin alfa injection, is an investigational fertility treatment under review by the FDA for controlled ovarian stimulation in women participating in assisted reproductive technology. In July 2014, Merck received a CRL from the FDA for its NDA for corifollitropin alfa injection. Merck is reviewing its options with respect to this drug candidate in response to the CRL. Corifollitropin alfa injection is marketed as *Elonva* in certain markets outside of the United States.

In addition to the candidates under regulatory review, the Company has several drug candidates in Phase 3 development. The Company anticipates filing an NDA or a BLA, as applicable, with the FDA with respect to certain of these candidates in 2015.

MK-5172 A, a once daily, fixed-dose, combination, chronic HCV treatment regimen consisting of MK-5172, grazoprevir, an investigational HCV NS3/4 A protease inhibitor, and MK-8742, elbasvir, an investigational HCV NS5 A replication complex inhibitor, began Phase 3 clinical trials in June 2014. MK-5172 A is being investigated in a broad clinical program that includes studies in patients with multiple HCV genotypes who are treatment-naïve, treatment failures, or who fit into other important HCV subpopulations such as patients with cirrhosis and those co-infected with HIV. The Company expects to file an NDA with the FDA in the first half of 2015 for MK-5172 A. On January 30, 2015, the Company received notification from the FDA of its intent to rescind Breakthrough Therapy Designation status for this combination treatment regimen, citing the availability of other recently approved treatments for Genotype 1 patients. The Company is discussing this matter with the FDA and does not expect that it will impact its ability to file an NDA for this combination regimen or the timing of that filing.

The Company has started the Phase 2 C-CREST studies to study combination regimens of grazoprevir and MK-3682 (formerly IDX21437) with either elbasvir or MK-8408 for the treatment of HCV infection. The Company expects to begin Phase 3 studies in 2015.

MK-0822, odanacatib, is an oral, once-weekly investigational treatment for patients with osteoporosis. Osteoporosis is a disease that reduces bone density and strength and results in an increased risk of bone fractures. Odanacatib is a cathepsin K inhibitor that selectively inhibits the cathepsin K enzyme. Cathepsin K is known to play a central role in the function of osteoclasts, which are cells that break down existing bone tissue, particularly the protein components of bone. Inhibition of cathepsin K is a novel approach to the treatment of osteoporosis. In September 2014, Merck announced data from the pivotal Phase 3 fracture outcomes study for odanacatib in postmenopausal women with osteoporosis. In the Long-Term Odanacatib Fracture Trial (LOFT), odanacatib met its primary endpoints and significantly reduced the risk of three types of osteoporotic fractures (radiographically-assessed vertebral, clinical hip, and clinical non-vertebral) compared to placebo and also reduced the risk of the secondary endpoint of clinical vertebral fractures. In addition, treatment with odanacatib led to progressive increases over five years in bone mineral density at the lumbar spine and total hip. The rates of adverse events overall in LOFT were generally balanced between patients taking odanacatib and placebo. Adjudicated events of morphea-like skin lesions and atypical femoral fractures occurred more often in the odanacatib group than in the placebo group. Adjudicated major adverse cardiovascular events were generally balanced overall between the treatment groups. There were numerically more adjudicated stroke events with odanacatib than with placebo. Adjudicated atrial fibrillation was reported more often in the odanacatib group than in the placebo group. A numeric imbalance in mortality was observed; this numeric difference does not appear to be related to a particular reported cause or causes of death. Merck continues to collect data from the blinded extension study and is planning additional analyses of data from the trial, including an independent re-adjudication of major adverse cardiovascular events, in support of regulatory submissions. Merck plans to submit an NDA to the FDA for odanacatib in 2015. Merck also plans to submit applications to the EMA and the Ministry of Health, Labour, and Welfare in Japan.

MK-8237 is an investigational allergy immunotherapy tablet for house dust mite allergy. In 2014, the FDA approved *Grastek*, a Timothy grass pollen allergen extract sublingual immunotherapy tablet, and *Ragwitek*, a short ragweed pollen allergen extract sublingual immunotherapy tablet. Both *Grastek* and *Ragwitek*, as well as the ongoing program for MK-8237, are part of a North America partnership between Merck and ALK-Abello.

MK-8931 is Merck's novel investigational oral ß-amyloid precursor protein site-cleaving enzyme ("BACE") inhibitor for the treatment of Alzheimer's disease being studied in a Phase 3 trial (APECS) designed to evaluate the safety and efficacy of MK-8931 versus placebo in patients with amnestic mild cognitive impairment due to Alzheimer's disease, also known as prodromal Alzheimer's disease. MK-8931 is also being studied in another Phase 3 trial versus placebo in patients with mild-to-moderate Alzheimer's disease (EPOCH).

MK-0859, anacetrapib, is an investigational inhibitor of the cholesteryl ester transfer protein ("CETP") in development for raising HDL-C and reducing LDL-C. Anacetrapib is being evaluated in a large, event-driven cardiovascular clinical outcomes trial, REVEAL (Randomized EValuation of the Effects of Anacetrapib Through Lipid-modification), involving patients with preexisting vascular disease that is predicted to be completed in 2017.

MK-3415 A, actoxumab/bezlotoxumab, an investigational candidate for the prevention of *Clostridium difficile* infection recurrence, is a combination of two monoclonal antibodies used to treat patients with a single infusion.

MK-4261, surotomycin, is an investigational oral antibiotic in development for the treatment of *Clostridium difficile* associated diarrhea. Merck acquired surotomycin as part of its purchase of Cubist. The FDA has designated surotomycin as a QIDP.

MK-8228, letermovir, is an investigational oral, once-daily antiviral candidate for the prevention and treatment of Human Cytomegalovirus infection. Letermovir has received Orphan Drug Status in the EU and in the United States, where it has also been granted Fast Track Designation.

MK-8835, ertugliflozin, is an investigational oral sodium glucose cotransporter-2 ("SGLT2") inhibitor being evaluated for the treatment of type 2 diabetes in collaboration with Pfizer Inc.

MK-1293 is an insulin glargine candidate for the treatment of patients with type 1 and type 2 diabetes. In February 2014, the Company announced that it had expanded its collaboration with Samsung Bioepis to develop, manufacture and commercialize MK-1293. Under the terms of the agreement, the companies will collaborate on clinical development, regulatory filings and manufacturing. If approved, Merck will commercialize this candidate.

V212 is an inactivated VZV vaccine in development for the prevention of herpes zoster. The Company is conducting two Phase 3 trials, one in autologous hematopoietic cell transplant patients and the other in patients with solid tumor malignancies undergoing chemotherapy and hematological malignancies.

MK-1439, doravirine, is an investigational, once-daily oral next-generation non-nucleoside reverse transcriptase inhibitor being developed by Merck for the treatment of HIV-1 infection.

MK-2402, bevenopran, is an oral investigational therapy in development as a potential treatment for opioid-induced constipation in patients with chronic, non-cancer pain. Merck acquired bevenopran as a part of its purchase of Cubist.

In September 2014, Merck and Sun Pharma entered into an exclusive worldwide licensing agreement for Merck's investigational therapeutic antibody candidate, MK-3222, tildrakizumab, for the treatment of chronic plaque psoriasis, a skin ailment. Under terms of the agreement, Sun Pharma acquired worldwide rights to tildrakizumab for use in all human indications from Merck in exchange for an upfront payment of $80 million. Merck will continue all clinical development and regulatory activities, which will be funded by Sun Pharma. Upon product approval, Sun Pharma will be responsible for regulatory activities, including subsequent submissions, pharmacovigilance, post approval studies, manufacturing and commercialization of the approved product. Merck is also eligible to receive future payments associated with regulatory (including product approval) and sales milestones, as well as tiered royalties ranging from mid-single digit through teen percentage rates on sales.

In May 2014, Merck and Endocyte, Inc. ("Endocyte") (the Company's collaboration partner) announced the withdrawal of the conditional MAA from the EMA for vintafolide for the treatment of adult patients with folate receptor-positive, platinum-resistant ovarian cancer, in combination with pegylated liposomal doxorubicin ("PLD"). The companies' decision was based on review of interim data from the PROCEED trial. The PROCEED trial has been terminated based on the Data Safety Monitoring Board's (the "DSMB") recommendation that the study be stopped because vintafolide in combination with PLD versus PLD alone did not meet the pre-specified criteria for progression-free survival to allow continuation of the study. The DSMB did not identify any safety concerns for the patients enrolled in the PROCEED trial. In June 2014, Merck returned worldwide rights for vintafolide in all indications to Endocyte.

CONSOLIDATED STATEMENT OF INCOME (in part)

($ in millions except per share amounts)

	2014	2013	2012
Sales	$ 42,237	$44,033	$47,267
Costs, expenses and other			
Materials and production	16,768	16,954	16,446
Marketing and administrative	11,606	11,911	12,776
Research and development	7,180	7,503	8,168
Restructuring costs	1,013	1,709	664
Equity income from affiliates	(257)	(404)	(642)
Other (income) expense, net	(11,356)	815	1,116
	24,954	38,488	38,528
Income before taxes	17,283	5,545	8,739

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

($ in millions except per share amounts)

2. Summary of Accounting Policies (in part)

Research and Development—Research and development is expensed as incurred. Upfront and milestone payments due to third parties in connection with research and development collaborations prior to regulatory approval are expensed as incurred. Payments due to third parties upon or subsequent to regulatory approval are capitalized and amortized over the shorter of the remaining license or product patent life. Amounts due from collaborative partners related to development activities are generally reflected as a reduction of research and development expenses when the specific milestone has been achieved. Nonrefundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made. Research and development expenses include restructuring costs and IPR&D impairment charges in all periods. In addition, research and development expenses in 2014 include a charge to increase the fair value of a liability for contingent consideration.

EXPLORATION

3.21 CONOCOPHILLIPS (DEC)

CONSOLIDATED INCOME STATEMENT (in part)

Millions of Dollars	2014	2013	2012
Revenues and Other Income			
Sales and other operating revenues	$52,524	54,413	57,967
Equity in earnings of affiliates	2,529	2,219	1,911
Gain on dispositions	98	1,242	1,657
Other income	366	374	469
Total revenues and other income	55,517	58,248	62,004
Costs and Expenses			
Purchased commodities	22,099	22,643	25,232
Production and operating expenses	8,909	7,238	6,793
Selling, general and administrative expenses	735	854	1,106
Exploration expenses	2,045	1,232	1,500
Depreciation, depletion and amortization	8,329	7,434	6,580
Impairments	856	529	680
Taxes other than income taxes	2,088	2,884	3,546
Accretion on discounted liabilities	484	434	394
Interest and debt expense	648	612	709
Foreign currency transaction (gains) losses	(66)	(58)	41
Total costs and expenses	46,127	43,802	46,581
Income from continuing operations before income taxes	9,390	14,446	15,423

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Accounting Policies (in part)

Oil and Gas Exploration and Development (in part)—Oil and gas exploration and development costs are accounted for using the successful efforts method of accounting.

Exploratory Costs— Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. Exploratory well costs are capitalized, or "suspended," on the balance sheet pending further evaluation of whether economically recoverable reserves have been found. If economically recoverable reserves are not found, exploratory well costs are expensed as dry holes. If exploratory wells encounter potentially economic quantities of oil and gas, the well costs remain capitalized on the balance sheet as long as sufficient progress assessing the reserves and the economic and operating viability of the project is being made. For complex exploratory discoveries, it is not unusual to have exploratory wells remain suspended on the balance sheet for several years while we perform additional appraisal drilling and seismic work on the potential oil and gas field or while we seek government or co-venturer approval of development plans or seek environmental permitting. Once all required approvals and permits have been obtained, the projects are moved into the development phase, and the oil and gas resources are designated as proved reserves.

Management reviews suspended well balances quarterly, continuously monitors the results of the additional appraisal drilling and seismic work, and expenses the suspended well costs as dry holes when it judges the potential field does not warrant further investment in the near term. See Note 7—Suspended Wells, for additional information on suspended wells.

Note 7—Suspended Wells

The following table reflects the net changes in suspended exploratory well costs during 2014, 2013 and 2012:

Millions of Dollars	2014	2013	2012
Beginning balance at January 1	$ 994	1,038	1,037
Additions pending the determination of proved reserves	478	466	185
Reclassifications to proved properties	(9)	(29)	(144)
Sales of suspended well investment	(57)	(481)	(18)
Charged to dry hole expense	(107)	—	(22)
Ending balance at December 31	$1,299	994*	1,038**

* Includes $57 million of assets held for sale in Nigeria.

** Includes $190 million of assets held for sale—$133 million in Kazakhstan and $57 million in Nigeria.

The following table provides an aging of suspended well balances at December 31:

Millions of Dollars	2014	2013	2012
Exploratory well costs capitalized for a period of one year or less	$ 466	437	186
Exploratory well costs capitalized for a period greater than one year	833	557	852
Ending balance	$1,299	994*	1,038**
Number of projects with exploratory well costs capitalized for a period greater than one year	30	29	35

* Includes $57 million of assets held for sale in Nigeria.

** Includes $190 million of assets held for sale—$133 million in Kazakhstan and $57 million in Nigeria.

The following table provides a further aging of those exploratory well costs that have been capitalized for more than one year since the completion of drilling as of December 31, 2014:

		Suspended Since		
Millions of Dollars	Total	2011–2013	2008–2010	2002–2007
Alpine Satellite—Alaska[2]	$ 23	—	—	23
Browse Basin—Australia[2]	112	100	12	—
Caldita/Barossa—Australia[1]	77	—	—	77
Greater Clair—UK[1]	51	51	—	—
Fiord West—Alaska[2]	16	—	16	—
Gila—Lower 48[1]	51	51	—	—
Kamunsu East—Malaysia[2]	19	19	—	—
Limbayong—Malaysia[1]	24	24	—	—
Muskwa—Canada[1]	49	49	—	—
NPR-A—Alaska[2]	65	42	23	—
Pisagan—Malaysia[2]	10	—	—	10
Saleski—Canada	15	—	15	—
Shenandoah—Lower 48[1]	94	51	43	—
Sunrise 3—Australia[2]	13	—	13	—
Surmont 3 and beyond—Canada[1]	89	64	7	18
Thornbury—Canada[1]	18	—	18	—
Tiber—Lower 48[1]	40	—	40	—
Ubah—Malaysia[2]	35	—	35	—
Other of $10 million or less each[1] [2]	32	9	4	19
Total	$833	460	226	147

[1] Additional appraisal wells planned.

[2] Appraisal drilling complete; costs being incurred to assess development.

Note 8—Impairments

During 2014, 2013 and 2012, we recognized the following before-tax impairment charges:

Millions of Dollars	2014	2013	2012
Alaska	$ 59	3	3
Lower 48	208	2	192
Canada	38	216	262
Europe	541	301	211
Asia Pacific and Middle East	7	3	4
Corporate	3	4	8
	$856	529	680

2014

In Alaska we recorded impairments of $59 million, primarily due to a cancelled project.

In our Lower 48 segment, we recorded impairments of $208 million, primarily as a result of reduced volume forecasts for an onshore field, as well as an LNG-related pipeline. We also recorded unproved property impairments of $239 million, primarily due to decisions to discontinue further testing of the undeveloped leaseholds, which were included in the "Exploration Expenses" line on our consolidated income statement.

We recorded impairments of $38 million in our Canada segment, primarily due to reduced volume forecasts and lower natural gas prices. Additionally, we decided not to pursue future development of the Amauligak discovery at this time. Accordingly, we recorded a $145 million property impairment for the carrying value of capitalized undeveloped leasehold costs associated with our Amauligak, Arctic Islands and other Beaufort properties located offshore Canada, which is included in the "Exploration Expenses" line on our consolidated income statement.

In Europe we recorded impairments of $541 million, mainly due to reduced volume forecasts, increases in the ARO and lower natural gas prices for properties in the United Kingdom which are nearing the end of their useful lives.

2013

We recorded property impairments of $216 million in our Canada segment, mainly as a result of lower natural gas price assumptions, reduced volume forecasts and higher costs.

In Europe we recorded impairments of $301 million, primarily due to ARO revisions for properties in the United Kingdom which are nearing the end of their useful lives or have ceased production.

2012

We recorded a $192 million property impairment in the Lower 48 segment related to the planned disposition of the majority of our producing zones in the Cedar Creek Anticline, located in southwestern North Dakota and eastern Montana.

The Canada segment included a $213 million property impairment for the carrying value of capitalized project development costs associated with our Mackenzie Gas Project. Advancement of the project was suspended indefinitely in the first quarter of 2012 due to a continued decline in market conditions and the lack of acceptable commercial terms. We also recorded a $481 million impairment for the undeveloped leasehold costs associated with the project, which was included in the "Exploration expenses" line on our consolidated income statement. Additionally, we recorded impairments on various producing and non-producing properties.

In Europe we recorded impairments of $211 million, mainly related to ARO revisions for properties which have ceased production or are nearing the end of their useful lives.

ADVERTISING COSTS

3.22 NIKE, INC. (MAY)

CONSOLIDATED STATEMENTS OF INCOME (in part)

	Year Ended May 31,		
(In millions, except per share data)	**2014**	**2013**	**2012**
Income from continuing operations:			
Revenues	$27,799	$25,313	$23,331
Cost of sales	15,353	14,279	13,183
Gross profit	12,446	11,034	10,148
Demand creation expense	3,031	2,745	2,607
Operating overhead expense	5,735	5,051	4,472
Total selling and administrative expense	8,766	7,796	7,079
Interest expense (income), net (Notes 6, 7, and 8)	33	(3)	4
Other expense (income), net (Note 17)	103	(15)	54
Income before income taxes	3,544	3,256	3,011
Income tax expense (Note 9)	851	805	754
Net income from continuing operations	2,693	2,451	2,257

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

Demand Creation Expense

Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, television, digital and print advertising, brand events, and retail brand presentation. Advertising production costs are expensed the first time an advertisement is run. Advertising placement costs are expensed in the month the advertising appears, while costs related to brand events are expensed when the event occurs. Costs related to retail brand presentation are expensed when the presentation is completed and delivered.

A significant amount of the Company's promotional expenses result from payments under endorsement contracts. Accounting for endorsement payments is based upon specific contract provisions. Generally, endorsement payments are expensed on a straight-line basis over the term of the contract after giving recognition to periodic performance compliance provisions of the contracts. Prepayments made under contracts are included in Prepaid expenses and other current assets or Deferred income taxes and other assets depending on the period to which the prepayment applies.

Certain contracts provide for contingent payments to endorsers based upon specific achievements in their sports (e.g., winning a championship). The Company records Demand creation expense for these amounts when the endorser achieves the specific goal.

Certain contracts provide for variable payments based upon endorsers maintaining a level of performance in their sport over an extended period of time (e.g., maintaining a specified ranking in a sport for a year). These amounts are recorded in Demand creation expense when the Company determines that it is probable that the specified level of performance will be maintained throughout the period. In these instances, to the extent that actual payments to the endorser differ from the Company's estimate due to changes in the endorser's performance, increased or decreased Demand creation expense may be recorded in a future period.

Certain contracts provide for royalty payments to endorsers based upon a predetermined percentage of sales of particular products. The Company expenses these payments in Cost of sales as the related sales occur. In certain contracts, the Company offers minimum guaranteed royalty payments. For contracts for which the Company estimates it will not meet the minimum guaranteed amount of royalty fees through sales of product, the Company records the amount of the guaranteed payment in excess of that earned through sales of product in Demand creation expense uniformly over the remaining guarantee period.

Through cooperative advertising programs, the Company reimburses retail customers for certain costs of advertising the Company's products. The Company records these costs in Demand creation expense at the point in time when it is obligated to its customers for the costs, which is when the related revenues are recognized. This obligation may arise prior to the related advertisement being run.

Total advertising and promotion expenses were $3,031 million, $2,745 million, and $2,607 million for the years ended May 31, 2014, 2013 and 2012, respectively. Prepaid advertising and promotion expenses totaled $516 million and $386 million at May 31, 2014 and 2013, respectively, and were recorded in Prepaid expenses and other current assets and Deferred income taxes and other assets depending on the period to which the prepayment applies.

TAXES OTHER THAN INCOME TAXES

3.23 CHEVRON CORPORATION (DEC)

CONSOLIDATED STATEMENT OF INCOME (in part)

Millions of dollars, except per-share amounts

	Year Ended December 31		
	2014	**2013**	**2012**
Revenues and Other Income			
Sales and other operating revenues*	$200,494	$220,156	$230,590
Income from equity affiliates	7,098	7,527	6,889
Other income	4,378	1,165	4,430
Total revenues and other income	211,970	228,848	241,909

(continued)

	Year Ended December 31		
	2014	2013	2012
Costs and Other Deductions			
Purchased crude oil and products	119,671	134,696	140,766
Operating expenses	25,285	24,627	22,570
Selling, general and administrative expenses	4,494	4,510	4,724
Exploration expenses	1,985	1,861	1,728
Depreciation, depletion and amortization	16,793	14,186	13,413
Taxes other than on income*	12,540	13,063	12,376
Total costs and other deductions	180,768	192,943	195,577
Income before income tax expense	31,202	35,905	46,332
Income tax expense	11,892	14,308	19,996
Net income	19,310	21,597	26,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Millions of dollars, except per-share amounts

Note 1. Summary of Significant Accounting Policies (in part)

Revenue Recognition. Revenues associated with sales of crude oil, natural gas, petroleum and chemicals products, and all other sources are recorded when title passes to the customer, net of royalties, discounts and allowances, as applicable. Revenues from natural gas production from properties in which Chevron has an interest with other producers are generally recognized using the entitlement method. Excise, value-added and similar taxes assessed by a governmental authority on a revenue-producing transaction between a seller and a customer are presented on a gross basis. The associated amounts are shown as a footnote to the Consolidated Statement of Income, on page FS-23. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another (including buy/sell arrangements) are combined and recorded on a net basis and reported in "Purchased crude oil and products" on the Consolidated Statement of Income.

Note 16. Taxes (in part)

Taxes Other Than on Income

	Year Ended December 31		
	2014	2013	2012
United States			
Excise and similar taxes on products and merchandise	$ 4,633	$ 4,792	$ 4,665
Import duties and other levies	6	4	1
Property and other miscellaneous taxes	1,002	1,036	782
Payroll taxes	273	255	240
Taxes on production	349	333	328
Total United States	6,263	6,420	6,016
International			
Excise and similar taxes on products and merchandise	3,553	3,700	3,345
Import duties and other levies	45	41	106
Property and other miscellaneous taxes	2,277	2,486	2,501
Payroll taxes	172	168	160
Taxes on production	230	248	248
Total international	6,277	6,643	6,360
Total taxes other than on income	$12,540	$13,063	$12,376

PROVISION FOR LOSSES

3.24 CITIGROUP INC. (DEC)

CONSOLIDATED STATEMENT OF INCOME (in part)

	Years Ended December 31,		
In millions of dollars, except per share amounts	**2014**	**2013**	**2012**
Revenues (1)			
Interest revenue	$61,683	$62,970	$67,298
Interest expense	13,690	16,177	20,612
Net interest revenue	$47,993	$46,793	$46,686
Commissions and fees	$13,032	$12,941	$12,584
Principal transactions	6,698	7,302	4,980
Administration and other fiduciary fees	4,013	4,089	4,012
Realized gains on sales of investments, net	570	748	3,251
Other-than-temporary impairment losses on investments			
Gross impairment losses	(432)	(633)	(5,037)
Less: Impairments recognized in AOCI	8	98	66
Net impairment losses recognized in earnings	$ (424)	$ (535)	$ (4,971)
Insurance premiums	$ 2,110	$ 2,280	$ 2,395
Other revenue	2,890	2,801	253
Total non-interest revenues	$28,889	$29,626	$22,504
Total revenues, net of interest expense	$76,882	$76,419	$69,190
Provisions for Credit Losses and for Benefits and Claims			
Provision for loan losses	$ 6,828	$ 7,604	$10,458
Policyholder benefits and claims	801	830	887
Provision (release) for unfunded lending commitments	(162)	80	(16)
Total provisions for credit losses and for benefits and claims	$ 7,467	$ 8,514	$11,329
Operating Expenses (1)			
Compensation and benefits	$23,959	$23,967	$25,119
Premises and equipment	3,178	3,165	3,266
Technology/communication	6,436	6,136	5,829
Advertising and marketing	1,844	1,888	2,164
Other operating	19,634	13,252	13,658
Total operating expenses	$55,051	$48,408	$50,036
Income from continuing operations before income taxes	$14,364	$19,497	$ 7,825

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Allowance for Loan Losses

Allowance for loan losses represents management's best estimate of probable losses inherent in the portfolio, including probable losses related to large individually evaluated impaired loans and troubled debt restructurings. Attribution of the allowance is made for analytical purposes only, and the entire allowance is available to absorb probable loan losses inherent in the overall portfolio. Additions to the allowance are made through the *Provision for loan losses*. Loan losses are deducted from the allowance and subsequent recoveries are added. Assets received in exchange for loan claims in a restructuring are initially recorded at fair value, with any gain or loss reflected as a recovery or charge-off to the provision.

Consumer loans

For consumer loans, each portfolio of non-modified smaller-balance, homogeneous loans is independently evaluated by product type (e.g., residential mortgage, credit card, etc.) for impairment in accordance with ASC 450-20. The allowance for loan losses attributed to these loans is established via a process that estimates the probable losses inherent in the specific portfolio. This process includes migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analyses that reflect current and anticipated economic conditions, including changes in housing prices and unemployment trends. Citi's allowance for loan losses under ASC 450 only considers contractual principal amounts due, except for credit card loans where estimated loss amounts related to accrued interest receivable are also included.

Management also considers overall portfolio indicators, including historical credit losses, delinquent, non-performing and classified loans, trends in volumes and terms of loans, an evaluation of overall credit quality, the credit process, including lending policies and procedures, and economic, geographical, product and other environmental factors.

Separate valuation allowances are determined for impaired smaller-balance homogeneous loans whose terms have been modified in a troubled debt restructuring (TDR). Long-term modification programs, as well as short-term (less than 12 months) modifications originated beginning January 1, 2011 that provide concessions (such as interest rate reductions) to borrowers in financial difficulty, are reported as TDRs. In addition, loan modifications that involve a trial period are reported as TDRs at the start of the trial period. The allowance for loan losses for TDRs is determined in accordance with ASC 310-10-35 considering all available evidence, including, as appropriate, the present value of the expected future cash flows discounted at the loan's original contractual effective rate, the secondary market value of the loan and the fair value of collateral less disposal costs. These expected cash flows incorporate modification program default rate assumptions. The original contractual effective rate for credit card loans is the pre-modification rate, which may include interest rate increases under the original contractual agreement with the borrower.

Valuation allowances for commercial market loans, which are classifiably managed Consumer loans, are determined in the same manner as for Corporate loans and are described in more detail in the following section. Generally, an asset-specific component is calculated under ASC 310-10-35 on an individual basis for larger-balance, non-homogeneous loans that are considered impaired and the allowance for the remainder of the classifiably managed Consumer loan portfolio is calculated under ASC 450 using a statistical methodology that may be supplemented by management adjustment.

Corporate loans

In the corporate portfolios, the *Allowance for loan losses* includes an asset-specific component and a statistically based component. The asset-specific component is calculated under ASC 310-10-35, *Receivables—Subsequent Measurement* (formerly SFAS 114) on an individual basis for larger-balance, non-homogeneous loans, which are considered impaired. An asset-specific allowance is established when the discounted cash flows, collateral value (less disposal costs) or observable market price of the impaired loan are lower than its carrying value. This allowance considers the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantors (discussed further below) and, if appropriate, the realizable value of any collateral. The asset-specific component of the allowance for smaller balance impaired loans is calculated on a pool basis considering historical loss experience.

The allowance for the remainder of the loan portfolio is determined under ASC 450, *Contingencies* (formerly SFAS 5) using a statistical methodology, supplemented by management judgment. The statistical analysis considers the portfolio's size, remaining tenor and credit quality as measured by internal risk ratings assigned to individual credit facilities, which reflect probability of default and loss given default. The statistical analysis considers historical default rates and historical loss severity in the event of default, including historical average levels and historical variability. The result is an estimated range for inherent losses. The best estimate within the range is then determined by management's quantitative and qualitative assessment of current conditions, including general economic conditions, specific industry and geographic trends, and internal factors including portfolio concentrations, trends in internal credit quality indicators, and current and past underwriting standards.

For both the asset-specific and the statistically based components of the *Allowance for loan losses*, management may incorporate guarantor support. The financial wherewithal of the guarantor is evaluated, as applicable, based on net worth, cash flow statements and personal or company financial statements which are updated and reviewed at least annually. Citi seeks performance on guarantee arrangements in the normal course of business. Seeking performance entails obtaining satisfactory cooperation from the guarantor or borrower in the specific situation. This regular cooperation is indicative of pursuit and successful enforcement of the guarantee; the exposure is reduced without the expense and burden of pursuing a legal remedy. A guarantor's reputation and willingness to work with Citigroup is evaluated based on the historical experience with the guarantor and the knowledge of the marketplace. In the rare event that the guarantor is unwilling or unable to perform or facilitate borrower cooperation, Citi pursues a legal remedy; however, enforcing a guarantee via legal action against the guarantor is not the primary means of resolving a troubled loan situation and rarely occurs. If Citi does not pursue a legal remedy, it is because Citi does not believe that the guarantor has the financial wherewithal to perform regardless of legal action or because there are legal limitations on simultaneously pursuing guarantors and foreclosure. A guarantor's reputation does not impact Citi's decision or ability to seek performance under the guarantee.

In cases where a guarantee is a factor in the assessment of loan losses, it is included via adjustment to the loan's internal risk rating, which in turn is the basis for the adjustment to the statistically based component of the *Allowance for loan losses*. To date, it is only in rare circumstances that an impaired commercial loan or commercial real estate loan is carried at a value in excess of the appraised value due to a guarantee.

When Citi's monitoring of the loan indicates that the guarantor's wherewithal to pay is uncertain or has deteriorated, there is either no change in the risk rating, because the guarantor's credit support was never initially factored in, or the risk rating is adjusted to reflect that uncertainty or deterioration. Accordingly, a guarantor's ultimate failure to perform or a lack of legal enforcement of the guarantee does not materially impact the allowance for loan losses, as there is typically no further significant adjustment of the loan's risk rating at that time. Where Citi is not seeking performance under the guarantee contract, it provides for loan losses as if the loans were non-performing and not guaranteed.

Reserve Estimates and Policies

Management provides reserves for an estimate of probable losses inherent in the funded loan portfolio on the Consolidated Balance Sheet in the form of an allowance for loan losses. These reserves are established in accordance with Citigroup's credit reserve policies, as approved by the Audit Committee of the Board of Directors. Citi's Chief Risk Officer and Chief Financial Officer review the adequacy of the credit loss reserves each quarter with representatives from the risk management and finance staffs for each applicable business area. Applicable business areas include those having classifiably managed portfolios, where internal credit-risk ratings are assigned (primarily *Institutional Clients Group* and *Global Consumer Banking*) or modified Consumer loans, where concessions were granted due to the borrowers' financial difficulties.

The above-mentioned representatives for these business areas present recommended reserve balances for their funded and unfunded lending portfolios along with supporting quantitative and qualitative data discussed below:

Estimated probable losses for non-performing, non-homogeneous exposures within a business line's classifiably managed portfolio and impaired smaller-balance homogeneous loans whose terms have been modified due to the borrowers' financial difficulties, where it was determined that a concession was granted to the borrower. Consideration may be given to the following, as appropriate, when determining this estimate: (i) the present value of expected future cash flows discounted at the loan's original effective rate; (ii) the borrower's overall financial condition, resources and payment record; and (iii) the prospects for support from financially responsible guarantors or the realizable value of any collateral. In the determination of the allowance for loan losses for TDRs, management considers a combination of historical re-default rates, the current economic environment and the nature of the modification program when forecasting expected cash flows. When impairment is measured based on the present value of expected future cash flows, the entire change in present value is recorded in the *Provision for loan losses*.

Statistically calculated losses inherent in the classifiably managed portfolio for performing and de minimis non-performing exposures. The calculation is based on: (i) Citi's internal system of credit-risk ratings, which are analogous to the risk ratings of the major rating agencies; and (ii) historical default and loss data, including rating agency information regarding default rates from 1983 to 2013 and internal data dating to the early 1970 s on severity of losses in the event of default. Adjustments may be made to this data. Such adjustments include: (i) statistically calculated estimates to cover the historical fluctuation of the default rates over the credit cycle, the historical variability of loss severity among defaulted loans, and the degree to which there are large obligor concentrations in the global portfolio; and (ii) adjustments made for specific known items, such as current environmental factors and credit trends.

In addition, representatives from each of the risk management and finance staffs that cover business areas with delinquency-managed portfolios containing smaller-balance homogeneous loans present their recommended reserve balances based on leading credit indicators, including loan delinquencies and changes in portfolio size as well as economic trends, including current and future housing prices, unemployment, length of time in foreclosure, costs to sell and GDP. This methodology is applied separately for each individual product within each geographic region in which these portfolios exist.

This evaluation process is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates, the size and diversity of individual large credits, and the ability of borrowers with foreign currency obligations to obtain the foreign currency necessary for orderly debt servicing, among other things, are all taken into account during this review. Changes in these estimates could have a direct impact on the credit costs in any period and could result in a change in the allowance.

Allowance for Unfunded Lending Commitments

A similar approach to the allowance for loan losses is used for calculating a reserve for the expected losses related to unfunded loan commitments and standby letters of credit. This reserve is classified on the balance sheet in *Other liabilities*. Changes to the allowance for unfunded lending commitments are recorded in the *Provision for unfunded lending commitments*.

Accounting for Financial Instruments—Credit Losses

In December 2012, the FASB issued a proposed ASU, *Financial Instruments-Credit Losses*. This proposed ASU, or exposure draft, was issued for public comment in order to allow stakeholders the opportunity to review the proposal and provide comments to the FASB and does not constitute accounting guidance until a final ASU is issued.

The exposure draft contains proposed guidance developed by the FASB with the goal of improving financial reporting about expected credit losses on loans, securities and other financial assets held by financial institutions and other organizations. The exposure draft proposes a new accounting model intended to require earlier recognition of credit losses, while also providing additional transparency about credit risk.

The FASB's proposed model would utilize an "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired and adjusted each period for changes in expected credit losses. For available-for-sale securities where fair value is less than cost, impairment would be recognized in the allowance for credit losses and adjusted each period for changes in credit. This would replace the multiple existing impairment models in GAAP, which generally require that a loss be "incurred" before it is recognized.

The FASB's proposed model represents a significant departure from existing GAAP, and may result in material changes to the Company's accounting for financial instruments. The impact of the FASB's final ASU on the Company's financial statements will be assessed when it is issued. The exposure draft does not contain a proposed effective date; this would be included in the final ASU, when issued.

16. Allowance for Credit Losses

In millions of dollars	2014	2013	2012
Allowance for loan losses at beginning of period	$ 19,648	$ 25,455	$ 30,115
Gross credit losses	(11,108)	(12,769)	(17,005)
Gross recoveries[1][2][3]	2,135	2,306	2,774
Net credit losses (NCLs)	$ (8,973)	$(10,463)	$(14,231)
NCLs	$ 8,973	$ 10,463	$ 14,231
Net reserve releases	(1,879)	(1,961)	(1,908)
Net specific reserve releases	(266)	(898)	(1,865)
Total provision for credit losses	$ 6,828	$ 7,604	$ 10,458
Other, net[4]	(1,509)	(2,948)	(887)
Allowance for loan losses at end of period	$ 15,994	$ 19,648	$ 25,455
Allowance for credit losses on unfunded lending commitments at beginning of period[5]	$ 1,229	$ 1,119	$ 1,136
Provision (release) for unfunded lending commitments	(162)	80	(16)
Other, net	(4)	30	(1)
Allowance for credit losses on unfunded lending commitments at end of period[5]	$ 1,063	$ 1,229	$ 1,119
Total allowance for loans, leases, and unfunded lending commitments	$ 17,057	$ 20,877	$ 26,574

[1] Recoveries have been reduced by certain collection costs that are incurred only if collection efforts are successful.

[2] 2012 includes approximately $635 million of incremental charge-offs related to OCC guidance issued in the third quarter of 2012 (see Note 1 to the Consolidated Financial Statements). There was a corresponding approximately $600 million release in the third quarter of 2012 allowance for loan losses related to these charge-offs. 2012 also includes a benefit to charge-offs of approximately $40 million related to finalizing the impact of this OCC guidance in the fourth quarter of 2012.

[3] 2012 includes approximately $370 million of incremental charge-offs related to previously deferred principal balances on modified loans in the first quarter of 2012. These charge-offs were related to anticipated forgiveness of principal in connection with the national mortgage settlement. There was a corresponding approximately $350 million reserve release in the first quarter of 2012 related to these charge-offs.

[4] 2014 includes reductions of approximately $1.1 billion related to the sale or transfer to held-for-sale (HFS) of various loan portfolios, which includes approximately $411 million related to the transfer of various real estate loan portfolios to HFS, approximately $204 million related to the transfer to HFS of a business in Greece, approximately $177 million related to the transfer to HFS of a business in Spain, approximately $29 million related to the transfer to HFS of a business in Honduras, and approximately $108 million related to the transfer to HFS of various *EMEA* loan portfolios. Additionally, 2014 includes a reduction of approximately $463 million related to foreign currency translation. 2013 includes reductions of approximately $2.4 billion related to the sale or transfer to held-for-sale of various loan portfolios, which includes approximately $360 million related to the sale of Credicard and approximately $255 million related to a transfer to held-for-sale of a loan portfolio in Greece, approximately $230 million related to a non-provision transfer of reserves associated with deferred interest to other assets which includes deferred interest and approximately $220 million related to foreign currency translation. 2012 includes reductions of approximately $875 million related to the sale or transfer to held-for-sale of various U.S. loan portfolios.

[5] Represents additional credit loss reserves for unfunded lending commitments and letters of credit recorded in *Other liabilities* on the Consolidated Balance Sheet.

Allowance for Credit Losses and Investment in Loans at December 31, 2014

In millions of dollars	Corporate	Consumer	Total
Allowance for loan losses at beginning of period	$ 2,584	$ 17,064	$ 19,648
Charge-offs	(427)	(10,681)	(11,108)
Recoveries	139	1,996	2,135
Replenishment of net charge-offs	288	8,685	8,973
Net reserve releases	(133)	(1,746)	(1,879)
Net specific reserve releases	(20)	(246)	(266)
Other	(42)	(1,467)	(1,509)
Ending balance	$ 2,389	$ 13,605	$ 15,994
Allowance for loan losses			
Determined in accordance with ASC 450	$ 2,110	$ 9,673	$ 11,783
Determined in accordance with ASC 310-10-35	235	3,917	4,152
Determined in accordance with ASC 310-30	44	15	59
Total allowance for loan losses	$ 2,389	$ 13,605	$ 15,994
Loans, net of unearned income			
Loans collectively evaluated for impairment in accordance with ASC 450	$267,271	$350,199	$617,470
Loans individually evaluated for impairment in accordance with ASC 310-10-35	1,485	19,358	20,843
Loans acquired with deteriorated credit quality in accordance with ASC 310-30	51	370	421
Loans held at fair value	5,858	43	5,901
Total loans, net of unearned income	$274,665	$369,970	$644,635

Allowance for Credit Losses and Investment in Loans at December 31, 2013

In millions of dollars	Corporate	Consumer	Total
Allowance for loan losses at beginning of period	$ 2,776	$ 22,679	$ 25,455
Charge-offs	(369)	(12,400)	(12,769)
Recoveries	168	2,138	2,306
Replenishment of net charge-offs	201	10,262	10,463
Net reserve releases	(199)	(1,762)	(1,961)
Net specific reserve releases	(1)	(897)	(898)
Other	8	(2,956)	(2,948)
Ending balance	$ 2,584	$ 17,064	$ 19,648
Allowance for loan losses			
Determined in accordance with ASC 450	$ 2,232	$ 12,402	$ 14,634
Determined in accordance with ASC 310-10-35	268	4,633	4,901
Determined in accordance with ASC 310-30	84	29	113
Total allowance for loan losses	$ 2,584	$ 17,064	$ 19,648
Loans, net of unearned income			
Loans collectively evaluated for impairment in accordance with ASC 450	$265,230	$368,449	$633,679
Loans individually evaluated for impairment in accordance with ASC 310-10-35	2,222	23,793	26,015
Loans acquired with deteriorated credit quality in accordance with ASC 310-30	117	632	749
Loans held at fair value	4,072	957	5,029
Total loans, net of unearned income	$271,641	$393,831	$665,472

Allowance for Credit Losses at December 31, 2012

In millions of dollars	Corporate	Consumer	Total
Allowance for loan losses at beginning of period	$2,879	$ 27,236	$ 30,115
Charge-offs	(640)	(16,365)	(17,005)
Recoveries	417	2,357	2,774
Replenishment of net charge-offs	223	14,008	14,231
Net reserve build (releases)	2	(1,910)	(1,908)
Net specific reserve releases	(138)	(1,727)	(1,865)
Other	33	(920)	(887)
Ending balance	$2,776	$ 22,679	$ 25,455

WARRANTY

3.25 HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED (JUN)

ITEM 1. BUSINESS (in part)

Warranty Liabilities

We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years from the date of purchase, depending on the business segment and product. Our dealers and warranty service providers normally perform warranty service in field locations and regional service centers, using parts and replacement finished goods we supply on an exchange basis. Our dealers and warranty service providers also install updates we provide to correct defects covered by our warranties. Estimated warranty liabilities are based upon past experience with similar types of products, the technological complexity of certain products, replacement cost and other factors. If estimates of warranty provisions are no longer adequate based on our analysis of current activity, incremental provisions are recorded as warranty expense in our Consolidated Statement of Income. We take these factors into consideration when assessing the adequacy of our warranty provision for periods still open to claim.

CONSOLIDATED STATEMENTS OF INCOME (in part)

	Year Ended June 30,		
(In thousands, except earnings per share data)	**2014**	**2013**	**2012**
Net sales	$5,348,483	$4,297,842	$4,364,078
Cost of sales	3,891,816	3,193,722	3,179,932
Gross profit	1,456,667	1,104,120	1,184,146
Selling, general and administrative expenses	1,126,940	902,869	883,900
Operating income	329,727	201,251	300,246
Other expenses:			
Interest expense, net	8,026	12,868	20,126
Foreign exchange losses, net	5,935	2,313	13,152
Miscellaneous, net	8,371	11,800	5,815
Income before income taxes	307,395	174,270	261,153
Income tax expense (benefit), net	72,610	31,729	(68,388)
Equity in loss of unconsolidated subsidiaries	206	134	0
Net income	234,579	142,407	329,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1—Summary of Significant Accounting Policies (in part)

Cost of Sales: Cost of sales includes material, labor and overhead for products manufactured by us and cost of goods produced for us on a contract basis. Expenses incurred for manufacturing depreciation and engineering, warehousing, shipping and handling, sales commissions, warranty and customer service are also included in cost of sales.

Accrued Warranties: We warrant our products to be free from defects in materials and workmanship for periods ranging from six months to six years from the date of purchase, depending on the business segment and product. Our dealers and warranty service providers normally perform warranty service in field locations and regional service centers, using parts and replacement finished goods we supply on an exchange basis. Our dealers and warranty service providers also install updates we provide to correct defects covered by our warranties. Estimated warranty liabilities are based upon past experience with similar types of products, the technological complexity of certain products, replacement cost and other factors. If estimates of warranty provisions are no longer adequate based on our analysis of current activity, incremental provisions are recorded as warranty expense in our Consolidated Statement of Income. We take these factors into consideration when assessing the adequacy of our warranty provision for periods still open to claim. Refer to Note 6— *Accrued Warranties* for more information.

Note 6—Accrued Warranties

At June 30, 2014 and 2013, details of our accrued warranties consisted of the following:

	June 30,	
	2014	2013
Accrued warranties, beginning of year	$128,411	$ 97,289
Warranty expense	75,445	69,404
Warranty payments (cash or in-kind)	(57,447)	(43,570)
Other[1]	9,063	5,288
Accrued warranties, end of year	$155,472	$128,411

[1] Other primarily represents foreign currency translation and an adjustment for the addition of accrued warranties related to the Martin Acquisition, the AMX Acquisition and the yurbuds Acquisition.

INTEREST

3.26 CONAGRA FOODS, INC. (MAY)

CONSOLIDATED STATEMENTS OF EARNINGS (in part)

(in millions, except per share amounts)

	For the Fiscal Years Ended May		
	2014	2013	2012
Net sales	$17,702.6	$15,426.6	$13,331.1
Costs and expenses:			
Cost of goods sold	13,980.1	11,864.4	10,532.1
Selling, general and administrative expenses	2,767.1	2,136.6	1,980.3
Interest expense, net	379.0	275.6	204.0
Income from continuing operations before income taxes and equity method investment earnings	576.4	1,150.0	614.7
Income tax expense	298.2	400.7	191.7
Equity method investment earnings	32.8	37.5	44.9
Income from continuing operations	311.0	786.8	467.9
Income (loss) from discontinued operations, net of tax	4.1	(0.7)	6.5
Net income	$ 315.1	$ 786.1	$ 474.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(columnar dollars in millions, except per share amounts)

4. Senior Long-Term Debt (in part)

	May 25, 2014	May 26, 2013
4.65% senior debt due January 2043	$ 937.0	$1,000.0
6.625% senior debt due August 2039 (including Ralcorp senior notes)	450.0	450.0
8.25% senior debt due September 2030	300.0	300.0
7.0% senior debt due October 2028	382.2	382.2
6.7% senior debt due August 2027	9.2	9.2
7.125% senior debt due October 2026	372.4	372.4
3.2% senior debt due January 2023	1,225.0	1,225.0
3.25% senior debt due September 2022	250.0	250.0
9.75% subordinated debt due March 2021	195.9	195.9
4.95% senior debt due August 2020 (including Ralcorp senior notes)	300.0	300.0
7.0% senior debt due April 2019	500.0	500.0
1.9% senior debt due January 2018	1,000.0	1,000.0
LIBOR plus 1.75% term loans due January 2018	900.0	900.0
2.1% senior debt due March 2018	250.0	250.0
5.819% senior debt due June 2017	500.0	500.0
1.3% senior debt due January 2016	750.0	750.0
1.35% senior debt due September 2015	250.0	250.0
5.875% senior debt due April 2014	—	500.0
2.00% to 9.59% lease financing obligations due on various dates through 2029	79.0	77.4
Other indebtedness	86.4	80.1
Total face value of debt	8,737.1	9,292.2
Unamortized fair value adjustment of senior debt in connection with Ralcorp	154.5	161.6
Unamortized discounts/premiums	(46.5)	(57.5)
Adjustment due to hedging activity	6.7	8.5
Less current installments	(84.2)	(517.9)
Total long-term debt	$8,767.6	$8,886.9

The aggregate minimum principal maturities of the long-term debt for each of the five fiscal years following May 25, 2014, are as follows:

2015	$ 85.1
2016	1,008.8
2017	17.7
2018	2,655.8
2019	504.4

During the fourth quarter of fiscal 2014, we repaid the entire principal balance of $500.0 million of our 5.875% senior notes, which were due April 15, 2014.

During fiscal 2013, we issued senior unsecured notes in an aggregate principal amount of $750.0 million. These notes were issued in three tranches of $250.0 million each: 1.35% senior notes due September 10, 2015; 2.10% senior notes due March 15, 2018; and 3.25% senior notes due September 15, 2022.

During fiscal 2013, in order to finance a portion of our acquisition of Ralcorp, we (i) issued senior unsecured notes in an aggregate principal amount of $3.975 billion, (ii) issued senior unsecured notes in an aggregate principal amount of $716.0 million in exchange for senior notes issued by Ralcorp, (iii) assumed senior notes issued by Ralcorp in an aggregate principal amount of $460.7 million, which were prepaid in fiscal 2013, and (iv) borrowed $1.5 billion under our new Term Loan Facility.

Our senior unsecured notes in an aggregate principal amount of $3.975 billion were issued in four tranches: 1.3% senior notes due January 25, 2016 in an aggregate principal amount of $750.0 million; 1.9% senior notes due January 25, 2018 in an aggregate principal amount of $1.0 billion; 3.2% senior notes due January 25, 2023 in an aggregate principal amount of $1.225 billion; and 4.65% senior notes due January 25, 2043 in an aggregate principal amount of $1.0 billion. During fiscal 2014, we repaid $63.0 million of 4.65% senior notes due in 2043 prior to maturity, resulting in a net gain of $3.7 million.

Our senior unsecured notes in an aggregate principal amount of $716.0 million were issued in exchange for senior notes issued by Ralcorp pursuant to our offer to exchange (i) any and all 4.95% senior notes due August 15, 2020 issued by Ralcorp for up to an aggregate principal amount of $300.0 million of new 4.95% senior notes due August 15, 2020 issued by ConAgra Foods and cash and (ii) any and all 6.625% senior notes due August 15, 2039 issued by Ralcorp for up to an aggregate principal amount of $450.0 million of new 6.625% senior notes due August 15, 2039 issued by ConAgra Foods and cash. Our senior unsecured notes in an aggregate principal amount of $716.0 million consist of the following:

4.95% senior notes due August 2020 (2.92% effective interest rate)	$282.7
6.625% senior notes due August 2039 (4.86% effective interest rate)	433.3

Senior notes issued by Ralcorp in an aggregate principal amount of $33.9 million were not exchanged and remain outstanding, consisting of 4.95% senior notes issued by Ralcorp due August 15, 2020 in an aggregate principal amount of $17.2 million (with an effective interest rate of 2.83%) and 6.625% senior notes issued by Ralcorp due August 15, 2039 in an aggregate principal amount of $16.7 million (with an effective interest rate of 4.82%) (collectively, the "Ralcorp Notes"). The Ralcorp Notes are included in our Consolidated Balance Sheets at May 25, 2014.

During fiscal 2013, we offered to purchase for cash any and all 7.29% senior notes due August 15, 2018 issued by Ralcorp, floating rate senior notes due August 15, 2018 issued by Ralcorp, and 7.39% senior notes due August 15, 2020 issued by Ralcorp, in a total aggregate principal amount of $664.5 million. Pursuant to this offer, we purchased senior notes issued by Ralcorp in a total aggregate principal amount of $631.5 million. Ralcorp's 7.29% senior notes due August 15, 2018 in an aggregate principal amount of $33.0 million were not tendered for purchase and remained outstanding (the "Ralcorp Discharged Notes"). During fiscal 2013, we paid $44.8 million, consisting of principal, interest, and contractual amounts payable to satisfy and discharge the Ralcorp Discharged Notes, which were satisfied and discharged by the trustee during fiscal 2013. We recognized a charge of $1.3 million as a cost of early retirement of debt.

Upon our acquisition of Ralcorp, we assumed senior notes issued by Ralcorp in an aggregate principal amount of $460.7 million (the "Ralcorp Callable Notes"), and gave notice of our intent to prepay them during the third quarter of fiscal 2013. During the fourth quarter of fiscal 2013, we prepaid the Ralcorp Callable Notes at the contractually determined value of $562.5 million. This did not result in a significant gain or loss.

During fiscal 2013, we borrowed $1.5 billion under our unsecured Term Loan Facility with a syndicate of banks. We are required to repay borrowings under the Term Loan Facility during the term of the facility in equal quarterly installments of 2.5% per quarter commencing on June 1, 2013, with the remainder of the borrowings to be paid on the maturity date of the facility, unless prepaid prior to such date in accordance with the terms of the Term Loan Facility. During fiscal 2013, we prepaid $600.0 million of the $1.5 billion borrowings and recognized a charge of $6.2 million as a cost of early retirement of debt. The Term Loan Facility matures on January 29, 2018. We elected to base the interest rate of the borrowings on LIBOR plus 1.75%. As of May 25, 2014, the total interest rate on our borrowings was 1.902%. Certain of our wholly-owned domestic subsidiaries may, under certain circumstances, be required to guarantee our obligations under the Term Loan Facility.

In connection with the aforementioned financing for the Ralcorp acquisition, we capitalized $52.1 million of debt issuance costs and recognized expense of $27.3 million in related fees during fiscal 2013.

During fiscal 2012, we repaid the entire principal balance of $342.7 million of our 6.75% senior notes, which were due September 15, 2011.

Our most restrictive debt agreements (the revolving credit facility and our Term Loan Facility) require that our consolidated funded debt not exceed 70% of our consolidated capital base, and that our fixed charges coverage ratio be greater than 1.75 to 1.0 on a four-quarter rolling basis. At May 25, 2014, we were in compliance with our debt covenants.

Net interest expense consists of:

	2014	2013	2012
Long-term debt	$393.8	$284.0	$213.2
Short-term debt	1.5	0.7	0.3
Interest income	(2.5)	(3.0)	(4.0)
Interest capitalized	(13.8)	(6.1)	(5.5)
	$379.0	$275.6	$204.0

Interest paid from continuing operations was $395.7 million, $215.6 million, and $211.9 million in fiscal 2014, 2013, and 2012, respectively.

Our net interest expense in fiscal 2014, 2013, and 2012 was reduced by $8.6 million, $9.2 million, and $9.9 million, respectively, due to the impact of the interest rate swap contracts entered into in fiscal 2010. The interest rate swaps effectively changed our interest rates on the senior long-term debt instruments maturing in fiscal 2012 and 2014 from fixed to variable. During fiscal 2011, we terminated the interest rate swap contracts and received proceeds of $31.5 million. The cumulative adjustment to the fair value of the debt instruments that were hedged (the effective portion of the hedge) was amortized as a reduction of interest expense over the lives of the debt instruments (through fiscal 2014).

During fiscal 2014, we entered into interest rate swap contracts to hedge the fair value of certain of our senior long-term debt instruments maturing in fiscal 2019 and 2020, effectively converting interest on this debt from fixed rate to floating rate. These swaps, which are designated as fair value hedges, reduced our interest expense by $4.1 million in fiscal 2014.

As a result of our acquisition of Ralcorp, the senior unsecured notes issued in exchange for senior notes issued by Ralcorp of $716.0 million and the senior notes issued by Ralcorp that remain outstanding of $33.9 million were recorded at fair value. The combined fair value adjustment on these notes was $163.8 million and is being amortized within interest expense over the life of the respective notes. Our net interest expense in fiscal 2014 and 2013 was reduced by $7.1 million and $2.2 million, respectively, as a result of this amortization.

INTEREST AND PENALTIES

3.27 BRIGGS & STRATTON CORPORATION (JUN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(8) Income Taxes

Components of income (loss) before income taxes consists of the following (in thousands):

	2014	2013	2012
U.S.	$30,291	$(58,625)	$28,053
Foreign	6,843	6,484	1,820
Total	$37,134	$(52,141)	$29,873

The provision (credit) for income taxes consists of the following (in thousands):

	2014	2013	2012
Current			
Federal	$ 9,725	$ 10,377	$(8,711)
State	733	(1,870)	430
Foreign	3,725	923	5,222
	14,183	9,430	(3,059)
Deferred	(5,396)	(27,914)	3,926
	$ 8,787	$(18,484)	$ 867

A reconciliation of the U.S. statutory tax rates to the effective tax rates on income follows:

	2014	2013	2012
U.S. Statutory Rate	35.0%	35.0%	35.0%
State Taxes, Net of Federal Tax Benefit	2.0%	1.1%	1.8%
Impact of Foreign Operations and Tax Rates	0.7%	5.3%	4.2%
Impact of Dividends Received	(0.8)%	1.1%	(2.2)%
Changes to Unrecognized Tax Benefits	1.2%	(0.5)%	(16.0)%
Impact of Restructuring Actions	—%	(2.1)%	(18.7)%
Benefits on State Credits and NOL's, Net of Valuation Allowance	(0.4)%	4.3%	—%
*Change in Accounting Method	(7.8)%	—%	—%
**Other, Net	(6.2)%	(8.7)%	(1.2)%
Effective Tax Rate	23.7%	35.5%	2.9%

* "Change in Accounting Method" in fiscal 2014 relates to a taxpayer election filed in the current year, which provided the Company a tax benefit that was previously unavailable.

** "Other, Net" in fiscal 2014 includes (4.8)% for the impact of U.S. manufacturers deduction and (1.4)% for other items, and in fiscal 2013 includes (10.8)% for the impact of goodwill impairment and 2.1% for other items.

The components of deferred income taxes were as follows (in thousands):

	2014	2013
Current Asset (Liability):		
Difference Between Book and Tax Related to:		
Inventory	$ 13,504	$ 13,697
Payroll Related Accruals	4,741	3,870
Warranty Reserves	10,247	9,897
Workers Compensation Accruals	2,547	2,685
Other Accrued Liabilities	12,191	14,618
Pension Cost	—	746
Net Operating Loss/State Credit Carryforwards	585	4,608
Miscellaneous	5,143	(2,587)
Deferred Income Tax Asset (Liability)	$ 48,958	$ 47,534
Long-Term Asset (Liability):		
Difference Between Book and Tax Related to:		
Pension Cost	$ 25,272	$ 35,663
Accumulated Depreciation	(45,397)	(54,339)
Intangibles	(43,062)	(44,611)
Accrued Employee Benefits	44,827	45,016
Postretirement Health Care Obligation	22,530	27,787
Warranty	6,718	7,227
Valuation Allowance	(15,241)	(12,725)
Net Operating Loss/State Credit Carryforwards	19,629	17,236
Miscellaneous	(98)	6,290
Deferred Income Tax Asset (Liability)	$ 15,178	$ 27,544

Deferred tax assets were generated during the current year as a result of foreign income tax loss carryforwards in the amount of $2.7 million. At June 29, 2014, there are $3.7 million of foreign income tax loss carryforwards, consisting of $1.9 million which have no expiration date, and $1.8 million which will expire within the next 5 to 10 years. A deferred tax asset of $16.5 million exists at June 29, 2014 related to state income tax losses and state tax credit carryforwards. If not utilized against future taxable income, this amount will expire from 2015 through 2028. Realization of the deferred tax assets are contingent upon generating sufficient taxable income prior to expiration of these carryforwards. At June 29, 2014, a valuation allowance of $2.9 million is recorded for the foreign losses which the Company believes are unlikely to be realized in the future. In addition, a valuation allowance of $12.3 million is recorded related to state tax credits that are unlikely to be realized.

The Company does not record deferred income taxes applicable to undistributed earnings of foreign subsidiaries for which the Company intends to reinvest such earnings indefinitely outside of the U.S. The undistributed earnings amounted to approximately $65.9 million at

June 29, 2014. If the Company were to distribute these earnings, foreign tax credits may become available under current law to reduce the resulting U.S. income tax. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

The change to the gross unrecognized tax benefits of the Company during the fiscal year ended June 29, 2014 and June 30, 2013 is reconciled as follows:

Unrecognized Tax Benefits (in thousands):

	2014	2013	2012
Beginning Balance	$6,949	$6,717	12,040
Changes based on tax positions related to prior year	380	—	—
Additions based on tax positions related to current year	378	997	429
Settlements with taxing authorities	—	(39)	(516)
Lapse of statute of limitations	(50)	(726)	(5,236)
Ending Balance	$7,657	$6,949	$ 6,717

As of June 29, 2014, gross unrecognized tax benefits that, if recognized, would impact the effective tax rate were $6.5 million. Of that amount, there is a reasonable possibility that approximately $2.8 million of the current remaining unrecognized tax benefits may be recognized within the next twelve months due to the resolution of audits or expiration of statutes of limitations.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The total expense (income) recognized for fiscal years 2014, 2013 and 2012 was $0.1 million, $0.2 million, and $(1.0) million, respectively.

As of June 29, 2014 and June 30, 2013, the Company had $1.2 million and $0.9 million, respectively, accrued for the payment of interest and penalties.

At June 29, 2014 and June 30, 2013, the liability for uncertain tax positions, inclusive of interest and penalties, was $8.8 million and $7.9 million, respectively, which is recorded as an other long-term liability within the Consolidated Balance Sheets.

Income tax returns are filed in the U.S., state, and foreign jurisdictions and related audits occur on a regular basis. In the U.S., the Company is no longer subject to U.S. federal income tax examinations before fiscal 2010 and is currently under audit by various state and foreign jurisdictions. The Company is no longer subject to tax examinations before fiscal 2004 in its major foreign jurisdictions.

ACCRETION ON ASSET RETIREMENT OBLIGATION

3.28 REPUBLIC SERVICES, INC. (DEC)

CONSOLIDATED STATEMENTS OF INCOME (in part)

(In millions, except per share data)

	Years Ended December 31,		
	2014	2013	2012
Revenue	$8,788.3	$8,417.2	$8,118.3
Expenses:			
Cost of operations	5,628.1	5,234.7	5,005.7
Depreciation, amortization and depletion	906.9	877.4	848.5
Accretion	78.0	76.6	78.4
Selling, general and administrative	918.9	853.8	820.9
Negotiation and withdrawal costs - Central States Pension and Other Funds	1.5	157.7	35.8
Loss (gain) on disposition of assets and impairments, net	20.0	(1.9)	(2.7)
Restructuring charges	1.8	8.6	11.1
Operating income	1,233.1	1,210.3	1,320.6
Interest expense	(348.7)	(360.0)	(388.5)
Loss on extinguishment of debt	(1.4)	(2.1)	(112.6)
Interest income	0.6	0.7	1.0
Other income, net	1.7	2.3	3.4
Income before income taxes	885.3	851.2	823.9

2. Summary of Significant Accounting Policies (in part)

Landfill and Environmental Costs (in part)

Final Capping, Closure and Post-Closure Costs (in part)

Final capping

We have future obligations for final capping, closure and post-closure costs with respect to the landfills we own or operate as set forth in applicable landfill permits. The permit requirements are based on the Subtitle C and Subtitle D regulations of the Resource Conservation and Recovery Act, as implemented and applied on a state-by-state basis. We define final capping as activities required to permanently cover a portion of a landfill that has been completely filled with waste. Final capping typically includes installing flexible membrane and geosynthetic clay liners, drainage and compact soil layers, and topsoil, and is constructed over an area of the landfill where total airspace capacity has been consumed and waste disposal operations have ceased. These final capping activities occur in phases as needed throughout the operating life of a landfill as specific areas are filled to capacity and the final elevation for that specific area is reached in accordance with the provisions of the operating permit. We consider final capping events to be discrete activities that are recognized as asset retirement obligations separately from other closure and post-closure obligations. As a result, we use a separate rate per ton for recognizing the principal amount of the liability and related asset associated with each capping event. We amortize the asset recorded pursuant to this approach as waste volume related to the capacity covered by the capping event is placed into the landfill based on the consumption of cubic yards of available airspace.

Closure and post-closure

Closure and post-closure activities occur after the entire landfill ceases to accept waste and closes. These activities involve methane gas control, leachate management and groundwater monitoring, surface water monitoring and control, and other operational and maintenance activities that occur after the site ceases to accept waste. Obligations associated with monitoring and controlling methane gas migration and emissions are set forth in applicable landfill permits and these requirements are based on the provisions of the Clean Air Act. The post-closure period generally runs for 30 years after final site closure for municipal solid waste landfills and a shorter period for construction and demolition landfills and inert landfills. We recognize asset retirement obligations and the related amortization expense for closure and post-closure (excluding obligations for final capping) using the units-of-consumption method over the total remaining capacity of the landfill, including probable expansion airspace.

Estimated future expenditures

Estimates of future expenditures for final capping, closure and post-closure are developed at least annually by engineers. Management reviews these estimates and our operating and accounting personnel use them to adjust the rates used to capitalize and amortize these costs. These estimates involve projections of costs that will be incurred during the remaining life of the landfill for final capping activities, after the landfill ceases operations and during the legally required post-closure monitoring period. We currently retain post-closure responsibility for 125 closed landfills.

Fair value measurements

In general, we engage third parties to perform most of our final capping, closure and post-closure activities. Accordingly, the fair value of these activities is based on quoted and actual prices paid for similar work. We also perform some of our final capping, closure and post-closure activities using internal resources. Where we expect internal resources to be used to fulfill an asset retirement obligation, we add a profit margin to the estimated cost of such services to better reflect their fair value. If we perform these services internally, the added profit margin is recognized as a component of operating income in the period the obligation is settled.

Our estimates of costs to discharge asset retirement obligations for landfills are developed in today's dollars. These costs are inflated each year to reflect a normal escalation of prices up to the year they are expected to be paid. We use a 2.3% inflation rate, which is based on the ten -year historical moving average increase of the U.S. Consumer Price Index, and is the rate used by most waste industry participants.

These estimated costs are then discounted to their present values using a credit-adjusted, risk-free interest rate. In general, the credit-adjusted, risk-free interest rate we used for liability recognition was 4.50% and 5.00% for the years ended December 31, 2014 and 2013, respectively, which was based on the estimated all-in yield we would have needed to offer to sell thirty–year debt in the public market. However, as part of the initial application of purchase accounting, our capping, closure and post-closure obligations acquired from Allied Waste Industries, Inc. (Allied) were recorded at their fair values as of the acquisition date, and were discounted using a rate of 9.75% due to market conditions at the time of the acquisition.

Changes in assets retirement obligations

A liability for an asset retirement obligation is recognized in the period in which it is incurred and is initially measured at fair value. The offset to the liability is capitalized as part of the carrying amount of the related long-lived asset. Changes in the liabilities due to revisions to estimated future cash flows are recognized by increasing or decreasing the liabilities with the offsets adjusting the carrying amounts of the related long-lived assets, and may also require immediate adjustments to amortization expense in the consolidated statement of income. Upward revisions in the amount of undiscounted estimated cash flows used to record a liability are discounted using the credit-adjusted, risk-free interest rate in effect at the time of the change. Downward revisions in the amount of undiscounted estimated cash flows used to record a liability are discounted using the credit-adjusted, risk-free rate that existed when the original liability was recognized.

Changes in asset retirement obligations due to the passage of time are measured by recognizing accretion expense in a manner that results in a constant effective interest rate being applied to the average carrying amount of the liability. The effective interest rate used to calculate accretion expense is our credit-adjusted, risk-free interest rate in effect at the time the liabilities were recorded.

We review our calculations with respect to landfill asset retirement obligations at least annually. If there is a significant change in the facts and circumstances related to a landfill during the year, we will review our calculations for the landfill as soon as practical after the change has occurred.

8. Landfill and Environmental Costs (in part)

As of December 31, 2014, we owned or operated 189 active solid waste landfills with total available disposal capacity of approximately 4.8 billion in-place cubic yards. Additionally, we currently have post-closure responsibility for 125 closed landfills.

A summary of our accrued landfill and environmental liabilities as of December 31 follows:

	2014	2013
Landfill final capping, closure and post-closure liabilities	$1,144.3	$1,091.3
Environmental remediation	697.5	551.7
Total accrued landfill and environmental costs	1,841.8	1,643.0
Less: current portion	(164.3)	(178.7)
Long-term portion	$1,677.5	$1,464.3

Final Capping, Closure and Post-Closure Costs

The following table summarizes the activity in our asset retirement obligation liabilities, which include liabilities for final capping, closure and post-closure, for the years ended December 31:

	2014	2013	2012
Asset retirement obligation liabilities, beginning of year	$1,091.3	$1,052.4	$1,037.0
Non-cash additions	38.6	36.5	33.8
Acquisitions and other adjustments	3.8	(0.6)	(14.6)
Asset retirement obligation adjustments	(12.8)	12.0	(4.6)
Payments	(54.6)	(85.6)	(77.6)
Accretion expense	78.0	76.6	78.4
Asset retirement obligation liabilities, end of year	1,144.3	1,091.3	1,052.4
Less: current portion	(87.9)	(93.6)	(110.4)
Long-term portion	$1,056.4	$ 997.7	$ 942.0

We review our landfill asset retirement obligations annually. As a result, we recorded a net (decrease) increase in amortization expense of $(13.4) million, $(0.3) million and $4.9 million for 2014, 2013 and 2012, respectively, primarily related to changes in estimates and assumptions concerning the anticipated waste flow, cost and timing of future final capping, closure and post-closure activities.

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure obligations was approximately $26.7 million as of December 31, 2014 and is included in restricted cash and marketable securities in our consolidated balance sheet.

The expected future payments for final capping, closure and post-closure as of December 31, 2014 follows:

2015	$ 87.9
2016	121.5
2017	88.7
2018	78.0
2019	92.2
Thereafter	5,224.6
	$5,692.9

The estimated remaining final capping, closure and post-closure expenditures presented above are not inflated and not discounted and reflect the estimated future payments for liabilities incurred and recorded as of December 31, 2014 and for liabilities yet to be incurred over the remaining life of our landfills.

IMPAIRMENT OF ASSETS

3.29 HEALTH NET, INC. (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(Amounts in thousands, except per share data)

	Year Ended December 31,		
	2014	**2013**	**2012**
Revenues			
Health plan services premiums	$13,361,170	$10,377,073	$10,459,098
Government contracts	603,975	572,266	689,121
Net investment income	45,166	69,613	82,434
Administrative services fees and other income	(1,725)	34,791	17,968
Divested operations and services revenue	—	—	40,471
Total revenues	14,008,586	11,053,743	11,289,092
Expenses			
Health plan services (excluding depreciation and amortization)	11,307,751	8,886,547	9,316,313
Government contracts	536,643	502,918	605,074
General and administrative	1,552,364	1,083,694	939,940
Selling	262,338	239,428	245,925
Depreciation and amortization	29,786	38,589	31,146
Interest	31,376	32,614	33,220
Divested operations and services expenses	—	—	85,824
Asset impairment	88,536	—	—
Total expenses	13,808,794	10,783,790	11,257,442
Income from continuing operations before income taxes	199,792	269,953	31,650

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2—Summary of Significant Accounting Policies (in part)

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of estimated useful lives of the various classes of assets or the remaining lease term, in the case of leasehold improvements. The useful life for buildings and improvements is estimated at 35 to 40 years, and the useful lives for furniture, equipment and software range from 3 to 10 years (see Note 5).

We capitalize certain consulting costs, payroll and payroll-related costs for employees associated with computer software developed for internal use. We amortize such costs primarily over a five -year period. Expenditures for maintenance and repairs are expensed as incurred.

Major improvements, which increase the estimated useful life of an asset, are capitalized. Upon the sale or retirement of assets, the recorded cost and the related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is reflected in operations.

We periodically assess long-lived assets or asset groups including property and equipment for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. If we identify an indicator of impairment, we assess recoverability by comparing the carrying amount of the asset to the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and is measured as the excess of carrying value over fair value. Long-lived assets are classified as held for sale and included as part of current assets when certain criteria are met. We measure long-lived assets to be disposed of by sale at the lower of carrying amount or fair value less cost to sell. Fair value is determined using quoted market prices or the anticipated cash flows discounted at a rate commensurate with the risk involved.

In connection with the Cognizant Transaction, we classified certain software systems assets as held-for-sale. As of December 31, 2014, we had classified software systems assets with a total net book value of $130.2 million as assets held for sale. We assessed the recoverability of these assets held for sale and as a result, we recorded $80.2 million in asset impairments during the year ended December 31, 2014. See Note 3 for more information regarding assets held for sale and the Cognizant Transaction. In addition, we recorded an asset impairment of $1.3 million during the year ended December 31, 2014 for internally developed software.

During the years ended December 31, 2013 and 2012, we recorded $1.2 million and $0.5 million respectively, in impairment losses to general and administrative expenses primarily for internally developed software.

Note 3—Assets Held For Sale, Sale of Medicare PDP Business and Northeast Business (in part)

Assets Held for Sale

On November 2, 2014, we signed a definitive seven-year master services agreement with Cognizant to provide consulting, technology and administrative services to us in the following areas: claims management, membership and benefits configuration, customer contact center services, information technology, quality assurance, appeals and grievance services and non-clinical medical management support. In addition, we have entered into an asset purchase agreement with Cognizant for the sale of certain of our software system assets to Cognizant for $50 million. The transaction, including the related asset purchase (the "Cognizant Transaction"), is expected to close in the first half of 2015, subject to the receipt of required regulatory approvals.

We have determined that the sale of these software system assets constitutes a sale of a business as defined under GAAP, and the requirements to classify these software system assets as held-for-sale were met as of September 30, 2014. Assets held for sale are measured at the lower of carrying value or fair value less cost to sell. Accordingly, we have classified $50.0 million in assets as assets held for sale as of December 31, 2014.

The following table presents the major classes of assets included in this amount (dollars in millions):

	Assets Classified as Held for Sale	Impairment Loss	Assets Held for Sale as of December 31, 2014
Property and equipment, net	$130.2	$(80.2)	$50.0
Goodwill allocated to sale of business	7.0	(7.0)	—
Assets held for sale	$137.2	$(87.2)	$50.0
Other impaired property and equipment, net		$ (1.3)	
Asset impairment		$(88.5)	

In connection with the pending sale, we have assessed the recoverability of goodwill and other long-lived assets, including property and equipment. As a result, in the year ended December 31, 2014, we recorded $87.2 million in asset impairments, including goodwill impairment of $7.0 million (see Note 2) and impairment of property and equipment of $80.2 million (see Note 7). In addition, we recorded an asset impairment of $1.3 million during the year ended December 31, 2014 for internally developed software, bringing our total asset impairment to $88.5 million.

RESTRUCTURING

3.30 ROCK-TENN COMPANY (SEP)

CONSOLIDATED STATEMENTS OF INCOME (in part)

	Year Ended September 30,		
(In millions, except per share data)	**2014**	**2013**	**2012**
Net sales	$9,895.1	$9,545.4	$9,207.6
Cost of goods sold	7,961.5	7,698.9	7,674.9
Gross profit	1,933.6	1,846.5	1,532.7
Selling, general and administrative expenses	975.7	954.3	927.5
Pension lump sum settlement expense	47.9	—	—
Restructuring and other costs, net	55.6	78.0	75.2
Operating profit	854.4	814.2	530.0
Interest expense	(95.3)	(106.9)	(119.7)
Loss on extinguishment of debt	—	(0.3)	(25.9)
Interest income and other income (expense), net	2.4	(0.9)	1.3
Equity in income of unconsolidated entities	8.8	4.6	3.4
Income before income taxes	770.3	710.7	389.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Description of Business and Summary of Significant Accounting Policies (in part)

Restructuring

We have restructured portions of our operations from time to time, have current restructuring initiatives taking place, and it is possible that we may engage in future restructuring activities. Identifying and calculating the cost to exit these operations requires certain assumptions to be made, the most significant of which are anticipated future liabilities, including leases and other contractual obligations, and the adjustment of property, plant and equipment to net realizable value. We believe our estimates are reasonable, considering our knowledge of the industries we operate in, previous experience in exiting activities and valuations we may obtain from independent third parties. Although our estimates have been reasonably accurate in the past, significant judgment is required, and these estimates and assumptions may change as additional information becomes available and facts or circumstances change.

Note 6. Restructuring and Other Costs, Net

Summary of Restructuring and Other Initiatives

We recorded pre-tax restructuring and other costs, net, of $55.6 million, $78.0 million and $75.2 million for fiscal 2014, 2013 and 2012, respectively. Of these costs, $10.2 million, $18.6 million and $14.8 million were non-cash for fiscal 2014, 2013 and 2012, respectively. Costs recorded in each period are not comparable since the timing and scope of the individual actions associated with each restructuring, acquisition or integration can vary. We discuss these charges in more detail below.

When we close a facility, if necessary, we recognize an impairment charge primarily to reduce the carrying value of equipment or other property to their estimated fair value less cost to sell, and record charges for severance and other employee related costs. Any subsequent change in fair value less cost to sell prior to disposition is recognized as identified; however, no gain is recognized in excess of the cumulative loss previously recorded. At the time of each announced closure, we generally expect to record future charges for equipment relocation, facility carrying costs, costs to terminate a lease or contract before the end of its term and other employee related costs. Although specific circumstances vary, our strategy has generally been to consolidate our sales and operations into large well-equipped plants that operate at high utilization rates and take advantage of available capacity created by operational excellence initiatives. Therefore, we transfer a substantial portion of each plant's assets and production to our other plants. We believe these actions have allowed us to more effectively manage our business.

While restructuring costs are not charged to our segments and therefore do not reduce segment income, we highlight the segment to which the charges relate. The following table presents a summary of restructuring and other charges, net, related to active restructuring and other initiatives that we incurred during the last three fiscal years, the cumulative recorded amount since we started the initiative, and our estimate of the total we expect to incur (in millions):

Related Segment	Period	Net Property, Plant and Equipment[(a)]	Severance and Other Employee Related Costs	Equipment and Inventory Relocation Costs	Facility Carrying Costs	Other Costs	Total
Corrugated Packaging[(b)]	Fiscal 2014	$ 2.6	$ 0.9	$ 2.7	$ 3.9	$ 0.4	$ 10.5
	Fiscal 2013	10.4	23.5	5.0	4.7	(0.1)	43.5
	Fiscal 2012	16.6	10.5	3.5	5.6	4.7	40.9
	Cumulative	46.6	42.8	12.4	15.1	5.2	122.1
	Expected Total	46.6	42.8	12.6	17.5	5.2	124.7
Consumer Packaging[(c)]	Fiscal 2014	1.3	1.1	—	0.1	0.2	2.7
	Fiscal 2013	2.6	0.6	0.1	0.2	—	3.5
	Fiscal 2012	(3.4)	0.2	0.6	0.2	—	(2.4)
	Cumulative	2.9	2.5	0.7	1.0	0.7	7.8
	Expected Total	2.9	2.5	0.7	1.1	0.7	7.9
Recycling[(d)]	Fiscal 2014	6.3	—	0.6	1.3	3.7	11.9
	Fiscal 2013	5.5	1.2	0.2	0.8	2.6	10.3
	Fiscal 2012	1.6	0.3	—	0.1	0.3	2.3
	Cumulative	13.5	1.5	0.8	2.5	6.7	25.0
	Expected Total	13.5	1.5	1.3	2.8	6.8	25.9
Other[(e)]	Fiscal 2014	—	—	—	—	30.5	30.5
	Fiscal 2013	0.1	0.2	0.1	—	20.3	20.7
	Fiscal 2012	—	—	—	—	34.4	34.4
	Cumulative	0.1	0.2	0.1	—	145.8	146.2
	Expected Total	0.1	0.2	0.1	—	145.8	146.2
Total	Fiscal 2014	$10.2	$ 2.0	$ 3.3	$ 5.3	$ 34.8	$ 55.6
	Fiscal 2013	$18.6	$25.5	$ 5.4	$ 5.7	$ 22.8	$ 78.0
	Fiscal 2012	$14.8	$11.0	$ 4.1	$ 5.9	$ 39.4	$ 75.2
	Cumulative	$63.1	$47.0	$14.0	$18.6	$158.4	$301.1
	Expected Total	$63.1	$47.0	$14.7	$21.4	$158.5	$304.7

[(a)] We have defined "Net property, plant and equipment" as used in this Note 6 to represent property, plant and equipment impairment losses, subsequent adjustments to fair value for assets classified as held for sale, subsequent (gains) or losses on sales of property, plant and equipment and related parts and supplies, and accelerated depreciation on such assets.

[(b)] The Corrugated Packaging segment related charges in the last three fiscal years are primarily associated with facilities acquired in the Smurfit-Stone Acquisition. The Corrugated Packaging segment related charges in fiscal 2014 are primarily associated with the closure of one corrugated container plant and on-going closure costs at other previously closed facilities which were partially offset by gains on sale of previously closed facilities. The Corrugated Packaging segment related charges in fiscal 2013 were primarily associated with the closure of seven corrugated container plants, on-going closure costs at previously closed facilities including the Matane, Quebec containerboard mill which were partially offset by gains on the sale of previously closed facilities. The Corrugated Packaging segment related charges in fiscal 2012 primarily reflect the closure of our Matane, Quebec containerboard mill, a machine taken out of operation at our Hodge, LA containerboard mill and seven corrugated container plants and charges associated primarily with on-going closure costs at previously closed corrugated container plants, net of a gain on sale in fiscal 2012 primarily for our Santa Fe Springs, CA corrugated converting facility. The fiscal 2012 expenses in the "Other Costs" column primarily represent repayment of energy credits and site environmental closure activities at the Matane mill. The cumulative charges are primarily associated with the closure of twenty-one corrugated container plants acquired in the Smurfit-Stone Acquisition, the closure of the Matane, Quebec containerboard mill, charges related to kraft paper assets at our Hodge containerboard mill we acquired in the Smurfit-Stone Acquisition, and gains and losses associated with the sale of closed facilities. We have transferred a substantial portion of each closed facility's production to our other facilities.

[(c)] The Consumer Packaging segment related charges in fiscal 2014 are primarily associated with our decision to exit our Cincinnati, OH specialty recycled paperboard mill and on-going closure costs for previously closed converting facilities. The Consumer Packaging segment related charges in fiscal 2013 were primarily associated with the closure of a converting facility and on-going closure costs for previously closed facilities. The Consumer Packaging segment related charges in fiscal 2012 primarily reflect the gain on sale of our Columbus, IN laminated paperboard converting operation and Milwaukee, WI folding carton facility and on-going closure costs associated with previously closed facilities. The cumulative charges primarily reflect our decision to exit our Cincinnati, OH specialty recycled paperboard mill and three converting facilities partially offset by the gain on sale of two converting facilities. We have transferred a substantial portion of each closed facility's production to our other facilities.

[(d)] The Recycling segment related charges in the last three fiscal years are primarily associated with facilities acquired in the Smurfit-Stone Acquisition. The Recycling segment related charges in fiscal 2014 primarily reflect charges associated with the closure of one collection facility and on-going closure costs and fair value adjustments for assets at previously closed facilities. The Recycling segment related charges in fiscal 2013 were primarily associated with the closure of nine collection facilities partially offset by the gain on sale of our Dallas, TX collection facility. The Recycling segment related charges in fiscal 2012 primarily reflect the closure of six collection facilities and the cumulative charges reflect the preceding actions as well as carrying costs for two collections facilities shutdown in a prior year.

[(e)] The expenses in the "Other" segment primarily reflect costs that we consider as related to Corporate, including the "Other Costs" column that primarily reflect costs incurred as a result of our Smurfit-Stone Acquisition, including merger integration expenses. Also included in the "Other" segment are insignificant costs related to our Merchandising Displays segment. The pre-tax charges in the "Other" segment are summarized below (in millions):

	Acquisition Expense / (Income)	Integration Expenses	Other Expense (Income)	Total
Fiscal 2014	$ 7.5	$23.0	$ —	$30.5
Fiscal 2013	(3.6)	23.9	0.4	20.7
Fiscal 2012	2.9	32.1	(0.6)	34.4

Acquisition expenses include expenses associated with acquisitions, whether consummated or not, as well as litigation expenses associated with the Smurfit-Stone Acquisition, net of recoveries. Acquisition expenses primarily consist of advisory, legal, accounting, valuation and other professional or consulting fees. Integration expenses reflect primarily severance and other employee costs, professional services including work being performed to facilitate the Smurfit-Stone integration including information systems integration costs, lease expense and other costs. Due to the complexity and duration of the integration activities the precise amount expected to be incurred has not been quantified above. We expect integration activities to continue into fiscal 2015.

The following table represents a summary of and the changes in the restructuring accrual, which is primarily composed of lease commitments, accrued severance and other employee costs, as well as a reconciliation of the restructuring accrual to the line item **"Restructuring and other costs, net"** on our consolidated statements of income for fiscal 2014, 2013 and 2012 (in millions):

	2014	2013	2012
Accrual at beginning of fiscal year	$ 21.8	$22.7	$26.7
Additional accruals	5.0	18.7	26.9
Payments	(14.1)	(20.6)	(28.0)
Adjustment to accruals	(1.8)	1.0	(2.9)
Accrual at end of fiscal year	$ 10.9	$21.8	$22.7

Reconciliation of Accruals and Charges to Restructuring and Other Costs, Net:

	2014	2013	2012
Additional accruals and adjustments to accruals (see table above)	$ 3.2	$19.7	$24.0
Acquisition expense (income)	7.5	(3.6)	2.9
Integration expenses	23.4	22.8	23.0
Net property, plant and equipment	10.2	18.6	14.8
Severance and other employee costs	0.6	10.1	0.6
Equipment and inventory relocation costs	3.3	5.4	4.1
Facility carrying costs	5.3	5.7	5.9
Other expense (income)	2.1	(0.7)	(0.1)
Total restructuring and other costs, net	$55.6	$78.0	$75.2

INTANGIBLE ASSET AMORTIZATION

3.31 ALLERGAN, INC. (DEC)

CONSOLIDATED STATEMENTS OF EARNINGS (in part)

(in millions, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Product net sales	$7,126.1	$6,197.5	$5,549.3
Other revenues	111.8	102.9	97.3
Total revenues	7,237.9	6,300.4	5,646.6
Operating costs and expenses:			
Cost of sales (excludes amortization of intangible assets)	842.4	795.8	751.2
Selling, general and administrative	2,837.2	2,519.4	2,193.1
Research and development	1,191.6	1,042.3	977.3
Amortization of intangible assets	112.4	116.7	90.2
Impairment of intangible assets and related costs	—	11.4	22.3
Restructuring charges	245.0	5.5	1.5
Operating income	2,009.3	1,809.3	1,611.0
Non-operating income (expense):			
Interest income	7.7	6.8	6.7
Interest expense	(69.4)	(75.0)	(63.6)
Other, net	41.7	(10.3)	(23.1)
	(20.0)	(78.5)	(80.0)
Earnings from continuing operations before income taxes	1,989.3	1,730.8	1,531.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Summary of Significant Accounting Policies (in part)

Goodwill and Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of the net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead tested for impairment annually. Intangible assets include developed technology, customer relationships, licensing agreements, trademarks, technology-related assets and other rights, which are being amortized over their estimated useful lives ranging from three years to 21 years, and in-process research and development assets with indefinite useful lives that are not amortized, but instead tested for impairment until the successful completion and commercialization or abandonment of the associated research and development efforts, at which point the in-process research and development assets are either amortized over their estimated useful lives or written-off immediately.

Note 6: Intangibles and Goodwill (in part)

Intangibles

At December 31, 2014 and 2013, the components of intangibles and certain other related information were as follows:

	December 31, 2014			December 31, 2013		
	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period	Gross Amount	Accumulated Amortization	Weighted Average Amortization Period
	(in millions)		(in years)	(in millions)		(in years)
Amortizable Intangible Assets:						
Developed technology	$ 648.5	$(394.9)	11.1	$ 647.7	$(343.8)	11.1
Customer relationships	54.2	(41.9)	2.7	54.7	(21.8)	2.7
Licensing	190.5	(167.7)	9.3	185.8	(164.8)	9.3
Trademarks	89.1	(33.8)	12.4	89.6	(29.7)	12.4
Technology-related assets	335.3	(86.3)	14.9	327.5	(66.9)	14.8
Other	29.0	(14.6)	7.7	30.7	(12.8)	7.6
	1,346.6	(739.2)	11.5	1,336.0	(639.8)	11.4
Unamortizable Intangible Assets:						
In-process research and development	1,179.1	—		953.8	—	
	$2,525.7	$(739.2)		$2,289.8	$(639.8)	

Developed technology consists primarily of current product offerings, primarily breast aesthetics products, dermal fillers, skin care products and eye care products acquired in connection with business combinations, asset acquisitions and initial licensing transactions for products previously approved for marketing. Customer relationship assets consist of the estimated value of relationships with customers acquired in connection with business combinations. Licensing assets consist primarily of capitalized payments to third party licensors related to the achievement of regulatory approvals to commercialize products in specified markets and up-front payments associated with royalty obligations for products that have achieved regulatory approval for marketing. Technology-related assets consist of patented drug delivery technologies acquired in connection with the Company's August 2014 acquisition of LiRIS and 2013 acquisition of MAP, proprietary technology associated with silicone gel breast implants acquired in connection with the Company's 2006 acquisition of Inamed Corporation, dermal filler technology acquired in connection with the Company's 2007 acquisition of Groupe Cornéal Laboratoires and a drug delivery technology acquired in connection with the Company's 2003 acquisition of Oculex Pharmaceuticals, Inc. Other intangible assets consist primarily of acquired product registration rights, distributor relationships, distribution rights, government permits, non-compete agreements and a defensive asset associated with developed technology that has been commercialized. The in-process research and development assets consist primarily of an investigational product for the treatment of interstitial cystitis and bladder pain syndrome acquired in connection with the Company's August 2014 acquisition of LiRIS that is currently in Phase II clinical trials, an orally inhaled drug for the potential acute treatment of migraine in adults acquired in connection with the Company's 2013 acquisition of MAP and a novel compound to treat erythema associated with rosacea acquired in connection with the Company's 2011 acquisition of Vicept Therapeutics, Inc. (Vicept) that is currently under development.

In the fourth quarter of 2013, the Company recorded a pre-tax charge of $11.4 million related to the impairment of an intangible asset for distribution rights acquired in connection with the Company's 2011 acquisition of Precision Light, Inc. as a result of the Company's decision to discontinue the sale of products related to those distribution rights.

In the fourth quarter of 2012, the Company recorded a pre-tax charge of $17.0 million related to the partial impairment of the in-process research and development asset acquired in connection with the Company's 2011 acquisition of Vicept. The impairment charge was recognized because the carrying amount of the asset was determined to be in excess of its estimated fair value.

The following table provides amortization expense by major categories of intangible assets for the years ended December 31, 2014, 2013 and 2012, respectively:

(In millions)	2014	2013	2012
Developed technology	$ 59.1	$ 57.2	$53.4
Customer relationships	20.5	20.5	1.1
Licensing	3.0	7.4	20.4
Trademarks	4.4	4.4	0.4
Technology-related assets	22.3	19.4	6.5
Other	3.1	7.8	8.4
	$112.4	$116.7	$90.2

Amortization expense related to acquired intangible assets generally benefits multiple business functions within the Company, such as the Company's ability to sell, manufacture, research, market and distribute products, compounds and intellectual property. The amount of amortization expense excluded from cost of sales consists primarily of amounts amortized with respect to developed technology and licensing intangible assets.

Estimated amortization expense is $97.7 million for 2015, $77.5 million for 2016, $59.6 million for 2017, $57.6 million for 2018 and $55.6 million for 2019.

SOFTWARE AMORTIZATION

3.32 FIDELITY NATIONAL INFORMATION SERVICES, INC. (DEC)

CONSOLIDATED STATEMENTS OF EARNINGS (in part)

(In millions, except per share amounts)

	2014	2013	2012
Processing and services revenues (for related party activity, see note 5)	$6,413.8	$6,063.4	$5,795.8
Cost of revenues (for related party activity, see note 5)	4,332.7	4,092.7	3,956.2
Gross profit	2,081.1	1,970.7	1,839.6
Selling, general, and administrative expenses (for related party activity, see note 5)	810.5	907.8	763.3
Operating income	1,270.6	1,062.9	1,076.3
Other income (expense):			
Interest income	15.3	10.4	8.6
Interest expense	(172.8)	(198.6)	(231.3)
Other income (expense), net	(59.7)	(51.2)	(25.3)
Total other income (expense)	(217.2)	(239.4)	(248.0)
Earnings from continuing operations before income taxes	1,053.4	823.5	828.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(2) Summary of Significant Accounting Policies (in part)

(j) Computer Software

Computer software includes software acquired in business combinations, purchased software and capitalized software development costs. Purchased software is recorded at cost and amortized using the straight-line method over its estimated useful life and software acquired in business combinations is recorded at its fair value and amortized using straight-line or accelerated methods over its estimated useful life, ranging from five to 10 years.

The capitalization of software development costs is governed by FASB ASC Subtopic 985-20 if the software is to be sold, leased or otherwise marketed, or by FASB ASC Subtopic 350-40 if the software is for internal use. After the technological feasibility of the software has been established (for software to be marketed), or at the beginning of application development (for internal-use software), software development costs, which include primarily salaries and related payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to the establishment of technological feasibility (for software to be marketed), or prior to application development (for internal-use software), are expensed as incurred. Software development costs are amortized on a product-by-product basis commencing on the date of general release of the products (for software to be marketed) or the date placed in service (for internal-use software). Software development costs for software to be marketed are amortized using the greater of (1) the straight-line method over its estimated useful life, which ranges from three to 10 years, or (2) the ratio of current revenues to total anticipated revenues over its useful life.

(o) Cost of Revenue and Selling, General and Administrative Expenses

Cost of revenue includes payroll, employee benefits, occupancy costs and other costs associated with personnel employed in customer service and service delivery roles, including program design and development and professional services. Cost of revenue also includes data processing costs, amortization of software, customer relationship intangible assets and depreciation on operating assets.

Selling, general and administrative expenses include payroll, employee benefits, occupancy and other costs associated with personnel employed in sales, marketing, human resources, finance, risk management and other administrative roles. Selling, general and administrative expenses also include depreciation on non-operating corporate assets, advertising costs and other marketing-related programs.

(10) Computer Software

Computer software as of December 31, 2014 and 2013 consists of the following (in millions):

	2014	2013
Software from business acquisitions	$ 519.2	$ 535.6
Capitalized software development costs	953.1	847.6
Purchased software	120.3	174.3
Computer software	1,592.6	1,557.5
Accumulated amortization	(699.2)	(701.0)
Computer software, net of accumulated amortization	$ 893.4	$ 856.5

Amortization expense for computer software was $209.7 million, $195.8 million and $195.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. Included in discontinued operations in the Consolidated Statements of Earnings was amortization expense on computer software of $3.1 million for the year ended December 31, 2012. There was no amortization expense in discontinued operations for 2014 and 2013.

LITIGATION

3.33 MEDTRONIC, INC. (APR)

CONSOLIDATED STATEMENTS OF EARNINGS (in part)

	Fiscal Year		
(In millions, except per share data)	2014	2013	2012
Net sales	$17,005	$16,590	$16,184
Costs and Expenses:			
Cost of products sold	4,333	4,126	3,889
Research and development expense	1,477	1,557	1,490
Selling, general, and administrative expense	5,847	5,698	5,623
Special charges	40	—	—
Restructuring charges, net	78	172	87
Certain litigation charges, net	770	245	90
Acquisition-related items	117	(49)	12
Amortization of intangible assets	349	331	335
Other expense, net	181	108	364
Interest expense, net	108	151	149
Total costs and expenses	13,300	12,339	12,039
Earnings from continuing operations before income taxes	3,705	4,251	4,145

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Special Charges and Certain Litigation Charges, Net (in part)

Certain Litigation Charges, Net

The Company classifies material litigation charges and gains recognized as certain litigation charges, net.

During fiscal year 2014, the Company recorded certain litigation charges, net of $770 million, which primarily includes the global patent settlement agreement with Edwards Lifesciences Corporation (Edwards) of $589 million, accounting charges for probable and reasonably estimable INFUSE product liability litigation of $140 million, and other litigation. Refer to Note 18 for additional information.

During fiscal year 2013, the Company recorded certain litigation charges, net of $245 million related to probable and reasonably estimated damages resulting from patent litigation with Edwards. Refer to Note 18 for additional information.

During fiscal year 2012, the Company recorded certain litigation charges, net of $90 million related to the agreement to settle the federal securities class action initiated in December 2008 by the Minneapolis Firefighters' Relief Association. During the fourth quarter of fiscal year 2012, Medtronic settled all of these class claims for $85 million and incurred $5 million in additional litigation fees.

18. Contingencies (in part)

The Company is involved in a number of legal actions. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief (including injunctions barring the sale of products that are the subject of the lawsuit), that could require significant expenditures or result in lost revenues. In accordance with U.S. GAAP, the Company records a liability in the consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete scientific facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties, fines or punitive damages; or could result in a change in business practice. While it is not possible to predict the outcome for most of the matters discussed, the Company believes it is possible that costs associated with them could have a material adverse impact on the Company's consolidated earnings, financial position, or cash flows.

Litigation with Edwards Lifesciences Corporation

On March 19, 2010, the U.S. District Court for the District of Delaware added Medtronic CoreValve LLC (CoreValve) as a party to litigation pending between Edwards and CoreValve, Inc. In the litigation, Edwards asserted that CoreValve's transcatheter aortic valve replacement product infringed three U.S. "Andersen" patents owned by Edwards. Before trial, the court granted summary judgment to Medtronic as to two of the three patents. Following a trial, on April 1, 2010 a jury found that CoreValve willfully infringed a claim on the remaining "Andersen" patent and awarded total lost profit and royalty damages, as of that time, of $74 million. On November 13, 2012, the Court of Appeals for the Federal Circuit upheld the jury verdict and remanded to the District Court to reconsider issuing an injunction. Medtronic petitioned for certiorari to the U.S. Supreme Court, but the petition was denied on October 7, 2013. Medtronic recorded an expense of $245 million related to probable and reasonably estimated damages for this matter in the second quarter of fiscal year 2013, of which $84 million was paid on February 28, 2013. On March 12, 2010, Edwards served a second lawsuit in the Delaware court upon CoreValve, Medtronic Vascular, and Medtronic, asserting that Medtronic's transcatheter aortic valve replacement product from CoreValve infringed three U.S. "Andersen" patents owned by Edwards, including two of the patents that were the subject of the first lawsuit.

On January 15, 2014, the Delaware court found that the CoreValve transcatheter aortic valve replacement product willfully infringed on a "Cribier" patent, with a jury award in the amount of $394 million.

Edwards has also brought actions in Europe alleging patent infringement. Edwards previously asserted that the CoreValve product infringed an "Andersen" patent in Germany and the United Kingdom, which is a counterpart to the U.S. "Andersen" patents. Courts in both countries found that the CoreValve product does not infringe the European "Andersen" patent and dismissed both cases. On August 30, 2012, Edwards commenced a proceeding in Mannheim, Germany, alleging that Medtronic's CoreValve transcatheter valve infringes three European patents and seeking injunctive and other relief. On June 14, 2013, the Mannheim court dismissed Edwards' case on the merits that Medtronic's CoreValve transcatheter valve infringes the "Cribier" patent. On July 12, 2013, the Mannheim court found that Medtronic's CoreValve transcatheter valve infringes the "Spenser" patent and issued an injunction against Medtronic's sale or use of the CoreValve product in Germany. Medtronic appealed the court's finding of infringement. On August 26, 2013, Edwards posted a 50 million Euro bond, as mandated by the court, to enforce the injunction. On November 14, 2013, the appeals court in Karlsruhe stayed the injunction based on the likelihood that the "Spenser" patent would be found to be invalid. On March 5, 2014, the European Patent Office (EPO) determined the "Spenser" patent was invalid. The Mannheim court stayed a third proceeding that had been scheduled for trial on December 20, 2013, involving a related "Cribier" patent, until EPO proceedings conclude regarding the validity of the first "Cribier" patent which was revoked by the Opposition Division of the EPO on December 17, 2013.

On May 19, 2014, Medtronic and Edwards agreed to settle all pending litigation, and the parties will dismiss with prejudice all claims in the pending matters. The settlement agreement provided for a one-time payment of $750 million from Medtronic to Edwards. The agreement also requires ongoing royalties for Medtronic sales of its CoreValve transcatheter valve with minimum annual payments of $40 million through April 9, 2022. As a result, Medtronic recognized a $589 million expense (net of existing accrual) in fiscal year 2014. The $750 million was paid on May 23, 2014. The parties also agreed to cross license the relevant patents in the litigations, and covenanted not to sue each other for eight years in the field of transcatheter valves and related accessories.

INFUSE Product Liability Litigation

As of the end of fiscal year 2014, plaintiffs filed approximately 750 lawsuits against the Company in the U.S. state and federal courts, reflecting approximately 1,200 individual personal injury claims from the INFUSE bone graft product. Certain law firms have advised the Company that they may bring a large number of similar claims against the Company in the future. The Company estimates those law firms represent approximately 3,600 additional unfiled claimants. The Company recorded an expense of $140 million in fiscal year 2014, related to probable and reasonably estimated damages in connection with these matters.

Other Matters

The Company has received subpoenas or document requests from certain government bodies seeking information regarding sales, marketing, clinical, and other information relating to the INFUSE bone graft product, including civil investigative demands from the Attorneys General in Massachusetts, California, Oregon, Illinois, and Washington. The Company is fully cooperating with these requests.

On September 16, 2009, the Company received a subpoena from the Office of Inspector General for the Department of Health and Human Services in the Eastern District of California requesting production of documents relating to the Company's cardiac rhythm medical devices, including revenue, sales, marketing, and promotional documents, documents relating to reimbursement communications to customers pertaining to the devices, documents relating to scientific studies and registries pertaining to the devices, and documents relating to payments or items of value provided to customers. The Company recorded an expense of $10 million in fiscal year 2014, related to probable and reasonably estimated damages. In May 2014, the Company settled this matter for $10 million and certain legal fees.

On October 14, 2010, the Company received a subpoena issued by the U.S. Attorney's Office for the Western District of New York pursuant to the Health Insurance Portability & Accountability Act of 1996, relating to the Company's sales, marketing, and reimbursement support practices regarding certain neurostimulation devices. The Company is fully cooperating with this inquiry.

On November 9, 2010, the French Competition Authority commenced an investigation of the Company, along with a number of other medical device companies, and the companies' trade association, Syndicat National de l'Industrie des Technologies Medicales (SNITEM), to determine whether such companies or SNITEM engaged in any anticompetitive practices in responding to tenders to purchase certain medical devices. The Company is fully cooperating with the investigation.

On December 3, 2013, the Company received a subpoena for records from the U.S. Attorney's Office for the District of Minnesota related to the same topic addressed in its letter of May 6, 2013, requesting information relating to the Company's compliance with the Trade Agreements Act. The Company is fully cooperating with this inquiry.

Except as described above, the Company has not recorded an expense related to losses in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from these matters.

In the normal course of business, the Company periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of the Company's products or the negligence of its personnel or claims alleging that its products infringe third-party patents or other intellectual property. The Company's maximum exposure under these indemnification provisions cannot be estimated, and the Company has not accrued any liabilities within the consolidated financial statements. Historically, the Company has not experienced significant losses on these types of indemnifications.

EQUITY IN LOSSES OF INVESTEES

3.34 HASBRO, INC. (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(Thousands of Dollars Except Per Share Data)

	2014	2013	2012
Net revenues	$4,277,207	4,082,157	4,088,983
Costs and Expenses			
Cost of sales	1,698,372	1,672,901	1,671,980
Royalties	305,317	338,919	302,066
Product development	222,556	207,591	201,197
Advertising	420,256	398,098	422,239
Amortization of intangibles	52,708	78,186	50,569
Program production cost amortization	47,086	47,690	41,800
Selling, distribution and administration	895,537	871,679	847,347
Total expenses	3,641,832	3,615,064	3,537,198
Operating profit	635,375	467,093	551,785
Non-Operating (Income) Expense			
Interest expense	93,098	105,585	91,141
Interest income	(3,759)	(4,925)	(6,333)
Other expense, net	6,048	14,611	13,575
Total non-operating expense, net	95,387	115,271	98,383
Earnings before income taxes	539,988	351,822	453,402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Thousands of Dollars and Shares Except Per Share Data)

(1) Summary of Significant Accounting Policies (in part)

Principles of Consolidation (in part)

The consolidated financial statements include the accounts of Hasbro, Inc. and all majority-owned subsidiaries ("Hasbro" or the "Company"). Investments representing 20% to 50% ownership interests in other companies are accounted for using the equity method. All intercompany balances and transactions have been eliminated.

Equity Method Investment (in part)

For the Company's equity method investments, only the Company's investment in and amounts due to and from the equity method investment are included in the consolidated balance sheets and only the Company's share of the equity method investment's earnings (losses) is included in other expense, net in the consolidated statements of operations. Dividends, cash distributions, loans or other cash received from the equity method investment, additional cash investments, loan repayments or other cash paid to the investee are included in the consolidated statements of cash flows.

The Company reviews its equity method investments for impairment on a periodic basis. If it has been determined that the fair value of the equity investment is less than its related carrying value and that this decline is other-than-temporary, the carrying value of the investment is adjusted downward to reflect these declines in value. The Company has one significant equity method investment, its 40% interest in a joint venture with Discovery Communications, Inc ("Discovery").

The Company and Discovery are party to an option agreement with respect to this joint venture. The Company has recorded a liability for this option agreement at fair value which is included in other liabilities in the consolidated balance sheets. Unrealized gains and losses on this option are recognized in the consolidated statements of operations as they occur.

(5) Equity Method Investment (in part)

The Company owns an interest in a joint venture, Hub Television Networks, LLC (the "Network"), with Discovery Communications, Inc. ("Discovery"). The Company has determined that it does not meet the control requirements to consolidate the Network and accounts for the investment using the equity method of accounting. The Network was established to create a cable television network in the United States dedicated to high-quality children's and family entertainment. In October 2009, the Company purchased an initial 50% share in the Network for a payment of $300,000 and certain future tax payments based on the value of certain tax benefits expected to be received by the Company. On September 23, 2014, the Company and Discovery amended their relationship with respect to the Network and Discovery has increased its equity interest in the Network to 60% while the Company retains a 40% equity interest in the Network. The change in equity interests was accomplished partly through a redemption of interests owned by the Company and partly through the purchase of interests by Discovery from the Company. In connection with this reduction in its equity ownership the Company was paid a cash purchase price of $64,400 by Discovery. In connection with the restructuring of the Network, the Company recognized a net expense of $28,326, which includes a charge resulting from an option agreement and the Company's share of severance charges and programming write-downs recognized by the Network, partially offset by a gain from the reduction of amounts due to Discovery under a tax sharing agreement and is primarily included in other (income) expense, net in the consolidated statements of operations.

In connection with amendments, the Company and Discovery also entered into an option agreement related to the Company's remaining 40% ownership in the Network, exercisable during the one-year period following December 31, 2021. The exercise price of the option agreement is based upon 80% of the then fair market value of the Network, subject to a fair market value floor. In connection with the amendment, the Company recorded a charge in other expense, related to the fair market value of the option agreement totaling $25,590. At December 28, 2014, $25,340 is included as a component of other liabilities related to the fair value of this option agreement.

As a result of the reduction in the Company's ownership in the Network, the Company also received a benefit from a reduction in amounts due to Discovery under the existing tax sharing agreement. The present value of the expected future payments at the acquisition date totaled approximately $67,900 and was recorded as a component of the Company's investment in the joint venture. For the year ended December 28, 2014, the Company recorded a net benefit in other expense related to the reduction in the amounts due to Discovery under the tax sharing agreement totaling $12,834. The balance of the associated liability, including imputed interest, was $55,107 and $69,749 at December 28, 2014 and December 29, 2013, respectively, and is included as a component of other liabilities in the accompanying consolidated balance sheets. During 2014, 2013 and 2012, the Company made payments under the tax sharing agreement to Discovery of $7,010, $6,541 and $5,954, respectively.

The Company has a license agreement with the Network that requires the payment of royalties by the Company to the Network based on a percentage of revenue derived from products related to television shows broadcast by the joint venture. The license includes a minimum royalty guarantee of $125,000, payable in five annual installments of $25,000 per year, commencing in 2009, which could be earned out over approximately a 10-year period. During 2013 and 2012, the Company paid annual installments of $25,000 each which are included in other, including long-term advances in the consolidated statements of cash flows. The payment made in 2013 was the final installment under this agreement. In connection with the amended agreement, the terms of this license were modified resulting in a benefit recorded to royalties totaling $2,328 in the consolidated statements of operations. As of December 28, 2014 and December 29, 2013, the Company had $89,328 and $101,823 of prepaid royalties, respectively, related to this agreement, $12,207 and $15,955, respectively, of which are included in prepaid expenses and other current assets and $77,121 and $85,868, respectively, of which are included in other assets. The Company and the Network are also parties to an agreement under which the Company will provide the Network with an exclusive first look in the U.S. to license certain types of programming developed by the Company based on its intellectual property. In the event the Network licenses the programming from the Company to air, it is required to pay the Company a license fee.

As of December 28, 2014 and December 29, 2013 the Company's investment in the Network totaled $244,587 and $321,876, respectively. The Company's share in the loss of the Network for the years ended December 28, 2014, December 29, 2013 and December 30, 2012 totaled $9,187, $2,386 and $6,015, respectively and is included as a component of other expense, net in the accompanying consolidated statements of operations. In 2014, the Company's share in the loss of the Network included charges related to its restructuring totaling $17,278. The Company also enters into certain other transactions with the Network including the licensing of television programming and the purchase of advertising. During 2014, 2013 and 2012, these transactions were not material.

ENVIRONMENTAL

3.35 MUELLER INDUSTRIES, INC. (DEC)

CONSOLIDATED STATEMENTS OF INCOME (in part)

(In thousands, except per share data)	2014	2013	2012
Net sales	$2,364,227	$2,158,541	$2,189,938
Cost of goods sold	2,043,719	1,862,089	1,904,463
Depreciation and amortization	33,735	32,394	31,495
Selling, general, and administrative expense	131,740	134,914	129,456
Insurance settlements	—	(106,332)	(1,500)
Gain on sale of assets	(6,259)	(39,765)	—
Impairment charges	—	4,304	—
Litigation settlements	—	—	(4,050)
Severance	7,296	—	3,369
Operating income	153,996	270,937	126,705
Interest expense	(5,740)	(3,990)	(6,890)
Other (expense) income, net	(243)	4,451	539
Income before income taxes	148,013	271,398	120,354

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

Environmental Reserves and Environmental Expenses

The Company recognizes an environmental liability when it is probable the liability exists and the amount is reasonably estimable. The Company estimates the duration and extent of its remediation obligations based upon reports of outside consultants; internal analyses of cleanup costs and ongoing monitoring costs; communications with regulatory agencies; and changes in environmental law. If the Company were to determine that its estimates of the duration or extent of its environmental obligations were no longer accurate, it would adjust environmental liabilities accordingly in the period that such determination is made. Estimated future expenditures for environmental remediation are not discounted to their present value. Accrued environmental liabilities are not reduced by potential insurance reimbursements.

Environmental expenses that relate to ongoing operations are included as a component of cost of goods sold. Environmental expenses related to non-operating properties are included in other income, net on the Consolidated Statements of Income. See "Note 8—Commitments and Contingencies" for additional information.

Note 4—Consolidated Financial Statement Details (in part)

Other (Expense) Income, Net

(In thousands)	2014	2013	2012
Gain on the sale of non-operating property	$ —	$3,000	$ —
Interest income	573	906	847
Environmental expense, non-operating properties	(822)	(823)	(1,128)
Other	6	1,368	820
Other (expense) income, net	$(243)	$4,451	$ 539

Note 8—Commitments and Contingencies (in part)

Environmental

The Company is subject to environmental standards imposed by federal, state, local, and foreign environmental laws and regulations. For all properties, the Company has provided and charged to expense $1.2 million in 2014, $1.0 million in 2013, and $3.1 million in 2012 for pending environmental matters. Environmental costs related to non-operating properties are classified as a component of other income, net and costs related to operating properties are classified as cost of goods sold. Environmental reserves totaled $22.7 million at December 27, 2014 and $23.6 million at December 28, 2013. As of December 27, 2014, the Company expects to spend $0.7 million in 2015, $0.8 million in 2016, $0.7 million in 2017, $0.7 million in 2018, $0.8 million in 2019, and $9.4 million thereafter for ongoing projects. The timing of a potential payment for a $9.5 million settlement offer related to the Southeast Kansas Sites has not yet been determined.

Non-operating Properties

Southeast Kansas Sites

The Kansas Department of Health and Environment (KDHE) has contacted the Company regarding environmental contamination at three former smelter sites in Kansas (Altoona, Iola and East La Harpe). While the Company believes that legally it is not a successor to the companies that operated these smelter sites, it is discussing possible settlement with KDHE and other potentially responsible parties (PRP) in order to avoid litigation. In 2008, the Company established a reserve of $9.5 million for this matter. Another PRP has conducted a site investigation of the Altoona site under a consent decree with KDHE. The Company and two other PRPs have conducted a site study evaluation of the East La Harpe site under KDHE supervision, and are now discussing sharing the costs of a possible cleanup. The EPA is in the early stages of study and remediation in the vicinity of the Iola site, which it added to the National Priority List (NPL) in May, 2013 as the "Former United Zinc & Associated Smelters" site. The NPL is a list of priority sites where the EPA has determined that there has been a release or threatened release of hazardous substances that warrant investigation and, if appropriate, remedial action. The NPL does not assign liability to any party including the owner or operator of a property placed on the NPL.

Shasta Area Mine Sites

Mining Remedial Recovery Company (MRRC), a wholly owned subsidiary, owns certain inactive mines in Shasta County, California. MRRC has continued a program, begun in the late 1980 s, of sealing mine portals with concrete plugs in mine adits, which were discharging water. The sealing program achieved significant reductions in the metal load in discharges from these adits; however, additional reductions are required pursuant to an order issued by the California Regional Water Quality Control Board (QCB). In response to a 1996 Order issued by the QCB, MRRC completed a feasibility study in 1997 describing measures designed to mitigate the effects of acid rock drainage. In December 1998, the QCB modified the 1996 order extending MRRC's time to comply with water quality standards. In September 2002, the QCB adopted a new order requiring MRRC to adopt Best Management Practices (BMP) to control discharges of acid mine drainage. That order extended the time to comply with water quality standards until September 2007. During that time, implementation of BMP further reduced impacts of acid rock drainage; however, full compliance has not been achieved. The QCB is presently renewing MRRC's discharge permit and will concurrently issue a new order. It is expected that the new ten-year permit will include an order requiring continued implementation of BMP through 2025 to address residual discharges of acid rock drainage. At this site, MRRC spent approximately $1.7 million from 2012 through 2014 and estimates that it will spend between approximately $10.5 million and $13.0 million over the next 20 years.

Lead Refinery Site

U.S.S. Lead Refinery, Inc. (Lead Refinery), a non-operating wholly owned subsidiary of Mining Remedial Recovery Company, has conducted corrective action and interim remedial activities and studies (collectively, Site Activities) at Lead Refinery's East Chicago, Indiana site pursuant to the Resource Conservation and Recovery Act. Site Activities, which began in December 1996, have been substantially concluded. Lead Refinery is required to perform monitoring and maintenance activities with respect to Site Activities pursuant to a post-closure permit issued by the Indiana Department of Environmental Management effective as of March 2, 2013. Lead Refinery spent approximately $0.1 million annually in 2014, 2013 and 2012 with respect to this site. Approximate costs to comply with the post-closure permit, including associated general and administrative costs, are between $1.9 million and $3.6 million over the next 20 years.

On April 9, 2009, pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the EPA added the Lead Refinery site, and properties surrounding the Lead Refinery site, to the NPL. On July 17, 2009, Lead Refinery received a written notice from the EPA that the agency is of the view that Lead Refinery may be a PRP under CERCLA in connection with the release or threat of release of hazardous substances including lead into properties surrounding the Lead Refinery site. The EPA has identified two other PRPs in connection with the release or threat of release of hazardous substances into properties surrounding the Lead Refinery site. In November 2012, the EPA adopted a remedy in connection with properties surrounding the Lead Refinery site. In September 2014, the EPA announced that it had entered into a settlement with the two other PRPs whereby they will pay approximately $26.0 million to fund the cleanup of approximately 300 properties surrounding the Lead Refinery site. The EPA has not contacted Lead Refinery regarding settlement of the agency's potential claims related to the properties surrounding the Lead Refinery site.

As of December 27, 2014, the EPA has not conducted an investigation of the Lead Refinery site, proposed remedies for the Lead Refinery site, or informed Lead Refinery that it is a PRP at the Lead Refinery site. The Company is unable to determine the likelihood of a material adverse outcome or the amount or range of a potential loss with respect to placement of the Lead Refinery site and adjacent properties on the NPL. Lead Refinery lacks the financial resources needed to undertake any investigations or remedial action that may be required by the EPA pursuant to CERCLA.

Operating Properties

Mueller Copper Tube Products, Inc.

In 1999, Mueller Copper Tube Products, Inc. (MCTP), a wholly owned subsidiary, commenced a cleanup and remediation of soil and groundwater at its Wynne, Arkansas plant. MCTP is currently removing trichloroethylene, a cleaning solvent formerly used by MCTP, from the soil and groundwater. On August 30, 2000, MCTP received approval of its Final Comprehensive Investigation Report and Storm Water Drainage Investigation Report addressing the treatment of soils and groundwater from the Arkansas Department of Environmental Quality (ADEQ). The Company established a reserve for this project in connection with the acquisition of MCTP in 1998. Effective November 17, 2008, MCTP entered into a Settlement Agreement and Administrative Order by Consent to submit a Supplemental Investigation Work Plan (SIWP) and subsequent Final Remediation Work Plan for the site. By letter dated January 20, 2010, ADEQ approved the SIWP as submitted, with changes acceptable to the Company. On December 16, 2011, MCTP entered into an amended Administrative Order by Consent to prepare and implement a revised Remediation Work Plan regarding final remediation for the Site. Construction and installation of the remediation system is under way. The remediation system was activated in February 2014. Costs to implement the work plans, including associated general and administrative costs, are approximately $0.8 million to $1.3 million over the next ten years.

SALE OF RECEIVABLES

3.36 ALLIANCE ONE INTERNATIONAL, INC. (MAR)

STATEMENTS OF CONSOLIDATED OPERATIONS (in part)

	Years Ended March 31,		
(In thousands, except per share data)	2014	2013	2012
Sales and other operating revenues	$2,354,956	$2,243,816	$2,150,767
Cost of goods and services sold	2,114,929	1,958,570	1,863,115
Gross profit	240,027	285,246	287,652
Selling, general and administrative expenses	134,087	145,750	147,558
Other income	18,230	20,721	15,725
Restructuring and asset impairment charges (recoveries)	5,111	(55)	1,006
Operating income	119,059	160,272	154,813
Debt retirement expense	57,449	1,195	—
Interest expense	116,798	114,557	106,804
Interest income	7,068	6,547	6,149
Income (loss) before income taxes and other items	(48,120)	51,067	54,158
Income tax expense	38,942	27,992	25,039
Equity in net income of investee companies	60	1,637	72
Net income (loss)	(87,002)	24,712	29,191

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(in thousands)

Note 1—Significant Accounting Policies (in part)

Other Income (in part)

Other Income consists primarily of gains on sales of property, plant and equipment and assets held for sale. This caption also includes expenses related to the Company's sale of receivables. See Note 17 "Sale of Receivables" to the "Notes to Consolidated Financial Statements" for further information.

The following table summarizes the significant components of Other Income.

	Years Ending March 31,		
	2014	2013	2012
Malawi other property sales	$ —	$ —	$ 2,400
Turkey other property sales	2,700	—	—
Brazil 51% subsidiary investment sale	20,369	—	—
Brazil property exchange and other property sales	—	—	15,967
Brazil excise tax benefit	—	24,142	—
Other sales of assets and expenses	2,138	4,892	2,491
Losses on sale of receivables	(6,977)	(8,313)	(5,133)
	$18,230	$20,721	$15,725

Sale of Accounts Receivable

The Company is engaged in three revolving trade accounts receivable securitization arrangements to sell receivables. The Company records the transaction as a sale of receivables, removes such receivables from its financial statements and records a receivable for the beneficial interest in such receivables. The losses on the sale of receivables are recognized in Other Income. As of March 31, 2014 and 2013, respectively, accounts receivable sold and outstanding were $204,364 and $156,633. See Note 17 "Sale of Receivables" and Note 18 "Fair Value Measurements" to the "Notes to Consolidated Financial Statements" for further information.

Note 17—Sale of Receivables

The Company sells trade receivables to unaffiliated financial institutions under three accounts receivable securitization programs. Under the first program, the Company continuously sells a designated pool of trade receivables to a special purpose entity, which in turn sells 100% of the receivables to an unaffiliated financial institution. This program allows the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. Following the sale and transfer of the receivables to the special purpose entity, the receivables are isolated from the Company and its affiliates, and upon the sale and transfer of the receivables from the special purpose entity to the unaffiliated financial institutions effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. The investment limit of this facility was increased from $125,000 to $250,000 in March 2012. The cost for increasing this facility was $1,545 and included in Other Income in the Statements of Consolidated Operations in fiscal 2012. The Company incurred program costs of $1,675 and $2,100 during the years ending March 31, 2014 and 2013 which were included in Other Income in the Statements of Consolidated Operations. The program requires a minimum level of deferred purchase price to be retained by the Company in connection with the sales. The Company continues to service, administer and collect the receivables on behalf of the special purpose entity and receives a servicing fee of 0 .5% of serviced receivables per annum. As the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value, no servicing assets or liabilities are recognized. Servicing fees recognized were not material and are recorded as a reduction of Selling, General and Administrative Expenses within the Statements of Consolidated Operations.

The agreements for the second and third securitization programs were executed on September 28, 2011, as amended November 30, 2013; and March 28, 2013, as amended March 25, 2014, between the Company and unaffiliated financial institutions. These programs also allow the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. These are uncommitted programs, whereby the Company offers receivables for sale to the respective unaffiliated financial institution, which are then subject to acceptance by the unaffiliated financial institution. Following the sale and transfer of the receivables to the unaffiliated financial institution, the receivables are isolated from the Company and its affiliates, and effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. The Company receives no servicing fee from the unaffiliated financial institution and as a result, has established a servicing liability based upon unobservable inputs, primarily discounted cash flow. For the years ended March 31, 2014 and 2013, the expense for the servicing liability was $184 and $221 which is included in Other Income in the Statements of Consolidated Operations. The liability is recorded in Accrued Expenses and other Current Liabilities in the Consolidated Balance Sheets. As receivables sold under these facilities were settled in fiscal 2014 and 2013, the servicing liability was reduced by $281 and $55 and is included in Selling, General and Administrative Expenses in the Statements of Consolidated Operations. The investment limits under the September 28, 2011 and March 28, 2013 agreements are $35,000 and $100,000 respectively. The cost for entering the March 28, 2013 program was $1,220 and is included in Other Income in the Statements of Consolidated Operations in fiscal 2013.

Under the programs, all of the receivables sold for cash are removed from the Consolidated Balance Sheets and the net cash proceeds received by the Company are included as cash provided by operating activities in the Statements of Consolidated Cash Flows. A portion of the purchase price for the receivables is paid by the unaffiliated financial institutions in cash and the balance is a deferred purchase price receivable, which is paid as payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a continuing involvement and a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in Trade and Other Receivables, Net in the Consolidated Balance Sheets and are valued using unobservable inputs (i.e., level three inputs), primarily discounted cash flow. As servicer of these facilities, the Company may receive funds that are due to the unaffiliated financial institutions which are net settled on the next settlement date. As of March 31, 2014 and 2013, Trade and Other Receivables, Net in the Consolidated Balance Sheets has been reduced by $16,575 and $12,316 as a result of the net settlement. See Note 18 "Fair Value Measurements" to the "Notes to Consolidated Financial Statements" for further information.

The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the other assets received at the time of transfer is recognized as a loss on sale of the related receivables and recorded in Other Income in the Statements of Consolidated Operations.

The following table summarizes the Company's accounts receivable securitization information as of March 31:

	2014	2013
Receivables outstanding in facility as of March 31:	$ 204,364	$156,633
Beneficial interest as of March 31	$ 35,559	$ 31,992
Servicing Liability as of March 31	$ 69	$ 166
Cash proceeds for the twelve months ended March 31:		
Cash purchase price	$ 801,480	$643,399
Deferred purchase price	268,650	287,027
Service fees	572	644
Total	$1,070,702	$931,070

MERGERS

3.37 BAKER HUGHES INCORPORATED (DEC)

CONSOLIDATED STATEMENTS OF INCOME (in part)

	Year Ended December 31,		
(In millions, except per share amounts)	2014	2013	2012
Revenue:			
Sales	$ 8,056	$ 7,594	$ 7,274
Services	16,495	14,770	14,087
Total revenue	24,551	22,364	21,361
Costs and expenses:			
Cost of sales	6,294	5,932	5,758
Cost of services	13,452	12,621	11,598
Research and engineering	613	556	497
Marketing, general and administrative	1,271	1,306	1,316
Litigation settlements	62	—	—
Total costs and expenses	21,692	20,415	19,169
Operating income	2,859	1,949	2,192

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Halliburton Merger Agreement

On November 16, 2014, Baker Hughes, Halliburton Company ("Halliburton") and a wholly owned subsidiary of Halliburton ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), under which Halliburton will acquire all the outstanding shares of Baker Hughes through a merger of Baker Hughes with and into Merger Sub (the "Merger"). Subject to certain specified exceptions, at the effective time of the Merger, each share of Baker Hughes common stock will be converted into the right to receive (i) 1.12 shares of Halliburton common stock and (ii) $19.00 in cash.

The obligation of the parties to consummate the Merger is subject to customary closing conditions, including, among others, (i) the approval by Baker Hughes' stockholders of the Merger Agreement; (ii) the approval by Halliburton's stockholders of the issuance of Halliburton common stock to be issued in the Merger (the "Stock Issuance"); (iii) applicable regulatory approvals, including the termination or expiration of the applicable waiting period under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iv) the absence of legal restraints and prohibitions; and (v) other customary closing conditions. Halliburton is required to take all actions necessary to obtain regulatory approvals (including agreeing to divestitures) unless the assets, businesses or product lines subject to such actions would account for more than $7.5 billion of 2013 revenue.

Baker Hughes and Halliburton each made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants by each of Baker Hughes and Halliburton to, subject to certain exceptions, conduct its business in the ordinary course. In particular, among other restrictions and subject to certain exceptions, Baker Hughes agreed to generally refrain from acquiring new businesses, incurring new indebtedness, repurchasing shares, issuing new common stock or equity awards (other than equity awards granted to employees, officers and directors materially consistent with historical long-term incentive awards granted), or entering into new material contracts or commitments outside the normal course of business, without the consent of Halliburton, during the period between the execution of the Merger Agreement and the consummation of the Merger. With respect to equity awards granted after the Merger Agreement to officers and employees, such awards will not vest solely as a result of the Merger but will be converted to an equivalent Halliburton equity award. However, they will vest entirely if an officer or employee is terminated within one year following the closing of the Merger with Halliburton. Baker Hughes and Halliburton are each permitted to pay regular quarterly cash dividends during such period. In addition, under the terms of the Merger Agreement, Halliburton and Baker Hughes have agreed to coordinate the declaration and payment of dividends in respect of each party's common stock including record dates and payment dates relating thereto, which we expect to be in the third month of the quarter. Under the Merger Agreement, we have agreed not to increase the quarterly dividend while the Merger is pending.

The Merger Agreement contains certain termination rights for each of Baker Hughes and Halliburton. If the Merger Agreement is terminated by (i) Halliburton as a result of a change in the recommendation of Baker Hughes' board of directors that Baker Hughes' stockholders approve the Merger Agreement or (ii) Baker Hughes in order to enter into a definitive agreement with a third party for certain alternative transactions, then in either case Baker Hughes would be required to pay Halliburton a termination fee of $1 billion. If the Merger Agreement is terminated because Baker Hughes' stockholders have not approved the Merger Agreement upon a vote taken thereon and prior to the Baker Hughes stockholder meeting a proposal for an alternative transaction was publicly announced and not withdrawn, then Baker Hughes would be required to pay Halliburton the $1 billion termination fee if, but only if, Baker Hughes enters into an agreement with respect to, or consummates, an alternative transaction with a third party within 12 months of such termination. Baker Hughes will also reimburse Halliburton for certain expenses (up to $40 million) if the Merger Agreement is terminated because Baker Hughes' stockholders have not approved the Merger Agreement upon a vote taken thereon and prior to the Baker Hughes stockholder meeting a proposal for an alternative transaction was publicly announced and not withdrawn. If, within 12 months after such termination, Baker Hughes enters into an agreement providing for, or consummates, an alternative transaction with a third party, thereby triggering the $1 billion termination fee described above, that termination fee will be reduced by the amount of any expenses previously reimbursed.

If the Merger Agreement is terminated by (i) Baker Hughes as a result of a change in the recommendation of Halliburton's board of directors that Halliburton's stockholders approve the Stock Issuance, (ii) Halliburton in order to enter into a definitive agreement with a third party for certain alternative transactions, or (iii) by either party because Halliburton's stockholders have not approved the Merger Agreement upon a vote taken thereon, then in each case Halliburton would be required to pay Baker Hughes a termination fee of $1.5 billion. In the event the Merger Agreement is terminated by (i) either party as a result of the failure of the Merger to occur on or before the end date (as it may be extended) due to the failure to achieve certain specified antitrust-related approvals if all closing conditions (other than receipt of antitrust and other specified regulatory approvals and conditions that by their nature cannot be satisfied until the closing but subject to such conditions being capable of being satisfied if the closing date were the date of termination) have been satisfied, (ii) either party as a result of any antitrust-related final, non-appealable order or injunction prohibiting the closing, or (iii) Baker Hughes as a result of Halliburton's material breach of its obligations to obtain regulatory approval such that the antitrust-related condition to closing is incapable of being satisfied, then in each case Halliburton would be required to pay Baker Hughes a termination fee of $3.5 billion.

Baker Hughes and Halliburton expect the Merger to be completed during the second half of 2015. However, Baker Hughes cannot predict with certainty when, or if, the Merger will be completed because completion of the Merger is subject to conditions beyond the control of Baker Hughes. Baker Hughes incurred costs of $11 million related to the merger which was recorded in MG&A expenses during the fourth quarter of 2014.

ACQUISITION-RELATED COSTS

3.38 MEDTRONIC, INC. (APR)

CONSOLIDATED STATEMENTS OF EARNINGS (in part)

	Fiscal Year		
(In millions, except per share data)	**2014**	**2013**	**2012**
Net sales	$17,005	$16,590	$16,184
Costs and Expenses:			
Cost of products sold	4,333	4,126	3,889
Research and development expense	1,477	1,557	1,490
Selling, general, and administrative expense	5,847	5,698	5,623
Special charges	40	—	—
Restructuring charges, net	78	172	87
Certain litigation charges, net	770	245	90
Acquisition-related items	117	(49)	12
Amortization of intangible assets	349	331	335
Other expense, net	181	108	364
Interest expense, net	108	151	149
Total costs and expenses	13,300	12,339	12,039
Earnings from continuing operations before income taxes	3,705	4,251	4,145

1. Summary of Significant Accounting Policies (in part)

Contingent Consideration. During fiscal year 2010, as mentioned above, the Company adopted authoritative guidance related to business combinations. Under this guidance, the Company must recognize contingent consideration at fair value at the acquisition date. Prior to the adoption of this guidance, contingent consideration was not included on the balance sheet and was recorded as incurred. The acquisition date fair value is measured based on the consideration expected to be transferred (probability-weighted), discounted back to present value. The discount rate used is determined at the time of measurement in accordance with accepted valuation methodologies. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within *acquisition-related items* in the consolidated statements of earnings. Therefore, any changes in the fair value will impact the Company's earnings in such reporting period thereby resulting in potential variability in the Company's earnings until contingencies are resolved.

4. Acquisitions and Acquisition-Related Items

The Company had various acquisitions and other acquisition-related activity during fiscal years 2014, 2013, and 2012. Certain acquisitions were accounted for as business combinations as noted below. In accordance with authoritative guidance on business combination accounting, the assets and liabilities of the company acquired were recorded as of the acquisition date, at their respective fair values, and consolidated. The pro forma impact of these acquisitions was not significant, individually or in the aggregate, to the results of the Company for the fiscal years ended April 25, 2014, April 26, 2013, or April 27, 2012. The results of operations related to each company acquired have been included in the Company's consolidated statements of earnings since the date each company was acquired.

Fiscal Year 2014

TYRX, Inc.

On December 30, 2013, the Company acquired TYRX, Inc. (TYRX), a privately-held developer of antibiotic drug and implanted medical device combinations. TYRX's products include those designed to reduce surgical site infections associated with implantable pacemakers, defibrillators, and spinal cord neurostimulators. Under the terms of the agreement, the transaction included an initial up-front payment of $159 million, representing a purchase price net of acquired cash, including the assumption and settlement of existing TYRX debt and direct acquisition costs. Total consideration for the transaction was approximately $222 million, which included estimated fair values for product development-based and revenue-based contingent consideration of $25 million and $35 million, respectively. The product development-based contingent consideration includes a future potential payment of $40 million upon achieving certain milestones, and the revenue-based contingent consideration payments equal TYRX's actual annual revenue growth for the Company's fiscal years 2015 and 2016. Based upon the preliminary acquisition valuation, the Company acquired $94 million of technology-based intangible assets with an estimated useful life of 14 years and $132 million of goodwill. The acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of TYRX as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. During the fourth quarter of fiscal year 2014, the Company recorded minor adjustments to *goodwill* and *long-term deferred tax liabilities, net*. The fair values of the assets acquired and liabilities assumed are as follows:

(In millions)	
Current assets	$ 6
Property, plant, and equipment	1
Intangible assets	94
Goodwill	132
Total assets acquired	233
Current liabilities	4
Long-term deferred tax liabilities, net	7
Total liabilities assumed	11
Net assets acquired	$222

Cardiocom, LLC

On August 7, 2013, the Company acquired Cardiocom, LLC (Cardiocom), a privately-held developer and provider of integrated solutions for the management of chronic diseases such as heart failure, diabetes, and hypertension. Cardiocom's products and services include remote monitoring and patient-centered software to enable efficient care coordination and specialized telehealth nurse support. Total consideration for the transaction was approximately $193 million. Based upon the acquisition valuation, the Company acquired $61 million of customer-related intangible assets with an estimated useful life of 7 years and $123 million of goodwill. The acquired goodwill is deductible for tax purposes.

The Company accounted for the acquisition of Cardiocom as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

(In millions)	
Current assets	$ 14
Property, plant, and equipment	7
Intangible assets	61
Goodwill	123
Total assets acquired	205
Current liabilities	12
Total liabilities assumed	12
Net assets acquired	$193

Acquisition-Related Items

During fiscal year 2014, the Company recorded net charges from acquisition-related items of $117 million, primarily including IPR&D and long-lived asset impairment charges of $236 million related to the Ardian, Inc. (Ardian) acquisition and income of $138 million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. The Ardian impairment resulted from the Company's January 2014 announcement that the U.S. pivotal trial in renal denervation for treatment-resistant hypertension, Symplicity HTN-3, failed to meet its primary efficacy endpoint. Based on the results of the trial, the Company suspended enrollment of its renal denervation hypertension trials that were being conducted in the U.S., Japan, and India. These impairment charges consisted of $192 million related to IPR&D and $44 million related to other long-lived assets. For additional information regarding these impairment assessments, refer to Note 6. The change in fair value of contingent consideration primarily related to adjustments for Ardian, which are based on annual revenue growth through fiscal year 2015. As there was no projected revenue growth through fiscal year 2015, no contingent consideration remained as of April 25, 2014. These amounts are included within *acquisition-related items* in the consolidated statements of earnings.

Fiscal Year 2013

China Kanghui Holdings

On November 1, 2012, the Company acquired China Kanghui Holdings (Kanghui). Kanghui is a Chinese manufacturer and distributor of orthopedic products in trauma, spine, and joint reconstruction. Total consideration for the transaction was approximately $816 million. The total value of the transaction, net of Kanghui's cash, was approximately $797 million. Based on the acquisition valuation, the Company acquired $288 million of technology-based assets and $53 million of tradenames and customer-related intangible assets that each had a weighted average estimated useful life of 11 years and $409 million of goodwill. The acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of Kanghui as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

(In millions)	
Current assets	$106
Property, plant, and equipment	56
Intangible assets	341
Goodwill	409
Other assets	11
Total assets acquired	923
Current liabilities	29
Long-term deferred tax liabilities, net	77
Other long-term liabilities	1
Total liabilities assumed	107
Net assets acquired	$816

Acquisition-Related Items

During fiscal year 2013, the Company recorded net income from acquisition-related items of $49 million, primarily including income of $62 million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. The change in fair value of contingent consideration primarily related to the reduction in fair value of contingent consideration associated with Ardian due to a slower commercial ramp in Europe. Additionally, the Company recorded transaction-related expenses of $13 million. These amounts are included within *acquisition-related items* in the consolidated statements of earnings.

Fiscal Year 2012

Salient Surgical Technologies, Inc.

On August 31, 2011, the Company acquired Salient Surgical Technologies, Inc. (Salient). Salient develops and markets devices for haemostatic sealing of soft tissue and bone incorporating advanced energy technology. Salient's devices are used in a variety of surgical procedures including orthopedic surgery, spine, open abdominal, and thoracic procedures. Total consideration for the transaction was approximately $497 million. Medtronic had previously invested in Salient and held an 8.9 percent ownership position in the company. Net of this ownership position, the transaction value was approximately $452 million. Based upon the acquisition valuation, the Company acquired $154 million of technology-based intangible assets that had an estimated useful life of 12 years, $44 million of IPR&D, and $348 million of goodwill. The IPR&D primarily relates to the launch of Salient's concentric wire product. The acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of Salient as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

(In millions)	
Current assets	$ 20
Property, plant, and equipment	11
IPR&D	44
Other intangible assets	154
Goodwill	348
Other assets	1
Total assets acquired	578
Current liabilities	43
Long-term deferred tax liabilities, net	38
Total liabilities assumed	81
Net assets acquired	$497

PEAK Surgical, Inc.

On August 31, 2011, the Company acquired PEAK Surgical, Inc. (PEAK). PEAK develops and markets tissue dissection devices incorporating advanced energy technology. Total consideration for the transaction was approximately $113 million. Medtronic had previously invested in PEAK and held an 18.9 percent ownership position in the company. Net of this ownership position, the transaction value was approximately $96 million. Based upon the acquisition valuation, the Company acquired $74 million of technology-based intangible assets that had an estimated useful life of 12 years, and $56 million of goodwill. The acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of PEAK as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

(In millions)	
Current assets	$ 5
Property, plant, and equipment	5
Intangible assets	74
Goodwill	56
Total assets acquired	140
Current liabilities	10
Long-term deferred tax liabilities, net	17
Total liabilities assumed	27
Net assets acquired	$113

Acquisition-Related Items

During fiscal year 2012, the Company recorded net charges from acquisition-related items of $12 million, primarily including charges of $45 million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. Additionally, in connection with the acquisitions of Salient and PEAK, the Company recognized gains of $32 million and $6 million, respectively, on its previously-held investments. These amounts are included within *acquisition-related items* in the consolidated statements of earnings.

Contingent Consideration

Certain of the Company's business combinations and purchases of intellectual property involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones and/or various other favorable operating conditions. Payment of the additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels or achieving product development targets. For business combinations subsequent to April 24, 2009, a liability is recorded for the estimated fair value of the contingent consideration on the acquisition date. The fair value of the contingent consideration is remeasured at each reporting period with the change in fair value recognized as income or expense within *acquisition-related items* in the consolidated statements of earnings. The Company measures the liability on a recurring basis using Level 3 inputs. See Note 6 for further information regarding fair value measurements.

The fair value of contingent consideration is measured using projected payment dates, discount rates, probabilities of payment, and projected revenues (for revenue-based considerations). Projected contingent payment amounts are discounted back to the current period using a discounted cash flow model. Projected revenues are based on the Company's most recent internal operational budgets and long-range strategic plans. Increases (decreases) in projected revenues, probabilities of payment, discount rates, or projected payment dates may result in higher (lower) fair value measurements. Fluctuations in any of the inputs may result in a significantly lower (higher) fair value measurement.

The recurring Level 3 fair value measurements of contingent consideration include the following significant unobservable inputs:

($ in millions)	**Fair Value at April 25, 2014**	**Valuation Technique**	**Unobservable Input**	**Range**
			Discount rate	13.5%–24%
Revenue-based payments	$43	Discounted cash flow	Probability of payment	100%
			Projected fiscal year of payment	2015–2019
			Discount rate	5.5%
Product development-based payments	$25	Discounted cash flow	Probability of payment	75%–100%
			Projected fiscal year of payment	2015–2018

At April 25, 2014, the estimated maximum potential amount of undiscounted future contingent consideration that the Company is expected to make associated with all completed business combinations or purchases of intellectual property prior to April 24, 2009 was approximately $199 million. The Company estimates the milestones or other conditions associated with the contingent consideration will be reached in fiscal year 2015 and thereafter.

The fair value of contingent consideration associated with acquisitions subsequent to April 24, 2009, as of April 25, 2014 and April 26, 2013, was $68 million and $142 million, respectively. As of April 25, 2014, $51 million was reflected in *other long-term liabilities* and $17 million was reflected in *other accrued expenses* in the consolidated balance sheets. As of April 26, 2013, $120 million was reflected in *other long-term liabilities* and $22 million was reflected in *other accrued expenses* in the consolidated balance sheets. The portion of the contingent consideration related to the acquisition date fair value is reported as financing activities in the consolidated statements of cash flows. Amounts paid in excess of the original acquisition date fair value are reported as operating activities in the consolidated statements of cash flows. The following table provides a reconciliation of the beginning and ending balances of contingent consideration associated with acquisitions subsequent to April 24, 2009:

	Fiscal Year	
(In millions)	**2014**	**2013**
Beginning Balance	$ 142	$231
Purchase price contingent consideration	65	3
Contingent consideration payments	(1)	(30)
Change in fair value of contingent consideration	(138)	(62)
Ending Balance	$ 68	$142

CHANGE IN FAIR VALUE OF DERIVATIVES

3.39 THE WESTERN UNION COMPANY (DEC)

CONSOLIDATED STATEMENTS OF INCOME (in part)

(in millions, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Transaction fees	$4,083.6	$4,065.8	$4,210.0
Foreign exchange revenues	1,386.3	1,348.0	1,332.7
Other revenues	137.3	128.2	122.1
Total revenues	5,607.2	5,542.0	5,664.8
Expenses:			
Cost of services	3,297.4	3,235.0	3,194.2
Selling, general and administrative	1,169.3	1,199.6	1,140.6
Total expenses*	4,466.7	4,434.6	4,334.8
Operating income	1,140.5	1,107.4	1,330.0
Other Income/(Expense):			
Interest income	11.5	9.4	5.5
Interest expense	(176.6)	(195.6)	(179.6)
Derivative gains/(losses), net	(2.2)	(1.3)	0.5
Other income/(expense), net	(5.0)	7.0	12.4
Total other expense, net	(172.3)	(180.5)	(161.2)
Income before income taxes	968.2	926.9	1,168.8
Provision for income taxes	115.8	128.5	142.9
Net income	$ 852.4	$ 798.4	$1,025.9

* As further described in Note 6, total expenses include amounts for related parties of $70.2 million, $80.6 million and $95.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Derivatives

The Company uses derivatives to (a) minimize its exposures related to changes in foreign currency exchange rates and interest rates and (b) facilitate cross-currency Business Solutions payments by writing derivatives to customers. The Company recognizes all derivatives in the "Other assets" and "Other liabilities" captions in the accompanying Consolidated Balance Sheets at their fair value. All cash flows associated with derivatives are included in cash flows from operating activities in the Consolidated Statements of Cash Flows.

- Cash Flow hedges—Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in "Accumulated other comprehensive loss." Cash flow hedges consist of foreign currency hedging of forecasted revenues, as well as hedges of the forecasted issuance of fixed rate debt. Derivative fair value changes that are captured in "Accumulated other comprehensive loss" are reclassified to earnings in the same period or periods the hedged item affects earnings, to the extent the instrument is effective in offsetting the change in cash flows attributable to the risk being hedged. The portions of the change in fair value that are either considered ineffective or are excluded from the measure of effectiveness are recognized immediately in "Derivative gains/(losses), net."
- Fair Value hedges—Changes in the fair value of derivatives that are designated as fair value hedges of fixed rate debt are recorded in "Interest expense." The offsetting change in value of the related debt instrument attributable to changes in the benchmark interest rate is also recorded in "Interest expense."
- Undesignated—Derivative contracts entered into to reduce the variability related to (a) money transfer settlement assets and obligations, generally with maturities from a few days up to one month, and (b) certain foreign currency denominated cash and other asset and liability positions, typically with maturities of less than one year at inception, are not designated as hedges for accounting purposes and changes in their fair value are included in "Selling, general and administrative." The Company is also exposed to risk from derivative contracts written to its customers arising from its cross-currency Business Solutions payments operations. The duration of these derivative contracts at inception is generally less than one year. The Company aggregates its Business Solutions payments foreign currency exposures arising from customer contracts, including the derivative contracts described above, and hedges the

resulting net currency risks by entering into offsetting contracts with established financial institution counterparties (economic hedge contracts) as part of a broader foreign currency portfolio, including significant spot exchanges of currency in addition to forwards and options. The changes in fair value related to these contracts are recorded in "Foreign exchange revenues."

The fair value of the Company's derivatives is derived from standardized models that use market based inputs (e.g., forward prices for foreign currency).

The details of each designated hedging relationship are formally documented at the inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness, if any, will be measured. The derivative must be highly effective in offsetting the changes in cash flows or fair value of the hedged item, and effectiveness is evaluated quarterly on a retrospective and prospective basis.

14. Derivatives (in part)

The Company is exposed to foreign currency exchange risk resulting from fluctuations in exchange rates, primarily the euro, and to a lesser degree the Canadian dollar, British pound, Australian dollar, Swiss franc, and other currencies, related to forecasted money transfer revenues and on money transfer settlement assets and obligations. The Company is also exposed to risk from derivative contracts written to its customers arising from its cross-currency Business Solutions payments operations. Additionally, the Company is exposed to interest rate risk related to changes in market rates both prior to and subsequent to the issuance of debt. The Company uses derivatives to (a) minimize its exposures related to changes in foreign currency exchange rates and interest rates and (b) facilitate cross-currency Business Solutions payments by writing derivatives to customers.

The Company executes derivatives with established financial institutions, with the substantial majority of these financial institutions having credit ratings of "A-" or better from a major credit rating agency. The Company also writes Business Solutions derivatives mostly with small and medium size enterprises. The primary credit risk inherent in derivative agreements represents the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. The Company performs a review of the credit risk of these counterparties at the inception of the contract and on an ongoing basis. The Company also monitors the concentration of its contracts with any individual counterparty. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements, but takes action when doubt arises about the counterparties' ability to perform. These actions may include requiring Business Solutions customers to post or increase collateral, and for all counterparties, the possible termination of the related contracts. The Company's hedged foreign currency exposures are in liquid currencies; consequently, there is minimal risk that appropriate derivatives to maintain the hedging program would not be available in the future.

Foreign Currency—Consumer-to-Consumer

The Company's policy is to use longer-term foreign currency forward contracts, with maturities of up to 36 months at inception and a targeted weighted-average maturity of approximately one year, to mitigate some of the risk that changes in foreign currency exchange rates compared to the United States dollar could have on forecasted revenues denominated in other currencies related to its business. As of December 31, 2014, the Company's longer-term foreign currency forward contracts had maturities of a maximum of 24 months with a weighted-average maturity of approximately one year. These contracts are accounted for as cash flow hedges of forecasted revenue, with effectiveness assessed based on changes in the spot rate of the affected currencies during the period of designation. Accordingly, all changes in the fair value of the hedges not considered effective or portions of the hedge that are excluded from the measure of effectiveness are recognized immediately in "Derivative gains/(losses), net" within the Company's Consolidated Statements of Income.

The Company also uses short duration foreign currency forward contracts, generally with maturities from a few days up to one month, to offset foreign exchange rate fluctuations on settlement assets and obligations between initiation and settlement. In addition, forward contracts, typically with maturities of less than one year at inception, are utilized to offset foreign exchange rate fluctuations on certain foreign currency denominated cash and other asset and liability positions. None of these contracts are designated as accounting hedges.

The aggregate equivalent United States dollar notional amounts of foreign currency forward contracts as of December 31, 2014 were as follows (in millions):

Contracts Designated as Hedges:	
Euro	$391.4
Canadian dollar	114.1
British pound	80.8
Australian dollar	52.7
Swiss franc	44.0
Other	95.4
Contracts Not Designated as Hedges:	
Euro	$294.4
Canadian dollar	77.1
British pound	70.2
Australian dollar	30.1
Other[a]	147.8

[a] Comprised of exposures to 17 different currencies. None of these individual currency exposures is greater than $25 million.

Foreign Currency—Business Solutions

The Company writes derivatives, primarily foreign currency forward contracts and option contracts, mostly with small and medium size enterprises and derives a currency spread from this activity as part of its Business Solutions operations. The Company aggregates its Business Solutions payments foreign currency exposures arising from customer contracts, including the derivative contracts described above, and hedges the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties (economic hedge contracts). The derivatives written are part of the broader portfolio of foreign currency positions arising from its cross-currency payments operations, which primarily include spot exchanges of currency in addition to forwards and options. The resulting foreign exchange revenues from the total portfolio of positions comprise Business Solutions foreign exchange revenues. None of the derivative contracts used in Business Solutions operations are designated as accounting hedges. The duration of these derivative contracts at inception is generally less than one year.

The aggregate equivalent United States dollar notional amounts of foreign currency derivative customer contracts held by the Company in its Business Solutions operations as of December 31, 2014 were approximately $5.5 billion. The significant majority of customer contracts are written in major currencies such as the Australian dollar, British pound, Canadian dollar, and euro.

Interest Rate Hedging—Corporate

The Company utilizes interest rate swaps to effectively change the interest rate payments on a portion of its notes from fixed-rate payments to short-term LIBOR-based variable rate payments in order to manage its overall exposure to interest rates. The Company designates these derivatives as fair value hedges. The change in fair value of the interest rate swaps is offset by a change in the carrying value of the debt being hedged within "Borrowings" in the Consolidated Balance Sheets and "Interest expense" in the Consolidated Statements of Income has been adjusted to include the effects of interest accrued on the swaps.

The Company, at times, utilizes derivatives to hedge the forecasted issuance of fixed-rate debt. These derivatives are designated as cash flow hedges of the variability in the fixed-rate coupon of the debt expected to be issued. The effective portion of the change in fair value of the derivatives is recorded in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets.

The Company held interest rate swaps in an aggregate notional amount of $975.0 million and $1,550.0 million as of December 31, 2014 and 2013, respectively. Of this aggregate notional amount held at December 31, 2014, $500.0 million related to notes due in 2017, $300.0 million related to notes due in 2018, and $175.0 million related to notes due in 2020.

Income Statement

The following tables summarize the location and amount of gains and losses of derivatives in the Consolidated Statements of Income segregated by designated, qualifying hedging instruments and those that are not, for the years ended December 31, 2014, 2013 and 2012 (in millions):

Fair Value Hedges

The following table presents the location and amount of gains/(losses) from fair value hedges for the years ended December 31, 2014, 2013 and 2012 (in millions):

	Gain/(Loss) Recognized in Income on Derivatives					Gain/(Loss) Recognized in Income on Related Hedged Item[a]				Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)			
	Income Statement	Amount				Income Statement	Amount			Income Statement	Amount		
Derivatives	Location	2014	2013	2012	Hedged Item	Location	2014	2013	2012	Location	2014	2013	2012
Interest rate contracts	Interest expense	$17.5	$(8.5)	$3.9	Fixed-rate debt	Interest expense	$(4.4)	$19.3	$3.7	Interest expense	$(0.7)	$—	$—
Total gain/(loss)		$17.5	$(8.5)	$3.9			$(4.4)	$19.3	$3.7		$(0.7)	$—	$—

Cash Flow Hedges

The following table presents the location and amount of gains/(losses) from cash flow hedges for the years ended December 31, 2014, 2013 and 2012 (in millions):

	Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion)			Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)				Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)[b]			
	Amount			Income Statement	Amount			Income Statement	Amount		
Derivatives	2014	2013	2012	Location	2014	2013	2012	Location	2014	2013	2012
Foreign currency contracts	$84.0	$(3.1)	$(20.1)	Revenue	$ 1.6	$10.4	$13.4	Derivative gains/ (losses), net	$(4.4)	$(0.4)	$(0.1)
Interest rate contracts[c]	—	—	—	Interest expense	(3.6)	(3.6)	(3.6)	Interest expense	—	—	—
Total gain/(loss)	$84.0	$(3.1)	$(20.1)		$(2.0)	$ 6.8	$ 9.8		$(4.4)	$(0.4)	$(0.1)

Undesignated Hedges

The following table presents the location and amount of net gains/(losses) from undesignated hedges for the years ended December 31, 2014, 2013 and 2012 (in millions):

	Gain/(Loss) Recognized in Income on Derivatives[d]			
		Amount		
Derivatives	Income Statement Location	2014	2013	2012
Foreign currency contracts[e]	Selling, general and administrative	$46.5	$(3.7)	$(10.6)
Foreign currency contracts[f]	Derivative gains/(losses), net	2.2	(0.9)	0.6
Total gain/(loss)		$48.7	$(4.6)	$(10.0)

[a] The 2014 loss of $4.4 million was comprised of a loss in value on the debt of $16.8 million and amortization of hedge accounting adjustments of $12.4 million. The 2013 gain of $19.3 million was comprised of a gain in value on the debt of $8.5 million and amortization of hedge accounting adjustments of $10.8 million. The 2012 gain of $3.7 million was comprised of a loss in value on the debt of $3.9 million and amortization of hedge accounting adjustments of $7.6 million.

[b] The portion of the change in fair value of a derivative excluded from the effectiveness assessment for foreign currency forward contracts designated as cash flow hedges represents the difference between changes in forward rates and spot rates.

[c] The Company uses derivatives to hedge the forecasted issuance of fixed-rate debt and records the effective portion of the derivative's fair value in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets. These amounts are reclassified to "Interest expense" in the Consolidated Statements of Income over the life of the related notes.

[d] The Company uses foreign currency forward and option contracts as part of its Business Solutions payments operations. These derivative contracts are excluded from this table as they are managed as part of a broader currency portfolio that includes non-derivative currency exposures. The gains and losses on these derivatives are included as part of the broader disclosure of portfolio revenue for this business discussed above.

[e] The Company uses foreign currency forward contracts to offset foreign exchange rate fluctuations on settlement assets and obligations as well as certain foreign currency denominated positions. Foreign exchange gains/(losses) on settlement assets and obligations and cash balances, not including amounts related to derivatives activity as displayed above, were $(51.8) million, $(5.4) million and $7.8 million for the years ended 2014, 2013 and 2012, respectively.

[f] The derivative contracts used in the Company's revenue hedging program are not designated as hedges in the final month of the contract.

An accumulated other comprehensive pre-tax gain of $46.2 million related to the foreign currency forward contracts is expected to be reclassified into revenue within the next 12 months as of December 31, 2014. Approximately $3.6 million of net losses on the forecasted debt issuance hedges are expected to be recognized in "Interest expense" in the Consolidated Statements of Income within the next 12 months as of December 31, 2014. No amounts have been reclassified into earnings as a result of the underlying transaction being considered probable of not occurring within the specified time period.

IMPAIRMENT OF INVESTMENTS

3.40 YUM! BRANDS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Tabular amounts in millions, except share data)

Note 2—Summary of Significant Accounting Policies (in part)

Principles of Consolidation and Basis of Preparation (in part)

Certain investments in entities that operate KFCs in China are accounted for by the equity method. These entities are not VIEs and our lack of majority voting rights precludes us from controlling these affiliates. Thus, we do not consolidate these affiliates, instead accounting for them under the equity method. Our share of the net income or loss of those unconsolidated affiliates is included in Other (income) expense. On February 1, 2012, we acquired an additional 66% interest in Little Sheep Group Limited ("Little Sheep"), increasing our ownership to 93%. As a result, we began consolidating this business, which was previously accounted for using the equity method. See Note 4 for a further description of the accounting upon acquisition of additional interest in Little Sheep. A meat processing entity affiliated with our Little Sheep business is accounted for by the equity method.

Impairment of Investments in Unconsolidated Affiliates. We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary. In addition, we evaluate our investments in unconsolidated affiliates for impairment when they have experienced two consecutive years of operating losses. In 2014, we recorded a $5 million impairment of our investment in a meat processing entity affiliated with our Little Sheep business. See Note 4 for further discussion of the impairment charge. No other impairment associated with our investments in unconsolidated affiliates was recorded during 2014, 2013 or 2012.

Note 4—Items Affecting Comparability of Net Income and Cash Flows (in part)

Little Sheep Acquisition and Subsequent Impairment

On February 1, 2012 we acquired an additional 66% interest in Little Sheep Group Limited ("Little Sheep") for $540 million, net of cash acquired of $44 million, increasing our ownership to 93%. The acquisition was driven by our strategy to build leading brands across China in every significant category. Prior to our acquisition of this additional interest, our 27% interest in Little Sheep was accounted for under the equity method of accounting. As a result of the acquisition we obtained voting control of Little Sheep, and thus we began consolidating Little Sheep upon acquisition. As required by GAAP, we re-measured our previously held 27% ownership in Little Sheep, which had a recorded value of $107 million at the date of acquisition, at fair value based on Little Sheep's traded share price immediately prior to our offer to purchase the business and recognized a non-cash gain of $74 million, with no related tax benefit within Other (income) expense.

The primary assets recorded as a result of the acquisition were the Little Sheep trademark and goodwill of approximately $400 million and $375 million, respectively.

The purchase price paid for the additional 66% interest and the resulting purchase price allocation in 2012 assumed same-store sales growth and new unit development for the brand. However, Little Sheep's sales were negatively impacted by a longer than expected purchase approval and ownership transition phase, and our efforts to regain sales momentum were significantly compromised in May 2013 due to negative publicity regarding quality issues with unrelated hot pot concepts in China, even though there was not an issue with the quality of Little Sheep products.

The sustained declines in sales and profits resulted in a determination that the Little Sheep trademark, goodwill and certain restaurant level PP&E were impaired during the quarter ended September 7, 2013. As a result, we recorded impairment charges to the trademark, goodwill and PP&E of $69 million, $222 million and $4 million, respectively, during the quarter ended September 7, 2013.

The inputs used in determining the 2013 fair values of the Little Sheep trademark and reporting unit assumed that the business would recover to pre-acquisition average-unit sales volumes and profit levels over the then next three years, supporting significant future new unit development by the Company. Long-term average growth assumptions subsequent to this assumed recovery included same-store-sales growth of 4% and average annual net unit growth of approximately 75 units, primarily operated by the Company.

The Little Sheep business continued to underperform during 2014 with actual average-unit sales volumes and profit levels significantly below those assumed in our 2013 estimation of the Little Sheep trademark and reporting unit fair values. As a result, a significant number of Company-operated restaurants were closed or refranchised during 2014 with future plans calling for further focus on franchise-ownership for the Concept.

We tested the Little Sheep trademark and goodwill for impairment in the fourth quarter of 2014 pursuant to our accounting policy. The inputs used in determining the 2014 fair values of the Little Sheep trademark and reporting unit no longer include a three-year recovery of sales and profits to pre-acquisition levels and reflect further reductions in Company ownership to a level of 50 restaurants (from 92 restaurants at December 27, 2014). As a result of comparing the trademark's 2014 fair value estimate of $58 million to its carrying value of $342 million, we recorded a $284 million impairment charge. Additionally, after determining the 2014 fair value estimate of the Little Sheep reporting unit was less than its carrying value we wrote off Little Sheep's remaining goodwill balance of $160 million. The Company also evaluated other Little Sheep long-lived assets for impairment and recorded $14 million of restaurant-level PP&E impairment and a $5 million impairment of our equity method investment in a meat processing business that supplies lamb to Little Sheep. The remaining net assets of the Little Sheep business of approximately $100 million as of December 27, 2014 include primarily the remaining $58 million trademark and PP&E of approximately $30 million related to a wholly-owned business that sells seasoning to retail customers.

The primary drivers of remaining fair value in our Little Sheep business include franchise revenue growth and cash flows associated with the aforementioned seasoning business. Franchise revenue growth reflects annual same-store sales growth of 4% and approximately 35 new franchise units per year, partially offset by approximately 25 franchise closures per year. The seasoning business is forecasted to generate sales growth rates and margins consistent with historical results.

The losses related to Little Sheep that have occurred concurrent with our trademark and goodwill impairments in 2014 and 2013 and our gain on acquisition in 2012, none of which have been allocated to any segment for performance reporting purposes, are summarized below:

	2014	2013	2012	Income Statement Classification
Gain on Acquisition	$ —	$ —	$(74)	Other (income) expense
Impairment of Goodwill	160	222	—	Closures and Impairment (income) expense
Impairment of Trademark	284	69	—	Closures and Impairment (income) expense
Impairment of PP&E	14	4	—	Closures and Impairment (income) expense
Impairment of Investment in Little Sheep Meat	5	—	—	Closures and Impairment (income) expense
Tax Benefit	(76)	(18)	—	Income tax provision
Loss Attributable to Non-Controlling Interest	(26)	(19)	—	Net Income (loss) noncontrolling interests
Net (gain) loss	$361	$258	$(74)	Net Income—YUM! Brands, Inc.

Both the 2014 and 2013 Little Sheep trademark and reporting unit fair values were based on the estimated prices a willing buyer would pay. The fair values of the trademark were determined using a relief from royalty valuation approach that included future estimated sales as a significant input. The reporting unit fair values were determined using an income approach with future cash flow estimates generated by the business as a significant input. All fair values incorporated a discount rate of 13% as our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing the Little Sheep trademark or reporting unit.

IMPAIRMENT OF INTANGIBLE ASSETS

3.41 ARROW ELECTRONICS, INC. (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(In thousands except per share data)

	Years Ended December 31,		
	2014	2013	2012
Sales	$22,768,674	$21,357,285	$20,405,128
Costs and Expenses:			
Cost of sales	19,772,779	18,566,356	17,667,842
Selling, general, and administrative expenses	1,959,749	1,873,638	1,849,534
Depreciation and amortization	156,048	131,141	115,350
Restructuring, integration, and other charges	39,841	92,650	47,437
Trade name impairment charge	78,000	—	—
Settlement of legal matters	—	—	(79,158)
	22,006,417	20,663,785	19,601,005
Operating income	762,257	693,500	804,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Dollars in thousands except per share data)

1. Summary of Significant Accounting Policies (in part)

Identifiable Intangible Assets

Amortization of definite-lived intangible assets is computed on the straight-line method over the estimated useful lives of the assets, while indefinite-lived intangible assets are not amortized. Identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The company also tests indefinite-lived intangible assets, consisting of acquired trade names, for impairment at least annually as of the first day of the fourth quarter. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

During the fourth quarter of 2014, in connection with the company's global re-branding initiative to brand certain of its businesses under the Arrow name, the company made the decision to discontinue the use of a trade name of one of its businesses within the global enterprise computing solutions ("ECS") business segment. As no future cash flows will be attributed to the impacted trade name, the entire book value was written-off, resulting in a non-cash impairment charge of $78,000 ($47,911 net of related taxes or $.49 and $.48 per share on a basic and diluted basis, respectively) as of December 31, 2014 in the company's consolidated statements of operations. Fair value was determined using unobservable (Level 3) inputs. The impairment charge did not impact the company's consolidated cash flows, liquidity, capital resources, and covenants under its existing revolving credit facility, asset securitization program, and other outstanding borrowings. No impairment existed as of December 31, 2014 with respect to the company's other identifiable intangible assets.

3. Cost in Excess of Net Assets of Companies Acquired and Intangible Assets, Net (in part)

Intangible assets, net, are comprised of the following as of December 31, 2014 :

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	indefinite	$101,000	$ —	$101,000
Customer relationships	10 years	402,036	(171,071)	230,965
Developed technology	5 years	8,806	(5,444)	3,362
Other intangible assets	[b]	1,719	(1,335)	384
		$513,561	$(177,850)	$335,711

[b] Consists of non-competition agreements with useful lives ranging from two to three years.

The gross carrying value of trade names in the table above is reflected net of a $78,000 non-cash impairment charge recorded during the fourth quarter of 2014. In connection with the company's global re-branding initiative to brand certain of its businesses under the Arrow name, the company made the decision to discontinue the use of a trade name of one of its businesses within the global ECS business segment. As no future cash flows will be attributed to the impacted trade name, the entire book value was written-off, resulting in the non-cash impairment charge of $78,000 ($47,911 net of related taxes or $.49 and $.48 per share on a basic and diluted basis, respectively) as of December 31, 2014 in the company's consolidated statements of operations. Fair value was determined using unobservable (Level 3) inputs. The impairment charge did not impact the company's consolidated cash flows, liquidity, capital resources, and covenants under its existing revolving credit facility, asset securitization program, and other outstanding borrowings. No impairment existed as of December 31, 2014 with respect to the company's other identifiable intangible assets.

Intangible assets, net, are comprised of the following as of December 31, 2013 :

	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	indefinite	$179,000	$ —	$179,000
Customer relationships	10 years	374,244	(134,817)	239,427
Developed technology	5 years	9,625	(4,051)	5,574
Other intangible assets	[c]	4,609	(2,541)	2,068
		$567,478	$(141,409)	$426,069

[c] Consists of non-competition agreements and sales backlog with useful lives ranging from one to three years.

Amortization expense related to identifiable intangible assets was $44,063 ($35,965 net of related taxes or $.36 per share on both a basic and diluted basis), $36,769 ($29,339 net of related taxes or $.29 and $.28 per share on a basic and diluted basis, respectively), and $36,508 ($29,336 net of related taxes or $.27 and $.26 per share on a basic and diluted basis, respectively) for the years ended December 31, 2014, 2013, and 2012, respectively. Amortization expense for each of the years 2015 through 2019 is estimated to be approximately $43,501, $41,627, $38,509, $32,892, and $26,462, respectively.

3.42 CACI INTERNATIONAL INC (JUN)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(amounts in thousands, except per share data)

	Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Revenue	$3,564,562	$3,681,990	$3,774,473
Costs of revenue:			
Direct costs	2,426,520	2,535,606	2,598,890
Indirect costs and selling expenses	815,458	821,465	819,772
Depreciation and amortization	65,181	54,078	55,962
Total costs of revenue	3,307,159	3,411,149	3,474,624
Income from operations	257,403	270,841	299,849
Interest expense and other, net	38,158	25,818	24,101
Income before income taxes	219,245	245,023	275,748

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 4. Acquisitions (in part)

Year Ended June 30, 2014 (in part)

On November 15, 2013, CACI acquired 100 percent of the outstanding shares of Six3 Systems. Six3 Systems provides highly specialized support to the national security community in the areas of cyber and signals intelligence; intelligence, surveillance, and reconnaissance; and intelligence operations. The acquisition expanded CACI's high-growth Cyberspace market, as well as build on CACI's capabilities in its high-volume C4ISR and Intelligence markets. In connection with the acquisition, on November 15, 2013, CACI entered into a fifth amendment (the Amendment) to its credit agreement dated as of October 21, 2010 (the Credit Agreement). The Amendment modified the Credit Agreement to allow for the incurrence of $700 million in additional term loans and a $100 million increase in the revolving facility to finance the acquisition of Six3 Systems.

The initial purchase consideration paid at closing in cash to acquire Six3 Systems was $820.0 million plus $25.8 million representing the estimated cash and net working capital adjustment, as defined in the agreement. Of the payment made at closing, $5.0 million was deposited into an escrow account pending final determination of the cash and net working capital acquired and $35.0 million was deposited into an escrow account to secure the sellers' indemnification obligations (the Indemnification Amount). During the three months ended March 31, 2014, the parties agreed on the final cash and net working capital acquired and the $5.0 million in escrow was distributed in full to the sellers. Any remaining Indemnification Amount at the end of the indemnification period not encumbered as a result of one or more indemnification claims will be distributed to the sellers.

The fair values assigned to the intangible assets acquired were based on estimates, assumptions, and other information compiled by management, including independent valuations that utilized established valuation techniques. Based on the Company's valuation, the total consideration of $847.3 million, which includes a final cash and net working capital adjustment of $1.4 million, has been allocated to assets acquired (including identifiable intangible assets and goodwill) and liabilities assumed (including deferred taxes on identifiable intangible assets that are not deductible for income tax purposes), as follows (in thousands):

Cash	$ 10,166
Accounts receivable	80,615
Prepaid expenses and other current assets	17,551
Property and equipment	8,051
Customer contracts and customer relationships	164,300
Goodwill	702,747
Other assets	598
Accounts payable	(9,047)
Accrued expenses and other current liabilities	(63,417)
Long-term deferred tax liability	(64,275)
Total consideration	$847,289

The goodwill of $702.7 million is largely attributed to the specialized workforce and the expected synergies between the Company and Six3 Systems. The value attributed to customer contracts and customer relationships is being amortized on an accelerated basis over approximately 14 years. Of the value attributed to goodwill, $55.1 million is deductible for income tax purposes.

From the date of acquisition through June 30, 2014, Six3 Systems generated $268.4 million of revenue and $8.9 million of net income. Six3 Systems' net income includes the impact of $12.9 million of amortization of customer contracts and customer relationships, as well as $4.2 million in expense associated with retention bonuses associated with retention agreements with certain Six3 Systems executives. The agreements provide for a payment upon the one and two year anniversaries of the acquisition, dependent upon continued employment by the executive as an employee of the Company. Six3 Systems' net income does not include the impact of acquisition-related expenses incurred by CACI.

CACI incurred $11.7 million of acquisition-related expenses during the year ended June 30, 2014, including expenses associated with retention bonuses. In addition, CACI incurred a $4.1 million indirect loss on extinguishment of debt. See Note 13 for additional information on the loss on extinguishment.

Note 13. Long Term Debt (in part)

Long-term debt consisted of the following (in thousands):

	June 30,	
	2014	2013
Convertible notes payable	$ —	$ 300,000
Bank credit facility—term loans	810,469	131,250
Bank credit facility—revolver loans	475,000	180,000
Principal amount of long-term debt	1,285,469	611,250
Less unamortized discount	—	(11,421)
Less unamortized debt issuance costs	(5,178)	(3,522)
Total long-term debt	1,280,291	596,307
Less current portion	(41,563)	(295,517)
Long-term debt, net of current portion	$1,238,728	$ 300,790

Bank Credit Facility (in part)

The Company has a $1,681.3 million credit facility (the Credit Facility), which consists of an $850.0 million revolving credit facility (the Revolving Facility) and an $831.3 million term loan (the Term Loan). The Revolving Facility has subfacilities of $50.0 million for same-day swing line loan borrowings and $25.0 million for stand-by letters of credit. At any time and so long as no default has occurred, the Company has the right to increase the Revolving Facility or the Term Loan in an aggregate principal amount of up to the greater of $400.0 million or an amount subject to 2.75 times senior secured leverage, calculated assuming the Revolving Facility is fully drawn, with applicable lender approvals. The Credit Facility is available to refinance existing indebtedness and for general corporate purposes, including working capital expenses and capital expenditures. The Credit Facility was amended on November 15, 2013 in connection with the Company's acquisition of Six3 Systems. See Note 4. Prior to the amendment, the Credit Facility consisted of a $750.0 million revolving credit facility and a $150.0 million term loan. In connection with the amendment, which allowed for the incurrence of $700.0 million of additional term loans and a $100.0 million increase in the Revolving Facility, the Company evaluated each creditor with ownership in the debt before and after the additional borrowings to determine whether the additional borrowings should be accounted for as a modification or an extinguishment of debt as it relates to each individual holder. As a result of this analysis, the Company recorded a $4.1 million loss on extinguishment within indirect costs and selling expenses in the three month period ended December 31, 2013. The Credit Facility matures on November 15, 2018.

Pensions and Other Postretirement Benefits

RECOGNITION AND MEASUREMENT

3.43 FASB ASC 715, *Compensation—Retirement Benefits*, requires that an entity recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or a liability in its statement of financial position, recognize changes in that funded status in comprehensive income, and disclose in the notes to the financial statements additional information about net periodic benefit cost. FASB ASC 715 requires an entity to recognize as components of other comprehensive income the gains or losses and prior service costs or credits that arise during a period but are not recognized in the income statement as components of net periodic benefit cost of a period. Those amounts recognized in accumulated other comprehensive income are adjusted as they are subsequently recognized in the income statement as components of net periodic benefit cost. Additionally, FASB ASC 715 requires that an entity measure plan assets and benefit obligations as of the date of its fiscal year-end statement of financial position. An employer whose equity securities are publicly traded is required to initially recognize the funded status of a defined benefit postretirement plan.

DISCLOSURE

3.44 FASB ASC 715 states the disclosure requirements for pensions and other postretirement benefits, including disclosures about the assets, obligations, cash flows, investment strategy, and net periodic benefit cost of defined pension and postretirement plans. FASB ASC 715 also includes disclosures related to multiemployer plans. FASB ASC 715-20 calls for different disclosures about defined benefit plans for public and nonpublic entities.

3.45 The disclosure requirements of FASB ASC 715 include, but are not limited to, the actuarial gains and losses, the assumed health care cost trend rate for other postretirement benefits, the allocation by major category of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (level 3) on changes in plan assets for the period, and significant concentrations of risk within plan assets.

3.46 FASB ASC 715-80 explains the additional disclosures required for multiemployer plans. An entity should include details in these disclosures, including plan names and identifying numbers for significant multiemployer plans, the level of employers' participation in the plans, the financial health of the plans, and the nature of the employer commitments to the plans.

PRESENTATION AND DISCLOSURE EXCERPTS

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

3.47 TELEFLEX INCORPORATED (DEC)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

Pensions and other postretirement benefits: The Company provides a range of benefits to eligible employees and retired employees, including pensions and postretirement healthcare. The Company records annual amounts relating to these plans based on calculations which include various actuarial assumptions such as discount rates, expected rates of return on plan assets, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate. The effect of the modifications is generally amortized over future periods.

Note 14—Pension and Other Postretirement Benefits

The Company has a number of defined benefit pension and other postretirement plans covering eligible U.S. and non-U.S. employees. The defined benefit pension plans are noncontributory. The benefits under these plans are based primarily on years of service and employees' pay near retirement. The Company's funding policy for U.S. plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. Obligations under non-U.S. plans are systematically provided for by depositing funds with trustees or by book reserves. As of December 31, 2014, the Company's U.S. defined benefit pension plans and the Company's other postretirement benefit plans, except certain postretirement benefit plans covering employees subject to a collective bargaining agreement, are frozen.

The Company and certain of its subsidiaries provide medical, dental and life insurance benefits to pensioners and survivors. The associated plans are unfunded and approved claims are paid from Company funds.

The following table provides information regarding the net benefit cost of pension and postretirement benefit plans for continuing operations:

	Pension			Other Benefits		
(Dollars in thousands)	2014	2013	2012	2014	2013	2012
Service cost	$ 1,794	$ 1,819	$ 2,331	$ 424	$ 663	$ 704
Interest cost	18,000	16,842	16,561	2,169	2,707	2,122
Expected return on plan assets	(25,006)	(23,122)	(20,245)	—	—	—
Net amortization and deferral	4,371	5,847	6,474	(7)	1,348	761
Curtailment gain	—	—	(197)	—	—	—
Settlement loss	—	—	106	—	—	—
Net benefit cost	$ (841)	$ 1,386	$ 5,030	$2,586	$4,718	$3,587

The following table provides the weighted average assumptions for United States and foreign plans used in determining net benefit cost:

	Pension			Other Benefits		
	2014	2013	2012	2014	2013	2012
Discount rate	5.0 %	4.3 %	4.3 %	4.7 %	3.8 %	4.0 %
Rate of return	8.3 %	8.3 %	8.3 %	—%	—%	—%
Initial healthcare trend rate	—%	—%	—%	7.5 %	8.2 %	8.5 %
Ultimate healthcare trend rate	—%	—%	—%	5.0 %	5.0 %	5.0 %

The following table provides summarized information with respect to the Company's pension and postretirement benefit plans, measured as of December 31, 2014 and 2013:

	Pension		Other Benefits	
	2014	2013	2014	2013
(Dollars in thousands)	Under Funded		Under Funded	
Benefit obligation, beginning of year	$ 367,731	$ 397,184	$ 52,448	$ 55,609
Service cost	1,794	1,819	424	663
Interest cost	18,000	16,842	2,169	2,707
Actuarial loss (gain)	82,922	(30,755)	1,273	(3,833)
Currency translation	(2,973)	861	—	—
Benefits paid	(17,988)	(17,004)	(3,287)	(2,860)
Medicare Part D reimbursement	—	—	127	162
Administrative costs	(1,522)	(1,216)	—	—
Projected benefit obligation, end of year	447,964	367,731	53,154	52,448
Fair value of plan assets, beginning of year	305,481	276,863	—	—
Actual return on plan assets	34,332	28,813	—	—
Contributions	9,539	17,724	—	—
Benefits paid	(17,988)	(17,004)	—	—
Settlements paid	—	—	—	—
Administrative costs	(1,522)	(1,216)	—	—
Currency translation	(1,012)	301	—	—
Fair value of plan assets, end of year	328,830	305,481	—	—
Funded status, end of year	$(119,134)	$ (62,250)	$(53,154)	$(52,448)

The following table sets forth the amounts recognized in the consolidated balance sheet with respect to the plans:

	Pension		Other Benefits	
(Dollars in thousands)	2014	2013	2014	2013
Payroll and benefit-related liabilities	$ (1,779)	$ (1,819)	$ (3,268)	$ (3,381)
Pension and postretirement benefit liabilities	(117,355)	(60,431)	(49,886)	(49,067)
Accumulated other comprehensive loss	213,117	144,866	8,353	7,073
	$ 93,983	$ 82,616	$(44,801)	$(45,375)

The following tables set forth the amounts recognized in accumulated other comprehensive income (loss) with respect to the plans:

	Pension			
(Dollars in thousands)	Prior Service Cost (Credit)	Net (Gain) or Loss	Deferred Taxes	Accumulated Other Comprehensive (Income) Loss, Net of Tax
Balance at December 31, 2012	$216	$186,700	$(67,567)	$119,349
Reclassification adjustments related to components of Net Periodic Benefit Cost recognized during the period:				
Net amortization and deferral	(34)	(5,813)	1,947	(3,900)
Amounts arising during the period:				
Actuarial changes in benefit obligation	—	(36,446)	13,206	(23,240)
Impact of currency translation	—	243	(66)	177
Balance at December 31, 2013	182	144,684	(52,480)	92,386
Reclassification adjustments related to components of Net Periodic Benefit Cost recognized during the period:				
Net amortization and deferral	(34)	(4,337)	1,539	(2,832)
Amounts arising during the period:				
Actuarial changes in benefit obligation	—	73,596	(26,131)	47,465
Impact of currency translation	—	(974)	265	(709)
Balance at December 31, 2014	$148	$212,969	$(76,807)	$136,310

	Other Benefits				
(Dollars in thousands)	Prior Service Cost (Credit)	Initial Obligation	Net (Gain) or Loss	Deferred Taxes	Accumulated Other Comprehensive (Income) Loss, Net of Tax
Balance at December 31, 2012	$(38)	$ 5	$12,287	$(4,346)	$ 7,908
Reclassification adjustments related to components of Net Periodic Benefit Cost recognized during the period:					
Net Amortization and deferral	55	(5)	(1,398)	492	(856)
Amounts Arising During the period:					
Actuarial changes in benefit obligation	—	—	(3,833)	1,432	(2,401)
Balance at December 31, 2013	17	—	7,056	(2,422)	4,651
Reclassification adjustments related to components of Net Periodic Benefit Cost recognized during the period:					
Net Amortization and deferral	55	—	(48)	(4)	3
Amounts Arising During the period:					
Actuarial changes in benefit obligation	—	—	1,273	(493)	780
Balance at December 31, 2014	$ 72	$—	$ 8,281	$(2,919)	$ 5,434

The following table provides the weighted average assumptions for United States and foreign plans used in determining benefit obligations:

	Pension		Other Benefits	
	2014	2013	2014	2013
Discount rate	4.1 %	5.0 %	4.0 %	4.7 %
Rate of compensation increase	3.0 %	3.0 %	—	—
Initial healthcare trend rate	—	—	7.3 %	7.0 %
Ultimate healthcare trend rate	—	—	5.0 %	5.0 %

The discount rate represents the interest rate used to determine the present value of future cash flows currently expected to be required to settle the Company's pension and other benefit obligations. The weighted average discount rates for United States pension plans and other benefit plans of 4.24% and 3.97%, respectively, were established by comparing the projection of expected benefit payments to the AA Above Median yield curve as of December 31, 2014. The expected benefit payments are discounted by each corresponding discount rate on the yield curve. For payments beyond 30 years, the Company extends the curve assuming that the discount rate derived in year 30 is extended to the end of the plan's payment expectations. Once the present value of the string of benefit payments is established, the Company determines the single rate on the yield curve that, when applied to all obligations of the plan, will exactly match the previously determined present value.

As part of the evaluation of pension and other postretirement assumptions, the Company applied assumptions for mortality and healthcare cost trends that incorporate generational white and blue collar mortality trends. In determining its benefit obligations, the Company used generational tables that take into consideration increases in plan participant longevity. During 2014, the Society of Actuaries published new mortality tables (RP-2014), which generally reflect longer life expectancy than was projected by past tables (RP-2000). The Company used the new mortality tables when applying mortality assumptions to the calculation of its projected benefit obligations as of December 31, 2014, which resulted in a 9% increase to the Company's projected benefit obligation.

The Company's assumption for the Expected Return on Plan Assets is primarily based on the determination of an expected return for its current portfolio. This determination is made using assumptions for return and volatility of the portfolio. Asset class assumptions are set using a combination of empirical and forward-looking analysis. To the extent historical results have been affected by unsustainable trends or events, the effects of those trends are quantified and removed. The Company applies a variety of models for filtering historical data and isolating the fundamental characteristics of asset classes. These models provide empirical return estimates for each asset class, which are then reviewed and combined with a qualitative assessment of long term relationships between asset classes before a return estimate is finalized. The qualitative analysis is intended to provide an additional means for addressing the effect of unrealistic or unsustainable short-term valuations or trends, resulting in return levels and behavior the Company believes are more likely to prevail over long periods. Effective in 2015, the Company changed its Expected Return on Plan Assets of the United States pension plans from 8.50% to 8.25% to reflect modifications to assumptions resulting from the analysis described above. This change had no impact on the results for the year ended December 31, 2014.

Increasing the assumed healthcare trend rate by 1% would increase the benefit obligation at December 31, 2014 by $4.4 million and would increase the 2014 benefit expense by $0.2 million. Decreasing the trend rate by 1% would decrease the benefit obligation at December 31, 2014 by $3.8 million and would decrease the 2014 benefit expense by $0.2 million.

The accumulated benefit obligation for all United States and foreign defined benefit pension plans was $447.4 million and $367.3 million for 2014 and 2013, respectively. All of our pension plans had accumulated benefit obligations in excess of their respective plan assets as of December 31, 2014 and 2013.

The Company's investment objective is to achieve an enhanced long-term rate of return on plan assets, subject to a prudent level of portfolio risk, for the purpose of enhancing the availability of benefits for participants. These investments are held primarily in equity and fixed income mutual funds. The Company's other investments are largely comprised of a hedge fund of funds and a structured credit fund. The equity funds are diversified in terms of domestic and international equity securities, as well as small, middle and large capitalization stocks. The domestic mutual funds held in the plans are subject to the diversification standards and industry limitations on concentration of holdings set forth in the Investment Company Act of 1940, as amended, and SEC staff guidance. The Company's target allocation percentage is as follows: equity securities (45%); fixed-income securities (35%) and other securities (20%). Equity funds are held for their expected return over inflation. Fixed-income funds are held for diversification relative to equities and as a partial hedge of interest rate risk to plan liabilities. The other investments are held to further diversify assets within the plans and are designed to provide a mix of equity and bond like return with a bond like risk profile. The plans may also hold cash to meet liquidity requirements. Actual performance may not be consistent with the respective investment strategies. Investment risks and returns are measured and monitored on an ongoing basis through annual liability measurements and investment portfolio reviews to determine whether the asset allocation targets continue to represent an appropriate balance of expected risk and reward.

The following table provides the fair values of the Company's pension plan assets at December 31, 2014 by asset category:

		Fair Value Measurements		
Asset Category[a]	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(Dollars in thousands)		
Cash	$ 659	$ 659	$ —	$ —
Money market funds	31	31	—	—
Equity securities:				
Managed volatility[b]	83,068	83,068	—	—
United States small/mid-cap equity[c]	20,312	20,312	—	—
World Equity (excluding United States)[d]	26,064	26,064	—	—
Common Equity Securities—Teleflex Incorporated	13,422	13,422	—	—
Diversified United Kingdom Equity	875	875	—	—
Diversified Global	2,884	2,884	—	—
Emerging Markets	1,266	1,266	—	—
Fixed income securities:				
Long duration bond fund[e]	92,553	92,553	—	—
UK corporate bond fund	2,719	2,719	—	—
UK Government bond fund	5,078	5,078	—	—
High yield bond fund[f]	11,618	11,618	—	—
Emerging markets debt fund[g]	8,531		8,531	—
Corporate, government and foreign bonds	81		81	—
Asset backed—home loans	782		782	—
Other types of investments:				
Structured credit[h]	31,176		—	31,176
Hedge fund of funds[i]	23,171		—	23,171
UK Property Fund[j]	1,549		1,549	—
Multi asset fund (k)	2,986	2,986	—	—
Other	5	—	—	5
Total	$328,830	$263,535	$10,943	$54,352

The following table provides the fair values of the Company's pension plan assets at December 31, 2013 by asset category:

		Fair Value Measurements		
Asset Category[a]	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Cash	$ 472	$ 472	$ —	$ —
Money market funds	310	310	—	—
Equity securities:				
Managed volatility[b]	77,140	77,140	—	—
United States small/mid-cap equity[c]	19,760	19,760	—	—
World Equity (excluding United States)[d]	30,183	30,183	—	—
Common Equity Securities—Teleflex Incorporated	10,972	10,972	—	—
Diversified United Kingdom Equity	928	928	—	—
Diversified Global	2,319	2,319	—	—
Emerging Markets	1,270	1,270	—	—
Fixed income securities:				
Long duration bond fund[e]	76,608	76,608	—	—
UK corporate bond fund	2,569	2,569	—	—
UK Government bond fund	4,455	4,455	—	—
High yield bond fund[f]	12,754	12,754	—	—
Emerging markets debt fund[g]	9,003	—	9,003	—
Corporate, government and foreign bonds	87	—	87	—
Asset backed—home loans	847	—	847	—
Other types of investments:				
Structured credit[h]	29,109	—	—	29,109
Hedge fund of funds[i]	22,540	—	—	22,540
UK Property Fund[j]	1,402	—	1,402	—
Multi asset fund[k]	2,748	2,748	—	—
Other	5	—	—	5
Total	$305,481	$242,488	$11,339	$51,654

[a] Information on asset categories described in notes (b)-(k) is derived from prospectuses and other material provided by the respective funds comprising the respective asset categories.

[b] This category comprises mutual funds that invest in securities of United States and non-United States companies of all capitalization ranges that exhibit relatively low volatility.

[c] This category comprises a mutual fund that invests at least 80% of its net assets in equity securities of small and mid-sized companies. The fund invests in common stocks or exchange traded funds holding common stock of United States companies with market capitalizations in the range of companies in the Russell 2500 Index.

[d] This category comprises a mutual fund that invests at least 80% of its net assets in equity securities of foreign companies. These securities may include common stocks, preferred stocks, warrants, exchange traded funds based on an international equity index and derivative instruments whose value is based on an international equity index and derivative instruments whose value is based on an underlying equity security or a basket of equity securities. The fund invests in securities of foreign issuers located in developed and emerging market countries. However, the fund will not invest more than 30% of its assets in the common stocks or other equity securities of issuers located in emerging market countries.

[e] This category comprises a mutual fund that invests in instruments or derivatives having economic characteristics similar to fixed income securities. The fund invests in investment grade fixed income instruments, including securities issued or guaranteed by the United States Government and its agencies and instrumentalities, corporate bonds, asset-backed securities, exchange traded funds, mortgage-backed securities and collateralized mortgage-backed securities. The fund invests primarily in long duration government and corporate fixed income securities, and uses derivative instruments, including interest rate swap agreements and Treasury futures contracts, for the purpose of managing the overall duration and yield curve exposure of the Fund's portfolio of fixed income securities.

[f] This category comprises a mutual fund that invests at least 80% of its net assets in higher-yielding fixed income securities, including corporate bonds and debentures, convertible and preferred securities and zero coupon obligations.

[g] This category comprises a mutual fund that invests at least 80% of its net assets in fixed income securities of emerging market issuers, primarily in United States dollar-denominated debt of foreign governments, government-related and corporate issuers in emerging market countries and entities organized to restructure the debt of those issuers.

[h] This category comprises a fund that invests primarily in collateralized debt obligations ("CDOs") and other structured credit vehicles. The fund investments may include fixed income securities, loan participants, credit-linked notes, medium-term notes, pooled investment vehicles and derivative instruments.

[i] This category comprises a hedge fund that invests in various other hedge funds. As of December 31, 2014 and 2013:

- approximately 33% and 28%, respectively, of the assets of the hedge fund were invested in equity hedge based funds, including equity long/short and equity market neutral strategies;
- approximately 10% and 18%, respectively, of the assets were held in tactical/directional based funds, including global macro, long/short equity, commodity and systematic quantitative strategies;
- approximately 24% and 25%, respectively, of the assets were held in relative value based funds, including convertible and fixed income arbitrage, credit long/short and volatility arbitrage strategies;
- approximately 33% and 23%, respectively, of the assets were held in funds with an event driven strategy; and
- approximately 6% of the assets were held in cash as of December 31, 2013.

[j] This category comprises a fund that invests primarily in UK freehold and leasehold property. The fund does not invest in higher risk activities such as developments. The fund may invest in indirect vehicles and property derivatives.

[k] This category comprises a mutual fund that invests primarily in equities, bonds and alternatives.

The following table provides a reconciliation of changes in pension assets measured at fair value on a recurring basis, using Level 3 inputs, from December 31, 2012 through December 31, 2014:

	(Dollars in thousands)
Balance at December 31, 2012	$48,198
Unrealized gain on assets	3,456
Balance at December 31, 2013	51,654
Unrealized gain on assets	2,698
Balance at December 31, 2014	$54,352

The Company's contributions to United States and foreign pension plans during 2015 are expected to be approximately $2.9 million. Contributions to postretirement healthcare plans during 2015 are expected to be approximately $3.3 million.

The following table provides information about the Company's expected benefit payments for U.S. and foreign plans for each of the five succeeding years and the aggregate of the five years thereafter, net of the annual average Medicare Part D subsidy of approximately $0.2 million:

(Dollars in thousands)	Pension	Other Benefits
2015	$ 17,841	$ 3,268
2016	18,449	3,362
2017	19,023	3,334
2018	19,653	3,367
2019	20,472	3,416
Years 2020–2024	114,185	18,229

The Company maintains a number of defined contribution savings plans covering eligible United States and non-United States employees. The Company partially matches employee contributions. Costs related to these plans were $11.5 million, $12.1 million and $10.1 million for 2014, 2013 and 2012, respectively.

DEFINED CONTRIBUTION PLANS

3.48 DARDEN RESTAURANTS, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 17—Retirement Plans (in part)

Defined Contribution Plan

We have a defined contribution (401(k)) plan covering most employees age 21 and older. We match contributions for participants with at least one year of service up to 6 percent of compensation, based on our performance. The match ranges from a minimum of $0.25 to $1.20 for each dollar contributed by the participant. The plan had net assets of $729.1 million at May 25, 2014 and $719.0 million at May 26, 2013. Expense recognized in fiscal 2014, 2013 and 2012 was $0.7 million, $0.9 million and $0.9 million, respectively. Employees classified as "highly compensated" under the IRC are not eligible to participate in this plan. Instead, highly compensated employees are eligible to participate in a separate non-qualified deferred compensation (FlexComp) plan. This plan allows eligible employees to defer the payment of part of their annual salary and all or part of their annual bonus and provides for awards that approximate the matching contributions and other amounts that participants would have received had they been eligible to participate in our defined contribution and defined benefit plans. Amounts payable to highly compensated employees under the FlexComp plan totaled $228.8 million and $224.3 million at May 25, 2014 and May 26, 2013, respectively. These amounts are included in other current liabilities.

The defined contribution plan includes an Employee Stock Ownership Plan (ESOP). The ESOP borrowed $16.9 million from us at a variable rate of interest in July 1996. At May 25, 2014, the ESOP's original debt to us had a balance of $4.1 million with a variable rate of interest of 0.15 percent and is due to be repaid no later than December 2014. At the end of fiscal 2005, the ESOP borrowed an additional $1.6 million (Additional Loan) from us at a variable interest rate and acquired an additional 0.05 million shares of our common stock, which were held in suspense within the ESOP at that time. At May 25, 2014, the Additional Loan had a balance of $1.3 million with a variable interest rate of 0.23 percent and is due to be repaid no later than December 2018. Compensation expense is recognized as contributions are accrued. Fluctuations in our stock price impact the amount of expense to be recognized. Contributions to the plan, plus the dividends accumulated on unallocated shares held by the ESOP, are used to pay principal, interest and expenses of the plan. As loan payments are made, common stock is allocated to ESOP participants. In each of the fiscal years 2014, 2013 and 2012, the ESOP used dividends received of $0.9 million, $1.0 million and $1.9 million, respectively, and contributions received from us of $0.0 million, $0.1 million and $0.5 million, respectively, to pay principal and interest on our debt.

ESOP shares are included in weighted-average common shares outstanding for purposes of calculating net earnings per share with the exception of those shares acquired under the Additional Loan which are accounted for in accordance with FASB ASC Subtopic 718-40, Employee Stock Ownership Plans. Fluctuations in our stock price are recognized as adjustments to common stock and surplus when the shares are committed to be released. The ESOP shares acquired under the Additional Loan are not considered outstanding until they are committed to be released and, therefore, unreleased shares have been excluded for purposes of calculating basic and diluted net earnings per share. As of May 25, 2014, the ESOP shares included in the basic and diluted net earnings per share calculation totaled 4.0 million shares, representing 3.2 million allocated shares and 0.8 million suspense shares.

SUPPLEMENTAL RETIREMENT PLANS (SERP)

3.49 GUESS?, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(1) Description of the Business and Summary of Significant Accounting Policies and Practices (in part)

Supplemental Executive Retirement Plan

In accordance with authoritative accounting guidance for defined benefit pension and other postretirement plans, an asset for a plan's overfunded status or a liability for a plan's underfunded status is recognized in the consolidated balance sheets; plan assets and obligations that determine the plan's funded status are measured as of the end of the Company's fiscal year; and changes in the funded status of defined benefit postretirement plans are recognized in the year in which they occur. Such changes are reported in other comprehensive income (loss) and as a separate component of stockholders' equity.

(12) Supplemental Executive Retirement Plan

On August 23, 2005, the Board of Directors of the Company adopted a Supplemental Executive Retirement Plan ("SERP") which became effective January 1, 2006. The SERP provides select employees who satisfy certain eligibility requirements with certain benefits upon retirement, termination of employment, death, disability or a change in control of the Company, in certain prescribed circumstances. Paul Marciano, Chief Executive Officer and Vice Chairman of the Board, is the only active employee participating in the SERP. Maurice Marciano, non-executive Chairman of the Board of Directors, was an active participant in the SERP until his retirement effective on January 28, 2012. Mr. Maurice Marciano will be eligible to receive vested SERP benefits in the future in accordance with the terms of the SERP.

In July 2013, the Company amended the SERP to limit the amount of eligible wages under the plan that count toward the SERP benefit for the active participant. As a result, the projected benefit obligation and unrecognized prior service cost were reduced by $4.5 million during fiscal 2014.

During the year ended January 28, 2012, the Company recorded a SERP curtailment expense of $1.2 million before taxes related to the accelerated amortization of prior service cost resulting from the retirement of Mr. Maurice Marciano as an employee and executive officer, effective upon the expiration of his employment agreement on January 28, 2012. Mr. Maurice Marciano did not receive or earn any additional SERP-related benefits in connection with his retirement and, as of the date of his retirement, ceased vesting or accruing any additional benefits under the terms of the SERP. Mr. Maurice Marciano's retirement resulted in a significant reduction in the total expected remaining years of future service of all SERP participants combined, resulting in the pension curtailment during fiscal 2012.

As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has made, and expects to continue to make, periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The amount of future payments into the insurance policies may vary, depending on any changes to the estimates of final annual compensation levels and investment performance of the trust. The cash surrender values of the insurance policies were $51.4 million and $47.9 million as of February 1, 2014 and February 2, 2013, respectively, and were included in other assets in the Company's consolidated balance sheets. As a result of changes in the value of the insurance policy investments, the Company recorded unrealized gains (losses) of $3.6 million, $3.4 million and ($0.2) million in other income and expense during fiscal 2014, fiscal 2013 and fiscal 2012, respectively.

In accordance with authoritative accounting guidance for defined benefit pension and other postretirement plans, an asset for a plan's overfunded status or a liability for a plan's underfunded status is recognized in the consolidated balance sheets; plan assets and obligations that determine the plan's funded status are measured as of the end of the Company's fiscal year; and changes in the funded status of defined benefit postretirement plans are recognized in the year in which they occur. Such changes are reported in other comprehensive income (loss) and as a separate component of stockholders' equity.

The components of net periodic pension cost to comprehensive income for fiscal 2014, fiscal 2013 and fiscal 2012 were as follows (in thousands):

	Year Ended Feb 1, 2014	Year Ended Feb 2, 2013	Year Ended Jan 28, 2012
Interest cost	$ 2,345	$ 2,392	$ 2,641
Net amortization of unrecognized prior service cost	194	620	940
Net amortization of actuarial losses	1,108	3,340	2,048
Curtailment expense	—	—	1,242
Net periodic defined benefit pension cost	$ 3,647	$ 6,352	$ 6,871
Unrecognized prior service cost charged to comprehensive income	$ 194	$ 620	$ 940
Unrecognized net actuarial loss charged to comprehensive income	1,108	3,340	2,048
Actuarial gains (losses)	1,751	3,508	(9,342)
Plan amendment	4,529	—	—
Curtailment expense	—	—	1,242
Related tax impact	(2,963)	(2,855)	2,057
Total periodic costs and other charges to comprehensive income	$ 4,619	$ 4,613	$(3,055)

Included in accumulated other comprehensive income (loss), before tax, as of February 1, 2014 and February 2, 2013 were the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	Feb 1, 2014	Feb 2, 2013
Unrecognized prior service (credit) cost[1]	$ (1,981)	$ 2,742
Unrecognized net actuarial loss	12,974	15,832
Total included in accumulated other comprehensive income (loss)	$10,993	$18,574

[1] During fiscal 2014, the Company amended the SERP to limit the amount of eligible wages under the plan that count toward the SERP benefit for the active participant. As a result, unrecognized prior service cost was reduced by $4.5 million during fiscal 2014.

The following chart summarizes the SERP's funded status and the amounts recognized in the Company's consolidated balance sheets (in thousands):

	Feb 1, 2014	Feb 2, 2013
Projected benefit obligation	$(54,704)	$(58,639)
Plan assets at fair value[1]	—	—
Net liability (included in other long-term liabilities)	$(54,704)	$(58,639)

[1] The SERP is a non-qualified pension plan and hence the insurance policies are not considered to be plan assets. Accordingly, the table above does not include the insurance policies with cash surrender values of $51.4 million and $47.9 million at February 1, 2014 and February 2, 2013, respectively.

A reconciliation of the changes in the projected benefit obligation for fiscal 2014 and fiscal 2013 is as follows (in thousands):

	Projected Benefit Obligation
Balance at January 28, 2012	$59,755
Interest cost	2,392
Actuarial gains	(3,508)
Balance at February 2, 2013	$58,639
Interest cost	2,345
Plan amendment	(4,529)
Actuarial gains	(1,751)
Balance at February 1, 2014	$54,704

The Company assumed a discount rate of approximately 4.3% and 4.0% for the years ended February 1, 2014 and February 2, 2013, respectively, as part of the actuarial valuation performed to calculate the projected benefit obligation disclosed above, based on the timing of cash flows expected to be made in the future to the participants, applied to high quality yield curves. Compensation levels utilized in calculating the projected benefit obligation were derived from expected future compensation as outlined in employment contracts in effect at the time. At February 1, 2014, amounts included in comprehensive income (loss) that are expected to be recognized as components of net periodic defined benefit pension cost in fiscal 2015 consist of amortization of prior service credits of $0.2 million and actuarial losses of $0.9 million. Benefits projected to be paid in the next five fiscal years amount to $8.5 million with equal amounts expected to be paid during each of the years. Aggregate benefits projected to be paid in the following five fiscal years amount to $16.7 million.

MULTI-EMPLOYER PLANS

3.50 EMCOR GROUP, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 14—Retirement Plans (in part)

Multiemployer Plans

We participate in over 200 multiemployer pension plans ("MEPPs") that provide retirement benefits to certain union employees in accordance with various collective bargaining agreements ("CBAs"). As one of many participating employers in these MEPPs, we are responsible with the other participating employers for any plan underfunding. Our contributions to a particular MEPP are established by the applicable CBAs; however, our required contributions may increase based on the funded status of an MEPP and legal requirements of the Pension Protection Act of 2006 (the "PPA"), which requires substantially underfunded MEPPs to implement a funding improvement plan ("FIP") or a rehabilitation plan ("RP") to improve their funded status. Factors that could impact funded status of an MEPP include, without limitation, investment performance, changes in the participant demographics, decline in the number of contributing employers, changes in actuarial assumptions and the utilization of extended amortization provisions.

An FIP or RP requires a particular MEPP to adopt measures to correct its underfunding status. These measures may include, but are not limited to: (a) an increase in our contribution rate as a signatory to the applicable CBA, (b) a reallocation of the contributions already being made by participating employers for various benefits to individuals participating in the MEPP and/or (c) a reduction in the benefits to be paid to future and/or current retirees. In addition, the PPA requires that a 5% surcharge be levied on employer contributions for the first year commencing shortly after the date the employer receives notice that the MEPP is in critical status and a 10% surcharge on each succeeding year until a CBA is in place with terms and conditions consistent with the RP.

We could also be obligated to make payments to MEPPs if we either cease to have an obligation to contribute to the MEPP or significantly reduce our contributions to the MEPP because we reduce our number of employees who are covered by the relevant MEPP for various reasons, including, but not limited to, layoffs or closure of a subsidiary assuming the MEPP has unfunded vested benefits. The amount of such payments (known as a complete or partial withdrawal liability) would equal our proportionate share of the MEPPs' unfunded vested benefits. We believe that certain of the MEPPs in which we participate may have unfunded vested benefits. Due to uncertainty regarding future factors that could trigger withdrawal liability, as well as the absence of specific information regarding the MEPP's current financial situation, we are unable to determine (a) the amount and timing of any future withdrawal liability, if any, and (b) whether our participation in these MEPPs could have a material adverse impact on our financial position, results of operations or liquidity. We recorded a withdrawal liability of approximately $0.1 million for the year ended December 31, 2013. We did not record any withdrawal liability for the years ended December 31, 2014 and 2012.

The following table lists all domestic MEPPs to which our contributions exceeded $2.0 million in 2014. Additionally, this table also lists all domestic MEPPs to which we contributed in 2014 in excess of $0.5 million for MEPPs in the critical status, "red zone" and $1.0 million in the endangered status, "orange or yellow zones", as defined by the PPA (in thousands):

		PPA Zone Status[1]			Contributions				
Pension Fund	EIN/Pension Plan Number	2014	2013	FIP/RP Status	2014	2013	2012	Contributions Greater Than 5% of Total Plan Contributions[2]	Expiration Date of CBA
Plumbers & Pipefitters National Pension Fund	52-6152779 001	Yellow	Yellow	Implemented	$10,425	$12,509	$10,999	No	February 2015 to June 2019
Sheet Metal Workers National Pension Fund	52-6112463 001	Yellow	Red	Implemented	9,977	9,476	9,837	No	April 2015 to June 2019
National Electrical Benefit Fund	53-0181657 001	Green	Green	N/A	7,985	7,986	7,679	No	February 2015 to May 2019
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	36-6052390 001	Green	Green	N/A	6,518	6,296	6,076	No	November 2015 to December 2018
Pension, Hospitalization & Benefit Plan of the Electrical Industry-Pension Trust Account	13-6123601 001	Green	Green	N/A	6,219	6,189	5,722	No	May 2015 to January 2018
National Automatic Sprinkler Industry Pension Fund	52-6054620 001	Red	Red	Implemented	6,000	4,226	4,952	No	June 2015 to July 2017

(continued)

		PPA Zone Status[1]			Contributions				
Pension Fund	EIN/Pension Plan Number	2014	2013	FIP/RP Status	2014	2013	2012	Contributions Greater Than 5% of Total Plan Contributions[2]	Expiration Date of CBA
Plumbers Pipefitters & Mechanical Equipment Service Local Union 392 Pension Plan	31-0655223 001	Red	Red	Implemented	4,962	4,128	3,848	Yes	June 2019
Electrical Contractors Association of the City of Chicago Local Union 134, IBEW Joint Pension Trust of Chicago Pension Plan 2	51-6030753 002	Green	Green	N/A	4,051	2,412	2,179	No	May 2015
U.A. Local 393 Pension Trust Fund Defined Benefit	94-6359772 002	Green	Green	N/A	3,585	2,811	2,181	Yes	June 2015
Sheet Metal Workers Pension Plan of Northern California	51-6115939 001	Red	Red	Implemented	3,467	3,658	3,881	No	June 2016
Northern California Pipe Trades Pension Plan	94-3190386 001	Green	Green	N/A	3,270	2,258	3,582	No	May 2015 to June 2015
Pipefitters Union Local 537 Pension Fund	51-6030859 001	Green	Green	N/A	2,981	3,690	2,747	Yes	January 2015 to August 2017
Electrical Workers Local No. 26 Pension Trust Fund	52-6117919 001	Green	Green	N/A	2,880	2,878	3,049	Yes	February 2015 to January 2018
Southern California Pipe Trades Retirement Fund	51-6108443 001	Green	Green	N/A	2,863	5,498	3,443	Yes	June 2015 to August 2015
Southern California IBEW-NECA Pension Trust Fund	95-6392774 001	Yellow	Yellow	Implemented	2,776	3,215	3,266	No	May 2015 to November 2019
Eighth District Electrical Pension Fund	84-6100393 001	Green	Green	N/A	2,695	3,005	3,890	Yes	February 2015 to May 2015
Arizona Pipe Trades Pension Plan	86-6025734 001	Green	Green	N/A	2,098	4,108	6,871	Yes	June 2017 to July 2017
Heating, Piping & Refrigeration Pension Fund	52-1058013 001	Yellow	Yellow	Implemented	1,877	2,139	2,078	No	January 2015 to February 2017
Sheet Metal Workers Pension Plan of Southern California, Arizona & Nevada	95-6052257 001	Red	Red	Implemented	1,824	1,271	1,072	No	June 2015 to June 2019
U.A. Local 38 Defined Benefit Pension Plan	94-3042549 001	Yellow	Yellow	Implemented	1,605	1,522	927	No	June 2015 to June 2017
Local No. 697 IBEW and Electrical Industry Pension Fund	51-6133048 001	Yellow	Yellow	Implemented	1,499	1,443	1,757	Yes	May 2015
Boilermaker-Blacksmith National Pension Trust	48-6168020 001	Yellow	Yellow	Implemented	1,177	1,828	2,996	No	September 2015 to September 2017
Plumbing & Pipe Fitting Local 219 Pension Fund	34-6682376 001	Red	Red	Implemented	1,107	1,142	936	Yes	May 2017
Building Trades United Pension Trust Fund	51-6049409 001	Yellow	Yellow	Implemented	1,033	918	1,019	No	May 2016
Steamfitters Local Union No. 420 Pension Plan	23-2004424 001	Red	Red	Implemented	862	831	1,557	No	April 2017 to May 2017
Plumbers & Pipefitters Local 162 Pension Fund	31-6125999 001	Red	Red	Implemented (3)	818	770	737	Yes	May 2019
Local 73 Retirement Plan	15-6016577 001	Red	Red	Implemented (3)	805	225	—	No	April 2015
U.A. Local 467 Defined Benefit Plan	94-2353807 005	Red	Red	Implemented	787	538	534	No	June 2015 to June 2017
Carpenters Pension Trust Fund for Northern California	94-6050970 001	Red	Red	Pending	522	452	539	No	June 2019
Other Multiemployer Pension Plans					41,323	43,849	40,362		Various
Total Contributions					$137,991	$141,271	$138,716		

[1] The zone status represents the most recent available information for the respective MEPP, which may be 2013 or earlier for the 2014 year and 2012 or earlier for the 2013 year.

[2] This information was obtained from the respective plans' Form 5500 ("Forms") for the most current available filing. These dates may not correspond with our fiscal year contributions. The above noted percentages of contributions are based upon disclosures contained in the plans' Forms. Those Forms, among other things, disclose the names of individual participating employers whose annual contributions account for more than 5% of the aggregate annual amount contributed by all participating employers for a plan year. Accordingly, if the annual contribution of two or more of our subsidiaries each accounted for less than 5% of such contributions, but in the aggregate accounted for in excess of 5% of such contributions, that greater percentage is not available and accordingly is not disclosed.

[3] For these respective plans, a funding surcharge was currently in effect for 2014.

The nature and diversity of our business may result in volatility in the amount of our contributions to a particular MEPP for any given period. That is because, in any given market, we could be working on a significant project and/or projects, which could result in an increase in our direct labor force and a corresponding increase in our contributions to the MEPP(s) dictated by the applicable CBA. When that particular project(s) finishes and is not replaced, the number of participants in the MEPP(s) who are employed by us would also decrease, as would our level of contributions to the particular MEPP(s). Additionally, the amount of contributions to a particular MEPP could also be affected by the terms of the CBA, which could require at a particular time, an increase in the contribution rate and/or surcharges. Our contributions to various MEPPs did not increase as a result of acquisitions made since 2012.

We also participate in two MEPPs that are located within the United Kingdom for which we have contributed $0.2 million for the year ended December 31, 2014 and $0.3 million for each of the years ended December 31, 2013 and 2012. The information that we have obtained relating to these plans is not as readily available and/or as comparable as the information that has been ascertained in the United States. Based upon the most recently available information, one of the plans is 100% funded, and the other plan is less than 65% funded. A recovery plan has been put in place for the plan that is less than 65% funded, which requires higher contribution amounts to be paid by our UK operations.

Additionally, we contribute to certain multiemployer plans that provide post retirement benefits such as health and welfare benefits and/or defined contribution/annuity plans, among others. Our contributions to these plans approximated $98.3 million, $93.5 million and $89.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. Our contributions to other post retirement benefit plans did not increase as a result of acquisitions made since 2012. The amount of contributions to these plans is also subject for the most part to the factors discussed above in conjunction with the MEPPs.

PLAN AMENDMENT

3.51 DOVER CORPORATION (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Amounts in thousands except share data and where otherwise indicated)

15. Employee Benefit Plans

The Company offers defined contribution retirement plans which cover the majority of its U.S. employees, as well as employees in certain other countries. The Company's expense relating to defined contribution plans was $34,263, $25,645, and $25,805 for the years ended December 31, 2014, 2013, and 2012, respectively.

The Company sponsors qualified defined benefit pension plans covering certain employees of the Company and its subsidiaries. The plans' benefits are generally based on years of service and employee compensation. The Company also provides to certain management employees, through non-qualified plans, supplemental retirement benefits in excess of qualified plan limits imposed by federal tax law.

In July 2013, the Company announced that, after December 31, 2013, the U.S. qualified and non-qualified defined benefit plans will be closed to new employees. All pension-eligible employees as of December 31, 2013 will continue to earn a pension benefit through December 31, 2023 as long as they remain employed by an operating company participating in the plan. The Company also announced that effective, January 1, 2024, the plan would be frozen to any future benefit accruals.

In connection with the recent separation of Knowles, the Company offered one-time lump sum payments in 2014 to Knowles employees that participated in Dover's qualified defined benefit pension plan. In 2014, the Company made total lump sum payments to participants in this plan of $49,338. Based on the total of the lump sum payments made to both Knowles and other participants in the plan during the year, the Company recorded a settlement charge of approximately $10,279 in 2014.

The Company also maintains post retirement benefit plans which cover approximately 1,165 participants, approximately 1,143 of whom are eligible for medical benefits. These plans are effectively closed to new entrants. The supplemental and post retirement benefit plans are supported by the general assets of the Company.

Obligations and Funded Status

The following tables summarize the balance sheet impact, including the benefit obligations, assets, and funded status associated with the Company's significant defined benefit and other postretirement plans at December 31, 2014 and 2013.

	Qualified Defined Benefits				Non-Qualified Supplemental Benefits		Post-Retirement Benefits	
	U.S. Plan		Non-U.S. Plans					
	2014	2013	2014	2013	2014	2013	2014	2013
Change in Benefit Obligation:								
Benefit obligation at beginning of year	$519,552	$603,905	$ 299,284	$284,798	$ 133,056	$ 180,408	$ 14,136	$ 14,571
Benefits earned during the year	13,801	17,123	6,027	6,043	3,320	5,634	249	234
Interest cost	25,204	24,801	8,222	9,081	6,148	6,741	627	523
Plan participants' contributions	—	—	1,732	1,583	—	—	476	448
Benefits paid	(17,957)	(35,266)	(5,452)	(11,237)	(13,939)	(20,686)	(1,222)	(1,163)
Actuarial (gain) loss	84,314	(76,605)	40,962	6,501	11,088	(34,831)	(556)	(618)
Business dispositions	—	—	(60,164)	—	(3,137)	—	—	—
Amendments	—	1,913	—	—	1,463	3,004	—	65
Settlements and curtailments	(49,338)	(16,818)	(390)	(3,036)	—	(7,228)	—	—
Currency translation and other	—	499	(25,198)	5,551	—	14	233	76
Benefit obligation at end of year	575,576	519,552	265,023	299,284	137,999	133,056	13,943	14,136
Change in Plan Assets:								
Fair value of plan assets at beginning of year	595,143	554,648	203,681	181,416	—	—	—	—
Actual return on plan assets	73,528	66,761	14,868	17,356	—	—	—	—
Company contributions	—	9,000	9,547	11,359	13,939	20,686	746	715
Plan participants' contributions	—	—	1,732	1,583	—	—	476	448
Benefits paid	(17,957)	(35,266)	(5,452)	(11,237)	(13,939)	(20,686)	(1,222)	(1,163)
Business dispositions	—	—	(46,334)	—	—	—	—	—
Settlements and curtailments	(49,338)	—	(390)	—	—	—	—	—
Currency translation	—	—	(14,142)	3,204	—	—	—	—
Fair value of plan assets at end of year	601,376	595,143	163,510	203,681	—	—	—	—
Funded status	$ 25,800	$ 75,591	$(101,513)	$ (95,603)	$(137,999)	$(133,056)	$(13,943)	$(14,136)
Amounts Recognized in the Balance Sheets Consist of:								
Assets and Liabilities:								
Other assets and deferred charges	$ 25,800	$ 75,591	$ 152	$ 2,976	$ —	$ —	$ —	$ —
Accrued compensation and employee benefits	—	—	(1,575)	(1,970)	(21,978)	(10,161)	(926)	(971)
Other liabilities (deferred compensation)	—	—	(100,090)	(96,609)	(116,021)	(122,895)	(13,017)	(13,165)
Total Assets and Liabilities	$ 25,800	$ 75,591	$(101,513)	$ (95,603)	$(137,999)	$(133,056)	$(13,943)	$(14,136)
Accumulated Other Comprehensive Loss (Earnings):								
Net actuarial losses (gains)	$119,919	$ 86,108	$ 61,813	$ 38,596	$ (746)	$ (12,520)	$ 192	$ 799
Prior service cost (credit)	3,388	4,471	1,058	1,146	31,381	38,646	(615)	(1,024)
Net asset at transition, other	—	—	(48)	(48)	—	—	—	—
Deferred taxes	(43,158)	(31,703)	(15,312)	(9,965)	(10,725)	(9,145)	90	20
Total Accumulated Other Comprehensive Loss (Earnings), net of tax	80,149	58,876	47,511	29,729	19,910	16,981	(333)	(205)
Net amount recognized at December 31,	$105,949	$134,467	$ (54,002)	$ (65,874)	$(118,089)	$(116,075)	$(14,276)	$(14,341)
Accumulated benefit obligations	$537,393	$482,181	$ 246,814	$280,763	$ 123,229	$ 93,153		

The Company's net unfunded status at December 31, 2014 and 2013 includes net liabilities of $101,513 and $95,603, respectively, relating to the Company's significant international plans, some in locations where it is not economically advantageous to pre-fund the plans due to local regulations. The majority of the international obligations relate to defined pension plans operated by the Company's businesses in Germany, the United Kingdom, and Switzerland.

The accumulated benefit obligation for all defined benefit pension plans was $907,436 and $856,097 at December 31, 2014 and 2013, respectively. Pension plans with accumulated benefit obligations in excess of plan assets consist of the following at December 31, 2014 and 2013 :

	2014	2013
Projected benefit obligation (PBO)	$372,931	$369,289
Accumulated benefit obligation (ABO)	342,158	336,095
Fair value of plan assets	133,930	137,654

Net Periodic Benefit Cost

Components of the net periodic benefit cost were as follows:

Defined Benefit Plans

	Qualified Defined Benefits						Non-Qualified Supplemental Benefits		
	U.S. Plan			Non-U.S. Plans[1]					
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Service cost	$ 13,801	$ 17,123	$ 14,406	$ 6,027	$ 6,043	$ 5,712	$ 3,320	$ 5,634	$ 5,304
Interest cost	25,204	24,801	25,136	8,222	9,081	10,044	6,148	6,741	7,916
Expected return on plan assets	(41,594)	(40,194)	(38,978)	(8,498)	(9,608)	(8,765)	—	—	—
Amortization of:									
Prior service cost	1,083	1,026	1,048	107	114	117	7,775	8,110	7,425
Recognized actuarial loss (gain)	8,289	17,654	13,515	903	1,492	579	(428)	(16)	138
Transition obligation	—	—	—	4	(14)	(47)	—	—	—
Settlement & curtailment (gain) loss[2]	10,279	187	—	(45)	697	1,449	—	(4,411)	—
Other	—	501	—	6	5	—	—	13	—
Total net periodic benefit cost	$ 17,062	$ 21,098	$ 15,127	$ 6,726	$ 7,810	$ 9,089	$16,815	$16,071	$20,783

[1] Net periodic benefit cost for non-U.S. plans includes $55, $1,220, and $1,231 of expense for the years ended December 31, 2014, 2013, and 2012, respectively, relating to plans sponsored by Knowles that were distributed as part of the separation on February 28, 2014.

[2] $6,675 of the 2014 settlement loss on the U.S. Plan is attributable to Knowles participants in the Dover Defined Benefit Plan and has therefore, been reflected in the results of discontinued operations. The remaining $3,604 of this settlement loss has been reflected in the results of continuing operations. The curtailment gain of $4,411 was recognized in continuing operations in 2013 in connection with the freeze of the non-qualified supplemental benefit plan.

Post-Retirement Benefits

	2014	2013	2012
Service cost	$ 249	$ 234	$ 248
Interest cost	627	523	593
Amortization of:			
Prior service credit	(409)	(416)	(416)
Recognized actuarial loss (gain)	54	134	(19)
Settlement & curtailment gain	—	—	(1,493)
Other	233	77	—
Total net periodic benefit cost	$ 754	$ 552	$(1,087)

Amounts expected to be amortized from Accumulated Other Comprehensive Earnings (Loss) into net periodic benefit cost during 2015 are as follows:

	Qualified Defined Benefits		Non-Qualified Supplemental Benefits	Post-Retirement Benefits
	U.S. Plan	Non-U.S. Plans		
Amortization of:				
Prior service cost (credit)	$ 976	$ 95	$6,927	$(372)
Recognized actuarial loss (gain)	12,846	2,784	286	(30)
Transition obligation	—	5	—	—
Total	$13,822	$2,884	$7,213	$(402)

Assumptions

The Company determines actuarial assumptions on an annual basis.

The weighted-average assumptions used in determining the benefit obligations were as follows:

	Qualified Defined Benefits				Non-Qualified Supplemental Benefits		Post-Retirement Benefits	
	U.S. Plan		Non-U.S. Plans					
	2014	2013	2014	2013	2014	2013	2014	2013
Discount rate	4.05%	4.90%	2.31%	3.53%	3.96%	4.77%	3.75%	4.45%
Average wage increase	4.00%	4.00%	2.50%	2.86%	4.50%	4.50%	na	na
Ultimate medical trend rate	na	na	na	na	na	na	5.00%	5.00%

The weighted average assumptions used in determining the net periodic cost were as follows:

	Qualified Defined Benefits						Non-Qualified Supplemental Benefits			Post-Retirement Benefits		
	U.S. Plan			Non-U.S. Plans								
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
Discount rate	4.90%	4.05%	4.85%	3.53%	3.31%	4.62%	4.77%	4.02%	4.77%	4.45%	3.65%	3.65%
Average wage increase	4.00%	4.00%	4.00%	2.86%	2.74%	3.14%	4.50%	4.50%	4.50%	na	na	na
Expected return on plan assets	7.75%	7.75%	7.75%	5.35%	5.32%	5.90%	na	na	na	na	na	na

The Company's discount rate assumption is determined by developing a yield curve based on high quality corporate bonds with maturities matching the plans' expected benefit payment streams. The plans' expected cash flows are then discounted by the resulting year-by-year spot rates.

For post-retirement benefit measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rates) was assumed for 2015. The rate was assumed to decrease gradually to 5.0% by the year 2027 and remain at that level thereafter. The health care cost trend rate assumption can have an effect on the amounts reported. For example, increasing (decreasing) the assumed health care cost trend rates by one percentage point in each year would increase (decrease) the accumulated post-retirement benefit obligation as of December 31, 2014 by $234 and $(224), respectively, and would have a negligible impact on the net post-retirement benefit cost for 2014.

Plan Assets

The primary financial objective of the plans is to secure participant retirement benefits. Accordingly, the key objective in the plans' financial management is to promote stability and, to the extent appropriate, growth in the funded status. Related and supporting financial objectives are established in conjunction with a review of current and projected plan financial requirements.

As it relates to the funded defined benefit pension plans, the Company's funding policy is consistent with the funding requirements of the Employment Retirement Income Security Act ("ERISA") and applicable international laws. The Company is responsible for overseeing the management of the investments of the plans' assets and otherwise ensuring that the plans' investment programs are in compliance with ERISA, other relevant legislation, and related plan documents. Where relevant, the Company has retained professional investment managers to manage the plans' assets and implement the investment process. The investment managers, in implementing their investment processes, have the authority and responsibility to select appropriate investments in the asset classes specified by the terms of their applicable prospectus or investment manager agreements with the plans.

The assets of the plans are invested to achieve an appropriate return for the plans consistent with a prudent level of risk. The asset return objective is to achieve, as a minimum over time, the passively managed return earned by market index funds, weighted in the proportions outlined by the asset class exposures identified in the plans' strategic allocation. The expected return on assets assumption used for pension expense is developed through analysis of historical market returns, statistical analysis, current market conditions, and the past experience of plan asset investments. Overall, it is projected that the investment of plan assets within Dover's U.S. defined benefit plan will achieve a 7.75% net return over time from the asset allocation strategy.

The Company's actual and target weighted-average asset allocation for our U.S. Corporate Pension Plan was as follows:

	2014	2013	Current Target
Equity securities	55%	64%	58%
Fixed income	36%	29%	35%
Real estate and other	9%	7%	7%
Total	100%	100%	100%

While the non-U.S. investment policies are different for each country, the long-term objectives are generally the same as for the U.S. pension assets. The Company's non-U.S. plans were expected to achieve rates of return on invested assets of 5.35% in 2014, 5.32% in 2013, and 5.90% in 2012.

The fair values of both U.S. and non-U.S. pension plan assets by asset category within the ASC 820 hierarchy (as defined in Note 11 Financial Instruments) are as follows at December 31, 2014 and 2013:

	U.S. Plan							
	December 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Asset Category:								
Common stocks:								
U.S. companies	$164,006	$ —	$—	$164,006	$180,038	$ —	$—	$180,038
Non-U.S. companies	3,874	—	—	3,874	5,526	—	—	5,526
Fixed income investments:								
Corporate bonds	—	63,878	—	63,878	—	53,924	—	53,924
Private placements	—	6,865	—	6,865	—	3,374	—	3,374
Government securities	48,370	98,998	—	147,368	25,035	87,107	—	112,142
Common stock funds:								
Mutual funds	44,610	—	—	44,610	59,387	—	—	59,387
Collective trusts	—	119,312	—	119,312	—	138,236	—	138,236
Real estate funds	—	37,145	—	37,145	—	33,749	—	33,749
Cash and equivalents	14,318	—	—	14,318	8,767	—	—	8,767
	$275,178	$326,198	$—	$601,376	$278,753	$316,390	$—	$595,143

	Non-U.S. Plans							
	December 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Asset Category:								
Common stocks	$40,960	$ —	$ —	$40,960	$35,010	$ —	$ —	$ 35,010
Fixed income investments	—	59,791	—	59,791	—	75,574	—	75,574
Common stock funds	—	43,821	—	43,821	—	66,285	—	66,285
Real estate funds	—	—	9,976	9,976	—	—	14,937	14,937
Cash and equivalents	1,531	—	—	1,531	6,785	—	—	6,785
Other	—	7,431	—	7,431	—	5,090	—	5,090
	$42,491	$111,043	$9,976	$163,510	$41,795	$146,949	$14,937	$203,681

Common stocks represent investments in domestic and foreign equities which are publicly traded on active exchanges and are valued based on quoted market prices.

Fixed income investments include U.S. treasury bonds and notes, which are valued based on quoted market prices, as well as investments in other government and municipal securities and corporate bonds, which are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Common stock funds consist of mutual funds and collective trusts. Mutual funds are valued by obtaining quoted prices from nationally recognized securities exchanges. Collective trusts are valued using Net Asset Value (the "NAV") as of the last business day of the year. The NAV is based on the underlying value of the assets owned by the fund minus its liabilities, and then divided by the number of shares outstanding. The value of the underlying assets is based on quoted prices in active markets.

The real estate funds are valued on an annual basis using third-party appraisals, with adjustments estimated on a quarterly basis using discounted cash flow models which consider such inputs as revenue and expense growth rates, terminal capitalization rates, and discount rates. The Company believes this is an appropriate methodology to obtain the fair value of these assets.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed during 2013 and 2014 due to the following:

	Real Estate Funds	Other	Total
Balance at December 31, 2012	$10,116	$ 1,456	$11,572
Actual return on plan assets:			
Relating to assets still held at December 31, 2013	2,958	—	2,958
Purchases	1,863	—	1,863
Sales	—	(1,456)	(1,456)
Balance at December 31, 2013	14,937	—	14,937
Actual return on plan assets:			
Relating to assets still held at December 31, 2014	(4,527)	—	(4,527)
Business dispositions	(362)	—	(362)
Sales	(72)	—	(72)
Balance at December 31, 2014	$ 9,976	$ —	$ 9,976

There were no significant transfers between Level 1 and Level 2 investments during 2014 or 2013.

Future Estimates

Benefit Payments

Estimated future benefit payments to retirees, which reflect expected future service, are as follows:

	Qualified Defined Benefits		Non-Qualified	Post-Retirement
	U.S. Plan	Non-U.S. Plans	Supplemental Benefits	Benefits
2015	$ 35,312	$ 6,295	$22,412	$ 926
2016	36,702	6,841	7,968	940
2017	38,784	6,889	3,986	951
2018	40,120	7,196	5,206	959
2019	40,892	7,139	11,282	946
2020–2024	221,358	42,775	55,417	4,647

Contributions

In 2015, the Company expects to contribute approximately $6.5 million to its non-U.S. plans and none to its U.S. plans. Additionally, in 2015, the Company expects to fund benefit payments of approximately $22.4 million to plan participants of its unfunded, non-qualified, supplemental benefit plans.

Multiemployer Pension Plans

The Company, through its subsidiaries, participates in a few multiemployer pension plans covering approximately 100 employees working under U.S. collective bargaining agreements. None of these plans are considered individually significant to the Company. Contributions to multiemployer plans totaled less than $2.0 million in each of the last three years.

Postemployment Benefits

RECOGNITION AND MEASUREMENT

3.52 FASB ASC 712, *Compensation—Nonretirement Postemployment Benefits*, requires that entities providing postemployment benefits to their employees accrue the cost of such benefits. FASB ASC 712 does not require that the amount of other postemployment benefits be disclosed.

PRESENTATION AND DISCLOSURE EXCERPT

POSTEMPLOYMENT BENEFITS

3.53 ABBOTT LABORATORIES (DEC)

CONSOLIDATED BALANCE SHEET (in part)

(dollars in millions)

	December 31	
	2014	**2013**
Liabilities and Shareholders' Investment (in part)		
Current Liabilities:		
Short-term borrowings	$ 4,382	$3,164
Trade accounts payable	1,064	1,026
Salaries, wages and commissions	776	906
Other accrued liabilities	2,943	3,500
Dividends payable	362	341
Income taxes payable	270	175
Current portion of long-term debt	55	9
Current liabilities held for disposition	680	386
Total Current Liabilities	10,532	9,507
Long-term Debt	3,408	3,388
Post-employment Obligations and other long-term liabilities	5,588	4,784
Non-current liabilities held for disposition	108	7
Commitments and Contingencies		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

Pension and Post-Employment Benefits—Abbott accrues for the actuarially determined cost of pension and post-employment benefits over the service attribution periods of the employees. Abbott must develop long-term assumptions, the most significant of which are the health care cost trend rates, discount rates and the expected return on plan assets. Differences between the expected long-term return on plan assets and the actual return are amortized over a five-year period. Actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method.

Note 4—Supplemental Financial Information

The increase in long-term investments from December 31, 2013 to December 31, 2014 is due primarily to the acquisition of CFR Pharmaceuticals in 2014.

(In millions)	**2014**	**2013**
Other Accrued Liabilities:		
Accrued rebates payable to government agencies	$ 88	$ 136
Accrued other rebates[(a)]	239	220
All other[(b)]	2,616	3,144
Total	$2,943	$3,500

[(a)] Accrued wholesaler chargeback rebates of $50 million and $90 million at December 31, 2014 and 2013, respectively, are netted in trade receivables because Abbott's customers are invoiced at a higher catalog price but only remit to Abbott their contract price for the products.

[(b)] 2013 includes acquisition consideration payable of approximately $400 million related primarily to the acquisition of Piramal Healthcare Limited's Healthcare Solutions business.

(In millions)	2014	2013
Post-employment Obligations and Other Long-term Liabilities:		
Defined benefit pension plans and post-employment medical and dental plans for significant plans	$2,875	$1,818
Deferred income taxes	860	466
All other[c]	1,853	2,500
Total	$5,588	$4,784

[c] 2014 includes $1.3 billion of gross unrecognized tax benefits, as well as approximately $220 million of acquisition consideration payable. 2013 includes $1.3 billion of gross unrecognized tax benefits, as well as $70 million of acquisition consideration payable.

Note 13—Post-Employment Benefits

Retirement plans consist of defined benefit, defined contribution and medical and dental plans. Information for Abbott's major defined benefit plans and post-employment medical and dental benefit plans is as follows:

	Defined Benefit Plans		Medical and Dental Plans	
(In millions)	2014	2013	2014	2013
Projected benefit obligations, January 1	$ 6,432	$11,322	$1,297	$1,889
Service cost—benefits earned during the year	269	303	33	43
Interest cost on projected benefit obligations	317	276	63	59
(Gains) losses, primarily changes in discount rates, plan design changes, law changes and differences between actual and estimated health care costs	1,554	(650)	187	(156)
Benefits paid	(222)	(185)	(57)	(60)
Separation of AbbVie Inc.	—	(4,654)	—	(450)
Other, including foreign currency translation	(5)	20	(112)	(28)
Projected benefit obligations, December 31	$ 8,345	$ 6,432	$1,411	$1,297
Plan assets at fair value, January 1	$ 6,123	$ 7,949	$ 462	$ 417
Actual return on plans' assets	529	727	32	61
Company contributions	393	724	41	40
Benefits paid	(222)	(185)	(50)	(56)
Separation of AbbVie Inc.	—	(3,107)	—	—
Other, including foreign currency translation	(69)	15	—	—
Plan assets at fair value, December 31	$ 6,754	$ 6,123	$ 485	$ 462
Projected benefit obligations greater than plan assets, December 31	$(1,591)	$ (309)	$ (926)	$ (835)
Long-term assets	$ 374	$ 685	$ —	$ —
Short-term liabilities	(15)	(11)	(1)	—
Long-term liabilities	(1,950)	(983)	(925)	(835)
Net liability	$(1,591)	$ (309)	$ (926)	$ (835)
Amounts Recognized in Accumulated Other Comprehensive Income (loss):				
Actuarial losses, net	$ 3,187	$ 1,791	$ 509	$ 334
Prior service cost (credits)	1	20	(348)	(252)
Total	$ 3,188	$ 1,811	$ 161	$ 82

In connection with separation of AbbVie on January 1, 2013, Abbott transferred to AbbVie Accumulated other comprehensive income (loss), net of income taxes, of approximately $1.4 billion. The projected benefit obligations for non-U.S. defined benefit plans was $2.5 billion and $2.0 billion at December 31, 2014 and 2013, respectively. The accumulated benefit obligations for all defined benefit plans were $7.3 billion and $5.5 billion at December 31, 2014 and 2013, respectively.

For plans where the accumulated benefit obligations exceeded plan assets at December 31, 2014 and 2013, the aggregate accumulated benefit obligations, the projected benefit obligations and the aggregate plan assets were as follows:

(In millions)	2014	2013
Accumulated benefit obligation	$4,315	$408
Projected benefit obligation	5,133	505
Fair value of plan assets	3,170	—

The components of the net periodic benefit cost were as follows:

	Defined Benefit Plans			Medical and Dental Plans		
(In millions)	2014	2013	2012	2014	2013	2012
Service cost—benefits earned during the year	$ 269	$ 303	$ 389	$ 33	$ 43	$ 61
Interest cost on projected benefit obligations	317	276	460	63	59	81
Expected return on plans' assets	(458)	(396)	(611)	(40)	(36)	(33)
Amortization of actuarial losses	103	169	244	16	34	34
Amortization of prior service cost (credits)	2	3	2	(39)	(35)	(42)
Total cost	233	355	484	33	65	101
Less: Discontinued operations	(1)	(3)	(209)	—	—	(48)
Net cost—continuing operations	$ 232	$ 352	$ 275	$ 33	$ 65	$ 53

Other comprehensive income (loss) for each respective year includes the amortization of actuarial losses and prior service costs (credits) as noted in the previous table. Other comprehensive income (loss) for each respective year also includes: net actuarial gains and prior service credits of $1.6 billion for defined benefit plans and $57 million for medical and dental plans in 2014; net actuarial gains and prior service credits of $995 million for defined benefit plans and $201 million for medical and dental plans in 2013; and net actuarial losses of $1.2 billion for defined benefit plans and net actuarial losses of $134 million for medical and dental plans in 2012. The actuarial (loss) for 2012 related to the businesses transferred to AbbVie as part of the separation was $167 million; prior service costs were not significant.

The pretax amount of actuarial losses and prior service cost (credits) included in Accumulated other comprehensive income (loss) at December 31, 2014 that is expected to be recognized in the net periodic benefit cost in 2015 is $191 million and nil of expense, respectively, for defined benefit pension plans and $33 million of expense and $49 million of income, respectively, for medical and dental plans.

The weighted average assumptions used to determine benefit obligations for defined benefit plans and medical and dental plans are as follows:

	2014	2013	2012
Discount rate	3.9%	4.9%	4.3%
Expected aggregate average long-term change in compensation	4.3%	5.0%	5.3%

The weighted average assumptions used to determine the net cost for defined benefit plans and medical and dental plans are as follows:

	2014	2013	2012
Discount rate	4.9%	4.2%	5.0%
Expected return on plan assets	7.5%	7.8%	8.0%
Expected aggregate average long-term change in compensation	4.9%	5.0%	5.3%

The assumed health care cost trend rates for medical and dental plans at December 31 were as follows:

	2014	2013	2012
Health care cost trend rate assumed for the next year	8%	7%	7%
Rate that the cost trend rate gradually declines to	5%	5%	5%
Year that rate reaches the assumed ultimate rate	2025	2019	2019

The discount rates used to measure liabilities were determined based on high-quality fixed income securities that match the duration of the expected retiree benefits. The health care cost trend rate represent Abbott's expected annual rates of change in the cost of health care benefits and is a forward projection of health care costs as of the measurement date. A one-percentage point increase/(decrease) in the assumed health care cost trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2014, by $208 million/$(168) million, and the total of the service and interest cost components of net post-employment health care cost for the year then ended by approximately $16 million/$(12) million.

The following table summarizes the bases used to measure the defined benefit and medical and dental plan assets at fair value:

		Basis of Fair Value Measurement		
(In millions)	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2014:				
Equities:				
U.S. large cap[a]	$1,615	$ 757	$ 858	$ —
U.S. mid cap[b]	433	142	291	—
International[c]	1,353	445	908	—
Fixed income securities:				
U.S. government securities[d]	449	10	439	—
Corporate debt instruments[e]	573	130	443	—
Non-U.S. government securities[f]	697	286	411	—
Other[g]	130	35	95	—
Absolute return funds[h]	1,631	203	895	533
Commodities[i]	165	10	69	86
Other[j]	193	115	29	49
	$7,239	$2,133	$4,438	$668
December 31, 2013:				
Equities:				
U.S. large cap[a]	$1,618	$ 741	$ 877	$ —
U.S. mid cap[b]	409	134	275	—
International[c]	1,319	608	711	—
Fixed income securities:				
U.S. government securities[d]	453	61	392	—
Corporate debt instruments[e]	378	108	270	—
Non-U.S. government securities[f]	536	305	231	—
Other[g]	77	69	8	—
Absolute return funds[h]	1,474	197	791	486
Commodities[i]	170	6	97	67
Other[j]	151	149	—	2
	$6,585	$2,378	$3,652	$555

[a] A mix of index funds that track the S&P 500 (50 percent in 2014 and 60 percent in 2013) and separate actively managed equity accounts that are benchmarked to the Russell 1000 (50 percent in 2014 and 40 percent in 2013).

[b] A mix of index funds (70 percent in 2014 and 2013) and separate actively managed equity accounts (30 percent in 2014 and 2013) that track or are benchmarked to the S&P 400 midcap index.

[c] A mix of index funds (20 percent in 2014 and 0 percent in 2013) and separate actively managed pooled investment funds (80 percent in 2014 and 100 percent in 2013) that track or are benchmarked to the MSCI EAFE and MSCI emerging market indices.

[d] A mix of index funds that track the Barclays U.S. Gov't Aggregate (65 percent in 2014 and 50 percent in 2013) and separate actively managed accounts (35 percent in 2014 and 50 percent in 2013) that are benchmarked to Barclays U.S. Long Gov't/Corp Index or the Barclays Global Aggregate.

[e] A mix of index funds that track the Barclays U.S. Gov't Aggregate (15 percent in 2014 and 40 percent in 2013) and separate actively managed accounts (85 percent in 2014 and 60 percent in 2013) that are benchmarked to Barclays U.S. Long Gov't/Corp Index or the Barclays Global Aggregate.

[f] Primarily United Kingdom, Japan, Netherlands and Irish government-issued bonds.

[g] Primarily mortgage backed securities (40 percent in 2014 and 100 percent in 2013) and an actively managed, diversified fixed income vehicle benchmarked to the one-month Libor / Euribor (60 percent in 2014 and 0 percent in 2013).

[h] Primarily funds invested by managers that have a global mandate with the flexibility to allocate capital broadly across a wide range of asset classes and strategies including, but not limited to equities, fixed income, commodities, interest rate futures, currencies and other securities to outperform an agreed upon benchmark with specific return and volatility targets.

[i] Primarily investments in liquid commodity future contracts and private energy funds.

[j] Primarily cash and cash equivalents (75 percent in 2014 and 100 percent in 2013) and investment in real estate funds (25 percent in 2014 and 0 percent in 2013).

Equities that are valued using quoted prices are valued at the published market prices. Equities in a common collective trust or a registered investment company that are valued using significant other observable inputs are valued at the net asset value (NAV) provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund minus its liabilities. Fixed income securities that are valued using significant other observable inputs are valued at prices obtained from independent financial service industry-recognized vendors. Absolute return funds and commodities are valued at the NAV provided by the fund administrator. Private energy funds are valued at the NAV provided by the partnership on a one-quarter lag adjusted for known cash flows and significant events through the reporting date.

The following table summarizes the change in the value of assets that are measured using significant unobservable inputs:

(In millions)	2014	2013
January 1	$555	$ 783
Transfers in (out of) from other categories	—	6
Separation of AbbVie Inc.	—	(165)
Actual return on plan assets:		
Assets on hand at year end	25	29
Assets sold during the year	21	51
Purchases, sales and settlements, net	67	(149)
December 31	$668	$ 555

The investment mix of equity securities, fixed income and other asset allocation strategies is based upon achieving a desired return, balancing higher return, more volatile equity securities, and lower return, less volatile fixed income securities. Investment allocations are made across a range of markets, industry sectors, capitalization sizes, and in the case of fixed income securities, maturities and credit quality. The plans do not directly hold any securities of Abbott. There are no known significant concentrations of risk in the plans' assets. Abbott's medical and dental plans' assets are invested in a similar mix as the pension plan assets. The actual asset allocation percentages at year end are consistent with the company's targeted asset allocation percentages.

The plans' expected return on assets, as shown above is based on management's expectations of long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this assumption, management considers historical and expected returns for the asset classes in which the plans are invested, as well as current economic and capital market conditions.

Abbott funds its domestic pension plans according to IRS funding limitations. International pension plans are funded according to similar regulations. Abbott funded $393 million in 2014 and $724 million in 2013 to defined pension plans. Abbott expects to contribute approximately $585 million to its pension plans in 2015, of which approximately $470 million relates to its main domestic pension plan.

Total benefit payments expected to be paid to participants, which includes payments funded from company assets, as well as paid from the plans, are as follows:

(In millions)	Defined Benefit Plans	Medical and Dental Plans
2015	$ 212	$ 70
2016	225	71
2017	240	72
2018	259	73
2019	278	74
2020 to 2024	1,735	407

The Abbott Stock Retirement Plan is the principal defined contribution plan. Abbott's contributions to this plan were $85 million in 2014, $86 million in 2013 and $150 million in 2012. The contribution amount in 2012 included amounts associated with the businesses transferred to AbbVie.

Employee Compensatory Plans

Author's Note

In June 2014, FASB issued ASU No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)*, which requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. For all entities, the amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. Entities may apply the amendments in this ASU either (*a*) prospectively to all awards granted or modified after the effective date or (*b*) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. No survey entity adopted these requirements in its 2014 financial statements.

RECOGNITION AND MEASUREMENT

3.54 FASB ASC 718, *Compensation—Stock Compensation*, establishes accounting and reporting standards for share-based payment transactions with employees, including awards classified as equity, awards classified as liabilities, employee stock ownership plans, and employee stock purchase plans. FASB ASC 718 requires that share-based payment transactions be accounted for using a fair value based method. Thus, entities are required to recognize the cost of employee services received in exchange for award of equity instruments based on the grant-date fair value of those awards or the fair value of the liabilities incurred. FASB ASC 718 provides clarification and expanded guidance in several areas, including measuring fair value, classifying an award as equity or a liability, and attributing compensation cost to reporting periods.

PRESENTATION AND DISCLOSURE EXCERPTS

STOCK OPTION PLANS

3.55 THE KROGER CO. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

All dollar amounts are in millions except share and per share amounts

1. Accounting Policies (in part)

Stock Based Compensation

The Company accounts for stock options under fair value recognition provisions. Under this method, the Company recognizes compensation expense for all share-based payments granted. The Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. In addition, the Company records expense for restricted stock awards in an amount equal to the fair market value of the underlying stock on the grant date of the award, over the period the awards lapse.

12. Stock Option Plans

The Company grants options for common shares ("stock options") to employees under various plans at an option price equal to the fair market value of the stock at the date of grant. The Company accounts for stock options under the fair value recognition provisions. Under this method, the Company recognizes compensation expense for all share-based payments granted. The Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. Equity awards may be made at one of four meetings of its Board of Directors occurring shortly after the Company's release of quarterly earnings. The 2013 primary grant was made in conjunction with the June meeting of the Company's Board of Directors.

Stock options typically expire 10 years from the date of grant. Stock options vest between one and five years from the date of grant. At February 1, 2014, approximately 11 million common shares were available for future option grants under these plans.

In addition to the stock options described above, the Company awards restricted stock to employees, as well as to non-employee directors, under various plans. The restrictions on these awards generally lapse between one and five years from the date of the awards. The Company records expense for restricted stock awards in an amount equal to the fair market value of the underlying shares on the grant date of the award, over the period the awards lapse. As of February 1, 2014, approximately 5 million common shares were available under the 2005, 2008 and 2011 Long-Term Incentive Plans (the "Plans") for future restricted stock awards or shares issued to the extent performance criteria are achieved. The Company has the ability to convert shares available for stock options under the Plans to shares available for restricted stock awards. Under some of the Plans, four shares available for option awards can be converted into one share available for restricted stock awards.

All awards become immediately exercisable upon certain changes of control of the Company.

Stock Options

Changes in options outstanding under the stock option plans are summarized below:

	Shares Subject to Option (in millions)	Weighted-Average Exercise Price
Outstanding, year-end 2010	35.9	$21.45
Granted	3.9	$24.69
Exercised	(5.9)	$20.28
Canceled or Expired	(2.9)	$24.43
Outstanding, year-end 2011	31.0	$21.80
Granted	4.1	$22.04
Exercised	(6.7)	$18.35
Canceled or Expired	(1.9)	$23.28
Outstanding, year-end 2012	26.5	$22.61
Granted	4.2	$37.68
Exercised	(8.8)	$22.22
Canceled or Expired	(0.2)	$25.47
Outstanding, year-end 2013	21.7	$25.66

A summary of options outstanding and exercisable at February 1, 2014 follows:

Range of Exercise Prices	Number Outstanding (in millions)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable (in millions)	Weighted-Average Exercise Price
$13.78—$18.57	2.1	0.99	$16.62	2.1	$16.62
$18.58—$20.97	3.6	4.80	$20.09	2.9	$20.06
$20.98—$23.37	5.2	7.28	$22.11	2.6	$22.21
$23.38—$28.17	3.1	7.22	$24.82	1.6	$24.89
$28.18—$32.97	3.6	4.01	$28.51	3.5	$28.44
$32.98—$40.99	4.1	9.44	$37.81	—	$37.76
$13.78—$40.99	21.7	6.12	$25.66	12.7	$22.88

The weighted-average remaining contractual life for options exercisable at February 1, 2014, was approximately 4.5 years. The intrinsic value of options outstanding and exercisable at February 1, 2014 was $233 and $169, respectively.

Restricted Stock

Changes in restricted stock outstanding under the restricted stock plans are summarized below:

	Restricted Shares Outstanding (in millions)	Weighted-Average Grant-Date Fair Value
Outstanding, year-end 2010	4.4	$22.39
Granted	2.5	$24.63
Lapsed	(2.5)	$21.96
Canceled or Expired	(0.2)	$23.80
Outstanding, year-end 2011	4.2	$23.92
Granted	2.6	$22.23
Lapsed	(2.4)	$24.34
Canceled or Expired	(0.1)	$23.28
Outstanding, year-end 2012	4.3	$22.67
Granted	3.2	$37.69
Lapsed	(2.5)	$22.97
Canceled or Expired	(0.1)	$27.31
Outstanding, year-end 2013	4.8	$32.31

The weighted-average grant date fair value of stock options granted during 2013, 2012 and 2011was $8.98, $4.39 and $6.00, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model, based on the assumptions shown in the table below. The Black-Scholes model utilizes extensive judgment and financial estimates, including the term employees are expected to retain their stock options before exercising them, the volatility of the Company's stock price over that expected term, the dividend yield over the term and the number of awards expected to be forfeited before they vest. Using alternative assumptions in the calculation of fair value would produce fair values for stock option grants that could be different than those used to record stock-based compensation expense in the Consolidated Statements of Operations. The increase in the fair value of the stock options granted during 2013, compared to 2012, resulted primarily from an increase in the Company's share price, an increase in the weighted average risk-free interest rate and a decrease in the expected dividend yield. The decrease in the fair value of the stock options granted during 2012, compared to 2011, resulted primarily from a decrease in the Company's share price, a decrease in the weighted average risk-free interest rate and an increase in the expected dividend yield.

The following table reflects the weighted-average assumptions used for grants awarded to option holders:

	2013	2012	2011
Weighted average expected volatility	26.34%	26.49%	26.31%
Weighted average risk-free interest rate	1.87%	0.97%	2.16%
Expected dividend yield	1.82%	2.49%	1.90%
Expected term (based on historical results)	6.8 years	6.9 years	6.9 years

The weighted-average risk-free interest rate was based on the yield of a treasury note as of the grant date, continuously compounded, which matures at a date that approximates the expected term of the options. The dividend yield was based on our history and expectation of dividend payouts. Expected volatility was determined based upon historical stock volatilities; however, implied volatility was also considered. Expected term was determined based upon a combination of historical exercise and cancellation experience as well as estimates of expected future exercise and cancellation experience.

Total stock compensation recognized in 2013, 2012 and 2011 was $107, $82 and $81, respectively. Stock option compensation recognized in 2013, 2012 and 2011 was $24, $22 and $22, respectively. Restricted shares compensation recognized in 2013, 2012 and 2011 was $83, $60 and $59, respectively.

The total intrinsic value of options exercised was $115, $44 and $24 in 2013, 2012 and 2011, respectively. The total amount of cash received in 2013 by the Company from the exercise of options granted under share-based payment arrangements was $196. As of February 1, 2014, there was $154 of total unrecognized compensation expense remaining related to non-vested share-based compensation arrangements granted under the Company's equity award plans. This cost is expected to be recognized over a weighted-average period of approximately two years. The total fair value of options that vested was $20, $23 and $33 in 2013, 2012 and 2011, respectively.

Shares issued as a result of stock option exercises may be newly issued shares or reissued treasury shares. Proceeds received from the exercise of options, and the related tax benefit, may be utilized to repurchase the Company's common shares under a stock repurchase program adopted by the Company's Board of Directors. During 2013, the Company repurchased approximately eight million common shares in such a manner.

STOCK AWARD PLANS

3.56 COMMUNITY HEALTH SYSTEMS, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Accounting for Stock-Based Compensation

Stock-based compensation awards have been granted under the Community Health Systems, Inc. Amended and Restated 2000 Stock Option and Award Plan, amended and restated as of March 20, 2013 (the "2000 Plan"), and the Community Health Systems, Inc. 2009 Stock Option and Award Plan, amended and restated as of March 19, 2014 (the "2009 Plan").

The 2000 Plan allowed for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code (the "IRC"), as well as stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Prior to being amended in 2009, the 2000 Plan also allowed for the grant of phantom stock. Persons eligible to receive grants under the 2000 Plan include the Company's directors, officers, employees and consultants. All options granted under the 2000 Plan have been "nonqualified" stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted prior to 2005 have a 10-year contractual term, options granted in 2005 through 2007 have an eight-year contractual term and options granted in 2008 through 2011 have a 10-year contractual term. The Company has not granted stock option awards under the 2000 Plan since 2011. Pursuant to the amendment and restatement of the 2000 Plan dated March 20, 2013, no further grants will be awarded under the 2000 Plan.

The 2009 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the IRC and for the grant of stock options which do not so qualify, stock appreciation rights, restricted stock, restricted stock units, performance-based shares or units and other share awards. Persons eligible to receive grants under the 2009 Plan include the Company's directors, officers, employees and consultants. To date, all options granted under the 2009 Plan have been "nonqualified" stock options for tax purposes. Generally, vesting of these granted options occurs in one-third increments on each of the first three anniversaries of the award date. Options granted in 2011 or later have a 10-year contractual term. As of December 31, 2014, 5,094,012 shares of unissued common stock were reserved for future grants under the 2009 Plan, which includes the 4,000,000 additional shares reserved for future grants approved by the Company's stockholders on May 20, 2014 in conjunction with the March 19, 2014 amendment of the 2009 Plan.

The exercise price of all options granted under the 2000 Plan and the 2009 Plan has been equal to the fair value of the Company's common stock on the option grant date.

The following table reflects the impact of total compensation expense related to stock-based equity plans on the reported operating results for the respective periods (in millions):

	Year Ended December 31,		
	2014	2013	2012
Effect on income from continuing operations before income taxes	$(54)	$(38)	$(41)
Effect on net income	$(34)	$(24)	$(26)

At December 31, 2014, $59 million of unrecognized stock-based compensation expense was expected to be recognized over a weighted-average period of 24 months. Of that amount, less than $1 million related to outstanding unvested stock options was expected to be recognized over a weighted-average period of 2 months and $59 million related to outstanding unvested restricted stock and restricted stock units (the terms of which are summarized below) was expected to be recognized over a weighted-average period of 24 months. There were no modifications to awards during the years ended December 31, 2014 and 2013.

The fair value of stock options granted during the year ended December 31, 2012 were estimated using the Black Sholes option pricing model with an expected volatility of 57.8%, no expected dividends, expected term of 4.1 years and risk-free interest rate of 0.66%.

In determining the expected term, the Company examined concentrations of option holdings and historical patterns of option exercises and forfeitures, as well as forward-looking factors, in an effort to determine if there were any discernible employee populations. From this analysis, the Company identified two primary employee populations, one consisting of certain senior executives and the other one consisting of substantially all other recipients.

The expected volatility rate was estimated based on historical volatility. In determining expected volatility, the Company also reviewed the market-based implied volatility of actively traded options of its common stock and determined that historical volatility utilized to estimate the expected volatility rate did not differ significantly from the implied volatility.

The expected term computation is based on historical exercise and cancellation patterns and forward-looking factors, where present, for each population identified. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The pre-vesting forfeiture rate is based on historical rates and forward-looking factors for each population identified. The Company adjusts the estimated forfeiture rate to its actual experience.

Options outstanding and exercisable under the 2000 Plan and the 2009 Plan as of December 31, 2014, and changes during each of the years in the three-year period prior to December 31, 2014, were as follows (in millions, except share and per share data):

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value as of December 31, 2014
Outstanding at December 31, 2011	8,389,142	$32.83		
Granted	253,500	21.16		
Exercised	(1,050,772)	19.85		
Forfeited and cancelled	(487,757)	34.12		
Outstanding at December 31, 2012	7,104,113	34.25		
Granted	—	—		
Exercised	(3,299,859)	33.53		
Forfeited and cancelled	(66,709)	34.01		
Outstanding at December 31, 2013	3,737,545	34.88		
Granted	—	—		
Exercised	(1,768,473)	37.06		
Forfeited and cancelled	(15,345)	29.92		
Outstanding at December 31, 2014	1,953,727	$32.94	4.1 years	$41
Exercisable at December 31, 2014	1,872,507	$33.45	4.0 years	$38

No stock options were granted during the years ended December 31, 2014 and 2013. The weighted-average grant date fair value of stock options granted during the year ended December 31, 2012 was $9.20. The aggregate intrinsic value (the number of in-the-money stock options multiplied by the difference between the Company's closing stock price on the last trading day of the reporting period ($53.92) and the exercise price of the respective stock options) in the table above represents the amount that would have been received by the option holders had all option holders exercised their options on December 31, 2014. This amount changes based on the market value of the Company's common stock. The aggregate intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was $22 million, $31 million and $9 million, respectively. The aggregate intrinsic value of options vested and expected to vest approximates that of the outstanding options.

The Company has also awarded restricted stock under the 2000 Plan and the 2009 Plan to its directors and employees of certain subsidiaries. The restrictions on these shares generally lapse in one-third increments on each of the first three anniversaries of the award date. Certain of the restricted stock awards granted to the Company's senior executives contain a performance objective that must be met in addition to any time-based vesting requirements. If the performance objective is not attained, the awards will be forfeited in their entirety. Once the performance objective has been attained, restrictions will lapse in one-third increments on each of the first three anniversaries of the award date. In addition, 835,000 restricted stock awards granted March 1, 2014 have a performance objective that is measured based on the realization of synergies related to the HMA merger over a two-year period. The performance objective may be met in part in the first year or in whole or in part over the two-year period. Depending on the degree of attainment of the performance objective, restrictions may lapse on a portion of the award grant over the first three anniversaries of the award date at a level dependent upon the amount of synergies realized. If the synergies related to the HMA merger do not reach a certain level, then the awards will be forfeited in their entirety. Based on the synergy levels attained in the first year of the awards, the performance objective for the first year was met, and one-third of the awards are expected to vest on March 1, 2015. Notwithstanding the above-mentioned performance objectives and vesting requirements, the restrictions with respect to restricted stock granted under the 2000 Plan and the 2009 Plan will lapse earlier in the event of death, disability or termination of employment by the Company for any reason other than for cause of the holder of the restricted stock, or change in control of the Company. Restricted stock awards subject to performance standards are not considered outstanding for purposes of determining earnings per share until the performance objectives have been satisfied.

Restricted stock outstanding under the 2000 Plan and the 2009 Plan as of December 31, 2014, and changes during each of the years in the three-year period prior to December 31, 2014, were as follows:

	Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2011	2,207,612	$32.95
Granted	680,500	21.20
Vested	(1,118,213)	29.67
Forfeited	(25,335)	30.94
Unvested at December 31, 2012	1,744,564	30.50
Granted	836,088	41.55
Vested	(945,894)	32.22
Forfeited	(27,269)	37.09
Unvested at December 31, 2013	1,607,489	35.13
Granted	2,011,000	41.35
Vested	(846,818)	34.60
Forfeited	(11,032)	37.37
Unvested at December 31, 2014	2,760,639	39.82

Restricted stock units ("RSUs") have been granted to the Company's outside directors under the 2000 Plan and the 2009 Plan. On February 16, 2012, each of the Company's outside directors received a grant under the 2009 Plan of 6,645 RSUs. On February 27, 2013, each of the Company's outside directors received a grant under the 2009 Plan of 3,596 RSUs. On March 1, 2014, each of the Company's outside directors received a grant under the 2009 Plan of 3,614 RSUs. Vesting of these RSUs occurs in one-third increments on each of the first three anniversaries of the award date.

RSUs outstanding under the 2000 Plan and the 2009 Plan as of December 31, 2014, and changes during each of the years in the three-year period prior to December 31, 2014, were as follows:

	Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2011	52,956	$31.67
Granted	39,870	21.07
Vested	(29,940)	27.95
Forfeited	—	—
Unvested at December 31, 2012	62,886	26.72
Granted	21,576	41.71
Vested	(28,926)	29.04
Forfeited	—	—
Unvested at December 31, 2013	55,536	31.33
Granted	21,684	41.51
Vested	(27,858)	30.87
Forfeited	—	—
Unvested at December 31, 2014	49,362	36.07

SAVINGS AND INVESTMENT PLANS

3.57 POLARIS INDUSTRIES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 3. Employee Savings Plans

Employee Stock Ownership Plan (ESOP). Polaris sponsors a qualified non-leveraged ESOP under which a maximum of 7,200,000 shares of common stock can be awarded. The shares are allocated to eligible participants accounts based on total cash compensation earned during the calendar year. An employee's ESOP account vests equally after two and three years of service and requires no cash payments from the recipient. Participants may instruct Polaris to pay respective dividends directly to the participant in cash or reinvest the dividends into the participants ESOP accounts. Substantially all employees are eligible to participate in the ESOP, with the exception of Company officers. Total expense related to the ESOP was $10,789,000, $9,224,000, and $7,380,000, in 2014, 2013 and 2012, respectively. As of December 31, 2014 there were 3,925,000 shares held in the plan.

Defined contribution plans. Polaris sponsors various defined contribution retirement plans covering substantially all U.S. employees. For the 401(k) defined contribution retirement plan which covers the majority of U.S. employees, the Company matches 100 percent of employee contributions up to a maximum of five percent of eligible compensation. All contributions vest immediately. The cost of these defined contribution retirement plans was $12,486,000, $10,651,000, and $9,318,000, in 2014, 2013 and 2012, respectively.

Supplemental Executive Retirement Plan (SERP). Polaris sponsors a SERP that provides executive officers of the Company an alternative to defer portions of their salary, cash incentive compensation, and Polaris matching contributions. The deferrals and contributions are held in a rabbi trust and are in funds to match the liabilities of the plan. The assets are recorded as trading assets. The assets of the rabbi trust are included in other long-term assets on the consolidated balance sheets and the SERP liability is included in other long-term liabilities on the consolidated balance sheets. The asset and liability balance are both $41,797,000 and $24,711,000 at December 31, 2014, and 2013, respectively.

In November 2013, Polaris amended the SERP to allow executive officers of the Company the opportunity to defer certain restricted stock awards beginning with the annual performance-based award, which is scheduled to vest in February 2015 if certain performance metrics are achieved. After a holding period, the executive officer has the option to diversify the vested award into other funds available under the SERP. The deferrals will be held in a rabbi trust and will be invested in funds to match the liabilities of the SERP. The awards are redeemable in Polaris stock or in cash based upon the occurrence of events not solely within the control of Polaris; therefore, awards probable of vesting, for which the executive has not yet made an election to defer, or awards that have been deferred but have not yet vested and are probable of vesting or have been diversified into other funds are reported as deferred compensation in the temporary equity section of the consolidated balance sheets. The awards recorded in temporary equity are recognized at fair value as though the reporting date is also the redemption date, with any difference from stock-based compensation recorded in retained earnings. At December 31, 2014, 89,444 shares are recorded at a fair value of $13,528,000 in temporary equity, which includes $7,378,000 of compensation cost and $6,150,000 of cumulative fair value adjustment recorded through retained earnings.

EMPLOYEE STOCK PURCHASE PLANS (ESPP)

3.58 STANLEY BLACK & DECKER, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

J. Capital Stock (in part)

Common Stock Reserved—Common stock shares reserved for issuance under various employee and director stock plans at January 3, 2015 and December 28, 2013 are as follows:

	2014	2013
Employee stock purchase plan	2,286,365	2,414,509
Other stock-based compensation plans	10,164,264	13,143,201
Total shares reserved	12,450,629	15,557,710

Stock-Based Compensation Plans (in part)

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") enables eligible employees in the United States and Canada to subscribe at any time to purchase shares of common stock on a monthly basis at the lower of 85.0% of the fair market value of the shares on the grant date ($77.16 per share for fiscal year 2014 purchases) or 85.0% of the fair market value of the shares on the last business day of each month. A maximum of 6,000,000 shares are authorized for subscription. During 2014, 2013 and 2012, 128,144 shares, 172,259 shares and 222,123 shares respectively, were issued under the plan at average prices of $71.69, $58.59, and $49.15 per share, respectively and the intrinsic value of the ESPP purchases was $1.9 million, $3.7 million and $4.7 million, respectively. For 2014, the Company received $9.2 million in cash from ESPP purchases, and there is no related tax benefit. The fair value of ESPP shares was estimated using the Black-Scholes option pricing model. ESPP compensation cost is recognized ratably over the one -year term based on actual employee stock purchases under the plan. The fair value of the employees' purchase rights under the ESPP was estimated using the following assumptions for 2014, 2013 and 2012, respectively: dividend yield of 2.5%, 2.5% and 2.4%; expected volatility of 25.0%, 28.0% and 34.0%; risk-free interest rates of 0.1% for all three years; and expected lives of one year. The weighted average fair value of those purchase rights granted in 2014, 2013 and 2012 was

$17.10, $24.07 and $25.23, respectively. Total compensation expense recognized for ESPP amounted to $2.1 million for 2014, $4.3 million for 2013, and $5.5 million for 2012.

DEFERRED COMPENSATION PLANS

3.59 PPG INDUSTRIES, INC. (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

12. Employee Benefit Plans (in part)

Other Plans (in part)

Deferred Compensation Plan

The Company has a deferred compensation plan for certain key managers which allows them to defer a portion of their compensation in a phantom PPG stock account or other phantom investment accounts. The amount deferred earns a return based on the investment options selected by the participant. The amount owed to participants is an unfunded and unsecured general obligation of the Company. Upon retirement, death, disability, termination of employment, scheduled payment or unforeseen emergency, the compensation deferred and related accumulated earnings are distributed in accordance with the participant's election in cash or in PPG stock, based on the accounts selected by the participant.

The plan provides participants with investment alternatives and the ability to transfer amounts between the phantom non-PPG stock investment accounts. To mitigate the impact on compensation expense of changes in the market value of the liability, the Company has purchased a portfolio of marketable securities that mirror the phantom non-PPG stock investment accounts selected by the participants, except the money market accounts. These investments are carried by PPG at fair market value, and the changes in market value of these securities are also included in income from continuing operations. Trading occurs in this portfolio to align the securities held with the participant's phantom non-PPG stock investment accounts, except the money market accounts.

The cost of the deferred compensation plan, comprised of dividend equivalents accrued on the phantom PPG stock account, investment income and the change in market value of the liability, was expense in 2014, 2013 and 2012 of $10 million, $18 million and $10 million, respectively. These amounts are included in "Selling, general and administrative" in the accompanying consolidated statement of income. The change in market value of the investment portfolio was income of $8 million, $17 million, and $8 million in 2014, 2013 and 2012, respectively, of which $2.9 million, $3.4 million and $0.9 million was realized gains, and is also included in "Selling, general and administrative."

The Company's obligations under this plan, which are included in "Accounts payable and accrued liabilities" and "Other liabilities" in the accompanying consolidated balance sheet, totaled $119 million and $114 million as of December 31, 2014 and 2013, respectively, and the investments in marketable securities, which are included in "Investments" and "Other current assets" in the accompanying consolidated balance sheet, were $79 million and $75 million as of December 31, 2014 and 2013, respectively.

INCENTIVE COMPENSATION PLANS

3.60 CITIGROUP INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Stock-Based Compensation

The Company recognizes compensation expense related to stock and option awards over the requisite service period, generally based on the instruments' grant-date fair value, reduced by expected forfeitures. Compensation cost related to awards granted to employees who meet certain age plus years-of-service requirements (retirement-eligible employees) is accrued in the year prior to the grant date, in the same manner as the accrual for cash incentive compensation. Certain stock awards with performance conditions or certain clawback provisions are subject to variable accounting, pursuant to which the associated compensation expense fluctuates with changes in Citigroup's stock price. See Note 7 to the Consolidated Financial Statements.

7. Incentive Plans

Discretionary Annual Incentive Awards

Citigroup grants immediate cash bonus payments, deferred cash awards, stock payments and restricted and deferred stock awards as part of its discretionary annual incentive award program involving a large segment of Citigroup's employees worldwide. Most of the shares of common stock issued by Citigroup as part of its equity compensation programs are to settle the vesting of the stock components of these awards.

Discretionary annual incentive awards are generally awarded in the first quarter of the year based upon the previous year's performance. Awards valued at less than U.S. $100,000 (or the local currency equivalent) are generally paid entirely in the form of an immediate cash bonus. Pursuant to Citigroup policy and/or regulatory requirements, certain employees and officers are subject to mandatory deferrals of incentive pay and generally receive 25% to 60% of their awards in a combination of restricted or deferred stock and deferred cash. Discretionary annual incentive awards to many employees in the EU are subject to deferral requirements regardless of the total award value, with 50% of the immediate incentive delivered in the form of a stock payment or stock unit award subject to a restriction on sale or transfer or hold back (generally, for six months).

Deferred annual incentive awards are generally delivered as two awards—a restricted or deferred stock award under Citi's Capital Accumulation Program (CAP) and a deferred cash award. The applicable mix of CAP and deferred cash awards may vary based on the employee's minimum deferral requirement and the country of employment. In some cases, the entire deferral will be in the form of either a CAP or deferred cash award.

Subject to certain exceptions (principally, for retirement-eligible employees), continuous employment within Citigroup is required to vest in CAP and deferred cash awards. Post-employment vesting by retirement-eligible employees and participants who meet other conditions is generally conditioned upon their refraining from competition with Citigroup during the remaining vesting period, unless the employment relationship has been terminated by Citigroup under certain conditions.

Generally, the CAP and deferred cash awards vest in equal annual installments over three—or four -year periods. Vested CAP awards are delivered in shares of common stock. Deferred cash awards are payable in cash and earn a fixed notional rate of interest that is paid only if and when the underlying principal award amount vests. Generally, in the EU, vested CAP shares are subject to a restriction on sale or transfer after vesting, and vested deferred cash awards are subject to hold back (generally, for six months in each case).

Unvested CAP and deferred cash awards made in January 2011 or later are subject to one or more clawback provisions that apply in certain circumstances, including in the case of employee risk-limit violations or other misconduct, or where the awards were based on earnings that were misstated. CAP awards made to certain employees in February 2013 and later, and deferred cash awards made to certain employees in January 2012, are subject to a formulaic performance-based vesting condition pursuant to which amounts otherwise scheduled to vest will be reduced based on the amount of any pretax loss in the participant's business in the calendar year preceding the scheduled vesting date. For CAP awards made in February 2013 and later, a minimum reduction of 20% applies for the first dollar of loss.

In addition, deferred cash awards made to certain employees in February 2013 and later are subject to a discretionary performance-based vesting condition under which an amount otherwise scheduled to vest may be reduced in the event of a "material adverse outcome" for which a participant has "significant responsibility." Deferred cash awards made to these employees in February 2014 and later are subject to an additional clawback provision pursuant to which unvested awards may be canceled if the employee engaged in misconduct or exercised materially imprudent judgment, or failed to supervise or escalate the behavior of other employees who did.

Certain CAP and other stock-based awards, including those to participants in the EU that are subject to certain discretionary clawback provisions, are subject to variable accounting, pursuant to which the associated value of the award fluctuates with changes in Citigroup's common stock price until the date that the award is settled, either in cash or shares. For these awards, the total amount that will be recognized as expense cannot be determined in full until the settlement date.

Compensation Allowances

In 2013 and 2014, certain employees of Citigroup's U.K. regulated entities were granted fixed allowances, in addition to salary and annual incentive awards. Generally, these cash allowances are payable in equal installments during the service year and the following year or two years. The payments cease if the employee does not continue to meet applicable service or other requirements. The allowance payments are not subject to performance conditions or clawback. Discretionary incentives awarded for performance years 2013 and 2014 to employees receiving allowances were at reduced levels and subject to greater deferral requirements, of up to 100% in some cases.

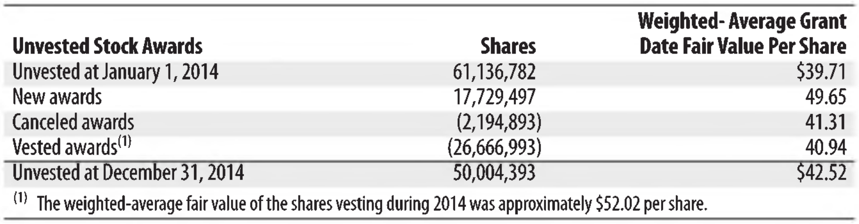
Sign-on and Long-Term Retention Awards

Stock awards, deferred cash awards and grants of stock options may be made at various times during the year as sign-on awards to induce new hires to join Citi or to high-potential employees as long-term retention awards.

Vesting periods and other terms and conditions pertaining to these awards tend to vary by grant. Generally, recipients must remain employed through the vesting dates to vest in the awards, except in cases of death, disability or involuntary termination other than for "gross misconduct." These awards do not usually provide for post-employment vesting by retirement-eligible participants. Any stock option grants are for Citigroup common stock with exercise prices that are no less than the fair market value at the time of grant.

Outstanding (Unvested) Stock Awards

A summary of the status of unvested stock awards granted as discretionary annual incentive or sign-on and long-term retention awards for the 12 months ended December 31, 2014, is presented below:



Unvested Stock Awards	Shares	Weighted- Average Grant Date Fair Value Per Share
Unvested at January 1, 2014	61,136,782	$39.71
New awards	17,729,497	49.65
Canceled awards	(2,194,893)	41.31
Vested awards[1]	(26,666,993)	40.94
Unvested at December 31, 2014	50,004,393	$42.52

[1] The weighted-average fair value of the shares vesting during 2014 was approximately $52.02 per share.

Total unrecognized compensation cost related to unvested stock awards, excluding the impact of forfeiture estimates, was $659 million at December 31, 2014. The cost is expected to be recognized over a weighted-average period of 0.7 years. However, the value of the portion of these awards that is subject to variable accounting will fluctuate with changes in Citigroup's common stock price.

Performance Share Units

Certain executive officers were awarded a target number of performance share units (PSUs) on February 19, 2013, for performance in 2012, and to a broader group of executives on February 18, 2014, and February 18, 2015, for performance in 2013 and 2014, respectively. PSUs will be earned only to the extent that Citigroup attains specified performance goals relating to Citigroup's return on assets and relative total shareholder return against peers over the three -year period beginning with the year of award. The actual dollar amounts ultimately earned could vary from zero, if performance goals are not met, to as much as 150% of target, if performance goals are meaningfully exceeded. The value of each PSU is equal to the value of one share of Citi common stock. The value of the award will fluctuate with changes in Citigroup's stock price and the attainment of the specified performance goals for each award, until it is settled solely in cash after the end of the performance period.

Stock Option Programs

Stock options have not been granted to Citi's employees as part of the annual incentive award programs since 2009.

On February 14, 2011, Citigroup granted options exercisable for approximately 2.9 million shares of Citigroup common stock to certain of its executive officers. The options have six -year terms and vested in three equal annual installments. The exercise price of the options is $49.10, equal to the closing price of a share of Citigroup common stock on the grant date. Upon exercise of the options before the fifth anniversary of the grant date, the shares received on exercise (net of the amount required to pay taxes and the exercise price) are subject to a one -year transfer restriction.

The February 14, 2011, grant is the only prior stock option grant that was not fully vested by January 1, 2014, and as a result, is the only grant that resulted in an amount of compensation expense in 2014. All other stock option grants were fully vested at December 31, 2013, and as a result Citi will not incur any future compensation expense related to those grants.

Information with respect to stock option activity under Citigroup's stock option programs for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014			2013			2012		
	Options	Weighted-Average Exercise Price	Intrinsic Value Per Share	Options	Weighted-Average Exercise Price	Intrinsic Value Per Share	Options	Weighted-Average Exercise Price	Intrinsic Value Per Share
Outstanding, beginning of period	31,508,106	$ 50.72	$ 1.39	35,020,397	$ 51.20	$ —	37,596,029	$ 69.60	$—
Forfeited	(28,257)	40.80	—	(50,914)	212.35	—	(858,906)	83.84	—
Expired	(602,093)	242.43	—	(86,964)	528.40	—	(1,716,726)	438.14	—
Exercised	(4,363,637)	40.82	11.37	(3,374,413)	40.81	9.54	—	—	—
Outstanding, end of period	26,514,119	$ 48.00	$ 6.11	31,508,106	$ 50.72	$1.39	35,020,397	$ 51.20	$—
Exercisable, end of period	26,514,119			30,662,588			32,973,444		

The following table summarizes information about stock options outstanding under Citigroup's stock option programs at December 31, 2014:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Contractual Life Remaining	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$29.70—$49.99[1]	25,617,659	1.1 years	$ 42.87	25,617,659	$ 42.87
$50.00—$99.99	69,956	6.1 years	56.76	69,956	56.76
$100.00—$199.99	502,416	4.0 years	147.13	502,416	147.13
$200.00—$299.99	124,088	3.1 years	240.28	124,088	240.28
$300.00—$399.99	200,000	3.1 years	335.50	200,000	335.50
Total at December 31, 2014	26,514,119	1.2 years	$ 48.02	26,514,119	$ 48.02

[1] A significant portion of the outstanding options are in the $40 to $45 range of exercise prices.

Profit Sharing Plan

The 2010 Key Employee Profit Sharing Plan (KEPSP) entitled participants to profit-sharing payments calculated with reference to the pretax income of Citicorp (as defined in the KEPSP) over a performance measurement period of January 1, 2010, through December 31, 2013. Generally, if a participant remained employed and all other conditions to vesting and payment were satisfied, the participant became entitled to payment. Payments were made in cash, except for U.K. participants who, pursuant to regulatory requirements, received 50% of their payment in Citigroup common stock that was subject to a six -month sale restriction.

Independent risk function employees were not eligible to participate in the KEPSP, as the independent risk function participates in the determination of whether payouts will be made under the KEPSP. Instead, they were eligible to receive deferred cash retention awards.

Other Variable Incentive Compensation

Citigroup has various incentive plans globally that are used to motivate and reward performance primarily in the areas of sales, operational excellence and customer satisfaction. Participation in these plans is generally limited to employees who are not eligible for discretionary annual incentive awards.

Summary

Except for awards subject to variable accounting, the total expense recognized for stock awards represents the grant date fair value of such awards, which is generally recognized as a charge to income ratably over the vesting period, other than for awards to retirement-eligible employees and immediately vested awards. Whenever awards are made or are expected to be made to retirement-eligible employees, the charge to income is accelerated based on when the applicable conditions to retirement eligibility were or will be met. If the employee is retirement eligible on the grant date, or the award is vested at grant date, the entire expense is recognized in the year prior to grant.

Recipients of Citigroup stock awards generally do not have any stockholder rights until shares are delivered upon vesting or exercise, or after the expiration of applicable required holding periods. Recipients of restricted or deferred stock awards and stock unit awards, however, may be entitled to receive dividends or dividend-equivalent payments during the vesting period. Recipients of restricted stock awards generally are entitled to vote the shares in their award during the vesting period. Once a stock award vests, the shares are freely transferable, unless they are subject to a restriction on sale or transfer for a specified period. Pursuant to a stock ownership commitment, certain executives have committed to holding most of their vested shares indefinitely.

All equity awards granted since April 19, 2005, have been made pursuant to stockholder-approved stock incentive plans that are administered by the Personnel and Compensation Committee of the Citigroup Board of Directors, which is composed entirely of independent non-employee directors.

At December 31, 2014, approximately 51.6 million shares of Citigroup common stock were authorized and available for grant under Citigroup's 2014 Stock Incentive Plan, the only plan from which equity awards are currently granted.

The 2014 Stock Incentive Plan and predecessor plans permit the use of treasury stock or newly issued shares in connection with awards granted under the plans. Newly issued shares were distributed to settle the vesting of annual deferred stock awards in January 2012, 2013, 2014 and 2015. The use of treasury stock or newly issued shares to settle stock awards does not affect the compensation expense recorded in the Consolidated Statement of Income for equity awards.

Incentive Compensation Cost

The following table shows components of compensation expense, relating to the above incentive compensation programs, recorded during 2014, 2013 and 2012:

In millions of dollars	**2014**	**2013**	**2012**
Charges for estimated awards to retirement-eligible employees	$ 525	$ 468	$ 444
Amortization of deferred cash awards, deferred cash stock units and performance stock units	311	323	345
Immediately vested stock award expense[1]	51	54	60
Amortization of restricted and deferred stock awards[2]	668	862	864
Option expense	1	10	99
Other variable incentive compensation	803	1,076	670
Profit sharing plan	1	78	246
Total	$2,360	$2,871	$2,728

[1] Represents expense for immediately vested stock awards that generally were stock payments in lieu of cash compensation. The expense is generally accrued as cash incentive compensation in the year prior to grant.

[2] All periods include amortization expense for all unvested awards to non-retirement-eligible employees. Amortization is recognized net of estimated forfeitures of awards.

Future Expenses Associated with Outstanding (Unvested) Awards

Citi expects to record compensation expense in future periods as a result of awards granted for performance in 2014 and years prior. Because the awards contain service or other conditions that will be satisfied in the future, the expense of these already-granted awards is recognized over those future period(s). Citi's expected future expenses, excluding the impact of forfeitures, cancellations, clawbacks and repositioning-related accelerations that have not yet occurred, are summarized in the table below. The portion of these awards that is subject to variable accounting will cause the expense amount to fluctuate with changes in Citigroup's common stock price.

In millions of dollars	**2015**	**2016**	**2017**	**2018 and Beyond[1]**	**Total[2]**
Awards granted in 2014 and prior:					
Deferred Stock Awards	$357	$204	$ 92	$ 6	$ 659
Deferred Cash Awards	232	123	51	3	409
Future expense related to awards already granted	$589	$327	$143	$9	$1,068
Future expense related to awards granted in 2015[3]	$400	$290	$188	$164	$1,042
Total	$989	$617	$331	$173	$2,110

[1] Principally 2018.

[2] $1.8 billion of which is attributable to *ICG*.

[3] Refers to awards granted on or about February 16, 2015, as part Citi's discretionary annual incentive awards for services performed in 2014, and 2015 compensation allowances.

EMPLOYEE STOCK OWNERSHIP PLANS (ESOP)

3.61 THE PROCTER & GAMBLE COMPANY (JUN)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Dollars in millions/ Shares in thousands	Common Shares Outstanding	Common Stock	Preferred Stock	Additional Paid-In Capital	Reserve for ESOP Debt Retirement	Accumulated Other Comprehensive Income/ (Loss)	Treasury Stock	Retained Earnings	Non-controlling Interest	Total
Balance June 30, 2011	2,765,737	$4,008	$1,234	$62,405	$(1,357)	$(2,054)	$(67,278)	$70,682	$361	$68,001
Net earnings								10,756	148	10,904
Other comprehensive loss						(7,279)				(7,279)
Dividends to shareholders:										
Common								(5,883)		(5,883)
Preferred, net of tax benefits								(256)		(256)
Treasury purchases	(61,826)						(4,024)			(4,024)
Employee plan issuances	39,546			550			1,665			2,215
Preferred stock conversions	4,576	(39)		6			33			—
ESOP debt impacts								50		50
Noncontrolling interest, net				220					87	307
Balance June 30, 2012	2,748,033	4,008	1,195	63,181	(1,357)	(9,333)	(69,604)	75,349	596	64,035
Net earnings								11,312	90	11,402
Other comprehensive income						1,834				1,834
Dividends to shareholders:										
Common								(6,275)		(6,275)
Preferred, net of tax benefits								(244)		(244)
Treasury purchases	(84,234)						(5,986)			(5,986)
Employee plan issuances	70,923	1		352			3,573			3,926
Preferred stock conversions	7,605		(58)	7			51			—
ESOP debt impacts					5			55		60
Noncontrolling interest, net				(2)					(41)	(43)
Balance June 30, 2013	2,742,327	4,009	1,137	63,538	(1,352)	(7,499)	(71,966)	80,197	645	68,709
Net earnings								11,643	142	11,785
Other comprehensive loss						(163)				(163)
Dividends to shareholders:										
Common								(6,658)		(6,658)
Preferred, net of tax benefits								(253)		(253)
Treasury purchases	(74,987)						(6,005)			(6,005)
Employee plan issuances	40,288			364			2,144			2,508
Preferred stock conversions	3,178		(26)	4			22			—
ESOP debt impacts					12			61		73
Noncontrolling interest, net				5					(25)	(20)
Balance June 30, 2014	2,710,806	$4,009	$1,111	$63,911	$(1,340)	$(7,662)	$(75,805)	$84,990	$762	$69,976

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 4—Short-Term and Long-Term Debt (in part)

June 30	2014	2013
Debt Due Within One Year		
Current portion of long-term debt	$ 4,307	$ 4,506
Commercial paper	10,818	7,642
Other	481	284
Total	15,606	12,432
Short-term weighted average interest rates[1]	0.7%	0.5%

[1] Weighted average short-term interest rates include the effects of interest rate swaps discussed in Note 5.

June 30	2014	2013
Long-Term Debt		
4.95% USD note due August 2014	$ 900	$ 900
0.70% USD note due August 2014	1,000	1,000
3.50% USD note due February 2015	750	750
0.95% JPY note due May 2015	987	1,012
3.15% USD note due September 2015	500	500
1.80% USD note due November 2015	1,000	1,000
4.85% USD note due December 2015	700	700

(continued)

June 30	2014	2013
1.45% USD note due August 2016	1,000	1,000
0.75% USD note due November 2016	500	—
Floating rate USD note due November 2016	500	—
5.13% EUR note due October 2017	1,501	1,437
1.60% USD note due November 2018	1,000	—
4.70% USD note due February 2019	1,250	1,250
4.13% EUR note due December 2020	819	784
9.36% ESOP debentures due 2014-2021[1]	640	701
2.00% EUR note due November 2021	1,023	—
2.30% USD note due February 2022	1,000	1,000
2.00% EUR note due August 2022	1,365	1,307
3.10% USD note due August 2023	1,000	—
4.88% EUR note due May 2027	1,365	1,307
6.25% GBP note due January 2030	851	764
5.50% USD note due February 2034	500	500
5.80% USD note due August 2034	600	600
5.55% USD note due March 2037	1,400	1,400
Capital lease obligations	83	31
All other long-term debt	1,884	5,674
Current portion of long-term debt	(4,307)	(4,506)
Total	19,811	19,111
Long-term weighted average interest rates[2]	3.2%	3.3%

[1] Debt issued by the ESOP is guaranteed by the Company and must be recorded as debt of the Company, as discussed in Note 9.

[2] Weighted average long-term interest rates include the effects of interest rate swaps discussed in Note 5.

Note 9. Postretirement Benefits and Employee Stock Ownership Plan (in part)

Defined Contribution Retirement Plans

We have defined contribution plans which cover the majority of our U.S. employees, as well as employees in certain other countries. These plans are fully funded. We generally make contributions to participants' accounts based on individual base salaries and years of service. Total global defined contribution expense was $311, $314 and $353 in 2014, 2013 and 2012, respectively.

The primary U.S. defined contribution plan (the U.S. DC plan) comprises the majority of the expense for the Company's defined contribution plans. For the U.S. DC plan, the contribution rate is set annually. Total contributions for this plan approximated 15% of total participants' annual wages and salaries in 2014, 2013 and 2012.

We maintain The Procter & Gamble Profit Sharing Trust (Trust) and Employee Stock Ownership Plan (ESOP) to provide a portion of the funding for the U.S. DC plan and other retiree benefits (described below). Operating details of the ESOP are provided at the end of this Note. The fair value of the ESOP Series A shares allocated to participants reduces our cash contribution required to fund the U.S. DC plan.

Defined Benefit Retirement Plans and Other Retiree Benefits (in part)

We offer defined benefit retirement pension plans to certain employees. These benefits relate primarily to local plans outside the U.S. and, to a lesser extent, plans assumed in previous acquisitions covering U.S. employees.

We also provide certain other retiree benefits, primarily health care and life insurance, for the majority of our U.S. employees who become eligible for these benefits when they meet minimum age and service requirements. Generally, the health care plans require cost sharing with retirees and pay a stated percentage of expenses, reduced by deductibles and other coverages. These benefits are primarily funded by ESOP Series B shares and certain other assets contributed by the Company.

Employee Stock Ownership Plan

We maintain the ESOP to provide funding for certain employee benefits discussed in the preceding paragraphs.

The ESOP borrowed $1.0 billion in 1989 and the proceeds were used to purchase Series A ESOP Convertible Class A Preferred Stock to fund a portion of the U.S. DC plan. Principal and interest requirements of the borrowing were paid by the Trust from dividends on the preferred shares and from advances provided by the Company. The original borrowing of $1.0 billion has been repaid in full, and advances from the Company of $98 remain outstanding at June 30, 2014. Each share is convertible at the option of the holder into one share of the Company's common stock. The dividend for the current year was equal to the common stock dividend of $2.45 per share. The liquidation value is $6.82 per share.

In 1991, the ESOP borrowed an additional $1.0 billion. The proceeds were used to purchase Series B ESOP Convertible Class A Preferred Stock to fund a portion of retiree health care benefits. These shares, net of the ESOP's debt, are considered plan assets of the other retiree benefits plan discussed above. Debt service requirements are funded by preferred stock dividends, cash contributions and advances provided by the Company, of which $602 is outstanding at June 30, 2014. Each share is convertible at the option of the holder into one share of the Company's common stock. The dividend for the current year was equal to the common stock dividend of $2.45 per share. The liquidation value is $12.96 per share.

Our ESOP accounting practices are consistent with current ESOP accounting guidance, including the permissible continuation of certain provisions from prior accounting guidance. ESOP debt, which is guaranteed by the Company, is recorded as debt (see Note 4) with an offset to the reserve for ESOP debt retirement, which is presented within shareholders' equity. Advances to the ESOP by the Company are recorded as an increase in the reserve for ESOP debt retirement. Interest incurred on the ESOP debt is recorded as interest expense. Dividends on all preferred shares, net of related tax benefits, are charged to retained earnings.

The series A and B preferred shares of the ESOP are allocated to employees based on debt service requirements, net of advances made by the Company to the Trust. The number of preferred shares outstanding at June 30 was as follows:

Shares in thousands	**2014**	**2013**	**2012**
Allocated	44,465	45,535	50,668
Unallocated	8,474	9,843	11,348
Total Series A	52,939	55,378	62,016
Allocated	22,085	21,278	20,802
Unallocated	35,753	37,300	38,743
Total Series B	57,838	58,578	59,545

For purposes of calculating diluted net earnings per common share, the preferred shares held by the ESOP are considered converted from inception.

PROFIT SHARING PLANS

3.62 UNITED CONTINENTAL HOLDINGS, INC. (DEC)

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 8—Pension and Other Postretirement Plans (in part)

Profit Sharing

Substantially all employees participated in profit sharing, which depending on the work group and the Company's earnings thresholds, determines profit sharing payments based on receiving a portion of 5% to 20% of total pre-tax earnings, excluding special items, profit sharing expense and share-based compensation expense, to eligible employees. Eligible U.S. co-workers in each participating work group received a profit sharing payout using a formula based on the ratio of each qualified co-worker's annual eligible earnings to the eligible earnings of all qualified co-workers in all domestic work groups. The international profit sharing plan paid eligible non-U.S. co-workers based on the calculation under the U.S. profit sharing plan for management and administrative employees. The Company recorded profit sharing and related payroll tax expense of $235 million, $190 million and $119 million in 2014, 2013 and 2012, respectively. Profit sharing expense is recorded as a component of Salaries and related costs in the Company's consolidated statements of operations.

Depreciation Expense

RECOGNITION AND MEASUREMENT

3.63 FASB ASC 360, *Property, Plant, and Equipment*, defines *depreciation accounting* (the process of allocating the cost of productive facilities over the expected useful lives of the facilities) as a system of accounting that aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit, which may be a group of assets, in a systematic and rational manner. It is a process of allocation, not valuation.

3.64 FASB ASC 250 requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. Changes in accounting estimate are accounted for prospectively, not retrospectively as is required for changes in accounting principle.

DISCLOSURE

3.65 FASB ASC 360 stipulates that both the amount of depreciation expense and method(s) of depreciation should be disclosed in the financial statements or notes thereto.

PRESENTATION AND DISCLOSURE EXCERPTS

STRAIGHT-LINE AND ACCELERATED METHODS

3.66 THERMO FISHER SCIENTIFIC INC. (DEC)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (in part)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the property as follows: buildings and improvements, 25 to 40 years; machinery and equipment (including software), 3 to 10 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in the accompanying statement of income. Property, plant and equipment consists of the following:

(In millions)	**December 31, 2014**	**December 31, 2013**
Land	$ 281.8	$ 212.2
Buildings and Improvements	955.1	821.0
Machinery, Equipment and Leasehold Improvements	2,632.0	2,047.9
Property, Plant and Equipment, at Cost	3,868.9	3,081.1
Less: Accumulated Depreciation and Amortization	1,442.4	1,313.7
Property, Plant and Equipment, at Cost, Net	$2,426.5	$1,767.4

Depreciation and amortization expense of property, plant and equipment including amortization of assets held under capital leases, was $353.1 million, $236.8 million and $236.1 million in 2014, 2013 and 2012, respectively.

3.67 THE BOEING COMPANY (DEC)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Dollars in millions, except per share data)

Note 1—Summary of Significant Accounting Policies (in part)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including applicable construction-period interest, less accumulated depreciation and are depreciated principally over the following estimated useful lives: new buildings and land improvements, from 10 to 40 years; and new machinery and equipment, from 3 to 20 years. The principal methods of depreciation are as follows: buildings and land improvements, 150% declining balance; and machinery and equipment, sum-of-the-years' digits. Capitalized internal use software is included in Other assets and amortized using the straight line method over 5 years. We periodically evaluate the appropriateness of remaining depreciable lives assigned to long-lived assets, including assets that may be subject to a management plan for disposition.

Long-lived assets held for sale are stated at the lower of cost or fair value less cost to sell. Long-lived assets held for use are subject to an impairment assessment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, the amount of the impairment is the difference between the carrying amount and the fair value of the asset.

Note 8—Property, Plant and Equipment (in part)

Property, plant and equipment at December 31 consisted of the following:

	2014	2013
Land	$ 560	$ 562
Buildings and land improvements	11,767	11,068
Machinery and equipment	12,867	12,376
Construction in progress	1,502	1,288
Gross property, plant and equipment	26,696	25,294
Less accumulated depreciation	(15,689)	(15,070)
Total	$ 11,007	$ 10,224

Depreciation expense was $1,414, $1,338 and $1,248 for the years ended December 31, 2014, 2013 and 2012, respectively. Interest capitalized during the years ended December 31, 2014, 2013 and 2012 totaled $102, $87 and $74, respectively.

UNITS-OF-PRODUCTION METHOD

3.68 EXXON MOBIL CORPORATION (DEC)

CONSOLIDATED STATEMENT OF INCOME (in part)

(Millions of dollars)	Note Reference Number	2014	2013	2012
Revenues and Other Income				
Sales and other operating revenue[1]		394,105	420,836	451,509
Income from equity affiliates	7	13,323	13,927	15,010
Other income		4,511	3,492	14,162
Total revenues and other income		411,939	438,255	480,681
Costs and Other Deductions				
Crude oil and product purchases		225,972	244,156	263,535
Production and manufacturing expenses		40,859	40,525	38,521
Selling, general and administrative expenses		12,598	12,877	13,877
Depreciation and depletion		17,297	17,182	15,888
Exploration expenses, including dry holes		1,669	1,976	1,840
Interest expense		286	9	327
Sales-based taxes[1]	19	29,342	30,589	32,409
Other taxes and duties	19	32,286	33,230	35,558
Total costs and other deductions		360,309	380,544	401,955
Income before income taxes		51,630	57,711	78,726

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Accounting Policies (in part)

Property, Plant and Equipment. Depreciation, depletion and amortization, based on cost less estimated salvage value of the asset, are primarily determined under either the unit-of-production method or the straight-line method, which is based on estimated asset service life taking obsolescence into consideration. Maintenance and repairs, including planned major maintenance, are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired.

The Corporation uses the "successful efforts" method to account for its exploration and production activities. Under this method, costs are accumulated on a field-by-field basis. Costs incurred to purchase, lease, or otherwise acquire a property (whether unproved or proved) are capitalized when incurred. Exploratory well costs are carried as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Corporation is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. Other exploratory expenditures, including geophysical costs and annual lease rentals, are expensed as incurred. Development costs including costs of productive wells and development dry holes are capitalized.

Acquisition costs of proved properties are amortized using a unit-of-production method, computed on the basis of total proved oil and gas reserves. Capitalized exploratory drilling and development costs associated with productive depletable extractive properties are amortized using unit-of-production rates based on the amount of proved developed reserves of oil, gas and other minerals that are estimated to be recoverable from existing facilities using current operating methods. Under the unit-of-production method, oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the lease or field storage tank.

Production involves lifting the oil and gas to the surface and gathering, treating, field processing and field storage of the oil and gas. The production function normally terminates at the outlet valve on the lease or field production storage tank. Production costs are those incurred to operate and maintain the Corporation's wells and related equipment and facilities and are expensed as incurred. They become part of the cost of oil and gas produced. These costs, sometimes referred to as lifting costs, include such items as labor costs to operate the wells and related equipment; repair and maintenance costs on the wells and equipment; materials, supplies and energy costs required to operate the wells and related equipment; and administrative expenses related to the production activity.

Proved oil and gas properties held and used by the Corporation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The Corporation estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. Cash flows used in impairment evaluations are developed using annually updated corporate plan investment evaluation assumptions for crude oil and natural gas commodity prices, refining and chemical margins and foreign currency exchange rates. Annual volumes are based on field production profiles, which are also updated annually. Prices for other petroleum and chemical products are based on corporate plan assumptions developed annually by major region and also for investment evaluation purposes. Cash flow estimates for impairment testing exclude derivative instruments.

Impairment analyses are generally based on proved reserves. Where probable reserves exist, an appropriately risk-adjusted amount of these reserves may be included in the impairment evaluation. An asset group would be impaired if the undiscounted cash flows were less than its carrying value. Impairments are measured by the amount the carrying value exceeds fair value.

Significant unproved properties are assessed for impairment individually, and valuation allowances against the capitalized costs are recorded based on the estimated economic chance of success and the length of time that the Corporation expects to hold the properties. Properties that are not individually significant are aggregated by groups and amortized based on development risk and average holding period. The valuation allowances are reviewed at least annually.

Gains on sales of proved and unproved properties are only recognized when there is neither uncertainty about the recovery of costs applicable to any interest retained nor any substantial obligation for future performance by the Corporation.

Losses on properties sold are recognized when incurred or when the properties are held for sale and the fair value of the properties is less than the carrying value.

Interest costs incurred to finance expenditures during the construction phase of multiyear projects are capitalized as part of the historical cost of acquiring the constructed assets. The project construction phase commences with the development of the detailed engineering design and ends when the constructed assets are ready for their intended use. Capitalized interest costs are included in property, plant and equipment and are depreciated over the service life of the related assets.

9. Property, Plant and Equipment and Asset Retirement Obligations (in part)

(Millions of dollars)	December 31, 2014		December 31, 2013	
Property, Plant and Equipment	**Cost**	**Net**	**Cost**	**Net**
Upstream	347,170	205,308	336,359	197,554
Downstream	53,327	22,639	54,456	23,219
Chemical	30,717	14,918	29,487	13,965
Other	15,575	9,803	14,215	8,912
Total	446,789	252,668	434,517	243,650

In the Upstream segment, depreciation is generally on a unit-of-production basis, so depreciable life will vary by field. In the Downstream segment, investments in refinery and lubes basestock manufacturing facilities are generally depreciated on a straight-line basis over a 25-year life and service station buildings and fixed improvements over a 20-year life. In the Chemical segment, investments in process equipment are generally depreciated on a straight-line basis over a 20-year life.

Accumulated depreciation and depletion totaled $194,121 million at the end of 2014 and $190,867 million at the end of 2013. Interest capitalized in 2014, 2013 and 2012 was $344 million, $309 million and $506 million, respectively.

GROUP-LIFE METHOD OF DEPRECIATION

3.69 CSX CORPORATION (DEC)

CONSOLIDATED INCOME STATEMENTS (in part)

(Dollars in Millions, Except Per Share Amounts)

	Fiscal Years		
	2014	**2013**	**2012**
Revenue	$12,669	$12,026	$11,763
Expense			
Labor and Fringe	3,377	3,138	3,020
Materials, Supplies and Other	2,484	2,275	2,156
Fuel	1,616	1,656	1,672
Depreciation	1,151	1,104	1,059
Equipment and Other Rents	428	380	392
Total Expense	9,056	8,553	8,299
Operating Income	3,613	3,473	3,464

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 6. Properties

A detail of the Company's net properties are as follows:

(Dollars in Millions)	Cost	Accumulated Depreciation	Net Book Value	Annual Depreciation Rate	Depreciation Method	Estimated Useful Life
December 2014						
Road						
Rail and Other Track Material	$ 6,771	$ (1,400)	$ 5,371	2.5%	Group Life	
Ties	4,807	(1,060)	3,747	3.7%	Group Life	
Grading	2,460	(481)	1,979	1.4%	Group Life	
Ballast	2,693	(679)	2,014	2.7%	Group Life	
Bridges, Trestles, and Culverts	2,119	(278)	1,841	1.6%	Group Life	
Signals and Interlockers	2,103	(356)	1,747	4.0%	Group Life	
Buildings	1,102	(377)	725	2.5%	Group Life	
Other	4,070	(1,517)	2,553	4.2%	Group Life	
Total Road	26,125	(6,148)	19,977			8–90 Years
Equipment						
Locomotive	5,036	(2,325)	2,711	3.6%	Group Life	
Freight Cars	3,244	(1,169)	2,075	3.2%	Group Life	
Work Equipment and Other	1,828	(1,032)	796	7.1%	Group Life	
Total Equipment	10,108	(4,526)	5,582			3–38 Years
Land	1,875	—	1,875	N/A	N/A	N/A
Construction In Progress	1,196	—	1,196	N/A	N/A	N/A
Other	39	(85)	(46)	N/A	Straight Line	4–30 Years
Total Properties	$39,343	$(10,759)	$28,584			

(Dollars in Millions) December 2013	Cost	Accumulated Depreciation	Net Book Value	Annual Depreciation Rate	Depreciation Method	Estimated Useful Life
Road						
Rail and Other Track Material	$ 6,452	$(1,270)	$ 5,182	2.9%	Group Life	
Ties	4,534	(947)	3,587	4.0%	Group Life	
Grading	2,425	(448)	1,977	1.5%	Group Life	
Ballast	2,612	(645)	1,967	2.8%	Group Life	
Bridges, Trestles, and Culverts	2,008	(250)	1,758	1.6%	Group Life	
Signals and Interlockers	1,922	(291)	1,631	3.4%	Group Life	
Buildings	1,011	(355)	656	2.5%	Group Life	
Other	3,654	(1,386)	2,268	4.7%	Group Life	
Total Road	24,618	(5,592)	19,026			6–80 Years
Equipment						
Locomotive	4,987	(2,176)	2,811	3.6%	Group Life	
Freight Cars	3,111	(1,135)	1,976	3.1%	Group Life	
Work Equipment and Other	1,666	(914)	752	7.1%	Group Life	
Total Equipment	9,764	(4,225)	5,539			5–38 Years
Land	1,842	—	1,842	N/A	N/A	N/A
Construction In Progress	854	—	854	N/A	N/A	N/A
Other	106	(76)	30	N/A	Straight Line	4–30 Years
Total Properties	$37,184	$(9,893)	$27,291			

Railroad Assets

The Company depreciates its rail assets, including main-line track, locomotives and freight cars, using the group-life method of accounting. Assets depreciated under the group-life method of accounting comprise 85% of total fixed assets of $39 billion on a gross basis as of December 2014. All other depreciable assets of the Company are depreciated on a straight-line basis. The group-life method aggregates assets with similar lives and characteristics into groups and depreciates each of these groups as a whole. When using the group-life method, an underlying assumption is that each group of assets, as a whole, is used and depreciated to the end of its recoverable life.

The Company currently utilizes more than 130 different depreciable asset categories to account for depreciation expense for the railroad assets that are depreciated under the group-life method of accounting. Examples of depreciable asset categories include 18 different categories for crossties due to the different combinations of density classifications and asset types. By utilizing various depreciable categories, the Company can more accurately account for the use of its assets. All assets of the Company are depreciated on a time or life basis.

The Company believes the group-life method of depreciation closely approximates the straight-line method of depreciation. Additionally, due to the nature of most of its assets (e.g. track is one contiguous, connected asset) the Company believes that this is the most effective way to properly depreciate its assets.

Under the group-life method of accounting, the service lives and salvage values for each group of assets are determined by completing periodic depreciation studies and applying management's assumptions regarding the service lives of its properties. A depreciation study (also referred to as a life study) is the periodic review of asset service lives, salvage values, accumulated depreciation, and other related factors for group assets conducted by a third-party specialist, analyzed by the Company's management and approved by the Surface Transportation Board ("STB"), the regulatory board that has broad jurisdiction over railroad practices. The STB requires depreciation studies be performed for equipment assets every three years and for road (e.g. bridges and signals) and track (e.g. rail, ties and ballast) assets every six years. The Company believes the frequency currently required by the STB provides adequate review of asset service lives and that a more frequent review would not result in a material change due to the long-lived nature of most of the assets.

The results of the depreciation study process determine the service lives for each asset group under the group-life method. Road assets, including main-line track, have estimated service lives ranging from eight years for system roadway machinery to 90 years for grading (construction of protection for the roadway, tracks and embankments). Equipment assets, including locomotives and freight cars, have estimated service lives ranging from three years for technology assets to 38 years for work equipment. Changes in asset service lives due to the results of the depreciation studies are applied on a prospective basis and could significantly impact future periods' depreciation expense, and thus, the Company's results of operations.

There are several factors taken into account during the depreciation study and they include:

- statistical analysis of historical life and salvage data for each group of property;
- statistical analysis of historical retirements for each group of property;

- evaluation of current operations;
- evaluation of technological advances and maintenance schedules;
- previous assessment of the condition of the assets and outlook for their continued use;
- expected net salvage to be received upon retirement; and
- comparison of assets to the same asset groups with other companies.

For retirements or disposals of depreciable rail assets that occur in the ordinary course of business, the asset cost (net of salvage value or sales proceeds) is charged to accumulated depreciation and no gain or loss is recognized. As individual assets within a specific group are retired or disposed of, resulting gains and losses are recorded in accumulated depreciation. As part of the depreciation study, an assessment of the recorded amount of accumulated depreciation is made to determine if it is deficient (or in excess) of the appropriate amount indicated by the study. Any such deficiency (or excess), including any deferred gains or losses, is amortized as a component of depreciation expense over the remaining service life of the asset group until the next required depreciation study. Since the overall assumption with the group-life method of accounting is that the assets within the group on average have the same service life and characteristics, it is therefore concluded that the deferred gains and losses offset over time.

Since the rail network is one contiguous, connected network it is impractical to maintain specific identification records for these assets. For road assets (such as rail and track related items), CSX utilizes a first-in, first-out approach to asset retirements. The historical cost of these replaced assets is estimated using inflation indices published by the Bureau of Labor Statistics applied to the replacement value based on the age of the retired asset. The indices are used because they closely correlate with the major cost of the materials comprising the applicable road assets.

Equipment assets (such as locomotives and freight cars) are specifically identified at retirement. When an equipment asset is retired that has been depreciated using the group-life method, the cost is reduced from the cost base and recorded in accumulated depreciation.

In the event that large groups of assets are removed from service as a result of unusual acts or sales, resulting gains and losses are recognized immediately. These acts are not considered to be in the normal course of business and are therefore recognized when incurred. Examples of such acts would be the major destruction of assets due to significant storm damage (e.g. major hurricanes), the sale of a rail line segment or the disposal of an entire class of assets (e.g. disposal of all refrigerated freight cars). There were no abnormal operating gains in 2014. Abnormal operating gains of $65 million in 2013 and $104 million in 2012 were related to the disposition of operating rail corridors. Included in these gains were $43 million and $94 million in 2013 and 2012, respectively, from the 2011 sale of an operating rail corridor to the state of Florida. In 2013, a gain was recognized for a non-monetary exchange of easements and rail assets, and in 2012, a gain was recognized for a sale of operating rail corridor to the Commonwealth of Massachusetts.

Recent experience with depreciation studies has resulted in depreciation rate changes, which did not materially affect the Company's annual depreciation expense of $1.2 billion, $1.1 billion and $1.1 billion for 2014, 2013 and 2012, respectively. In general, changes in depreciation rates result from updated average asset service lives as determined during depreciation studies. In 2014, the Company completed a depreciation study for its road and track assets. In 2012, the Company completed a depreciation study for its equipment assets and a technical update (an update to the prior depreciation study) for its road and track assets.

Non-Railroad Assets, Capital Leases and Land

The majority of non-railroad property is depreciated using the straight-line method on a per asset basis. The depreciable lives of this property are periodically reviewed by the Company and any changes are applied on a prospective basis. Amortization expense recorded under capital leases is included in depreciation expense on the consolidated income statements. For retirements or disposals of non-railroad depreciable assets and all dispositions of land, the resulting gains or losses are recognized in earnings at the time of disposal. During 2012, the Company recognized a gain of $57 million related to the sale of non-operating property, which is recognized in other income in the consolidated statements of income. These gains and losses were not material for any other period presented.

Impairment Review

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or a group of assets in accordance with the *Property, Plant, and Equipment Topic* in the ASC. Where impairment is indicated, the assets are evaluated and their carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value.

Capital Expenditures

The Company's capital spending includes purchased or self-constructed assets and property additions that substantially extend the service life or increase the utility of those assets. Indirect costs that can be specifically traced to capital projects are also capitalized. The Company is committed to maintaining and improving its existing infrastructure and expanding its network for long-term growth. Rail operations are capital intensive and CSX accounts for these costs in accordance with GAAP and the Company's capitalization policy. All properties are stated at historical cost less an allowance for accumulated depreciation.

The Company's largest category of capital spending is the replacement of track assets and the acquisition or construction of new assets that enable CSX to enhance its operations or provide new capacity offerings to its customers. These construction projects are typically completed by CSXT employees. Costs for track asset replacement and capacity projects that are capitalized include:

- labor costs, because many of the assets are self-constructed;
- costs to purchase or construct new track or to prepare ground for the laying of track;
- welding (rail, field and plant) which are processes used to connect segments of rail;
- new ballast, which is gravel and crushed stone that holds track in line;
- fuels and lubricants associated with tie, rail and surfacing work which is the process of raising track to a designated elevation over an extended distance;
- cross, switch and bridge ties which are the braces that support the rails on a track;
- gauging which is the process of standardizing the distance between rails;
- handling costs associated with installing ties or ballast; and
- other track materials.

The primary cost in self-constructed track replacement work is labor. CSXT engineering employees directly charge their labor to the track replacement project (the capitalized depreciable property). These employees concurrently perform deconstruction and installation of track material. Because of this concurrent process, CSX must estimate the amount of labor that is related to deconstruction versus installation. Through analysis of CSXT's track replacement process, CSX determined that approximately 20% of labor costs associated with track material installation is related to the deconstruction of old track and 80% is associated with the installation of new track.

Capital spending related to locomotives and freight cars comprises the second largest category of the Company's capital assets. This category includes purchase costs of locomotives and freight cars as well as certain equipment leases that are considered to be capital leases in accordance with the *Leases Topic* in the ASC. In addition, costs to modify or rebuild these assets are capitalized if the spending incurred extends the asset's service life or improves utilization. Improvement projects must meet specified dollar thresholds to be capitalized and are reviewed by management to determine proper accounting treatment. Routine repairs and maintenance costs, for all asset categories, are expensed as incurred.

Income Taxes

Author's Note

In July 2013, FASB issued ASU 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 (a consensus of the FASB Emerging Issues Task Force)*, because FASB ASC 740, *Income Taxes*, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this ASU is to eliminate that diversity in practice. Public entities are required to apply the amendments in this ASU for annual reporting periods beginning on or after December 15, 2013, and interim periods within those annual periods. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

RECOGNITION AND MEASUREMENT

3.70 FASB ASC 740, *Income Taxes*, clarifies the accounting for tax positions in an entity's financial statements. FASB ASC 740 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under FASB ASC 740, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria. In addition, FASB ASC 740 provides guidance on classification and disclosure. FASB ASC 740 requires, except in certain specified situations, that undistributed earnings of a subsidiary included in consolidated income be accounted for as a temporary difference. Finally, the provisions of FASB ASC 740 provide more information about the uncertainty in income tax assets and liabilities.

DISCLOSURE

3.71 FASB ASC 740 sets forth standards for financial presentation and disclosure of income tax liabilities or assets and expense. These requirements vary for public and nonpublic entities. FASB ASC 740 states that amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes should be disclosed. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be credited directly to contributed capital should also be disclosed. An entity's temporary difference and carryforward information require additional disclosure, which differs for public and nonpublic entities.

PRESENTATION AND DISCLOSURE EXCERPTS

EXPENSE PROVISION

3.72 ABBOTT LABORATORIES (DEC)

CONSOLIDATED STATEMENT OF EARNINGS (in part)

(in millions except per share data)

	Year Ended December 31		
	2014	**2013**	**2012**
Net Sales	$20,247	$19,657	$19,050
Cost of products sold, excluding amortization of intangible assets	9,218	9,193	8,899
Amortization of intangible assets	555	588	595
Research and development	1,345	1,371	1,461
Selling, general and administrative	6,530	6,372	6,735
Total Operating Cost and Expenses	17,648	17,524	17,690
Operating Earnings	2,599	2,133	1,360
Interest expense	150	145	320
Interest income	(77)	(67)	(59)
Net loss on extinguishment of debt	18	—	1,351
Net foreign exchange (gain) loss	(24)	46	(31)
Other (income) expense, net	14	(32)	(1)
Earnings (Loss) from Continuing Operations Before Taxes	2,518	2,041	(220)
Taxes on Earnings (Loss) from Continuing Operations	797	53	(457)
Earnings from Continuing Operations	1,721	1,988	237
Earnings from Discontinued Operations, net of tax	563	588	5,726
Net Earnings	$ 2,284	$ 2,576	$ 5,963

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Summary of Significant Accounting Policies (in part)

Income Taxes—Deferred income taxes are provided for the tax effect of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at the enacted statutory rate to be in effect when the taxes are paid. U.S. income taxes are provided on those earnings of foreign subsidiaries which are intended to be remitted to the parent company. Deferred income taxes are not provided on undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment. Interest and penalties on income tax obligations are included in taxes on income.

Note 14—Taxes on Earnings from Continuing Operations

Taxes on earnings from continuing operations reflect the annual effective rates, including charges for interest and penalties. Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts.

In 2014, taxes on earnings from continuing operations reflect the recognition of $440 million of tax expense associated with a one-time repatriation of 2014 non-U.S. earnings, partially offset by the favorable resolution of various tax positions and adjustments of tax uncertainties pertaining to prior years. Earnings from discontinued operations in 2014 include the recognition of $166 million of tax benefits as a result of the resolution of various tax positions related to AbbVie's operations prior to the separation. In 2013, taxes on earnings from continuing operations reflect the recognition of $230 million of tax benefits as a result of the favorable resolution of various tax positions pertaining to prior years. Earnings from discontinued operations in 2013 include the recognition of $193 million of tax benefits as a result of the resolution of various tax positions related to AbbVie's operations prior to the separation. In addition, as a result of the American Taxpayer Relief Act of 2012 signed into law in January 2013, Abbott recognized a tax benefit in the tax provision related to continuing operations of approximately $103 million for the retroactive extension of the research tax credit and the look-through rules of section 954(c)(6) of the Internal Revenue Code to the beginning of 2012. The $1.58 billion domestic loss before taxes in 2012 includes $1.29 billion of net loss on the early extinguishment of debt.

U.S. income taxes are provided on those earnings of foreign subsidiaries which are intended to be remitted to the parent company. Abbott does not record deferred income taxes on earnings reinvested indefinitely in foreign subsidiaries. Undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment aggregated $23.0 billion at December 31, 2014. It is not practicable to determine the amount of deferred income taxes not provided on these earnings. In the U.S., Abbott's federal income tax returns through 2011 are settled except for four items, and the income tax returns for years after 2011 are open. There are numerous other income tax jurisdictions for which tax returns are not yet settled, none of which are individually significant. Reserves for interest and penalties are not significant.

Earnings from continuing operations before taxes, and the related provisions for taxes on earnings from continuing operations, were as follows:

(In millions)	2014	2013	2012
Earnings (Loss) From Continuing Operations Before Taxes:			
Domestic	$ 392	$ 496	$(1,581)
Foreign	2,126	1,545	1,361
Total	$2,518	$2,041	$ (220)

(In millions)	2014	2013	2012
Taxes on Earnings (Losses) From Continuing Operations:			
Current:			
Domestic	$ 27	$ 4	$ (44)
Foreign	468	482	819
Total current	495	486	775
Deferred:			
Domestic	298	(308)	(572)
Foreign	4	(125)	(660)
Total deferred	302	(433)	(1,232)
Total	$797	$ 53	$ (457)

Differences between the effective income tax rate and the U.S. statutory tax rate were as follows:

	2014	2013	2012
Statutory tax rate on earnings from continuing operations	35.0%	35.0%	35.0%
Impact of foreign operations	0.7	(18.5)	105.1
Resolution of certain tax positions pertaining to prior years	(4.2)	(11.3)	96.2
Effect of retroactive legislation	—	(5.0)	—
State taxes, net of federal benefit	(0.5)	2.1	(4.6)
All other, net	0.6	0.3	(24.0)
Effective tax rate on earnings from continuing operations	31.6%	2.6%	207.7%

Impact of foreign operations is primarily derived from operations in Puerto Rico, Switzerland, Ireland, Singapore, and the Netherlands. In 2014, this benefit was more than offset by the tax expense accrued as a result of Abbott's one-time repatriation of its current year foreign earnings.

The tax effect of the differences that give rise to deferred tax assets and liabilities were as follows:

(In millions)	2014	2013
Deferred tax assets:		
Compensation and employee benefits	$1,239	$ 862
Other, primarily reserves not currently deductible, and NOL's and credit carryforwards	2,759	2,908
Trade receivable reserves	146	155
Inventory reserves	152	137
Deferred intercompany profit	330	274
State income taxes	178	196
Total deferred tax assets	4,804	4,532
Deferred tax liabilities:		
Depreciation	(93)	(72)
Other, primarily the excess of book basis over tax basis of intangible assets	(2,491)	(1,774)
Total deferred tax liabilities	(2,584)	(1,846)
Total net deferred tax assets	$2,220	$2,686

Abbott has incurred losses in a foreign jurisdiction where realization of the future economic benefit is so remote that the benefit is not reflected as a deferred tax asset. Valuation allowances for recorded deferred tax assets were not significant.

The following table summarizes the gross amounts of unrecognized tax benefits without regard to reduction in tax liabilities or additions to deferred tax assets and liabilities if such unrecognized tax benefits were settled:

(In millions)	2014	2013
January 1	$1,965	$2,257
Increase due to current year tax positions	220	244
Increase due to prior year tax positions	153	152
Decrease due to prior year tax positions	(856)	(541)
Lapse of statute	—	(23)
Settlements	(79)	(124)
December 31	$1,403	$1,965

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is approximately $1.3 billion. Abbott believes that it is reasonably possible that the recorded amount of gross unrecognized tax benefits may decrease by $525 million to $635 million, including cash adjustments, within the next twelve months as a result of concluding various domestic and international tax matters.

CREDIT PROVISION

3.73 KB HOME (NOV)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(In Thousands, Except Per Share Amounts)

	Years Ended November 30,		
	2014	2013	2012
Total revenues	$ 2,400,949	$ 2,097,130	$ 1,560,115
Homebuilding:			
Revenues	$ 2,389,643	$ 2,084,978	$ 1,548,432
Construction and land costs	(1,985,651)	(1,737,086)	(1,332,045)
Selling, general and administrative expenses	(288,023)	(255,808)	(236,643)
Operating income (loss)	115,969	92,084	(20,256)
Interest income	443	792	518
Interest expense	(30,750)	(62,690)	(69,804)
Equity in income (loss) of unconsolidated joint ventures	741	(2,007)	(394)
Homebuilding pretax income (loss)	86,403	28,179	(89,936)
Financial Services:			
Revenues	11,306	12,152	11,683
Expenses	(3,446)	(3,042)	(2,991)
Equity in income/gain on wind down of unconsolidated joint venture	686	1,074	2,191
Financial services pretax income	8,546	10,184	10,883
Total pretax income (loss)	94,949	38,363	(79,053)
Income tax benefit	823,400	1,600	20,100
Net income (loss)	$ 918,349	$ 39,963	$ (58,953)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Income Taxes. Income taxes are accounted for in accordance with ASC 740. The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are evaluated on a quarterly basis to determine if adjustments to the valuation allowance are required. In accordance with ASC 740, we assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard with respect to whether deferred tax assets will be realized. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income. The value of our deferred tax assets will depend on applicable income tax rates. Judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated financial statements.

Note 12. Income Taxes

Income Tax Benefit. The components of the income tax benefit in the consolidated statements of operations are as follows (in thousands):

	Federal	State	Total
2014			
Current	$ 100	$ (1,900)	$ (1,800)
Deferred	646,000	179,200	825,200
Income tax benefit	$646,100	$177,300	$823,400
2013			
Current	$ —	$ 1,600	$ 1,600
Deferred	—	—	—
Income tax benefit	$ —	$ 1,600	$ 1,600
2012			
Current	$ 16,500	$ 3,600	$ 20,100
Deferred	—	—	—
Income tax benefit	$ 16,500	$ 3,600	$ 20,100

We recognized an income tax benefit of $823.4 million in 2014, $1.6 million in 2013 and $20.1 million in 2012. The income tax benefit in 2014 was primarily due to the reversal of a substantial portion of our deferred tax asset valuation allowance at November 30, 2014. The income tax benefit in 2013 was due to the resolution of a state tax audit, which resulted in a refund receivable of $1.4 million, as well as the recognition of unrecognized tax benefits of $1.0 million, partly offset by the state tax liability of $.8 million. In 2012, the income tax benefit primarily reflected the resolution of federal and state tax audits, which also resulted in the realization of $1.2 million of deferred tax assets. Due to the effects of our deferred tax asset valuation allowances and changes in our unrecognized tax benefits, our effective tax rates in 2014, 2013 and 2012 are not meaningful items as our income tax amounts are not directly correlated to the amount of our pretax income (loss) for those periods.

Deferred Tax Assets, Net. Deferred income taxes result from temporary differences in the financial and tax basis of assets and liabilities. Significant components of our deferred tax liabilities and assets are as follows (in thousands):

	November 30,	
	2014	2013
Deferred tax liabilities:		
Capitalized expenses	$103,196	$ 87,599
State taxes	72,258	62,884
Depreciation and amortization	—	300
Other	310	208
Total	175,764	150,991

	November 30,	
	2014	2013
Deferred tax assets:		
Inventory impairments and land option contract abandonments	$ 229,264	$ 110,745
NOL from 2006 through 2013	459,393	459,885
Warranty, legal and other accruals	42,621	50,110
Employee benefits	82,776	73,039
Partnerships and joint ventures	15,672	122,081
Depreciation and amortization	9,022	—
Capitalized expenses	12,528	9,359
Tax credits	176,234	173,289
Deferred income	638	656
Other	13,998	11,267
Total	1,042,146	1,010,431
Valuation allowance	(41,150)	(859,440)
Total	1,000,996	150,991
Deferred tax assets, net	$ 825,232	$ —

Reconciliation of Expected Income Tax Benefit. The income tax benefit computed at the statutory U.S. federal income tax rate and the income tax benefit provided in the consolidated statements of operations differ as follows (dollars in thousands):

	Years Ended November 30,					
	2014		2013		2012	
	$	%	$	%	$	%
Income tax benefit (expense) computed at statutory rate	$ (33,232)	(35.0)%	$(13,427)	(35.0)%	$ 27,672	35.0%
Increase (decrease) resulting from:						
State taxes, net of federal income tax benefit	(13,907)	(14.7)	(1,947)	(5.1)	9,948	12.6
Reserve and deferred income	—	—	(1,808)	(4.7)	(9,146)	(11.6)
Capitalized expenses	1,249	1.3	—	—	7,960	10.1
Basis in joint ventures	10,441	11.0	(9,598)	(25.0)	42,503	53.8
NOL reconciliation	12,973	13.7	(3,806)	(9.9)	(5,345)	(6.8)
Inventory impairments	—	—	2,827	7.4	(59,401)	(75.1)
Recognition of federal and state tax benefits	59	.1	1,600	4.2	17,650	22.3
Tax credits	2,884	3.0	2,675	7.0	17,889	22.6
Valuation allowance for deferred tax assets	825,232	869.1	20,673	53.9	(32,286)	(40.8)
Depreciation and amortization	15,765	16.6	4,523	11.8	2,482	3.1
Other, net	1,936	2.1	(112)	(.3)	174	.2
Income tax benefit	$823,400	867.2%	$ 1,600	4.3%	$ 20,100	25.4%

Valuation Allowance. In accordance with ASC 740, we evaluate our deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available positive and negative evidence using a "more likely than not" standard with respect to whether deferred tax assets will be realized. Our evaluation considers, among other factors, our historical operating results, our expectation of future profitability, the duration of the applicable statutory carryforward periods, and conditions in the housing market and the broader economy. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related temporary differences in the financial basis and the tax basis of the assets become deductible. The value of our deferred tax assets will depend on applicable income tax rates.

At November 30, 2014, consistent with the above process, we evaluated the need for a valuation allowance against our deferred tax assets and determined that it was more likely than not that most of our deferred tax assets would be realized. As a result, in accordance with ASC 740, we recognized an $824.2 million income tax benefit in the fourth quarter of 2014, which included the reversal of all but $41.2 million of our deferred tax asset valuation allowance. The components of the valuation allowance remaining at November 30, 2014 primarily relate to foreign tax credits and certain state NOL that have not met the "more likely than not" realization standard under ASC 740.

We conducted our evaluation by considering all positive and negative evidence to determine our ability to realize our deferred tax assets. In our evaluation, we gave more significant weight to evidence that was objective in nature as compared to subjective evidence. Also, more significant weight was given to evidence that directly related to our current financial performance as compared to indirect or less current evidence.

The principal positive evidence that led us to determine at November 30, 2014 that a significant portion of our deferred tax asset valuation allowance could be reversed included our emergence from a three-year cumulative pretax loss position in 2014 as well as the underlying momentum in our business and generally improved housing market and broader economic conditions over the past few years and continuing in 2014 that have enabled us to achieve and maintain a three-year cumulative pretax income position since August 31, 2014; the significant pretax income we generated during 2014 and 2013, including six consecutive quarters of pretax income totaling $149.8 million as of November 30, 2014; improvement in key financial metrics in 2014 when compared to the previous year (including in our revenues; housing gross profits; selling, general and administrative expenses as a percentage of housing revenues; net orders and backlog); our expectation of future profitability; our strong financial position; and significant evidence that conditions in the U.S. housing industry are more favorable than in recent years and our belief that such conditions will continue to be favorable over the long term.

Prior to the quarter ended November 30, 2014, we gave significant weight to the negative, direct evidence of our three-year cumulative pretax loss position that resulted from pretax losses incurred during the housing downturn. As of November 30, 2014, we had generated six consecutive quarters of pretax income and had maintained a positive three-year cumulative pretax income position since initially achieving such a position at the end of our 2014 third quarter. Therefore, the prior pretax losses were weighted less than the recent positive financial results in our evaluation at November 30, 2014. Also, negative, direct evidence of our housing gross profit margins, which were lower than historical levels before the housing downturn, was given less weight than the direct, positive evidence of our growing pretax income levels. Other negative, indirect evidence, such as negative macroeconomic conditions that included unemployment and consumer confidence as well as a more restrictive mortgage lending environment, was considered at a lower weighting because our recent financial performance was achieved in this environment.

Based on our evaluation of positive and negative evidence at November 30, 2014, we concluded that the positive evidence outweighed the negative evidence and that it was more likely than not that a substantial portion of our deferred tax assets would be realized. The most significant changes in our evaluation of the realizability of our deferred tax assets at November 30, 2014 compared to earlier periods were the development of significant positive evidence related to our year-over-year growth in pretax income, net orders and backlog levels during 2014; our expectation that we will realize all of our federal NOL and absorb substantially all federal deductible temporary differences as they reverse in future years based on projected fiscal 2015 pretax income levels; our expectation of sustained and increasing profitability in future years; and the reduced significance of the negative evidence we considered before November 30, 2014 related to our pretax losses incurred in prior years, because we had generated six consecutive quarters of pretax income and cumulative pretax income for the past three years as of November 30, 2014. These significant changes in evidence at November 30, 2014 led us to determine that it was more likely than not that most of our deferred tax assets would be realized. We reversed the valuation allowance on all of our federal deferred tax assets, except for the portion related to foreign tax credits due to the utilization of federal NOL to offset taxable income in the years through tax credit expiration. We estimated the amount of the valuation allowance needed for our state NOL carryforwards based on an analysis of the amount of our NOL carryforwards associated with each state in which we operate as compared to our expected level of taxable income under existing apportionment rules in each state and the carryforward periods allowed in each state's tax code. At November 30, 2014, after the reversal, we had a valuation allowance of $41.2 million against our deferred tax assets.

As of November 30, 2014, we needed to generate more than $2 billion of pretax income in future periods before 2034 to realize our deferred tax assets.

During 2013, we reduced the valuation allowance by $20.7 million to account for adjustments to our deferred tax assets associated with the pretax income generated during the year and the loss of state NOLs due to the expiration of the applicable statute of limitations. During 2012, we recorded a valuation allowance of $32.3 million against net deferred tax assets generated primarily from the pretax losses for that year.

We will continue to evaluate both the positive and negative evidence on a quarterly basis in determining the need for a valuation allowance with respect to our deferred tax assets. The accounting for deferred tax assets is based upon estimates of future results.

Changes in positive and negative evidence, including differences between estimated and actual results, could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated financial statements. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

The majority of the tax benefits associated with our NOL can be carried forward for 20 years (as we have no taxable income in the allowable two-year carryback period) and applied to offset future taxable income. The federal NOL carryforwards of $298.7 million, if not utilized, will begin to expire in 2030 through 2033. The state NOL carryforwards of $160.7 million, if not utilized, will begin to expire between 2015 and 2033. During 2014, $3.9 million of state NOL carryforwards expired.

In addition, $87.3 million of our tax credits, if not utilized, will begin to expire in 2015 through 2034. Included in the $87.3 million are $3.2 million of investment tax credits, of which $2.4 million and $.8 million will expire in 2026 and 2027, respectively, as well as foreign tax credits of $.5 million and $14.0 million that will expire in 2015 and 2016, respectively.

Unrecognized Tax Benefits. Gross unrecognized tax benefits are the differences between a tax position taken or expected to be taken in a tax return, and the benefit recognized for accounting purposes. A reconciliation of the beginning and ending balances of the gross unrecognized tax benefits, excluding interest and penalties, is as follows (in thousands):

	Years Ended November 30,		
	2014	2013	2012
Balance at beginning of year	$206	$1,671	$1,899
Reductions for tax positions related to prior years	—	—	(165)
Reductions due to lapse of statute of limitations	—	(1,465)	(63)
Balance at end of year	$206	$ 206	$1,671

We recognize accrued interest and penalties related to unrecognized tax benefits in our consolidated financial statements as a component of the provision for or benefit from income taxes. As of November 30, 2014, 2013 and 2012, there were $.1 million, $.3 million and $1.3 million, respectively, of gross unrecognized tax benefits (including interest and penalties) that, if recognized, would affect our annual effective tax rate. Our total accrued interest and penalties related to unrecognized income tax benefits was $.1 million at November 30, 2014 and $.3 million at November 30, 2013. Our liabilities for unrecognized tax benefits at November 30, 2014 and 2013 are included in accrued expenses and other liabilities in our consolidated balance sheets.

Included in the balance of gross unrecognized tax benefits at both November 30, 2014 and 2013 were tax positions of $.2 million for which the ultimate deductibility is highly certain but the timing of such deductibility is uncertain. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect our annual effective tax rate, but would accelerate the payment of cash to a tax authority to an earlier period.

As of November 30, 2014, our gross unrecognized tax benefits (including interest and penalties) totaled $.3 million. We anticipate that these gross unrecognized tax benefits will decrease by an amount ranging from zero to $.1 million during the 12 months from this reporting date due to various state filings associated with the resolution of a federal audit. The fiscal years ending 2010 and later remain open to federal and state examinations.

Notwithstanding the reversal of a substantial portion of our deferred tax asset valuation allowance at November 30, 2014, the benefits of our deferred tax assets, including our NOL, built-in losses and tax credits would be reduced or potentially eliminated if we experienced an "ownership change" under Section 382. Based on our analysis performed as of November 30, 2014, we do not believe that we have experienced an ownership change as defined by Section 382, and, therefore, the NOL, built-in losses and tax credits we have generated should not be subject to a Section 382 limitation as of this reporting date.

OPERATING LOSS AND TAX CREDIT CARRYFORWARDS

3.74 J. C. PENNEY COMPANY, INC. (JAN)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Significant Accounting Policies (in part)

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense in our Consolidated Statements of Operations.

3. Effect of New Accounting Standards

In July 2013, the FASB issued Accounting Standards Update (ASU) 2013-11, *Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward or Tax Credit Carryforward Exists.* This update provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. That exception states that, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This update applies prospectively to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. Retrospective application is also permitted. This update is effective for annual periods, and interim periods within those years, beginning after December 15, 2013. We do not anticipate the adoption will have a material impact on our consolidated results operations, cash flows or financial position.

18. Income Taxes

The components of our income tax expense/(benefit) were as follows:

($ in millions)	2013	2012	2011
Current			
Federal and foreign	$ (16)	$ (95)	$ 60
State and local	(8)	79	16
Total current	(24)	(16)	76
Deferred			
Federal and foreign	(428)	(465)	(130)
State and local	(46)	(70)	(23)
Total deferred	(474)	(535)	(153)
Total	$(498)	$(551)	$ (77)

A reconciliation of the statutory federal income tax rate to our effective rate is as follows:

(Percent of pre-tax income/(loss))	2013	2012	2011
Federal income tax at statutory rate	(35.0)%	(35.0)%	(35.0)%
State and local income tax, less federal income tax benefit	(4.1)	(3.7)	(1.8)
Increase in valuation allowance federal and state	28.6	4.3	—
Tax benefit resulting from OCI allocation	(16.1)	—	—
Tax effect of dividends on ESOP shares	—	(0.1)	(1.9)
Non-deductible management transition costs	—	—	11.3
Other, including permanent differences and credits	0.2	(1.4)	(6.2)
Effective tax rate	(26.4)%	(35.9)%	(33.6)%

Our deferred tax assets and liabilities were as follows:

($ in millions)	2013	2012
Assets		
Merchandise inventory	$ 62	$ 42
Accrued vacation pay	28	28
Gift cards	69	46
Stock-based compensation	69	78
State taxes	36	39
Workers' compensation/general liability	93	92
Accrued rent	32	29
Mirror savings plan	21	22
Pension and other retiree obligations	—	135
Net operating loss and tax credit carryforwards	918	600
Other	96	69
Total deferred tax assets	1,424	1,180
Valuation allowance	(304)	(66)
Total net deferred tax assets	1,120	1,114
Liabilities		
Depreciation and amortization	(1,024)	(1,314)
Pension and other retiree obligations	(172)	—
Leveraged leases/tax benefit transfers	(63)	(63)
Capitalized Advertising	(3)	(4)
Unrealized gain on REITs	—	(9)
Other	—	(6)
Total deferred tax liabilities	(1,262)	(1,396)
Total net deferred tax liabilities	$ (142)	$ (282)

Deferred tax assets and liabilities included in our Consolidated Balance Sheets were as follows:

($ in millions)	2013	2012
Other current assets	$ 193	$ 106
Other long-term liabilities	(335)	(388)
Total net deferred tax liabilities	$(142)	$(282)

As of February 1, 2014, a valuation allowance of $304 million has been recorded against our deferred tax assets. In assessing the need for the valuation allowance, we considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. As a result of our assessment, we concluded that, beginning in the second quarter of 2013, our estimate of the realization of deferred tax assets would be based solely on the future reversals of existing taxable temporary differences and tax planning strategies that we would make use of to accelerate taxable income to utilize expiring net operating loss (NOL) and tax credit carryforwards.

For the year ended February 1, 2014, we recorded a net tax benefit of $498 million that reflects the increase in the valuation allowance. The net tax benefit consists of net federal, foreign and state tax benefits of $197 million, $303 million tax benefit resulting from actuarial gains in other comprehensive income, offset by $2 million of tax expense related to the amortization of certain indefinite-lived intangible assets. In accordance with accounting standards, we are required to allocate a portion of our tax provision between operating losses and accumulated other comprehensive income. As a result, the Company recorded a tax benefit on the loss for the year, which is offset by income tax expense in other comprehensive income/(loss). However, while the income tax benefit is reported on the income statement, the income tax expense on other comprehensive income is recorded directly to accumulated other comprehensive income/(loss), which is a component of stockholders' equity.

For U.S. federal income tax purposes, we have $2.1 billion of NOL carryforwards that expire in 2032 and 2033 and $33 million of tax credit carryforwards that expire at various dates through 2033. For these U.S. federal NOL and tax credit carryforwards a net deferred tax asset of $563 million has been recorded (net of $179 million valuation allowance). A net deferred tax asset of $51 million (net of $125 million valuation allowance) has been recorded for state NOLs that expire at various dates through 2033. While these carryforwards have a potential to be used to offset future ordinary taxable income and reduce future cash tax liabilities by approximately $918 million, the Company's ability to utilize these carryforwards will depend upon the availability of future taxable income during the carryforward period and, as such, there is no assurance the Company will be able to realize such tax savings.

The Company's ability to utilize NOL carryforwards could be further limited if it were to experience an "ownership change," as defined in Section 382 of the Internal Revenue Code and similar state provisions. An ownership change can occur whenever there is a cumulative shift in the ownership of a company by more than 50 percentage points by one or more "5% stockholders" within a three-year period. The occurrence of such a change generally limits the amount of NOL carryforwards a company could utilize in a given year to the aggregate fair market value of the company's common stock immediately prior to the ownership change, multiplied by the long-term tax-exempt interest rate in effect for the month of the ownership change.

As discussed in Note 12, on January 27, 2014, the Board adopted the Amended Rights Agreement to help prevent acquisitions of the Company's common stock that could result in an ownership change under Section 382 which helps preserve the Company's ability to use its NOL and tax credit carryforwards. The Amended Rights Agreement and a related amendment to the Company's Articles of Incorporation are to be submitted to the Company's Stockholders in May 2014 for approval and are designed to prevent acquisitions of the Company's common stock that would result in a stockholder owning 4.9% or more of the Company's common stock (as calculated under Section 382), or any existing holder of 4.9% or more of the Company's common stock acquiring additional shares, by substantially diluting the ownership interest of any such stockholder unless the stockholder obtains an exemption from the Board.

A reconciliation of unrecognized tax benefits is as follows:

($ in millions)	2013	2012	2011
Beginning balance	$76	$110	$162
Additions for tax positions related to the current year	—	—	—
Additions for tax positions of prior years	6	5	10
Reductions for tax positions of prior years	(1)	(11)	(14)
Settlements and effective settlements with tax authorities	(9)	(24)	(45)
Expirations of statute	(2)	(4)	(3)
Balance at end of year	$70	$ 76	$110

As of the end of 2013, 2012 and 2011, the unrecognized tax benefits balance included $49 million, $54 million and $61 million, respectively, that, if recognized, would be a benefit in the income tax provision after giving consideration to the offsetting effect of $17 million, $19 million and $21 million, respectively, related to the federal tax deduction of state taxes. The remaining amounts reflect tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing. Over the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could be reduced by $2 million if our tax position is sustained upon audit, the controlling statute of limitations expires or we agree to a settlement. Accrued interest and penalties related to unrecognized tax benefits included in income tax expense as of the end of 2013, 2012 and 2011 were $6 million, $4 million and $4 million, respectively.

We file income tax returns in U.S. federal and state jurisdictions and certain foreign jurisdictions. Our U.S. federal returns have been examined through 2011. We are audited by the taxing authorities of many states and certain foreign countries and are subject to examination by these taxing jurisdictions for years generally after 2008. The tax authorities may have the right to examine prior periods where federal and state NOL and tax credit carryforwards were generated, and make adjustments up to the amount of the NOL and credit carryforward amounts.

3.75 OFFICE DEPOT, INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Income Taxes: Income taxes are accounted for under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities attributable to differences between the carrying amounts and the tax bases of assets and liabilities and operating loss and tax credit carryforwards. Valuation allowances are recorded to reduce deferred tax assets to the amount believed to be more likely than not to be realized. The Company recognizes tax benefits from uncertain tax positions when it is more likely than not that the position will be sustained upon examination. Interest related to income tax exposures is included in interest expense in the Consolidated Statements of Operations. Refer to Note 9 for additional information on income taxes.

Note 9. Income Taxes

The components of income (loss) before income taxes consisted of the following:

(In millions)	2014	2013	2012
United States	$(264)	$(230)	$(129)
Foreign	(76)	357	54
Total income (loss) before income taxes	$(340)	$ 127	$ (75)

The income tax expense related to income (loss) from operations consisted of the following:

(In millions)	2014	2013	2012
Current:			
Federal	$(2)	$ 15	$(14)
State	(1)	5	1
Foreign	15	125	14
Deferred :			
Federal	—	(4)	(5)
State	3	(1)	—
Foreign	(3)	7	6
Total income tax expense	$12	$147	$ 2

The following is a reconciliation of income taxes at the U.S. Federal statutory rate to the provision for income taxes:

(In millions)	2014	2013	2012
Federal tax computed at the statutory rate	$(119)	$ 44	$(26)
State taxes, net of Federal benefit	4	3	1
Foreign income taxed at rates other than Federal	(10)	(28)	(15)
Increase (decrease) in valuation allowance	112	8	(9)
Non-deductible goodwill impairment	—	15	—
Non-deductible Merger expenses	—	13	—
Non-deductible foreign interest	13	8	10
Other non-deductible expenses	12	4	3
Change in unrecognized tax benefits	(2)	—	1
Tax expense from intercompany transactions	2	2	2
Subpart F and dividend income, net of foreign tax credits	2	75	—
Change in tax rate	—	2	2
Non-taxable return of purchase price	—	—	(22)
Deferred taxes on undistributed foreign earnings	—	5	68
Tax accounting method change ruling	—	—	(16)
Other items, net	(2)	(4)	3
Income tax expense	$ 12	$147	$ 2

In 2014, the Company recognized income tax expense on a pretax loss due to deferred tax benefits not being recognized on pretax losses in certain tax jurisdictions with valuation allowances, while income tax expense was recognized in tax jurisdictions with pretax income. The decrease in income tax expense from 2013 to 2014 is primarily attributable to the 2013 sale of the Company's investment in Office Depot de Mexico, which is discussed in Note 2. In 2013, the Company paid $117 million of Mexican income tax upon the sale and recognized additional U.S. income tax expense of $23 million due to dividend income and Subpart F income as a result of the sale, for total income tax expense of $140 million. The sale of the Company's interest in Grupo OfficeMax during 2014 did not generate a similar gain or income tax expense. The 2013 effective tax rate also includes charges related to goodwill impairment (refer to Note 5) and certain Merger expenses that are not deductible for tax purposes.

The 2012 effective tax rate includes benefits related to the $16 million favorable settlement of the U.S. Internal Revenue Service ("IRS") examination of the 2009 and 2010 tax years, as well as the recovery of purchase price that is treated as a purchase price adjustment for tax purposes. As discussed in Note 14, this recovery would have been a reduction of related goodwill for financial reporting purposes, but the related goodwill was impaired in 2008.

The Company operates in several foreign jurisdictions with income tax rates that differ from the U.S. Federal statutory rate, which resulted in a benefit for all years presented in the effective tax rate reconciliation. Significant foreign tax jurisdictions for which the Company realized such benefit include the Netherlands, the UK, and France. Additionally, Mexico is included for 2013 due to the sale of Office Depot de Mexico.

Due to valuation allowances against the Company's deferred tax assets, no income tax benefit was recognized in the 2014 Consolidated Statement of Operations related to stock-based compensation. In addition, no income tax benefit was initially recognized in the 2012 and 2013 Consolidated Statement of Operations related to stock-based compensation. However, due to the sale of Office Depot de Mexico in 2013, the Company realized an income tax benefit of $5 million for the utilization of net operating loss carryforwards that had resulted from excess stock-based compensation deductions for which no benefit was previously recorded. The Company also realized an income tax benefit of $3 million for excess stock-based compensation deductions resulting from the exercise and vesting of equity awards during 2013. These income tax benefits were recorded as increases to additional paid-in capital in 2013.

The components of deferred income tax assets and liabilities consisted of the following:

(In millions)	**December 27, 2014**	**December 28, 2013**
U.S. and foreign net operating loss carryforwards	$ 322	$ 314
Deferred rent credit	80	97
Pension and other accrued compensation	184	170
Accruals for facility closings	45	38
Inventory	23	25
Self-insurance accruals	33	33
Deferred revenue	39	34
U.S. and foreign income tax credit carryforwards	246	234
Allowance for bad debts	5	8
Accrued expenses	80	60
Basis difference in fixed assets	59	15
Other items, net	8	6
Gross deferred tax assets	1,124	1,034
Valuation allowance	(804)	(683)
Deferred tax assets	320	351
Internal software	8	22
Installment gain on sale of timberlands	251	258
Deferred Subpart F income	27	23
Undistributed foreign earnings	2	12
Deferred tax liabilities	288	315
Net deferred tax assets	$ 32	$ 36

For financial reporting purposes, a jurisdictional netting process is applied to deferred tax assets and deferred tax liabilities, resulting in the balance sheet classification shown below.

(In millions)	**December 27, 2014**	**December 28, 2013**
Deferred tax assets:		
Included in Prepaid and other current assets	$87	$114
Deferred income taxes—noncurrent	32	35
Deferred tax liabilities:		
Included in Accrued expenses and other current liabilities	3	3
Included in Deferred income taxes and other long-term liabilities	84	110
Net deferred tax asset	$32	$ 36

As of December 27, 2014, the Company has $39 million of U.S. Federal net operating loss ("NOL") carryforwards, $9 million of which resulted from excess stock-based compensation deductions that will increase additional paid-in capital by $3 million if realized in future periods. The Company has $852 million of foreign and $1.7 billion of state NOL carryforwards. Of the foreign NOL carryforwards, $668 million can be carried forward indefinitely, $8 million will expire in 2015, and the remaining balance will expire between 2016 and 2034. Of the state NOL carryforwards, $23 million will expire in 2015, and the remaining balance will expire between 2016 and 2034. The Company also has $109 million of U.S. Federal alternative minimum tax credit carryforwards, which can be used to reduce future regular federal income tax, if any, over an indefinite period.

Additionally, the Company has $125 million of U.S. Federal foreign tax credit carryforwards, which expire between 2015 and 2024, and $17 million of state and foreign tax credit carryforwards, $5 million of which can be carried forward indefinitely, and the remaining balance will expire between 2023 and 2027.

As a result of the Merger in 2013, the Company triggered an "ownership change" as defined in Internal Revenue Code Section 382 and related provisions. Sections 382 and 383 place a limitation on the amount of taxable income which can be offset by carryforward tax attributes, such as net operating losses or tax credits, after a change in control. Generally, after a change in control, a loss corporation cannot deduct carryforward tax attributes in excess of the limitation prescribed by Section 382 and 383. Therefore, certain of the Company's carryforward tax attributes may be subject to an annual limitation regarding their utilization against taxable income in future periods. The Company estimates that at least $15 million of deferred tax assets related to carryforward tax attributes will not be realized because of Section 382 and related provisions. Accordingly, in 2013, the Company reduced the impacted deferred tax assets by this amount, which was fully offset by a corresponding change in the valuation allowance. If the Company were to experience another ownership change in future periods, the Company's deferred tax assets and income tax expense may be negatively impacted.

U.S. deferred income taxes have not been provided on certain undistributed earnings of foreign subsidiaries, which were approximately $416 million as of December 27, 2014. The determination of the amount of the related unrecognized deferred tax liabilities is not practicable because of the complexities associated with the hypothetical calculations. The Company has historically reinvested such earnings overseas in foreign operations and expects that future earnings will also be indefinitely reinvested overseas, with the exception of certain foreign subsidiaries acquired as a result of the Merger. Accordingly, the Company has recorded the deferred tax liabilities associated with the undistributed earnings of such foreign subsidiaries.

The following summarizes the activity related to valuation allowances for deferred tax assets:

(In millions)	2014	2013	2012
Beginning balance	$683	$583	$622
Additions, charged to expense	121	26	—
Additions, due to the Merger	—	84	—
Deductions	—	(10)	(39)
Ending balance	$804	$683	$583

The Company has significant deferred tax assets in the U.S. and in foreign jurisdictions against which valuation allowances have been established to reduce such deferred tax assets to an amount that is more likely than not to be realized. The establishment of valuation allowances requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. An accumulation of recent pre-tax losses is considered strong negative evidence in that evaluation. While the Company believes positive evidence exists with regard to the realizability of these deferred tax assets, it is not considered sufficient to outweigh the objectively verifiable negative evidence, including the cumulative 36-month pre-tax loss history.

In 2014, the Company released valuation allowances in certain foreign jurisdictions due to the existence of sufficient positive evidence, which resulted in an income tax benefit of $4 million. Valuation allowances were established in certain foreign jurisdictions in 2012 because the realizability of the related deferred tax assets was no longer more likely than not. As of 2014, valuation allowances remain in the U.S. and certain foreign jurisdictions where the Company believes it is necessary to see further positive evidence, such as sustained achievement of cumulative profits, before these valuation allowances can be released. If such positive evidence develops in certain foreign jurisdictions, the Company may release all or a portion of the remaining valuation allowances in these jurisdictions as early as the first half of 2015. The Company will continue to assess the realizability of its deferred tax assets in the U.S. and remaining foreign jurisdictions.

The following table summarizes the activity related to unrecognized tax benefits:

(In millions)	2014	2013	2012
Beginning balance	$15	$ 5	$7
Increase related to current year tax positions	7	4	—
Increase related to prior year tax positions	4	—	3
Decrease related to prior year tax positions	(2)	—	(1)
Decrease related to lapse of statute of limitations	—	—	—
Decrease related to settlements with taxing authorities	(1)	—	(4)
Increase related to the Merger	—	6	—
Ending balance	$23	$15	$5

Due to settlements with certain tax authorities in 2014, the Company's balance of unrecognized tax benefits decreased by $3 million, which resulted in an income tax benefit of $2 million. Included in the balance of $23 million at December 27, 2014, are $7 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. The difference of $16 million primarily results from tax positions which if sustained would be offset by changes in valuation allowance. It is reasonably possible that certain tax positions will be resolved within the next 12 months, which the Company does not believe would result in a material change in its unrecognized tax benefits. Additionally, the Company anticipates that it is reasonably possible that new issues will be raised or resolved by tax authorities that may require changes to the balance of unrecognized tax benefits; however, an estimate of such changes cannot reasonably be made.

The Company recognizes interest related to unrecognized tax benefits in interest expense and penalties in the provision for income taxes. The Company recognized a net interest and penalty benefit of $9 million in 2014 due to settlements reached with certain taxing authorities. The Company recognized interest and penalty expense of $1 million and $2 million in 2013 and 2012, respectively. The Company had approximately $1 million accrued for the payment of interest and penalties as of December 27, 2014, which is not included in the table above.

The Company files a U.S. federal income tax return and other income tax returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state and local income tax examinations for years before 2013 and 2009, respectively. The acquired OfficeMax U.S. consolidated group is no longer subject to U.S. federal and state and local income tax examinations for years before 2010 and 2006, respectively. The U.S. federal income tax return for 2013 is under concurrent year review. Generally, the Company is subject to routine examination for years 2008 and forward in its international tax jurisdictions.

TAXES ON UNDISTRIBUTED EARNINGS

3.76 BALL CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF EARNINGS (in part)

	Years Ended December 31,		
($ in millions, except per share amounts)	2014	2013	2012
Net sales	$8,570.0	$8,468.1	$8,735.7
Costs and expenses			
Cost of sales (excluding depreciation and amortization)	(6,903.5)	(6,875.4)	(7,174.0)
Depreciation and amortization	(280.9)	(299.9)	(282.9)
Selling, general and administrative	(466.5)	(418.6)	(385.5)
Business consolidation and other activities	(80.5)	(78.8)	(102.8)
	(7,731.4)	(7,672.7)	(7,945.2)
Earnings before interest and taxes	838.6	795.4	790.5
Interest expense	(159.9)	(183.8)	(179.8)
Debt refinancing costs	(33.1)	(28.0)	(15.1)
Total interest expense	(193.0)	(211.8)	(194.9)
Earnings before taxes	645.6	583.6	595.6
Tax provision	(149.9)	(149.6)	(172.2)
Equity in results of affiliates, net of tax	2.3	0.6	(1.3)
Net earnings from continuing operations	498.0	434.6	422.1
Discontinued operations, net of tax	—	0.4	(2.8)
Net earnings	498.0	435.0	419.3
Less net earnings attributable to noncontrolling interests	(28.0)	(28.2)	(23.0)
Net earnings attributable to Ball Corporation	$470.0	$406.8	$396.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

13. Taxes on Income (in part)

The amount of earnings before income taxes is:

	Years Ended December 31,		
($ in millions)	2014	2013	2012
U.S.	$279.7	$242.9	$295.8
Foreign	365.9	340.7	299.8
	$645.6	$583.6	$595.6

The provision for income tax expense is:

	Years Ended December 31,		
($ in millions)	**2014**	**2013**	**2012**
Current			
U.S.	$ 50.8	$ 47.2	$ 54.7
State and local	17.7	3.6	15.0
Foreign	69.5	100.4	81.3
Total current	138.0	151.2	151.0
Deferred			
U.S.	8.9	28.5	25.7
State and local	(1.1)	(0.7)	5.0
Foreign	4.1	(29.4)	(9.5)
Total deferred[a]	11.9	(1.6)	21.2
Tax provision	$149.9	$149.6	$172.2

[a] Amounts do not include tax benefits (expense) related to discontinued operations of $(0.2) million and $1.7 million in 2013 and 2012, respectively.

The income tax provision recorded within the consolidated statements of earnings differs from the provision determined by applying the U.S. statutory tax rate to pretax earnings as a result of the following:

	Years Ended December 31,		
($ in millions)	**2014**	**2013**	**2012**
Statutory U.S. federal income tax	$226.0	$204.3	$208.5
Increase (decrease) due to:			
Foreign tax rate differences	(57.3)	(45.5)	(36.9)
U.S. state and local taxes, net	6.9	1.6	12.2
U.S. taxes on foreign earnings, net of tax credits	11.8	26.4	14.5
U.S. manufacturing deduction	(6.8)	(4.3)	(7.1)
U.S. research and development tax credits	(8.5)	(17.9)	(5.3)
Uncertain tax positions, including interest	(7.9)	(3.4)	(10.3)
Company and trust-owned life insurance	(4.9)	(6.3)	(5.5)
Other, net	(9.4)	(5.3)	2.1
Provision for taxes	$149.9	$149.6	$172.2
Effective tax rate expressed as a percentage of pretax earnings	23.2%	25.6%	28.9%

The 2014 full year effective income tax rate was 23.2 percent compared to 2013 of 25.6 percent. The lower tax rate in 2014 was primarily the result of a higher foreign tax rate differential, lower U.S. taxes on foreign earnings and the 2014 releases of uncertain tax positions which exceeded those occurring in 2013, partially offset by lower 2014 U.S. research and development tax credits.

The decrease in the 2013 full year effective tax rate of 25.6 percent as compared to 2012 of 28.9 percent was primarily due to the retroactive extension of the U.S. research and development credit, a lower state effective tax rate and a higher foreign tax rate differential, partially offset by higher U.S. taxes on foreign earnings and the 2012 releases of uncertain tax positions which exceeded those occurring in 2013.

Ball's Serbian subsidiary was granted an income tax holiday that applies to only a portion of earnings and will expire at the end of 2015. In addition, in 2010 the Serbian subsidiary was granted a tax credit equal to 80 percent of additional local investment with a ten-year period that will expire in 2022. The credit may be used to offset tax on earnings not covered by the initial tax holiday and has $21 million remaining as of December 31, 2014. In 2011 and 2012, Ball's Brazilian joint venture was granted two tax holidays expiring in 2021 and 2022. Under the terms of the holidays, a certain portion of Brazil earnings receive a 19 percent tax exemption.

Due to the U.S. tax status of certain Ball subsidiaries in Canada and the PRC, the company annually provides U.S. taxes on foreign earnings in those subsidiaries, net of any estimated foreign tax credits. The company also provides deferred taxes on the undistributed earnings in its Brazil investment related to its 10 percent indirectly held investment. Current taxes are also provided on certain other undistributed earnings that are currently taxed in the U.S. Net U.S. taxes primarily provided for Brazil, Canada and PRC earnings in 2014, 2013 and 2012 were $11.8 million, $26.4 million and $14.5 million, respectively. Management's intention is to indefinitely reinvest undistributed earnings of Ball's remaining foreign investments and, as a result, no U.S. income or federal withholding tax provision has been made. The indefinite reinvestment assertion is supported by both long-term and short-term forecasts and U.S. financial requirements, including, but not limited to, operating cash flows, capital expenditures, debt maturities and dividends. The company has not provided deferred taxes on earnings in certain non-U.S. subsidiaries because such earnings are intended to be indefinitely reinvested in its international operations. Retained earnings in non-U.S. subsidiaries was $1,799.4 million as of December 31, 2014. It is not practical to estimate the additional taxes that may become payable upon the eventual remittance of these foreign earnings to the U.S.; however, repatriation of these earnings could result in a material increase in the company's effective tax rate or if the intention to indefinitely reinvest is discontinued.

Net income tax payments were $163.2 million, $111.4 million and $143.9 million in 2014, 2013 and 2012, respectively.

Construction-Type and Production-Type Contracts

RECOGNITION AND MEASUREMENT

3.77 Accounting and disclosure requirements for construction-type and production-type contracts are discussed in FASB ASC 605-35. Two accounting methods commonly followed by contractors are the percentage-of-completion method and the completed-contract method. The two methods should be used in specific circumstances and should not be used as acceptable alternatives for the same circumstances. The use of either of the two generally accepted methods involves, to a greater or lesser extent, three key areas of estimates and uncertainties, including the extent of progress toward completion, contract revenues, and contract costs.

PRESENTATION AND DISCLOSURE EXCERPTS

CONSTRUCTION- AND PRODUCTION-TYPE CONTRACTS

3.78 ALLIANT TECHSYSTEMS INC. (MAR)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

	Years Ended March 31		
(Amounts in thousands except per share data)	**2014**	**2013**	**2012**
Sales	$4,775,128	$4,362,145	$4,613,399
Cost of sales	3,635,486	3,421,276	3,618,503
Gross profit	1,139,642	940,869	994,896
Operating expenses:			
Research and development	62,520	64,678	66,403
Selling	203,976	162,359	169,984
General and administrative	282,840	244,189	262,923
Income before interest, loss on extinguishment of debt, income taxes, and noncontrolling interest	590,306	469,643	495,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Amounts in thousands except share and per share data and unless otherwise indicated)

1. Summary of Significant Accounting Policies (in part)

Revenue Recognition. Our sales come primarily from contracts with agencies of the U.S. Government and its prime contractors and subcontractors. As the various U.S. Government customers, including the U.S. Army, U.S. Navy, NASA, and the U.S. Air Force, make independent purchasing decisions, we do not generally regard the U.S. Government as one customer. Instead, we view each agency as a separate customer.

Sales by customer were as follows:

	Percent of Sales For Fiscal Years Ended:		
	2014	**2013**	**2012**
Sales to:			
U.S. Army	20%	29%	28%
U.S. Navy	10%	13%	12%
NASA	9%	10%	10%
U.S. Air Force	4%	6%	6%
Other U.S. Government customers	10%	9%	9%
Total U.S. Government customers	53%	67%	65%
Commercial and foreign customers	47%	33%	35%
Total	100%	100%	100%

Long-Term Contracts —The majority of ATK's sales are accounted for as long-term contracts. Sales under long-term contracts are accounted for under the percentage-of-completion method and include cost-plus and fixed-price contracts. Sales under cost-plus contracts are recognized as costs are incurred. Sales under fixed-price contracts are either recognized as the actual cost of work performed relates to the estimate at completion ("cost-to-cost") or based on results achieved, which usually coincides with customer acceptance ("units-of-delivery"). The majority of ATK's total revenue is accounted for using the cost-to-cost method of accounting.

Profits expected to be realized on contracts are based on management's estimates of total contract sales value and costs at completion. Estimated amounts for contract changes, including scope and claims, are included in contract sales only when realization is estimated to be probable. Assumptions used for recording sales and earnings are adjusted in the period of change to reflect revisions in contract value and estimated costs. In the period in which it is determined that a loss will be incurred on a contract, the entire amount of the estimated gross margin loss is charged to cost of sales. Changes in estimates of contract sales, costs, or profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current or prior periods. The effect of the changes on future periods of contract performance is recognized as if the revised estimate had been used since contract inception.

Changes in contract estimates occur for a variety of reasons including changes in contract scope, unforeseen changes in contract cost estimates due to unanticipated cost growth or risks affecting contract costs and/or the resolution of contract risks at lower costs than anticipated, as well as changes in contract overhead costs over the performance period. Changes in estimates could have a material effect on the company's consolidated financial position or annual results of operations. Aggregate net changes in contract estimates recognized using the cumulative catch-up method of accounting increased operating income by $83,346 in 2014, $93,377 in 2013, and $106,973 in 2012. The adjustments recorded during the year ended March 31, 2014 were primarily driven by higher profit expectations of $41,357 in the Small Caliber Systems division due to operational efficiencies, a successful in-sourcing initiative, and reduced operational risk as a contract nears completion, and for programs in the Space Systems Operations. As a result of the pension closeout settlement the difference between pension and postretirement benefit expense calculated under Financial Accounting Standards (FAS) and the expense calculated under U.S. Cost Accounting Standards (CAS) for the Radford facility management contract resulted in Corporate recording income of $28,986 which has been excluded from the increase in operating income resulting from the cumulative catch-up method of accounting noted above.

The prior year adjustments were primarily driven by greater than expected performance of $28,261 in Small-Caliber Systems, increased production volumes in Defense Electronic Systems, better performance at the Radford facility as the contracts and sale of residual assets were completed, and increase in Space System Operations due to performance improvements. These improvements were offset by decreases in Missile Products due to requalification expenses on a program.

Contracts may contain provisions to earn incentive and award fees if specified targets are achieved as well as penalty provisions related to performance. Incentive and award fees and penalties that can be reasonably estimated and are probable are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded.

Other Revenue Recognition Methodology—Sales not recognized under the long-term contract method primarily relate to sales within the Sporting group and are recognized when persuasive evidence of an arrangement exists, the product has been delivered and legal title and all risks of ownership have been transferred, written contract and sales terms are complete, customer acceptance has occurred, and payment is reasonably assured. Sales are reduced for allowances and price discounts.

Fiscal 2014 sales by revenue recognition method were as follows:

	Percent of Sales
Sales recorded under:	
Long-term contracts method	61%
Other method	39%
Total	100%

3.79 HARRIS CORPORATION (JUN)

CONSOLIDATED STATEMENT OF INCOME (in part)

	Fiscal Years Ended		
(In millions, except per share amounts)	2014	2013	2012
Revenue from product sales and services			
Revenue from product sales	$ 3,189.2	$ 3,203.7	$ 3,597.8
Revenue from services	1,822.8	1,908.0	1,853.5
	5,012.0	5,111.7	5,451.3
Cost of product sales and services			
Cost of product sales	(1,857.1)	(1,919.4)	(2,137.6)
Cost of services	(1,453.4)	(1,465.6)	(1,431.7)
	(3,310.5)	(3,385.0)	(3,569.3)
Engineering, selling and administrative expenses	(819.6)	(914.5)	(940.9)
Non-operating income (loss)	4.3	(40.7)	11.5
Interest income	2.8	2.2	2.5
Interest expense	(93.6)	(109.1)	(113.2)
Income from continuing operations before income taxes	795.4	664.6	841.9
Income taxes	(256.2)	(202.7)	(286.0)
Income from continuing operations	539.2	461.9	555.9
Discontinued operations, net of income taxes	(5.0)	(353.4)	(528.1)
Net income	534.2	108.5	27.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Significant Accounting Policies (in part)

Warranties—On development and production contract sales in our Government Communications Systems segment and in our Integrated Network Solutions segment, the value or price of our warranty is generally included in the contract and funded by the customer. A provision for warranties is built into the estimated program costs when determining the profit rate to accrue when applying the cost-to-cost percentage-of-completion revenue recognition method. Warranty costs, as incurred, are charged to the specific program's cost, and both revenue and cost are recognized at that time. Factors that affect the estimated program cost for warranties include terms of the contract, complexity of the delivered product or service, number of installed units, historical experience and management's assumptions regarding anticipated rates of warranty claims and cost per claim.

On product sales in all our segments, we provide for future standard warranty costs upon product delivery. The specific terms and conditions of those warranties vary depending on the product sold, customer and country in which we do business. In the case of products sold by us, our warranties start from the shipment, delivery or customer acceptance date and continue as follows:

Segment	Warranty Periods
RF Communications	One to five years
Integrated Network Solutions	Less than one year to five years
Government Communications Systems	One to two years

Because our products are manufactured, in many cases, to customer specifications and their acceptance is based on meeting those specifications, we historically have experienced minimal warranty costs. Factors that affect our warranty liability include the number of installed units, historical experience, anticipated delays in delivery of products to end customers, in-country support for international sales and management's assumptions regarding anticipated rates of warranty claims and cost per claim. We assess the adequacy of our recorded warranty liabilities every quarter and make adjustments to the liability as necessary. See *Note 10: Accrued Warranties* for additional information regarding warranties.

Revenue Recognition—Our segments have the following revenue recognition policies:

Development and Production Contracts: Estimates and assumptions, and changes therein, are important in connection with, among others, our segments' revenue recognition policies related to development and production contracts. Revenue and profits related to development and production contracts are recognized using the percentage-of-completion method, generally based on the ratio of costs incurred to estimated total costs at completion (i.e., the cost-to-cost method) with consideration given for risk of performance and estimated profit. Revenue and profits on cost-reimbursable development and production contracts are recognized as allowable costs are incurred on the contract, and become billable to the customer, in an amount equal to the allowable costs plus the profit on those costs.

Development and production contracts are combined when specific aggregation criteria are met. Criteria generally include closely interrelated activities performed for a single customer within the same economic environment. Development and production contracts are generally not segmented. If development and production contracts are segmented, we have determined that they meet specific segmenting criteria. Change orders, claims or other items that may change the scope of a development and production contract are included in contract value only when the value can be reliably estimated and realization is probable. Possible incentives or penalties and award fees applicable to performance on development and production contracts are considered in estimating contract value and profit rates and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase earnings based solely on a single significant event are generally not recognized until the event occurs.

Under the percentage-of-completion method of accounting, a single estimated total profit margin is used to recognize profit for each development and production contract over its period of performance. Recognition of profit on development and production fixed-price contracts requires estimates of the total cost at completion and the measurement of progress toward completion. The estimated profit or loss on a development and production contract is equal to the difference between the estimated contract value and the estimated total cost at completion. Due to the long-term nature of many of our programs, developing the estimated total cost at completion often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance, the risk and impact of delayed performance, availability and timing of funding from the customer and the recoverability of any claims outside the original development and production contract included in the estimate to complete. At the outset of each contract, we gauge its complexity and perceived risks and establish an estimated total cost at completion in line with these expectations. After establishing the estimated total cost at completion, we follow a standard Estimate at Completion ("EAC") process in which management reviews the progress and performance on our ongoing development and production contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, at the outset of a cost-reimbursable contract (for example, contracts containing award or incentive fees), we establish an estimate of total contract value, or revenue, based on our expectation of performance on the contract. As the cost-reimbursable contract progresses, our estimates of total contract value may increase or decrease if, for example, we receive higher or lower than expected award fees. When adjustments in estimated total costs at completion or in estimates of total contract value are determined, the related impact to operating income is recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Anticipated losses on development and production contracts or programs in progress are charged to operating income when identified. Net EAC adjustments resulting from changes in estimates favorably impacted our operating income by $53.3 million ($.33 per diluted share) in fiscal 2014, $47.1 million ($.29 per diluted share) in fiscal 2013 and $38.4 million ($.20 per diluted share) in fiscal 2012.

Products and Services Other Than Development and Production Contracts: Revenue from product sales other than development and production contracts and revenue from service arrangements are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectibility is reasonably assured, and delivery of a product has occurred and title has transferred or services have been rendered. Unearned income on service contracts is amortized by the straight-line method over the term of the contracts. Also, if contractual obligations related to customer acceptance exist, revenue is not recognized for a product or service unless these obligations are satisfied.

Multiple-Element Arrangements: We have entered into arrangements other than development and production contracts that require the delivery or performance of multiple deliverables or elements under a bundled sale. These arrangements are most prevalent in our RF Communications and Integrated Network Solutions segments. For example, in our RF Communications segment, in addition to delivering secure tactical radios and accessories, we may be required to perform or provide installation, design and development solutions for custom communication infrastructures, and extended warranties. In our Integrated Network Solutions segment, the deliverables to our maritime customers may include satellite bandwidth services (voice, data and internet), terrestrial circuits, equipment, installation, and network operations center and other support services.

For arrangements with multiple elements, judgment is required to determine the appropriate accounting, including whether the individual deliverables represent separate units of accounting for revenue recognition purposes, and the timing of revenue recognition for each deliverable. We recognize revenue for contractual deliverables as separate units of accounting when the delivered items have value to the customer on a standalone basis (i.e., if they are sold separately by any vendor or the customer could resell the delivered items on a standalone basis) and, if the arrangement includes a general right of return relative to the delivered items, we consider delivery or performance of the undelivered items as probable and substantially in our control.

Deliverables that are not separable are accounted for as a combined unit of accounting, and revenue generally is recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectibility is reasonably assured, and delivery of a product has occurred and title has transferred or services have been rendered. If we determine that the deliverables represent separate units of accounting, we recognize the revenue associated with each unit of accounting separately, and contract revenue is allocated among the separate units of accounting at the inception of the arrangement based on relative selling price. If options or change orders materially change the scope of work or price of the contract subsequent to inception, we reevaluate and adjust our prior conclusions regarding units of accounting and allocation of contract revenue as necessary. The allocation of selling price among the separate units of accounting may impact the timing of revenue recognition, but will not change the total revenue recognized on the arrangement. We establish the selling price used for each deliverable based on the vendor-specific objective evidence ("VSOE") of selling price, or third-party evidence ("TPE") of selling price if VSOE of selling price is not available, or best estimate of selling price ("BESP") if neither VSOE of selling price nor TPE of selling price is available. In determining VSOE of selling price, a substantial majority of the recent standalone sales of the deliverable must be priced within a relatively narrow range. In determining TPE of selling price, we evaluate competitor prices for similar deliverables when sold separately. Generally, comparable pricing of our products to those of our competitors with similar functionality cannot be obtained. In determining BESP, we consider both market data and entity-specific factors, including market conditions, the geographies in which our products are sold, our competitive position and strategy, and our profit objectives.

Bill-and-Hold Arrangements: Certain contracts include terms and conditions through which we recognize revenue upon completion of equipment production, which is subsequently stored at our location at the customer's request. Revenue is recognized on such contracts upon the customer's assumption of title and risk of ownership and when collectibility is reasonably assured. At the time of revenue recognition, there is a schedule of delivery of the product consistent with the customer's business practices, the product has been separated from our inventory, and we do not have any remaining performance obligations such that the earnings process is not complete.

Other: Net income or expense related to intellectual property matters is included as a component of the "Non-operating income (loss)" line item in our Consolidated Statement of Income and is recognized on the basis of terms specified in contractual agreements. Shipping and handling fees billed to customers are included in the "Revenue from product sales" line item in our Consolidated Statement of Income and the associated costs are included in the "Cost of product sales" line item in our Consolidated Statement of Income. Also, we record taxes collected from customers and remitted to governmental authorities on a net basis in that they are excluded from revenues.

Note 16: Research and Development

Company-sponsored research and development costs are expensed as incurred. These costs were $264.1 million, $254.1 million and $218.9 million in fiscal 2014, 2013 and 2012, respectively, and are included in the "Engineering, selling and administrative expenses" line item in our Consolidated Statement of Income. These costs in fiscal 2013 included a $17.8 million write-off of capitalized software in our Integrated Network Solutions segment as a result of a change in accounting estimate. Customer-sponsored research and development costs are incurred pursuant to contractual arrangements, principally U.S. Government-sponsored contracts requiring us to provide a product or service meeting certain defined performance or other specifications (such as designs), and are accounted for principally by the cost-to-cost percentage-of-completion method. Customer-sponsored research and development is included in our revenue and cost of product sales and services.

3.80 CACI INTERNATIONAL INC (JUN)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(amounts in thousands, except per share data)

	Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Revenue	$3,564,562	$3,681,990	$3,774,473
Costs of revenue:			
Direct costs	2,426,520	2,535,606	2,598,890
Indirect costs and selling expenses	815,458	821,465	819,772
Depreciation and amortization	65,181	54,078	55,962
Total costs of revenue	3,307,159	3,411,149	3,474,624
Income from operations	257,403	270,841	299,849

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Summary of Significant Accounting Policies (in part)

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability is probable.

The Company generates almost all of its revenue from three different types of contractual arrangements: cost-plus-fee, time and material (T&M), and fixed price contracts. Revenue on cost-plus-fee contracts is recognized to the extent of costs incurred plus an estimate of the applicable fees earned. The Company considers fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract. For cost-plus-fee contracts that include performance based fee incentives, and that are subject to the provisions of Accounting Standards Codification (ASC) 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts* (ASC 605-35), the Company recognizes the relevant portion of the expected fee to be awarded by the customer at the time such fee can be reasonably estimated, based on factors such as the Company's prior award experience and communications with the customer regarding performance. For such cost-plus-fee contracts subject to the provisions of ASC 605-10-S99, *Revenue Recognition—SEC Materials* (ASC 605-10-S99), the Company recognizes the relevant portion of the fee upon customer approval. Revenue on T&M contracts is recognized to the extent of billable rates times hours delivered for services provided, to the extent of material cost for products delivered to customers, and to the extent of expenses incurred on behalf of the customers. Shipping and handling fees charged to the customers are recognized as revenue at the time products are delivered to the customers.

The Company has several categories of fixed price contracts: fixed unit price, fixed price-level of effort, and fixed price-completion. Revenue on fixed unit price contracts, where specified units of output under service arrangements are delivered, is recognized as units are delivered based on the specified price per unit. Revenue on fixed unit price maintenance contracts is recognized ratably over the length of the service period. Revenue for fixed price-level of effort contracts is recognized based upon the number of units of labor actually delivered multiplied by the agreed rate for each unit of labor.

A significant portion of the Company's fixed price-completion contracts involve the design and development of complex client systems. For these contracts that are within the scope of ASC 605-35, revenue is recognized on the percentage-of-completion method using costs incurred in relation to total estimated costs. For fixed price-completion contracts that are not within the scope of ASC 605-35, revenue is generally recognized over the period when services are provided.

Contract accounting requires judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of the Company's contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor, subcontracting costs, and other direct costs, as well as an allocation of allowable indirect costs. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. For contract change orders, claims or similar items, the Company applies judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for the Company to assess anticipated performance. Estimates of award fees for certain contracts are also a factor in estimating revenue and profit rates based on actual and anticipated awards.

Long-term development and production contracts make up a large portion of the Company's business, and therefore the amounts recorded in the Company's financial statements using contract accounting methods are material. For federal government contracts, the Company follows U.S. government procurement and accounting standards in assessing the allowability and the allocability of costs to contracts. Due to the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if the Company used different assumptions or if the underlying circumstances were to change. The Company closely monitors compliance with, and the consistent application of, its critical accounting policies related to contract accounting. Business operations personnel conduct thorough periodic contract status and performance reviews. When adjustments in estimated contract revenue or costs are required, any changes from prior estimates are generally included in earnings in the current period. Also, regular and recurring evaluations of contract cost, scheduling and technical matters are performed by management personnel who are independent from the business operations personnel performing work under the contract. Costs incurred and allocated to contracts with the U.S. government are inspected for compliance with regulatory standards by Company personnel, and are subject to audit by the Defense Contract Audit Agency (DCAA).

From time to time, the Company may proceed with work based on client direction prior to the completion and signing of formal contract documents. The Company has a formal review process for approving any such work. Revenue associated with such work is recognized only when it can be reliably estimated and realization is probable. The Company bases its estimates on previous experiences with the client, communications with the client regarding funding status, and its knowledge of available funding for the contract or program.

The Company's U.S. government contracts (94.0 and 94.4 percent of total revenue in the year ended June 30, 2014 and 2013, respectively) are subject to subsequent government audit of direct and indirect costs. Incurred cost audits have been completed through June 30, 2007. Management does not anticipate any material adjustment to the consolidated financial statements in subsequent periods for audits not yet started or completed.

Costs of Revenue

Costs of revenue include all direct contract costs as well as indirect overhead costs and selling, general and administrative expenses that are allowable and allocable to contracts under federal procurement standards. Costs of revenue also include costs and expenses that are unallowable under applicable procurement standards, and are not allocable to contracts for billing purposes. Such costs and expenses do not directly generate revenue, but are necessary for business operations.

Discontinued Operations

Author's Note

In April 2014, FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* This ASU changes the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in GAAP. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Entities are required to apply the amendments in this ASU for annual reporting periods beginning on or after December 15, 2014. Early adoption is allowed for disposals only or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance.

RECOGNITION AND MEASUREMENT

3.81 FASB ASC 205-20 sets forth the financial accounting and reporting requirements for discontinued operations of a component of an entity. A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable or an operating segment, a reporting unit, a subsidiary, or an asset group.

3.82 FASB ASC 205-20 uses a single accounting model to account for all long-lived assets to be disposed of (by sale, abandonment, or distribution to owners). This includes asset disposal groups meeting the criteria for presentation as a discontinued operation, as specified in FASB ASC 205-20 . A long-lived asset group classified as held for sale should be measured at the lower of its carrying amount or fair value less cost to sell. Additionally, in accordance with FASB ASC 360, a loss shall be recognized for any write-down to fair value less cost to sell. A gain shall be recognized for any subsequent recovery of cost. Lastly, a gain or loss not previously recognized that results from the sale of the asset disposal group should be recognized at the date of sale.

PRESENTATION

3.83 The conditions for determining whether discontinued operations treatment is appropriate and the required income statement presentation are stated in FASB ASC 205-20-45-1, as follows:

> The results of operations of a component of an entity that either has been disposed of or is classified as held for sale . . . [should] be reported in discontinued operations . . . if both of the following conditions are met:
>
> **a.** The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
>
> **b.** The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

3.84 FASB ASC 205-20-45-3 explains that in a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business entity or statement of activities of a not-for-profit entity for current and prior periods should report the results of operations of the component, including any gain or loss recognized from the sale or write-down, in discontinued operations. The results of operations of a component classified as held for sale should be reported in discontinued operations in the period(s) in which they occur. The results of discontinued operations, less applicable income taxes (benefit), should be reported as a separate component of income before extraordinary items (if applicable). For example, the results of discontinued operations may be reported in the income statement of a business entity as follows:

Income from continuing operations before income taxes	$XXXX	
Income taxes	XXX	
Income from continuing operations		$XXXX
Discontinued operations (Note X):		
Loss from operations of discontinued component X (including loss on disposal of $XXX)		$XXXX
Income tax benefit		XXXX
Loss on discontinued operations		XXXX
Net income		$XXXX

A gain or loss recognized on the disposal should be disclosed either on the face of the income statement or in the notes to the financial statements.

3.85 Illustrations of transactions that should and should not be accounted for as business segment disposals are presented in the implementation guidance and illustrations of FASB ASC 205-20-55.

PRESENTATION AND DISCLOSURE EXCERPTS

BUSINESS COMPONENT DISPOSALS

3.86 STANLEY BLACK & DECKER, INC. (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS (in part)

(In Millions of Dollars, Except Per Share Amounts)

	2014	2013	2012
Net Sales	$11,338.6	$10,889.5	$10,022.4
Costs and Expenses			
Cost of sales	$ 7,235.9	$ 6,985.8	$ 6,365.1
Selling, general and administrative	2,575.0	2,676.4	2,462.5
Provision for doubtful accounts	20.9	14.2	11.9
Other-net	239.7	283.9	296.3
Restructuring charges and asset impairments	18.8	173.7	174.1
(Gain) loss on debt extinguishment	(0.1)	20.6	45.5
Interest income	(13.6)	(12.8)	(10.1)
Interest expense	177.2	160.1	144.0
	$10,253.8	$10,301.9	$ 9,489.3
Earnings from continuing operations before income taxes	1,084.8	587.6	533.1
Income taxes on continuing operations	227.1	68.6	75.8
Earnings from continuing operations	$ 857.7	$ 519.0	$ 457.3
Less: Net earnings (loss) attributable to non-controlling interests	0.5	(1.0)	(0.8)
Net earnings from continuing operations attributable to common shareowners	$ 857.2	$ 520.0	$ 458.1
(Loss) earnings from discontinued operations before income taxes (including pretax gain on HHI sale of $384.7 million in 2012)	(104.0)	(43.0)	497.9
Income tax (benefit) expense on discontinued operations (including income taxes associated with the gain on HHI sale of $25.8 million in 2012)	(7.7)	(13.3)	72.2
Net (loss) earnings from discontinued operations	$ (96.3)	$ (29.7)	$ 425.7
Net Earnings Attributable to Common Shareowners	$ 760.9	$ 490.3	$ 883.8
Basic earnings (loss) per share of common stock:			
Continuing operations	$ 5.49	$ 3.35	$ 2.81
Discontinued operations	(0.62)	(0.19)	2.61
Total basic earnings per share of common stock	$ 4.87	$ 3.16	$ 5.41
Diluted earnings (loss) per share of common stock:			
Continuing operations	$ 5.37	$ 3.28	$ 2.75
Discontinued operations	(0.60)	(0.19)	2.55
Total diluted earnings per share of common stock	$ 4.76	$ 3.09	$ 5.30

A. Significant Accounting Policies (in part)

Basis of Presentation (in part)— During the fourth quarter of 2014, the Company classified the Security segment's Spain and Italy operations as held for sale based on management's intention to sell these businesses. In the third quarter of 2013, the Company classified two small businesses within the Security and Industrial segments as held for sale based on management's intention to sell these businesses. These businesses were sold in 2014. In December 2012, the Company sold its Hardware & Home Improvement business ("HHI"), including the residential portion of Tong Lung Metal Industry Co. ("Tong Lung"), to Spectrum Brands Holdings, Inc. ("Spectrum") for approximately $1.4 billion in cash. The purchase and sale agreement stipulated that the sale occur in a First and Second Closing. The First Closing, which excluded the residential portion of the Tong Lung business, occurred on December 17, 2012 and resulted in an after-tax gain of $358.9 million. The Second Closing, in which the residential portion of the Tong Lung business was sold for $93.5 million in cash, occurred on April 8, 2013 and resulted in an after-tax gain of $4.7 million. The operating results of the above businesses have been reported as discontinued operations in the Consolidated Financial Statements. Amounts previously reported have been reclassified to conform to this presentation in accordance with ASC 205, "Presentation of Financial Statements," to allow for meaningful comparison of continuing operations. The Consolidated Balance Sheets as of January 3, 2015 and December 28, 2013 aggregate amounts associated with discontinued operations as described above. Refer to *Note T, Discontinued Operations,* for further discussion.

New Accounting Standards (in part)— In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments contained in this update change the criteria for reporting discontinued operations and enhances the reporting requirements for discontinued operations. Under the revised standard, a discontinued operation must represent a strategic shift that has or will have a major effect on an entity's operations and financial results. Examples could include a disposal of a major line of business, a major geographical area, a major equity method investment, or other major parts of an entity. The revised standard will also allow an entity to have certain continuing cash flows or involvement with the component after the disposal. Additionally, the standard requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. This ASU is effective for reporting periods beginning after December 15, 2014 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issue.

T. Discontinued Operations

In the fourth quarter of 2014, management approved a plan to sell the Security segment's Spain and Italy operations ("Security Spain and Italy"). As a result of this decision, the Company recorded a pre-tax impairment loss of $60.7 million in order to remeasure the disposal group at estimated fair value less costs to sell. Security Spain and Italy are classified as held for sale as of January 3, 2015 based on management's intention to sell these businesses.

During 2013, the Company classified two small businesses within the Security and Industrial segments as held for sale based on management's intention to sell these businesses. As a result of this decision, the Company recorded pre-tax impairment losses of $22.2 million in 2013 in order to remeasure these businesses at estimated fair value less costs to sell. Both of these businesses were sold in 2014 resulting in an insignificant incremental loss.

In December 2012, the Company sold its HHI business, including the residential portion of Tong Lung, to Spectrum Brands Holdings, Inc. ("Spectrum") for approximately $1.4 billion in cash. The purchase and sale agreement stipulated that the sale occur in a First and Second Closing. The First Closing, which excluded the residential portion of the Tong Lung business, occurred on December 17, 2012 and resulted in an after-tax gain of $358.9 million. The Second Closing, in which the residential portion of the Tong Lung business was sold for $93.5 million in cash, occurred on April 8, 2013 and resulted in an after-tax gain of $4.7 million.

As a result of these actions, the above businesses have been reported as discontinued operations in the Company's Consolidated Financial Statements. Amounts previously reported have been reclassified, as necessary, to conform to this presentation in accordance with ASC 205 to allow for meaningful comparison of continuing operations. The Consolidated Balance Sheets as of January 3, 2015 and December 28, 2013 aggregate amounts associated with discontinued operations as described above. Summarized results of discontinued operations are presented in the following table:

(Millions of Dollars)	2014	2013	2012
Net Sales	$ 118.4	$150.1	$1,099.7
(Loss) earnings from discontinued operations before income taxes (including pretax gain on HHI sale of $384.7 million in 2012)	$(104.0)	$ (43.0)	$ 497.9
Income tax (benefit) expense on discontinued operations (including income taxes for gain on HHI sale of $25.8 million in 2012)	(7.7)	(13.3)	72.2
Net (loss) earnings from discontinued operations	$ (96.3)	$ (29.7)	$ 425.7

During 2013, the Company completed the 2012 income tax return filings which included the final calculations of the tax gain on the HHI sale which took place in 2012. As a result of these tax return filings, the Company recorded an income tax benefit of approximately $19.1 million within discontinued operations related to finalization of the taxable gain on the HHI sale. Changes to the original tax gain were driven primarily by the determination of the final purchase price allocation and the finalization of the U.S. tax basis calculation, both of which were finalized during the year.

As of January 3, 2015, assets and liabilities held for sale relating to Security Spain and Italy totaled $29.5 million and $23.4 million, respectively.

As of December 28, 2013, assets and liabilities held for sale relating to Security Spain and Italy as well as the two small businesses within the Security and Industrial segments, totaled $136.9 million and $61.0 million, respectively.

SELECTED QUARTERLY FINANCIAL DATA (unaudited) (in part)

	Quarter				
(Millions of Dollars, except per share amounts)	First	Second	Third	Fourth	Year
2014					
Net sales	$2,617.1	$2,860.1	$2,878.9	$2,982.5	$11,338.6
Gross profit	956.4	1,048.6	1,046.6	1,051.1	4,102.7
Selling, general and administrative expenses	640.6	655.9	641.1	658.3	2,595.9
Net earnings from continuing operations	169.9	222.7	246.1	219.0	857.7
Less: Net earnings (loss) attributable to non-controlling interest	0.2	0.9	(0.3)	(0.3)	0.5
Net earnings from continuing operations attributable to Stanley Black & Decker, Inc.	169.7	221.8	246.4	219.3	857.2
Net loss from discontinued operations	(7.8)	(5.3)	(9.7)	(73.5)	(96.3)
Net earnings attributable to Stanley Black & Decker, Inc.	$ 161.9	$ 216.5	$ 236.7	$ 145.8	$ 760.9
Basic earnings (loss) per common share:					
Continuing operations	$ 1.09	$ 1.42	$ 1.57	$ 1.41	$ 5.49
Discontinued operations	(0.05)	(0.03)	(0.06)	(0.47)	(0.62)
Total basic earnings per common share	$ 1.04	$ 1.38	$ 1.51	$ 0.94	$ 4.87
Diluted earnings (loss) per common share:					
Continuing operations	$ 1.07	$ 1.39	$ 1.53	$ 1.37	$ 5.37
Discontinued operations	(0.05)	(0.03)	(0.06)	(0.46)	(0.60)
Total diluted earnings per common share	$1.02	$1.36	$1.47	$0.91	$4.76
2013					
Net sales	$2,448.1	$2,830.0	$2,730.8	$2,880.6	$10,889.5
Gross profit	900.0	997.3	979.6	1,026.8	3,903.7
Selling, general and administrative expenses	658.6	672.1	663.0	696.9	2,690.6
Net earnings from continuing operations	83.5	195.9	169.2	70.4	519.0
Less: Net (loss) earnings attributable to non-controlling interest	(0.4)	(0.3)	(0.2)	(0.1)	(1.0)
Net earnings from continuing operations attributable to Stanley Black & Decker, Inc.	83.9	196.2	169.4	70.5	520.0
Net loss from discontinued operations	(2.8)	(9.1)	(3.4)	(14.4)	(29.7)
Net earnings attributable to Stanley Black & Decker, Inc.	$ 81.1	$ 187.1	$ 166.0	$ 56.1	$ 490.3
Basic earnings (loss) per common share:					
Continuing operations	$ 0.54	$ 1.26	$ 1.09	$ 0.45	$ 3.35
Discontinued operations	(0.02)	(0.06)	(0.02)	(0.09)	(0.19)
Total basic earnings per common share	$ 0.52	$ 1.21	$ 1.07	$ 0.36	$ 3.16
Diluted earnings (loss) per common share:					
Continuing operations	$ 0.53	$ 1.24	$1.07	$0.44	$3.28
Discontinued operations	(0.02)	(0.06)	(0.02)	(0.09)	(0.19)
Total diluted earnings per common share	$ 0.51	$ 1.18	$ 1.04	$ 0.35	$ 3.09

The quarterly amounts above have been adjusted for the Security segment's Spain and Italy operations as well as for two small businesses within the Security and Industrial segments, which have been excluded from continuing operations and are reported as discontinued operations. Refer to *Note T, Discontinued Operations*, of the *Notes to Consolidated Financial Statements* in *Item 8* for further discussion.

3.87 BROWN SHOE COMPANY, INC. (JAN)

CONSOLIDATED STATEMENTS OF EARNINGS

($ thousands, except per share amounts)	2013	2012	2011
Net sales	$2,513,113	$2,477,796	$2,434,766
Cost of goods sold	1,498,825	1,489,221	1,470,270
Gross profit	1,014,288	988,575	964,496
Selling and administrative expenses	909,749	891,666	910,293
Restructuring and other special charges, net	1,262	22,431	23,671
Impairment of assets held for sale	4,660	—	—
Operating earnings	98,617	74,478	30,532
Interest expense	(21,254)	(22,973)	(25,428)
Loss on early extinguishment of debt	—	—	(1,003)
Interest income	377	322	569
Earnings before income taxes from continuing operations	77,740	51,827	4,670
Income tax (provision) benefit	(23,758)	(16,656)	1,421
Net earnings from continuing operations	53,982	35,171	6,091
Discontinued operations:			
(Loss) earnings from discontinued operations, net of tax of $5,922, $3,066, $3,059, respectively	(4,574)	(4,437)	4,334
Disposition/impairment of discontinued operations, net of tax of $0, $2,247, and $6,670, respectively	(11,512)	(3,530)	13,965
Net (loss) earnings from discontinued operations	(16,086)	(7,967)	18,299
Net earnings	37,896	27,204	24,390
Net loss attributable to noncontrolling interests	(177)	(287)	(199)
Net earnings attributable to Brown Shoe Company, Inc.	$ 38,073	$ 27,491	$ 24,589
Basic earnings (loss) per common share:			
From continuing operations	$ 1.25	$ 0.83	$ 0.15
From discontinued operations	(0.37)	(0.19)	0.42
Basic earnings per common share attributable to Brown Shoe Company, Inc. shareholders	$ 0.88	$ 0.64	$ 0.57
Diluted earnings (loss) per common share:			
From continuing operations	$ 1.25	$ 0.83	$ 0.14
From discontinued operations	(0.37)	(0.19)	0.42
Diluted earnings per common share attributable to Brown Shoe Company, Inc. shareholders	$ 0.88	$ 0.64	$ 0.56

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Basis of Presentation

Certain prior-period amounts on the consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications did not affect net earnings attributable to Brown Shoe Company, Inc.

The consolidated statement of cash flows includes the cash flows from operating, financing, and investing activities of both continuing operations and discontinued operations. All other financial information is reported on a continuing operations basis, unless otherwise noted. Refer to Note 2 to the consolidated financial statements for discussion regarding discontinued operations.

2. Discontinued Operations

The Company's discontinued operations include The Basketball Marketing Company, Inc. ("TBMC"), the Avia and Nevados brands of American Sporting Goods Corporation, the Etienne Aigner brand, and the Vera Wang brand. The Company applied discontinued operations accounting in accordance with ASC Topic 205-20, *Presentation of Financial Statements—Discontinued Operations*.

In aggregate, discontinued operations include net sales of $26.3 million, $120.3 million, and $167.8 million in 2013, 2012, and 2011, respectively. Discontinued operations include a loss before income taxes of $10.5 million and $7.5 million in 2013 and 2012, respectively, and earnings before income taxes of $7.4 million in 2011. In addition, discontinued operations include a net loss on disposition/impairment of $11.5 million and $3.5 million in 2013 and 2012, respectively, and a net gain on disposition/impairment of $14.0 million in 2011.

American Sporting Goods Corporation

On May 14, 2013, Brown Shoe International Corp. ("BSIC"), the sole shareholder of American Sporting Goods Corporation, entered into and simultaneously closed a Stock Purchase Agreement (the "Stock Purchase Agreement") by and among the Company, BSIC and Galaxy Brand Holdings, Inc. ("the Buyer"), pursuant to which the Buyer acquired all of the outstanding capital stock of American Sporting Goods

Corporation from BSIC and the Company agreed to provide certain transition services. In connection with the transaction, American Sporting Goods Corporation sold inventory to a third party unaffiliated with the Buyer and distributed certain assets to BSIC. The aggregate purchase price for the stock of American Sporting Goods Corporation and the provision of such transition services was $74.0 million, subject to working capital adjustments, minus the amount of the pre-closing cash dividend declared by American Sporting Goods Corporation and paid to BSIC, representing proceeds from American Sporting Goods Corporation's sale of inventory.

The Company purchased American Sporting Goods Corporation, comprised of Avia, Nevados, Ryka, AND 1, and other businesses, on February 17, 2011 and subsequently sold AND 1 during fiscal 2011, as further described below. The Avia and Nevados businesses were sold under the Stock Purchase Agreement and the Company retained, and is operating, Ryka and other businesses. In this document, "ASG" refers to the subsidiary disposed on May 14, 2013, including the Avia and Nevados brands and excluding the Ryka brand and other retained businesses.

The Company received $60.3 million in cash and a promissory note of $12.0 million at closing, from the sale of stock, the sale of inventory, and for the provision of transitional services, less working capital adjustments. The promissory note was due November 14, 2013, earned interest at a 3% annual rate, and was secured by a guarantee by American Sporting Goods Corporation and a lien on certain assets of ASG. In accordance with the terms of the promissory note, the Company received a payment of $12.2 million on November 14, 2013, representing the note principal and accrued interest.

As a result of the sale of ASG, the Company recorded an impairment charge in the first quarter of 2013 of $12.6 million ($12.6 million after-tax, $0.30 per diluted share), representing the difference in the fair value less costs to sell as compared to the carrying value of the net assets to be sold. During the second quarter of 2013, the Company recognized a gain upon disposition of the ASG subsidiary of $1.0 million ($1.0 million after tax, $0.02 per diluted share).

ASG was previously included in the Wholesale Operations segment. Discontinued operations include net sales of $20.3 million, $77.6 million, and $98.1 million in 2013, 2012, and 2011, respectively. Discontinued operations include losses before income taxes of $1.6 million and $7.1 million in 2013 and 2012, respectively, and earnings before income taxes of $1.8 million in 2011.

Vera Wang

During the first quarter of 2013, the Company communicated its intention not to renew the Vera Wang license agreement. The results of Vera Wang were previously included in the Wholesale Operations segment. Discontinued operations include net sales of $5.7 million, $14.8 million, and $21.8 million in 2013, 2012, and 2011, respectively. Discontinued operations include losses before income taxes of $1.9 million in 2013, $1.8 million in 2012 and earnings before income taxes of $1.4 million in 2011.

Etienne Aigner

During the second quarter of 2012, the Company terminated the Etienne Aigner license agreement due to a dispute with the licensor. On April 29, 2013, an agreement to resolve the dispute was reached, pursuant to which the Company agreed to pay Etienne Aigner $6.5 million. The results of Etienne Aigner were previously included in the Wholesale Operations segment. Discontinued operations included net sales of $0.3 million, $27.9 million and $28.1 million in 2013, 2012, and 2011, respectively. It also included losses before income taxes of $7.0 million in 2013 and earnings before income taxes of $1.4 million and $1.2 million in 2012 and 2011, respectively. As a result of the termination of the license agreement in 2012, the Company recorded an impairment charge of $5.8 million ($3.5 million on an after-tax basis, or $0.08 per diluted share) to reduce the value of the license intangible asset to zero.

The Basketball Marketing Company, Inc.

On October 25, 2011, the Company sold TBMC for $55.4 million in cash. TBMC markets and sells footwear bearing the AND 1 brand-name and was acquired in the Company's Febr uary 17, 2011 acquisition of American Sporting Goods Corporation. In conjunction with the sale, the Company recorded a gain of $20.6 million ($14.0 million after-tax, or $0.32 per diluted share), which is reflected in the consolidated statements of earnings as a component of discontinued operations.

TBMC was previously included in the Wholesale Operations segment. Discontinued operations included net sales and earnings before income taxes of $19.7 million and $3.0 million, respectively, in 2011.

Assets and liabilities of discontinued operations at February 1, 2014 and February 2, 2013 were as follows:

($ thousands)	February 1, 2014	February 2, 2013
Assets of Discontinued Operations		
Current assets		
Receivables, net	$ —	$ 14,291
Inventories, net	111	29,587
Prepaid expenses and other current assets	8	3,231
Current assets—discontinued operations	119	47,109
Other assets	—	419
Goodwill	—	25,650
Intangible assets, net	—	27,275
Property and equipment, net	—	1,233
Noncurrent assets—discontinued operations	—	54,577
Total assets—discontinued operations	$119	$101,686
Liabilities of Discontinued Operations		
Current liabilities		
Trade accounts payable	$139	$ 9,082
Other accrued expenses	569	4,177
Current liabilities—discontinued operations	708	13,259
Other liabilities	—	6,996
Noncurrent liabilities—discontinued operations	—	6,996
Total liabilities—discontinued operations	$708	$ 20,255

(Loss) earnings from discontinued operations, net of tax, for 2013, 2012, and 2011 were as follows:

($ thousands)	2013	2012	2011
Net sales	$ 26,318	$120,269	$167,753
Cost of goods sold	19,927	98,485	127,828
Gross profit	6,391	21,784	39,925
Selling and administrative expenses	6,103	27,291	31,895
Restructuring and other special charges, net	10,768	1,587	—
Operating (loss) earnings	(10,480)	(7,094)	8,030
Interest expense	16	409	712
Interest income	—	—	(75)
(Loss) earnings before income taxes from discontinued operations	(10,496)	(7,503)	7,393
Income tax benefit (provision)	5,922	3,066	(3,059)
(Loss) earnings from discontinued operations, net of tax	$ (4,574)	$ (4,437)	$ 4,334

BUSINESS COMPONENT DISPOSALS UNDER EARLY ADOPTION OF ASU NO. 2014-08

3.88 CLIFFS NATURAL RESOURCES INC. (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Basis of Presentation and Significant Accounting Policies (in part)

Discontinued Operations

On July 10, 2012, we entered into a definitive share and asset sale agreement to sell our 45 percent economic interest in the Sonoma joint venture coal mine located in Queensland, Australia. Upon completion of the transaction on November 12, 2012, we collected approximately AUD $141.0 million in net cash proceeds. The assets sold included our interests in the Sonoma mine along with our ownership of the affiliated washplant. The Sonoma operations previously were included in *Other* within our reportable segments.

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations. The standard requires that an entity report as a discontinued operation only a disposal that represents a strategic shift in operations that has a major effect on its operations and financial results. ASU 2014-08 is effective prospectively for new disposals that occur within annual periods beginning on or after December 15, 2014. Early adoption is permitted and we adopted ASU 2014-08 during the three months ended December 31, 2014. Both Wabush and CLCC did not qualify as discontinued operations as determined under the new guidance. Neither the closure of Wabush nor the sale of the CLCC assets was considered a strategic shift in operations that had a major effect on our operations. Refer to NOTE 14—DISCONTINUED OPERATIONS for further discussion of our adoption of ASU 2014-08.

Note 14—Discontinued Operations

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for reporting discontinued operations and requires additional disclosures about discontinued operations. The standard requires that an entity report as a discontinued operation only a disposal that represents a strategic shift in operations that has a major effect on its operations and financial results. ASU 2014-08 is effective prospectively for new disposals that occur within annual periods beginning on or after December 15, 2014. Early adoption is permitted and we adopted ASU 2014-08 during the three months ended December 31, 2014. Adoption of the standard had a material impact on our Statements of Consolidated Operations.

The Wabush mine was idled by the end of the first quarter of 2014 and we subsequently began to commence permanent closure during the fourth quarter of 2014. As part of these closure activities, we terminated the rail transportation agreement and began implementation of the provincial Rehabilitation and Closure Plan that has been approved by the Canadian Department of Natural Resources. As such, the Wabush mine was deemed abandoned as of December 31, 2014 and meets the disposed by other than sale criteria.

On December 31, 2014, we completed the sale of our CLCC assets in West Virginia to Coronado Coal II, LLC, an affiliate of Coronado Coal LLC, for $174.0 million in cash and the assumption of certain liabilities, of which $155.0 million has been collected as of December 31, 2014. We recorded the results of this sale in our fourth quarter earnings as the transaction closed on December 31, 2014. As such, CLCC as of December 31, 2014, meets the disposed of by sale criteria.

As Wabush and CLCC met criteria for discontinued operations, each disposal had to be further evaluated to determine whether the disposal represents a strategic shift that has (or will have) a major effect on our operations and financial results. Wabush and CLCC meet the criteria for discontinued operations as Wabush's closure plan was implemented and CLCC was sold. According to ASU 2014-08, examples of a strategic shift that has (or will have) a major effect on an entity's operations and financial results could include a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity. In order to determine if the disposal of CLCC or Wabush had a major effect on our operations and financial results, we used revenues and assets as a key indicator of significance as those are historically key indicators we have used to measure our components against. For both Wabush and CLCC, the associated revenues and assets were determined not to be a significant percentage of our consolidated results as evidenced by the years ended December 31, 2014, 2013 and 2012. Wabush revenues were less than 8 percent of consolidated revenues and less than 4 percent of total assets for the years ended December 31, 2014, 2013 and 2012. CLCC revenues were less than 5 percent of consolidated revenues and less than 8 percent of total assets for the years ended December 31, 2014, 2013 and 2012.

Other key indicators such as sales margin, EBITDA and adjusted EBITDA are not relevant for Wabush as Wabush was idled in the first quarter of 2014 and therefore not operational for the majority of 2014. These other key indicators were also not relevant for CLCC as the coal business makes up a small percentage of our overall financial results, approximately 15 percent of consolidated revenues in 2014, as compared to our iron ore business.

After assessing Wabush and CLCC under the ASU 2014-08 guidance as discussed above, it was determined that Wabush and CLCC do not qualify as discontinued operations as of December 31, 2014. Neither Wabush nor CLCC represent a strategic shift that has or will have a major impact on our operations or financial results.

The amendments in this ASU 2014-08 require us to provide the *Income (Loss) from Continuing Operations Before Income Taxes and Equity Income (Loss) from Ventures* for each individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements. The *Income (Loss) from Continuing Operations Before Income Taxes and Equity Income (Loss) from Ventures* is to be presented for the component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the Statements of Consolidated Operations. As required, the *Income (Loss) from Continuing Operations Before Income Taxes and Equity Income (Loss) from Ventures* for Wabush and CLCC are presented below:

	Year Ended December 31,		
(In Millions)	2014	2013	2012
Income (Loss) from Continuing Operations Before Income Taxes and Equity Income (Loss) from Ventures			
Wabush	$(345.6)	$(258.6)	$(131.8)
CLCC	$(669.9)	$ (55.0)	$ (41.8)

The table below sets forth selected financial information related to operating results of our business classified as discontinued operations. While the reclassification of revenues and expenses related to discontinued operations for prior periods has no impact upon previously reported net income, the Statements of Consolidated Operations present the revenues and expenses that were reclassified from the specified line items to discontinued operations. During the fourth quarter of 2012, we sold our 45 percent economic interest in Sonoma. The Sonoma operations previously were included in *Other* within our reportable segments.

The following table presents detail of our operations related to our Sonoma operations in the Statements of Consolidated Operations:

	Year Ended December 31,		
(In Millions)	**2014**	**2013**	**2012**
Revenues from Product Sales and Services			
Product	$—	$—	$151.6
Gain on Sale from Discontinued Operations, net of tax	—	—	38.0
Income (Loss) from Discontinued Operations, net of tax	—	2.0	(2.1)
Income and Gain on Sale from Discontinued Operations, net of tax	$—	$2.0	$ 35.9

Income and Gain on Sale from Discontinued Operations, net of tax during the year ended December 31, 2013 relates to additional income tax benefit resulting from the actual tax gain from the sale of Sonoma as included on the 2012 tax return, which was filed during the year ended December 31, 2013.

We recorded a gain of $38.0 million, net of $8.1 million in tax expense in *Income and Gain on Sale from Discontinued Operations, net of tax* in the Statements of Consolidated Operations for the year ended December 31, 2012 related to our sale of the Sonoma operations, which was completed as of November 12, 2012. We recorded a loss from discontinued operations in 2012 of $2.1 million, net of $2.4 million in tax expense.

Extraordinary Items

RECOGNITION AND MEASUREMENT

3.89 FASB ASC 225-20 defines *extraordinary items* as events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Both of the following criteria should be met to classify an event or a transaction as an extraordinary item:

- *Unusual nature*. The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
- *Infrequency of occurrence*. The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

PRESENTATION

3.90 FASB ASC 225-20 also addresses the presentation and disclosure of unusual and infrequently occurring items that do not meet the extraordinary criteria. Such items are reported as a separate component of continuing operations either on the face of the income statement or in the notes. FASB ASC 225-20-55 illustrates events and transactions that should and should not be classified as extraordinary items.

Author's Note

In January 2015, FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU eliminates from GAAP the concept of extraordinary items. The amendments in this ASU will eliminate the requirements in Subtopic 225-20 for reporting entities to consider whether an underlying event or transaction is extraordinary, but the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and expanded to include items that are both unusual in nature and infrequently occurring. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 . A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. None of the examples that follow contain an example of these disclosures due to the effective date.

PRESENTATION AND DISCLOSURE EXCERPTS

EXTRAORDINARY ITEMS

3.91 HUNTSMAN CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions, Except Per Share Amounts)

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Trade sales, services and fees, net	$11,317	$10,847	$10,964
Related party sales	261	232	223
Total revenues	11,578	11,079	11,187
Cost of goods sold	9,659	9,326	9,153
Gross profit	1,919	1,753	2,034
Operating Expenses:			
Selling, general and administrative	974	942	951
Research and development	158	140	152
Other operating (income) expense	(4)	10	(6)
Restructuring, impairment and plant closing costs	158	151	92
Total expenses	1,286	1,243	1,189
Operating income	633	510	845
Interest expense	(205)	(190)	(226)
Equity in income of investment in unconsolidated affiliates	6	8	7
Loss on early extinguishment of debt	(28)	(51)	(80)
Other (loss) income	(2)	2	1
Income from continuing operations before income taxes	404	279	547
Income tax expense	(51)	(125)	(169)
Income from continuing operations	353	154	378
Loss from discontinued operations	(8)	(5)	(7)
Income before extraordinary gain	345	149	371
Extraordinary gain on the acquisition of a business, net of tax of nil	—	—	2
Net income	345	149	373
Net income attributable to noncontrolling interests	(22)	(21)	(10)
Net income attributable to Huntsman Corporation	$ 323	$ 128	$ 363

	Year Ended December 31,		
	2014	2013	2012
Basic Income (Loss) Per Share:			
Income from continuing operations attributable to Huntsman Corporation common stockholders	$ 1.36	$ 0.55	$ 1.55
Loss from discontinued operations attributable to Huntsman Corporation common stockholders, net of tax	(0.03)	(0.02)	(0.03)
Extraordinary gain on the acquisition of a business attributable to Huntsman Corporation common stockholders, net of tax	—	—	0.01
Net income attributable to Huntsman Corporation common stockholders	$ 1.33	$ 0.53	$ 1.53
Weighted average shares	242.1	239.7	237.6
Diluted Income (Loss) Per Share:			
Income from continuing operations attributable to Huntsman Corporation common stockholders	$ 1.34	$ 0.55	$ 1.53
Loss from discontinued operations attributable to Huntsman Corporation common stockholders, net of tax	(0.03)	(0.02)	(0.03)
Extraordinary gain on the acquisition of a business attributable to Huntsman Corporation common stockholders, net of tax	—	—	0.01
Net income attributable to Huntsman Corporation common stockholders	$ 1.31	$ 0.53	$ 1.51
Weighted average shares	246.0	242.4	240.6
Amounts Attributable to Huntsman Corporation Common Stockholders:			
Income from continuing operations	$ 331	$ 133	$ 368
Loss from discontinued operations, net of tax	(8)	(5)	(7)
Extraordinary gain on the acquisition of a business, net of tax	—	—	2
Net income	$ 323	$ 128	$ 363
Dividends per share	$ 0.50	$ 0.50	$ 0.40

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*, eliminating from US GAAP the concept of extraordinary items. Reporting entities will no longer have to assess whether a particular event or transaction event is extraordinary. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or may also apply them retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We do not expect the adoption of the amendments in this ASU to have a significant impact on our consolidated financial statements.

3. Business Combinations and Dispositions (in part)

Textile Effects Acquisition

On June 30, 2006, we acquired Ciba's textile effects business and accounted for the Textile Effects Acquisition using the purchase method. As such, we analyzed the fair value of tangible and intangible assets acquired and liabilities assumed and determined the excess of fair value of net assets over cost. Because the fair value of the acquired assets and liabilities assumed exceeded the purchase price, the value of the long-lived assets acquired was reduced to zero. Accordingly, no basis was assigned to property, plant and equipment or any other non-current nonfinancial assets and the remaining excess was recorded as an extraordinary gain. During 2012, we recorded an additional extraordinary gain on the acquisition of $2 million, related to settlement of contingent purchase price consideration, the reversal of accruals for certain restructuring and employee termination costs recorded in connection with the Textile Effects Acquisition and a reimbursement by Ciba of certain costs pursuant to the acquisition agreements.

UNUSUAL ITEMS

3.92 CONSTELLATION BRANDS, INC. (FEB)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

(in millions, except per share data)

	For the Years Ended		
	February 28, 2014	**February 28, 2013**	**February 29, 2012**
Sales	$ 5,411.0	$ 3,171.4	$ 2,979.1
Less—excise taxes	(543.3)	(375.3)	(324.8)
Net sales	4,867.7	2,796.1	2,654.3
Cost of Product Sold	(2,876.0)	(1,687.8)	(1,592.2)
Gross profit	1,991.7	1,108.3	1,062.1
Selling, General and Administrative Expenses	(895.1)	(585.4)	(537.5)
Impairment of Goodwill and Intangible Assets	(300.9)	—	(38.1)
Gain on Remeasurement to Fair Value of Equity Method Investment	1,642.0	—	—
Operating income	2,437.7	522.9	486.5
Equity in Earnings of Equity Method Investees	87.8	233.1	228.5
Interest Expense, net	(323.2)	(227.1)	(181.0)
Loss on Write-Off of Financing Costs	—	(12.5)	—
Income before income taxes	2,202.3	516.4	534.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

21. Business Segment Information (in part)

Prior to the Beer Business Acquisition, Crown Imports was a reportable segment of the Company. In connection with the Beer Business Acquisition and the resulting consolidation of the acquired businesses from the date of acquisition, the Crown Imports segment, together with the Brewery Purchase, is now known as the Beer segment. Accordingly, the Company's internal management financial reporting consists of two business divisions: (i) Beer and (ii) Wine and Spirits, and the Company reports its operating results in three segments:

(i) Beer (imported beer), (ii) Wine and Spirits (wine and spirits), and (iii) Corporate Operations and Other. The business segments reflect how the Company's operations are managed, how operating performance within the Company is evaluated by senior management and the structure of its internal financial reporting. Amounts included in the Corporate Operations and Other segment consist of costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations and global information technology. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other reportable segments.

In addition, management excludes items that affect comparability ("Unusual Items") from its evaluation of the results of each operating segment as these Unusual Items are not reflective of continuing operations of the segments. Segment operating performance and segment management compensation is evaluated based upon continuing segment operating income. As such, the performance measures for incentive compensation purposes for segment management do not include the impact of these items.

For the years ended February 28, 2014, February 28, 2013, and February 29, 2012, Unusual Items included in consolidated operating income consist of:

	For the Years Ended		
(In millions)	February 28, 2014	February 28, 2013	February 29, 2012
Cost of Product Sold			
Flow through of inventory step-up	$ 11.0	$ 7.8	$ 1.6
Amortization of favorable interim supply agreement	6.0	—	—
Other costs	(1.0)	—	0.3
Total Cost of Product Sold	16.0	7.8	1.9
Selling, General and Administrative Expenses			
Transaction and related costs associated with pending and completed acquisitions	51.5	27.7	—
Deferred compensation	7.0	—	—
Restructuring charges and other	(2.8)	(1.7)	13.5
Total Selling, General and Administrative Expenses	55.7	26.0	13.5
Impairment of Goodwill and Intangible Assets	300.9	—	38.1
Gain on Remeasurement to Fair Value of Equity Method Investment	(1,642.0)	—	—
Unusual Items	$(1,269.4)	$33.8	$53.5

The Company evaluates performance based on operating income of the respective business units. The accounting policies of the segments are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 and include the recently adopted accounting guidance described in Note 2.

23. Selected Quarterly Financial Information (Unaudited) (in part)

A summary of selected quarterly financial information is as follows:

	Quarter Ended				
(In millions, except per share data)	May 31, 2013	August 31, 2013	November 30, 2013	February 28, 2014	Full Year
Fiscal 2014					
Net sales	$673.4	$1,459.8	$1,443.3	$1,291.2	$4,867.7
Gross profit	$256.1	$ 577.0	$ 609.7	$ 548.9	$1,991.7
Net income[1]	$ 52.9	$1,522.0	$ 211.0	$ 157.2	$1,943.1
Earnings per common share[2]:					
Basic—Class A Common Stock	$ 0.29	$ 8.18	$ 1.13	$ 0.84	$ 10.45
Basic—Class B Convertible Common Stock	$ 0.26	$ 7.43	$ 1.03	$ 0.76	$ 9.50
Diluted—Class A Common Stock	$ 0.27	$ 7.74	$ 1.07	$ 0.79	$ 9.83
Diluted—Class B Convertible Common Stock	$ 0.25	$ 7.11	$ 0.98	$ 0.73	$ 9.04

(continued)

	Quarter Ended				
	May 31, 2012	August 31, 2012	November 30, 2012	February 28, 2013	Full Year
Fiscal 2013					
Net sales	$634.8	$698.5	$766.9	$695.9	$2,796.1
Gross profit	$250.6	$285.1	$310.8	$261.8	$1,108.3
Net income[3]	$ 72.0	$124.6	$109.5	$ 81.7	$ 387.8
Earnings per common share[2]:					
Basic—Class A Common Stock	$ 0.39	$ 0.71	$ 0.61	$ 0.45	$ 2.15
Basic—Class B Convertible Common Stock	$ 0.36	$ 0.64	$ 0.55	$ 0.41	$ 1.96
Diluted—Class A Common Stock	$ 0.38	$ 0.67	$ 0.58	$ 0.43	$ 2.04
Diluted—Class B Convertible Common Stock	$ 0.35	$ 0.62	$ 0.53	$ 0.39	$ 1.87

[1] For Fiscal 2014, the Company recorded certain unusual items consisting of: amortization of a favorable interim supply agreement associated with the Beer Business Acquisition; other cost of product sold associated with a net gain from the mark to fair value of undesignated commodity swap contracts; transaction and related costs associated with the Beer Business Acquisition; previously unrecognized deferred compensation costs associated with certain employment agreements related to a prior period; restructuring charges and other selling, general and administrative costs associated primarily with certain previously announced restructuring plans; impairment of goodwill and intangible assets associated with the Company's Canadian business; gain on remeasurement to fair value of the Company's preexisting equity interest in Crown Imports; and other equity method investment costs. The following table identifies these items, net of income tax effect, by quarter and in the aggregate for Fiscal 2014:

	Quarter Ended				
(In millions, net of income tax effect)	May 31, 2013	August 31, 2013	November 30, 2013	February 28, 2014	Full Year
Fiscal 2014					
Amortization of favorable interim supply agreement	$ —	$ 1.5	$ 1.6	$ 1.2	$ 4.3
Other cost of product sold	$ —	$ —	$ —	$(0.6)	$ (0.6)
Transaction and related costs associated with completed acquisitions	$17.2	$ 4.2	$ 5.8	$ 4.3	$ 31.5
Deferred compensation	$ 4.4	$ —	$ —	$ —	$ 4.4
Restructuring charges and other selling, general and administrative costs	$(1.8)	$ —	$ 0.1	$ —	$ (1.7)
Impairment of goodwill and intangible assets	$ —	$ 296.4	$(1.3)	$ —	$ 295.1
Gain on remeasurement to fair value of equity method investment	$ —	$(1,642.0)	$ —	$ —	$(1,642.0)
Other equity method investment loss	$ 0.1	$ —	$ —	$ —	$ 0.1

[2] The sum of the quarterly earnings per common share for Fiscal 2014 and Fiscal 2013 may not equal the total computed for the respective years as the earnings per common share are computed independently for each of the quarters presented and for the full year.

[3] For Fiscal 2013, the Company recorded certain unusual items consisting of: transaction and related costs associated with pending and completed acquisitions, including the Beer Business Acquisition and Mark West; restructuring charges and other selling, general and administrative costs associated primarily with certain previously announced restructuring plans and a gain on an adjustment to a guarantee originally recorded in connection with a prior divestiture; other equity method investment costs; and loss on the write-off of financing fees. The following table identifies these items, net of income tax effect, by quarter and in the aggregate for Fiscal 2013:

	Quarter Ended				
(In millions, net of income tax effect)	May 31, 2012	August 31, 2012	November 30, 2012	February 28, 2013	Full Year
Fiscal 2013					
Transaction and related costs associated with pending and completed acquisitions	$—	$ 5.7	$5.3	$ 7.1	$18.1
Restructuring charges and other selling, general and administrative costs	$ 1.8	$(0.3)	$1.5	$(6.4)	$ (3.4)
Other equity method investment costs	$—	$ —	$0.1	$ 0.5	$ 0.6
Loss on write-off of financing costs	$ 1.7	$ —	$—	$ 6.1	$ 7.8

3.93 GENCORP INC. (NOV)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 10. Operating Segments and Related Disclosures (in part)

The Company's operations are organized into two operating segments based on different products and customer bases: Aerospace and Defense, and Real Estate. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (see Note 1).

The Company evaluates its operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales from continuing operations less applicable costs, expenses and unusual items relating to the segment operations. Segment performance excludes corporate income and expenses, legacy income or expenses, unusual items not related to the segment operations, interest expense, interest income, and income taxes.

Selected financial information for each reportable segment is as follows:

	Year Ended		
(In millions)	2014	2013	2012
Net Sales:			
Aerospace and Defense	$1,591.2	$1,377.4	$986.1
Real Estate	6.2	5.7	8.8
Total Net Sales	$1,597.4	$1,383.1	$994.9
Segment Performance:			
Aerospace and Defense	$ 141.3	$ 147.6	$115.5
Environmental remediation provision adjustments	(8.8)	(4.6)	(11.4)
Retirement benefit expense	(24.5)	(44.2)	(18.9)
Unusual items	(0.9)	(1.6)	(0.7)
Aerospace and Defense Total	107.1	97.2	84.5
Real Estate	4.2	3.8	3.7
Total Segment Performance	$ 111.3	$ 101.0	$ 88.2
Reconciliation of Segment Performance to (Loss) Income from Continuing Operations Before Income Taxes:			
Segment performance	$ 111.3	$ 101.0	$ 88.2
Interest expense	(52.7)	(48.7)	(22.3)
Interest income	0.1	0.2	0.6
Stock-based compensation expense	(5.7)	(14.1)	(6.5)
Corporate retirement benefit expense	(11.1)	(20.8)	(22.1)
Corporate and other	(20.5)	(20.9)	(12.7)
Unusual items	(60.8)	(22.9)	(12.0)
(Loss) income from continuing operations before income taxes	$ (39.4)	$ (26.2)	$ 13.2
Aerospace and Defense	$ 43.1	$ 63.2	$ 37.2
Real Estate	—	—	—
Corporate	0.3	—	—
Capital Expenditures	$ 43.4	$ 63.2	$ 37.2
Aerospace and Defense	$ 63.0	$ 43.1	$ 21.7
Real Estate	0.7	0.7	0.6
Corporate	—	—	—
Depreciation and Amortization	$ 63.7	$ 43.8	$ 22.3

Note 14. Unusual Items

Total unusual items expense, a component of other expense, net in the consolidated statements of operations was as follows:

	Year Ended		
(In millions)	2014	2013	2012
Aerospace and Defense:			
Loss (gain) on legal matters and settlements	$ 0.9	$ (1.0)	$ 0.7
Rocketdyne Business acquisition related costs	—	2.6	—
Aerospace and defense unusual items	0.9	1.6	0.7
Corporate:			
Rocketdyne Business acquisition related costs	—	17.4	11.6
Loss on debt repurchased	60.6	5.0	0.4
Loss on legal settlement	—	0.5	—
Loss on bank amendment	0.2	—	—
Corporate unusual items	60.8	22.9	12.0
Total unusual items	$61.7	$24.5	$12.7

Fiscal 2014 Activity:

The Company recorded a charge of $0.2 million related to an amendment to the Senior Credit Facility.

The Company recorded $0.9 million for realized losses and interest associated with the failure to register with the SEC the issuance of certain of the Company's common shares under the defined contribution 401(k) employee benefit plan.

A summary of the Company's loss on the 4 1 / 16 % Debentures repurchased is as follows (in millions):

Principal amount repurchased	$ 59.6
Cash repurchase price	(119.9)
Write-off of deferred financing costs	(0.3)
Loss on 4 1 / 16 % Debentures repurchased	$ (60.6)

Fiscal 2013 Activity:

The Company recorded a charge of $0.5 million related to a legal settlement.

The Company recorded ($1.0) million for realized gains and interest associated with the failure to register with the SEC the issuance of certain of the Company's common shares under the defined contribution 401(k) employee benefit plan.

The Company incurred expenses of $20.0 million, including internal labor costs of $1.4 million, related to the Rocketdyne Business acquisition in fiscal 2013.

A summary of the Company's loss on the 4 1 / 16 % Debentures repurchased is as follows (in millions):

Principal amount repurchased	$ 5.2
Cash repurchase price	(10.1)
Write-off of deferred financing costs	(0.1)
Loss on 4 1 / 16 % Debentures repurchased	$ (5.0)

Fiscal 2012 Activity:

The Company recorded $0.7 million for losses and interest associated with the failure to register with the SEC the issuance of certain of the Company's common shares under the defined contribution 401(k) employee benefit plan.

The Company incurred expenses of $11.6 million, including internal labor costs of $2.0 million, related to the Rocketdyne Business acquisition announced in July 2012.

The Company redeemed $75.0 million of its 9 1 / 2 % Senior Subordinated Notes ("9 1 / 2 % Notes") at a redemption price of 100% of the principal amount. The redemption resulted in a charge of $0.4 million associated with the write-off of the 9 1 / 2 % Notes deferred financing costs.

Earnings Per Share

PRESENTATION

3.94 The computation, presentation, and disclosure requirements for earnings per share (EPS) for entities with publicly held common stock or potential common stock are stated in FASB ASC 260, *Earnings Per Share*. The objective of basic EPS is to measure the performance of an entity over the reporting period. The objective of diluted EPS, which is consistent with that of basic EPS, is to measure the performance of an entity over the reporting period, while giving effect to all dilutive potential common shares that were outstanding during the period. FASB ASC 260 also discusses the application of EPS guidance to master limited partnerships.

PRESENTATION AND DISCLOSURE EXCERPTS

EARNINGS PER SHARE

3.95 GOOGLE INC. (DEC)

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except share amounts which are reflected in thousands and per share amounts)

	Year Ended December 31,		
	2012	2013	2014
Revenues	$46,039	$55,519	$66,001
Costs and expenses:			
Cost of revenues[(1)]	17,176	21,993	25,691
Research and development[(1)]	6,083	7,137	9,832
Sales and marketing[(1)]	5,465	6,554	8,131
General and administrative[(1)]	3,481	4,432	5,851
Total costs and expenses	32,205	40,116	49,505
Income from operations	13,834	15,403	16,496
Interest and other income, net	635	496	763
Income from continuing operations before income taxes	14,469	15,899	17,259
Provision for income taxes	2,916	2,552	3,331
Net income from continuing operations	$11,553	$13,347	$13,928
Net income (loss) from discontinued operations	(816)	(427)	516
Net income	$10,737	$12,920	$14,444
Net income (loss) per share—basic:			
Continuing operations	$ 17.66	$ 20.05	$ 20.61
Discontinued operations	(1.25)	(0.64)	0.76
Net income (loss) per share—basic	$ 16.41	$ 19.41	$ 21.37
Net income (loss) per share—diluted:			
Continuing operations	$ 17.39	$ 19.70	$ 20.27
Discontinued operations	(1.23)	(0.63)	0.75
Net income (loss) per share—diluted	$ 16.16	$ 19.07	$ 21.02
Shares used in per share calculation—basic	654,426	665,692	675,935
Shares used in per share calculation—diluted	664,610	677,618	687,070
(1) Includes stock-based compensation expense as follows:			
Cost of revenues	$ 359	$ 469	$ 535
Research and development	1,274	1,641	2,200
Sales and marketing	449	552	715
General and administrative	391	465	725
Discontinued operations	219	216	104
Total stock-based compensation expense	$ 2,692	$ 3,343	$ 4,279

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Google Inc. and Summary of Significant Accounting Policies (in part)

Nature of Operations (in part)

On April 2, 2014, we completed a two -for-one stock split effected in the form of a stock dividend (the Stock Split). All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect the Stock Split. See Notes 11 and 12 for additional information about the Stock Split.

Note 11. Net Income Per Share

We compute net income per share of Class A and Class B common stock and Class C capital stock using the two-class method. Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and the effect of potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of stock options, restricted stock units, and other contingently issuable shares. The dilutive effect of outstanding stock options, restricted stock units, and other contingently issuable shares is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock and Class C capital stock are identical, except with respect to voting. Further, there are a number of safeguards built into our certificate of incorporation, as well as Delaware law, which preclude our board of directors from declaring or paying unequal per share dividends on our Class A and Class B common stock and Class C capital stock. Specifically, Delaware law provides that amendments to our certificate of incorporation which would have the effect of adversely altering the rights, powers, or preferences of a given class of stock must be approved by the class of stock adversely affected by the proposed amendment. In addition, our certificate of incorporation provides that before any such amendment may be put to a stockholder vote, it must be approved by the unanimous consent of our board of directors. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares and Class C capital stock as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The net income per share amounts are the same for Class A and Class B common stock and Class C capital stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. Further, as we assume the conversion of Class B common stock in the computation of the diluted net income per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

The number of shares and per share amounts for the prior periods presented below have been retroactively restated to reflect the Stock Split. Please see Note 1 and Note 12 for additional information on the Stock Split.

The following table sets forth the computation of basic and diluted net income per share of Class A and Class B common stock and Class C capital stock (in millions, except share amounts which are reflected in thousands and per share amounts):

	Year Ended December 31, 2012		
	Class A	**Class B**	**Class C**
Basic net income (loss) per share:			
Numerator			
Allocation of undistributed earnings—continuing operations	$4,627	$1,150	$5,776
Allocation of undistributed earnings—discontinued operations	(327)	(81)	(408)
Total	$4,300	$1,069	$5,368
Denominator			
Number of shares used in per share computation	262,078	65,135	327,213
Basic net income (loss) per share			
Continuing operations	$17.66	$17.66	17.66
Discontinued operations	(1.25)	(1.25)	(1.25)
Basic net income per share	$16.41	$16.41	$16.41
Diluted net income (loss) per share:			
Numerator			
Allocation of undistributed earnings for basic computation—continuing operations	$4,627	$1,150	$5,776
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	1,150	0	0
Reallocation of undistributed earnings	(1)	(17)	1
Allocation of undistributed earnings—continuing operations	$5,776	$1,133	$5,777
Allocation of undistributed earnings for basic computation—discontinued operations	$ (327)	$ (81)	$ (408)
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	(81)	0	0
Reallocation of undistributed earnings	0	1	0
Allocation of undistributed earnings—discontinued operations	$ (408)	$ (80)	$ (408)
Denominator			
Number of shares used in basic computation	262,078	65,135	327,213
Weighted-average effect of dilutive securities			
Add:			
Conversion of Class B to Class A common shares outstanding	65,135	0	0
Employee stock options, including warrants issued under Transferable Stock Option program	2,944	34	2,944
Restricted stock units and other contingently issuable shares	2,148	0	2,148
Number of shares used in per share computation	332,305	65,169	332,305
Diluted net income (loss) per share:			
Continuing operations	$17.39	$17.39	$17.39
Discontinued operations	(1.23)	(1.23)	(1.23)
Diluted net income per share	$16.16	$16.16	$16.16

	Year Ended December 31, 2013		
	Class A	Class B	Class C
Basic net income (loss) per share:			
Numerator			
Allocation of undistributed earnings—continuing operations	$5,484	$1,190	$6,673
Allocation of undistributed earnings—discontinued operations	(175)	(38)	(214)
Total	$5,309	$1,152	$6,459
Denominator			
Number of shares used in per share computation	273,518	59,328	332,846
Basic net income (loss) per share			
Continuing operations	$20.05	$20.05	$20.05
Discontinued operations	(0.64)	(0.64)	(0.64)
Basic net income per share	19.41	$19.41	$19.41
Diluted net income (loss) per share:			
Numerator			
Allocation of undistributed earnings for basic computation—continuing operations	$5,484	$1,190	$6,673
Reallocation of undistributed earnings as a result of conversionof Class B to Class A shares	1,190	0	0
Reallocation of undistributed earnings	(1)	(21)	1
Allocation of undistributed earnings—continuing operations	$6,673	$1,169	$6,674
Allocation of undistributed earnings for basic computation—discontinued operations	$ (175)	$ (38)	$ (214)
Reallocation of undistributed earnings as a result of conversionof Class B to Class A shares	(38)	0	0
Reallocation of undistributed earnings	(1)	1	1
Allocation of undistributed earnings—discontinued operations	$ (214)	$ (37)	$ (213)
Denominator			
Number of shares used in basic computation	273,518	59,328	332,846
Weighted-average effect of dilutive securities			
Add:			
Conversion of Class B to Class A common shares outstanding	59,328	0	0
Employee stock options, including warrants issued underTransferable Stock Option program	2,748	4	2,748
Restricted stock units and other contingently issuable shares	3,215	0	3,215
Number of shares used in per share computation	338,809	59,332	338,809
Diluted net income (loss) per share:			
Continuing operations	$19.70	$19.70	$19.70
Discontinued operations	(0.63)	(0.63)	(0.63)
Diluted net income per share	$19.07	$19.07	$19.07

	Year Ended December 31, 2014		
	Class A	Class B	Class C
Basic net income per share:			
Numerator			
Allocation of undistributed earnings—continuing operations	$5,829	$1,132	$6,967
Allocation of undistributed earnings—discontinued operations	216	42	258
Total	$6,045	$1,174	$7,225
Denominator			
Number of shares used in per share computation	282,877	54,928	338,130
Basic net income per share			
Continuing operations	$20.61	$20.61	$20.61
Discontinued operations	0.76	0.76	0.76
Basic net income per share	$21.37	$21.37	$21.37
Diluted net income per share:			
Numerator			
Allocation of undistributed earnings for basic computation—continuing operations	$5,829	$1,132	$6,967
Reallocation of undistributed earnings as a result of conversionof Class B to Class A shares	1,132	0	0
Reallocation of undistributed earnings	(20)	(19)	20
Allocation of undistributed earnings—continuing operations	$6,941	$1,113	$6,987
Allocation of undistributed earnings for basic computation—discontinued operations	$ 216	$ 42	$ 258
Reallocation of undistributed earnings as a result of conversionof Class B to Class A shares	42	0	0
Reallocation of undistributed earnings	(1)	(1)	1
Allocation of undistributed earnings—discontinued operations	$ 257	$ 41	$ 259
Denominator			
Number of shares used in basic computation	282,877	54,928	338,130
Weighted-average effect of dilutive securities			
Add:			
Conversion of Class B to Class A common shares outstanding	54,928	0	0
Employee stock options	2,057	0	2,038
Restricted stock units and other contingently issuable shares	2,515	0	4,525
Number of shares used in per share computation	342,377	54,928	344,693
Diluted net income per share:			
Continuing operations	$20.27	$20.27	$20.27
Discontinued operations	0.75	0.75	0.75
Diluted net income per share	$21.02	$21.02	$21.02

Note 12. Stockholders' Equity (in part)

Convertible Preferred Stock

Our board of directors has authorized 100,000,000 shares of convertible preferred stock, $0.001 par value, issuable in series. As of December 31, 2013 and 2014, there were no shares issued or outstanding.

Class A and Class B Common Stock and Class C Capital Stock

Our board of directors has authorized three classes of stock, Class A and Class B common stock, and Class C capital stock. The rights of the holders of each class of stock are identical, except with respect to voting. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 10 votes per share. Class C capital stock has no voting rights, except as required by applicable law. Shares of Class B common stock may be converted at any time at the option of the stockholder and automatically convert upon sale or transfer to Class A common stock.

Stock Split Effected In Form of Stock Dividend

In April 2012, our board of directors approved amendments to our certificate of incorporation that created a new class of non-voting capital stock (Class C capital stock). The amendments authorized 3 billion shares of Class C capital stock and also increased the authorized shares of Class A common stock from 6 billion to 9 billion. The amendments are reflected in our Fourth Amended and Restated Certificate of Incorporation (New Charter), the adoption of which was approved by stockholders at our 2012 Annual Meeting of Stockholders held on June 21, 2012. In January 2014, our board of directors approved a distribution of shares of the Class C capital stock as a dividend to our holders of Class A and Class B common stock (the Stock Split). The Stock Split had a record date of March 27, 2014 and a payment date of April 2, 2014.

Share and per share amounts disclosed as of December 31, 2014 and for all other comparative periods have been retroactively adjusted to reflect the effects of the Stock Split. Except as expressly provided in the New Charter, shares of Class C capital stock have the same rights and privileges and rank equally, share ratably and are identical in all other respects to the shares of Class A common stock and Class B common stock as to all matters including dividend and distribution rights.

In accordance with a settlement of litigation involving the authorization to distribute the Class C capital stock, we may be obligated to make a payment (the Possible Adjustment Payment) to holders of the Class C capital stock if, on a volume-weighted average basis, the Class C capital stock trades below the Class A common stock during the first 365 days following the first date the Class C shares traded on NASDAQ (the Lookback Period), payable in cash, Class A common stock, Class C capital stock, or a combination thereof, at the discretion of the board of directors. The amount of the Possible Adjustment Payment is dependent on the percentage difference that develops, if any, between the volume-weighted average price (VWAP) of Class A and Class C shares during the Lookback Period, as supplied by NASDAQ Data-on-Demand. Had we been obligated to make a payment based on the VWAP of the Class A and Class C shares from April 3, 2014 through December 31, 2014, the monetary value of the Possible Adjustment Payment would have been approximately $593 million as of December 31, 2014.

At the end of the Lookback Period, the Possible Adjustment Payment, if any, will be allocated to the numerator for calculating net income per share of Class C capital stock from net income available to shareholders and any remaining undistributed earnings will be allocated on a pro rata basis to Class A and Class B common stock and Class C capital stock based on the number of shares used in the per share computation for each class of stock. In addition, the dilutive impact of the Possible Adjustment Payment, if any, is included in the weighted-average effect of dilutive securities for Class C capital stock in the year ended December 31, 2014.

The par value per share of our shares of Class A common stock and Class B common stock remained unchanged at $0.001 per share after the Stock Split. On the effective date of the Stock Split, a transfer between retained earnings and common stock occurred in an amount equal to the $0.001 par value of the Class C capital stock that was issued.

3.96 STANDARD PACIFIC CORP. (DEC)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(Dollars in Thousands, Except per Share Amounts)	2014	2013	2012
Homebuilding:			
Home sale revenues	$2,366,754	$1,898,989	$1,190,252
Land sale revenues	44,424	15,620	46,706
Total revenues	2,411,178	1,914,609	1,236,958
Cost of home sales	(1,748,954)	(1,431,797)	(946,630)
Cost of land sales	(43,841)	(13,616)	(46,654)
Total cost of sales	(1,792,795)	(1,445,413)	(993,284)
Gross margin	618,383	469,196	243,674
Selling, general and administrative expenses	(275,861)	(230,691)	(172,207)
Income (loss) from unconsolidated joint ventures	(668)	949	(2,090)
Interest expense	—	—	(6,396)
Other income (expense)	(1,733)	6,815	4,664
Homebuilding pretax income	340,121	246,269	67,645
Financial Services:			
Revenues	24,119	24,910	21,300
Expenses	(15,245)	(14,159)	(11,062)
Other income	969	678	304
Financial services pretax income	9,843	11,429	10,542
Income before taxes	349,964	257,698	78,187
(Provision) benefit for income taxes	(134,099)	(68,983)	453,234
Net income	215,865	188,715	531,421
Less: Net income allocated to preferred shareholder	(51,650)	(57,386)	(224,408)
Less: Net income allocated to unvested restricted stock	(297)	(265)	(410)
Net income available to common stockholders	$ 163,918	$ 131,064	$ 306,603
Income Per Common Share:			
Basic	$ 0.59	$ 0.52	$ 1.52
Diluted	$0.54	$0.47	$1.44
Weighted Average Common Shares Outstanding:			
Basic	278,687,740	253,118,247	201,953,799
Diluted	316,285,412	291,173,953	220,518,897
Weighted Average Additional Common Shares Outstanding			
if preferred shares converted to common shares	87,812,786	110,826,557	147,812,786
Total Weighted Average Diluted Common Shares Outstanding			
if preferred shares converted to common shares	404,098,198	402,000,510	368,331,683

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

i. Earnings Per Common Share

We compute earnings per share in accordance with ASC Topic 260, *Earnings per Share* ("ASC 260"), which requires earnings per share for each class of stock (common stock and participating preferred stock) to be calculated using the two-class method. The two-class method is an allocation of earnings between the holders of common stock and a company's participating security holders. Under the two-class method, earnings for the reporting period are allocated between common shareholders and other security holders based on their respective participation rights in undistributed earnings. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method.

Basic earnings per common share is computed by dividing income or loss available to common stockholders by the weighted average number of shares of basic common stock outstanding. Our Series B junior participating convertible preferred stock ("Series B Preferred Stock"), which is convertible into shares of our common stock at the holder's option (subject to a limitation based upon voting interest), and our unvested restricted stock, are classified as participating securities in accordance with ASC 260. Net income allocated to the holders of our Series B Preferred Stock and unvested restricted stock is calculated based on the shareholders' proportionate share of weighted average shares of common stock outstanding on an if-converted basis.

For purposes of determining diluted earnings per common share, basic earnings per common share is further adjusted to include the effect of potential dilutive common shares outstanding, including stock options, stock appreciation rights, performance share awards and unvested restricted stock using the more dilutive of either the two-class method or the treasury stock method, and Series B Preferred Stock and convertible debt using the if-converted method. Under the two-class method of calculating diluted earnings per share, net income is reallocated to common stock, the Series B Preferred stock and all dilutive securities based on the contractual participating rights of the security to share in the current earnings as if all of the earnings for the period had been distributed. In the computation of diluted earnings per share, the two-class method and if-converted method for the Series B Preferred Stock resulted in the same earnings per share amounts as the holder of the Series B Preferred Stock has the same economic rights as the holders of the common stock. Shares outstanding under the share lending facility in 2012 were not treated as outstanding for earnings per share purposes in accordance with ASC 260, because the share borrower was required to return to us all borrowed shares (or identical shares) upon the maturity of our 6% Convertible Senior Subordinated Notes, which occurred in October 2012. On October 11, 2012, the remaining 3.9 million shares outstanding under the share lending facility were returned to us. We cancelled and retired the shares upon receipt and no shares under the share lending facility remain outstanding.

The following table sets forth the components used in the computation of basic and diluted income per share.

	Year Ended December 31,		
(Dollars in Thousands, Except Per Share Amounts)	2014	2013	2012
Numerator:			
Net income	$ 215,865	$ 188,715	$ 531,421
Less: Net income allocated to preferred shareholder	(51,650)	(57,386)	(224,408)
Less: Net income allocated to unvested restricted stock	(297)	(265)	(410)
Net income available to common stockholders for basic earnings per common share	163,918	131,064	306,603
Effect of dilutive securities:			
Net income allocated to preferred shareholder	51,650	57,386	224,408
Interest on 1¼% convertible senior notes due 2032	899	899	268
Net income available to common and preferred stock for diluted earnings per share	$ 216,467	$ 189,349	$ 531,279
Denominator:			
Weighted average basic common shares outstanding	278,687,740	253,118,247	201,953,799
Weighted average additional common shares outstanding if preferred shares converted to common shares (if dilutive)	87,812,786	110,826,557	147,812,786
Total weighted average common shares outstanding if preferred shares converted to common shares	366,500,526	363,944,804	349,766,585
Effect of dilutive securities:			
Share-based awards	6,284,822	6,742,856	5,988,625
1¼% convertible senior notes due 2032	31,312,850	31,312,850	12,576,473
Weighted average diluted shares outstanding	404,098,198	402,000,510	368,331,683
Income per share:			
Basic	$ 0.59	$ 0.52	$ 1.52
Diluted	$ 0.54	$ 0.47	$ 1.44

Section 4: **Comprehensive Income**

Comprehensive Income in Annual Filings

RECOGNITION AND MEASUREMENT

4.01 FASB *Accounting Standards Codification* (ASC) 220, *Comprehensive Income*, requires that items included in other comprehensive income should be classified based on their nature. Other comprehensive income includes the following: foreign currency items, changes in the fair value of certain derivatives, unrealized gains and losses on certain securities, and certain pension or other postretirement benefit items.

PRESENTATION

4.02 FASB ASC 220 requires entities that provide a full set of general-purpose financial statements (that is, financial position, results of operations, and cash flows) to report comprehensive income and its components either in a single continuous financial statement or in two separate but consecutive financial statements. The FASB ASC glossary defines *comprehensive income* as the change in equity (net assets) of a business entity during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. *Other comprehensive income* is defined as revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. If an entity has only net income, it is not required to report comprehensive income. All items that meet the definition of components of comprehensive income must be reported in a financial statement for the period in which they are recognized. Further, a total amount for comprehensive income should be displayed in the financial statement when the components of other comprehensive income are reported.

4.03 FASB ASC 220-10-45-5 states that if an entity has an outstanding noncontrolling interest, amounts for both net income and comprehensive income attributable to the parent and net income and comprehensive income attributable to the noncontrolling interest in a less-than-wholly-owned subsidiary shall be reported on the face of the financial statement(s) in which net income and comprehensive income are presented in addition to presenting consolidated net income and comprehensive income.

4.04 FASB ASC 220-10-45-12 also states that an entity should disclose the amount of income tax expense or benefit allocated to each component of other comprehensive income, including reclassification adjustments, either on the face of the statement in which those components are displayed or in the notes thereto. Also, FASB ASC 810, *Consolidation*, states that if an entity has an outstanding noncontrolling interest (minority interest), the components of both net income and other comprehensive income attributable to the parent and noncontrolling interest in a less-than-wholly-owned subsidiary are required to be reported on the face of the financial statement in which net income and comprehensive income are presented, in addition to presenting consolidated comprehensive income.

4.05 FASB ASC 220-10-45-15 also requires that adjustments should be made to avoid double counting in comprehensive income items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods. For example, gains on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains in the period in which they arose must be deducted through other comprehensive income of the period in which they are included in net income to avoid including them in comprehensive income twice. These adjustments are called *reclassification adjustments*. An entity may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose them in the notes to the financial statements (that is, either a gross display on the face of the financial statement or a net display on the face of the financial statement and disclosure of the gross change in the notes to the financial statements). FASB ASC 220-10-45-14 A also requires an entity to present the changes in the accumulated balances for each component of other comprehensive income. Both before-tax and net-of-tax presentations are permitted provided the requirements of FASB ASC 220-10-45-12 are met.

PRESENTATION AND DISCLOSURE EXCERPTS

COMBINED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

4.06 ARMSTRONG WORLD INDUSTRIES, INC. (DEC)

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE (LOSS) INCOME

(amounts in millions, except per share data)

	Years Ended December 31,		
	2014	**2013**	**2012**
Net sales	$2,515.3	$2,527.4	$2,428.7
Cost of goods sold	1,932.0	1,934.4	1,834.8
Gross profit	583.3	593.0	593.9
Selling, general and administrative expenses	398.5	386.9	364.9
Intangible asset impairments	10.8	—	—
Restructuring charges, net	—	(0.1)	—
Equity earnings from joint venture	(65.1)	(59.4)	(55.9)
Operating income	239.1	265.6	284.9
Interest expense	46.0	68.7	53.6
Other non-operating expense	10.5	2.0	0.2
Other non-operating (income)	(2.6)	(3.8)	(3.5)
Earnings from continuing operations before income taxes	185.2	198.7	234.6
Income tax expense	83.2	71.4	76.0
Earnings from continuing operations	102.0	127.3	158.6
Net (loss) from discontinued operations, net of tax benefit of ($—), ($—) and ($7.1)	(23.7)	(26.8)	(26.4)
Loss on disposal of discontinued business, net of tax benefit of ($2.5), ($3.6) and ($0.6)	(14.5)	(6.4)	(0.9)
Net (loss) from discontinued operations	(38.2)	(33.2)	(27.3)
Net earnings	$ 63.8	$ 94.1	$ 131.3
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments	(29.6)	(8.8)	7.0
Derivative (loss) gain	(3.3)	18.5	(5.2)
Pension and postretirement adjustments	(91.0)	90.1	(58.2)
Total other comprehensive (loss) income	(123.9)	99.8	(56.4)
Total comprehensive (loss) income	($ 60.1)	$ 193.9	$ 74.9
Earnings per share of common stock, continuing operations:			
Basic	$ 1.85	$ 2.19	$ 2.67
Diluted	$ 1.83	$ 2.17	$ 2.65
(Loss) per share of common stock, discontinued operations:			
Basic	($ 0.70)	($ 0.57)	($ 0.46)
Diluted	($ 0.69)	($ 0.57)	($ 0.46)
Net earnings per share of common stock:			
Basic	$ 1.15	$ 1.62	$ 2.21
Diluted	$ 1.14	$ 1.60	$ 2.19
Average number of common shares outstanding:			
Basic	55.0	57.8	58.9
Diluted	55.4	58.4	59.5
Dividend declared per common share	—	—	$ 8.55

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

4.07 APPLE INC. (SEP)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Years Ended		
	September 27, 2014	**September 28, 2013**	**September 29, 2012**
Net income	$39,510	$37,037	$41,733
Other Comprehensive Income/(Loss):			
Change in foreign currency translation, net of tax effects of $50, $35 and $13, respectively	(137)	(112)	(15)
Change in unrecognized gains/losses on derivative instruments:			
Change in fair value of derivatives, net of tax benefit/(expense) of $(297), $(351) and $73, respectively	1,390	522	(131)
Adjustment for net losses/(gains) realized and included in net income, net of tax expense/(benefit) of $(36), $255 and $220, respectively	149	(458)	(399)
Total change in unrecognized gains/losses on derivative instruments, net of tax	1,539	64	(530)
Change in unrealized gains/losses on marketable securities:			
Change in fair value of marketable securities, net of tax benefit/(expense) of $(153), $458 and $(421), respectively	285	(791)	715
Adjustment for net losses/(gains) realized and included in net income, net of tax expense/(benefit) of $71, $82 and $68, respectively	(134)	(131)	(114)
Total change in unrealized gains/losses on marketable securities, net of tax	151	(922)	601
Total other comprehensive income/(loss)	1,553	(970)	56
Total comprehensive income	$41,063	$36,067	$41,789

TAX EFFECT DISCLOSURE IN THE NOTES

4.08 TEXTRON INC. (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For each of the years in the three-year period ended January 3, 2015

(In millions)	**2014**	**2013**	**2012**
Net income	$ 600	$ 498	$ 589
Other Comprehensive Income (Loss), Net of Tax:			
Pension and postretirement benefits adjustments, net of reclassifications	(401)	747	(146)
Foreign currency translation adjustments	(75)	12	2
Deferred gains/losses on hedge contracts, net of reclassifications	(3)	(16)	(1)
Other comprehensive income (loss)	(479)	743	(145)
Comprehensive income	$ 121	$1,241	$ 444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 9. Shareholders' Equity (in part)

Other Comprehensive Income (Loss)

The before and after-tax components of other comprehensive income (loss) are presented below:

(In millions)	**Pre-Tax Amount**	**Tax (Expense) Benefit**	**After-Tax Amount**
2014			
Pension and postretirement benefits adjustments:			
Unrealized losses	$ (734)	$ 252	$(482)
Amortization of net actuarial loss*	114	(40)	74
Amortization of prior service credit*	(8)	4	(4)
Recognition of prior service cost	18	(7)	11
Pension and postretirement benefits adjustments, net	(610)	209	(401)

(continued)

(In millions)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Deferred gains/losses on hedge contracts:			
Current deferrals	(16)	4	(12)
Reclassification adjustments	12	(3)	9
Deferred gains/losses on hedge contracts, net	(4)	1	(3)
Foreign currency translation adjustments	(71)	(4)	(75)
Total	$ (685)	$ 206	$(479)
2013			
Pension and postretirement benefits adjustments:			
Unrealized gains	$1,019	$(410)	$ 609
Amortization of net actuarial loss*	189	(67)	122
Amortization of prior service credit*	(2)	1	(1)
Recognition of prior service cost	29	(12)	17
Pension and postretirement benefits adjustments, net	1,235	(488)	747
Deferred gains/losses on hedge contracts:			
Current deferrals	(20)	5	(15)
Reclassification adjustments	(1)	—	(1)
Deferred gains/losses on hedge contracts, net	(21)	5	(16)
Foreign currency translation adjustments	13	(1)	12
Total	$1,227	$(484)	$ 743
2012			
Pension and postretirement benefits adjustments:			
Unrealized losses	$ (417)	$ 186	$(231)
Amortization of net actuarial loss*	124	(43)	81
Amortization of prior service cost*	5	(2)	3
Recognition of prior service cost	2	(1)	1
Pension and postretirement benefits adjustments, net	(286)	140	(146)
Deferred gains/losses on hedge contracts:			
Current deferrals	14	(3)	11
Reclassification adjustments	(15)	3	(12)
Deferred gains/losses on hedge contracts, net	(1)	—	(1)
Foreign currency translation adjustments	(6)	8	2
Total	$ (293)	$ 148	$(145)

* These components of other comprehensive income are included in the computation of net periodic pension cost. See Note 11 for additional information.

TAX EFFECT DISCLOSURE ON THE FACE OF THE FINANCIAL STATEMENTS

4.09 PACCAR INC (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31,	2014	2013	2012
		(millions)	
Net income	$1,358.8	$1,171.3	$1,111.6
Other comprehensive (loss) income:			
Unrealized gains (losses) on derivative contracts			
Gains (losses) arising during the period	26.1	53.2	(29.2)
Tax effect	(6.1)	(16.3)	9.1
Reclassification adjustment	(23.5)	(35.6)	22.7
Tax effect	5.1	10.8	(7.8)
	1.6	12.1	(5.2)
Unrealized gains (losses) on marketable debt securities			
Net holding gain (loss)	5.5	(8.3)	2.7
Tax effect	(1.3)	2.2	(.6)
Reclassification adjustment	(.9)	1.7	(2.9)
Tax effect	.3	(.5)	.8
	3.6	(4.9)	
Pension plans			
(Losses) gains arising during the period	(291.1)	324.9	(71.0)
Tax effect	105.3	(120.1)	22.4
Reclassification adjustment	22.0	45.3	45.4
Tax effect	(7.1)	(15.8)	(15.2)
	(170.9)	234.3	(18.4)
Foreign currency translation (losses) gains	(422.8)	(73.3)	83.1
Net other comprehensive (loss) income	(588.5)	168.2	59.5
Comprehensive Income	$ 770.3	$1,339.5	$1,171.1

TAX EFFECT DISCLOSURE ON THE FACE OF THE FINANCIAL STATEMENTS AND IN THE NOTES

4.10 AXIALL CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
(In millions)	2014	2013	2012
Consolidated net income	$ 50.2	$168.0	$120.5
Less net income attributable to noncontrolling interest	3.9	2.7	—
Net income attributable to Axiall	46.3	165.3	120.5
Other Comprehensive Income (Loss):			
Foreign currency translation gain (loss)	(57.7)	(34.7)	8.0
Pensions and OPEB liability adjustments	(168.6)	173.4	(13.4)
Unrealized gain (loss) on derivative cash flow hedges	(11.8)	(1.4)	0.7
Other comprehensive income (loss), before income taxes	(238.1)	137.3	(4.7)
Provision for (benefit from) income taxes related to other comprehensive income (loss) items	(90.4)	49.1	(1.0)
Other comprehensive income (loss), net of tax	(147.7)	88.2	(3.7)
Other comprehensive loss, attributable to noncontrolling interest net of tax	(7.7)	—	—
Other comprehensive income (loss) attributable to Axiall, net of tax	(140.0)	88.2	(3.7)
Comprehensive income (loss), net of income taxes	(97.5)	256.2	116.8
Less comprehensive income (loss) attributable to noncontrolling interest	(3.8)	2.7	—
Comprehensive income (loss) attributable to Axiall	$ (93.7)	$253.5	$116.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

13. Accumulated Other Comprehensive Income (Loss) and Other Comprehensive Income (Loss) (in part)

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is derived from adjustments to reflect the unrealized gain (loss) on derivatives, changes in pension and OPEB liability adjustments, changes in equity investee's other comprehensive loss and changes in foreign currency translation adjustments. The components of other comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012 are as follows:

	Year Ended December 31,		
(In millions)	2014	2013	2012
Change in Foreign Currency Translation Adjustment:			
Currency translation adjustments	$ (57.7)	$ (34.7)	$ 8.0
Tax expense (benefit)	(22.9)	(14.7)	3.9
Change in foreign currency translation adjustment, net of tax	$ (34.8)	$ (20.0)	$ 4.1
Change in Pension and OPEB Liability Adjustments:			
Adjustments to pension liabilities	$(164.9)	$ 189.1	$(15.0)
Curtailment gain	—	(15.5)	—
Settlement loss	5.8	—	—
Amortization of actuarial loss (gain) and prior service credit	(9.5)	(0.2)	1.6
Pre-tax amount	(168.6)	173.4	(13.4)
Tax expense (benefit)	(63.1)	64.3	(5.1)
Pension and OPEB liability adjustment, net of tax	$(105.5)	$ 109.1	$ (8.3)
Change in Derivative Cash Flow Hedges:			
Commodity hedge contracts	$ (10.6)	$ —	$ 0.7
Equity interest in investee's other comprehensive loss	(1.2)	(1.4)	—
Pre-tax amount	(11.8)	(1.4)	0.7
Tax expense (benefit)	(4.4)	(0.5)	0.2
Unrealized gain (loss) on derivative cash flow hedges, net of tax	$ (7.4)	$ (0.9)	$ 0.5
Other comprehensive income (loss), before income taxes	$(238.1)	$ 137.3	$ (4.7)
Total tax expense (benefit) for the period	(90.4)	49.1	(1.0)
Other comprehensive income (loss), net of tax	$(147.7)	$ 88.2	$ (3.7)

FOREIGN CURRENCY TRANSLATION

4.11 CABOT CORPORATION (SEP)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended September 30		
(In millions)	2014	2013	2012
Net income	$ 218	$160	$406
Other Comprehensive (Loss) Income, Net Of Tax			
Foreign currency translation adjustment (net of tax (benefit) provision of $(10), $(12), $2)	(131)	(10)	3
Unrealized holding gains (losses) arising during the period (net of tax provision of $—, $1, $—)	—	2	(1)
Pension and other postretirement benefit liability adjustments			
Pension and other postretirement benefit liability adjustments arising during the period (net of tax (benefit) provision of $(1), $13, $(9))	(40)	20	(18)
Amortization of net loss and prior service credit included in net periodic pension cost (net of tax provision of $—, $—, $—)	—	2	1
Other comprehensive (loss) income	(171)	14	(15)
Comprehensive income	47	174	391
Net income attributable to noncontrolling interests, (net of tax provision of $5, $5, $7)	19	7	18
Noncontrolling interests foreign currency translation adjustment	(4)	3	(1)
Comprehensive income attributable to noncontrolling interests	15	10	17
Comprehensive income attributable to Cabot Corporation	$ 32	$164	$374

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note A. Significant Accounting Policies (in part)

Foreign Currency Translation

The functional currency of the majority of Cabot's foreign subsidiaries is the local currency in which the subsidiary operates. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet dates. Income and expense items are translated at average monthly exchange rates during the year. Unrealized currency translation adjustments are included as a separate component of Accumulated other comprehensive (loss) income within stockholders' equity.

Realized and unrealized foreign currency gains and losses arising from transactions denominated in currencies other than the subsidiary's functional currency are reflected in earnings with the exception of (i) intercompany transactions considered to be of a long-term investment nature; and (ii) foreign currency borrowings designated as net investment hedges. Gains or losses arising from these transactions are included as a component of other comprehensive income. In fiscal 2014, 2013 and 2012, net foreign currency transaction losses of $2 million, gains of $2 million, and losses of $2 million, respectively, are included in Other income (expense) in the Consolidated Statements of Operations as part of continuing operations.

Note K. Derivatives (in part)

Risk Management (in part)

Cabot's business operations are exposed to changes in interest rates, foreign currency exchange rates and commodity prices because Cabot finances certain operations through long and short-term borrowings, denominates transactions in a variety of foreign currencies and purchases certain commoditized raw materials. Changes in these rates and prices may have an impact on future cash flows and earnings. The Company manages these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

Foreign Currency Risk Management

Cabot's international operations are subject to certain risks, including currency exchange rate fluctuations and government actions. Cabot endeavors to match the currency in which debt is issued to the currency of the Company's major, stable cash receipts. In some situations Cabot has issued debt denominated in U.S. dollars and then entered into cross currency swaps that exchange the dollar principal and interest payments into a currency where the Company expects long-term, stable cash receipts.

Additionally, the Company has foreign currency exposure arising from its net investments in foreign operations. Cabot, from time to time, enters into cross-currency swaps to mitigate the impact of currency rate changes on the Company's net investments.

The Company also has foreign currency exposure arising from the denomination of monetary assets and liabilities in foreign currencies other than the functional currency of a given subsidiary as well as the risk that currency fluctuations could affect the dollar value of future cash flows generated in foreign currencies. Accordingly, Cabot uses short-term forward contracts to minimize the exposure to foreign currency risk.

In certain situations where the Company has forecasted purchases under a long-term commitment or forecasted sales denominated in a foreign currency, Cabot may enter into appropriate financial instruments in accordance with the Company's risk management policy to hedge future cash flow exposures.

The following table provides details of the derivatives held as of September 30, 2014 and 2013 to manage foreign currency risk.

		Notional Amount		
Description	**Borrowing**	**September 30, 2014**	**September 30, 2013**	**Hedge Designation**
Forward Foreign Currency Contracts[1]	N/A	USD 32 million	USD 31 million	No designation

[1] Cabot's forward foreign exchange contracts are denominated primarily in the British pound sterling, Brazilian real, Chinese renminbi, Czech koruna and Indian rupee.

Accounting for Derivative Instruments and Hedging Activities (in part)

The Company determines the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available for various types of financial instruments (such as forwards, options and swaps), the Company uses standard models with market-based inputs, which take into account the present value of estimated future cash flows and the ability of the financial counterparty to perform. For interest rate and cross-currency swaps, the significant inputs to these models are interest rate curves for discounting future cash flows. For forward foreign currency contracts, the significant inputs are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows.

Other Derivative Instruments (in part)

From time to time, the Company may enter into certain derivative instruments that may not be designated as hedges for accounting purposes, which include cross currency swaps, foreign currency forward contracts and commodity derivatives. For cross currency swaps and foreign currency forward contracts not designated as hedges, the Company uses standard models with market-based inputs. The significant inputs to these models are interest rate curves for discounting future cash flows, and exchange rate curves of the foreign currency for translating future cash flows. In determining the fair value of the commodity derivatives, the significant inputs to valuation models are quoted market prices of similar instruments in active markets. Although these derivatives do not qualify for hedge accounting, Cabot believes that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. The gains or losses from changes in the fair value of derivative instruments that are not accounted for as hedges are recognized in current period earnings.

During fiscal 2013 and 2012, respectively, a gain of $4 million and a loss of $10 million were recognized in earnings as a result of the remeasurement to Euros of the $175 million bond held by one of Cabot's European subsidiaries. Both the gain and loss were recognized in earnings through Other income (expense) within the Consolidated Statements of Operations. The 2013 gain was offset by a loss of $2 million and the 2012 loss was offset by a gain of $12 million, both from Cabot's cross currency swaps that are not designated as hedges, but which Cabot entered into to offset the foreign currency remeasurement exposure on the debt. Additionally, during fiscal 2013 and 2012, Cabot recognized in earnings through Other income (expenses) within the Consolidated Statements of Operations, gains of $5 million and $10 million, respectively, related to its foreign currency forward contracts, which were not designated as hedges.

Note L. Venezuela

Cabot owns 49% of an operating carbon black affiliate in Venezuela, which is accounted for as an equity affiliate, through wholly-owned subsidiaries that carry the investment and receive its dividends. As of September 30, 2014, these subsidiaries carried the operating affiliate investment of $17 million and held 19 million bolivars (less than $1 million) in cash.

During fiscal 2014, 2013 and 2012, the operating affiliate declared dividends in the amounts of $5 million, $3 million and $6 million, respectively, which were paid in U.S. dollars and repatriated to the Company's wholly-owned subsidiaries.

During the second quarter of fiscal 2014, the Venezuelan government enacted several changes to Venezuela's foreign exchange regime, introducing a multi-tier foreign exchange system whereby there are now three exchange rate mechanisms available to convert Venezuelan bolivars to U.S. dollars. In March 2014, the Venezuelan government created a currency exchange mechanism referred to as SICAD 2 (Supplementary System for the Administration of Foreign Currency) and allowed its use by all entities for all transactions. The exchange rate on March 31, 2014 under SICAD 2 was 50.8 bolivars to the U.S. dollar (B/$) compared to the previously used official exchange rate of 6.3 B/$. A significant portion of the Company's operating affiliate's sales are exports denominated in U.S. dollars. The Venezuelan government mandates that a certain percentage of the dollars collected from these sales be converted into bolivars. Since the exchange rate that was made available to the Company when converting these dollars into bolivars was the SICAD 2 exchange rate, the operating affiliate remeasured its bolivar denominated monetary accounts at that rate. The negative impact of the exchange rate devaluation on the operating affiliate's results was $8 million, of which Cabot's share was $4 million as of September 30, 2014. The SICAD 2 rate at September 30, 2014 was 50.0 B/$.

In addition, in the second quarter of fiscal 2014, the Company remeasured the bolivar denominated monetary accounts in its wholly-owned subsidiaries at the SICAD 2 rate as it was determined that this exchange mechanism is applicable to these subsidiaries. This resulted in the recognition of a $2 million loss which was recorded within Other income (expense) within the Consolidated Statements of Operations. The Company also recognized a tax benefit of $2 million from a reduction in its bolivar denominated deferred tax liability due to the impact of the devaluation of the bolivar on unremitted earnings.

The operating entity has generally been profitable and has significant export operations from which it is entitled to retain a certain percentage of the foreign currency that it collects, which is principally the U.S. dollar. The Company continues to closely monitor developments in Venezuela and their potential impact on the recoverability of its equity affiliate investment.

The Company closely monitors its ability to convert its bolivar holdings into U.S. dollars, as the Company intends to convert substantially all bolivars held by its wholly-owned subsidiaries in Venezuela to U.S. dollars as soon as practical. Any future change in the SICAD 2 rate or opening of additional parallel markets could cause the Company to change the exchange rate it uses and result in gains or losses on the bolivar denominated assets held by its operating affiliate and wholly-owned subsidiaries.

PENSION AND POSTRETIREMENT PLANS

4.12 GRAHAM HOLDINGS COMPANY (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31		
(In thousands)	**2014**	**2013**	**2012**
Net Income	$1,293,260	$ 237,345	$132,187
Other Comprehensive (Loss) Income, Before Tax			
Foreign currency translation adjustments:			
Translation adjustments arising during the year	(16,061)	(1,059)	5,622
Adjustment for sales of businesses with foreign operations	(404)	—	(888)
	(16,465)	(1,059)	4,734
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	62,719	95,629	33,098
Reclassification adjustment for realization of (gain) loss on exchange, sale or write-down of available-for-sale securities included in net income	(265,274)	9,554	17,226
	(202,555)	105,183	50,324
Pension and other postretirement plans:			
Actuarial (loss) gain	(149,482)	762,806	82,470
Prior service cost	(1,600)	—	—
Amortization of net actuarial (gain) loss included in net income	(29,412)	3,096	9,368
Amortization of net prior service credit included in net income	(407)	(1,383)	(1,859)
Curtailments and settlements	8	(124,051)	—
Other adjustments	—	—	(745)
	(180,893)	640,468	89,234
Cash flow hedge gain (loss)	867	520	(1,581)
Other Comprehensive (Loss) Income, Before Tax	(399,046)	745,112	142,711
Income tax benefit (expense) related to items of other comprehensive (loss) income	153,032	(298,472)	(55,186)
Other Comprehensive (Loss) Income, Net of Tax	(246,014)	446,640	87,525
Comprehensive Income	1,047,246	683,985	219,712
Comprehensive loss (income) attributable to noncontrolling interests	583	(503)	(103)
Total Comprehensive Income Attributable to Graham Holdings Company	$1,047,829	$ 683,482	$219,609

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Pensions and Other Postretirement Benefits. The Company maintains various pension and incentive savings plans. Substantially all of the Company's employees are covered by these plans. The Company also provides health care and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting age and service requirements.

The Company recognizes the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognizes changes in that funded status in the year in which the changes occur through comprehensive income. The Company measures changes in the funded status of its plans using the projected unit credit method and several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return and rate of compensation increase. The Company uses a measurement date of December 31 for its pension and other postretirement benefit plans.

Comprehensive Income. Comprehensive income consists of net income, foreign currency translation adjustments, the change in unrealized gains (losses) on investments in marketable equity securities, net changes in cash flow hedge and pension and other postretirement plan adjustments.

14. Pensions and Other Postretirement Plans (in part)

The Company maintains various pension and incentive savings plans and contributed to multiemployer plans on behalf of certain union-represented employee groups. Most of the Company's employees are covered by these plans. The Company also provides health care and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting age and service requirements.

The Company uses a measurement date of December 31 for its pension and other postretirement benefit plans.

Sale of Publishing Subsidiaries. On October 1, 2013, as part of the sale of the Publishing Subsidiaries, the Purchaser assumed the liabilities related to active employees of the Company's defined benefit pension plan, Supplemental Executive Retirement Plan (SERP) and other postretirement plans. In addition to the assumed liabilities, the Company transferred pension plan assets of $318 million in accordance with the terms of the sale. As a result of the sale of the Publishing Subsidiaries, the Company remeasured the accumulated and projected benefit obligation of the pension, SERP and other postretirement plans as of October 1, 2013, and recorded curtailment and settlement gains (losses). The new measurement basis was used for the recognition of the pension and other postretirement plan cost (credit) recorded in the fourth quarter of 2013. The curtailment and settlement gains (losses) are included in the gain on the sale of the Publishing Subsidiaries, which is included in income from discontinued operations, net of tax. The Company excluded the historical pension expense for retirees from the reclassification of the Publishing Subsidiaries' results to discontinued operations, since the associated assets and liabilities were retained by the Company.

Defined Benefit Plans. The Company's defined benefit pension plans consist of various pension plans and a SERP offered to certain executives of the Company.

In the first quarter of 2014, the Company recorded $4.5 million related to a Separation Incentive Program for certain Corporate employees, which is being funded from the assets of the Company's pension plan. In the third quarter of 2014, the Company recorded $3.9 million related to a Voluntary Retirement Incentive Program (VRIP) for certain Corporate employees, which is being funded from the assets of the Company's pension plan. In addition, the Company recorded a $2.4 million SERP charge related to the VRIP for certain Corporate employees.

In February 2013, the Company offered a VRIP to certain employees of The Washington Post newspaper and recorded early retirement expense of $20.4 million. In addition, The Washington Post newspaper recorded $2.3 million in special separation benefits for a group of employees in the first quarter of 2013. The expense for these programs is funded from the assets of the Company's pension plans.

In 2012, the Company offered a VRIP to certain employees of The Washington Post newspaper and recorded early retirement expense of $7.5 million. In addition, the Company offered a VRIP to certain employees of Post–Newsweek Media and recorded early retirement expense of $1.0 million. The early retirement program expense for these programs is funded from the assets of the Company's pension plans.

The 2013 and 2012 early retirement program and special separation benefit expenses are included in income from discontinued operations, net of tax.

Effective August 1, 2012, the Company's defined benefit pension plan was amended to provide most of the current participants with a new cash balance benefit. The cash balance benefit is funded from the assets of the Company's pension plans. As a result of this benefit, the Company's matching contribution for its 401(k) Savings Plans was reduced.

The following table sets forth obligation, asset and funding information for the Company's defined benefit pension plans:

	Pension Plans	
	As of December 31	
(In thousands)	2014	2013
Change in Benefit Obligation		
Benefit obligation at beginning of year	$1,126,344	$1,466,322
Service cost	27,792	46,115
Interest cost	51,825	55,821
Amendments	8,374	22,700
Actuarial loss (gain)	172,548	(156,385)
Benefits paid	(69,854)	(81,162)
Curtailment	—	(55,690)
Settlement	451	(171,377)
Benefit Obligation at End of Year	$1,317,480	$1,126,344
Change in Plan Assets		
Fair value of assets at beginning of year	$2,371,849	$2,071,145
Actual return on plan assets	167,154	699,518
Benefits paid	(69,854)	(81,162)
Settlement	819	(317,652)
Fair Value of Assets at End of Year	$2,469,968	$2,371,849
Funded Status	$1,152,488	$1,245,505

	SERP	
	As of December 31	
(In thousands)	2014	2013
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 91,169	$104,062
Service cost	1,493	1,612
Interest cost	4,397	4,148
Amendments	4,022	—
Actuarial loss (gain)	19,168	(9,180)
Benefits paid	(4,166)	(4,101)
Curtailment	—	(2,059)
Settlement	—	(3,313)
Benefit Obligation at End of Year	$ 116,083	$ 91,169
Change in Plan Assets		
Fair value of assets at beginning of year	$ —	$ —
Employer contributions and other	4,166	4,101
Benefits paid	(4,166)	(4,101)
Fair Value of Assets at End of Year	$ —	$ —
Funded Status	$(116,083)	$ (91,169)

The accumulated benefit obligation for the Company's pension plans at December 31, 2014 and 2013, was $1,281.5 million and $1,091.1 million, respectively. The accumulated benefit obligation for the Company's SERP at December 31, 2014 and 2013, was $114.1 million and $89.3 million, respectively. The amounts recognized in the Company's Consolidated Balance Sheets for its defined benefit pension plans are as follows:

	Pension Plans		SERP	
	As of December 31		As of December 31	
(In thousands)	2014	2013	2014	2013
Noncurrent asset	$1,152,488	$1,245,505	$ —	$ —
Current liability	—	—	(6,275)	(4,251)
Noncurrent liability	—	—	(109,808)	(86,918)
Recognized Asset (Liability)	$1,152,488	$1,245,505	$(116,083)	$(91,169)

Key assumptions utilized for determining the benefit obligation are as follows:

	Pension Plans		SERP	
	As of December 31		As of December 31	
	2014	2013	2014	2013
Discount rate	4.0%	4.8%	4.0%	4.8%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

The Company made no contributions to its pension plans in 2014, 2013 and 2012, and the Company does no t expect to make any contributions in 2015. The Company made contributions to its SERP of $4.2 million and $4.1 million for the years ended December 31, 2014 and 2013, respectively. As the plan is unfunded, the Company makes contributions to the SERP based on actual benefit payments.

At December 31, 2014, future estimated benefit payments, excluding charges for early retirement programs, are as follows:

(In thousands)	Pension Plans	SERP
2015	$ 87,271	$ 6,399
2016	$ 80,239	$ 5,875
2017	$ 78,592	$ 5,964
2018	$ 77,576	$ 6,257
2019	$ 78,589	$ 6,719
2020–2024	$398,372	$34,875

The total cost (benefit) arising from the Company's defined benefit pension plans, including the portion included in discontinued operations, consists of the following components:

	Pension Plans		
	Year Ended December 31		
(In thousands)	2014	2013	2012
Service cost	$ 27,792	$ 46,115	$ 40,344
Interest cost	51,825	55,821	59,124
Expected return on assets	(120,472)	(105,574)	(96,132)
Amortization of prior service cost	329	2,809	3,695
Recognized actuarial (gain) loss	(28,880)	2,756	9,013
Net Periodic (Benefit) Cost for the Year	(69,406)	1,927	16,044
Curtailment	—	(43,930)	—
Settlement	—	39,995	—
Early retirement programs and special separation benefit expense	8,374	22,700	8,508
Total (Benefit) Cost for the Year	$ (61,032)	$ 20,692	$ 24,552
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income			
Current year actuarial loss (gain)	$ 125,866	$(750,328)	$(79,405)
Amortization of prior service cost	(329)	(2,809)	(3,695)
Recognized net actuarial gain (loss)	28,880	(2,756)	(9,013)
Curtailment and settlement	(368)	94,520	—
Total Recognized in Other Comprehensive Income (Before Tax Effects)	$ 154,049	$(661,373)	$(92,113)
Total Recognized in Total (Benefit) Cost and Other Comprehensive Income (Before Tax Effects)	$ 93,017	$(640,681)	$(67,561)

	SERP		
	Year Ended December 31		
(In thousands)	2014	2013	2012
Service cost	$ 1,493	$ 1,612	$ 1,467
Interest cost	4,397	4,148	4,241
Amortization of prior service cost	47	55	54
Recognized actuarial loss	1,544	2,481	1,833
Net Periodic Cost for the Year	7,481	8,296	7,595
Special separation benefit expense	2,422	—	—
Settlement	—	(2,575)	—
Total Cost for the Year	$ 9,903	$ 5,721	$ 7,595
Other Changes in Benefit Obligations Recognized in Other Comprehensive Income			
Current year actuarial loss (gain)	$19,168	$ (9,180)	$ 8,428
Current year prior service cost	1,600	—	—
Amortization of prior service cost	(47)	(55)	(54)
Recognized net actuarial loss	(1,544)	(2,481)	(1,833)
Curtailment and settlement	—	(2,798)	—
Other adjustments	—	—	745
Total Recognized in Other Comprehensive Income (Before Tax Effects)	$19,177	$(14,514)	$ 7,286
Total Recognized in Total Cost and Other Comprehensive Income (Before Tax Effects)	$29,080	$ (8,793)	$14,881

The net periodic cost (benefit) for the Company's pension plans, as reported above, includes pension cost of $0.2 million, $18.9 million and $24.6 million reported in discontinued operations for 2014, 2013 and 2012, respectively. The net periodic cost for the Company's SERP, as reported above, includes cost of $0.2 million, $1.0 million and $0.9 million reported in discontinued operations for 2014, 2013 and 2012, respectively. The early retirement programs and special separation benefit expenses are also included in discontinued operations for 2013 and 2012. The 2013 curtailments and settlements are included in the gain on sale of Publishing Subsidiaries, which is also reported in discontinued operations.

The costs for the Company's defined benefit pension plans are actuarially determined. Below are the key assumptions utilized to determine periodic cost:

	Pension Plans			SERP		
	Year Ended December 31			Year Ended December 31		
	2014	2013	2012	2014	2013	2012
Discount rate	4.8%	4.0%	4.7%	4.8%	4.0%	4.7%
Expected return on plan assets	6.5%	6.5%	6.5%	—	—	—
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

Accumulated other comprehensive income (AOCI) includes the following components of unrecognized net periodic cost for the defined benefit plans:

	Pension Plans		SERP	
	As of December 31		As of December 31	
(In thousands)	2014	2013	2014	2013
Unrecognized actuarial (gain) loss	$(685,895)	$(840,273)	$ 36,890	$19,266
Unrecognized prior service cost	1,033	1,362	1,689	136
Gross Amount	(684,862)	(838,911)	38,579	19,402
Deferred tax liability (asset)	273,945	335,564	(15,432)	(7,761)
Net Amount	$(410,917)	$(503,347)	$ 23,147	$11,641

During 2015, the Company expects to recognize the following amortization components of net periodic cost for the defined benefit plans:

	2015	
(In thousands)	Pension Plans	SERP
Actuarial loss recognition	$—	$3,449
Prior service cost recognition	$324	$ 457

Other Postretirement Plans. The following table sets forth obligation, asset and funding information for the Company's other postretirement plans:

	Postretirement Plans	
	As of December 31	
(In thousands)	2014	2013
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 40,014	$ 63,868
Service cost	1,500	2,488
Interest cost	1,448	1,848
Actuarial loss (gain)	4,448	(3,298)
Curtailment	(932)	(21,221)
Benefits paid, net of Medicare subsidy	(4,521)	(3,671)
Benefit Obligation at End of Year	$ 41,957	$ 40,014
Change in Plan Assets		
Fair value of assets at beginning of year	$ —	$ —
Employer contributions	4,521	3,671
Benefits paid, net of Medicare subsidy	(4,521)	(3,671)
Fair Value of Assets at End of Year	$ —	$ —
Funded Status	$(41,957)	$(40,014)

The amounts recognized in the Company's Consolidated Balance Sheets for its other postretirement plans are as follows:

	Postretirement Plans	
	As of December 31	
(In thousands)	2014	2013
Current liability	$ (3,995)	$ (3,795)
Noncurrent liability	(37,962)	(36,219)
Recognized Liability	$(41,957)	$(40,014)

The discount rates utilized for determining the benefit obligation at December 31, 2014 and 2013, for the postretirement plans were 3.25% and 3.80%, respectively. The assumed health care cost trend rate used in measuring the postretirement benefit obligation at December 31, 2014, was 7.50% for pre-age 65, decreasing to 5.0% in the year 2025 and thereafter. The assumed health care cost trend rate used in measuring the postretirement benefit obligation at December 31, 2014, was 14.9% for the post-age 65 Medicare Advantage Prescription Drug (MA-PD) plan, decreasing to 5.0% in the year 2021 and thereafter, and was 6.50% for the post-age 65 non MA-PD plan, decreasing to 5.0% in the year 2021 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A change of one percentage point in the assumed health care cost trend rates would have the following effects:

(In thousands)	**1% Increase**	**1% Decrease**
Benefit obligation at end of year	$2,478	$(2,255)
Service cost plus interest cost	$ 257	$ (227)

The Company made contributions to its postretirement benefit plans of $4.5 million and $3.7 million for the years ended December 31, 2014 and 2013, respectively. As the plans are unfunded, the Company makes contributions to its postretirement plans based on actual benefit payments.

At December 31, 2014, future estimated benefit payments are as follows:

(In thousands)	**Postretirement Plans**
2015	$ 3,995
2016	$ 4,061
2017	$ 4,078
2018	$ 3,946
2019	$ 3,882
2020–2024	$18,112

The total (benefit) cost arising from the Company's other postretirement plans consists of the following components:

	Postretirement Plans		
	Year Ended December 31		
(In thousands)	**2014**	**2013**	**2012**
Service cost	$ 1,500	$ 2,488	$ 3,113
Interest cost	1,448	1,848	2,735
Amortization of prior service credit	(783)	(4,247)	(5,608)
Recognized actuarial gain	(2,076)	(2,141)	(1,478)
Net Periodic Cost (Benefit)	89	(2,052)	(1,238)
Curtailment	(1,292)	(41,623)	438
Settlement	—	(11,927)	—
Total Benefit for the Year	$(1,203)	$(55,602)	$ (800)
Other Changes in Benefit Obligations Recognized in Other Comprehensive Income			
Current year actuarial loss (gain)	$ 4,448	$ (3,298)	$(11,493)
Amortization of prior service credit	783	4,247	5,608
Recognized actuarial gain	2,076	2,141	1,478
Curtailment and settlement	360	32,329	—
Total Recognized in Other Comprehensive Income (Before Tax Effects)	$ 7,667	$ 35,419	$ (4,407)
Total Recognized in (Benefit) Cost and Other Comprehensive Income (Before Tax Effect)	$ 6,464	$(20,183)	$ (5,207)

The net periodic cost (benefit), as reported above, includes a benefit of $2.9 million included in discontinued operations in each year for 2013 and 2012. The Company recorded a curtailment gain of $1.3 million in the fourth quarter of 2014 in connection with the exchange of WPLG, and the Separation Incentive Program and VRIP offered to certain Corporate employees. As part of the sale of The Herald, changes were made with respect to its postretirement medical plan, resulting in a $3.5 million settlement gain that is included in discontinued operations, net of tax, for 2013. The remaining 2013 curtailment and settlement gains are included in the gain on sale of Publishing Subsidiaries, which is also reported in discontinued operations. In 2012, the Company offered a VRPI to certain employees of The Washington Post newspaper and recorded early retirement expense of $0.4 million, which is included in discontinued operations.

The costs for the Company's postretirement plans are actuarially determined. The discount rates utilized to determine periodic cost for the years ended December 31, 2014, 2013 and 2012, were 3.80%, 3.30% and 3.90%, respectively. AOCI included the following components of unrecognized net periodic benefit for the postretirement plans:

	As of December 31	
(In thousands)	**2014**	**2013**
Unrecognized actuarial gain	$(7,404)	$(13,928)
Unrecognized prior service credit	(1,163)	(2,306)
Gross Amount	(8,567)	(16,234)
Deferred tax liability	3,427	6,494
Net Amount	$(5,140)	$ (9,740)

16. Accumulated Other Comprehensive Income (Loss) (in part)

The other comprehensive (loss) income consists of the following components:

	Year Ended December 31, 2014		
(In thousands)	Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:			
Translation adjustments arising during the year	$ (16,061)	$ —	$ (16,061)
Adjustment for sales of businesses with foreign operations	(404)	—	(404)
	(16,465)	—	(16,465)
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	62,719	(25,088)	37,631
Reclassification adjustment for realization of (gain) loss on exchange, sale or write-down of available-for-sale securities included in net income	(265,274)	106,110	(159,164)
	(202,555)	81,022	(121,533)
Pension and other postretirement plans:			
Actuarial loss	(149,482)	59,792	(89,690)
Prior service cost	(1,600)	640	(960)
Amortization of net actuarial gain included in net income	(29,412)	11,765	(17,647)
Amortization of net prior service credit included in net income	(407)	163	(244)
Curtailments and settlements	8	(3)	5
	(180,893)	72,357	(108,536)
Cash flow hedge:			
Gain for the year	867	(347)	520
Other Comprehensive Loss	$(399,046)	$153,032	$(246,014)

	Year Ended December 31, 2013		
(In thousands)	Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:			
Translation adjustments arising during the year	$ (1,059)	$ —	$ (1,059)
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	95,629	(38,251)	57,378
Reclassification adjustment for write-down on available-for-sale securities, net of gain, included in net income	9,554	(3,822)	5,732
	105,183	(42,073)	63,110
Pension and other postretirement plans:			
Actuarial gain	762,806	(305,123)	457,683
Amortization of net actuarial loss included in net income	3,096	(1,238)	1,858
Amortization of net prior service credit included in net income	(1,383)	553	(830)
Curtailments and settlements	(124,051)	49,617	(74,434)
	640,468	(256,191)	384,277
Cash flow hedge:			
Gain for the year	520	(208)	312
Other Comprehensive Income	$745,112	$(298,472)	$446,640

	Year Ended December 31, 2012		
(In thousands)	Before-Tax Amount	Income Tax	After-Tax Amount
Foreign currency translation adjustments:			
Translation adjustments arising during the year	$ 5,622	$ —	$ 5,622
Adjustment for sales of businesses with foreign operations	(888)	—	(888)
	4,734	—	4,734
Unrealized gains on available-for-sale securities:			
Unrealized gains for the year	33,098	(13,239)	19,859
Reclassification adjustment for write-down on available-for-sale securities, net of gain, included in net income	17,226	(6,890)	10,336
	50,324	(20,129)	30,195
Pension and other postretirement plans:			
Actuarial gain	82,470	(32,987)	49,483
Amortization of net actuarial loss included in net income	9,368	(3,746)	5,622
Amortization of net prior service credit included in net income	(1,859)	744	(1,115)
Other adjustments	(745)	299	(446)
	89,234	(35,690)	53,544
Cash flow hedge:			
Loss for the year	(1,581)	633	(948)
Other Comprehensive Income	$142,711	$(55,186)	$87,525

NET CHANGE IN UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

4.13 TYSON FOODS, INC. (SEP)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions

	2014	2013	2012
Net Income	$856	$778	$576
Other Comprehensive Income (Loss), Net of Taxes:			
Derivatives accounted for as cash flow hedges	1	(14)	17
Investments	4	(3)	—
Currency translation	(30)	(37)	3
Postretirement benefits	(14)	9	(4)
Total Other Comprehensive Income (Loss), Net of Taxes	(39)	(45)	16
Comprehensive Income	817	733	592
Less: Comprehensive Income (Loss) Attributable to Noncontrolling Interests	(8)	—	(7)
Comprehensive Income Attributable to Tyson	$825	$733	$599

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1: Business and Summary of Significant Accounting Policies (in part)

Investments: We have investments in joint ventures and other entities. We generally use the cost method of accounting when our voting interests are less than 20 percent. We use the equity method of accounting when our voting interests are in excess of 20 percent and we do not have a controlling interest or a variable interest in which we are the primary beneficiary. Investments in joint ventures and other entities are reported in the Consolidated Balance Sheets in Other Assets.

We also have investments in marketable debt securities. We have determined all of our marketable debt securities are available-for-sale investments. These investments are reported at fair value based on quoted market prices as of the balance sheet date, with unrealized gains and losses, net of tax, recorded in other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is recorded in interest income. The cost of securities sold is based on the specific identification method. Realized gains and losses on the sale of debt securities and declines in value judged to be other than temporary are recorded on a net basis in other income. Interest and dividends on securities classified as available-for-sale are recorded in interest income.

Note 13: Fair Value Measurements (in part)

Assets and Liabilities Measured at Fair Value on a Recurring Basis (in part)

Available for Sale Securities: Our investments in marketable debt securities are classified as available-for-sale and are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. Short-term investments with maturities of less than 12 months are included in Other current assets in the Consolidated Balance Sheets and primarily include certificates of deposit and commercial paper. All other marketable debt securities are included in Other Assets in the Consolidated Balance Sheets and have maturities ranging up to 35 years. We classify our investments in U.S. government, U.S. agency, certificates of deposit and commercial paper debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into valuation models, including current interest rates and estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle. Significant changes to assumptions or unobservable inputs in the valuation of our Level 3 instruments would not have a significant impact to our consolidated financial statements.

	September 27, 2014			September 28, 2013		
In millions	Amortized Cost Basis	Fair Value	Unrealized Gain/(Loss)	Amortized Cost Basis	Fair Value	Unrealized Gain/(Loss)
Available for Sale Securities:						
Debt Securities:						
U.S. Treasury and Agency	$25	$25	$—	$25	$25	$—
Corporate and Asset-Backed	65	67	2	64	65	1
Equity Securities:						
Common Stock and Warrants[a]	1	1	—	9	4	(5)

[a] At September 27, 2014, the amortized cost basis for Equity Securities had been reduced by accumulated other than temporary impairment of approximately $2 million .

Unrealized holding gains (losses), net of tax, are excluded from earnings and reported in OCI until the security is settled or sold. On a quarterly basis, we evaluate whether losses related to our available-for-sale securities are temporary in nature. Losses on equity securities are recognized in earnings if the decline in value is judged to be other than temporary. If losses related to our debt securities are determined to be other than temporary, the loss would be recognized in earnings if we intend, or more likely than not will be required, to sell the security prior to recovery. For debt securities in which we have the intent and ability to hold until maturity, losses determined to be other than temporary would remain in OCI, other than expected credit losses which are recognized in earnings. We consider many factors in determining whether a loss is temporary, including the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. We recognized $6 million of other than temporary impairment for the year ended September 27, 2014, which is recorded in the Consolidated Statements of Income in Other, net. No other than temporary losses were deferred in OCI as of September 27, 2014, and September 28, 2013.

Note 16: Comprehensive Income (Loss) (in part)

The before and after tax changes in the components of other comprehensive income (loss) are as follows:

	2014			2013			2012		
In millions	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Derivatives accounted for as cash flow hedges:									
(Gain) loss reclassified to Cost of Sales	$ 10	$(4)	$ 6	$ 5	$(2)	$ 3	$16	$(7)	$ 9
(Gain) loss reclassified to Other Income/Expense	—	—	—	4	(2)	2	(4)	2	(2)
Unrealized gain (loss)	(8)	3	(5)	(31)	12	(19)	16	(6)	10
Investments:									
(Gain) loss reclassified to Other Income/Expense	8	(2)	6	(1)	—	(1)	—	—	—
Unrealized gain (loss)	(2)	—	(2)	(4)	2	(2)	—	—	—
Currency translation:									
Translation gain reclassified to Other Income/Expense	—	—	—	(19)	(1)	(20)	—	—	—
Translation adjustment	(32)	2	(30)	(20)	3	(17)	2	1	3
Postretirement benefits	(23)	9	(14)	15	(6)	9	(6)	2	(4)
Total Other Comprehensive Income (Loss)	$(47)	$ 8	$(39)	$(51)	$ 6	$(45)	$24	$(8)	$16

GAINS AND LOSSES ON DERIVATIVES HELD AS CASH FLOW HEDGES

4.14 JOHNSON & JOHNSON (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (in part)

(Dollars in Millions) (Note 1)

	2014	2013	2012
Net earnings	$16,323	13,831	10,514
Other Comprehensive Income (Loss), Net of Tax			
Foreign currency translation	(4,601)	94	1,230
Securities:			
Unrealized holding gain (loss) arising during period	156	225	(248)
Reclassifications to earnings	(5)	(314)	(5)
Net change	151	(89)	(253)
Employee benefit plans:			
Prior service cost amortization during period	(18)	9	2
Prior service credit (cost)—current year	211	(27)	(8)
Gain amortization during period	400	515	370
Gain (loss)—current year	(4,098)	2,203	(1,643)
Effect of exchange rates	197	8	(52)
Net change	(3,308)	2,708	(1,331)
Derivatives & hedges:			
Unrealized gain (loss) arising during period	92	344	52
Reclassifications to earnings	(196)	(107)	124
Net change	(104)	237	176
Other comprehensive income (loss)	(7,862)	2,950	(178)
Comprehensive income	8,461	16,781	10,336
Comprehensive loss attributable to noncontrolling interest, net of tax	—	—	339
Comprehensive income attributable to Johnson & Johnson	$ 8,461	16,781	10,675

The tax effects in other comprehensive income for the fiscal years ended 2014, 2013 and 2012 respectively: Securities; $81 million, $48 million and $136 million, Employee Benefit Plans; $1,556 million, $1,421 million and $653 million, Derivatives & Hedges; $56 million, $128 million and $95 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

6. Fair Value Measurements (in part)

The Company uses forward foreign exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future intercompany product and third-party purchases of materials denominated in a foreign currency. The Company uses cross currency interest rate swaps to manage currency risk primarily related to borrowings. Both types of derivatives are designated as cash flow hedges.

Additionally, the Company uses interest rate swaps as an instrument to manage interest rate risk related to fixed rate borrowings. These derivatives are treated as fair value hedges. The Company may use forward foreign exchange contracts designated as net investment hedges. Additionally, the Company uses forward foreign exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward foreign exchange contracts are not designated as hedges and therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency assets and liabilities.

The Company does not enter into derivative financial instruments for trading or speculative purposes, or that contain credit risk related contingent features or requirements to post collateral. On an ongoing basis, the Company monitors counterparty credit ratings. The Company considers credit non-performance risk to be low, because the Company enters into agreements with commercial institutions that have at least an "A" (or equivalent) credit rating. As of December 28, 2014, the Company had notional amounts outstanding for forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps of $29.6 billion, $2.4 billion and $2.2 billion, respectively.

All derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.

The designation as a cash flow hedge is made at the entrance date of the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. Gains and losses associated with interest rate swaps are recorded to interest expense in the period in which they occur. Gains and losses on net investment hedges are accounted for through the currency translation account and are insignificant. On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period earnings in Other (income) expense, net for forward foreign exchange contracts and cross currency interest rate swaps. For interest rate swaps designated as fair value hedges, hedge ineffectiveness, if any, is included in current period earnings within interest expense. For the current reporting period, hedge ineffectiveness associated with interest rate swaps are not material.

As of December 28, 2014, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $141 million after-tax. For additional information, see the Consolidated Statements of Comprehensive Income and Note 13. The Company expects that substantially all of the amounts related to forward foreign exchange contracts will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months, excluding interest rate contracts. The amount ultimately realized in earnings may differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative.

The following table is a summary of the activity related to derivatives designated as cash flow hedges for the fiscal years ended December 28, 2014 and December 29, 2013 :

(Dollars in Millions)	Gain/(Loss) Recognized In Accumulated OCI[1]		Gain/(Loss) Reclassified From Accumulated OCI Into Income[1]		Gain/(Loss) Recognized in Other Income/Expense[2]	
Cash Flow Hedges by Income Statement Caption	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Sales to customers[3]	$(106)	45	(3)	49	(5)	2
Cost of products sold[3]	58	271	204	69	2	23
Research and development expense[3]	39	24	7	16	—	(4)
Interest (income)/Interest expense, net[4]	21	17	(15)	(10)	—	—
Other (income) expense, net[3]	80	(13)	3	(17)	—	(4)
Total	$ 92	344	196	107	(3)	17

[1] Effective portion

[2] Ineffective portion

[3] Forward foreign exchange contracts

[4] Cross currency interest rate swaps

All amounts shown in the table above are net of tax.

For the fiscal years ended December 28, 2014 and December 29, 2013, a gain of $5 million and a gain of $32 million, respectively, was recognized in Other (income) expense, net, relating to forward foreign exchange contracts not designated as hedging instruments.

Fair value is the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement determined using assumptions that market participants would use in pricing an asset or liability. The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described below with Level 1 having the highest priority and Level 3 having the lowest.

The fair value of a derivative financial instrument (i.e., forward foreign exchange contracts, interest rate contracts) is the aggregation by currency of all future cash flows discounted to its present value at the prevailing market interest rates and subsequently converted to the U.S. Dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company's results of operations, cash flows or financial position. The Company also holds equity investments which are classified as Level 1 because they are traded in an active exchange market. The Company did not have any other significant financial assets or liabilities which would require revised valuations under this standard that are recognized at fair value.

RECLASSIFICATION ADJUSTMENTS

4.15 EMC CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	For the Year Ended December 31,		
	2014	**2013**	**2012**
Net income	$2,894	$3,093	$2,886
Other Comprehensive Income (Loss), Net of Taxes (Benefits):			
Foreign currency translation adjustments	(135)	(44)	2
Changes in market value of investments:			
Changes in unrealized gains (losses), net of taxes (benefits) of $36, $(13) and $31	57	(22)	53
Reclassification adjustment for net gains realized in net income, net of taxes of $23, $6 and $4	(39)	(11)	(5)
Net change in market value of investments	18	(33)	48
Changes in market value of derivatives:			
Changes in market value of derivatives, net of taxes (benefits) of $2, $3 and $(20)	24	13	(36)
Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of $0, $(2) and $15	(18)	(10)	28
Net change in the market value of derivatives	6	3	(8)
Change in actuarial net gain (loss) from pension and other postretirement plans:			
Recognition of actuarial net gain (loss) from pension and other postretirement plans, net of taxes (benefits) of $(12), $20 and $(10)	(22)	34	(22)
Reclassification adjustments for net losses from pension and other postretirement plans, net of benefits $3, $6 and $5	6	9	8
Net change in actuarial gain (loss) from pension and other postretirement plans	(16)	43	(14)
Other comprehensive income (loss)	(127)	(31)	28
Comprehensive income	2,767	3,062	2,914
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(180)	(204)	(153)
Less: Other comprehensive (income) loss attributable to the non-controlling interest in VMware, Inc.	—	—	(2)
Comprehensive income attributable to EMC Corporation	$2,587	$2,858	$2,759

A. Summary of Significant Accounting Policies (in part)

Derivatives (in part)

We use derivatives to hedge foreign currency exposures related to foreign currency denominated assets and liabilities and forecasted revenue and expense transactions.

We hedge our exposure in foreign currency denominated monetary assets and liabilities with foreign currency forward and option contracts. Since these derivatives hedge existing exposures that are denominated in foreign currencies, the contracts do not qualify for hedge accounting. Accordingly, these outstanding non-designated derivatives are recognized on the consolidated balance sheet at fair value and the changes in fair value from these contracts are recorded in other expense, net, in the consolidated income statements. These derivative contracts mature in less than one year.

We also use foreign currency forward and option contracts to hedge our exposure on a portion of our forecasted revenue and expense transactions. These derivatives are designated as cash flow hedges. We did not have any derivatives designated as fair value hedges as of December 31, 2014. All outstanding cash flow hedges are recognized on the consolidated balance sheets at fair value with changes in their fair value recorded in accumulated other comprehensive income (loss) until the underlying forecasted transactions occur. To achieve hedge accounting, certain criteria must be met, which includes (i) ensuring at the inception of the hedge that formal documentation exists for both the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, and (ii) at the inception of the hedge and on an ongoing basis, the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated. Further, an assessment of effectiveness is required at a minimum on a quarterly basis. Absent meeting these criteria, changes in fair value are recognized currently in other expense, net, in the consolidated income statements. Once the underlying forecasted transaction occurs, the gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive income (loss) to the consolidated income statements, in the related revenue or expense caption, as appropriate. In the event the underlying forecasted transaction does not occur, the amount recorded in accumulated other comprehensive income (loss) will be reclassified to other income (expense), net, in the consolidated income statements in the then-current period. Any ineffective portion of the derivatives designated as cash flow hedges is recognized in current earnings. The ineffective portion of the derivatives includes gains or losses associated with differences between actual and forecasted amounts. Our cash flow hedges generally mature within six months or less. The notional amount of cash flow hedges outstanding as of December 31, 2014, 2013 and 2012 were $245 million, $384 million and $201 million, respectively.

Investments

Unrealized gains and temporary loss positions on investments classified as available-for-sale are included within accumulated other comprehensive income (loss), net of any related tax effect. Upon realization, those amounts are reclassified from accumulated other comprehensive income (loss) to investment income. Realized gains and losses and other-than-temporary impairments are reflected in the consolidated income statement in investment income. For investments accounted for utilizing the fair value option, changes to fair value are recognized in the consolidated income statement in non-operating income (expense), net.

E. Debt (in part)

Interest Rate Swap Contracts

In 2010, EMC entered into interest rate swap contracts with an aggregate notional amount of approximately $900 million. These swaps were designated as cash flow hedges of the semi-annual interest payments of the forecasted issuance of debt in 2011. As such, the unrealized loss on these hedges was recognized in other comprehensive loss.

During 2011 and 2012, we settled the swaps and replaced them with new interest rate swap contracts for revised forecasted debt issuance dates. Each of these new swaps was deemed as an effective hedge as the notional amounts and other terms matched the underlying hedged item and accordingly, losses on the interest rate swap contracts were deferred as they were expected to be realized over the life of the new debt issued under the related interest rate swap contracts. In 2012, the change in the forecasted timeframe for the issuance of debt resulted in certain previously-anticipated hedge interest payments no longer being expected to occur within the window covered by the hedge designation. As a result, $40 million of accumulated realized losses in other comprehensive income related to these previously-anticipated interest payments were reclassified from other comprehensive income and recognized in the 2012 consolidated income statements.

In the second half of 2012, we settled the interest rate swap contracts and did not replace them. Accumulated losses at the time of settlement of $176 million were deferred as they were expected to be realized over the life of the new debt issued under the related interest rate swap contracts. The accumulated realized losses related to the settled swaps included in accumulated other comprehensive income are being realized over the remaining life of our ten year Notes. During 2014, $11 million in losses were reclassified from other comprehensive income and recognized as interest expense in the consolidated income statements.

M. Retirement Plan Benefits (in part)

Defined Benefit Pension Plan (in part)

We have a noncontributory defined benefit pension plan which was assumed as part of the Data General acquisition, which covers substantially all former Data General employees located in the U.S. In addition, certain of our foreign subsidiaries also have a defined benefit pension plan.

Benefits under these plans are generally based on either career average or final average salaries and creditable years of service as defined in the plans. The annual cost for these plans is determined using the projected unit credit actuarial cost method that includes actuarial assumptions and estimates which are subject to change. The measurement date for the plans is December 31.

The Data General U.S. pension plan's (the "Pension Plan") investment policy provides that no security, except issues of the U.S. Government, shall comprise more than 5% of total plan assets, measured at market. At December 31, 2014, the Pension Plan held $0.5 million of EMC common stock.

The Pension Plan is summarized in the following tables. The other pension plans are not presented because they do not have a material impact on our consolidated financial statements.

The components of the change in benefit obligation of the Pension Plan is as follows (table in millions):

	December 31, 2014	December 31, 2013
Benefit obligation, at beginning of year	$495	$539
Interest cost	22	20
Benefits paid	(19)	(18)
Actuarial loss (gain)	56	(46)
Benefit obligation, at end of year	$554	$495

The reconciliation of the beginning and ending balances of the fair value of the assets of the Pension Plan is as follows (table in millions):

	December 31, 2014	December 31, 2013
Fair value of plan assets, at beginning of year	$449	$431
Actual return on plan assets	56	35
Employer contributions to plan	—	1
Benefits paid	(19)	(18)
Fair value of plan assets, at end of year	$486	$449

We did not make any significant contributions to the Pension Plan in 2014 or 2013 and we do not expect to make a contribution to the Pension Plan in 2015. The under-funded status of the Pension Plan at December 31, 2014 and 2013 was $68 million and $46 million, respectively. This amount is classified as a component of other long-term liabilities on the consolidated balance sheets.

In 2014, $9 million of the accumulated actuarial loss and prior services cost associated with the Pension Plan was reclassified from accumulated comprehensive loss to a component of net periodic benefit cost. Additionally, the Pension Plan had net losses of $30 million that are included in accumulated other comprehensive income (loss), which were primarily the result of a decrease in the discount rate at the end of 2014, changes to the mortality table and a lower rate of return on plan assets. We expect that $12 million of the total balance included in accumulated other comprehensive income (loss) at December 31, 2014 will be recognized as a component of net periodic benefit costs in 2015.

The components of net periodic expense of the Pension Plan are as follows (table in millions):

	2014	2013
Interest cost	$ 22	$ 20
Expected return on plan assets	(29)	(28)
Recognized actuarial loss	9	15
Net periodic expense	$ 2	$ 7

O. Shareholders' Equity (in part)

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), which is presented net of tax, for the years ended December 31, 2014 and 2013 consist of the following (table in millions):

	Foreign Currency Translation Adjustments	Unrealized Net Gains on Investments	Unrealized Net Losses on Derivatives	Recognition of Actuarial Net Loss from Pension and Other Postretirement Plans	Accumulated Other Comprehensive Income Attributable to the Non-controlling Interest in VMware, Inc.	Total
Balance as of January 1, 2013[a]	$ (9)	$ 64	$(109)	$(153)	$(1)	$(208)
Other comprehensive income (loss) before reclassifications	(44)	(22)	13	34	—	(19)
Net losses (gains) reclassified from accumulated other comprehensive income	—	(11)	(10)	9	—	(12)
Net current period other comprehensive income (loss)	(44)	(33)	3	43	—	(31)
Balance as of December 31, 2013[b]	(53)	31	(106)	(110)	(1)	(239)
Other comprehensive income (loss) before reclassifications	(135)	57	24	(22)	—	(76)
Net losses (gains) reclassified from accumulated other comprehensive income	—	(39)	(18)	6	—	(51)
Net current period other comprehensive income (loss)	(135)	18	6	(16)	—	(127)
Balance as of December 31, 2014[c]	$(188)	$ 49	$(100)	$(126)	$(1)	$(366)

[a] Net of taxes (benefits) of $37 million for unrealized net gains on investments, $(67) million for unrealized net losses on derivatives and $(87) million for actuarial net loss on pension plans.

[b] Net of taxes (benefits) of $18 million for unrealized net gains on investments, $(66) million for unrealized net losses on derivatives and $(61) million for actuarial net loss on pension plans.

[c] Net of taxes (benefits) of $31 million for unrealized net gains on investments, $(64) million for unrealized net losses on derivatives and $(70) million for actuarial net loss on pension plans.

The amounts reclassified out of accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 is as follows (table in millions):

Accumulated Other Comprehensive Income	For the Year Ended		Impacted Line Item on Consolidated
Components	December 31, 2014	December 31, 2013	Income Statements
Net gain on investments:	$ 62	$ 17	Investment income
	(23)	(6)	Provision for income tax
Net of tax	$ 39	$ 11	
Net gain on derivatives:			
Foreign exchange contracts	$ 39	$ 12	Product sales revenue
Foreign exchange contracts	(10)	—	Cost of product sales
Interest rate swap	(11)	—	Other interest expense
Total net gain on derivatives before tax	18	12	
	—	(2)	Provision for income tax
Net of tax	$ 18	$ 10	
Net loss from pension and other postretirement plans	$ (9)	$(15)	Selling, general and administrative expense
	3	6	Benefit for income tax
Net of tax	$ (6)	$ (9)	

4.16 NACCO INDUSTRIES, INC. (DEC)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31		
(In thousands)	2014	2013	2012
Net income (loss)	$(38,118)	$44,450	$108,698
Other Comprehensive Income (Loss)			
Foreign currency translation adjustment	(1,896)	(229)	145
Deferred gain on available for sale securities	442	729	265
Current period cash flow hedging activity, net of $838 tax benefit in 2014, $477 tax expense in 2013 and $2,471 tax expense in 2012	(1,518)	810	7,658
Reclassification of hedging activities into earnings, net of $489 tax benefit in 2014, $95 tax benefit in 2013 and $2,630 tax expense in 2012	898	152	(2,757)
Current period pension and postretirement plan adjustment, net of $3,292 tax benefit in 2014, $5,531 tax expense in 2013 and $1,553 tax benefit in 2012	(6,483)	8,022	(1,716)
Curtailment gain into earnings, net of $718 tax expense in 2013	—	(983)	—
Reclassification of pension and postretirement adjustments into earnings, net of $313 tax benefit in 2014, $740 tax benefit in 2013 and $2,056 tax benefit in 2012	627	1,101	5,885
Total other comprehensive income (loss)	$ (7,930)	$ 9,602	$ 9,480
Comprehensive income (loss)	$(46,048)	$54,052	$118,178

CONSOLIDATED STATEMENTS OF EQUITY

					Accumulated Other Comprehensive Income (Loss)						
(In thousands, except per share data)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Available for Sale Securities	Deferred Gain (Loss) on Cash Flow Hedging	Pension and Postretirement Plan Adjustment	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, January 1, 2012	$6,778	$1,596	$ 22,786	$ 619,614	$ 13,210	$ 27	$ 2,597	$(90,398)	$ 576,210	$ 882	$ 577,092
Stock-based compensation	30	—	4,953	—	—	—	—	—	4,983	—	4,983
Purchase of treasury shares	(51)	—	(3,127)	—	—	—	—	—	(3,178)	—	(3,178)
Conversion of Class B to Class A shares	14	(14)	—	—	—	—	—	—	—	—	—
Net income attributable to stockholders	—	—	—	108,698	—	—	—	—	108,698	—	108,698
Cash dividends on Class A and Class B common stock: $5.3775 per share	—	—	—	(45,130)	—	—	—	—	(45,130)	—	(45,130)
Stock dividend	—	—	—	(412,955)	(13,929)	—	(7,784)	64,936	(369,732)	(882)	(370,614)
Current period other comprehensive income (loss)	—	—	—	—	145	265	7,658	(1,716)	6,352	—	6,352
Reclassification adjustment to net income	—	—	—	—	—	—	(2,757)	5,885	3,128	—	3,128
Balance, December 31, 2012	$6,771	$1,582	$ 24,612	$ 270,227	$ (574)	$ 292	$ (286)	$(21,293)	$ 281,331	$ —	$ 281,331
Stock-based compensation	83	—	1,724	—	—	—	—	—	1,807	—	1,807
Purchase of treasury shares	(565)	—	(26,336)	(4,405)	—	—	—	—	(31,306)	—	(31,306)
Conversion of Class B to Class A shares	1	(1)	—	—	—	—	—	—	—	—	—

(continued)

					Accumulated Other Comprehensive Income (Loss)						
(In thousands, except per share data)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Available for Sale Securities	Deferred Gain (Loss) on Cash Flow Hedging	Pension and Postretirement Plan Adjustment	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Net income	—	—	—	44,450	—	—	—	—	44,450	—	44,450
Cash dividends on Class A and Class B common stock: $1.000 per share	—	—	—	(8,104)	—	—	—	—	(8,104)	—	(8,104)
Current period other comprehensive income (loss)	—	—	—	—	(229)	729	810	8,022	9,332	—	9,332
Current period curtailment gain	—	—	—	—	—	—	—	(983)	(983)	—	(983)
Reclassification adjustment to net income	—	—	—	—	—		152	1,101	1,253	—	1,253
Balance, December 31, 2013	$6,290	$1,581	$ —	$ 302,168	$ (803)	$1,021	$ 676	$(13,153)	$ 297,780	$ —	$ 297,780
Stock-based compensation	28	—	2,544	—	—	—	—	—	2,572	—	2,572
Purchase of treasury shares	(664)	—	(2,544)	(31,867)	—	—	—	—	(35,075)	—	(35,075)
Conversion of Class B to Class A shares	8	(8)	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	(38,118)	—	—	—	—	(38,118)	—	(38,118)
Cash dividends on Class A and Class B common stock: $1.0225 per share	—	—	—	(7,755)	—	—	—	—	(7,755)	—	(7,755)
Current period other comprehensive income (loss)	—	—	—	—	(1,896)	442	(1,518)	(6,483)	(9,455)	—	(9,455)
Reclassification adjustment to net income (loss)	—	—	—	—	—	—	898	627	1,525	—	1,525
Balance, December 31, 2014	$5,662	$1,573	$ —	$ 224,428	$ (2,699)	$1,463	$ 56	$(19,009)	$ 211,474	$ —	$ 211,474

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In thousands, Except as noted and Per Share and Percentage Data)

Note 2— Significant Accounting Policies (in part)

Financial Instruments and Derivative Financial Instruments: Financial instruments held by the Company include cash and cash equivalents, accounts receivable, accounts payable, revolving credit agreements, long-term debt, interest rate swap agreements and forward foreign currency exchange contracts. The Company does not hold or issue financial instruments or derivative financial instruments for trading purposes.

The Company uses forward foreign currency exchange contracts to partially reduce risks related to transactions denominated in foreign currencies. The Company offsets fair value amounts related to foreign currency exchange contracts executed with the same counterparty. These contracts hedge firm commitments and forecasted transactions relating to cash flows associated with sales and purchases denominated in currencies other than the subsidiaries' functional currencies. Changes in the fair value of forward foreign currency exchange contracts that are effective as hedges are recorded in Accumulated other comprehensive income (loss) ("AOCI"). Deferred gains or losses are reclassified from AOCI to the Consolidated Statement of Operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in cost of sales. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and generally recognized in cost of sales.

The Company uses interest rate swap agreements to partially reduce risks related to floating rate financing agreements that are subject to changes in the market rate of interest. Terms of the interest rate swap agreements require the Company to receive a variable interest rate and pay a fixed interest rate. The Company's interest rate swap agreements and its variable rate financings are predominately based upon the three-month LIBOR (London Interbank Offered Rate). Changes in the fair value of interest rate swap agreements that are effective as hedges are recorded in AOCI. Deferred gains or losses are reclassified from AOCI to the Consolidated Statement of Operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in interest expense. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and included on the line "Other" in the "Other income (expense)" section of the Consolidated Statements of Operations.

Interest rate swap agreements and forward foreign currency exchange contracts held by the Company have been designated as hedges of forecasted cash flows. The Company does not currently hold any nonderivative instruments designated as hedges or any derivatives designated as fair value hedges.

The Company periodically enters into foreign currency exchange contracts that do not meet the criteria for hedge accounting. These derivatives are used to reduce the Company's exposure to foreign currency risk related to forecasted purchase or sales transactions or forecasted intercompany cash payments or settlements. Gains and losses on these derivatives are included on the line "Other" in the "Other income (expense)" section of the Consolidated Statements of Operations.

Cash flows from hedging activities are reported in the Consolidated Statements of Cash Flows in the same classification as the hedged item, generally as a component of cash flows from operations.

See Note 9 for further discussion of derivative financial instruments.

Note 9— Derivative Financial Instruments

The Company measures its derivatives at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the fair value hierarchy. The Company uses a present value technique that incorporates the LIBOR swap curve, foreign currency spot rates and foreign currency forward rates to value its derivatives, including its interest rate swap agreements and foreign currency exchange contracts, and also incorporates the effect of its subsidiary and counterparty credit risk into the valuation.

Foreign Currency Derivatives: HBB held forward foreign currency exchange contracts with total notional amounts of $7.2 million and $5.0 million at December 31, 2014 and December 31, 2013, respectively, denominated primarily in Canadian dollars. The fair value of these contracts approximated a net receivable of $0.3 million and $0.1 million at December 31, 2014 and 2013, respectively.

Forward foreign currency exchange contracts that qualify for hedge accounting are used to hedge transactions expected to occur within the next twelve months. The mark-to-market effect of forward foreign currency exchange contracts that are considered effective as hedges has been included in AOCI. Based on market valuations at December 31, 2014, $0.1 million of the amount included in AOCI is expected to be reclassified as income into the Consolidated Statement of Operations over the next twelve months, as the hedged transactions occur.

Interest Rate Derivatives: HBB has interest rate swaps that hedge interest payments on its one-month LIBOR borrowings. The following table summarizes the notional amounts, related rates and remaining terms of interest rate swap agreements active at December 31 in millions:

	Notional Amount		Average Fixed Rate		Remaining Term at
	2014	2013	2014	2013	December 31, 2014
HBB	$20.0	$20.0	1.4%	1.4%	extending to January 2020

The fair value of HBB's interest rate swap agreements was a net receivable of $0.2 million and $0.8 million at December 31, 2014 and 2013, respectively. The mark-to-market effect of interest rate swap agreements that are considered effective as hedges has been included in AOCI. Based on market valuations at December 31, 2014, less than $0.1 million of the amount included in AOCI is expected to be reclassified as income into the Consolidated Statement of Operations over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreements. The interest rate swap agreements held by HBB on December 31, 2014 are expected to continue to be effective as hedges.

NACoal has interest rate swaps that hedge interest payments on its one-month LIBOR borrowings. The following table summarizes the notional amounts, related rates and remaining terms of the interest rate swap agreement active at December 31 in millions:

	Notional Amount		Average Fixed Rate		Remaining Term at
	2014	2013	2014	2013	December 31, 2014
NACoal	$100.0	$100.0	1.4%	1.4%	extending to May 2018

The fair value of NACoal's interest rate swap agreement was a net payable of $0.4 million at December 31, 2014. The mark-to-market effect of the interest rate swap agreement that is considered effective as a hedge has been included in AOCI. Based on market valuations at December 31, 2014, $0.8 million of the amount included in AOCI is expected to be reclassified as income into the Consolidated Statement of Operations over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreement. The interest rate swap agreement held by NACoal on December 31, 2014 is expected to continue to be effective as a hedge.

The following table summarizes the fair value of derivative instruments at December 31 as recorded in the Consolidated Balance Sheets:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	2014	2013	Balance Sheet Location	2014	2013
Derivatives designated as hedging instruments						
Interest rate swap agreements						
Current	Prepaid expenses and other	$ 39	$ 128	Other current liabilities	$121	$—
Long-term	Other non-current assets	142	809	Other long-term liabilities	291	—
Foreign currency exchange contracts						
Current	Prepaid expenses and other	292	83	Other current liabilities	—	—
Long-term	Other non-current assets	—	—	Other long-term liabilities	—	—
Total derivatives designated as hedging instruments		$473	$1,020		$412	$—
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts						
Current	Prepaid expenses and other	$ —	$ —	Prepaid expenses and other	$ —	$ 14
Total derivatives not designated as hedging instruments		$ —	$ —		$ —	$ 14
Total derivatives		$473	$1,020		$412	$ 14

The following table summarizes the pre-tax impact of derivative instruments for each year ended December 31 as recorded in the Consolidated Statements of Operations:

Derivatives in Cash Flow Hedging	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion)			Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)			Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
Relationships	2014	2013	2012	(Effective Portion)	2014	2013	2012	Testing)	2014	2013	2012
Interest rate swap agreements	$(2,664)	$933	$(138)	Interest expense	$(1,495)	$(460)	$(1,207)	N/A	$—	$—	$—
Foreign currency exchange contracts	308	354	(282)	Cost of sales	108	213	87	N/A	—	—	—
Total	$(2,356)	$1,287	$(420)		$(1,387)	$(247)	$(1,120)		$—	$—	$—

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative		
		2014	2013	2012
Foreign currency exchange contracts	Cost of sales or Other	$25	$(14)	$(162)
Total		$25	$(14)	$(162)

Note 14— Stockholders' Equity and Earnings Per Share (in part)

Amounts Reclassified out of Accumulated Other Comprehensive Income: The following table summarizes the amounts reclassified out of AOCI and recognized in the Consolidated Statement of Operations:

Details About AOCI Components	Amount Reclassified from AOCI		Location of Loss (Gain) Reclassified from AOCI into Income
	2014	2013	
	(In thousands)		
Loss (gain) on cash flow hedging			
Foreign exchange contracts	$ (108)	$ (213)	Cost of sales
Interest rate contracts	1,495	460	Interest expense
	1,387	247	Total before income tax expense
	(489)	(95)	Income tax expense (benefit)
	$ 898	$ 152	Net of tax
Pension and postretirement plan			
Actuarial loss	$1,015	$1,995	[a]
Prior-service credit	(75)	(154)	[a]
	940	1,841	Total before income tax expense
	(313)	(740)	Income tax expense (benefit)
	$ 627	$1,101	Net of tax
Total reclassifications for the period	$1,525	$1,253	Net of tax

[a] These AOCI components are included in the computation of pension expense. See Note 16 for a discussion of the Company's pension expense.

Section 5: **Stockholders' Equity**

Format of Stockholders' Equity in Annual Filings

PRESENTATION

5.01 *Equity* (sometimes referred to as net assets) is the residual interest in the assets of an entity that remains after deducting its liabilities. As discussed in FASB *Accounting Standards Codification* (ASC) 505-10-50-2, if both financial position and results of operations are presented, disclosure of changes in (*a*) the separate accounts comprising stockholders' equity (in addition to retained earnings) and (*b*) the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required in order to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto. Most public entities present a statement of stockholders' equity to conform with Rule 3-04 of SEC Regulation S-X.

5.02 FASB ASC 505-10-25-1 explains that additional paid-in capital, however created, should not be used to relieve income of the current or future years of charges that would otherwise be made to the income statement.

5.03 As discussed in FASB ASC 505-20-30-3, in accounting for a stock dividend, a corporation should transfer from retained earnings to the category of capital stock and additional paid-in capital an amount equal to the fair value of the additional shares issued.

5.04 Rule 5-02 of Regulation S-X requires separate captions for additional paid-in capital, other additional capital, and retained earnings. If appropriate, additional paid-in capital and other additional capital may be combined with the stock caption to which it applies.

DISCLOSURE

5.05 FASB ASC 505-10-50-3 states that an entity should explain the pertinent rights and privileges of the various securities outstanding. Examples are dividend and liquidation preferences; contractual rights of security holders to receive dividends or returns from the security issuer's profits, cash flows, or returns on investments; participation rights; call prices and dates; conversion or exercise prices or rates and pertinent dates; sinking-fund requirements; unusual voting rights; and significant terms of contracts to issue additional shares.

5.06 FASB ASC 505-10-50-2 also requires disclosure of changes in the separate accounts comprising shareholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

PRESENTATION AND DISCLOSURE EXCERPTS

EXERCISE OF STOCK OPTIONS

5.07 PULTEGROUP, INC. (DEC)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(000's omitted, except per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	$				
Shareholders' Equity, January 1, 2012	382,608	$3,826	$2,986,240	$(1,306)	$(1,050,145)	$1,938,615
Stock option exercises	2,877	29	32,780	—	—	32,809
Stock awards, net of cancellations	1,228	12	(12)	—	—	—
Stock repurchases	(105)	(1)	(813)	—	(147)	(961)
Stock-based compensation	—	—	12,694	—	—	12,694
Net income	—	—	—	—	206,145	206,145
Other comprehensive income	—	—	—	314	—	314

(continued)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	$				
Shareholders' Equity, December 31, 2012	386,608	$3,866	$3,030,889	$(992)	$ (844,147)	$2,189,616
Stock option exercises	1,432	14	19,397	—	—	19,411
Stock awards, net of cancellations	1,002	10	(10)	—	—	—
Dividends declared	—	—	—	—	(57,530)	(57,530)
Stock repurchases	(7,742)	(77)	(3,063)	—	(124,521)	(127,661)
Stock-based compensation	—	—	14,474	—	—	14,474
Excess tax benefits (deficiencies) from stock-based compensation	—	—	(9,671)	—	—	(9,671)
Net income	—	—	—	—	2,620,116	2,620,116
Other comprehensive income	—	—	—	197	—	197
Shareholders' Equity, December 31, 2013	381,300	$3,813	$3,052,016	$(795)	$1,593,918	$4,648,952
Stock option exercises	1,422	14	15,613	—	—	15,627
Stock awards, net of cancellations	(43)	—	—	—	—	—
Dividends declared	—	—	72	—	(86,442)	(86,370)
Stock repurchases	(13,220)	(132)	—	—	(252,887)	(253,019)
Stock-based compensation	—	—	13,786	—	26	13,812
Excess tax benefits (deficiencies) from stock-based compensation	—	—	(8,491)	—	—	(8,491)
Net income	—	—	—	—	474,338	474,338
Other comprehensive income	—	—	—	105	—	105
Shareholders' Equity, December 31, 2014	369,459	$3,695	$3,072,996	$(690)	$1,728,953	$4,804,954

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

8. Stock Compensation Plans (in part)

We maintain a stock award plan for both employees and non-employee directors. The plan provides for the grant of a variety of equity awards, including options (generally non-qualified options), restricted stock, performance shares, and restricted stock units ("RSUs") to key employees (as determined by the Compensation and Management Development Committee of the Board of Directors) for periods not exceeding ten years. Non-employee directors are entitled to an annual distribution of stock options, common stock, or restricted stock units. All options granted to non-employee directors vest immediately and are exercisable on the grant date for ten years. Options granted to employees generally vest incrementally over four years. Restricted stock and RSUs generally cliff vest after three years. Restricted stock holders have voting rights during the vesting period and both restricted stock and RSU holders receive cash dividends during the vesting period. Performance shares vest upon attainment of the stated performance targets and minimum service requirements and are converted into shares of common stock upon distribution. RSUs represent the right to receive an equal number of shares of common stock and are converted into shares of common stock upon distribution. As of December 31, 2014, there were 23.5 million shares that remained available for grant under the plan.

Our stock compensation expense for the three years ended December 31, 2014 is presented below ($000's omitted):

	2014	2013	2012
Stock options	$ 121	$ 1,056	$ 2,617
Restricted stock (including RSUs and performance shares)	13,690	13,418	10,077
Long-term incentive plans	15,481	16,006	10,203
	$29,292	$30,480	$22,897

Stock Options

A summary of stock option activity for the three years ended December 31, 2014 is presented below (000's omitted except per share data):

	2014		2013		2012	
	Shares	Weighted- Average Per Share Exercise Price	Shares	Weighted- Average Per Share Exercise Price	Shares	Weighted- Average Per Share Exercise Price
Outstanding, beginning of year	12,887	$23	17,148	$22	21,641	$21
Granted	—	—	—	—	—	—
Exercised	(1,422)	11	(1,432)	14	(2,877)	11
Forfeited	(2,095)	29	(2,829)	25	(1,616)	27
Outstanding, end of year	9,370	$23	12,887	$23	17,148	$22
Options exercisable at year end	9,265	$23	12,402	$23	15,719	$23
Weighted-average per share fair value of options granted during the year	$ —		$ —		$ —	

The following table summarizes information about the weighted-average remaining contractual lives of stock options outstanding and exercisable at December 31, 2014:

	Options Outstanding			Options Exercisable	
	Number Outstanding (000's Omitted)	Weighted- Average Remaining Contract Life (in years)	Weighted- Average Per Share Exercise Price	Number Exercisable (000's Omitted)	Weighted- Average Per Share Exercise Price
$0.01 to $11.00	907	4.0	$10	802	$10
$11.01 to $18.00	4,003	4.6	12	4,003	12
$18.01 to $25.00	417	0.3	23	417	23
$25.01 to $35.00	1,997	1.9	34	1,997	34
$35.01 to $45.00	2,046	0.9	40	2,046	40
	9,370	3.0	$23	9,265	$23

STOCK-BASED COMPENSATION

5.08 ALCOA INC. (DEC)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in millions, except per-share amounts)

	Alcoa Shareholders								
	Preferred Stock	Mandatory Convertible Preferred Stock	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Loss	Non-controlling Interests	Total Equity
Balance at December 31, 2011	$55	$—	$1,178	$7,561	$11,629	$(3,952)	$(2,627)	$3,351	$17,195
Net income (loss)	—	—	—	—	191	—	—	(29)	162
Other comprehensive loss	—	—	—	—	—	—	(775)	(73)	(848)
Cash dividends declared:									
Preferred @ $3.75 per share	—	—	—	—	(2)	—	—	—	(2)
Common @ $0.12 per share	—	—	—	—	(129)	—	—	—	(129)
Stock-based compensation (R)	—	—	—	67	—	—	—	—	67
Common stock issued: compensation plans (R)	—	—	—	(68)	—	71	—	—	3
Distributions	—	—	—	—	—	—	—	(95)	(95)
Contributions (M)	—	—	—	—	—	—	—	171	171
Other	—	—	—	—	—	—	—	(1)	(1)
Balance at December 31, 2012	55	—	1,178	7,560	11,689	(3,881)	(3,402)	3,324	16,523
Net (loss) income	—	—	—	—	(2,285)	—	—	41	(2,244)
Other comprehensive loss	—	—	—	—	—	—	(257)	(338)	(595)
Cash dividends declared:									
Preferred @ $3.75 per share	—	—	—	—	(2)	—	—	—	(2)
Common @ $0.12 per share	—	—	—	—	(130)	—	—	—	(130)
Stock-based compensation (R)	—	—	—	71	—	—	—	—	71
Common stock issued: compensation plans (R)	—	—	—	(122)	—	119	—	—	(3)
Distributions	—	—	—	—	—	—	—	(109)	(109)
Contributions (M)	—	—	—	—	—	—	—	12	12
Other	—	—	—	—	—	—	—	(1)	(1)
Balance at December 31, 2013	55	—	1,178	7,509	9,272	(3,762)	(3,659)	2,929	13,522
Net income (loss)	—	—	—	—	268	—	—	(91)	177
Other comprehensive loss	—	—	—	—	—	—	(1,018)	(254)	(1,272)
Cash dividends declared:									
Preferred—Class A @ $3.75 per share	—	—	—	—	(2)	—	—	—	(2)
Preferred—Class B @ $7.53993 per share	—	—	—	—	(19)	—	—	—	(19)
Common @ $0.12 per share	—	—	—	—	(140)	—	—	—	(140)
Stock-based compensation (R)	—	—	—	87	—	—	—	—	87
Common stock issued: compensation plans (R)	—	—	—	(584)	—	720	—	—	136
Issuance of mandatory convertible preferred stock (R)	—	3	—	1,210	—	—	—	—	1,213
Issuance of common stock (K & R)	—	—	126	1,059	—	—	—	—	1,185
Distributions	—	—	—	—	—	—	—	(120)	(120)
Contributions (M)	—	—	—	—	—	—	—	53	53
Purchase of equity from noncontrolling interest (F)	—	—	—	3	—	—	—	(31)	(28)
Other	—	—	—	—	—	—	—	2	2
Balance at December 31, 2014	$55	$ 3	$1,304	$9,284	$ 9,379	$(3,042)	$(4,677)	$2,488	$14,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(dollars in millions, except per-share amounts)

A. Summary of Significant Accounting Policies (in part)

Stock-Based Compensation. Alcoa recognizes compensation expense for employee equity grants using the non-substantive vesting period approach, in which the expense (net of estimated forfeitures) is recognized ratably over the requisite service period based on the grant date fair value. The fair value of new stock options is estimated on the date of grant using a lattice-pricing model. Determining the fair value of stock options at the grant date requires judgment, including estimates for the average risk-free interest rate, dividend yield, volatility, annual forfeiture rate, and exercise behavior. These assumptions may differ significantly between grant dates because of changes in the actual results of these inputs that occur over time.

Most plan participants can choose whether to receive their award in the form of stock options, stock awards, or a combination of both. This choice is made before the grant is issued and is irrevocable.

R. Preferred and Common Stock (in part)

Stock-Based Compensation

Alcoa has a stock-based compensation plan under which stock options and stock awards are granted in January each year to eligible employees. Most plan participants can choose whether to receive their award in the form of stock options, stock awards, or a combination of both. This choice is made before the grant is issued and is irrevocable. Stock options are granted at the closing market price of Alcoa's common stock on the date of grant and vest over a three-year service period (1/3 each year) with a ten-year contractual term (at December 31, 2014, there are 2 million options outstanding that have a six-year term and expire in 2015). Stock awards also vest over a three-year service period from the date of grant and certain of these awards also include performance conditions. In 2014, 2013, and 2012, the final number of performance stock awards earned will be based on Alcoa's achievement of sales and profitability targets over the respective three-year period. One-third of the award will be earned each year based on the performance against the pre-established targets for that year. The performance stock awards earned over the three-year period vest at the end of the third year.

In 2014, 2013, and 2012, Alcoa recognized stock-based compensation expense of $87 ($58 after-tax), $71 ($48 after-tax), and $67 ($46 after-tax), respectively, of which approximately 80%, 70%, and 60%, respectively, related to stock awards (there was no stock-based compensation expense capitalized in 2014, 2013, or 2012). At December 31, 2014, there was $64 (pretax) of unrecognized compensation expense related to non-vested stock option grants and non-vested stock award grants. This expense is expected to be recognized over a weighted average period of 1.6 years. As part of Alcoa's stock-based compensation plan design, individuals who are retirement-eligible have a six-month requisite service period in the year of grant. As a result, a larger portion of expense will be recognized in the first half of each year for these retirement-eligible employees. Of the total pretax compensation expense recognized in 2014, 2013, and 2012, $15, $14, and $13, respectively, pertains to the acceleration of expense related to retirement-eligible employees.

Stock-based compensation expense is based on the grant date fair value of the applicable equity grant. For stock awards, the fair value was equivalent to the closing market price of Alcoa's common stock on the date of grant. For stock options, the fair value was estimated on the date of grant using a lattice-pricing model, which generated a result of $2.84, $2.24, and $3.11 per option in 2014, 2013, and 2012, respectively. The lattice-pricing model uses a number of assumptions to estimate the fair value of a stock option, including an average risk-free interest rate, dividend yield, volatility, annual forfeiture rate, exercise behavior, and contractual life. The following paragraph describes in detail the assumptions used to estimate the fair value of stock options granted in 2014 (the assumptions used to estimate the fair value of stock options granted in 2013 and 2012 were not materially different).

The range of average risk-free interest rates (0.06–2.88%) was based on a yield curve of interest rates at the time of the grant based on the contractual life of the option. The dividend yield (1.4%) was based on a one-year average. Volatility (30–40%) was based on historical and implied volatilities over the term of the option. Alcoa utilized historical option forfeiture data to estimate annual pre- and post-vesting forfeitures (7%). Exercise behavior (45%) was based on a weighted average exercise ratio (exercise patterns for grants issued over the number of years in the contractual option term) of an option's intrinsic value resulting from historical employee exercise behavior. Based upon the other assumptions used in the determination of the fair value, the life of an option (6.0 years) was an output of the lattice-pricing model. The activity for stock options and stock awards during 2014 was as follows (options and awards in millions):

	Stock Options		Stock Awards	
	Number of Options	Weighted Average Exercise Price	Number of Awards	Weighted Average FMV Per Award
Outstanding, January 1, 2014	45	$10.78	16	$10.88
Granted	6	11.06	7	11.14
Exercised	(17)	8.70	—	—
Converted	—	—	(4)	16.18
Expired or forfeited	(2)	20.93	(1)	9.98
Performance share adjustment	—	—	1	10.00
Outstanding, December 31, 2014	32	11.26	19	9.98

As of December 31, 2014, the number of stock options outstanding had a weighted average remaining contractual life of 6.41 years and a total intrinsic value of $144. Additionally, 18.1 million of the stock options outstanding were fully vested and exercisable and had a weighted average remaining contractual life of 5.23 years, a weighted average exercise price of $12.13, and a total intrinsic value of $68 as of December 31, 2014. In 2014, 2013, and 2012, the cash received from stock option exercises was $150, $13, and $12 and the total tax benefit realized from these exercises was $28, $1, and $1, respectively. The total intrinsic value of stock options exercised during 2014, 2013, and 2012 was $84, $2, and $2, respectively.

COMMON STOCK ISSUED IN AN ACQUISITION

5.09 PVH CORP. (JAN)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND REDEEMABLE NON-CONTROLLING INTEREST (in part)

(In thousands, except share and per share data)

	Redeemable Non-Controlling Interest	Stockholders' Equity							
		Preferred Stock	Common Stock		Additional Paid In Capital-Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
			Shares	$1 Par Value					
January 30, 2011		$188,595	67,234,567	$67,235	$1,301,647	$757,995	$137,821	$(10,749)	$2,442,544
Net income attributable to PVH Corp.						275,697			275,697
Amortization of prior service credit related to pension and postretirement plans, net of tax (benefit) of $(344)							(535)		(535)
Foreign currency translation adjustments, net of tax (benefit) of $(1,070)							(82,062)		(82,062)
Net unrealized and realized gain on effective hedges, net of tax (benefit) of $(2,822)							18,611		18,611
Total comprehensive income attributable to PVH Corp.									211,711
Settlement of awards under stock plans			1,063,206	1,063	23,394				24,457
Tax benefits from awards under stock plans					11,943				11,943
Stock-based compensation expense					40,938				40,938
Cash dividends						(10,874)			(10,874)
Acquisition of 80,638 treasury shares								(5,270)	(5,270)
January 29, 2012		188,595	68,297,773	68,298	1,377,922	1,022,818	73,835	(16,019)	2,715,449
Net income attributable to PVH Corp.						433,840			433,840
Amortization of prior service credit related to pension and postretirement plans, net of tax (benefit) of $(338)							(542)		(542)
Foreign currency translation adjustments, net of tax expense of $469							86,492		86,492

(continued)

		Stockholders' Equity							
	Redeemable Non-Controlling Interest	Preferred Stock	Common Stock		Additional Paid In Capital-Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stock-holders' Equity
			Shares	$1 Par Value					
Net unrealized and realized (loss) on effective hedges, net of tax expense of $2,681							(19,903)		(19,903)
Total comprehensive income attributable to PVH Corp.									499,887
Settlement of awards under stock plans			837,360	837	12,434				13,271
Tax benefits from awards under stock plans					15,332				15,332
Stock-based compensation expense					33,599				33,599
Conversion of convertible preferred stock		(188,595)	4,189,358	4,189	184,406				—
Cash dividends						(10,985)			(10,985)
Acquisition of 164,065 treasury shares								(13,984)	(13,984)
February 3, 2013		—	73,324,491	73,324	1,623,693	1,445,673	139,882	(30,003)	3,252,569
Net income attributable to PVH Corp.						143,537			143,537
Amortization of prior service credit related to pension and postretirement plans, net of tax (benefit) of $(338)							(541)		(541)
Foreign currency translation adjustments, net of tax (benefit) of $(66)							(103,529)		(103,529)
Net unrealized and realized gain on effective hedges, net of tax (benefit) of $(260)							6,510		6,510
Total comprehensive income attributable to PVH Corp.									45,977
Issuance of common stock in connection with the acquisition of Warnaco, including 415,872 treasury shares			7,257,537	7,258	888,925			30,269	926,452
Warnaco employee replacement stock awards included in acquisition consideration					39,752				39,752
Settlement of awards under stock plans			2,097,546	2,098	49,473				51,571
Tax benefits from awards under stock plans					36,781				36,781
Stock-based compensation expense					57,954				57,954
Cash dividends						(12,293)			(12,293)
Acquisition of 514,978 treasury shares								(61,435)	(61,435)
Acquisition date fair value of redeemable non-controlling interest	$5,600								
Net loss attributable to redeemable non-controlling interest	(55)								
Foreign currency translation adjustments attributable to redeemable non-controlling interest	(2,094)								
Adjustment to initial fair value of redeemable non-controlling interest	2,149					(2,149)			(2,149)
February 2, 2014	$5,600	$—	82,679,574	$82,680	$2,696,578	$1,574,768	$42,322	$(61,169)	$4,335,179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Currency and share amounts in thousands, except per share data)

1. Summary of Significant Accounting Policies (in part)

Principles of Consolidation—The consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated in consolidation. Investments in entities that the Company does not control but has the ability to exercise significant influence over are accounted for using the equity method of accounting. The Company's Consolidated Income Statements include its proportionate share of the net income or loss of these entities. Please see Note 5, "Investments in Unconsolidated Affiliates," for a further discussion. As a result of the acquisition of The Warnaco Group, Inc. ("Warnaco"), the Company owns a majority interest in a joint venture in India that, as of February 2, 2014, was consolidated and accounted for as a redeemable non-controlling interest. Please see Note 6, "Redeemable Non-Controlling Interest," for a further discussion. The redeemable non-controlling interest represents the minority shareholders' proportionate share (49%) of the equity in that entity.

2. Acquisitions and Divestitures (in part)

Acquisition of Warnaco (in part)

The Company acquired on February 13, 2013 all of the outstanding equity interests in Warnaco. The results of Warnaco's operations since that date are included in the Company's consolidated financial statements. Warnaco designs, sources, markets and distributes a broad line of intimate apparel, underwear, jeanswear and swim products worldwide. Warnaco's products are sold under the *Calvin Klein*, *Speedo*, *Warner's* and *Olga* brand names and were also previously sold under the *Chaps* brand name. Ralph Lauren Corporation reacquired the *Chaps* license effective contemporaneously with the Company's acquisition of Warnaco.

The Warnaco acquisition provided the Company with complete direct global control of the *Calvin Klein* brand image and commercial decisions for the two largest *Calvin Klein* apparel categories—jeanswear and underwear. In addition, the Company believes the acquisition takes advantage of its and Warnaco's complementary geographic platforms. Warnaco's operations in Asia and Latin America should enhance the Company's opportunities in those high-growth regions, and the Company has the ability to leverage its expertise and infrastructure in North America and Europe to enhance the growth and profitability of the Calvin Klein Jeans and Calvin Klein Underwear businesses in those regions.

Fair Value of the Acquisition Consideration (in part)

The acquisition date fair value of the acquisition consideration paid at closing totaled $3,137,056, which consisted of the following:

Cash	$2,179,980
Common stock (7,674 shares, par value $1.00 per share)	926,452
Warnaco employee replacement stock awards	39,752
Elimination of pre-acquisition liability to Warnaco	(9,128)
Total fair value of the acquisition consideration	$3,137,056

The fair value of the 7,674 common shares issued was equal to the aggregate value of the shares at the closing market price of the Company's common stock on February 12, 2013, the day prior to the closing. The value of the replacement stock awards was determined by multiplying the estimated fair value of the Warnaco awards outstanding at the time of the acquisition, reduced by an estimated value of awards to be forfeited, by the proportionate amount of the vesting period that had lapsed as of the acquisition date. Also included in the acquisition consideration was the elimination of a $9,128 pre-acquisition liability to Warnaco.

The Company funded the cash portion and related costs of the Warnaco acquisition, repaid all outstanding borrowings under its previously outstanding senior secured credit facilities and repaid all of Warnaco's previously outstanding long-term debt with the net proceeds of (i) the issuance of $700,000 of 4 1/2% senior notes due 2022; and (ii) the borrowing of $3,075,000 of term loans under new senior secured credit facilities.

Please see Note 4, "Goodwill and Other Intangible Assets," Note 7, "Debt," Note 12, "Stockholders' Equity," and Note 13, "Stock-Based Compensation," for a further discussion of these aspects of the acquisition.

12. Stockholders' Equity (in part)

Common Stock Issuance

On February 13, 2013, the Company issued 7,674 shares of its common stock, par value $1.00 per share, as part of the consideration paid to the former stockholders of Warnaco in connection with the acquisition.

18. Noncash Investing and Financing Transactions (in part)

During the first quarter of 2013, the Company issued 7,674 shares of its common stock, par value $ 1.00 per share (of which 416 shares were issued from treasury stock), as part of the consideration paid to the former stockholders of Warnaco in connection with the acquisition, which resulted in an increase in common stock of $ 7,258, an increase in additional paid in capital of $ 888,925 and a decrease in treasury stock of $ 30,269. In addition, the Company issued awards valued at $ 39,752 to replace outstanding stock awards made by Warnaco to its employees, which for accounting purposes are included in the total acquisition consideration. Also included in the acquisition consideration was the elimination of a $ 9,128 pre-acquisition liability to Warnaco.

CONVERTIBLE DEBT REACHES MATURITY

5.10 CACI INTERNATIONAL INC (JUN)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(amounts in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total CACI Shareholders' Equity	Noncontrolling Interest in Joint Venture	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount			
Balance, June 30, 2011	—	$—	40,273	$4,027	$504,156	$938,495	$(3,115)	10,077	$(136,631)	$1,306,932	$2,684	$1,309,616
Net income attributable to CACI	—	—	—	—	—	167,454	—	—	—	167,454	—	167,454
Noncontrolling interest in earnings of joint venture	—	—	—	—	—	—	—	—	—	—	757	757
Stock-based compensation expense	—	—	—	—	15,499	—	—	—	—	15,499	—	15,499
Exercise of stock options and vesting of restricted stock units	—	—	353	35	1,170	—	—	—	—	1,205	—	1,205
Currency translation adjustment	—	—	—	—	—	—	(3,105)	—	—	(3,105)	—	(3,105)
Change in fair value of interest rate swap agreements, net	—	—	—	—	—	—	(1,332)	—	—	(1,332)	—	(1,332)
Repurchases of common stock	—	—	—	—	—	—	—	6,000	(328,890)	(328,890)	—	(328,890)
Treasury stock issued under stock purchase plans	—	—	—	—	4,296	—	—	(89)	218	4,514	—	4,514
Post-retirement benefit costs	—	—	—	—	—	—	(282)	—	—	(282)	—	(282)
Net distributions to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(991)	(991)
Balance, June 30, 2012	—	—	40,626	4,062	525,121	1,105,949	(7,834)	15,988	(465,303)	1,161,995	2,450	1,164,445

(continued)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total CACI Shareholders' Equity	Noncontrolling Interest in Joint Venture	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount			
Net income attributable to CACI	—	—	—	—	—	151,689	—	—	—	151,689	—	151,689
Noncontrolling interest in earnings of joint venture	—	—	—	—	—	—	—	—	—	—	987	987
Stock-based compensation expense	—	—	—	—	8,832	—	—	—	—	8,832	—	8,832
Exercise of stock options and vesting of restricted stock units	—	—	546	55	(5,191)	—	—	—	—	(5,136)	—	(5,136)
Change in fair value of interest rate swap agreements, net	—	—	—	—	—	—	262	—	—	262	—	262
Currency translation adjustment	—	—	—	—	—	—	(2,567)	—	—	(2,567)	—	(2,567)
Repurchases of common stock	—	—	—	—	—	—	—	2,059	(115,201)	(115,201)	—	(115,201)
Treasury stock issued under stock purchase plans	—	—	—	—	1,392	—	—	(97)	3,313	4,705	—	4,705
Post-retirement benefit costs	—	—	—	—	—	—	324	—	—	324	—	324
Net distributions to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(768)	(768)
Balance, June 30, 2013	—	—	41,172	4,117	530,154	1,257,638	(9,815)	17,950	(577,191)	1,204,903	2,669	1,207,572
Net income attributable to CACI	—	—	—	—	—	135,316	—	—	—	135,316	—	135,316
Noncontrolling interest in earnings of joint venture	—	—	—	—	—	—	—	—	—	—	603	603
Stock-based compensation expense	—	—	—	—	11,557	—	—	—	—	11,557	—	11,557
Exercise of stock options and vesting of restricted stock units	—	—	269	27	(4,414)	—	—	—	—	(4,387)	—	(4,387)
Change in fair value of interest rate swap agreements, net	—	—	—	—	—	—	(3,643)	—	—	(3,643)	—	(3,643)
Currency translation adjustment	—	—	—	—	—	—	13,333	—	—	13,333	—	13,333
Acquisition of common stock from call option	—	—	—	—	106,799	—	—	1,431	(106,799)	—	—	—
Treasury stock issued for conversion of the Notes	—	—	—	—	(106,799)	—	—	(1,431)	106,799	—	—	—
Repurchases of common stock	—	—	—	—	—	—	—	53	(3,495)	(3,495)	—	(3,495)
Treasury stock issued under stock purchase plans	—	—	—	—	37	—	—	(62)	3,519	3,556	—	3,556
Post-retirement benefit costs	—	—	—	—	—	—	(257)	—	—	(257)	—	(257)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(989)	(989)
Balance, June 30, 2014	—	$—	41,441	$4,144	$537,334	$1,392,954	$(382)	17,941	$(577,167)	$1,356,883	$2,283	$1,359,166

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 13. Long Term Debt (in part)

Long-term debt consisted of the following (in thousands):

	June 30,	
	2014	**2013**
Convertible notes payable	$ —	$ 300,000
Bank credit facility—term loans	810,469	131,250
Bank credit facility—revolver loans	475,000	180,000
Principal amount of long-term debt	1,285,469	611,250
Less unamortized discount	—	(11,421)
Less unamortized debt issuance costs	(5,178)	(3,522)
Total long-term debt	1,280,291	596,307
Less current portion	(41,563)	(295,517)
Long-term debt, net of current portion	$1,238,728	$ 300,790

Convertible Notes Payable

Effective May 16, 2007, the Company issued at par value $300.0 million convertible notes (the Notes) which matured on May 1, 2014. Upon maturity the aggregate conversion value was $406.8 million. Accordingly, the Company paid note holders the outstanding principal value totaling $300.0 million in cash and issued approximately 1.4 million shares of our common stock for the remaining aggregate conversion value. Concurrently with the issuance of our common stock upon conversion, the Company received 1.4 million shares of our common stock pursuant to the terms of the call option hedge transaction described below. The Company included these shares within treasury stock on our consolidated balance sheet at June 30, 2014.

The Company separately accounted for the liability and the equity (conversion option) components of the Notes and recognized interest expense on the Notes using an interest rate in effect for comparable debt instruments that do not contain conversion features. The effective interest rate for the Notes excluding the conversion option was determined to be 6.9 percent on initial recognition. The fair value of the liability component of the Notes was calculated to be $221.9 million at May 16, 2007, the date of issuance. The excess of the $300.0 million of gross proceeds over the $221.9 million fair value of the liability component, or $78.1 million, represents the fair value of the equity component, which was recorded, net of income tax effect, as additional paid-in capital within shareholders' equity. This $78.1 million difference represents a debt discount that was amortized over the seven-year term of the Notes as a non-cash component of interest expense and was fully amortized at maturity. The components of interest expense related to the Notes were as follows (in thousands):

	Year Ended June 30,		
	2014	**2013**	**2012**
Coupon interest	$ 5,313	$ 6,375	$ 6,375
Non-cash amortization of discount	11,421	12,868	12,024
Amortization of issuance costs	683	820	820
Total	$17,417	$20,063	$19,219

In connection with the issuance of the Notes, we entered into separate call option hedge and warrant transactions to reduce the potential dilutive impact upon the conversion of the Notes. The Call Options and the Warrants (each as defined below) are separate and legally distinct instruments that bind CACI and the counterparties and have no binding effect on the holders of the Notes.

The Company purchased in a private transaction at a cost of $84.4 million call options (the Call Options) to purchase approximately 5.5 million shares of its common stock at a price equal to the conversion price of $54.65 per share. The cost of the Call Options was recorded as a reduction of additional paid-in capital. The Call Options allowed CACI to receive shares of its common stock from the counterparties equal to the amount of common stock related to the excess conversion value that CACI would pay the holders of the Notes upon conversion. The Company exercised the call options upon the maturity and conversion of the Notes and received 1.4 million shares of our common stock.

For income tax reporting purposes, the Notes and the Call Options are integrated. This created an original issue discount for income tax reporting purposes, and therefore the cost of the Call Options is being accounted for as interest expense over the term of the Notes for income tax reporting purposes. The associated income tax benefit of $32.8 million to be realized for income tax reporting purposes over the term of the Notes was recorded as an increase in additional paid-in capital and a long-term deferred tax asset. The majority of this deferred tax asset was offset in the Company's balance sheet by the $30.7 million deferred tax liability originally associated with the non-cash interest expense to be recorded for financial reporting purposes.

In addition, the Company sold warrants (the Warrants) to issue approximately 5.5 million shares of CACI common stock at an exercise price of $68.31 per share. The proceeds from the sale of the Warrants totaled $56.5 million and were recorded as an increase to additional paid-in capital. The Warrants are expected to settle in FY2015.

SHARE REPURCHASE PROGRAM

5.11 THE WENDY'S COMPANY (DEC)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (in part)

(In Thousands)

	Attributable to The Wendy's Company						
	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total
Balance at January 1, 2012	$47,042	$2,779,871	$(434,999)	$(395,947)	$ 102	$ —	$1,996,069
Net income	—	—	7,083	—	—	2,384	9,467
Distribution to noncontrolling interests	—	—	—	—	—	(2,384)	(2,384)
Other comprehensive income, net	—	—	—	—	5,879	—	5,879
Cash dividends	—	—	(39,043)	—	—	—	(39,043)
Share-based compensation	—	11,473	—	—	—	—	11,473
Common stock issued upon exercises of stock options	—	(2,621)	—	10,197	—	—	7,576
Common stock issued upon vesting of restricted shares	—	(3,021)	—	2,604	—	—	(417)
Tax charge from share-based compensation	—	(2,906)	—	—	—	—	(2,906)
Other	—	(31)	(48)	220	—	—	141
Balance at December 30, 2012	47,042	2,782,765	(467,007)	(382,926)	5,981	—	1,985,855
Net income (loss)	—	—	45,487	—	—	(855)	44,632
Other comprehensive (loss) income, net	—	—	—	—	(16,318)	729	(15,589)
Cash dividends	—	—	(70,681)	—	—	—	(70,681)
Repurchases of common stock	—	—	—	(69,320)	—	—	(69,320)
Share-based compensation	—	19,613	—	—	—	—	19,613
Common stock issued upon exercises of stock options	—	(1,665)	—	41,645	—	—	39,980
Common stock issued upon vesting of restricted shares	—	(2,868)	—	981	—	—	(1,887)
Tax charge from share-based compensation	—	(3,431)	—	—	—	—	(3,431)
Consolidation of the Japan JV	—	—	—	—	—	(2,735)	(2,735)
Contributions from noncontrolling interests	—	—	—	—	—	219	219
Deconsolidation of the Japan JV	—	—	—	—	—	2,642	2,642
Other	—	31	(14)	171	—	—	188
Balance at December 29, 2013	47,042	2,794,445	(492,215)	(409,449)	(10,337)	—	1,929,486
Net income	—	—	121,434	—	—	—	121,434
Other comprehensive loss, net	—	—	—	—	(20,957)	—	(20,957)
Cash dividends	—	—	(75,117)	—	—	—	(75,117)
Repurchases of common stock	—	—	—	(301,216)	—	—	(301,216)
Share-based compensation	—	28,243	—	—	—	—	28,243
Common stock issued upon exercises of stock options	—	3,485	—	27,290	—	—	30,775
Common stock issued upon vesting of restricted shares	—	(7,812)	—	4,006	—	—	(3,806)
Tax benefit from share-based compensation	—	8,546	—	—	—	—	8,546
Other	—	58	(19)	149	—	—	188
Balance at December 28, 2014	$47,042	$2,826,965	$(445,917)	$(679,220)	$(31,294)	$ —	$1,717,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In Thousands Except Per Share Amounts)

(13) Stockholders' Equity (in part)

Treasury Stock

There were 470,424 shares of common stock issued at the beginning and end of 2014, 2013 and 2012. Treasury stock activity for 2014, 2013 and 2012 was as follows:

	Treasury Stock		
	2014	2013	2012
Number of shares at beginning of year	77,637	78,051	80,700
Repurchases of common stock	32,716	8,720	—
Common shares issued:			
Stock options, net	(4,930)	(8,771)	(2,079)
Restricted stock, net	(732)	(202)	(211)
Director fees	(24)	(35)	(45)
Other	(53)	(126)	(314)
Number of shares at end of year	104,614	77,637	78,051

Repurchases of Common Stock

In August 2014, our Board of Directors authorized a repurchase program for up to $100,000 of our common stock through December 31, 2015, when and if market conditions warrant and to the extent legally permissible. During 2014, the Company repurchased 2,986 shares with an aggregate purchase price of $23,889, excluding commissions of $52. Subsequent to December 28, 2014 through February 18, 2015, we repurchased 545 shares for an aggregate purchase price of $5,996, excluding commissions of $10.

In January 2014, our Board of Directors authorized a repurchase program for up to $275,000 of our common stock through the end of fiscal year 2014. As part of the repurchase program, the Board of Directors also authorized the commencement of a modified Dutch auction tender offer to repurchase shares of our common stock for an aggregate purchase price of up to $275,000. On February 11, 2014, the tender offer expired and on February 19, 2014, the Company repurchased 29,730 shares for an aggregate purchase price of $275,000. As a result, the repurchase program authorized in January 2014 was completed. The Company incurred costs of $2,275 in connection with the tender offer, which were recorded to treasury stock.

In November 2012, our Board of Directors authorized the repurchase of up to $100,000 of our common stock through December 29, 2013. During 2013, the Company repurchased 8,720 shares with an aggregate purchase price of $69,167, excluding commissions of $153. The authorization for the repurchase program expired at the end of the 2013 fiscal year. No repurchases were made during the year ended December 30, 2012.

WARRANTS

5.12 AMERISOURCEBERGEN CORPORATION (SEP)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
September 30, 2011	$4,965	$4,082,978	$4,055,664	$(50,141)	$(5,225,881)	$2,867,585
Net income			718,986			718,986
Other comprehensive income				17,484		17,484
Cash dividends, $0.52 per share			(132,760)			(132,760)
Exercise of stock options	45	89,476				89,521
Excess tax benefit from exercise of stock options		25,703				25,703
Share-based compensation expense		26,645				26,645
Common stock purchases for employee stock purchase plan		(299)				(299)
Treasury stock retirement	(2,388)	(1,972,030)	(3,371,467)		5,345,885	—
Purchases of common stock					(1,154,208)	(1,154,208)
Employee tax withholdings related to restricted share vesting					(3,815)	(3,815)
Other	3	(3)				—

(continued)

(In thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
September 30, 2012	2,625	2,252,470	1,270,423	(32,657)	(1,038,019)	2,454,842
Net income			433,707			433,707
Other comprehensive loss				(2,826)		(2,826)
Cash dividends, $0.84 per share			(195,716)			(195,716)
Exercise of stock options	50	114,441				114,491
Excess tax benefit from exercise of stock options		41,222				41,222
Share-based compensation expense		36,751				36,751
Settlement of accelerated stock repurchase agreement		(10,312)				(10,312)
Common stock purchases for employee stock purchase plan		(260)				(260)
Warrant expense		90,055				90,055
Purchases of capped call options		(163,372)				(163,372)
Purchases of common stock					(473,864)	(473,864)
Employee tax withholdings related to restricted share vesting					(4,973)	(4,973)
Other	3	(3)				—
September 30, 2013	2,678	2,360,992	1,508,414	(35,483)	(1,516,856)	2,319,745
Net income			276,484			276,484
Other comprehensive loss				(16,563)		(16,563)
Cash dividends, $0.94 per share			(214,469)			(214,469)
Exercise of stock options	30	81,535				81,565
Excess tax benefit from exercise of stock options		46,341				46,341
Share-based compensation expense		43,107				43,107
Common stock purchases for employee stock purchase plan		(206)				(206)
Warrant expense		422,739				422,739
Purchases of capped call options		(205,320)				(205,320)
Purchases of common stock					(789,927)	(789,927)
Employee tax withholdings related to restricted share vesting					(6,597)	(6,597)
Other	3	(3)				—
September 30, 2014	$2,711	$2,749,185	$1,570,429	$(52,046)	$(2,313,380)	$1,956,899

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Warrants

The Company accounts for the warrants issued to subsidiaries of Walgreens and Alliance Boots GmbH ("Alliance Boots") (collectively, the "Warrants") in accordance with the guidance for equity-based payments to non-employees. The various agreements and arrangements with Walgreens and Alliance Boots established various performance commitments that they must satisfy during the vesting periods of the Warrants, and if not fulfilled, the Company has the right to cancel the Warrants. Using a binomial lattice model approach, the fair value of the Warrants was initially measured at the date of issuance, and is being expensed over the three and four year vesting periods as an operating expense. The fair value of the Warrants are re-measured at the end of each quarterly reporting period, and an adjustment is recorded in the statement of operations to record the impact as if the newly measured fair value of the awards had been used in recognizing expense starting when the awards were originally issued and through the remeasurement date. In total, the Warrants were valued at $1,139.8 million as of September 30, 2014. The valuation of the Warrants considers the Company's Common Stock price and various assumptions, such as the volatility of the Company's Common Stock, the expected remaining life of the Warrants, the expected dividend yield, and the risk-free interest rate. As a result, future Warrant expense could fluctuate significantly (see Note 7).

Note 7. Stockholders' Equity and Earnings per Share (in part)

In March 2013, the Company, Walgreens, and Alliance Boots entered into various agreements and arrangements pursuant to which Walgreens and Alliance Boots together were granted the right to purchase a minority equity position in the Company, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of the Company's Common Stock (approximately 7% of the Company's Common Stock, on a fully diluted basis as of the date of issuance, assuming the exercise in full of the Warrants, as defined below) in open market transactions. In connection with these arrangements, Walgreens Pharmacy Strategies, LLC, a wholly owned subsidiary of Walgreens, was issued (a) a warrant to purchase up to 11,348,456 shares of the Company's Common Stock at an exercise price of $51.50 per share exercisable during a six-month period beginning in March 2016, and (b) a warrant to purchase up to 11,348,456 shares of the Company's Common Stock at an exercise price of $52.50 per share exercisable during a six-month period beginning in March 2017 and Alliance Boots Luxembourg S.à.r.l., a wholly owned subsidiary of Alliance Boots, was issued (a) a warrant to purchase up to 11,348,456 shares of the

Company's common Stock at an exercise price of $51.50 per share exercisable during a six-month period beginning in March 2016, and (b) a warrant to purchase up to 11,348,456 shares of the Company's Common Stock at an exercise price of $52.50 per share exercisable during a six-month period beginning March 2017 (collectively, the "Warrants).

The Company valued these Warrants as of March 18, 2013 (date of issuance) and revised the valuation each subsequent quarter. As of September 30, 2014, the Warrants with an exercise price of $51.50 were valued at $25.20 per share and the Warrants with an exercise price of $52.50 were valued at $25.02 per share. In total, the Warrants were valued at $1,139.8 million as of September 30, 2014.

The Company has taken steps to mitigate the potentially dilutive effect that exercise of the Warrants could have by hedging a portion of its future obligation to deliver Common Stock with a financial institution and repurchasing additional shares of its Common Stock for the Company's own account over time. In June 2013, the Company commenced its hedging strategy by entering into a contract with a financial institution pursuant to which it has executed a series of issuer capped call transactions ("Capped Calls"). The Capped Calls give the Company the right to buy shares of its Common Stock subject to the Warrants at specified prices at maturity, should the Warrants be exercised in 2016 and 2017 and were intended to cover approximately 60% of the shares subject to the Warrants at the time the Company entered into the transactions. The Capped Calls are subject to a "cap" price. If the Company's share price exceeds the "cap" price in the Capped Calls at the time the Warrants are exercised, the number of shares that will be delivered to the Company under the Capped Calls will be reduced, and accordingly, will cover less than 60% of the shares of Common Stock subject to the Warrants.

Through September 30, 2013, the Company purchased Capped Calls on 15.3 million shares of its Common Stock for a total premium of $163.4 million. During the fiscal year ended September 30, 2014, the Company completed this hedge transaction by purchasing Capped Calls on an additional 11.9 million shares of its Common Stock for a total premium of $205.3 million. The Capped Calls permit the Company to acquire shares of its Common Stock at strike prices of $51.50 and $52.50 and have expiration dates ranging from February 2016 through October 2017. The Capped Calls permit net share settlement, which is limited by caps in the market price of the Company's Common Stock. The Company has accounted for the Capped Calls as equity contracts, and therefore, the above premiums were recorded as reductions to paid-in-capital.

In May 2014, the Company's board of directors authorized a special program allowing the Company to purchase up to $650 million of its outstanding shares of Common Stock, subject to market conditions, as an opportunity to further mitigate the potentially dilutive effect of the Warrants and supplements the Company's previously executed warrant hedging strategy. Through September 30, 2014, the Company purchased 3.4 million shares of its Common Stock for a total of $252.0 million under this program, which included $18.0 million of purchases that cash settled in October 2014. The Company has $398.0 million of availability remaining under this special share repurchase program as of September 30, 2014.

Basic earnings per share is computed on the basis of the weighted average number of shares of Common Stock outstanding during the periods presented. Diluted earnings per share is computed on the basis of the weighted average number of shares of Common Stock outstanding during the periods plus the dilutive effect of stock options, restricted stock, restricted stock units, and the Warrants. The following table (in thousands) is a reconciliation of the numerator and denominator of the computation of basic and diluted earnings per share.

	September 30,		
	2014	2013	2012
Weighted average common shares outstanding—basic	227,367	231,067	252,906
Effect of dilutive securities—stock options, restricted stock, and restricted stock units	4,787	4,278	3,997
Dilutive effect of Warrants	3,251	—	—
Weighted average common shares outstanding—diluted	235,405	235,345	256,903

The potentially dilutive employee stock options, restricted stock, restricted stock units, and Warrants that were antidilituve for fiscal 2014 and 2012 were 2.0 million and 2.1 million, respectively. There were no potentially dilutive stock options, restricted stock, or restricted stock units that were antidilutive for fiscal 2013. All Warrants were antidilutive for fiscal 2013.

Common Stock

DISCLOSURE

5.13 Rule 5-02 of Regulation S-X requires stating on the face of the balance sheet the number of shares issued or outstanding, as appropriate, and the dollar amount. The number of shares authorized should be disclosed on the balance sheet or in the notes.

Preferred Stock

PRESENTATION

5.14 FASB ASC 505-10-50-4 requires that if preferred stock or other senior stock has a preference in involuntary liquidation, the entity should disclose the liquidation preference of the stock (the relationship between the preference in liquidation and the par or stated value of the shares). That disclosure should be made in the Equity section of the balance sheet in the aggregate, either parenthetically or in short.

5.15 FASB ASC 480-10-05-1 requires that an issuer classify certain financial instruments with characteristics of both liabilities and equity as liabilities because those financial instruments embody obligations of the issuer. Some issuances of stock, such as mandatorily redeemable preferred stock, impose unconditional obligations requiring the issuer to transfer assets or issue its equity shares.

DISCLOSURE

5.16 FASB ASC 505-10-50-5 requires disclosure of both of the following either on the face of the statement of financial position or in the notes thereto:

- The aggregate or per-share amounts at which preferred stock may be called or is subject to redemption through sinking-fund operations or otherwise
- The aggregate and per-share amounts of arrearages in cumulative preferred dividends

Rule 5-02 of SEC Regulation S-X also calls for disclosure of the number of shares authorized and the number of shares issued or outstanding, as appropriate.

PRESENTATION AND DISCLOSURE EXCERPT

PREFERRED STOCK

5.17 JPMORGAN CHASE & CO. (DEC)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended December 31, (In millions, except per share data)	**2014**	**2013**	**2012**
Preferred Stock			
Balance at January 1	$11,158	$ 9,058	$ 7,800
Issuance of preferred stock	8,905	3,900	1,258
Redemption of preferred stock	—	(1,800)	—
Balance at December 31	20,063	11,158	9,058
Common Stock			
Balance at January 1 and December 31	4,105	4,105	4,105
Additional Paid-In Capital			
Balance at January 1	93,828	94,604	95,602
Shares issued and commitments to issue common stock for employee stock-based compensation awards, and related tax effects	(508)	(752)	(736)
Other	(50)	(24)	(262)
Balance at December 31	93,270	93,828	94,604

(continued)

Year Ended December 31, (in millions, except per share data)	**2014**	**2013**	**2012**
Retained Earnings			
Balance at January 1	115,756	104,223	88,315
Net income	21,762	17,923	21,284
Dividends declared:			
Preferred stock	(1,125)	(805)	(647)
Common stock ($1.58, $1.44 and $1.20 per share for 2014, 2013 and 2012, respectively)	(6,078)	(5,585)	(4,729)
Balance at December 31	130,315	115,756	104,223
Accumulated Other Comprehensive Income/(Loss)			
Balance at January 1	1,199	4,102	944
Other comprehensive income/(loss)	990	(2,903)	3,158
Balance at December 31	2,189	1,199	4,102
Shares Held in RSU Trust, at Cost			
Balance at January 1	(21)	(21)	(38)
Reissuance from RSU Trust	—	—	17
Balance at December 31	(21)	(21)	(21)
Treasury Stock, at Cost			
Balance at January 1	(14,847)	(12,002)	(13,155)
Purchase of treasury stock	(4,760)	(4,789)	(1,415)
Reissuance from treasury stock	1,751	1,944	2,574
Share repurchases related to employee stock-based compensation awards	—	—	(6)
Balance at December 31	(17,856)	(14,847)	(12,002)
Total stockholders ' equity	$232,065	$211,178	$204,069

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 22—Preferred Stock

At December 31, 2014 and 2013, JPMorgan Chase was authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of $1.00 per share.

In the event of a liquidation or dissolution of the Firm, JPMorgan Chase 's preferred stock then outstanding takes precedence over the Firm's common stock for the payment of dividends and the distribution of assets.

The following is a summary of JPMorgan Chase 's non-cumulative preferred stock outstanding as of December 31, 2014 and 2013.

	Shares at December 31, (Represented by Depositary Shares)[a]		**Carrying value (in millions) at December 31,**			**Contractual Rate in Effect at December 31, 2014**	**Earliest Redemption Date**	**Date at Which Dividend Rate Becomes Floating**	**Floating Annual Rate of Three-Month LIBOR Plus:**
	2014	**2013**	**2014**	**2013**	**Issue Date**				
Fixed-rate:									
Series O	125,750	125,750	$ 1,258	$ 1,258	8/27/2012	5.500%	9/1/2017	NA	NA
Series P	90,000	90,000	900	900	2/5/2013	5.450	3/1/2018	NA	NA
Series T	92,500	—	925	—	1/30/2014	6.700	3/1/2019	NA	NA
Series W	88,000	—	880	—	6/23/2014	6.300	9/1/2019	NA	NA
Fixed-To-Floating Rate:									
Series I	600,000	600,000	6,000	6,000	4/23/2008	7.900%	4/30/2018	4/30/2018	LIBOR + 3.47%
Series Q	150,000	150,000	1,500	1,500	4/23/2013	5.150	5/1/2023	5/1/2023	LIBOR + 3.25
Series R	150,000	150,000	1,500	1,500	7/29/2013	6.000	8/1/2023	8/1/2023	LIBOR + 3.30
Series S	200,000	—	2,000	—	1/22/2014	6.750	2/1/2024	2/1/2024	LIBOR + 3.78
Series U	100,000	—	1,000	—	3/10/2014	6.125	4/30/2024	4/30/2024	LIBOR + 3.33
Series V	250,000	—	2,500	—	6/9/2014	5.000	7/1/2019	7/1/2019	LIBOR + 3.32
Series X	160,000	—	1,600	—	9/23/2014	6.100	10/1/2024	10/1/2024	LIBOR + 3.33
Total preferred stock	2,006,250	1,115,750	$20,063	$11,158					

[a] Represented by depositary shares.

Each series of preferred stock has a liquidation value and redemption price per share of $10,000, plus any accrued but unpaid dividends.

Dividends on fixed-rate preferred stock are payable quarterly. Dividends on fixed-to-floating rate preferred stock are payable semiannually while at a fixed rate, and will become payable quarterly after converting to a floating rate.

On September 1, 2013, the Firm redeemed all of the outstanding shares of its 8.625% Non-Cumulative Preferred Stock, Series J at their stated redemption value.

Redemption Rights

Each series of the Firm's preferred stock may be redeemed on any dividend payment date on or after the earliest redemption date for that series. All outstanding preferred stock series except Series I may also be redeemed following a capital treatment event, as described in the terms of each series. Any redemption of the Firm's preferred stock is subject to non-objection from the Federal Reserve.

Subsequent Events

Issuance of preferred stock

On February 12, 2015, the Firm issued $1.4 billion of noncumulative preferred stock.

Dividends

PRESENTATION

5.18 For public entities with respect to any dividends, Rule 3-04 of Regulation S-X requires the amount per share and in the aggregate for each class of shares to be stated. This may be stated on the financial statements or within the note disclosures. Further, Rule 4-08 of Regulation S-X requires disclosure of any restrictions that limit the payment of dividends.

PRESENTATION AND DISCLOSURE EXCERPTS

CASH DIVIDENDS

5.19 IRON MOUNTAIN INCORPORATED (DEC)
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2012	**2013**	**2014**
Revenues:			
Storage rental	$1,733,138	$1,784,721	$1,860,243
Service	1,270,817	1,239,902	1,257,450
Total Revenues	3,003,955	3,024,623	3,117,693
Operating Expenses:			
Cost of sales (excluding depreciation and amortization)	1,277,113	1,288,878	1,344,636
Selling, general and administrative	850,371	924,031	869,572
Depreciation and amortization	316,344	322,037	353,143
Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net	4,661	430	1,065
Total Operating Expenses	2,448,489	2,535,376	2,568,416
Operating Income (Loss)	555,466	489,247	549,277
Interest Expense, Net (includes Interest Income of $2,418, $4,208 and $2,443 in 2012, 2013 and 2014, respectively)	242,599	254,174	260,717
Other Expense (Income), Net	16,062	75,202	65,187
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and (Gain) Loss on Sale of Real Estate	296,805	159,871	223,373
Provision (Benefit) for Income Taxes	114,304	62,127	(97,275)
(Gain) Loss on Sale of Real Estate, Net of Tax	(206)	(1,417)	(8,307)
Income (Loss) from Continuing Operations	182,707	99,161	328,955
(Loss) Income from Discontinued Operations, Net of Tax	(6,774)	831	(209)
(Loss) Gain on Sale of Discontinued Operations, Net of Tax	(1,885)	—	—
Net Income (Loss)	174,048	99,992	328,746
Less: Net Income (Loss) Attributable to Noncontrolling Interests	3,126	3,530	2,627
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 170,922	$ 96,462	$ 326,119

(continued)

	Year Ended December 31,		
	2012	2013	2014
Earnings (Losses) Per Share—Basic:			
Income (Loss) from Continuing Operations	$ 1.05	$ 0.52	$ 1.68
Total (Loss) Income from Discontinued Operations	$ (0.05)	$ —	$ —
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 0.98	$ 0.51	$ 1.67
Earnings (Losses) Per Share—Diluted:			
Income (Loss) from Continuing Operations	$ 1.04	$ 0.52	$ 1.67
Total (Loss) Income from Discontinued Operations	$ (0.05)	$ —	$ —
Net Income (Loss) Attributable to Iron Mountain Incorporated	$ 0.98	$ 0.50	$ 1.66
Weighted Average Common Shares Outstanding—Basic	173,604	190,994	195,278
Weighted Average Common Shares Outstanding—Diluted	174,867	192,412	196,749
Dividends Declared per Common Share	$ 5.1200	$ 1.0800	$ 5.3713

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except share data)

		Iron Mountain Incorporated Stockholders' Equity					
		Common Stock					
	Total	Shares	Amounts	Additional Paid-in Capital	Earnings in Excess of Distributions (Distributions in Excess of Earnings)	Accumulated Other Comprehensive Items, Net	Non-controlling Interests
Balance, December 31, 2011	$1,249,742	172,140,966	$1,721	$ 343,603	$ 898,053	$ (2,203)	$ 8,568
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of $1,045	73,453	1,958,690	20	73,433	—	—	—
Special distribution in connection with conversion to REIT (see Note 13)	—	17,009,281	170	559,840	(560,010)	—	—
Stock repurchases	(34,688)	(1,103,149)	(11)	(34,677)	—	—	—
Parent cash dividends declared	(328,707)	—	—	—	(328,707)	—	—
Currency translation adjustment	23,186	—	—	—	—	22,517	669
Net income (loss)	174,048	—	—	—	170,922	—	3,126
Noncontrolling interests equity contributions	836	—	—	—	—	—	836
Noncontrolling interests dividends	(1,722)	—	—	—	—	—	(1,722)
Purchase of noncontrolling interests	1,000	—	—	—	—	—	1,000
Balance, December 31, 2012	1,157,148	190,005,788	1,900	942,199	180,258	20,314	12,477
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax benefit of $2,389	50,479	1,421,132	14	50,465	—	—	—
Parent cash dividends declared	(208,900)	—	—	—	(208,900)	—	—
Currency translation adjustment	(31,532)	—	—	—	—	(29,900)	(1,632)
Market value adjustments for securities, net of tax	926	—	—	—	—	926	—
Net income (loss)	99,992	—	—	—	96,462	—	3,530
Noncontrolling interests equity contributions	743	—	—	—	—	—	743
Noncontrolling interests dividends	(2,270)	—	—	—	—	—	(2,270)
Purchase of noncontrolling interests	(14,852)	—	—	(12,500)	—	—	(2,352)
Balance, December 31, 2013	1,051,734	191,426,920	1,914	980,164	67,820	(8,660)	10,496
Issuance of shares under employee stock purchase plan and option plans and stock-based compensation, including tax deficiency of $60	64,473	2,638,554	26	64,447	—	—	—
Parent cash dividends declared	(493,513)	—	—	—	(493,513)	—	—
Special distribution in connection with conversion to REIT (see Note 13)	—	15,753,338	158	559,821	(559,979)	—	—
Currency translation adjustment	(66,867)	—	—	—	—	(66,424)	(443)
Market value adjustments for securities, net of tax	53	—	—	—	—	53	—
Net income (loss)	328,746	—	—	—	326,119	—	2,627
Noncontrolling interests equity contributions	1,800	—	—	—	—	—	1,800
Noncontrolling interests dividends	(1,613)	—	—	—	—	—	(1,613)
Purchase of noncontrolling interests	(20,416)	—	—	(17,693)	—	—	(2,723)
Divestiture of noncontrolling interests	5,558	—	—	2,102	—	—	3,456
Balance, December 31, 2014	$ 869,955	209,818,812	$2,098	$1,588,841	$(659,553)	$(75,031)	$13,600

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In thousands, except share and per share data)

1. Nature of Business (in part)

We previously disclosed that, as part of our plan to convert to a real estate investment trust ("REIT") for federal income tax purposes and elect REIT status effective January 1, 2014 (the "Conversion Plan"), we sought private letter rulings ("PLRs") from the United States Internal Revenue Service (the "IRS") relating to numerous technical tax issues, including classification of our steel racking structures as qualified real estate assets. We submitted the PLR requests in the third quarter of 2012, and on June 25, 2014, we announced that we received the favorable PLRs from the IRS necessary for our conversion to a REIT. After receipt of the PLRs, our board of directors unanimously approved our conversion to a REIT for our taxable year beginning January 1, 2014.

In connection with the Conversion Plan, and, in particular, to impose ownership limitations customary for REITs, on January 20, 2015, we completed the merger with our predecessor and all outstanding shares of our predecessor's common stock were converted into a right to receive an equal number of shares of our common stock. Accordingly, references herein to our "common stock" refer to our common stock and the common stock of our predecessor, as applicable.

7. Income Taxes (in part)

As noted previously, on June 25, 2014, we announced that we received the favorable PLRs from the IRS necessary for our conversion to a REIT. In the PLRs, the IRS addressed and favorably ruled on our assets and revenue model, including regarding our steel racking structures as real estate for REIT purposes under the Internal Revenue Code of 1986, as amended (the "Code"), our global operations and our transition plans from a C corporation to a REIT. The PLRs are subject to certain qualifications and are based upon certain representations and statements made by us. If such representations and statements are untrue or incomplete in any material respect (including as a result of a material change in relevant facts), we may not be able to rely on the PLRs. After receipt of the PLRs, our board of directors unanimously approved our conversion to a REIT for our taxable year beginning January 1, 2014.

As a REIT, we are generally permitted to deduct from our federal taxable income the dividends we pay to our stockholders. The income represented by such dividends is not subject to federal taxation at the entity level but is taxed, if at all, at the stockholder level. The income of our domestic taxable REIT subsidiaries ("TRSs"), which hold our domestic operations that may not be REIT-compliant as currently operated and structured, is subject, as applicable, to federal and state corporate income tax. In addition, we and our subsidiaries continue to be subject to foreign income taxes in jurisdictions in which they hold assets or conduct operations, regardless of whether held or conducted through subsidiaries disregarded for federal tax purposes or TRSs. We will also be subject to a separate corporate income tax on any gains recognized during a specified period (generally ten years) following the REIT conversion that are attributable to "built-in" gains with respect to the assets that we owned on January 1, 2014; this built-in gains tax will also be imposed on our depreciation recapture recognized into income in 2014 and subsequent taxable years as a result of accounting method changes commenced in our pre-REIT period. If we fail to remain qualified for taxation as a REIT, we will be subject to federal income tax at regular corporate tax rates. Even if we remain qualified for taxation as a REIT, we may be subject to some federal, state, local and foreign taxes on our income and property in addition to taxes owed with respect to our TRS operations. In particular, while state income tax regimes often parallel the federal income tax regime for REITs, many states do not completely follow federal rules and some do not follow them at all.

As a result of our REIT conversion, we recorded a net tax benefit of $212,151 during the year ended December 31, 2014 for the revaluation of certain deferred tax assets and liabilities associated with the REIT conversion. In 2014, we recorded an increase to the tax provision of $29,298 associated with tax accounting method changes consistent with our REIT conversion, primarily affected through the filing of amended tax returns. The primary other reconciling items between the federal statutory rate of 35% and our overall effective tax rate during the year ended December 31, 2014 was an increase of $46,356 in our tax provision from the repatriation discussed below and other net tax adjustments related to the REIT conversion, including a tax benefit of $63,333 primarily related to the dividends paid deduction. As a REIT, we are entitled to a deduction for dividends paid, resulting in a substantial reduction of federal income tax expense. As a REIT, substantially all of our income tax expense will be incurred based on the earnings generated by our foreign subsidiaries and our domestic TRSs.

13. Stockholders' Equity Matters

On September 15, 2014, we announced the declaration by our board of directors of a special distribution of $700,000 (the "Special Distribution"), payable to stockholders of record as of September 30, 2014 (the "Record Date"). The Special Distribution represented the remaining amount of our undistributed earnings and profits attributable to all taxable periods ending on or prior to December 31, 2013, which in accordance with tax rules applicable to REIT conversions, we were required to pay to our stockholders on or before December 31, 2014 in connection with our conversion to a REIT. The Special Distribution also included certain items of taxable income that we recognized in 2014, such as depreciation recapture in respect of accounting method changes commenced in our pre-REIT period as well as foreign earnings and profits recognized as dividend income. The Special Distribution followed an initial special distribution of $700,000 paid to stockholders in November 2012.

The Special Distribution was paid on November 4, 2014 (the "Payment Date") to stockholders of record as of the Record Date in a combination of common stock and cash. Stockholders had the right to elect to be paid their pro rata portion of the Special Distribution in all common stock or all cash, with the total cash payment to stockholders limited to no more than $140,000, or 20% of the total Special Distribution, not including cash paid in lieu of fractional shares. Based on stockholder elections, we paid $140,000 of the Special Distribution in cash, not including cash paid in lieu of fractional shares, with the balance paid in the form of common stock. Our shares of common stock were valued for purposes of the Special Distribution based upon the average closing price on the three trading days following October 24, 2014, or $35.55 per share, and as such, we issued approximately 15,750,000 shares of common stock in the Special Distribution. These shares impact weighted average shares outstanding from the date of issuance, and thus impact our earnings per share data prospectively from the Payment Date.

In November 2014, our board of directors declared a distribution of $0.255 per share (the "Catch-Up Distribution") payable on December 15, 2014 to stockholders of record on November 28, 2014. Our board of directors declared the Catch-Up Distribution because our cash distributions paid from January 2014 through July 2014 were declared and paid before our board of directors had determined that we would elect REIT status effective January 1, 2014 and were lower than they otherwise would have been if the final determination to elect REIT status effective January 1, 2014 had been prior to such distributions.

In February 2010, our board of directors adopted a dividend policy under which we have paid, and in the future intend to pay, quarterly cash dividends on our common stock. Declaration and payment of future quarterly dividends is at the discretion of our board of directors. In 2013 and 2014, our board of directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount	Payment Date
March 14, 2013	$0.2700	March 25, 2013	$ 51,460	April 15, 2013
June 6, 2013	0.2700	June 25, 2013	51,597	July 15, 2013
September 11, 2013	0.2700	September 25, 2013	51,625	October 15, 2013
December 16, 2013	0.2700	December 27, 2013	51,683	January 15, 2014
March 14, 2014	0.2700	March 25, 2014	51,812	April 15, 2014
May 28, 2014	0.2700	June 25, 2014	52,033	July 15, 2014
September 15, 2014	0.4750	September 25, 2014	91,993	October 15, 2014
September 15, 2014(1)	3.6144	September 30, 2014	700,000	November 4, 2014
November 17, 2014(2)	0.2550	November 28, 2014	53,450	December 15, 2014
November 17, 2014	0.4750	December 5, 2014	99,617	December 22, 2014

[1] Represents Special Distribution.
[2] Represents Catch-Up Distribution.

During the years ended December 31, 2012, 2013 and 2014, we declared distributions to our stockholders of $886,896, $206,365 and $1,048,905, respectively. These distributions represent approximately $5.12 per share, $1.08 per share and $5.37 per share for the years ended December 31, 2012, 2013 and 2014, respectively, based on the weighted average number of common shares outstanding during each respective year. For each of 2012 and 2014, total amounts distributed included Special Distributions (as described above) of $700,000, or $4.07 and $3.61 per share, respectively, associated with the Company's conversion to a REIT.

For federal income tax purposes, distributions to our stockholders are generally treated as nonqualified ordinary dividends, qualified ordinary dividends or return of capital. The IRS requires historical C corporation earnings and profits to be distributed prior to any REIT distributions, which may affect the character of each distribution to our stockholders, including whether and to what extent each distribution is characterized as a qualified or nonqualified ordinary dividend. For the years ended December 31, 2012, 2013 and 2014, the dividends we paid on our common shares were classified as follows:

	Year Ended December 31,		
	2012	2013	2014
Nonqualified ordinary dividends	0.0%	0.0%	26.4%
Qualified ordinary dividends	100.0%	100.0%	56.4%
Return of capital	0.0%	0.0%	17.2%
	100.0%	100.0%	100.0%

In December 2013, our board of directors approved, and we entered into, a REIT Status Protection Rights Agreement (the "Rights Agreement") which provided for a dividend of one preferred stock purchase right (a "Right") for each share of our common stock outstanding on December 20, 2013. On November 18, 2014, we entered into the First Amendment to the Rights Agreement to extend the expiration of the Rights Agreement from December 9, 2014 to February 28, 2015. On January 20, 2015, in connection with the merger with our predecessor, the Rights Agreement was terminated.

CASH AND STOCK DIVIDENDS

5.20 ROCK-TENN COMPANY (SEP)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in part)

Liquidity and Capital Resources (in part)

Cash Flow Activity (in part)

	Year Ended September 30,		
(In millions)	2014	2013	2012
Net cash provided by operating activities	$1,151.8	$1,032.5	$ 656.7
Net cash used for investing activities	$ (967.4)	$ (403.6)	$(544.2)
Net cash used for by financing activities	$ (188.1)	$ (629.2)	$(118.6)

In fiscal 2014, net cash used for financing activities consisted primarily of $236.3 million used for stock repurchases and $101.1 million of cash dividends paid to shareholders partially offset by the net additions to debt aggregating $150.4 million. Net cash used for financing activities in fiscal 2013 consisted primarily of the net repayment of debt aggregating $557.6 million and $75.3 million of cash dividends paid to shareholders. In fiscal 2012, net cash used for financing activities consisted primarily of the net repayment of debt aggregating $46.5 million, $56.5 million of cash dividends paid to shareholders and $30.2 million of debt issuance and extinguishment costs.

In October 2014, our board of directors approved our November 2014 quarterly dividend of $0.1875 per share, indicating a current annualized dividend of $0.75 per share and a 7% increase over the $0.175 per share quarterly dividend paid in each quarter of fiscal 2014. In October 2013, our board of directors approved our November 2013 quarterly dividend of $0.175 per share, indicating a current annualized dividend of $0.70 per share and a 17% increase over the $0.15 per share quarterly dividend paid in May 2013 and August 2013. The $0.15 per share we paid in May 2013 and August 2013 was a 33% increase over the $0.1125 per share accelerated February 2013 quarterly dividend paid in December 2012 and the $0.1125 per share quarterly dividend paid in November 2012. During fiscal 2014, we paid aggregate dividends on our Common Stock of $0.70 per share and during fiscal 2013 we paid aggregate dividends of $0.525 per share.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended September 30,		
(In millions, except per share data)	2014	2013	2012
Net sales	$9,895.1	$9,545.4	$9,207.6
Cost of goods sold	7,961.5	7,698.9	7,674.9
Gross profit	1,933.6	1,846.5	1,532.7
Selling, general and administrative expenses	975.7	954.3	927.5
Pension lump sum settlement expense	47.9	—	—
Restructuring and other costs, net	55.6	78.0	75.2
Operating profit	854.4	814.2	530.0
Interest expense	(95.3)	(106.9)	(119.7)
Loss on extinguishment of debt	—	(0.3)	(25.9)
Interest income and other income (expense), net	2.4	(0.9)	1.3
Equity in income of unconsolidated entities	8.8	4.6	3.4
Income before income taxes	770.3	710.7	389.1
Income tax (expense) benefit	(286.5)	21.8	(136.9)
Consolidated net income	483.8	732.5	252.2
Less: Net income attributable to noncontrolling interests	(4.1)	(5.2)	(3.1)
Net income attributable to Rock-Tenn Company shareholders	$ 479.7	$ 727.3	$ 249.1
Basic earnings per share attributable to Rock-Tenn Company shareholders	$ 3.34	$ 5.05	$ 1.74
Diluted earnings per share attributable to Rock-Tenn Company shareholders	$ 3.29	$ 4.98	$ 1.72
Cash dividends paid per share	$ 0.70	$ 0.525	$ 0.40

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended September 30,		
(In millions, except per share data)	2014	2013	2012
Number of Shares of Class A Common Stock Outstanding[1]:			
Balance at beginning of fiscal year	144.0	141.8	140.9
Shares issued under restricted stock plan	0.5	0.7	0.2
Issuance of Class A common stock, net of stock received for minimum tax withholdings[2]	0.2	1.5	0.7
Purchases of Class A common stock	(4.7)	—	—
Balance at end of fiscal year	140.0	144.0	141.8
Class A Common Stock:			
Balance at beginning of fiscal year	$ 0.7	$ 0.7	$ 0.4
Issuance of Class A common stock, net of stock received for minimum tax withholdings	—	—	0.3
Two-for-one stock split[1]	0.7	—	—
Balance at end of fiscal year	1.4	0.7	0.7
Capital in Excess of Par Value:			
Balance at beginning of fiscal year	2,871.4	2,810.8	2,762.7
Income tax benefit from share-based plans	15.0	5.7	8.4
Compensation expense under share-based plans	42.6	46.5	29.2
Issuance of Class A common stock, net of stock received for minimum tax withholdings	4.7	8.4	10.5
Purchases of Class A common stock	(93.2)	—	—
Two-for-one stock split[1]	(0.7)	—	—
Balance at end of fiscal year	2,839.8	2,871.4	2,810.8
Retained Earnings:			
Balance at beginning of fiscal year	1,740.8	1,094.7	907.4
Net income attributable to Rock-Tenn Company shareholders	479.7	727.3	249.1
Cash dividends (per share - $0.70, $0.525 and $0.40)[3]	(100.8)	(76.3)	(56.5)
Issuance of Class A common stock, net of stock received for minimum tax withholdings	(15.7)	(4.9)	(5.3)
Purchases of Class A common stock	(143.1)	—	—
Balance at end of fiscal year	1,960.9	1,740.8	1,094.7
Accumulated Other Comprehensive Loss:			
Balance at beginning of fiscal year	(300.6)	(500.5)	(299.2)
Other comprehensive (loss) income, net of tax	(194.7)	199.9	(201.3)
Balance at end of fiscal year	(495.3)	(300.6)	(500.5)
Total Rock-Tenn Company Shareholders' equity	4,306.8	4,312.3	3,405.7
Noncontrolling Interests:[4]			
Balance at beginning of fiscal year	0.5	0.5	0.7
Net income (loss)	0.5	0.4	(0.1)
Distributions	(0.4)	(0.4)	(0.1)
Balance at end of fiscal year	0.6	0.5	0.5
Total equity	$4,307.4	$4,312.8	$3,406.2

[1] On August 27, 2014, we effected a two -for-one stock split of our Common Stock in the form of a 100% stock dividend to shareholders of record as of August 12, 2014. All share and per share information has been retroactively adjusted to reflect the stock split and we recorded the incremental par value of the newly issued shares with the offset to additional paid in capital.

[2] In connection with the Smurfit-Stone Acquisition, there were approximately 1.4 million shares reserved but unissued at the time of the acquisition for the resolution of Smurfit-Stone bankruptcy claims. In fiscal 2013, 1.1 million shares previously reserved but unissued were issued related to the Smurfit-Stone bankruptcy claims. At September 30, 2014, 0.3 million shares remain reserved and unissued.

[3] Includes cash dividends paid and dividends declared but unpaid related to the shares reserved but unissued at the time of the acquisition for the resolution of Smurfit-Stone bankruptcy claims.

[4] Excludes amounts related to contingently redeemable noncontrolling interests which are separately classified outside of permanent equity in the Consolidated Balance Sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Description of Business and Summary of Significant Accounting Policies (in part)

Common Stock Split

On August 27, 2014, we effected a two -for-one stock split of our Common Stock in the form of a 100% stock dividend to shareholders of record as of August 12, 2014. All share and per share information has been retroactively adjusted to reflect the stock split and we recorded the incremental par value of the newly issued shares with the offset to additional paid in capital.

Stock Splits

RECOGNITION AND MEASUREMENT

5.21 The FASB ASC glossary defines a *stock split* as an issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to increase the number of outstanding shares for the purpose of effecting a reduction in their unit market price and, thereby, of obtaining wider distribution and improved marketability of the shares. It is also sometimes called a stock split-up.

5.22 FASB ASC 505-20 addresses the accounting for stock splits, as well as stock dividends, and provides guidance on determining whether a stock dividend or stock split should be accounted for according to its form or whether it should be accounted for differently.

PRESENTATION AND DISCLOSURE EXCERPTS

STOCK SPLIT

5.23 DISCOVERY COMMUNICATIONS, INC. (DEC)

CONSOLIDATED STATEMENTS OF EQUITY

(in millions)

	Discovery Communications, Inc. Stockholders' Equity										
	Preferred Stock		Common Stock								
	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) / Income	Discovery Communications, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
December 31, 2011	128	$ 2	291	$ 3	$6,505	$(1,102)	$1,132	$ (23)	$6,517	$ 2	$ 6,519
Net income available to Discovery Communications, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	943	—	943	2	945
Other comprehensive income	—	—	—	—	—	—	—	27	27	—	27
Repurchases of stock	—	—	—	—	—	(1,380)	—	—	(1,380)	—	(1,380)
Equity-based compensation	—	—	—	—	65	—	—	—	65	—	65
Excess tax benefits from equity-based compensation	—	—	—	—	38	—	—	—	38	—	38
Tax settlements associated with equity-based compensation	—	—	—	—	(3)	—	—	—	(3)	—	(3)
Issuance of common stock in connection with equity-based plans	—	—	5	—	84	—	—	—	84	—	84
Cash distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(2)	(2)
Share conversion	(8)	—	8	—	—	—	—	—	—	—	—
December 31, 2012	120	2	304	3	6,689	(2,482)	2,075	4	6,291	2	6,293
Net income available to Discovery Communications, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	1,075	—	1,075	1	1,076
Repurchases of stock	(4)	—	—	—	—	(1,049)	(256)	—	(1,305)	—	(1,305)
Equity-based compensation	—	—	—	—	67	—	—	—	67	—	67
Excess tax benefits from equity-based compensation	—	—	—	—	44	—	—	—	44	—	44

(continued)

	Discovery Communications, Inc. Stockholders' Equity										
	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) / Income	Discovery Communications, Inc. Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Par Value	Shares	Par Value							
Tax settlements associated with equity-based compensation	—	—	—	—	(22)	—	—	—	(22)	—	(22)
Issuance of common stock in connection with equity-based plans	—	—	3	—	51	—	—	—	51	—	51
Other adjustments for equity-based plans	—	—	—	—	(3)	—	—	—	(3)	—	(3)
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Cash distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(2)	(2)
Share conversion	(1)	—	1	—	—	—	—	—	—	—	—
December 31, 2013	115	2	308	3	6,826	(3,531)	2,892	4	6,196	1	6,197
Net income available to Discovery Communications, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	1,139	—	1,139	2	1,141
Other comprehensive loss	—	—	—	—	—	—	—	(372)	(372)	—	(372)
Repurchases of stock	(2)	—	—	—	—	(1,232)	(190)	—	(1,422)	—	(1,422)
Stock split effected in the form of a share dividend	—	—	224	2	(2)	—	—	—	—	—	—
Equity-based compensation	—	—	—	—	50	—	—	—	50	—	50
Excess tax benefits from equity-based compensation	—	—	—	—	30	—	—	—	30	—	30
Tax settlements associated with equity-based compensation	—	—	—	—	(27)	—	—	—	(27)	—	(27)
Issuance of common stock in connection with equity-based plans	—	—	1	—	41	—	—	—	41	—	41
Other adjustments for equity-based plans	—	—	—	—	(6)	—	—	—	(6)	—	(6)
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(31)	—	(31)	—	(31)
Purchase of redeemable noncontrolling interest	—	—	—	—	5	—	—	—	5	—	5
Cash distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(1)	(1)
Other adjustments to stockholders' equity	—	—	—	—	—	—	(1)	—	(1)	—	(1)
December 31, 2014	113	$2	533	$5	$6,917	$(4,763)	$3,809	$(368)	$5,602	$2	$5,604

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Description of Business and Basis of Presentation (in part)

Stock Split Effected in the Form of a Share Dividend

On May 16, 2014, Discovery's Board of Directors approved a stock split effected in the form of a share dividend (the "2014 Share Dividend") of one share of the Company's Series C common stock on each issued and outstanding share of Series A, Series B, and Series C common stock. The stock split did not change the number of treasury shares or the number of outstanding preferred shares, but the conversion ratio on the preferred shares doubled. (See Note 13.) The 2014 Share Dividend was provided on August 6, 2014 to stockholders of record on July 28, 2014 and has been accounted for as a 2 for 1 stock split. All share and per share data for earnings per share and equity-based compensation have been retroactively adjusted to give effect to the 2014 Share Dividend. The impact on the consolidated balance sheet was an increase of $2 million to common stock and an offsetting reduction in additional paid-in capital, which has been recognized in the current period.

Note 13. Equity (in part)

Common Stock Repurchase Program (in part)

Repurchased common stock is recorded in treasury stock on the consolidated balance sheet. The stock split in the form of a share dividend was not applied to the Company's treasury shares (see Note 1). Accordingly, the number of common shares repurchased under the common stock repurchase program has not been retroactively adjusted to give effect to the stock split.

Convertible Preferred Stock (in part)

Each share of Series A preferred stock is convertible, at the option of the holder, into one share of Series A common stock and one share of Series C common stock, subject to anti-dilution adjustments. The Series C conversion rate changed from one to two upon the August 6, 2014 effective date of the stock split in the form of a share dividend (see Note 1). Generally, each share of Series A and Series C convertible preferred stock will automatically convert into the applicable series of common stock if such shares are transferred from Advance/Newhouse to a third party and such transfer is not a permitted transfer.

REVERSE STOCK SPLIT

5.24 DEAN FOODS COMPANY (DEC)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Dean Foods Company Stockholders						
	Common Stock[1]		Additional Paid-In	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Non-Controlling	Total Stockholders' Equity
(Dollars in thousands, except share data)	Shares	Amount	Capital	Deficit)	Income (Loss)	Interest	(Deficit)
Balance, January 1, 2012	91,872,895	$919	$1,087,722	$(992,519)	$(199,520)	$ 4,747	$ (98,651)
Issuance of common stock, net of tax impact of share-based compensation	908,872	9	(233)	—	—	—	(224)
Share-based compensation expense	—	—	24,247	—	—	—	24,247
Sale of former subsidiary shares to non-controlling interest	—	—	265,004	—	4,469	98,067	367,540
Share-based compensation expense for former subsidiary shares	—	—	—	—	—	1,167	1,167
Wind-down of former subsidiary joint venture	—	—	—	—	—	(4,747)	(4,747)
Net income attributable to non-controlling interest	—	—	—	—	—	2,419	2,419
Net income attributable to Dean Foods Company	—	—	—	158,622	—	—	158,622
Other comprehensive income (loss) (Note 14):							
Change in fair value of derivative instruments, net of tax benefit of $12,682	—	—	—	—	(19,780)	(13)	(19,793)
Amounts reclassified to statement of operations related to hedging activities, net of tax of $16,239	—	—	—	—	24,964	—	24,964
Cumulative translation adjustment	—	—	—	—	10,354	933	11,287
Pension liability adjustment, net of tax benefit of $4,493	—	—	—	—	(7,071)	(132)	(7,203)
Balance, December 31, 2012	92,781,767	$928	$1,376,740	$(833,897)	$(186,584)	$ 102,441	$ 459,628
Issuance of common stock, net of tax impact of share-based compensation	2,049,610	20	19,900	—	—	—	19,920
Share-based compensation expense	—	—	11,718	—	—	—	11,718
Share-based compensation expense for former subsidiary shares	—	—	—	—	—	7,733	7,733
Net income attributable to non-controlling interest	—	—	—	—	—	6,179	6,179
Net income attributable to Dean Foods Company	—	—	—	813,178	—	—	813,178
Other comprehensive income (loss) (Note 14):							
Change in fair value of derivative instruments, net of tax benefit of $21	—	—	—	—	(91)	10	(81)
Amounts reclassified to statement of operations related to hedging activities, net of tax of $37,017	—	—	—	—	58,784	—	58,784
Cumulative translation adjustment	—	—	—	—	(9,393)	(1,398)	(10,791)
Pension liability adjustment, net of tax of $29,474	—	—	—	—	47,069	4	47,073
Spin-Off of The WhiteWave Foods Company	—	—	(617,082)	—	33,025	(114,969)	(699,026)

(continued)

	Dean Foods Company Stockholders						
	Common Stock[1]		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity (Deficit)
(Dollars in thousands, except share data)	Shares	Amount					
Balance, December 31, 2013	94,831,377	$948	$ 791,276	$ (20,719)	$ (57,190)	$ —	$ 714,315
Issuance of common stock, net of tax impact of share-based compensation	976,738	10	7,758	—	—	—	7,768
Share-based compensation expense	—	—	4,556	—	—	—	4,556
Share repurchases	(1,727,275)	(17)	(24,983)	—	—	—	(25,000)
Cash dividends	—	—	(26,232)	—	—	—	(26,232)
Net loss attributable to Dean Foods Company	—	—	—	(20,296)	—	—	(20,296)
Other comprehensive income (loss) (Note 14):							
Change in fair value of derivative instruments, net of tax benefit of $41	—	—	—	—	(116)	—	(116)
Amounts reclassified to income statement related to de-designation of cash flow hedges, net of tax benefit of $139	—	—	—	—	(220)	—	(220)
Cumulative translation adjustment	—	—	—	—	(802)	—	(802)
Pension and other postretirement benefit liability adjustment, net of tax benefit of $16,073	—	—	—	—	(26,655)	—	(26,655)
Balance, December 31, 2014	94,080,840	$941	$ 752,375	$ (41,015)	$ (84,983)	$ —	$ 627,318

[1] Common Stock and Additional Paid-In Capital at January 1, 2012, and December 31, 2012 have been adjusted retroactively to reflect a 1-for-2 reverse stock split effected August 26, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Basis of Presentation and Consolidation (in part)—On August 26, 2013, we effected a 1 -for -2 reverse stock split of our issued common stock. Each stockholder's percentage ownership and proportional voting power generally remained unchanged as a result of the reverse stock split. All applicable share data, per share amounts and related information in the Consolidated Financial Statements and notes thereto have been adjusted retroactively to give effect to the 1 -for -2 reverse stock split. See Note 13.

12. Common Stock and Share-Based Compensation (in part)

1-for-2 Reverse Stock Split—On August 26, 2013, we effected a 1-for-2 reverse stock split of our issued common stock. The reverse stock split ratio and the implementation and timing of the reverse stock split were determined by our Board of Directors. The reverse stock split did not change the authorized number of shares or par value of our common stock or preferred stock, but did effect a proportionate adjustment to the per share exercise price and the number of shares of common stock issuable upon the exercise of outstanding stock options, the number of shares of common stock issuable upon the vesting of restricted stock awards, and the number of shares of common stock eligible for issuance under our 2007 Stock Incentive Plan (the "2007 Plan"). No fractional shares were issued in connection with the reverse stock split. Each stockholder's percentage ownership and proportional voting power generally remained unchanged as a result of the reverse stock split.

All applicable outstanding equity awards discussed below have been adjusted retroactively for the 1-for-2 reverse stock split.

13. Earnings (Loss) Per Share

Basic earnings (loss) per share is based on the weighted average number of common shares issued and outstanding during each period. Diluted earnings (loss) per share is based on the weighted average number of common shares issued and outstanding and the effect of all dilutive common stock equivalents outstanding during each period. Stock option conversions and stock units were not included in the computation of diluted loss per share for the year ended December 31, 2014 as we incurred a loss for this period and any effect on loss per share would have been anti-dilutive. All applicable share data and per share amounts for the year ended December 31, 2012 has been adjusted retroactively for the 1-for-2 reverse stock split effected on August 26, 2013. The following table reconciles the numerators and denominators used in the computations of both basic and diluted earnings (loss) per share:

	Year Ended December 31		
(In thousands, except share data)	2014	2013	2012
Basic earnings (loss) per share computation:			
Numerator:			
Income (loss) from continuing operations	$ (20,187)	$ 325,359	$ 23,815
Denominator:			
Average common shares	93,916,656	93,785,611	92,375,378
Basic earnings (loss) per share from continuing operations	$ (0.22)	$ 3.47	$ 0.26
Diluted earnings (loss) per share computation:			
Numerator:			
Income (loss) from continuing operations	$ (20,187)	$ 325,359	$ 23,815
Denominator:			
Average common shares—basic	93,916,656	93,785,611	92,375,378
Stock option conversion(1)	—	670,485	245,911
Stock units(2)	—	340,140	444,623
Average common shares—diluted	93,916,656	94,796,236	93,065,912
Diluted earnings (loss) per share from continuing operations	$ (0.22)	$ 3.43	$ 0.26
(1) Anti-dilutive options excluded	3,840,637	3,554,064	7,099,437
(2) Anti-dilutive stock units excluded	312,971	7,071	8,192

Changes to Retained Earnings

RECOGNITION AND MEASUREMENT

5.25 The retained earnings account is affected by direct charges and credits. Examples of direct charges to retained earnings are net loss for the year, losses on treasury stock transactions, and cash or stock dividends; an example of a direct credit to retained earnings is net income for the year.

PRESENTATION

5.26 In addition to direct charges and credits, the retained earnings account is also affected by opening balance adjustments. Reasons for which the opening balance of retained earnings is properly restated include certain changes in accounting principles, changes in the reporting entity, and corrections of an error in previously issued financial statements.

5.27 FASB ASC 250-10-05-2 requires, unless impracticable or otherwise specified by applicable authoritative guidance, retrospective application to prior periods' financial statements of a change in accounting principle. Retrospective *application* is the application of a different accounting principle to prior accounting periods as if that principle had always been used. More specifically, FASB ASC 250-10-45-5 explains that retrospective application involves the following:

- The cumulative effect of the change on periods prior to those presented should be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented.
- An offsetting adjustment, if any, shall be made to the opening balance of retained earnings or other appropriate components of equity or net assets in the statement of financial position for that period.
- Financial statements for each individual prior period presented should be adjusted to reflect the period-specific effects of applying the new accounting principle.

5.28 FASB ASC 250-10-45-23 also requires any accounting error in the financial statements of a prior period discovered after the financial statements are issued or are available to be issued to be reported as an error correction by restating the prior period financial statements. Restatement involves similar requirements as those specified for retrospective application of a change in accounting principle.

5.29 SEC Staff Accounting Bulletin (SAB) No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of assessing materiality. SAB No. 108 requires that registrant entities determine the quantitative effect of a financial statement misstatement by using both an income statement ("rollover") and a balance sheet ("iron curtain") approach and evaluate whether, under either approach, the error is material after considering all relevant quantitative and qualitative factors.

PRESENTATION AND DISCLOSURE EXCERPTS

CHANGE IN ACCOUNTING PRINCIPLE

5.30 SEALED AIR CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (in part)

(In millions)	Common Stock	Common Stock Reserved for Issuance Related to the Settlement Agreement	Additional Paid-in Capital	Retained Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Loss, Net of Taxes	Total Parent Company Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance at December 31, 2011[1]	$20.3	$ 1.8	$1,689.6	$ 1,791.8	$(375.6)	$(145.1)	$ 2,982.8	$(5.1)	$ 2,977.7
Effect of contingent stock transactions	0.1	—	17.0	—	(10.6)	—	6.5	—	6.5
Stock issued for share-based incentive compensation	0.1	—	(13.3)	—	32.8	—	19.6	—	19.6
Recognition of deferred pension items, net of taxes	—	—	—	—	—	(99.1)	(99.1)	—	(99.1)
Foreign currency translation, net of taxes	—	—	—	—	—	79.9	79.9	—	79.9
Unrealized loss on derivative instruments, net of taxes	—	—	—	—	—	(0.6)	(0.6)	—	(0.6)
Noncontrolling interests	—	—	(8.3)	—	—	—	(8.3)	5.6	(2.7)
Net loss	—	—	—	(1,411.4)	—	—	(1,411.4)	—	(1,411.4)
Dividends on common stock	—	—	—	(101.4)	—	—	(101.4)	—	(101.4)
Balance at December 31, 2012[1]	$20.5	$ 1.8	$1,685.0	$ 279.0	$(353.4)	$(164.9)	$ 1,468.0	$ 0.5	$ 1,468.5
Effect of contingent stock transactions	0.1	—	22.2	—	(3.9)	—	18.4	—	18.4
Stock issued for share-based incentive compensation	—	—	(10.8)	—	29.7	—	18.9	—	18.9
Recognition of deferred pension items, net of taxes	—	—	—	—	—	(3.9)	(3.9)	—	(3.9)
Foreign currency translation, net of taxes	—	—	—	—	—	(110.3)	(110.3)	—	(110.3)
Unrealized gain on derivative instruments, net of taxes	—	—	—	—	—	1.7	1.7	—	1.7
Noncontrolling interests	—	—	(1.1)	—	—	—	(1.1)	0.9	(0.2)
Net earnings	—	—	—	125.8	—	—	125.8	—	125.8
Dividends on common stock	—	—	—	(102.6)	—	—	(102.6)	—	(102.6)
Balance at December 31, 2013[1]	$20.6	$ 1.8	$1,695.3	$ 302.2	$(327.6)	$(277.4)	$ 1,414.9	$ 1.4	$ 1,416.3
Effect of contingent stock transactions	0.1	—	55.8	—	(3.0)	—	52.9	—	52.9
Stock issued for share-based incentive compensation	—	—	(1.4)	—	33.2	—	31.8	—	31.8
Repurchases of common stock	—	—	—	—	(184.0)	—	(184.0)	—	(184.0)
Recognition of deferred pension items, net of taxes	—	—	—	—	—	(90.3)	(90.3)	—	(90.3)
Foreign currency translation, net of taxes	—	—	—	—	—	(248.1)	(248.1)	—	(248.1)
Unrealized gain on derivative instruments, net of taxes	—	—	—	—	—	2.0	2.0	—	2.0
Settlement share transfer and excess tax benefit	1.8	(1.8)	37.7	—	—	—	37.7	—	37.7
Noncontrolling interests	—	—	(0.4)	—	—	—	(0.4)	(1.4)	(1.8)
Net earnings	—	—	—	258.1	—	—	258.1	—	258.1
Dividends on common stock	—	—	—	(111.8)	—	—	(111.8)	—	(111.8)
Balance at December 31, 2014	$22.5	$ —	$1,787.0	$ 448.5	$(481.4)	$(613.8)	$ 1,162.8	$ —	$ 1,162.8

[1] Certain amounts have been revised to reflect the retrospective application of the Company's change in inventory costing method for certain U.S. inventories to the FIFO method from the LIFO method. Refer to Note 2, "Summary of Significant Accounting Policies—Inventories," of the notes to consolidated financial statements for further details surrounding this accounting policy change.

Note 2. Summary of Significant Accounting Policies and Recently Issued Accounting Standards (in part)

Summary of Significant Accounting Policies (in part)

Changes in Accounting /Retrospective application

During the fourth quarter of 2014, we changed the method of valuing our inventories that used the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method, so that all of our inventories are now valued at FIFO. As a result of this accounting change, inventories, retained earnings, non-current deferred tax liability, net earnings (loss) from continuing operations, net earnings (loss) available to common stockholders, basic earnings per share—continuing operations and diluted earnings per share—continuing operations, among other accounts, have been retrospectively changed. Refer to Note 2—Inventories for further information regarding this change in accounting policy.

During the third quarter of 2014, we determined that we did not include any PSU awards in our diluted weighted average number of common shares outstanding previously reported in 2013, although the achievement levels of the respective performance conditions for the PSU awards were met as of December 31, 2013. The impact of excluding 0.7 million of contingently issuable shares under the treasury stock method did not have a material effect on the number of weighted average common shares and had no impact on the diluted net earnings per common share for the year ended December 31, 2013. Accordingly, we do not consider this correction to be material to our previously reported diluted weighted average number of common shares outstanding or to our previously reported net earnings per common share.

In addition, certain other prior period amounts have been reclassified to conform to the current year presentation. These reclassifications, individually and in the aggregate, had no impact on our consolidated financial condition, results of operations and cash flows.

Inventories

During the fourth quarter of 2014, we changed the method of valuing our inventories that used the LIFO method to the FIFO method, so that all of our inventories are now valued at FIFO. We believe that the change is preferable because it will more closely reflect the current value of our inventories in our balance sheet, and conform all of our inventories to the FIFO valuation method for better reporting consistency across our segments and regions. We applied this change in accounting principle retrospectively to all prior periods presented herein in accordance with ASC 250, Accounting Changes and Error Corrections. As a result of this accounting change, Inventories and Retained Earnings as of January 1, 2012 increased by $41 million and $25 million respectively.

As a result of the retrospective application of this change in accounting principle, the following financial statement line items within the accompanying financial statements were restated, as follows:

	December 31, 2014			December 31, 2013			December 31, 2012		
(In millions, except per share amounts)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)
Consolidated Statements of Operations:									
Cost of sales	$5,062.9	$5,061.4	$ 1.5	$5,100.9	$5,103.3	$ (2.4)	$ 5,038.7	$ 5,036.9	$ 1.8
Gross profit	2,687.6	2,689.1	(1.5)	2,589.9	2,587.5	2.4	2,520.5	2,522.3	(1.8)
Earnings (loss) from continuing operations before income tax provision (benefit)	267.2	268.7	(1.5)	180.2	177.8	2.4	(1,884.4)	(1,882.6)	(1.8)
Income tax provision (benefit)	9.1	9.7	(0.6)	84.9	84.0	0.9	(265.4)	(264.7)	(0.7)
Net earnings (loss) from continuing operations	258.1	259.0	(0.9)	95.3	93.7	1.6	(1,619.0)	(1,617.9)	(1.1)
Net earnings (loss) available to common shareholders	$ 258.1	$ 259.0	$(0.9)	$ 125.8	$ 124.2	$ 1.6	$(1,411.4)	$(1,410.3)	$ (1.1)
Net earnings (loss) per common share:									
Basic—continuing operations	$ 1.22	$ 1.22	$ —	$ 0.49	$ 0.48	$ 0.01	$ (8.40)	$ (8.39)	$(0.01)
Diluted—continuing operations	$ 1.20	$ 1.20	$ —	$ 0.44	$ 0.44	$ —	$ (8.40)	$ (8.39)	$(0.01)

(continued)

	December 31, 2014			December 31, 2013			December 31, 2012		
(In millions, except per share amounts)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)
Consolidated Statements of Comprehensive Income:									
Net earnings (loss) available to common shareholders	$ 258.1	$ 259.0	$ (0.9)	$ 125.8	$ 124.2	$ 1.6	$(1,411.4)	$(1,410.3)	$ (1.1)
Comprehensive income (loss), net of taxes	$ (78.3)	$ (77.4)	$ (0.9)	$ 13.3	$ 11.7	$ 1.6	$(1,431.2)	$(1,430.1)	$ (1.1)
Consolidated Statements of Cash Flows:									
Net cash (used in) provided by operating activities from continuing operations	$ (201.9)	$ (201.9)	$ —	$ 624.8	$ 624.8	$ —	$ 394.2	$ 394.2	$ —
Net earnings (loss) available to common stockholders from continuing operations	258.1	259.0	(0.9)	95.3	93.7	1.6	(1,619.0)	$(1,617.9)	(1.1)
Inventories	(48.6)	(50.1)	1.5	22.0	24.5	(2.5)	35.2	33.4	1.8
Deferred taxes, net	$ 136.1	$ 136.7	$ (0.6)	$ 7.9	$ 7.0	$ 0.9	$ (319.3)	$ (318.6)	$ (0.7)
Consolidated Balance Sheets:									
Inventories	$ 707.6	$ 667.3	$40.3	$ 730.2	$ 688.4	$41.8			
Non-current deferred tax liability	161.5	146.1	15.4	294.6	278.6	16.0			
Retained earnings	$ 448.5	$ 423.6	$24.9	$ 302.2	$ 276.4	$25.8	$ 279.0	$ 254.8	$24.2

As a result of the accounting change, all of our inventories are now determined using the FIFO method. We state inventories at the lower of cost or market.

ADOPTION OF ACCOUNTING STANDARD

5.31 THE PNC FINANCIAL SERVICES GROUP, INC. (DEC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Shareholders' Equity							
In millions	Shares Out-standing Common Stock	Common Stock	Capital Surplus—Preferred Stock	Capital Surplus—Common Stock and Other	Retained Earnings	Accumulated Other Com-prehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2011[(a)]	527	$2,683	$1,637	$12,072	$18,253	$(105)	$ (487)	$3,193	$37,246
Cumulative effect of adopting ASU 2014-01[(b)]					(43)			5	(38)
Balance at January 1, 2012	527	$2,683	$1,637	$12,072	$18,210	$(105)	$(487)	$3,198	$37,208
Net income[(b)]					3,001			(7)	2,994
Other comprehensive income, net of tax						939			939
Cash dividends declared									
Common					(820)				(820)
Preferred					(177)				(177)
Preferred stock discount accretion			4		(4)				
Common stock activity	1	7		45					52
Treasury stock activity[(c)]				51			(82)		(31)
Preferred stock issuance—Series P[(d)]			1,482						1,482
Preferred stock issuance—Series Q[(e)]			467						467
Other				25				(419)	(394)
Balance at December 31, 2012[(a)(f)]	528	$2,690	$3,590	$12,193	$20,210	$ 834	$ (569)	$2,772	$41,720
Net income (loss)[(b)]					4,201			11	4,212
Other comprehensive income (loss), net of tax						(398)			(398)
Cash dividends declared									
Common					(911)				(911)
Preferred					(237)				(237)

(continued)

		Shareholders' Equity							
In millions	Shares Out-standing Common Stock	Common Stock	Capital Surplus— Preferred Stock	Capital Surplus— Common Stock and Other	Retained Earnings	Accumulated Other Com-prehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total Equity
Preferred stock discount accretion			5		(5)				
Redemption of noncontrolling interests[g]					(7)			(368)	(375)
Common stock activity	2	8		97					105
Treasury stock activity	3			(47)			161		114
Preferred stock redemption—Series L[h]			(150)						(150)
Preferred stock issuance—Series R[i]			496						496
Other[j]				173				(712)	(539)
Balance at December 31, 2013[a]	533	$2,698	$3,941	$12,416	$23,251	$ 436	$ (408)	$1,703	$44,037
Cumulative effect of adopting ASC 860-50[k]					2				2
Balance at January 1, 2014	533	$2,698	$3,941	$12,416	23,253	$ 436	$ (408)	$1,703	44,039
Net income					4,184			23	4,207
Other comprehensive income, net of tax						67			67
Cash dividends declared									
Common					(1,000)				(1,000)
Preferred					(232)				(232)
Preferred stock discount accretion			5		(5)				
Common stock activity	1	7		81					88
Treasury stock activity	(11)			14			(1,022)		(1,008)
Other				116				(203)	(87)
Balance at December 31, 2014[a]	523	$2,705	$3,946	$12,627	$26,200	$ 503	$(1,430)	$1,523	$46,074

[a] The par value of our preferred stock outstanding was less than $.5 million at each date and, therefore, is excluded from this presentation.

[b] Amounts for 2012 and 2013 periods have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits. See Note 1 Accounting Policies for further detail of the adoption.

[c] Net treasury stock activity totaled less than .5 million shares issued or redeemed.

[d] 15,000 Series P preferred shares with a $1 par value were issued on April 24, 2012.

[e] 4,500 Series Q preferred shares with a $1 par value were issued on September 21, 2012 and 300 shares were issued on October 9, 2012.

[f] 5,001 Series M preferred shares with a $1 par value were issued and redeemed on December 10, 2012.

[g] Relates to the redemption of REIT preferred securities in the first quarter of 2013. See Note 12 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities for additional information.

[h] 1,500 Series L preferred shares with a $1 par value were redeemed on April 19, 2013.

[i] 5,000 Series R preferred shares with a $1 par value were issued on May 7, 2013.

[j] Includes an impact to noncontrolling interests for deconsolidation of limited partnership or non-managing member interests related to tax credit investments in the amount of $675 million during the second quarter of 2013.

[k] Amount represents the cumulative impact of our January 1, 2014 irrevocable election to prospectively measure all classes of commercial MSRs at fair value. See Note 1 Accounting Policies and Note 8 Goodwill and Other Intangible Assets for more information on this election.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Accounting Policies (in part)

Recently Adopted Accounting Standards (in part)

In January 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): *Accounting for Investments in Qualified Affordable Housing Projects.* This ASU provided guidance on accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low income housing tax credit. If certain criteria are satisfied, investment amortization, net of tax credits, may be recognized in the income statement as a component of income taxes attributable to continuing operations under either the proportional amortization method or the practical expedient method to the proportional amortization method. This ASU was effective for annual periods beginning after December 15, 2014. Retrospective application was required and early adoption was permitted. We early adopted this guidance in the first quarter of 2014 for interim and annual reporting periods because we believe the presentation more accurately reflects the economics of tax credit investments. We elected to amortize our qualifying investments in low income housing tax credits under the practical expedient method to the proportional amortization method while continuing to account for our other tax credit investments under the equity method.

For prior periods, pursuant to ASU 2014-01, (a) amortization expense related to our qualifying investments in low income housing tax credits was reclassified from Other noninterest expense to Income taxes, and (b) additional amortization, net of the associated tax benefits was recognized in Income taxes as a result of our adoption of the practical expedient to the proportional amortization method. The cumulative effect to retained earnings as of January 1, 2012 of adopting this guidance was a reduction of $43 million as presented in the

Consolidated Statement of Changes in Equity. The 2012 and 2013 periods within the Consolidated Income Statement have been updated to reflect the retrospective application.

During 2014, we recognized $181 million of amortization, $212 million of tax credits, and $66 million of other tax benefits associated with these investments within Income taxes. At December 31, 2014, the amount of investments in low income housing tax credits that were accounted for under ASU 2014-01 was $1.8 billion. These investments are reflected in Equity investments on our Consolidated Balance Sheet.

CORRECTION OF AN ERROR OR MISSTATEMENT

5.32 NIKE, INC. (MAY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

NOTE 1—Summary of Significant Accounting Policies (in part)

Revisions

The Company has historically capitalized costs associated with internally generated patents and trademarks, and amortized these assets over the legal term of the patents and trademarks. During the fourth quarter of fiscal 2014, management determined that these capitalized costs were not accurately identified with specific patent or trademark assets, and therefore, concluded that amounts previously capitalized should have been expensed as incurred. Accordingly, the Consolidated Financial Statements have been revised to correctly expense costs associated with internally developed patents and trademarks in the period incurred and to reverse expenses for amortization of previously capitalized costs. The revisions resulted in a decrease in Net income from continuing operations of $13 million and $12 million for the years ended May 31, 2013 and 2012, respectively. Identifiable intangible assets decreased $93 million at May 31, 2013 and Retained earnings at May 31, 2013 decreased $75 million as a result of the cumulative adjustment for prior periods. Cash provided by operations decreased $26 million and $23 million for the years ended May 31, 2013 and 2012, respectively, while Cash used by investing activities decreased $26 million for the year ended May 31, 2013 and Cash provided by investing activities increased by $23 million for the year ended May 31, 2012.

Also, in the fourth quarter of fiscal 2014, the Company revised certain prior year amounts in the Consolidated Statements of Cash Flows to eliminate intercompany transfers of short-term investments, to correctly reflect the purchases, sales and maturities of short-term investments related to the Company's hedging program involving U.S. Dollar denominated available-for-sale securities, and to correctly classify certain investment holdings as Short-term investments. For the year ended May 31, 2013, the revisions resulted in a net increase in Purchases of short-term investments of $431 million, a net increase in Maturities of short-term investments of $162 million, and a net increase in Sales of short-term investments of $332 million, which caused a net decrease of $63 million in Cash used by investing activities. For the year ended May 31, 2012, the revisions resulted in a net increase in Purchases of short-term investments of $540 million, a net increase in Maturities of short-term investments of $78 million, and a net increase in Sales of short-term investments of $477 million, which caused an increase of $15 million in Cash provided by investing activities. For the year ended May 31, 2012, these revisions also resulted in a decrease of $78 million in Cash and equivalents, beginning of year and a $63 million decrease in Cash and equivalents, end of year.

Certain prior year amounts have also been revised in the Consolidated Balance Sheets to correctly recognize certain inventory amounts held by third parties, which were identified during the third quarter of fiscal 2014 and resulted in a $50 million increase to both Inventories and Accrued liabilities at May 31, 2013. In addition, prior year amounts on the Consolidated Statements of Cash Flows were revised to correctly reflect the related cash flow impacts of $22 million and $10 million for the years ended May 31, 2013 and 2012, respectively. This revision had no impact on Cash provided by operations or Net (decrease) increase in cash and equivalents, for any year.

The Company also revised certain prior period amounts in the Consolidated Statements of Cash Flows to correctly reflect non-cash additions to property, plant, and equipment, which were identified during the second quarter of fiscal 2014. For the year ended May 31, 2013, this revision decreased Cash provided by operations and decreased Cash used by investing activities, each by $38 million. For the year ended May 31, 2012, this revision decreased Cash provided by operations and increased Cash provided by investing activities, each by $34 million.

The Company assessed the materiality of these misstatements on prior periods' financial statements in accordance with SEC Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in ASC 250 ("ASC 250"), Presentation of Financial Statements, and concluded that these misstatements were not material to any prior annual or interim periods. Accordingly, in accordance with ASC 250 (SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), the Consolidated Financial Statements as of May 31, 2013 and 2012, and the years then ended, which are presented herein, have been revised. The following are selected line items from the Company's Consolidated Financial Statements illustrating the effect of these corrections and the correction of other immaterial errors:

	NIKE, Inc. Consolidated Statements of Income					
	Year Ended May 31, 2013			Year Ended May 31, 2012		
(In millions, except per share data)	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Total selling and administrative expense	$7,780	$ 16	$7,796	$7,065	$ 14	$7,079
Income before income taxes	3,272	(16)	3,256	3,025	(14)	3,011
Income tax expense	808	(3)	805	756	(2)	754
Net Income from Continuing Operations	2,464	(13)	2,451	2,269	(12)	2,257
Net Income	$2,485	$ (13)	$2,472	$2,223	$ (12)	$2,211
Earnings per share from continuing operations:						
Basic earnings per common share	$ 2.75	$(0.01)	$ 2.74	$ 2.47	$(0.02)	$ 2.45
Diluted earnings per common share	$ 2.69	$(0.01)	$ 2.68	$ 2.42	$(0.02)	$ 2.40
Earnings per share for NIKE Inc.						
Basic earnings per common share	$ 2.77	$(0.01)	$ 2.76	$ 2.42	$(0.02)	$ 2.40
Diluted earnings per common share	$ 2.71	$(0.01)	$ 2.70	$ 2.37	$(0.02)	$ 2.35

	NIKE, Inc. Consolidated Statements of Comprehensive Income					
	Year Ended May 31, 2013			Year Ended May 31, 2012		
(In millions)	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Net income	$2,485	$(13)	$2,472	$2,223	$(12)	$2,211
Total Comprehensive Income	$2,610	$(13)	$2,597	$2,277	$(12)	$2,265

	NIKE, Inc. Consolidated Balance Sheet		
	May 31, 2013		
(In millions)	As Reported	Adjustment	As Revised
Assets			
Inventories	$ 3,434	$ 50	$ 3,484
Prepaid expenses and other current assets	802	(46)	756
Total current assets	13,626	4	13,630
Identifiable intangible assets, net	382	(93)	289
Deferred income taxes and other assets	993	50	1,043
Total Assets	$17,584	$(39)	$17,545
Liabilities and Shareholders' Equity			
Notes payable	$ 121	$(23)	$ 98
Accounts payable	1,646	23	1,669
Accrued liabilities	1,986	50	2,036
Income taxes payable	98	(14)	84
Total current liabilities	3,926	36	3,962
Retained earnings	5,695	(75)	5,620
Total shareholders' equity	11,156	(75)	11,081
Total Liabilities and Shareholders' Equity	$17,584	$(39)	$17,545

	NIKE, Inc. Consolidated Statements of Cash Flows					
	Year Ended May 31, 2013			Year Ended May 31, 2012		
(In millions)	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Cash Provided by Operations:						
Net income	$ 2,485	$ (13)	$ 2,472	$ 2,223	$ (12)	$ 2,211
Income charges (credits) not affecting cash:						
Deferred income taxes	21	(1)	20	(60)	1	(59)
Amortization and other	75	(9)	66	32	(9)	23
(Increase) in inventories	(197)	(22)	(219)	(805)	(10)	(815)
Increase in accounts payable, accrued liabilities and income taxes payable	41	(14)	27	470	(45)	425
Cash provided by operations	3,027	(59)	2,968	1,899	(75)	1,824
Cash (Used) Provided by Investing Activities:						
Purchases of short-term investments	(3,702)	(431)	(4,133)	(2,705)	(540)	(3,245)
Maturities of short-term investments	1,501	162	1,663	2,585	78	2,663
Sales of short-term investments	998	332	1,330	1,244	477	1,721
Additions to property, plant and equipment	(636)	38	(598)	(597)	34	(563)
Increase in other assets, net of other liabilities	(28)	26	(2)	(37)	23	(14)
Cash (used) provided by investing activities	(1,067)	127	(940)	514	72	586
Cash Used by Financing Activities:						
Increase (decrease) in notes payable	15	(5)	10	(65)	18	(47)
Cash used by financing activities	(1,040)	(5)	(1,045)	(2,118)	18	(2,100)
Net (decrease) increase in cash and equivalents	1,020	63	1,083	362	15	377
Cash and equivalents, beginning of year	2,317	(63)	2,254	1,955	(78)	1,877
Cash and Equivalents, End of Year	$ 3,337	$ —	$ 3,337	$ 2,317	$ (63)	$ 2,254

	NIKE, Inc. Consolidated Statements of Shareholders' Equity					
	Retained Earnings			Total Shareholders' Equity		
(In millions)	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Balance at May 31, 2011	$5,801	$(50)	$5,751	$ 9,843	$(50)	$ 9,793
Net income	2,223	(12)	2,211	2,223	(12)	2,211
Balance at May 31, 2012	$5,588	$(62)	$5,526	$10,381	$(62)	$10,319
Net income	2,485	(13)	2,472	2,485	(13)	2,472
Balance at May 31, 2013	$5,695	$(75)	$5,620	$11,156	$(75)	$11,081

OTHER CHANGES IN RETAINED EARNINGS—SHARE REPURCHASE PROGRAMS

5.33 APPLE INC. (SEP)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except number of shares which are reflected in thousands)

	Common Stock and Additional Paid-In Capital			Accumulated Other	
			Retained	Comprehensive	Total Shareholders'
	Shares	Amount	Earnings	Income/(Loss)	Equity
Balances as of September 24, 2011	6,504,937	$13,331	$62,841	$ 443	$ 76,615
Net income	0	0	41,733	0	41,733
Other comprehensive income/(loss)	0	0	0	56	56
Dividends and dividend equivalents declared	0	0	(2,523)	0	(2,523)
Share-based compensation	0	1,740	0	0	1,740
Common stock issued, net of shares withheld for employee taxes	69,521	200	(762)	0	(562)
Tax benefit from equity awards, including transfer pricing adjustments	0	1,151	0	0	1,151
Balances as of September 29, 2012	6,574,458	16,422	101,289	499	118,210
Net income	0	0	37,037	0	37,037
Other comprehensive income/(loss)	0	0	0	(970)	(970)
Dividends and dividend equivalents declared	0	0	(10,676)	0	(10,676)
Repurchase of common stock	(328,837)	0	(22,950)	0	(22,950)
Share-based compensation	0	2,253	0	0	2,253
Common stock issued, net of shares withheld for employee taxes	48,873	(143)	(444)	0	(587)
Tax benefit from equity awards, including transfer pricing adjustments	0	1,232	0	0	1,232
Balances as of September 28, 2013	6,294,494	19,764	104,256	(471)	123,549
Net income	0	0	39,510	0	39,510
Other comprehensive income/(loss)	0	0	0	1,553	1,553
Dividends and dividend equivalents declared	0	0	(11,215)	0	(11,215)
Repurchase of common stock	(488,677)	0	(45,000)	0	(45,000)
Share-based compensation	0	2,863	0	0	2,863
Common stock issued, net of shares withheld for employee taxes	60,344	(49)	(399)	0	(448)
Tax benefit from equity awards, including transfer pricing adjustments	0	735	0	0	735
Balances as of September 27, 2014	5,866,161	$23,313	$87,152	$1,082	$111,547

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 7—Shareholders' Equity (in part)

Share Repurchase Program

In 2012, the Company's Board of Directors authorized a program to repurchase up to $10 billion of the Company's common stock beginning in 2013. The Company's Board of Directors increased the share repurchase authorization to $60 billion in April 2013 and to $90 billion in April 2014. As of September 27, 2014, $67.9 billion of the $90 billion had been utilized. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Company has entered into four accelerated share repurchase arrangements ("ASRs") with financial institutions beginning in August 2012. In exchange for up-front payments, the financial institutions deliver shares of the Company's common stock during the purchase periods of each ASR. The total number of shares ultimately delivered, and therefore the average repurchase price paid per share, will be determined at the end of the applicable purchase period of each ASR based on the volume weighted-average price of the Company's common stock during that period. The shares received are retired in the periods they are delivered, and the up-front payments are accounted for as a reduction to shareholders' equity in the Company's Consolidated Balance Sheet in the periods the payments are made. The Company reflects the ASRs as a repurchase of common stock in the period delivered for purposes of calculating earnings per share and as forward contracts indexed to its own common stock. The ASRs met all of the applicable criteria for equity classification, and therefore, were not accounted for as derivative instruments.

The following table presents the Company's ASRs:

	Purchase Period End Date	Number of Shares (in thousands)	Average Repurchase Price Per Share	ASR Amount (in millions)
August 2014 ASR	[1]	59,924[1]	[1]	$ 9,000
January 2014 ASR	[1]	134,247[1]	[1]	$12,000
April 2013 ASR	March 2014	172,548[2]	$69.55	$12,000
August 2012 ASR	April 2013	28,544	$68.31	$ 1,950

[1] "Number of Shares" represents those shares delivered in advance of settlement and does not represent the final number of shares to be delivered under the ASRs. The total number of shares ultimately delivered, and therefore the average repurchase price paid per share, will be determined at the end of the applicable purchase period based on the volume weighted-average price of the Company's common stock during that period. The August 2014 ASR and January 2014 ASR purchase periods will end in or before February 2015 and December 2014, respectively.

[2] Includes 8.0 million shares that were delivered and retired at the end of the purchase period, which concluded in the second quarter of 2014.

Additionally, the Company repurchased shares of its common stock in the open market, which were retired upon repurchase, during the periods presented as follows:

	Number of Shares	Average Repurchase Price Per Share	Amount
	(in thousands)		(in millions)
2014:			
Fourth quarter	81,255	$98.46	$ 8,000
Third quarter	58,661	$85.23	5,000
Second quarter	79,749	$75.24	6,000
First quarter	66,847	$74.79	5,000
Total	286,512		$24,000
2013:			
Fourth quarter	73,064	$68.43	$ 5,000
Third quarter	62,676	$63.82	4,000
Second quarter	0	$ 0	0
First quarter	0	$ 0	0
Total	135,740		$ 9,000

OTHER CHANGES IN RETAINED EARNINGS—SPIN-OFF

5.34 NATIONAL OILWELL VARCO, INC. (DEC)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

	Shares Outstanding	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Company Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at December 31, 2011	424	$4	$8,535	$(23)	$ 9,103	$17,619	$109	$17,728
Net income	—	—	—	—	2,491	2,491	(8)	2,483
Other comprehensive income, net	—	—	—	130	—	130	—	130
Cash dividends, $.49 per common share	—	—	—	—	(209)	(209)	—	(209)
Dividends to noncontrolling interests	—	—	—	—	—	—	(4)	(4)
Noncontrolling interest contribution	—	—	—	—	—	—	20	20
Stock-based compensation	—	—	80	—	—	80	—	80
Common stock issued	3	—	113	—	—	113	—	113
Withholding taxes	—	—	(10)	—	—	(10)	—	(10)
Excess tax benefit from stock-based compensation	—	—	25	—	—	25	—	25
Balance at December 31, 2012	427	$4	$8,743	$107	$11,385	$20,239	$117	$20,356

(continued)

	Shares Outstanding	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Company Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Net income	—	—	—	—	2,327	2,327	1	2,328
Other comprehensive loss, net	—	—	—	(111)	—	(111)	—	(111)
Cash dividends, $.91 per common share	—	—	—	—	(389)	(389)	—	(389)
Dividends to noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Noncontrolling interest contribution	—	—	—	—	—	—	10	10
Disposal of noncontrolling interest, net	—	—	—	—	—	—	(25)	(25)
Stock-based compensation	—	—	92	—	—	92	—	92
Common stock issued	1	—	58	—	—	58	—	58
Withholding taxes	—	—	(6)	—	—	(6)	—	(6)
Excess tax benefit from stock-based compensation	—	—	20	—	—	20	—	20
Balance at December 31, 2013	428	$4	$8,907	$ (4)	$13,323	$22,230	$100	$22,330
Net income	—	—	—	—	2,502	2,502	5	2,507
Other comprehensive loss, net	—	—	—	(830)	—	(830)	—	(830)
Cash dividends, $1.64 per common share	—	—	—	—	(703)	(703)	—	(703)
Dividends to noncontrolling interests	—	—	—	—	—	—	(20)	(20)
Noncontrolling interest contribution	—	—	—	—	—	—	16	16
Disposal of noncontrolling interest, net	—	—	—	—	—	—	(21)	(21)
Spin-off of distribution business	—	—	—	—	(1,941)	(1,941)	—	(1,941)
Stock-based compensation	—	—	101	—	—	101	—	101
Common stock issued	3	—	108	—	—	108	—	108
Withholding taxes	—	—	(11)	—	—	(11)	—	(11)
Share repurchases	(12)	—	(779)	—	—	(779)	—	(779)
Excess tax benefit from stock-based compensation	—	—	15	—	—	15	—	15
Balance at December 31, 2014	419	$4	$8,341	$(834)	$13,181	$20,692	$80	$20,772

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Organization and Basis of Presentation (in part)

Basis of Consolidation (in part)

On May 30, 2014, the Company completed the spin-off of its distribution business into an independent public company named NOW Inc. In conjunction with the spin-off of NOW Inc. the Company reviewed its reporting and management structure, and effective April 1, 2014, reorganized the Rig Technology, Petroleum Services & Supplies and remaining operations of Distribution & Transmission reporting segments into four new reporting segments. The new reporting segments are Rig Systems, Rig Aftermarket, Wellbore Technologies and Completion & Production Solutions. As a result of the reorganization, all prior periods are presented on this basis. Results of operations related to NOW Inc. have been classified as discontinued operations in all periods presented on Form 10-K.

2. Summary of Significant Accounting Policies (in part)

Recently Issued Accounting Standards (in part)

In April 2014, the Financial Accounting Standards Board issued Accounting Standard Update No. 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of and Entity" (ASU No. 2014-08), which is an update for Accounting Standards Codification Topic No. 205 "Presentation of Financial Statements" and Topic No. 360 "Property, Plant and Equipment'. This update changes the requirements of reporting discontinued operations. Under the amended guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The amendments in this update are effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Although early adoption is permitted, the Company did not elect to apply the guidance of ASU No. 2014-08 to the spin-off of NOW. The adoption of this update concerns presentation and disclosure only as it relates to our consolidated financial statements. The Company expects the impact of ASU No. 2014-08 on its consolidated financial position and results of operations to be immaterial.

16. Spin-Off of Distribution Business

On May 30, 2014, the Company completed the previously announced spin-off (the "spin-off") of its distribution business into an independent public company named NOW Inc., which trades on the New York Stock Exchange under the symbol "DNOW". After the close of the New York Stock Exchange on May 30, 2014, the stockholders of record as of May 22, 2014 (the "Record Date") received one share of NOW Inc. common stock for every four shares of NOV common stock held on the Record Date. No fractional shares of NOW Inc. common stock were distributed. Instead, the transfer agent aggregated any fractional shares into whole shares, sold those whole shares in the open market at prevailing rates and distributed the net cash proceeds, after deducting any taxes required to be withheld and any amount equal to all brokerage charges and commissions, pro rata to each holder who would otherwise have been entitled to receive fractional shares in the distribution.

In order to effect the spin-off and govern its relationship with NOW after the spin-off, the Company entered into a Separation and Distribution Agreement, a Tax Matters Agreement, an Employee Matters Agreement, a Transition Services Agreement, a Master Distributor Agreement, and a Master Supply Agreement. The Separation and Distribution Agreement governs the terms of the separation of the distribution business from NOV's other businesses. Generally, the Separation and Distribution Agreement includes agreements between NOW and NOV relating to the restructuring steps needed to be taken to complete the separation, including the assets, equity interests and rights to be transferred, liabilities to be assumed, contracts to be assigned and related matters. The Separation and Distribution Agreement also governs matters relating to indemnification, insurance, litigation responsibility, confidentiality, management, intellectual property (including trademarks) and cooperation.

The Tax Matters Agreement governs respective rights, responsibilities and obligations of NOV and NOW with respect to deficiencies and refunds, if any, of federal, state, local, and foreign taxes for periods before and after the distribution, as well as taxes attributable to the separation and distribution, and related matters such as the filing of tax returns and the conduct of IRS and other audits. In addition, the Tax Matters Agreement imposes certain restrictions on NOW and its subsidiaries (including restrictions on share issuances, business combinations, sales of assets and similar transactions) that are designed to preserve the generally tax-free status of the separation and distribution.

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees of NOV and NOW and generally allocates liabilities and responsibilities relating to employee compensation and benefit plans and programs. The Employee Matters Agreement provides for the treatment of outstanding NOV equity awards. The Employee Matters Agreement also sets forth the general principles relating to employee matters, including with respect to the assignment of employees and the transfer of employees from us to NOW, the assumption and retention of liabilities and related assets, expense reimbursements, workers' compensation, leaves of absence, the provision of comparable benefits, employee service credits, the sharing of employee information and the duplication or acceleration of benefits.

The Transition Services Agreement sets forth the terms on which NOV will provide to NOW, and NOW will provide to NOV, on a temporary basis, certain services or functions that the companies historically have shared. Transition services may include administrative, payroll, human resources, data processing, environmental health and safety, financial audit support, financial transaction support, legal support services, IT and network infrastructure systems and various other support and corporate services. The Transition Services Agreement provides for the provision of specified transition services generally for a period of up to 18 months.

The Master Distributor Agreement provides that NOW will act as a distributor of certain of NOV's products. Under the Master Supply Agreement, NOW will supply products and provide solutions, including supply chain management solutions, to NOV.

The following table presents the carrying value of assets and liabilities of NOW (in millions):

	May 30, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 253	$ 101
Receivables, net	753	661
Inventories, net	844	850
Deferred income taxes	30	21
Prepaid and other current assets	35	29
Total current assets of discontinued operations	1,915	1,662

(continued)

	May 30, 2014	December 31, 2013
Property, plant and equipment, net	115	102
Deferred income taxes	15	15
Goodwill	332	333
Intangibles, net	67	68
Other assets	2	3
Total assets of discontinued operations	$2,446	$2,183
Current liabilities:		
Accounts payable	$ 384	$ 264
Accrued liabilities	90	99
Accrued income taxes	5	—
Total current liabilities of discontinued operations	479	363
Deferred income taxes	17	16
Other liabilities	9	2
Total liabilities of discontinued operations	$ 505	$ 381

Other items incurred as a result of the spin-off were $36 million for the year ended December 31, 2014 and are included in continuing operations. The following table presents selected financial information, through May 30, 2014, regarding the results of operations of our distribution business, which is reported as discontinued operations (in millions):

	Years Ended December 31,		
	2014	2013	2012
Revenue from discontinued operations	$1,701	$4,296	$3,414
Income from discontinued operations before income taxes	83	222	165
Income tax expense	31	75	57
Income from discontinued operations	$ 52	$ 147	$ 108

Prior to the spin-off, sales to NOW were $231 million for the period ended May 30, 2014 and $499 million and $450 million for the years ended December 31, 2013 and 2012, respectively. Prior to the spin-off, purchases from NOW $82 million for the period ended May 30, 2014 and $149 million and $117 million for the years ended December 31, 2013 and 2012, respectively. Prior to May 30, 2014, the spin-off date, revenue and related cost of revenue were eliminated in consolidation between NOV and NOW. Beginning May 31, 2014, this revenue and cost of revenue represent third-party transactions with NOW.

OTHER CHANGES IN RETAINED EARNINGS—CHANGE IN ACCOUNTING METHOD

5.35 CAREER EDUCATION CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (in part)

(In thousands)

	Common Stock		Treasury Stock					
	Issued Shares	$0.01 Par Value	Purchased Shares	Cost	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Balance, December 31, 2011	81,967	$820	(8,345)	$(156,275)	$590,965	$(5,136)	$375,717	$806,091
Net loss	—	—	—	—	—	—	(142,796)	(142,796)
Foreign currency translation gain	—	—	—	—	—	503	—	503
Unrealized loss on investments	—	—	—	—	—	(152)	—	(152)
Total comprehensive loss								(142,445)
Treasury stock purchased	—	—	(6,072)	(56,431)	—	—	—	(56,431)
Share-based compensation expense:								
Stock option plans	—	—	—	—	2,907	—	—	2,907
Restricted stock award plans	—	—	—	—	6,637	—	—	6,637
Employee stock purchase plan	—	—	—	—	143	—	—	143
Common stock issued under:								
Stock option plans	—	—	—	—	—	—	—	—
Restricted stock award plans	(557)	(6)	(130)	(1,282)	6	—	—	(1,282)
Employee stock purchase plan	207	2	—	—	1,597	—	—	1,599
Tax effect of stock settlements	—	—	—	—	(5,429)	—	—	(5,429)
Balance, December 31, 2012	81,617	$816	(14,547)	$(213,988)	$596,826	$(4,785)	$232,921	$611,790

(continued)

	Common Stock		Treasury Stock					
	Issued Shares	$0.01 Par Value	Purchased Shares	Cost	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
Net loss	—	—	—	—	—	—	(164,263)	(164,263)
Foreign currency translation gain	—	—	—	—	—	4,295	—	4,295
Unrealized loss on investments	—	—	—	—	—	(13)	—	(13)
Total comprehensive loss	(159,981)							
Share-based compensation expense:								
Stock option plans	—	—	—	—	2,308	—	—	2,308
Restricted stock award plans	—	—	—	—	4,339	—	—	4,339
Employee stock purchase plan	—	—	—	—	52	—	—	52
Common stock issued under:								
Stock option plans	1	—	—	—	4	—	—	4
Restricted stock award plans	(131)	(1)	(172)	(506)	1	—	—	(506)
Employee stock purchase plan	403	4	—	—	990	—	—	994
Tax effect of options exercised and stock settlements	—	—	—	—	(3,616)	—	—	(3,616)
Balance, December 31, 2013	81,890	$819	(14,719)	$(214,494)	$600,904	$(503)	$68,658	$455,384
Net loss	—	—	—	—	—	—	(178,163)	(178,163)
Unrealized loss on investments	—	—	—	—	—	(350)	—	(350)
Total comprehensive loss								(178,513)
Share-based compensation expense:								
Stock option plan	—	—	—	—	1,372	—	—	1,372
Restricted stock award plan	—	—	—	—	2,865	—	—	2,865
Employee stock purchase plan	—	—	—	—	40	—	—	40
Common stock issued under:								
Stock option plan	225	2	—	—	610	—	—	612
Restricted stock award plan	95	1	(97)	(671)	(1)	—	—	(671)
Employee stock purchase plan	127	1	—	—	741	—	—	742
Cumulative adjustment for change from cost method investment to equity method investment	—	—	—	—	—	—	102	102
Balance, December 31, 2014	82,337	$823	(14,816)	$(215,165)	$606,531	$(853)	$(109,403)	$281,933

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

5. Investments (in part)

Equity Method Investment

Our investment in an equity affiliate, which is recorded within other noncurrent assets on our consolidated balance sheet, represents an international investment in a private company. As of December 31, 2014, our investment in an equity affiliate equated to a 30.7%, or $4.8 million, non-controlling interest in CCKF, a Dublin-based educational technology company providing intelligent adaptive systems to power the delivery of individualized and personalized learning. During the fourth quarter of 2014, we increased our investment in CCKF to 30.7% through a $3.2 million additional investment, thus requiring us to record this investment under the equity method. Prior to our additional investment, we accounted for our investment in CCKF as a cost method investment because we had less than a 20% interest and did not have significant influence. As a result of this increase in investment, we recorded a retroactive adjustment to account for the investment and applied the equity method for all prior periods in which the investment was held in accordance with ASC Topic 323—*Investments—Equity Method and Joint Ventures*. Accordingly, we did not adjust prior period financial statements or information as the impact of the change in accounting method was not material to any individual year. The retroactive cumulative adjustment increased retained earnings as of January 1, 2014 by $0.1 million. Additionally, we recorded less than $0.1 million of income related to our proportionate investment in CCKF for the year ended December 31, 2014.

Spinoffs

RECOGNITION AND MEASUREMENT

5.36 The distributions of nonmonetary assets that constitute a business to owners of an entity are commonly referred to as spinoffs. A *business* is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. Spinoffs are discussed in FASB ASC 505-60.

5.37 FASB ASC 505-60-25-2 requires that the accounting for the distribution of nonmonetary assets to owners of an entity in a spinoff be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value). An entity's distribution of the shares of a wholly owned or consolidated subsidiary to its shareholders should be recorded based on the carrying value of the subsidiary. Regardless of whether the spun-off operations will be sold immediately after the spinoff, the transaction should not be accounted for as a sale of the accounting spinnee followed by a distribution of the proceeds. In order to determine the required accounting and reporting in a spinoff transaction, an entity needs to determine which party is the accounting spinnor and which is the accounting spinnee. The accounting spinnee should be reported as a discontinued operation by the accounting spinnor if the spinnee is a component of an entity and meets the conditions for such reporting.

PRESENTATION AND DISCLOSURE EXCERPT

SPINOFFS

5.38 B/E AEROSPACE, INC. (DEC)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stock-holders' Equity
	Shares	Amount					
Balance, December 31, 2011	104.4	$1.0	$ 1,633.2	$(15.7)	$ 324.0	$ (69.9)	$ 1,872.6
Sale of stock under employee stock purchase plan	0.1	—	6.3	—	—	—	6.3
Purchase of treasury stock	—	—	—	(2.6)	—	—	(2.6)
Exercise of stock options	0.1	—	0.3	—	—	—	0.3
Restricted stock grants	0.8	0.1	23.7	—	—	—	23.8
Tax benefits realized from prior exercises of employee stock options and restricted stock	—	—	7.0	—	—	—	7.0
Net earnings	—	—	—	—	233.7	—	233.7
Foreign currency translation adjustment and other	—	—	—	—	—	37.8	37.8
Balance, December 31, 2012	105.4	1.1	1,670.5	(18.3)	557.7	(32.1)	2,178.9
Sale of stock under employee stock purchase plan	0.1	—	7.3	—	—	—	7.3
Purchase of treasury stock	—	—	—	(3.3)	—	—	(3.3)
Exercise of stock options	—	—	0.2	—	—	—	0.2
Restricted stock grants	0.2	—	23.2	—	—	—	23.2
Tax benefits realized from prior exercises of employee stock options and restricted stock	—	—	9.2	—	—	—	9.2
Net earnings	—	—	—	—	365.6	—	365.6
Foreign currency translation adjustment and other	—	—	—	—	—	28.1	28.1
Balance, December 31, 2013	105.7	1.1	1,710.4	(21.6)	923.3	(4.0)	2,609.2
Sale of stock under employee stock purchase plan	0.1	—	8.4	—	—	—	8.4
Purchase of treasury stock	—	—	—	(7.0)	—	—	(7.0)
Exercise of stock options	0.1	—	0.3	—	—	—	0.3
Restricted stock grants	0.8	—	28.2	—	—	—	28.2
Tax benefits realized from prior exercises of employee stock options and restricted stock	—	—	3.5	—	—	—	3.5
Net earnings	—	—	—	—	104.3	—	104.3
Spin-Off of KLX INC.	—	—	(2,635.4)	—	—	8.0	(2,627.4)
Foreign currency translation adjustment and other	—	—	—	—	—	(109.4)	(109.4)
Balance, December 31, 2014	106.7	$1.1	$ (884.6)	$(28.6)	$1,027.6	$(105.4)	$ 10.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(In millions, except share and per share data)

1. Summary of Significant Accounting Policies (in part)

Organization and Basis of Presentation (in part)—On December 16, 2014 (the "Distribution Date"), we completed the spin-off of KLX Inc. ("KLX") by means of the transfer of our Consumables Management Segment to KLX and the subsequent distribution to B/E Aerospace stockholders of all the outstanding shares of KLX common stock (the "Spin-Off"). We retained our commercial aircraft and business jet segments. On the Distribution Date, each of our stockholders of record as of the close of business on December 5, 2014 (the "Record Date") received one share of KLX common stock for every two shares of our common stock held as of the Record Date.

2. Divestitures and Business Combinations (in part)

Spin-Off of KLX Inc.

On June 10, 2014, we announced a plan to spin-off our Consumables Management Segment into a separate publicly traded company. To accomplish the spin-off, we formed KLX. On the Distribution Date, we completed the spin-off of KLX by means of the transfer of our Consumables Management Segment to KLX and the subsequent distribution of all the outstanding KLX common stock to our stockholders. We retained our commercial aircraft and business jet segments. On the Distribution Date, each of our stockholders of record as of the close of business on the Record Date received one share of KLX common stock for every two shares of our common stock held as of the Record Date. The distribution was structured to be tax free to our U.S. stockholders for U.S. federal income tax purposes.

The divested KLX is presented as a discontinued operation on the consolidated statements of earnings and comprehensive income for all periods presented. The KLX balance sheet, other comprehensive income and cash flows are included within our consolidated financial statements through December 16, 2014.

Summary results of operations for KLX through December 16, 2014 were as follows:

	For the Period January 1, 2014 Through December 16, 2014	For the Years Ended December 31,	
		2013	2012
Revenues	$1,611.2	$1,280.4	$1,171.0
Earnings before income taxes	$ 207.9	$ 267.5	$ 246.8
Provision for income taxes	161.3	96.8	92.7
Earnings from discontinued operations, net of income taxes	$ 46.6	$ 170.7	$ 154.1

The results of the KLX discontinued operation exclude certain corporate and group allocations which were historically allocated to KLX. These costs include primarily corporate overhead and information systems.

On December 16, 2014, we divested the following assets and liabilities in connection with the Spin-Off:

Assets	
Cash and cash equivalents	$ 460.0
Accounts receivable	310.8
Inventories	1,303.4
Deferred income taxes	40.2
Other current assets	52.3
Property and equipment	323.1
Goodwill	1,370.4
Identifiable intangible assets	430.7
Other assets	119.1
	4,410.0
Liabilities	
Accounts payable	167.1
Accrued liabilities	182.4
Long-term debt	1,200.0
Deferred income taxes	121.1
Other non-current liabilities	112.0
	1,782.6
Net assets divested in the Spin-Off	$2,627.4

We entered into transitional services agreements with KLX prior to the spin-off pursuant to which we and KLX are providing various services to each other on an interim transitional basis. Transition services may be provided for up to 24 months, and for information technology services, KLX has an option for a one-year extension by the recipient. Services being provided by us include certain information technology and back office support. We record billings under these transition services agreements which are recorded as a reduction of the costs of the respective service in the applicable expense category in the consolidated statement of earnings and comprehensive income. This transitional support will enable KLX to establish its stand-alone processes for various activities that were previously provided by us and does not constitute significant continuing support of KLX's operations.

Under the Tax Sharing and Indemnification Agreement between the Company and KLX we generally assume liability for all federal and state income taxes for all tax periods ending on or prior to December 31, 2014. We assume the liability for all federal and state income taxes of KLX's U.S. operations through the Distribution Date. KLX assumes all other federal taxes, foreign income tax/non-income taxes and state/local non-income taxes related to their business for all periods and we assume all other federal taxes, foreign income tax/non-income taxes and state/local non-income taxes related to our business for all periods. Additional taxes incurred related to the internal restructuring to separate the businesses to complete the spin-off shall be shared equally between the Company and KLX. Taxes incurred related to certain international tax initiatives for the KLX business shall be assumed by KLX subject to the calculation provisions of the Tax Sharing and Indemnification Agreement. In addition, we transferred to KLX all of its deferred tax assets and liabilities as of December 16, 2014.

In connection with the spin-off, we have adjusted our employee stock compensation awards and separated our employee medical and dental benefit plans.

Treasury Stock

PRESENTATION

5.39 Repurchased common stock is often referred to as treasury stock or treasury shares. FASB ASC 505-30-45-1 discusses the balance sheet presentation of treasury stock and states that if a corporation's stock is acquired for purposes other than retirement (formal or constructive), or if ultimate disposition has not yet been decided, the cost of acquired stock may be shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings or may be accorded the accounting treatment appropriate for retired stock.

5.40 A repurchase of shares at a price significantly in excess of the current market price creates a presumption that the repurchase price includes amounts attributable to items other than the shares repurchased. FASB ASC 505-30-30-2 explains that a repurchase of shares at a price significantly in excess of the current market price may require an entity to allocate amounts to other elements of the transaction.

PRESENTATION AND DISCLOSURE EXCERPT

TREASURY STOCK

5.41 3M COMPANY (DEC)

CONSOLIDATED BALANCE SHEET

(Dollars in millions, except per share amount)	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 1,897	$ 2,581
Marketable securities—current	626	756
Accounts receivable—net of allowances of $94 and $104	4,238	4,253
Inventories		
Finished goods	1,723	1,790
Work in process	1,081	1,139
Raw materials and supplies	902	935
Total inventories	3,706	3,864
Other current assets	1,298	1,279
Total current assets	11,765	12,733

(continued)

(Dollars in millions, except per share amount)	2014	2013
Marketable securities—non-current	828	1,453
Investments	102	122
Property, plant and equipment	22,841	23,068
Less: Accumulated depreciation	(14,352)	(14,416)
Property, plant and equipment—net	8,489	8,652
Goodwill	7,050	7,345
Intangible assets—net	1,435	1,688
Prepaid pension benefits	46	577
Other assets	1,554	980
Total assets	$ 31,269	$ 33,550
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 106	$ 1,683
Accounts payable	1,807	1,799
Accrued payroll	732	708
Accrued income taxes	435	417
Other current liabilities	2,918	2,891
Total current liabilities	5,998	7,498
Long-term debt	6,731	4,326
Pension and postretirement benefits	3,843	1,794
Other liabilities	1,555	1,984
Total liabilities	$ 18,127	$ 15,602
Commitments and contingencies (Note 13)		
Equity		
3M Company shareholders' equity:		
Common stock, par value $.01 per share Shares outstanding—2014: 635,134,594 Shares outstanding—2013: 663,296,239	$ 9	$ 9
Additional paid-in capital	4,379	4,375
Retained earnings	34,317	32,416
Treasury stock	(19,307)	(15,385)
Accumulated other comprehensive income (loss)	(6,289)	(3,913)
Total 3M Company shareholders' equity	13,109	17,502
Noncontrolling interest	33	446
Total equity	$ 13,142	$ 17,948
Total liabilities and equity	$ 31,269	$ 33,550

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		3M Company Shareholders				
(Dollars in millions, except per share amounts)	Total	Common Stock and Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest
Balance at December 31, 2011	$15,862	$3,776	$28,348	$(11,679)	$(5,025)	$ 442
Net income	4,511		4,444			67
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	71				116	(45)
Defined benefit pension and post-retirement plans adjustment	201				200	1
Debt and equity securities—unrealized gain (loss)	4				4	—
Cash flow hedging instruments—unrealized gain (loss)	(45)				(45)	—
Total other comprehensive income (loss), net of tax	231					
Dividends declared ($2.36 per share)	(1,635)		(1,635)			
Stock-based compensation, net of tax impacts	277	277				
Reacquired stock	(2,220)			(2,220)		
Issuances pursuant to stock option and benefit plans	1,014		(478)	1,492		
Balance at December 31, 2012	$18,040	$4,053	$30,679	$(12,407)	$(4,750)	$ 465
Net income	4,721		4,659			62
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(505)				(418)	(87)
Defined benefit pension and post-retirement plans adjustment	1,245				1,240	5
Debt and equity securities—unrealized gain (loss)	—				—	—
Cash flow hedging instruments—unrealized gain (loss)	15				15	—
Total other comprehensive income (loss), net of tax	755					
Dividends declared ($3.395 per share, Note 5)	(2,297)		(2,297)			
Sale of subsidiary shares	8	7				1
Stock-based compensation, net of tax impacts	324	324				
Reacquired stock	(5,216)			(5,216)		
Issuances pursuant to stock option and benefit plans	1,613		(625)	2,238		
Balance at December 31, 2013	$17,948	$4,384	$32,416	$(15,385)	$(3,913)	$ 446

(continued)

		3M Company Shareholders				
(Dollars in millions, except per share amounts)	Total	Common Stock and Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest
Net income	4,998		4,956			42
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	(942)				(948)	6
Defined benefit pension and post-retirement plans adjustment	(1,562)				(1,562)	—
Debt and equity securities—unrealized gain (loss)	2				2	—
Cash flow hedging instruments—unrealized gain/(loss)	107				107	—
Total other comprehensive income (loss), net of tax	(2,395)					
Dividends declared ($3.59 per share, Note 5)	(2,297)		(2,297)			
Purchase of subsidiary shares	(870)	(434)			25	(461)
Stock-based compensation, net of tax impacts	438	438				
Reacquired stock	(5,643)			(5,643)		
Issuances pursuant to stock option and benefit plans	963		(758)	1,721		
Balance at December 31, 2014	$13,142	$4,388	$34,317	$(19,307)	$(6,289)	$ 33

Supplemental Share Information	2014	2013	2012
Treasury stock			
Beginning balance	280,736,817	256,941,406	249,063,015
Reacquired stock	40,664,061	45,445,610	25,054,207
Issuances pursuant to stock options and benefit plans	(12,502,416)	(21,650,199)	(17,175,816)
Ending balance	308,898,462	280,736,817	256,941,406

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

NOTE 5. Supplemental Equity and Comprehensive Income Information (in part)

Common stock ($.01 par value per share) of 3.0 billion shares is authorized, with 944,033,056 shares issued. Treasury stock is reported at cost, with 308,898,462 shares at December 31, 2014, 280,736,817 shares at December 31, 2013, and 256,941,406 shares at December 31, 2012. Preferred stock, without par value, of 10 million shares is authorized but unissued.

Other Components of Stockholders' Equity

PRESENTATION

5.42 For public entities, Rule 3-04 of Regulation S-X requires that an analysis of the changes in each caption of stockholders' equity and noncontrolling interests presented in the balance sheets be given in a note or separate statement. This analysis should be presented in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed, with all significant reconciling items described by appropriate captions.

5.43 Many of the survey entities present accounts other than capital stock, additional paid-in capital, retained earnings, accumulated other comprehensive income, and treasury stock in the "Stockholders' Equity" section of the balance sheet. Other stockholders' equity accounts appearing on the balance sheets of the survey entities include, but are not limited to, deferred compensation, noncontrolling interest, and employee benefit stock, in each instance pursuant to relevant FASB ASC requirements. Other items, such as foreign currency translation adjustments, unrealized gains and losses on certain investments in debt and equity securities, and defined benefit postretirement plan adjustments, are considered components of other comprehensive income. FASB ASC 220-10-45-14 provides guidance for reporting other comprehensive income in the Equity section of a statement of financial position.

DISCLOSURE

5.44 Rule 3-04 of SEC Regulation S-X requires an SEC registrant to disclose an analysis of the changes in each caption of other stockholders' equity and noncontrolling interests presented in the balance sheets in a note or separate statement (see also FASB ASC 505-10-S99-1).

5.45 FASB ASC 810, *Consolidation*, establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements but separate from the parent's equity, and clearly identified and labeled. In addition, FASB ASC 810 requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. Those expanded disclosures include a reconciliation of the beginning and ending balances of the equity attributable to the parent and noncontrolling owners and a schedule showing the effects of changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent.

PRESENTATION AND DISCLOSURE EXCERPTS

DEFERRED COMPENSATION

5.46 UNITED PARCEL SERVICE, INC. (DEC)

CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31,	
	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,291	$ 4,665
Marketable securities	992	580
Accounts receivable, net	6,661	6,502
Deferred income tax assets	590	684
Other current assets	1,274	956
Total Current Assets	11,808	13,387
Property, Plant and Equipment, Net	18,281	17,961
Goodwill	2,184	2,190
Intangible Assets, Net	847	775
Investments and Restricted Cash	489	444
Derivative Assets	515	323
Deferred Income Tax Assets	652	110
Other Non-Current Assets	695	1,022
Total Assets	$35,471	$36,212
Liabilities And Shareowners' Equity		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	$ 923	$ 48
Accounts payable	2,754	2,478
Accrued wages and withholdings	2,373	2,325
Self-insurance reserves	656	719
Other current liabilities	1,933	1,561
Total Current Liabilities	8,639	7,131
Long-Term Debt	9,864	10,824
Pension and Postretirement Benefit Obligations	11,452	7,051
Deferred Income Tax Liabilities	83	1,244
Self-Insurance Reserves	1,916	2,059
Other Non-Current Liabilities	1,359	1,415
Shareowners' Equity:		
Class A common stock (201 and 212 shares issued in 2014 and 2013)	2	2
Class B common stock (705 and 712 shares issued in 2014 and 2013)	7	7
Additional paid-in capital	—	—
Retained earnings	5,726	6,925
Accumulated other comprehensive loss	(3,594)	(460)
Deferred compensation obligations	59	69
Less: Treasury stock (1 share in 2014 and 2013)	(59)	(69)
Total Equity for Controlling Interests	2,141	6,474
Noncontrolling Interests	17	14
Total Shareowners' Equity	2,158	6,488
Total Liabilities and Shareowners' Equity	$35,471	$36,212

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 9. Shareowners' Equity (in part)

Deferred Compensation Obligations and Treasury Stock

We maintain a deferred compensation plan whereby certain employees were previously able to elect to defer the gains on stock option exercises by deferring the shares received upon exercise into a rabbi trust. The shares held in this trust are classified as treasury stock, and the liability to participating employees is classified as "deferred compensation obligations" in the shareowners' equity section of the consolidated balance sheets. The number of shares needed to settle the liability for deferred compensation obligations is included in the denominator in both the basic and diluted earnings per share calculations. Employees are generally no longer able to defer the gains from stock options exercised subsequent to December 31, 2004. Activity in the deferred compensation program for the years ended December 31, 2014, 2013 and 2012 is as follows (in millions):

	2014		2013		2012	
	Shares	**Dollars**	**Shares**	**Dollars**	**Shares**	**Dollars**
Deferred Compensation Obligations						
Balance at beginning of year		$ 69		$ 78		$ 88
Reinvested dividends		2		4		3
Options exercise deferrals		—		—		—
Benefit payments		(12)		(13)		(13)
Balance at end of year		$ 59		$ 69		$ 78
Treasury Stock						
Balance at beginning of year	(1)	$(69)	(1)	$(78)	(2)	$(88)
Reinvested dividends	—	(2)	—	(4)	—	(3)
Options exercise deferrals	—	—	—	—	—	—
Benefit payments	—	12	—	13	1	13
Balance at end of year	(1)	$(59)	(1)	$(69)	(1)	$(78)

WARRANTS

5.47 VISTEON CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Total Visteon Corporation Stockholders' Equity								
(Dollars in millions)	Common Stock	Stock Warrants	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Visteon Corporation Stockholders' Equity	Non-Controlling Interests	Total Equity
Balance at December 31, 2011	$ 1	$ 13	$1,165	$ 166	$ (25)	$ (13)	$1,307	$690	$1,997
Net income	—	—	—	100	—	—	100	67	167
Other comprehensive (loss) income	—	—	—	—	(65)	—	(65)	26	(39)
Stock-based compensation, net	—	—	26	—	—	(8)	18	—	18
Repurchase of shares of common stock	—	—	—	—	—	(50)	(50)	—	(50)
Warrant exercises	—	(3)	5	—	—	—	2	—	2
Cash dividends	—	—	—	—	—	—	—	(27)	(27)
Common Stock contribution to U.S. pension plans	—	—	73	—	—	—	73	—	73
Balance at December 31, 2012	$ 1	$ 10	$1,269	$ 266	$ (90)	$ (71)	$1,385	$756	$2,141
Net income	—	—	—	690	—	—	690	85	775
Other comprehensive income (loss)	—	—	—	—	78	—	78	(4)	74
Stock-based compensation, net	—	—	15	—	—	(1)	14	—	14
Repurchase of shares of common stock	—	—	—	—	—	(250)	(250)	—	(250)
Warrant exercises	—	(4)	7	—	—	—	3	—	3
Cash dividends	—	—	—	—	—	—	—	(22)	(22)
Acquisition of business	—	—	—	—	—	—	—	138	138
Balance at December 31, 2013	$ 1	$ 6	$1,291	$ 956	$ (12)	$(322)	$1,920	$953	$2,873
Net (loss) income	—	—	—	(295)	—	—	(295)	89	(206)
Other comprehensive (loss) income	—	—	—	—	(287)	—	(287)	(36)	(323)
Stock-based compensation, net	—	—	9	—	—	12	21	—	21
Repurchase of shares of common stock	—	—	(63)	—	—	(437)	(500)	—	(500)
Warrant exercises	—	(3)	9	—	—	—	6	—	6
Cash dividends	—	—	—	—	—	—	—	(89)	(89)
Acquisition of business	—	—	—	—	—	—	—	48	48
Business divestiture	—	—	—	—	—	—	—	(9)	(9)
Balance at December 31, 2014	$ 1	$ 3	$1,246	661	$(299)	$(747)	$ 865	$956	$1,821

Note 19. Stockholders' Equity and Non-controlling Interests (in part)

Warrants

The warrants to purchase up to 2,355,000 shares of common stock at an exercise price of $9.66 per share, which expire ten years from issuance ("Ten Year Warrants") may be net share settled and are recorded as permanent equity in the Company's consolidated balance sheets with 909 and 909 warrants outstanding at December 31, 2014 and 2013, respectively. The Ten Year Warrants were valued at $15.00 per share on October 1, 2010 using the Black-Scholes option pricing model. Significant assumptions used in determining the fair value of such warrants at issuance included share price volatility and risk-free rate of return. The volatility assumption was based on the implied volatility and historical realized volatility for comparable companies. The risk-free rate assumption was based on U.S. Treasury bond yields.

The warrants to purchase up to 1,552,774 shares of common stock at an exercise price of $58.80 per share, which expire five years from issuance ("Five Year Warrants") may be net share settled and are recorded as permanent equity in the Company's consolidated balance sheets with 806,436 and 1,548,387 warrants outstanding at December 31, 2014 and 2013, respectively. The Five Year Warrants were valued at $3.62 per share on October 1, 2010 using the Black-Scholes option pricing model. Significant assumptions used in determining the fair value of such warrants at issuance included share price volatility and risk-free rate of return. The volatility assumption was based on the implied volatility and historical realized volatility for comparable companies. The risk-free rate assumption was based on U.S. Treasury bond yields.

If the Company pays or declares a dividend or makes a distribution on common stock payable in shares of its common stock, the number of shares of common stock or other shares of common stock for which a Warrant (the Five Year Warrants and Ten Year Warrants, collectively) is exercisable shall be adjusted so that the holder of each Warrant shall be entitled upon exercise to receive the number of shares of common stock that such warrant holder would have owned or have been entitled to receive after the happening of any of the events described above, had such Warrant been exercised immediately prior to the happening of such event. In addition, if the Company pays an extraordinary dividend (as defined in each Warrant Agreement) to common shareholders, then the exercise price shall be decreased effective immediately after the effective date of such extraordinary dividend, dollar-for-dollar by the fair market value of any securities or other assets paid or distributed on each share of common stock.

NONCONTROLLING INTEREST

5.48 CF INDUSTRIES HOLDINGS, INC. (DEC)

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stockholders							
(In millions)	$0.01 Par Value Common Stock	Treasury Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance as of December 31, 2011	$0.7	$(1,000.2)	$2,804.8	$2,841.0	$(99.3)	$4,547.0	$385.9	$4,932.9
Net earnings	—	—	—	1,848.7	—	1,848.7	74.7	1,923.4
Other comprehensive income:								
Foreign currency translation adjustment—net of taxes	—	—	—	—	46.0	46.0	0.7	46.7
Unrealized net gain on hedging derivatives—net of taxes	—	—	—	—	4.6	4.6	—	4.6
Unrealized net gain on securities—net of taxes	—	—	—	—	2.6	2.6	—	2.6
Defined benefit plans—net of taxes	—	—	—	—	(3.5)	(3.5)	—	(3.5)
Comprehensive income						1,898.4	75.4	1,973.8
Purchases of treasury stock	—	(500.0)	—	—	—	(500.0)	—	(500.0)
Retirement of treasury stock	(0.1)	1,500.2	(374.2)	(1,125.9)	—	—	—	—
Acquisition of treasury stock under employee stock plans	—	(2.3)	—	—	—	(2.3)	—	(2.3)
Issuance of $0.01 par value common stock under employee stock plans	—	—	14.6	—	—	14.6	—	14.6
Stock-based compensation expense	—	—	11.1	—	—	11.1	—	11.1
Excess tax benefit from stock-based compensation	—	—	36.1	—	—	36.1	—	36.1
Cash dividends ($1.60 per share)	—	—	—	(102.7)	—	(102.7)	—	(102.7)
Distributions declared to noncontrolling interest	—	—	—	—	—	—	(83.1)	(83.1)
Effect of exchange rates changes	—	—	—	—	—	—	1.8	1.8

(continued)

	Common Stockholders							
(In millions)	$0.01 Par Value Common Stock	Treasury Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance as of December 31, 2012	$0.6	$(2.3)	$2,492.4	$3,461.1	$(49.6)	$5,902.2	$380.0	$6,282.2
Net earnings	—	—	—	1,464.6	—	1,464.6	68.2	1,532.8
Other comprehensive income:								
Foreign currency translation adjustment—net of taxes	—	—	—	—	(29.5)	(29.5)	(0.7)	(30.2)
Unrealized net gain on hedging derivatives—net of taxes	—	—	—	—	1.9	1.9	—	1.9
Unrealized net gain on securities—net of taxes	—	—	—	—	1.0	1.0	—	1.0
Defined benefit plans—net of taxes	—	—	—	—	33.6	33.6	—	33.6
Comprehensive income						1,471.6	67.5	1,539.1
Acquisitions of noncontrolling interests in Canadian Fertilizers Limited (CFL)	—	—	(752.5)	—	—	(752.5)	(16.8)	(769.3)
Purchases of treasury stock	—	(1,449.3)	—	—	—	(1,449.3)	—	(1,449.3)
Retirement of treasury stock	—	1,247.8	(180.4)	(1,067.4)	—	—	—	—
Acquisition of treasury stock under employee stock plans	—	(3.2)	—	—	—	(3.2)	—	(3.2)
Issuance of $0.01 par value common stock under employee stock plans	—	5.2	8.7	(3.6)	—	10.3	—	10.3
Stock-based compensation expense	—	—	12.6	—	—	12.6	—	12.6
Excess tax benefit from stock-based compensation	—	—	13.5	—	—	13.5	—	13.5
Cash dividends ($2.20 per share)	—	—	—	(129.1)	—	(129.1)	—	(129.1)
Distributions declared to noncontrolling interest	—	—	—	—	—	—	(68.5)	(68.5)
Effect of exchange rates changes	—	—	—	—	—	—	0.1	0.1
Balance as of December 31, 2013	$0.6	$(201.8)	$1,594.3	$3,725.6	$(42.6)	$5,076.1	$362.3	$5,438.4
Net earnings	—	—	—	1,390.3	—	1,390.3	46.5	1,436.8
Other comprehensive income:								
Foreign currency translation adjustment—net of taxes	—	—	—	—	(72.4)	(72.4)	—	(72.4)
Unrealized net loss on hedging derivatives—net of taxes	—	—	—	—	(1.8)	(1.8)	—	(1.8)
Unrealized net gain on securities—net of taxes	—	—	—	—	0.2	0.2	—	0.2
Defined benefit plans—net of taxes	—	—	—	—	(43.2)	(43.2)	—	(43.2)
Comprehensive income						1,273.1	46.5	1,319.6
Purchases of treasury stock	—	(1,923.7)	—	—	—	(1,923.7)	—	(1,923.7)
Retirement of treasury stock	(0.1)	1,905.5	(220.5)	(1,684.9)	—	—	—	—
Acquisition of treasury stock under employee stock plans	—	(3.1)	—	—	—	(3.1)	—	(3.1)
Issuance of $0.01 par value common stock under employee stock plans	—	0.9	16.7	—	—	17.6	—	17.6
Stock-based compensation expense	—	—	16.7	—	—	16.7	—	16.7
Excess tax benefit from stock-based compensation	—	—	8.7	—	—	8.7	—	8.7
Cash dividends ($5.00 per share)	—	—	—	(255.7)	—	(255.7)	—	(255.7)
Distributions declared to noncontrolling interest	—	—	—	—	—	—	(46.0)	(46.0)
Balance as of December 31, 2014	$0.5	$(222.2)	$1,415.9	$3,175.3	$(159.8)	$4,209.7	$362.8	$4,572.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Summary of Significant Accounting Policies (in part)

Consolidation and Noncontrolling Interest

The consolidated financial statements of CF Holdings include the accounts of CF Industries and all majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

TNCLP is a master limited partnership that is consolidated in the financial statements of CF Holdings. TNCLP owns the nitrogen fertilizer manufacturing facility in Verdigris, Oklahoma. We own an aggregate 75.3% of TNCLP and outside investors own the remaining 24.7%. Partnership interests in TNCLP are traded on the New York Stock Exchange (NYSE). As a result, TNCLP files separate financial reports with the Securities and Exchange Commission (SEC). The outside investors' limited partnership interests in the partnership are included in noncontrolling interest in our consolidated financial statements. This noncontrolling interest represents the noncontrolling unitholders' interest in the partners' capital of TNCLP.

18. Noncontrolling Interest

Terra Nitrogen Company, L.P. (TNCLP)

TNCLP is a master limited partnership that owns a nitrogen manufacturing facility in Verdigris, Oklahoma. We own an aggregate 75.3% of TNCLP through general and limited partnership interests. Outside investors own the remaining 24.7% of the limited partnership. For financial reporting purposes, the assets, liabilities and earnings of the partnership are consolidated into our financial statements. The outside investors' limited partnership interests in the partnership have been recorded as part of noncontrolling interest in our consolidated financial statements. The noncontrolling interest represents the noncontrolling unitholders' interest in the earnings and equity of TNCLP. An affiliate of CF Industries is required to purchase all of TNCLP's fertilizer products at market prices as defined in the Amendment to the General and Administrative Services and Product Offtake Agreement, dated September 28, 2010.

TNCLP makes cash distributions to the general and limited partners based on formulas defined within its Agreement of Limited Partnership. Cash available for distribution is defined in the agreement generally as all cash receipts less all cash disbursements, less certain reserves (including reserves for future operating and capital needs) established as the general partner determines in its reasonable discretion to be necessary or appropriate. Changes in working capital affect available cash, as increases in the amount of cash invested in working capital items (such as increases in inventory and decreases in accounts payable) reduce available cash, while declines in the amount of cash invested in working capital items increase available cash. Cash distributions to the limited partners and general partner vary depending on the extent to which the cumulative distributions exceed certain target threshold levels set forth in the Agreement of Limited Partnership.

In each of the applicable quarters of 2014, 2013 and 2012, the minimum quarterly distributions were satisfied, which entitled us, as the general partner, to receive increased distributions on our general partner interests as provided for in the Agreement of Limited Partnership. The earnings attributed to our general partner interest in excess of the threshold levels for the years ended December 31, 2014, 2013 and 2012 were $139.4 million, $200.6 million and $234.0 million, respectively.

As of December 31, 2014, Terra Nitrogen GP Inc. (TNGP), the general partner of TNCLP (and an indirect wholly-owned subsidiary of CF Industries), and its affiliates owned 75.3% of TNCLP's outstanding units. When not more than 25% of TNCLP's issued and outstanding units are held by non-affiliates of TNGP, TNCLP, at TNGP's sole discretion, may call, or assign to TNGP or its affiliates, TNCLP's right to acquire all such outstanding units held by non-affiliated persons. If TNGP elects to acquire all outstanding units, TNCLP is required to give at least 30 but not more than 60 days' notice of TNCLP's decision to purchase the outstanding units. The purchase price per unit will be the greater of (1) the average of the previous 20 trading days' closing prices as of the date five days before the purchase is announced or (2) the highest price paid by TNGP or any of its affiliates for any unit within the 90 days preceding the date the purchase is announced.

Canadian Fertilizers Limited (CFL)

CFL owns a nitrogen fertilizer complex in Medicine Hat, Alberta, Canada, which until April 30, 2013, supplied fertilizer products to CF Industries and Viterra Inc. (Viterra). The Medicine Hat complex is the largest nitrogen fertilizer complex in Canada, with two world-scale ammonia plants, a world-scale granular urea plant and on-site storage facilities for both ammonia and urea.

Prior to April 30, 2013, CF Industries owned 49% of the voting common shares and 66% of the non-voting preferred shares of CFL and purchased 66% of the production of CFL. Also prior to April 30, 2013, Viterra held 34% of the equity ownership of CFL, and had the right to purchase up to the remaining 34% of CFL's production. Both CF Industries and Viterra were entitled to receive distributions of net earnings of CFL based upon their respective purchases from CFL. The remaining 17% of the voting common shares were owned by GROWMARK, Inc. and La Coop fédérée. CFL was a variable interest entity that was consolidated in our financial statements.

In 2012, we entered into agreements to acquire the noncontrolling interests in CFL for C$0.9 billion, which included 34% of CFL's common and preferred shares owned by Viterra, the product purchase agreement between CFL and Viterra and the CFL common shares held by GROWMARK, Inc. and La Coop fédérée. In April 2013, we completed the acquisitions. Since CFL was previously a consolidated variable interest entity, the purchase price was recognized as follows: a $0.8 billion reduction in paid-in capital; a $0.1 billion deferred tax asset; and the removal of the CFL noncontrolling interest. CFL is now a wholly-owned subsidiary and we purchased 100% of CFL's ammonia and granular urea production.

CF Industries' and Viterra's purchases of nitrogen fertilizer products from CFL were made under product purchase agreements, and the selling prices were determined under the provisions of these agreements. Prior to the fourth quarter of 2012, an initial selling price was paid to CFL based upon CFL's production cost plus an agreed-upon margin once title passed as the product was shipped. At the end of the year, the difference between the market price of products purchased from CFL and the price based on production cost plus the agreed-upon margin was paid to CFL. The sales revenue attributable to this difference was accrued by the Company on an interim basis.

In the fourth quarter of 2012, the CFL Board of Directors approved amendments to the product purchase agreements retroactive to January 1, 2012 that modified the selling prices that CFL charged for products sold to Viterra and CF Industries to eliminate the requirement to pay to CFL the difference between the market price and the price based on production cost plus an agreed-upon margin. The effect of the selling price amendments to the product purchase agreements impacts the comparability of our financial results. These changes impact the year-over-year comparability of net sales, gross margin, operating earnings, earnings before income taxes and net earnings attributable to noncontrolling interest, but do not impact the comparability of our net earnings attributable to common stockholders or net cash flows for the same period.

A reconciliation of the beginning and ending balances of noncontrolling interest and distributions payable to the noncontrolling interests on our consolidated balance sheets is provided below.

	Year Ended December 31,						
	2014	2013			2012		
(In millions)	TNCLP	CFL	TNCLP	Total	CFL	TNCLP	Total
Noncontrolling interest:							
Beginning balance	$362.3	$17.4	$362.6	$380.0	$ 16.7	$369.2	$ 385.9
Earnings attributable to noncontrolling interest	46.5	2.3	65.9	68.2	3.5	71.2	74.7
Declaration of distributions payable	(46.0)	(2.3)	(66.2)	(68.5)	(5.3)	(77.8)	(83.1)
Acquisitions of noncontrolling interests in CFL	—	(16.8)	—	(16.8)	—	—	—
Effect of exchange rate changes	—	(0.6)	—	(0.6)	2.5	—	2.5
Ending balance	$362.8	$ —	$362.3	$362.3	$ 17.4	$362.6	$ 380.0
Distributions payable to noncontrolling interest:							
Beginning balance	$ —	$ 5.3	$ —	$ 5.3	$ 149.7	$ —	$ 149.7
Declaration of distributions payable	46.0	2.3	66.2	68.5	5.3	77.8	83.1
Distributions to noncontrolling interest	(46.0)	(7.5)	(66.2)	(73.7)	(154.0)	(77.8)	(231.8)
Effect of exchange rate changes	—	(0.1)	—	(0.1)	4.3	—	4.3
Ending balance	$ —	$ —	$ —	$ —	$ 5.3	$ —	$ 5.3

EMPLOYEE BENEFIT STOCK

5.49 BADGER METER, INC. (DEC)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,						
(In thousands except per share amounts)	Common Stock at $1 Par Value*	Capital In Excess of Par Value	Reinvested Earnings	Accumulated Other Comprehensive Income (Loss)	Employee Benefit Stock	Treasury Stock	Total
Balance, December 31, 2011	$21,292	$39,445	$166,271	$(14,566)	$(1,485)	$(31,676)	$179,281
Net earnings	—	—	28,032	—	—	—	28,032
Pension and postretirement benefits (net of $(247) tax effect)	—	—	—	225	—	—	225
Foreign currency translation	—	—	—	393	—	—	393
Cash dividends of $0.66 per share	—	—	(9,497)	—	—	—	(9,497)
Stock options exercised	37	345	—	—	—	—	382
Tax benefit on stock options and dividends	—	297	—	—	—	—	297
ESSOP transactions	—	140	—	—	251	—	391
Stock-based compensation	—	1,266	—	—	—	—	1,266
Shares purchased and retired	(888)	—	(29,112)	—	—	—	(30,000)
Issuance of treasury stock (42 shares)	—	262	—	—	—	215	477
Balance, December 31, 2012	20,441	41,755	155,694	(13,948)	(1,234)	(31,461)	171,247
Net earnings	—	—	24,617	—	—	—	24,617
Pension and postretirement benefits (net of $(3,826) tax effect)	—	—	—	6,252	—	—	6,252
Foreign currency translation	—	—	—	172	—	—	172
Cash dividends of $0.70 per share	—	—	(9,993)	—	—	—	(9,993)
Stock options exercised	63	1,577	—	—	—	—	1,640
Tax benefit on stock options and dividends	—	382	—	—	—	—	382
ESSOP transactions	—	201	—	—	159	—	360
Stock-based compensation	—	1,388	—	—	—	—	1,388
Issuance of treasury stock (35 shares)	—	324	—	—	—	174	498

(continued)

	Years Ended December 31,						
(In thousands except per share amounts)	Common Stock at $1 Par Value*	Capital In Excess of Par Value	Reinvested Earnings	Accumulated Other Comprehensive Income (Loss)	Employee Benefit Stock	Treasury Stock	Total
Balance, December 31, 2013	20,504	45,627	170,318	(7,524)	(1,075)	(31,287)	196,563
Net earnings	—	—	29,678	—	—	—	29,678
Pension and postretirement benefits (net of $(1,381) tax effect)	—	—	—	(2,611)	—	—	(2,611)
Foreign currency translation	—	—	—	(1,721)	—	—	(1,721)
Cash dividends of $0.74 per share	—	—	(10,631)	—	—	—	(10,631)
Stock options exercised	19	711	—	—	—	—	730
Tax benefit on stock options and dividends	—	38	—	—	—	—	38
ESSOP transactions	—	214	—	—	153	—	367
Stock-based compensation	—	1,449	—	—	—	—	1,449
Issuance of treasury stock (30 shares)	—	314	—	—	—	155	469
Balance, December 31, 2014	$20,523	$48,353	$189,365	$(11,856)	$(922)	$(31,132)	$214,331

* Each common share of stock equals $1 par value; therefore, the number of common shares is the same as the dollar value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 7. Employee Benefit Plans (in part)

The Company also maintains supplemental non-qualified plans for certain officers and other key employees, and an Employee Savings and Stock Option Plan ("ESSOP").

Badger Meter Employee Savings and Stock Ownership Plan

In 2010, the Company restructured the outstanding debt of its ESSOP by loaning the ESSOP $0.5 million to repay a loan to a third party and loaning the ESSOP an additional $1.0 million to purchase additional shares of the Company's Common Stock for future 401(k) savings plan matches under a program that will expire on December 31, 2020. Under this program, the Company agreed to pay the principal and interest on the new loan amount of $1.5 million. The receivable from the ESSOP and the related obligation were therefore netted to zero on the Company's Consolidated Balance Sheets at December 31, 2014 and 2013. The terms of the loan call for equal payments of principal with the final payment due on December 31, 2020, and prepayments are allowed under the plan terms. At December 31, 2014, $0.9 million of the loan balance remained.

The Company made principal payments of $154,000, $154,000 and $256,000 in 2014, 2013 and 2012, respectively. The associated commitments released shares of Common Stock (11,077 shares in 2014 for the 2013 obligation, 9,918 shares in 2013 for the 2012 obligation, and 16,151 shares in 2012 for the 2011 obligation) for allocation to participants in the ESSOP. The ESSOP held unreleased shares of 72,362, 83,439 and 93,357 as of December 31, 2014, 2013 and 2012, respectively, with a fair value of $4.3 million, $4.5 million and $4.4 million as of December 31, 2014, 2013 and 2012, respectively. Unreleased shares are not considered outstanding for purposes of computing earnings per share.

The ESSOP includes a voluntary 401(k) savings plan that allows certain employees to defer up to 20% of their income on a pretax basis subject to limits on maximum amounts. The Company matches 25% of each employee's contribution, with the match percentage applying to a maximum of 7% of each employee's salary. The match is paid using the Company's Common Stock released through the ESSOP loan payments. For ESSOP shares purchased prior to 1993, compensation expense is recognized based on the original purchase price of the shares released and dividends on unreleased shares are charged to compensation expense. For shares purchased in or after 1993, expense is based on the market value of the shares on the date released and dividends on unreleased shares are charged to compensation expense. Compensation expense of $0.3 million was recognized for the match for each of 2014, 2013 and 2012.

On December 31, 2010, the Company froze the qualified pension plan for its non-union participants and formed a new defined contribution feature within the ESSOP plan in which each employee received a similar benefit. On December 31, 2011, the Company froze the qualified pension plan for its union participants and included them in the same defined contribution feature within the ESSOP. For 2014, compensation expense under the defined contribution feature totaled $2.3 million.

Section 6: **Statement of Cash Flows**

General

PRESENTATION

6.01 FASB *Accounting Standards Codification* (ASC) 230, *Statement of Cash Flows*, requires entities to present a statement of cash flows that classifies cash receipts and payments by operating, investing, and financing activities. The information provided in a statement of cash flows, if used with related disclosures and information in the other financial statements, should help investors, creditors, and others assess the following:

- The entity's ability to generate positive future net cash flows
- The entity's ability to meet its obligations, its ability to pay dividends, and its needs for external financing
- The reasons for differences between net income and associated cash receipts and payments
- The effects on an entity's financial position of both its cash and noncash investing and financing transactions during the period

6.02 Paragraphs 4–6 of FASB ASC 230-10-45 provide that the statement of cash flows explains the change in cash and cash equivalents during a period. *Cash equivalents* are defined by the FASB ASC glossary to be short-term, highly liquid investments that have both of the following characteristics:

- Readily convertible to known amounts of cash
- So near their maturity that they present an insignificant risk of changes in value because of changes in interest rates

Generally, only investments with original maturities of three months or less qualify under that definition. *Original maturity* means original maturity to the entity holding the investment.

6.03 FASB ASC 230-10-45-4 states that the amount of cash and cash equivalents at the beginning and end of the period reported on a statement of cash flows should agree with the amount of cash and cash equivalents reported on a statement of financial position. Because not all investments that qualify are required to be treated as cash equivalents, an entity should establish a policy concerning which short-term, highly liquid investments that satisfy the definition of *cash equivalents* are treated as such.

6.04 Paragraphs 7–9 of FASB ASC 230-10-45 explain that generally, cash receipts and payments should be reported separately and not netted. For certain items, the turnover is quick, the amounts are large, and the maturities are short. For certain other items, such as demand deposits of a bank and customer accounts payable of a broker-dealer, the entity is substantively holding or disbursing cash on behalf of its customers. Only the net changes during the period in assets and liabilities with those characteristics need be reported because knowledge of the gross cash receipts and payments related to them may not be necessary to understand the entity's operating, investing, and financing activities. Specifically, provided that the original maturity of the asset or liability is three months or less, cash receipts and payments pertaining to investments (other than cash equivalents), loans receivable, and debt qualify for net reporting based on this rationale.

6.05 FASB ASC 830-230-45-1 specifies that the effect of exchange rate changes on cash balances held in foreign currencies be reported as a separate part of the reconciliation of the change in cash and cash equivalents during the period in the statement of cash flows. Further, a statement of cash flows of an entity with foreign exchange transactions or foreign operations should report the reporting currency equivalent of foreign currency cash flows using the exchange rates in effect at the time of the cash flows. An appropriately weighted average exchange rate for the period may be used for translation if the result is substantially the same as if the rates at the dates of the cash flows were used.

DISCLOSURE

6.06 FASB ASC 230-10-50-1 explains that an entity should disclose its policy regarding cash equivalent classification, and any change to that policy is a change in accounting principle that should be affected by restating financial statements for earlier years presented for comparative purposes. FASB ASC 230-10-50-2 specifies that if the indirect method is used, amounts of interest (net of capitalized amounts) and income tax payments during the period are required to be disclosed.

6.07 Paragraphs 3–6 of FASB ASC 230-10-50 require the disclosure of information about noncash investing and financing activities. Examples of noncash investing and financing transactions include converting debt to equity; acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining an asset by entering into a capital lease; obtaining a building or investment asset by receiving a gift; and exchanging noncash assets or liabilities for other noncash assets or liabilities. If only a few noncash transactions exist, it may be convenient to include them on the same page as the statement of cash flows. Otherwise, the transactions may be reported elsewhere in the financial statements and clearly referenced to the statement of cash flows.

PRESENTATION AND DISCLOSURE EXCERPTS

CASH AND CASH EQUIVALENTS

6.08 PRAXAIR, INC. (DEC)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in part)

Liquidity, Capital Resources and Other Financial Data (in part)

(Millions of dollars) **Year Ended December 31,**	**2014**	**2013**	**2012**
Net Cash Provided by (Used for)			
Operating Activities			
Net Income (including noncontrolling interests)	$ 1,746	$ 1,836	$ 1,744
Non-cash charges (credits):			
Add: Venezuela devaluations and other charges[a]	138	23	43
Add: Depreciation and amortization	1,170	1,109	1,001
Add: Deferred income taxes	55	101	258
Add: Other non-cash charges	(65)	(18)	(57)
Net Income adjusted for non-cash charges	3,044	3,051	2,989
Less: Pension payments	(18)	(52)	(184)
Less: Working capital	(129)	(100)	(105)
Other	(29)	18	52
Net cash provided from operating activities	$ 2,868	$ 2,917	$ 2,752
Investing Activities			
Capital expenditures	$(1,689)	$(2,020)	$(2,180)
Acquisitions, net of cash acquired	(206)	(1,323)	(280)
Divestitures and asset sales	92	106	82
Total used for investing	$(1,803)	$(3,237)	$(2,378)
Financing Activities			
Debt increases—net	$ 589	$ 1,461	$ 807
Purchases of common stock—net	(759)	(436)	(459)
Cash dividends—Praxair, Inc. shareholders	(759)	(708)	(655)
Excess tax benefit on stock based compensation	31	46	60
Noncontrolling interest transactions and other	(110)	(35)	(56)
Total provided (used) for financing	$(1,008)	$ 328	$ (303)
Effect of exchange rate changes on cash	$ (69)	$ (27)	$ (4)
Cash and cash equivalents	$ 126	$ 138	$ 157
Other Financial Data[b]			
Debt-to-capital ratio	59.6%	54.3%	51.9%
After-tax return on capital ("ROC")	12.7%	12.8%	13.9%
Return on Praxair, Inc. shareholder's equity ("ROE")	28.7%	28.6%	28.9%
Adjusted EBITDA	$ 3,958	$ 3,804	$ 3,537
Debt-to-Adjusted EBITDA	2.3	2.2	1.9

[a] See Note 2 to the consolidated financial statements.

[b] Non-GAAP measures. See the "Non-GAAP Financial Measures" section for definitions and reconciliations to reported amounts.

Cash decreased $12 million in 2014 versus 2013. The primary sources of cash in 2014 were cash flows from operations of $2,868 million, and debt increases net of repayments of $589 million. The major uses of cash were capital expenditures of $1,689 million, acquisitions of $206 million, purchases of Praxair common stock net of issuances of $759 million, and cash dividends to shareholders of $759 million. The effect of exchange rate changes on cash and cash equivalents relates primarily to the currency devaluations in Venezuela (see Note 2 to the consolidated financial statements).

Cash Flows From Operations (in part)

2014 compared with 2013

Cash flows from operations was $2,868 million, or 23% of sales, a decrease of $49 million from $2,917 million in 2013. Cash flows provided from net income decreased $90 million, but decreased $7 million after adjusting for the year-over-year change in non-cash items included in net income. Pension contributions decreased $34 million versus 2013 while cash used for working capital requirements increased $29 million versus 2013.

2013 compared with 2012

Cash flows from operations increased $165 million to a record $2,917 million in 2013, or 24% of sales, from $2,752 million in 2012. Cash flows provided from net income increased $92 million versus 2012 but decreased $62 million after adjusting for the impact of non-cash items included in net income. Pension contributions decreased $132 million versus 2012 while cash used for working capital requirements remained essentially flat.

Investing (in part)

2014 compared with 2013

Net cash used for investing activities of $1,803 million decreased $1,434 million versus 2013 primarily due to lower acquisition, net of cash acquired and capital expenditures.

Acquisition expenditures in 2014 were $206 million, a decrease of $1,117 million from 2013. Acquisitions in 2014 consisted primarily of an industrial gases business in Italy, packaged gases businesses in North and South America and the controlling interest of an equity investment in China (see Note 3 to the consolidated financial statements).

Capital expenditures in 2014 were $1,689 million, a decrease of $331 million from 2013. Capital expenditures during 2014 related primarily to growth capital investments. Approximately half of the capital expenditures were in North America, about 20% in South America and the rest evenly between Asia and Europe.

Divestitures and asset sales in 2014 totaled $92 million, which included the sale of Praxair's industrial gas business in France during the first quarter.

2013 compared with 2012

Net cash used for investing activities of $3,237 million increased $859 million versus 2012 primarily due to higher acquisitions, net of cash acquired.

Acquisition expenditures in 2013 were $1,323 million, an increase of $1,043 million from 2012. Acquisitions in 2013 consisted primarily of the acquisition of NuCO 2, Inc., Dominion Technology Gases, US packaged gas distributors, and an acquisition in Russia (see Note 3 to the consolidated financial statements).

Capital expenditures in 2013 were $2,020 million, a decrease of $160 million from 2012. Capital expenditures during 2013 related largely to new production plants under contract for customers globally. Approximately half of the capital expenditures were in North American and about 20% were in Asia.

Divestitures and asset sales in 2013 totaled $106 million, which included the sale of a service business and other assets in the United States and proceeds related to a land sale in Korea.

Financing (in part)

Praxair's financing strategy is to secure long-term committed funding by issuing public notes and debentures and commercial paper backed by a long-term bank credit agreement. Praxair's international operations are funded through a combination of local borrowing and inter-company funding to minimize the total cost of funds and to manage and centralize currency exchange exposures. As deemed necessary, Praxair manages its exposure to interest-rate changes through the use of financial derivatives (see Note 12 to the consolidated financial statements and Item 7 A. Quantitative and Qualitative Disclosures About Market Risk).

The company believes that it has sufficient operating flexibility, cash reserves, and funding sources to maintain adequate amounts of liquidity to meet its business needs around the world. At December 31, 2014, the company's credit ratings as reported by Standard & Poor's and Moody's were A-1 and P-1 for short-term debt, respectively, and A and A2 for long-term debt, respectively. Additionally, the company plans to maintain its undistributed earnings of foreign subsidiaries to support foreign growth opportunities and reduce local debt.

Note 11 to the consolidated financial statements includes information with respect to the company's debt refinancing in 2014, current debt position, debt covenants and the available credit facility; and Note 12 includes information relating to derivative financial instruments. Praxair's credit facility is with major financial institutions and is non-cancellable until maturity. Therefore, the company believes the risk of the financial institutions being unable to make required loans under the credit facility, if requested, to be low. Praxair's major bank credit and long-term debt agreements contain standard covenants. The company was in compliance with these covenants at December 31, 2014 and expects to remain in compliance for the foreseeable future.

Praxair's total debt outstanding at December 31, 2014 was $9,258 million, $447 million higher than $8,811 million at December 31, 2013. The December 31, 2014 debt balance includes $9,002 million in public securities and $256 million representing primarily worldwide bank borrowings. Praxair's global effective borrowing rate was approximately 2.4% for 2014.

In March 2014, Praxair issued €600 million ($824 million cash proceeds at issuance) of 1.50% Euro-denominated notes due 2020; and in December 2014, Praxair issued €500 million ($616 million cash proceeds at issuance) of 1.625% Euro-denominated notes due 2025. Praxair has designated these Euro-denominated notes as hedges of the net investment position in its European operations (see Note 12 to the consolidated financial statements).

In March 2014, Praxair repaid $300 million of 4.375% notes that became due. In December 2014, Praxair redeemed $400 million of 5.375% notes due in 2016 (see Note 11 to the consolidated financial statements).

Cash used by financing activities was $1,008 million in 2014 compared to cash provided by financing of $328 million in 2013. Net purchases of common stock of $759 million increased $323 million and cash dividends of $759 million increased $51 million from 2013. The noncontrolling interests and other payments relate primarily to the acquisition of the remaining noncontrolling interests in a U.S. packaged gas business during the first quarter 2014. The cash received from debt issuances-net of $589 million was less than $1,461 million in 2013 primarily due to lower acquisition expenditures. The Euro-denominated notes reflected in the consolidated balance sheet is lower than the cash proceeds reflected in the statement of cash flows primarily due to currency movements of $125 million since the note issuances.

On February 5, 2015, Praxair issued $150 million of floating rate notes that bear interest at the Federal funds effective rate plus 0.33% due 2017, $400 million of 2.65% fixed rate notes due 2025 and $200 million of 3.550% fixed rates notes due in 2042. The proceeds will be used for general corporate purposes, including the repayment of outstanding indebtedness.

Other Financial Data

Praxair's debt-to-capital ratio was 59.6% at December 31, 2014 versus 54.3% at December 31, 2013. Although net debt increased $459 million during 2014, the increase in debt-to-capital is due primarily to lower capital. The equity component of capital was reduced by a $1,257 million loss in other comprehensive income, primarily from currency impacts and the funded status of benefit plans. The increase in 2013 is attributable to higher debt levels, primarily to fund acquisitions.

After-tax return on capital ("ROC") of 12.7% at December 31, 2014 was slightly below 12.8% at year-end 2013, and ROC was 13.9% in 2012. The decrease in both years is primarily related to capital projects and acquisitions.

Return on equity ("ROE") was strong and consistent for 2014, 2013 and 2012.

Adjusted EBITDA increased $154 million in 2014 and $267 million in 2013 versus the respective prior year amounts. The increases primarily reflect the higher adjusted net income levels and depreciation and amortization from the start-up of new plants and other assets, and from acquisitions; partially offset by negative currency impacts.

Debt-to-Adjusted EBITDA increased slightly in 2014 primarily because debt increased more than adjusted EBITDA. Praxair's debt is largely denominated in U.S. dollars and, therefore, is not impacted by currency movements. In 2013 the increase was largely due to increased debt incurred to fund acquisitions.

See the "Non-GAAP Financial Measures" section for definitions and reconciliation of these non-GAAP measures to reported amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Venezuela Currency Devaluation and Other Charges—Net (in part)

2014 Charges (in part)

Venezuela Currency Devaluation

In recent years, exchange control and other regulations in Venezuela have restricted the Company's operations in Venezuela. During 2014, the Venezuelan government introduced a new exchange control market-based mechanism (referred to as "SICAD II") which allows companies to apply for the conversion of VEF to the U.S. dollar. At December 31, 2014 the SICAD II rate was 50 VEF per U.S. Dollar versus the official rate of 6.3 (a devaluation of about 88%). After considerable analysis, Praxair concluded that the SICAD II rate more accurately reflects the economic reality of its business in Venezuela versus the official exchange rate. Currently, there is a lack of exchangeability between the Venezuelan bolivar fuerte ("VEF") and the U.S. dollar.

As a result, effective December 31, 2014 Praxair changed the exchange rate used to translate the monetary assets and liabilities of its Venezuelan subsidiary to the SICAD II rate of 50 VEF per U.S. Dollar. Also, the Company evaluated the carrying value of its non-monetary assets for impairment and lower of cost or market adjustments considering the new SICAD II rate. As a result, Praxair recorded a pre-tax charge of $131 million ($131 million after-tax, or $0.45 per diluted share) in the Company's consolidated statement of income for the year ended December 31, 2014. This charge includes $68 million related to translation of monetary assets and liabilities to the SICAD II rate and $63 million related primarily to long-lived asset impairments. As a result, Praxair's net asset position in Venezuela at December 31, 2014 was immaterial.

2013 Charges (in part)

Venezuela Currency Devaluation

On February 8, 2013, Venezuela announced a devaluation of the Venezuelan Bolivar from 4.30 to 6.30 (a 32% devaluation), effective on February 13, 2013. In the first quarter 2013 Praxair recorded a $23 million pre-tax charge ($23 million after-tax or $ 0.08 per diluted share) due primarily to the remeasurement of the local Venezuelan balance sheet to reflect the new official 6.30 exchange rate.

FOREIGN CURRENCY CASH FLOWS

6.09 HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED (JUN)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

	Year Ended June 30,		
(In thousands)	**2014**	**2013**	**2012**
Net cash provided by operating activities	592,140	42,136	268,507
Net cash used in investing activities	(612,052)	(10,691)	(64,651)
Net cash provided by (used in) financing activities	136,604	(203,411)	(147,646)
Effect of exchange rate changes on cash	10,362	8,868	(42,746)
Net increase (decrease) in cash and cash equivalents	127,054	(163,098)	13,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Dollars in thousands, except per share data and unless otherwise indicated)

Note 1—Summary of Significant Accounting Policies (in part)

Foreign exchange losses, net: Foreign exchange losses, net includes gains and losses from forward points on certain derivative foreign currency forward contracts that are excluded from hedge effectiveness testing. It also includes gains and losses resulting from the remeasurement of certain foreign currency denominated monetary assets and liabilities.

Foreign Currency Translation: The financial statements of subsidiaries located outside of the United States generally are measured using the local currency as the functional currency. Assets, including goodwill, and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. The resulting translation adjustments are included in accumulated other comprehensive income ("AOCI") in our Consolidated Balance Sheets. Income, expense and cash flow items are translated at average monthly exchange rates. Gains and losses from foreign currency transactions of these subsidiaries are included in net income in our Consolidated Statements of Income.

Derivative Financial Instruments: We are exposed to market risks from changes in foreign currency exchange rates and interest rates which could affect our operating results, financial condition and cash flows. We manage our exposure to these risks through our regular operating and financial activities and when appropriate, through the use of derivative financial instruments. These derivatives are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including foreign currency spot and forward contracts and an interest rate swap, to manage foreign currency and interest rate exposures. Our primary foreign currency exposure is the Euro. The fair market value of all our derivative contracts change with fluctuations in interest rates and currency rates, and are designed so that changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes. We do not utilize derivatives that contain leverage features. On the date that we enter into a derivative that qualifies for hedge accounting, the derivative is designated as a hedge of the identified exposure. We document all relationships between hedging instruments and hedged items for which we apply hedge accounting treatment and assess the effectiveness of our hedges at inception and on an ongoing basis.

We record all derivative instruments as either assets or liabilities at fair value in our Consolidated Balance Sheets. Certain of these derivative contracts have been designated as cash flow hedges, whereby gains and losses are reported within AOCI in our Consolidated Balance Sheets, until the underlying transaction occurs, at which point they are reported in earnings as gains or losses in our Consolidated Statements of Income. Certain of our derivatives, for which hedge accounting is not applied, are effective as economic hedges. These derivative contracts are required to be recognized each period at fair value, with gains and losses reported in earnings in our Consolidated Statements of Income and therefore do result in some level of earnings volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all our derivative activities are reflected as cash flows from operating activities in our Consolidated Statements of Cash Flows. Refer to Note 10—*Derivatives* for more information.

Foreign Currency Management: The fair value of foreign currency related derivatives is included in our Consolidated Balance Sheets in other current assets and accrued liabilities. The earnings impact of cash flow hedges relating to forecasted purchases of inventory in foreign currency is reported in cost of sales to match the underlying transaction being hedged. Unrealized gains and losses on these instruments are deferred in AOCI in our Consolidated Balance Sheets until the underlying transaction is recognized in earnings. The earnings impact of cash flow hedges relating to the variability in cash flows associated with foreign currency denominated assets and liabilities is reported in cost of sales, SG&A or other expense in our Consolidated Statements of Income, depending on the nature of the assets or liabilities being hedged. The amounts deferred in AOCI in our Consolidated Balance Sheets associated with these instruments relate to spot-to-spot foreign currency differentials from the date of designation until the hedged transaction takes place.

Note 10—Derivatives (in part)

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect our operating results, financial condition and cash flows. We manage our exposure to these risks through our regular operating and financial activities and, when appropriate, through the use of derivative financial instruments. These derivative instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including foreign currency spot and forward and as well as interest rate swap contracts, to manage foreign currency and interest rate exposures. Our primary foreign currency exposure is the Euro. The fair market values of all our derivative contracts change with fluctuations in interest rates and currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

We record all derivative instruments as either assets or liabilities at fair value in our Consolidated Balance Sheets. Certain of these derivative contracts have been designated as cash flow hedges, whereby gains and losses are reported within AOCI in our Consolidated Balance Sheets, until the underlying transaction occurs, at which point they are reported in earnings as gains and losses in our Consolidated Statements of Income. Certain of our derivatives, for which hedge accounting is not applied, are effective as economic hedges. These derivative contracts are required to be recognized each period at fair value, with gains and losses reported in earnings in our Consolidated Statements of Income and therefore do result in some level of earnings volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all our derivative activities are reflected as cash flows from operating activities.

Derivatives, by their nature, involve varying degrees of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments, because these transactions are executed with a diversified group of major financial institutions. Furthermore, our policy is to contract only with 8counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposure to such counterparties.

Foreign Exchange Risk Management

We use foreign exchange contracts to hedge the price risk associated with foreign denominated forecasted purchases of materials used in our manufacturing process and to manage currency risk associated with operating costs in certain operating units, including foreign currency denominated intercompany loans and other foreign currency denominated assets. These contracts generally mature within two to five years. The majority of these contracts are designated as cash flow hedges.

At June 30, 2014 and 2013, we had outstanding foreign exchange contracts, primarily forward contracts, which are summarized below:

	June 30, 2014		**June 30, 2013**	
	Gross Notional Value	**Fair Value Asset/(Liability)[1]**	**Gross Notional Value**	**Fair Value Asset/(Liability)[1]**
Currency Hedged (Buy/Sell):				
U.S. Dollar/Euro	$1,558,950	$(21,418)	$540,264	$13,900
Euro/U.S. Dollar	214,781	1,077	191,978	(304)
U.S. Dollar/Indian Rupee	35,000	(583)	0	0
Euro/Russian Rubles	8,828	(141)	0	0
Euro/Brazilian Real	8,490	(123)	0	0
U.S. Dollar/Brazilian Real	5,052	(95)	0	0
Swiss Franc/U.S. Dollar	0	0	40,214	(596)
British Pound/Swiss Franc	0	0	12,778	91
Japanese Yen/Euro	0	0	16,341	(55)
British Pound/U.S. Dollar	0	0	9,128	(164)
Total	$1,831,101	$(21,283)	$810,703	$12,872

[1] Represents the net receivable/(payable) included in our Consolidated Balance Sheets.

Cash Flow Hedges

We designate a portion of our foreign exchange contracts as cash flow hedges of foreign currency denominated purchases. As of June 30, 2014 and June 30, 2013, we had $1,467.7 million and $479.8 million of forward contracts maturing through June 2018 and June 2014, respectively. These contracts are recorded at fair value in the accompanying Consolidated Balance Sheets. During the fiscal year ended June 30, 2014, we changed our election to now include forward points in our effectiveness assessment. Prior to this change, the changes in fair value for these contracts were calculated on a spot to spot rate basis. Effective September 30, 2013, the changes in fair value for these contracts are calculated on a forward to forward rate basis. These changes in fair value are reported in AOCI and are reclassified to either Cost of sales or SG&A, depending on the nature of the underlying asset or liability that is being hedged, in our Consolidated Statements of Income, in the period or periods during which the underlying transaction occurs.

Changes in the fair value of the derivatives are highly effective in offsetting changes in the cash flows of the hedged items because the amounts and the maturities of the derivatives approximate those of the forecasted exposures. Any ineffective portion of the derivative is recognized in the current period in our Consolidated Statements of Income, in the same line item in which the foreign currency gain or loss on the underlying hedged transaction was recorded. We recognized $2.0 million of ineffectiveness in our Consolidated Statement of Income in the fiscal year ended June 30, 2014 and less than $0.1 million of ineffectiveness in our Consolidated Statements of Income for each of the fiscal years ended June 30, 2013 and 2012. Prior to September 30, 2013, all components of each derivative's gain or loss, with the exception of forward points (see below), were included in the assessment of hedge ineffectiveness. Effective September 30, 2013, we changed our election and now include forward points in our effectiveness assessment. At June 30, 2014 and 2013, the fair values of these contracts were a net liability of $19.9 million and a net asset of $11.6 million, respectively. The amount associated with these hedges that is expected to be reclassified from AOCI to earnings within the next 12 months is a loss of $6.9 million.

Prior to September 30, 2013 we elected to exclude forward points from the effectiveness assessment. At the end of the reporting period, we calculated the excluded amount, which is the fair value relating to the change in forward points that is recorded in current earnings as Foreign exchange losses, net in our Consolidated Statements of Income. For the fiscal years ended June 30, 2014, 2013 and 2012, we recognized $0.6 million of net gains, $2.7 million of net gains, and $4.3 million in net losses related to the change in forward points, respectively.

Effective July 1, 2011, we changed the functional currency of two of our foreign subsidiaries to the U.S. Dollar to reflect a change in the currency in which such subsidiaries primarily generate and expend cash. In addition, we recognized approximately $1.4 million as Foreign exchange losses, net in our Consolidated Statements of Income for the fiscal year ended June 30, 2012, due to the revaluation of certain derivative instruments held at these subsidiaries because we did not meet the requisite documentation requirements to attain hedge accounting treatment. As of January 1, 2012, the documentation was amended to achieve hedge accounting treatment going forward.

Economic Hedges

When hedge accounting is not applied to derivative contracts, or after former cash flow hedges have been de-designated as balance sheet hedges, we recognize the gain or loss on the associated contracts directly in current period earnings in our Consolidated Statements of Income as either Foreign exchange losses, net or Cost of sales according to the underlying exposure. As of June 30, 2014 and 2013, we had $363.4 million and $330.9 million, respectively, of forward contracts maturing through December 2014 and October 2013, respectively, in various currencies to hedge foreign currency denominated intercompany loans and other foreign currency denominated assets. At June 30, 2014 and 2013, the fair values of these contracts were net liabilities of $1.4 million and net assets of $1.2 million, respectively. Adjustments to the carrying value of the foreign currency forward contracts offset the gains and losses on the underlying loans and other foreign denominated assets in Foreign exchange losses, net in our Consolidated Statements of Income.

Fair Value of Derivatives

The following tables provide a summary of the fair value amounts of our derivative instruments as of June 30, 2014 and 2013:

		Fair Value	
	Balance Sheet Location	**June 30, 2014**	**June 30, 2013**
Derivatives Designated as Cash Flow Hedges, Gross:			
Other Assets:			
Foreign exchange contracts	Other current assets	$1,141	$11,812
Other Liabilities:			
Foreign exchange contracts	Accrued liabilities	$20,997	$169
Interest rate swap	Accrued liabilities	$0	$320
Total liabilities		$20,997	$489
Net (liability)/asset for derivatives designated as hedging instruments		$(19,856)	$11,323
Derivatives Designated as Economic Hedges, Gross:			
Other Assets:			
Foreign exchange contracts	Other current assets	$1,094	$3,069
Other Liabilities:			
Foreign exchange contracts	Accrued liabilities	$2,521	$1,840
Net (liability)/asset for economic hedges:		$(1,427)	$1,229
Total net derivative (liability)/asset		$(21,283)	$12,552

Derivative Activity:

The following tables show derivative activity for derivatives designated as cash flow hedges for the years ended June 30, 2014, 2013 and 2012:

		Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)			Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion)			Gain/(Loss) from Amounts Excluded from Effectiveness Testing		
		Year Ended June 30,								
Derivative	**Location of Derivative Gain/(Loss) Recognized in Income**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Foreign exchange contracts	Cost of sales	$(8,980)	$25,798	$10,932	$(2,048)	$ 0	$ 0	$ 0	$ 0	$ 2
Foreign exchange contracts	SG&A	(206)	833	586	0	0	0	0	0	0
Foreign exchange contracts	Foreign exchange losses, net	0	0	0	0	0	0	588	2,721	(4,258)
Interest rate swap	SG&A	(192)	(766)	(624)	(1)	(4)	(7)	0	0	0
Total cash flow hedges		$(9,378)	$25,865	$10,894	$(2,049)	$(4)	$(7)	$588	$2,721	$(4,256)

	Gain/(Loss) Recognized in AOCI (Effective Portion)		
	Year Ended June 30,		
Derivative	**2014**	**2013**	**2012**
Foreign exchange contracts	$(37,714)	$(1,089)	$79,819
Interest rate swap	35	(76)	(449)
Total cash flow hedges	$(37,679)	$(1,165)	$79,370

The following table summarizes gains and losses from our derivative instruments that are not designated as hedging instruments for the years ended June 30, 2014, 2013 and 2012:

		Year Ended June 30,		
Derivative	**Location of Derivative Gain/(Loss)**	**2014**	**2013**	**2012**
Foreign exchange contracts	Cost of sales	$ (5,536)	$(3,927)	$ 8,499
Foreign exchange contracts	Foreign exchange losses, net	$ 10,882	$ 963	$(7,560)

INTEREST AND INCOME TAX PAYMENTS

6.10 APPLIED MATERIALS, INC. (OCT)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

Fiscal Year	**2014**	**2013**	**2012**
		(In millions)	
Cash provided by operating activities	1,800	623	1,851
Cash provided by (used in) investing activities	(161)	215	(4,660)
Cash used in financing activities	(348)	(519)	(1,754)
Effect of exchange rate changes on cash and cash equivalents	—	—	(5)
Increase (decrease) in cash and cash equivalents	1,291	319	(4,568)
Cash and cash equivalents—beginning of year	1,711	1,392	5,960
Cash and cash equivalents—end of year	$3,002	$1,711	$1,392
Supplemental cash flow information:			
Cash payments for income taxes	$ 195	$ 196	$ 243
Cash refunds from income taxes	$ 111	$ 102	$ 79
Cash payments for interest	$ 92	$ 92	$ 94

6.11 3M COMPANY (DEC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 6. Supplemental Cash Flow Information

(Millions)	**2014**	**2013**	**2012**
Cash income tax payments, net of refunds	$1,968	$1,803	$1,717
Cash interest payments	178	169	166
Capitalized interest	15	21	23

Cash interest payments include interest paid on debt and capital lease balances, including net interest payments/receipts related to accreted debt discounts/premiums, as well as net interest payments/receipts associated with interest rate swap contracts.

Individual amounts in the Consolidated Statement of Cash Flows exclude the impacts of acquisitions, divestitures and exchange rate impacts, which are presented separately.

Transactions related to investing and financing activities with significant non-cash components are as follows:

- During the fourth quarter of 2014, 3M sold and leased-back, under a capital lease, certain recently constructed machinery and equipment in return for a municipal bond with the City of Nevada, Missouri valued at approximately $15 million as of the transaction date.
- During the third quarter of 2013, 3M sold its equity interest in a non-strategic investment in exchange for a note receivable of approximately $24 million, which is considered non-cash investing activity. As a result of this transaction, in the third quarter of 2013, 3M recorded a pre-tax gain of $18 million in its Health Care business segment. In October 2013, cash was received for the note receivable and is reflected in other investing activity in the consolidated statement of cash flows for the total year 2013.
- During the second quarter of 2013, the Company's Sumitomo 3M Limited subsidiary moved its administrative headquarters to a new leased location and sold the former site under an installment sale arrangement. As a result, at the time of the closing of the sale transaction, the Company received certain cash proceeds (included in proceeds from sale of property, plant and equipment in the consolidated statement of cash flows) and recorded a note receivable (due in quarterly installments through the first quarter of 2016) of $78 million and deferred profit of $49 million (both based on the foreign currency exchange rate at the time of closing). Remaining quarterly installments are due through the first quarter of 2016 and will be included in other investing activities in the consolidated statement of cash flows. Deferred profit is reduced and recognized into income in connection with such quarterly installments.

In addition, as discussed in Note 5, in the fourth quarter of 2014, 3M's Board of Directors declared a first-quarter 2015 dividend of $1.025 per share (payable in March 2015), which reduced 3M's stockholders equity and increased other current liabilities as of December 2014 by $648 million. In the fourth quarter of 2013, 3M's Board of Directors declared a first-quarter 2014 dividend of $0.855 per share (paid in March 2014). This reduced 3M's stockholders equity and increased other current liabilities as of December 31, 2013 by $567 million.

NONCASH ACTIVITIES

6.12 SYNNEX CORPORATION (NOV)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(currency in thousands)

	Fiscal Years Ended November 30,		
	2014	**2013**	**2012**
Net cash provided by (used in) operating activities	(234,772)	35,707	242,793
Net cash used in investing activities	(441,651)	(43,784)	(9,560)
Net cash provided by (used in) financing activities	701,925	(8,366)	(137,492)
Effect of exchange rate changes on cash and cash equivalents	3,019	4,366	387
Net increase (decrease) in cash and cash equivalents	28,521	(12,077)	96,128
Cash and cash equivalents at beginning of year	151,622	163,699	67,571
Cash and cash equivalents at end of year	$ 180,143	$151,622	$ 163,699
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 15,443	$ 8,386	$ 14,657
Income taxes paid	$ 87,163	$ 88,314	$ 70,936
Supplemental Disclosure of Non-Cash Investing Activities			
Fair value of common stock issued for acquisition of business	$ 71,106	$ —	$ —
Accrued costs for property and equipment purchases	$ 3,563	$ 262	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(currency and share amounts in thousands, except per share amounts)

Note 3—Acquisitions (in part)

Fiscal year 2014 acquisitions (in part)

IBM CRM business acquisition

On September 10, 2013, the Company announced a definitive agreement to acquire the assets of the CRM business of International Business Machines Corporation, a New York corporation ("IBM"). The preliminary aggregate purchase price is $418,315, subject to certain post-closing adjustments. The transaction was completed in phases with the initial closing completed on January 31, 2014, the second phase closing completed on April 30, 2014 and the final closing completed on September 30, 2014. As of November 30, 2014, the Company was obligated to pay an amount of $40,000 in cash and had a receivable of $85,126 from IBM related to working capital adjustments and other post-closing adjustments recognized in accordance with the agreement.

The acquisition has been included into the Concentrix segment. It expands the Company's service portfolio, delivery capabilities and geographic reach, and brings deep process expertise and managerial talent. As part of the transaction, the Company entered into a multi-year agreement with IBM whereby Concentrix has become an IBM strategic business partner for BPO CRM services.

The acquisition has been accounted for as a business combination. Assets acquired and liabilities assumed were recorded at their preliminary fair values as of the respective closing dates. The total preliminary purchase price consideration is as follows:

Preliminary Purchase Consideration:	**Fair Value**
Cash payment	$390,000
Stock consideration	71,106
Receivable from IBM, net of cash consideration payable of $40,000	(45,126)
Fair value of stock awards assumed	2,335
	$418,315

The Company issued 1,266 shares of its common stock, at a fair value of $71,106 based on the closing price of the Company's common stock on the New York Stock Exchange Composite Transactions Tape as of the date of issuance. Additionally, the Company assumed unvested restricted IBM stock-based awards with an estimated fair value of $11,125 on the respective closing dates. The Company exchanged the acquisition date fair value of the unvested restricted IBM stock awards of employees with the Company's equity-based awards or cash settled with deferred payouts. The fair value of the replaced IBM awards was based on the market value of the Company's common stock on the respective closing dates. The fair value of the cash settled awards was based on IBM's stock price on the acquisition date, adjusted for the exclusion of dividend equivalents. Of the equity awards issued, a portion relating to the pre-combination service period was allocated to the purchase consideration and the remainder of the estimated fair value will be expensed over the remaining service periods on a straight-line basis.

The total preliminary purchase price has been allocated between the acquisition of the IBM CRM business and a separate element representing IBM-initiated prepaid compensation plans. Of the total $16,326 prepaid amount, $13,236 was recorded in "Other current assets" and $3,090 in "Other assets" and is being expensed to "Selling, general and administrative expenses" over the service period.

The portion of the preliminary purchase price for the acquisition was allocated to the net tangible and intangible assets based on their preliminary fair values as of the respective closing dates. The excess of the purchase price over the preliminary net tangible assets and preliminary intangible assets was recorded as goodwill. The goodwill balance is attributed to the assembled workforce and expanded market opportunities due to the comprehensive service portfolio delivery capabilities and geographic reach resulting from the acquisition. Goodwill of $25,088 is deductible for U.S. and foreign income tax purposes. The preliminary allocation of the purchase price was based upon a preliminary valuation and the Company's estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition dates). The principal areas of the purchase price allocation not yet finalized relate to certain post-close adjustments which are under negotiation with IBM. The Company expects to continue to obtain information for the purpose of determining the fair value of the net assets acquired at the acquisition date throughout the remainder of the measurement period.

The total preliminary purchase price allocation is as follows:

Preliminary Purchase Price Allocation:	**Fair Value**
Cash	$ 5,592
Accounts receivable	22,003
Other current assets	24,782
Property, plant and equipment	45,093
Goodwill	133,910
Intangible assets	269,001
Other assets	17,121
Accounts payable	(32,742)
Accrued liabilities	(33,656)
Other long-term liabilities	(12,679)
Deferred tax liabilities, noncurrent	(20,110)
	$418,315

Cash Flows From Operating Activities

PRESENTATION

6.13 FASB ASC 230-10-45 defines those transactions and events that constitute operating cash receipts and payments. Cash inflows from operating activities include the following:

- Cash receipts from sales of goods or services, including receipts from the collection or sale of accounts and both short- and long-term notes receivable from customers arising from those sales. Goods include certain loans and other debt and equity instruments of other entities that are acquired specifically for resale.
- Cash receipts from returns on loans, other debt instruments of other entities, and equity securities—interest and dividends.
- All other cash receipts that do not stem from transactions defined as investing or financing activities, such as amounts received to settle lawsuits; proceeds of insurance settlements, except for those that are directly related to investing or financing activities, such as from destruction of a building; and refunds from suppliers.

Cash outflows from operating activities include the following:

- Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods. Goods include certain loans and other debt and equity instruments of other entities that are acquired specifically for resale.
- Cash payments to other suppliers and employees for other goods or services.

- Cash payments to governments for taxes, duties, fines, and other fees or penalties and the cash that would have been paid for income taxes if increases in the value of equity instruments issued under share-based payment arrangements that are not included in the cost of goods or services recognizable for financial reporting purposes also had not been deductible in determining taxable income.
- Cash payments to lenders and other creditors for interest.
- Cash payments made to settle an asset retirement obligation.
- All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash contributions to charities, and cash refunds to customers.

6.14 Entities can present operating activities using either the direct or indirect method. However, FASB ASC 230-10-45-30 also requires entities using the direct method to provide a reconciliation of net income to net cash flow from operating activities in a separate schedule.

6.15 FASB ASC 230-10-45-28 also notes that when reconciling net income to net cash flow from operating activities, a business entity should adjust net income to remove past operating cash receipts and payments and accruals of expected future operating cash receipts and payments, including changes during the period in inventory and receivables and payables pertaining to operating activities. Additionally, all items that are included in net income, such as depreciation and amortization expense, that do not affect net cash provided from, or used for, operating activities should be adjusted for.

PRESENTATION AND DISCLOSURE EXCERPTS

DIRECT METHOD

6.16 EMC CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	For the Year Ended December 31,		
	2014	2013	2012
Cash Flows from Operating Activities:			
Cash received from customers	$ 25,360	$ 24,319	$ 22,585
Cash paid to suppliers and employees	(17,893)	(16,708)	(16,019)
Dividends and interest received	143	169	103
Interest paid	(134)	(96)	(33)
Income taxes paid	(953)	(761)	(374)
Net cash provided by operating activities	6,523	6,923	6,262
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(979)	(943)	(819)
Capitalized software development costs	(509)	(465)	(419)
Purchases of short- and long-term available-for-sale securities	(9,982)	(11,250)	(6,347)
Sales of short- and long-term available-for-sale securities	8,722	5,292	4,983
Maturities of short- and long-term available-for-sale securities	2,651	2,845	1,049
Business acquisitions, net of cash acquired	(1,973)	(770)	(2,136)
Purchases of strategic and other related investments	(144)	(131)	(117)
Sales of strategic and other related investments	101	35	70
Joint venture funding	(360)	(411)	(228)
Proceeds from divestiture of business	—	38	58
Increase in restricted cash	(78)	—	—
Net cash used in investing activities	(2,551)	(5,760)	(3,906)
Cash Flows from Financing Activities:			
Proceeds from the issuance of EMC's common stock	503	342	560
Proceeds from the issuance of VMware's common stock	164	197	253
EMC repurchase of EMC's common stock	(2,969)	(3,015)	(685)
EMC purchase of VMware's common stock	—	(160)	(290)
VMware repurchase of VMware's common stock	(700)	(508)	(468)
Excess tax benefits from stock-based compensation	102	116	261
Payment of long-term and short-term obligations	(1,665)	(46)	(1,715)
Proceeds from the issuance of long-term and short-term obligations	—	5,460	5
Contributions from non-controlling interests	7	105	—
Interest rate contract settlement	—	—	(70)

(continued)

	For the Year Ended December 31,		
	2014	2013	2012
Dividend payment	(879)	(415)	—
Net cash (used in) provided by financing activities	(5,437)	2,076	(2,149)
Effect of exchange rate changes on cash and cash equivalents	(83)	(62)	15
Net (decrease) increase in cash and cash equivalents	(1,548)	3,177	222
Cash and cash equivalents at beginning of period	7,891	4,714	4,492
Cash and cash equivalents at end of period	$ 6,343	$ 7,891	$ 4,714
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 2,894	$ 3,093	$ 2,886
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,864	1,665	1,528
Non-cash interest expense on debt	1	62	46
Non-cash restructuring and other special charges	19	8	13
Stock-based compensation expense	1,031	935	895
Provision for (recovery of) doubtful accounts	10	(1)	39
Deferred income taxes, net	(396)	(202)	(118)
Excess tax benefits from stock-based compensation	(102)	(116)	(261)
Gain on previously held interests in strategic investments and joint venture	(101)	—	(32)
Impairment of strategic investment	33	—	—
Other, net	20	40	22
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable	(309)	(377)	(535)
Inventories	(149)	(408)	(459)
Other assets	345	269	174
Accounts payable	167	380	89
Accrued expenses	(286)	(162)	(94)
Income taxes payable	314	222	661
Deferred revenue	1,126	1,475	1,367
Other liabilities	42	40	41
Net cash provided by operating activities	$ 6,523	$ 6,923	$ 6,262
Non-cash investing and financing activity:			
Issuance of common stock and stock options exchanged in business acquisitions	$ 35	$ 1	$ 24
Investment in joint venture	$ —	$ —	$ 33
Dividends declared	$ 242	$ 213	$ —

INDIRECT/RECONCILIATION METHOD

6.17 ZIMMER HOLDINGS, INC. (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(In millions)		
For the Years Ended December 31,	**2014**	**2013**	**2012**
Cash Flows Provided by (used in) Operating Activities:			
Net earnings	$ 719.0	$ 759.2	$ 752.9
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	375.8	358.5	363.1
Goodwill impairment	—	—	96.0
Share-based compensation	49.4	48.5	55.0
Income tax benefit from stock option exercises	37.2	38.4	11.0
Excess income tax benefit from stock option exercises	(11.1)	(8.6)	(2.7)
Inventory step-up	5.4	8.0	4.8
Deferred income tax provision	(84.2)	(126.2)	(64.8)
Changes in operating assets and liabilities, net of acquired assets and liabilities			
Income taxes payable	(51.9)	96.8	59.2
Receivables	(40.4)	(74.3)	(45.5)
Inventories	(154.1)	(128.4)	(67.5)
Accounts payable and accrued liabilities	120.1	38.3	47.8
Other assets and liabilities	87.6	(47.1)	(57.4)
Net cash provided by operating activities	1,052.8	963.1	1,151.9
Cash Flows Provided by (used in) Investing Activities:			
Additions to instruments	(197.4)	(192.9)	(148.9)
Additions to other property, plant and equipment	(144.9)	(100.0)	(114.7)
Purchases of investments	(1,350.9)	(732.7)	(1,130.1)
Sales of investments	1,282.2	830.8	878.5
Business combination investments	(54.3)	(74.2)	(59.0)

(continued)

	(In millions)		
For the Years Ended December 31,	**2014**	**2013**	**2012**
Investments in other assets	(4.1)	(13.5)	(17.9)
Net cash used in investing activities	(469.4)	(282.5)	(592.1)
Cash Flows Provided by (used in) Financing Activities:			
Payment of senior notes	(250.0)	—	—
Net proceeds (payments) under revolving credit facilities	2.3	(97.5)	(50.1)
Proceeds from term loans	—	—	147.3
Dividends paid to stockholders	(145.5)	(132.4)	(94.4)
Debt issuance costs	(64.1)	—	(3.3)
Equity issuance costs	(0.4)	—	—
Proceeds from employee stock compensation plans	284.7	474.8	46.9
Excess income tax benefit from stock option exercises	11.1	8.6	2.7
Purchase of additional shares from noncontrolling interest	—	(1.8)	—
Repurchase of common stock	(400.5)	(719.0)	(485.6)
Net cash used in financing activities	(562.4)	(467.3)	(436.5)
Effect of exchange rates on cash and cash equivalents	(18.3)	(17.0)	(7.3)
Increase in cash and cash equivalents	2.7	196.3	116.0
Cash and cash equivalents, beginning of year	1,080.6	884.3	768.3
Cash and cash equivalents, end of year	$ 1,083.3	$1,080.6	$ 884.3

ADJUSTMENTS TO RECONCILE NET INCOME—GAIN ON DISPOSITIONS

6.18 THE WENDY'S COMPANY (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In Thousands)

	Year Ended		
	December 28, 2014	**December 29, 2013**	**December 30, 2012**
Cash Flows from Operating Activities:			
Net income	$121,434	$44,632	$ 9,467
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	159,860	200,219	154,174
Share-based compensation	28,243	19,613	11,473
Impairment (see below)	19,613	45,782	21,097
Deferred income tax	69,540	12,853	(31,598)
Excess tax benefits from share-based compensation	(9,363)	—	—
Non-cash rent expense, net	1,951	8,152	7,210
Net receipt (recognition) of deferred vendor incentives	4,063	6,318	(920)
(Gain) loss on dispositions, net (see below)	(91,579)	(49,714)	442
(Gain) loss on sale of investments, net	(975)	799	(27,769)
Distributions received from TimWen joint venture	13,896	14,116	15,274
Equity in earnings in joint ventures, net	(10,176)	(9,722)	(8,724)
Accretion of long-term debt	1,187	5,942	7,973
Amortization of deferred financing costs	2,438	2,487	4,241
Loss on early extinguishment of debt	—	28,563	75,076
Other, net	(11,686)	(8,908)	3,093
Changes in operating assets and liabilities:			
Accounts and notes receivable	(2,763)	174	3,999
Inventories	706	1,477	(561)
Prepaid expenses and other current assets	(2,976)	(4,626)	(1,360)
Accounts payable	(3,105)	(380)	(9,266)
Accrued expenses and other current liabilities	(35,532)	12,070	(42,906)
Net cash provided by operating activities	254,776	329,847	190,415
Detail of Cash Flows from Operating Activities (in part):			
(Gain) loss on dispositions, net:			
Gain on sales of restaurants, net	$(69,631)	$(46,667)	$ —
Gain on disposal of assets, net	(21,948)	(4,705)	—
Loss on disposal of Arby's	—	—	442
Loss on disposal of the Japan JV	—	1,658	—
	$(91,579)	$(49,714)	$ 442

(In Thousands Except Per Share Amounts)

(2) Facilities Action (Income) Charges, Net (in part)

System Optimization Initiative (in part)

In July 2013, the Company announced a system optimization initiative, as part of its brand transformation, which included a plan to sell approximately 425 U.S. company-owned restaurants to franchisees. The Company completed this plan during the first quarter of 2014 with the sale of 174 U.S. company-owned restaurants to franchisees, bringing the aggregate total to 418 during 2013 and 2014. This initiative also included the consolidation of regional and divisional territories which was substantially completed by the end of the second quarter of 2014.

In August 2014, the Company announced a plan to sell all of its company-owned restaurants in Canada to franchisees as part of its ongoing system optimization initiative, which it now anticipates completing by the end of the second quarter of 2015. During the second half of 2014, the Company completed the sale of 29 Canadian restaurants and classified its remaining Canadian restaurants' assets that will be sold as held for sale.

As a result of the system optimization initiative, the Company has recorded losses on remeasuring long-lived assets to fair value upon determination that the assets will be leased and/or subleased to franchisees in connection with the sale or anticipated sale of restaurants ("System Optimization Remeasurement"). In addition, the Company has recognized costs related to the system optimization initiative which are illustrated in the table below. These costs have been substantially offset by net gains recognized on sales of restaurants, all of which were recorded to " Facilities action (income) charges, net " in our consolidated statements of operations.

The Company anticipates recognizing additional system optimization related costs through the second quarter of 2015 of approximately $1,000 which include severance and related employee costs and professional fees. The Company is unable to estimate any gains or losses or System Optimization Remeasurement resulting from future sales of its Canadian restaurants. The Company plans to retain its ownership in TimWen. For additional information on the joint venture see Note 6.

The following is a summary of the activity recorded under our system optimization initiative:

	Year Ended		Total Incurred
	2014	2013	Since Inception
Gain on sales of restaurants, net	$(69,631)	$(46,667)	$(116,298)
System Optimization Remeasurement[(a)]	8,628	20,506	29,134
Accelerated depreciation and amortization[(b)]	507	16,907	17,414
Severance and related employee costs	7,608	9,650	17,258
Professional fees	3,424	2,389	5,813
Share-based compensation[(c)]	3,760	1,253	5,013
Other	3,678	863	4,541
Total system optimization initiative	$(42,026)	$ 4,901	$ (37,125)

[(a)] Includes remeasurement of land, buildings, leasehold improvements and favorable lease assets at all company-owned restaurants included in our system optimization initiative. See Note 11 for more information on non-recurring fair value measurements.

[(b)] Primarily includes accelerated amortization of previously acquired franchise rights related to company-owned restaurants in territories that were sold in connection with our system optimization initiative.

[(c)] Represents incremental share-based compensation resulting from the modification of stock options and performance-based awards in connection with the termination of employees under our system optimization initiative.

Gain on Sales of Restaurants, Net

	Year Ended	
	2014	2013
Number of restaurants sold to franchisees	203	244
Proceeds from sales of restaurants	$107,833	$130,154
Net assets sold[(a)]	(46,874)	(60,895)
Goodwill related to sales of restaurants	(14,688)	(20,578)
Net favorable (unfavorable) lease assets (liabilities)[(b)]	28,105	(57)

(continued)

	Year Ended	
	2014	2013
Other[c]	(3,465)	(1,957)
	70,911	46,667
Post-closing adjustments on sales of restaurants	(1,280)	—
Gain on sales of restaurants, net	$ 69,631	$ 46,667

[a] Net assets sold consisted primarily of cash, inventory and equipment.

[b] During 2014 and 2013, the Company recorded favorable lease assets of $53,750 and $37,749, respectively, and unfavorable lease liabilities of $25,645 and $37,806, respectively, as a result of leasing and/or subleasing land, buildings, and/or leasehold improvements to franchisees, in connection with sales of restaurants.

[c] 2014 includes a deferred gain of $1,995 on the sale of eight Canadian restaurants to a franchisee, as a result of Wendy's providing a guarantee to a lender on behalf of the franchisee. This deferred gain is included in "Other liabilities." See Note 20 for further information.

(3) Acquisitions and Dispositions (in part)

Dispositions

During the year ended December 28, 2014, Wendy's received cash proceeds of $53,553 from dispositions, which were not included in the system optimization initiative, consisting of (1) $36,238 from the sale of 52 company-owned restaurants to franchisees, including the 18 restaurants acquired in the fourth quarter mentioned above, (2) $8,699 primarily from the sale of surplus properties and (3) $8,616 from the sale of company-owned aircraft. These sales resulted in a net gain of $21,948 which is included in " Other operating expense, net," and a reduction to goodwill of $3,344 related to the sale of company-owned restaurants. In connection with certain sales of the company-owned restaurants, we received notes receivable of $3,934 from franchisees. As a result we have deferred the gains on such sales totaling $5,116, which will be recognized when the notes are repaid. The deferred gains on these dispositions are included in "Accrued expenses and other current liabilities."

During the year ended December 29, 2013, Wendy's received cash proceeds of $18,958 from dispositions not included in the system optimization initiative, consisting of (1) $10,305 primarily from the sale of surplus properties and (2) $8,653 resulting from franchisees exercising options to purchase previously leased properties. These sales resulted in a net gain of $4,705 which is included in " Other operating expense, net."

During the year ended December 30, 2012, Wendy's received cash proceeds of $21,023 from dispositions, consisting of (1) $14,059 from the sale of 30 company-owned restaurants to franchisees, (2) $1,874 from the sale of a restaurant to an unrelated third party, (3) $3,550 resulting from franchisees exercising options to purchase previously subleased properties, (4) $941 related to the sale of surplus properties and (5) $599 related to other dispositions. These sales resulted in a net loss of $22.

See Note 2 for discussion of restaurant dispositions in connection with our system optimization initiative.

ADJUSTMENTS TO RECONCILE NET INCOME—ASSET IMPAIRMENT CHARGES

6.19 THE CHILDREN'S PLACE RETAIL STORES, INC. (JAN)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In thousands)

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Cash Flows from Operating Activities:			
Net income	$ 53,026	$ 63,243	$ 74,345
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	64,858	77,435	74,573
Stock-based compensation	21,210	14,253	9,286
Excess tax benefits from stock-based compensation	(211)	(4,941)	(532)
Asset impairment charges	29,633	2,284	2,208
Deferred taxes	(3,552)	1,973	2,269
Deferred rent expense and lease incentives	(11,999)	(5,347)	(14,892)
Other	6,891	(597)	1,475

(continued)

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Changes in operating assets and liabilities:			
Inventories	(58,941)	(28,828)	1,804
Prepaid expenses and other assets	(6,039)	(1,131)	806
Income taxes payable, net of prepayments	3,441	15,639	(3,090)
Accounts payable and other current liabilities	73,609	63,277	(617)
Deferred rent and other liabilities	1,544	7,782	8,468
Total adjustments	120,444	141,799	81,758
Net cash provided by operating activities	173,470	205,042	156,103

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Presentation and Summary of Significant Accounting Policies (in part)

Accounting for Impairment of Long-Lived Assets

The Company periodically reviews its long-lived assets when events indicate that their carrying value may not be recoverable. Such events include a history trend or projected trend of cash flow losses or a future expectation that the Company will sell or dispose of an asset significantly before the end of its previously estimated useful life. In reviewing for impairment the Company groups its long-lived assets at the lowest possible level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In that regard, the Company groups its assets into two categories: corporate-related and store-related. Corporate-related assets consist of those associated with the Company's corporate offices, distribution centers and its information technology systems. Store-related assets consist of leasehold improvements, furniture and fixtures, certain computer equipment and lease related assets associated with individual stores.

For store-related assets, the Company reviews all stores that have been open or not remodeled for at least two years, or sooner if circumstances should dictate, on at least an annual basis. The Company believes waiting two years allows a store to reach a maturity level where a more comprehensive analysis of financial performance can be performed. For each store that shows indications of operating losses, the Company projects future cash flows over the remaining life of the lease and compares the total undiscounted cash flows to the net book value of the related long-lived assets. If the undiscounted cash flows are less than the related net book value of the long-lived assets, they are written down to their fair market value. The Company primarily determines fair market value to be the discounted future cash flows associated with those assets. In evaluating future cash flows, the Company considers external and internal factors. External factors comprise the local environment in which the store resides, including mall traffic, competition, and their effect on sales trends. Internal factors include the Company's ability to gauge the fashion taste of its customers, control variable costs such as cost of sales and payroll, and in certain cases, its ability to renegotiate lease costs.

Fair Value Measurement and Financial Instruments

The "Fair Value Measurements and Disclosure" topic of the FASB ASC provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities.

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1—inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2—inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3—inputs to the valuation techniques that are unobservable for the assets or liabilities

The Company's cash and cash equivalents, short-term investments, accounts receivable, accounts payable and credit facility are all short-term in nature. As such, their carrying amounts approximate fair value and fall within Level 1 of the fair value hierarchy. The underlying assets and liabilities of the Company's Deferred Compensation Plan, excluding Company stock, fall within Level 1 of the fair value hierarchy. The Company stock included in the Deferred Compensation Plan is not subject to fair value measurement.

The Company's assets measured at fair value on a nonrecurring basis include long-lived assets. The Company reviews the carrying amounts of such assets when events indicate that their carrying amounts may not be recoverable. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered to be Level 3 inputs. Long-lived assets, primarily comprised of property and equipment, held and used with a carrying amount of $44.4 million were written down to their fair value, resulting in an impairment charge of $29.6 million, which was included in earnings for Fiscal 2013. For Fiscal 2012, long-lived assets held and used with a carrying amount of $3.1 million were written down to their fair value, resulting in an impairment charge of $2.3 million, which was included in earnings for Fiscal 2012. For Fiscal 2011, long-lived assets held and used with a carrying amount of $2.9 million were written down to their fair value, resulting in an impairment charge of $2.2 million, which was included in earnings for Fiscal 2011.

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	Asset Life	February 1, 2014	February 2, 2013
Property and equipment:			
Land and land improvements	—	$ 3,403	$ 3,403
Building and improvements	20–25 yrs	35,548	35,548
Material handling equipment	10–15 yrs	48,345	48,346
Leasehold improvements	3–15 yrs	350,451	391,311
Store fixtures and equipment	3–10 yrs	234,151	265,030
Capitalized software	5–7 yrs	63,874	65,885
Construction in progress	—	43,213	34,433
		778,985	843,956
Less accumulated depreciation and amortization		(466,836)	(513,855)
Property and equipment, net		$312,149	$330,101

The Company conducted a review of its store portfolio using business hurdles management designed to enhance profitability and improve overall operating results. Based on this review, the Company compiled a list of underperforming stores targeted for closure (the "Disposition List"). As a result of this review the Company closed 41 stores in Fiscal 2013. The Company also identified additional underperforming stores for which the Company will review its options for improving their financial performance, including but not limited to negotiating occupancy relief, in order to achieve the business hurdles. If these stores are unable to do so, then the Company will move them to the Disposition List.

At February 1, 2014, the Company performed impairment testing on 1,066 stores with a total net book value of $156.9 million. During Fiscal 2013, the Company recorded $20.5 million of store impairment charges primarily related to 127 underperforming stores, of which 106 were fully impaired and 21 were partially impaired. Of the 127 underperforming stores 109 were in the U.S. and 18 were in Canada. As of February 1, 2014, the aggregate net book value of the stores that were partially impaired was approximately $2.2 million, which the Company determined to be recoverable based on an estimate of discounted future cash flows. Consistent with its impairment policy, the Company concluded that changes in circumstances affecting the carrying value of stores included on the Disposition List required the Company to review all stores included on the Disposition List regardless of whether the store had been open for at least two years. Impairment charges for all stores were recorded as a result of revenue and/or gross margins not meeting targeted levels and accelerated store lease termination dates.

Company management continues to believe that making progress on its systems implementations will be one of the key drivers to improve its operations and strengthen its financial performance. During the second quarter of Fiscal 2013 the Company established a strategic long term systems plan. As part of this plan, the Company concluded that certain development costs previously incurred were no longer relevant and deemed certain systems to be obsolete and needed to be replaced by enhanced capabilities in order to incorporate industry best practices as well as service our international franchisees and wholesale business partners. Accordingly, the Company recorded asset impairment charges of $9.1 million and incurred $1.2 million of selling, general and administrative expenses related to the write-down of some previously capitalized development costs and obsolete systems.

At February 2, 2013, the Company performed impairment testing on 1,045 stores with a total net book value of $175.3 million. During Fiscal 2012, the Company recorded $2.3 million of impairment charges primarily related to six underperforming stores, of which two were fully impaired and four were partially impaired. All underperforming stores were in the U.S.

At January 28, 2012, the Company performed impairment testing on 920 stores with a total net book value of $141.5 million. During Fiscal 2011, the Company recorded $2.2 million of impairment charges primarily related to seven underperforming stores, of which four were fully impaired and three were partially impaired. All underperforming stores were in the U.S.

During Fiscal 2013, the Company capitalized approximately $19.5 million of external software costs and approximately $8.7 million of internal programming and development costs, of which $0.5 million was related to stock-based compensation. During Fiscal 2012, the Company capitalized approximately $12.9 million of external software costs and approximately $3.8 million of internal programming and development costs. During Fiscal 2011, the Company capitalized approximately $18.7 million of external software costs and approximately $4.9 million of internal programming and development costs. Amortization expense of capitalized software was approximately $7.0 million, $7.4 million and $7.8 million in Fiscal 2013, Fiscal 2012 and Fiscal 2011, respectively.

As of February 1, 2014, the Company had approximately $10.2 million in property and equipment for which payment had not been made, which was included in accrued expenses and other current liabilities.

ADJUSTMENTS TO RECONCILE NET INCOME—GAINS RELATED TO EQUITY INVESTMENTS

6.20 THE MCCLATCHY COMPANY (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(Amounts in thousands)

	Years Ended		
	December 28, 2014	**December 29, 2013**	**December 30, 2012**
Cash Flows from Operating Activities:			
Net income (loss)	$ 373,989	$ 18,803	$ (144)
Less income (loss) from discontinued operations, net of tax	(1,988)	2,359	3,822
Income (loss) from continuing operations	375,977	16,444	(3,966)
Reconciliation to net cash from operating activities:			
Depreciation and amortization	113,638	121,570	124,348
Loss on disposal of equipment	(918)	(1,914)	(988)
Contribution to qualified defined benefit pension plan	(25,000)	(7,600)	(40,000)
Retirement benefit expense	4,632	12,162	1,384
Stock-based compensation expense	3,479	3,481	3,517
Deferred income taxes	(32,233)	(9,774)	(9,548)
Equity income in unconsolidated companies	(19,084)	(42,651)	(31,935)
Gains related to equity investments	(705,247)	—	—
Distributions of income from equity investments	160,707	39,504	19,550
Loss on extinguishment of debt	72,777	13,643	88,430
Gain on disposal of Miami property	—	(12,938)	—
Asset impairments	8,227	17,181	—
Other	(4,137)	(3,865)	(133)
Changes in certain assets and liabilities:			
Trade receivables	19,390	9,877	1,667
Inventories	3,822	3,534	(1,467)
Other assets	(111)	(391)	(4,432)
Accounts payable	(1,870)	1,085	(2,029)
Accrued compensation	(6,291)	(57)	4,442
Income taxes	186,208	3,745	(58,229)
Accrued interest	(4,452)	(3,631)	(31,011)
Other liabilities	(6,333)	(5,824)	(11,916)
Net cash provided by continuing operations	143,181	153,581	47,684
Net cash provided by (used in) discontinued operations	(37)	2,459	5,241
Net cash provided by operating activities	143,144	156,040	52,925

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Significant Accounting Policies (in part)

Investments in Unconsolidated Companies

We use the equity method of accounting for our investments in, and earnings or losses of, companies that we do not control but over which we do exert significant influence. We consider whether the fair values of any of our equity method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If we consider any decline to be other than temporary (based on various factors, including historical financial results and the overall health of the investee), then a write down would be recorded to estimated fair value. See Note 2 for discussion of investments in unconsolidated companies.

3. Investments in Unconsolidated Companies (in part)

Our ownership interest and investment in unconsolidated companies consisted of the following:

(In thousands) Company	% Ownership Interest	December 28, 2014	December 29, 2013
CareerBuilder, LLC	15.0	$226,965	$214,579
Classified Ventures, LLC (see discussion below)	—	—	73,692
Other	Various	3,508	12,298
		$230,473	$300,569

On April 1, 2014, Classified Ventures, LLC sold its A partments.com business for $585 million. Accordingly, during fiscal year 2014, we record ed our share of the net gain of $144.2 million, before taxes as gains related to equity investments in our consolidated statements of operations. On April 1, 2014, we receive d a cash distribution of $146.9 million from Classified Ventures, LLC, which is equal to our share of the net proceeds.

On October 1, 2014, we, along with Tribune Media Company, Graham Holdings Company and A. H. Belo Corporation (the "Selling Partners") sold all of the Selling Partners' ownership interests in Classified Ventures, LLC to Gannett Co., Inc. for a price that valued Classified Ventures, LLC at $2.5 billion. We recorded gain on sale of our ownership interest in Classified Ventures, LLC of $559.3 million, before taxes, during fourth quarter of fiscal year 2014. Our portion of the cash proceeds, net of transaction costs, was $631.8 million, or approximately $406 million, net of taxes. Pursuant to the sale agreement, $25.6 million of net proceeds is being held in escrow until October 1, 2015. Prior to the transaction closing, Classified Ventures, LLC distributed $6.0 million, representing our portion of their earnings. On October 1, 2014, we received our portion of the net cash proceeds, less the escrow amount, of $606.2 million. Upon the closing of the transaction, we entered into a new, five -year affiliate agreement with Cars.com that will allow us to continue to sell Cars.com products and services exclusively in our local markets.

On May 7, 2014, we transferred our partnership interest in McClatchy-Tribune Information Services ("MCT") to TCA News Service, LLC ("TCA") for cash and future newswire content. Concurrently, we entered into a contributor agreement with MCT pursuant to which we both continue to be a contributor of newswire content to MCT for an agreed upon rate and we will receive newswire content from MCT or its successor at no cost for approximately 10 years. We recognized a $3.1 million intangible asset in the consolidated balance sheets with respect to the value of the content we will receive from MCT at no cost under these agreements, and a $1.7 million gain on sale of the equity investment in gains related to equity investments in the consolidated statements of operations.

ADJUSTMENTS TO RECONCILE NET INCOME—PENSION SETTLEMENT EXPENSE

6.21 ARCBEST CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

	Year Ended December 31		
(In thousands)	2014	2013	2012
Operating Activities			
Net income (loss)	$ 46,177	$ 15,811	$ (7,732)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	81,870	84,215	85,493
Amortization of intangibles	4,352	4,174	2,261
Pension settlement expense	6,595	2,111	—
Share-based compensation expense	6,998	5,494	6,068
Provision for losses on accounts receivable	1,942	2,065	1,524
Deferred income tax provision (benefit)	4,692	(10,367)	(10,359)
Gain on sale of property and equipment	(1,461)	(153)	(735)
Changes in operating assets and liabilities:			
Receivables	(26,892)	(24,200)	508
Prepaid expenses	(1,888)	(1,670)	305
Other assets	889	(1,015)	961
Income taxes	(11,972)	8,468	2,630
Accounts payable, accrued expenses, and other liabilities	32,464	8,571	3,610
Net Cash Provided by Operating Activities	143,766	93,504	84,534

Note B—Accounting Policies (in part)

Nonunion Defined Benefit Pension, Supplemental Benefit, and Postretirement Health Benefit Plans: The Company recognizes the funded status (the difference between the fair value of plan assets and the benefit obligation) of its nonunion defined benefit pension plan, supplemental benefit plan ("SBP"), and postretirement health benefit plan in the balance sheet and recognizes changes in the funded status, net of tax, in the year in which they occur as a component of other comprehensive income or loss. Amounts recognized in other comprehensive income or loss are subsequently expensed as components of net periodic benefit cost by amortizing unrecognized net actuarial losses over the average remaining active service period of the plan participants and amortizing unrecognized prior service credits over the remaining years of service until full eligibility of the active participants at the time of the plan amendment which created the prior service credit. A corridor approach is not used for determining the amounts of net actuarial losses to be amortized.

The expense and liability related to the Company's nonunion defined benefit pension plan, SBP, and postretirement health benefit plan are measured based upon a number of assumptions and using the services of a third-party actuary. Assumptions are made regarding expected retirement age, mortality, employee turnover, and future increases in health care costs. The assumptions with the greatest impact on the Company's expense are the discount rate used to discount the plans' obligations and, for the nonunion defined benefit pension plan, the expected return on plan assets and, prior to the June 30, 2013 curtailment of the nonunion defined benefit pension plan, the assumed compensation cost increase. The discount rate is determined by matching projected cash distributions with appropriate high-quality corporate bond yields in a yield curve analysis. The Company establishes the expected long-term rate of return on plan assets by considering the historical returns for the plan's current investment mix and the plan investment advisor's range of expected returns for the plan's current investment mix. Prior to the June 30, 2013 curtailment of the nonunion defined benefit pension plan, the Company established the assumed rate of compensation increase at the measurement date by considering historical changes in compensation combined with an estimate of compensation rates for the subsequent two years.

The assumptions used directly impact the net periodic benefit cost for a particular year. An actuarial gain or loss results if actual results vary from the assumptions. Actuarial gains and losses are not included in net periodic benefit cost in the period when they arise but are recognized as a component of other comprehensive income or loss and subsequently amortized as a component of net periodic benefit cost.

The Company uses December 31 as the measurement date for its nonunion defined benefit pension plan, SBP, and postretirement health benefit plan. Plan obligations are also remeasured upon curtailment and upon settlement.

The Company records quarterly pension settlement expense related to the nonunion defined benefit pension plan when qualifying distributions determined to be settlements are expected to exceed the estimated total annual service and interest cost of the plan. Benefit distributions under the SBP individually exceed the annual interest cost of the plan, and the Company records the related settlement expense when the amount of the benefit to be distributed is fixed, which is generally upon an employee's termination of employment. Pension settlement expense for the nonunion defined benefit pension and SBP plans is presented in Note J.

Note J—Employee Benefit Plans (in part)

Nonunion Defined Benefit Pension, Supplemental Benef it, and Postretirement Health Benefit Plans (in part)

The Company has a noncontributory defined benefit pension plan covering substantially all noncontractual employees hired before January 1, 2006. Benefits under the defined benefit pension plan are generally based on years of service and employee compensation. In June 2013, the Company amended the nonunion defined benefit pension plan to freeze the participants' final average compensation and years of credited service as of July 1, 2013. The plan amendment did not impact the vested benefits of retirees or former employees whose benefits have not yet been paid from the plan. Effective July 1, 2013, participants of the nonunion defined benefit pension plan who were active employees of the Company became eligible to participate in the Company's nonunion defined contribution plan in which substantially all noncontractual employees hired subsequent to December 31, 2005 also participate (see Defined Contribution Plans section within this Note).

The June 2013 amendment to the nonunion defined benefit pension plan resulted in a plan curtailment which was recorded as of June 30, 2013. The effect of the plan curtailment was a reduction of the projected benefit obligation ("PBO") to the amount of the plan's accumulated benefit obligation. The decrease in the PBO upon curtailment, as presented in the changes in benefit obligations and plan assets table within this Note, reduced the unrecognized net actuarial loss of the plan, which is reported on an after-tax basis in accumulated other comprehensive loss within stockholders' equity in the consolidated balance sheet. No curtailment gain or loss was recognized in earnings. The unrecognized net actuarial loss was also reduced by a net actuarial gain which resulted from the remeasurement of the assets and PBO of the plan upon curtailment. The freeze of the accrual of benefits effective as of July 1, 2013, and the reduction of the PBO upon plan curtailment eliminated the service cost of the plan and reduced the interest cost of the plan for periods subsequent to the curtailment.

In January 2014, the plan purchased a nonparticipating annuity contract from an insurance company to settle the pension obligation related to the vested benefits of 375 plan participants and beneficiaries receiving monthly benefit payments at the time of the contract purchase. Upon payment by the plan of the $25.4 million premium for the annuity contract, pension benefit obligations totaling $23.3 million were irrevocably transferred to the insurance company. The nonparticipating annuity contract purchase amount of $25.4 million plus total lump-sum benefit distributions of $32.1 million exceeded the annual interest costs of the plan in 2014; therefore, the Company recognized pension settlement expense as a component of net periodic benefit cost with corresponding reductions in the unrecognized net actuarial loss of the nonunion defined benefit pension plan. The Company also recognized pension settlement expense in 2013, because total lump-sum benefit distributions from the plan exceeded the total annual service and interest cost of the plan. The pension settlement expense amounts for 2014 and 2013 are presented in the tables within this Note. The remaining pre-tax unrecognized net actuarial loss of $24.3 million will continue to be amortized over the average remaining future years of service of the plan participants, which is approximately eight years. The Company will continue to incur quarterly settlement expense related to lump-sum benefit distributions from the nonunion defined benefit pension plan, as estimated lump sum distributions are expected to exceed annual interest costs of the plan.

The Company also has an unfunded supplemental benefit plan ("SBP") for the purpose of supplementing benefits under the Company's nonunion defined benefit pension plan for executive officers designated as participants in the SBP by the Company's Board of Directors. The Compensation Committee of the Company's Board of Directors ("Compensation Committee") elected to close the SBP to new entrants and to place a cap on the maximum payment per participant to existing participants in the SBP effective January 1, 2006. In place of the SBP, eligible officers of the Company appointed after 2005 participate in a long-term cash incentive plan (see Long-Term Cash Incentive Plan section within this Note). Effective December 31, 2009, the Compensation Committee elected to freeze the accrual of benefits for remaining participants under the SBP. With the exception of early retirement penalties that may apply in certain cases, the valuation inputs for calculating the frozen SBP benefits to be paid to participants, including final average salary and the interest rate, were frozen at December 31, 2009. The lump-sum SBP benefit exceeded the annual interest cost of the plan; therefore, pension settlement expense and a corresponding reduction in the net actuarial loss was recorded in 2014, as presented in the tables within this Note.

The Company sponsors an insured postretirement health benefit plan that provides supplemental medical benefits and dental benefits primarily to certain officers of the Company and certain subsidiaries. Effective January 1, 2011, retirees began paying a portion of the premiums under the plan according to age and coverage levels. The amendment to the plan to implement retiree premiums resulted in an unrecognized prior service credit which was recorded in accumulated other comprehensive loss and is being amortized over approximately eight years. Premiums charged to retirees under the postretirement health benefit plan were increased effective January 1, 2014, which contributed to the actuarial gain recognized for the plan effective December 31, 2013.

The following table discloses the changes in benefit obligations and plan as sets of the Company's nonunion defined benefit plans for years ended December 31, the measurement date of the plans:

	Nonunion Defined Benefit Pension Plan		**Supplemental Benefit Plan**		**Postretirement Health Benefit Plan**	
(In thousands)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Change in Benefit Obligations						
Benefit obligations at beginning of year	$211,660	$260,950	$ 7,092	$ 7,213	$ 16,318	$ 18,308
Service cost	—	4,734	—	—	280	331
Interest cost	6,039	7,784	184	150	788	751
Actuarial (gain) loss	11,906	(10,797)	53	(271)	5,269	(2,484)
Benefits paid	(58,047)	(22,486)	(853)	—	(539)	(588)
Curtailment gain	—	(29,262)	—	—	—	—
Settlement loss	2,852	737	306	—	—	—
Benefit obligations at end of year	174,410	211,660	6,782	7,092	22,116	16,318
Change in Plan Assets						
Fair value of plan assets at beginning of year	207,613	181,225	—	—	—	—
Actual return on plan assets	8,599	31,074	—	—	—	—
Employer contributions	100	17,800	853	—	539	588
Benefits paid	(58,047)	(22,486)	(853)	—	(539)	(588)
Fair value of plan assets at end of year	158,265	207,613	—	—	—	—
Funded status	$ (16,145)	$ (4,047)	$(6,782)	$(7,092)	$(22,116)	$(16,318)
Accumulated benefit obligation	$174,410	$211,660	$ 6,782	$ 7,092	$ 22,116	$ 16,318

Amounts recognized in the consolidated balance sheets at December 31 consisted of the following:

	Nonunion Defined Benefit Pension Plan		Supplemental Benefit Plan		Postretirement Health Benefit Plan	
(In thousands)	2014	2013	2014	2013	2014	2013
Current liabilities (included in accrued expenses)	$ —	$ —	$(1,941)	$ —	$ (684)	$ (610)
Noncurrent liabilities (included in pension and postretirement liabilities)	(16,145)	(4,047)	(4,841)	(7,092)	(21,432)	(15,708)
Liabilities recognized	$(16,145)	$(4,047)	$(6,782)	$(7,092)	$(22,116)	$(16,318)

The following is a summary of the components of net periodic benefit cost for the Company's nonunion benefit plans for the years ended December 31:

	Nonunion Defined Benefit Pension Plan			Supplemental Benefit Plan			Postretirement Health Benefit Plan		
(in thousands)	2014	2013	2012	2014	2013	2012	2014	2013	2012
Service cost	$ —	$ 4,734	$ 9,189	$ —	$ —	$ —	$ 280	$ 331	$ 315
Interest cost	6,039	7,784	8,692	184	150	210	788	751	749
Expected return on plan assets	(10,419)	(13,313)	(12,063)	—	—	—	—	—	—
Amortization of prior service credit	—	—	—	—	—	—	(190)	(190)	(190)
Pension settlement expense	5,880	2,111	—	715	—	—	—	—	—
Amortization of net actuarial loss[1]	2,398	7,140	10,767	214	260	202	93	535	416
Net periodic benefit cost	$ 3,898	$ 8,456	$ 16,585	$1,113	$ 410	$412	$ 971	$1,427	$1,290

[1] The Company amortizes actuarial losses over the average remaining active service period of the plan participants and does not use a corridor approach.

The following is a summary of the pension settlement distributions and pension settlement expense for the years ended December 31:

	Nonunion Defined Benefit Pension Plan			Supplemental Benefit Plan		
(In thousands, except per share data)	2014[1]	2013[2]	2012	2014[3]	2013	2012[4]
Pension settlement distributions	$57,518	$20,104	$ —	$ 853	$ —	$1,126
Pension settlement expense, pre-tax	$ 5,880	$ 2,111	$ —	$ 715	$ —	$ —
Pension settlement expense per diluted share, net of taxes	$ 0.14	$ 0.05	$ —	$0.02	$ —	$ —

[1] Pension settlement distributions represent $32.1 million of lump-sum benefit distributions and a $25.4 million nonparticipating annuity contract purchase.

[2] Pension settlement distributions represent lump-sum benefit distributions paid in 2013.

[3] Pension settlement expense relates to the SBP benefit for an officer retirement that occurred in 2014. The benefit distribution amount was fixed at the retirement date, but a portion of the benefit will be paid in 2015, because IRC Section 409 A which requires that certain distributions to certain key employees under the SBP be delayed for six months after retirement.

[4] The 2012 SBP distribution represents the portion of a benefit related to an officer retirement that occurred in 2011 which was delayed for six months after retirement in accordance with IRC Section 409 A. The pension settlement expense related to this distribution was recognized in 2011.

Included in accumulated other comprehensive loss at December 31 were the following pre-tax amounts that have not yet been recognized in net periodic benefit cost:

	Nonunion Defined Benefit Pension Plan		Supplemental Benefit Plan		Postretirement Health Benefit Plan	
(In thousands)	2014	2013	2014	2013	2014	2013
Unrecognized net actuarial loss	$24,303	$16,003	$1,207	$1,778	$5,327	$ 150
Unrecognized prior service credit	—	—	—	—	(697)	(887)
Total	$24,303	$16,003	$1,207	$1,778	$4,630	$(737)

The following amounts, which are reported within accumulated other comprehensive loss at December 31, 2014, are expected to be recognized as components of net periodic benefit cost in 2015 on a pre-tax basis. (Amounts exclude the effect of pension settlements which the Company will incur for the nonunion defined benefit pension plan in 2015.)

(In thousands)	Nonunion Defined Benefit Pension Plan	Supplemental Benefit Plan	Postretirement Health Benefit Plan
Unrecognized net actuarial loss	$3,008	$159	$ 622
Unrecognized prior service credit	—	—	(190)
Total	$3,008	$159	$ 432

The discount rate is determined by matching projected cash distributions with appropriate high-quality corporate bond yields in a yield curve analysis. Weighted-average assumptions used to determine nonunion benefit obligations at December 31 were as follows:

	Nonunion Defined Benefit Pension Plan		Supplemental Benefit Plan		Postretirement Health Benefit Plan	
	2014	2013	2014	2013	2014	2013
Discount rate	3.2%	3.8%	2.5%	2.8%	3.9%	4.7%

Weighted-average assumptions used to determine net periodic benefit cost for the Company's nonunion benefit plans for the years ended December 31 were as follows:

	Nonunion Defined Benefit Pension Plan			Supplemental Benefit Plan			Postretirement Health Benefit Plan		
	2014[1]	2013[2]	2012	2014[3]	2013	2012	2014	2013	2012
Discount rate	3.8%	3.1%	3.7%	2.8%	2.1%	3.2%	4.7%	3.8%	4.3%
Expected return on plan assets	6.5%	7.5%	7.5%	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation increase[4]	N/A	3.3%	3.3%	N/A	N/A	N/A	N/A	N/A	N/A

[1] The discount rate presented was used to determine the first quarter 2014 credit and the interim discount rates established upon each quarterly settlement in 2014 at a rate of 3.5%, 3.3%, and 3.4% was used to calculate the credit for the second, third, and fourth quarter of 2014, respectively.

[2] The discount rate presented was used to determine expense for the first six months of 2013 and the discount rate established upon the June 30, 2013 curtailment of 3.9% and upon the September 30, 2013 settlement of 3.7% was used to calculate the credit for the third and fourth quarter of 2013, respectively.

[3] The discount rate presented was used to determine expense for the first ten months of 2014 and the discount rate of 2.5% established upon the October 31, 2014 settlement was used to calculate expense for the last two months of 2014.

[4] The compensation assumption was no longer applicable for determining net periodic benefit cost of the nonunion defined benefit pension plan upon the June 30, 2013 remeasurement for plan curtailment due to the freeze of the accrual of benefits effective July 1, 2013.

ADJUSTMENTS TO RECONCILE NET INCOME—GAIN ON FAVORABLE OUTCOME OF TAX CASE

6.22 UNIVERSAL CORPORATION (MAR)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

	Fiscal Year Ended March 31,		
(In thousands of dollars)	2014	2013	2012
Cash Flows From Operating Activities:			
Net income	$155,155	$140,919	$100,819
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	37,257	43,408	42,158
Amortization	1,642	1,708	1,708
Provision for losses on advances and guaranteed loans to suppliers	6,705	1,623	11,930
Inventory write-downs	7,654	1,523	8,324
Stock-based compensation expense	6,278	6,171	5,987
Foreign currency remeasurement loss (gain), net	14,322	(10,579)	2,253
Deferred income taxes	(2,176)	11,794	6,770
Equity in net (income) loss of unconsolidated affiliates, net of dividends	3,420	(4,966)	14,658
Gain on favorable outcome of excise tax case in Brazil	(81,619)	—	—
Gain on fire loss insurance settlement	—	—	(9,592)
Gain on sale of property in Brazil	—	—	(11,111)
Restructuring costs	6,746	4,113	11,661
Charge for European Commission fine in Italy	—	—	49,091
Other, net	2,251	(1,174)	1,719
Changes in operating assets and liabilities, net:			
Accounts and notes receivable	(89,536)	(5,433)	(25,480)
Inventories and other assets	(47,492)	6,578	31,907
Income taxes	11,391	18,111	(1,535)
Accounts payable and other accrued liabilities	(27,345)	11,167	(53,487)
Customer advances and deposits	(8,156)	9,503	12,006
Net cash (used) provided by operating activities	(3,503)	234,466	199,786

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(All dollar amounts are in thousands, except per share amounts or as otherwise noted.)

Note 14. Commitments and Other Matters (in part)

Favorable Outcome of IPI Tax Credit Case in Brazil

During the quarter ended June 30, 2013, a longstanding lawsuit related to IPI tax credits filed by the Company's operating subsidiary in Brazil was concluded in the subsidiary's favor with a decision by the Brazilian Superior Court of Justice on the final appeal filed by the Brazilian federal government. Although additional appeals by the government were expected in the case, the time period to file those appeals expired before the end of the quarter, and the decision and overall outcome of the case were confirmed.

IPI tax credits were established under Brazilian tax laws to allow recovery of a portion of the excise taxes paid on manufactured products when those products are sold in export markets. In prior years, the subsidiary paid excise taxes on the component cost of unprocessed tobacco purchased from growers, as well as the cost of electricity, packing materials, and other inputs used in its manufacturing process. Under the law, the subsidiary believed it was entitled to use IPI tax credits to recover excise taxes on the processed tobacco it exported. However, specific regulations issued by the Brazilian tax authorities did not permit the subsidiary to claim those credits. The suit filed by the subsidiary challenged the denial of the tax credits based on the law. Several decisions in lower courts were decided in the subsidiary's favor for a portion of the tax credits claimed in the suit, but those decisions were appealed on various grounds by both the government and the subsidiary. The expiration of the appeal period ended the matter in the courts.

The final court decision entitles the subsidiary to approximately $104 million of IPI tax credits (based on the exchange rate at the date of the decision), which can be used to offset future payments of other Brazilian federal taxes for a period of up to five years. That amount includes the tax credits generated over the period granted by the courts, as well as interest calculated from the date those credits should have been available to the subsidiary. As noted, the ability to use the tax credits to offset other Brazilian federal tax payments expires in five years, and utilization of the credits is also subject to audit by the tax authorities. Based on current estimates of the tax credits that are probable of being realized, the subsidiary recorded an allowance, reducing the net book value of the credits to approximately $90 million. After deducting related legal fees and Brazilian social contribution taxes assessed on the interest portion of the total IPI tax credits received, the subsidiary recorded a net gain of $81.6 million ($53.1 million after tax, or $1.87 per diluted share) during the quarter ended June 30, 2013, as a result of the favorable outcome of the case. The gain is reported in Other Income in the consolidated statement of income. Management of the Company and the subsidiary regularly review the estimates and assumptions used in determining the total amount of the tax credits likely to be realized and, accordingly, it is reasonably possible that the valuation allowance could be adjusted in future reporting periods. During the quarter ended December 31, 2013, the subsidiary began using the credits to offset tax payments.

Cash Flows From Investing Activities

PRESENTATION

6.23 FASB ASC 230 defines those transactions and events that constitute investing cash receipts and payments. Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment (PPE) and other productive assets. Paragraphs 20–21 of FASB ASC 230-10-45 explain that investing activities exclude acquiring and disposing of certain loans or other debt or equity instruments that are acquired specifically for resale. Cash flows from purchases, sales, and maturities of available-for-sale securities should be classified as cash flows from investing activities and reported gross in the statement of cash flows. Cash inflows from investing activities include the following:

- Receipts from collections or sales of loans made by the entity and of other entities' debt instruments, other than cash equivalents and certain debt instruments that are acquired specifically for resale, that were purchased by the entity.
- Receipts from sales of equity instruments of other entities, other than certain equity instruments carried in a trading account, and from returns of investment in those instruments.
- Receipts from sales of PPE and other productive assets.
- Receipts from sales of loans that were not specifically acquired for resale. If loans were acquired as investments, cash receipts from sales of those loans shall be classified as investing cash inflows, regardless of a change in the purpose for holding those loans.

Cash outflows from investing activities include the following:

- Disbursements for loans made by the entity and payments to acquire debt instruments of other entities, other than cash equivalents and certain debt instruments that are acquired specifically for resale.
- Payments to acquire equity instruments of other entities, other than certain equity instruments carried in a trading account.
- Payments at the time of purchase or soon before or after purchase to acquire PPE and other productive assets, including interest capitalized as part of the cost of those assets. Generally, only advance payments, the down payment, or other amounts paid at the time of purchase or soon before or after the purchase of PPE and other productive assets are investing cash outflows. However, incurring directly related debt to the seller is a financing transaction; thus, subsequent payments of principal on that debt are financing cash outflows.

ACQUISITIONS

6.24 AK STEEL HOLDING CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(dollars in millions)

	2014	2013	2012
Cash Flows from Investing Activities:			
Capital investments	(79.7)	(60.0)	(45.5)
Capital investments—SunCoke Middletown	(1.4)	(3.6)	(18.6)
Investments in Magnetation LLC and AK Coal	(100.0)	(50.0)	(60.6)
Investments in acquired business, net of cash acquired	(690.3)	—	—
Other investing items, net	13.6	15.1	6.1
Net cash flows from investing activities	(857.8)	(98.5)	(118.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(dollars in millions, except per share amounts or as otherwise specifically noted)

Note 3—Acquisition of Dearborn (in part)

On September 16, 2014, the Company acquired Severstal Dearborn, LLC ("Dearborn") from Severstal Columbus Holdings, LLC ("Severstal"). The assets acquired from Severstal included the integrated steelmaking assets located in Dearborn, Michigan ("Dearborn Works"), the Mountain State Carbon, LLC ("Mountain State Carbon") cokemaking facility located in Follansbee, West Virginia, and interests in joint ventures that process flat-rolled steel products. The Company acquired Dearborn to increase scale and enhance its ability to better serve customers, further its automotive strategy, strengthen its carbon steelmaking footprint and achieve additional operational flexibility. In addition, the Company acquired highly modernized and upgraded steelmaking equipment and facilities and the opportunity to achieve significant cost-based synergies. Immediately after the acquisition, Dearborn was merged with and into AK Steel.

The final cash purchase price was $690.3, net of cash acquired, after payment of the final working capital adjustment to Severstal of $13.1 in the fourth quarter of 2014. In conjunction with the acquisition, AK Steel issued $430.0 of 7.625% Senior Notes due October 2021 at a price of 99.325% of par to pay part of the purchase price and used a portion of the net proceeds from the issuance of 40.25 million shares of AK Holding common stock at a price of $9.00 per share to pay the balance of the purchase price. The Company used the additional proceeds from the issuance of AK Holding common stock to repay a portion of outstanding borrowings under its asset-backed revolving credit facility ("Credit Facility") and for general corporate purposes. For the year ended December 31, 2014, the Company incurred acquisition costs of $8.1. Acquisition costs are primarily comprised of transaction fees and direct costs, including legal, finance, consulting and other professional fees, and are included in selling and administrative expenses. In addition, the Company incurred $12.6 of costs in the year ended December 31, 2014 for committed bridge financing that the Company arranged in connection with the acquisition of Dearborn, but which was unused because of the Company's successful financing of the acquisition through the debt and common stock offerings discussed above. As a result, these costs were expensed in 2014 and are included in other income (expense). Subsequent to the acquisition, the Company incurred severance costs of $2.6 for certain employees of Dearborn, which are included in selling and administrative expenses for the year ended December 31, 2014, and an income tax charge of $8.4 related to changes in the value of deferred tax assets resulting from the acquisition.

A summary of the preliminary purchase price allocation for the fair value of the assets acquired and the obligations assumed at the date of the acquisition is presented below. The purchase price allocation is preliminary and is subject to the completion of several items, including consideration of final valuations for property, plant and equipment and the investments in affiliates. The discount rate used to measure the initial other postretirement benefit obligation was 4.49%.

Accounts receivable	$ 154.4
Inventory	362.2
Other current assets	3.6
Property, plant and equipment	459.3
Investment in affiliates	88.2
Total assets acquired	1,067.7
Accounts payable	(201.2)
Accrued liabilities	(36.1)
Other postretirement benefit obligations	(128.2)
Other non-current liabilities	(11.9)
Total liabilities assumed	(377.4)
Purchase price, net of cash acquired	$ 690.3

DISPOSALS

6.25 CF INDUSTRIES HOLDINGS, INC. (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

	Year Ended December 31,		
(In millions)	2014	2013	2012
Investing Activities:			
Additions to property, plant and equipment	(1,808.5)	(823.8)	(523.5)
Proceeds from sale of property, plant and equipment	11.0	12.6	17.0
Proceeds from sale of phosphate business	1,372.0	—	—
Sales and maturities of short-term and auction rate securities	5.0	13.5	48.4
Canadian terminal acquisition	—	(72.5)	—
Deposits to restricted cash funds	(505.0)	(154.0)	—
Withdrawals from restricted cash funds	573.0	—	—
Deposits to asset retirement obligation funds	—	(2.9)	(55.4)
Other—net	9.0	7.8	—
Net cash used in investing activities	(343.5)	(1,019.3)	(513.5)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

4. Phosphate Business Disposition

In March 2014, we completed the sale of our phosphate mining and manufacturing business to Mosaic (the "Transaction") pursuant to the terms of an Asset Purchase Agreement dated as of October 28, 2013 (the "Purchase Agreement"), among CF Industries Holdings, Inc., CF Industries, Inc. and Mosaic for approximately $1.4 billion in cash. We recognized pre-tax and aftertax gains on the Transaction of $750.1 million and $462.8 million, respectively. Under the terms of the Purchase Agreement, the accounts receivable and accounts payable pertaining to the phosphate mining and manufacturing business and certain phosphate inventory held in distribution facilities were not sold to Mosaic in the Transaction and were settled in the ordinary course.

Upon closing the Transaction, we began to supply Mosaic with ammonia produced by our PLNL joint venture. The contract to supply ammonia to Mosaic from our PLNL joint venture represents the continuation of a supply practice that previously existed between our former phosphate mining and manufacturing business and other operations of the Company. Prior to March 17, 2014, PLNL sold ammonia to us for use in the phosphate business and the cost was included in our production costs in our phosphate segment. Subsequent to the sale of the phosphate business, we now sell the PLNL-sourced ammonia to Mosaic. The revenue from these sales to Mosaic and the costs to purchase the ammonia from PLNL are now included in our ammonia segment. Our 50% share of the operating results of our PLNL joint venture continues to be included in equity in earnings of operating affiliates in our consolidated statements of operations. Because of the significance of this continuing supply practice, in accordance with U.S. GAAP, the phosphate mining and manufacturing business is not reported as discontinued operations in our consolidated statements of operations.

The phosphate segment reflects the reported results of the phosphate business through March 17, 2014, plus the continuing sales of the phosphate inventory in the distribution network after March 17, 2014. The remaining phosphate inventory was sold in the second quarter of 2014; therefore, the phosphate segment does not have operating results subsequent to that quarter. However, the segment will continue to be included until the reporting of comparable period phosphate results ceases.

The phosphate mining and manufacturing business assets we sold in the Transaction include the Hardee County Phosphate Rock Mine; the Plant City Phosphate Complex; an ammonia terminal, phosphate warehouse and dock at the Port of Tampa; and the site of the former Bartow Phosphate Complex. In addition, Mosaic assumed certain liabilities related to the phosphate mining and manufacturing business, including responsibility for closure, water treatment and long-term maintenance and monitoring of the phosphogypsum stacks at the Plant City and Bartow complexes. Mosaic also received the value of the phosphate mining and manufacturing business's asset retirement obligation trust and escrow funds totaling approximately $200 million. See further discussion related to Florida environmental matters in Note 24—Contingencies. The assets and liabilities sold to and assumed by Mosaic were classified as held for sale as of December 31, 2013; therefore, no depreciation, depletion or amortization was recorded in 2014 for the related property, plant and equipment.

INVESTMENTS

6.26 BERKSHIRE HATHAWAY INC. (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(dollars in millions)

	Year Ended December 31,		
	2014	**2013**	**2012**
Cash Flows from Investing Activities:			
Purchases of fixed maturity securities	(7,774)	(7,546)	(8,250)
Purchases of equity securities	(7,014)	(8,558)	(7,376)
Investments in H.J. Heinz Holding Corp. and other investments	(3,000)	(12,250)	—
Sales of fixed maturity securities	1,697	4,311	2,982
Redemptions and maturities of fixed maturity securities	6,795	11,203	6,064
Sales and redemptions of equity securities	8,896	3,869	8,088
Purchases of loans and finance receivables	(181)	(490)	(650)
Collections of loans and finance receivables	885	654	1,714
Acquisitions of businesses, net of cash acquired	(4,824)	(6,431)	(3,188)
Purchases of property, plant and equipment	(15,185)	(11,087)	(9,775)
Other	336	(1,210)	(183)
Net cash flows from investing activities	(19,369)	(27,535)	(10,574)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(1) Significant Accounting Policies and Practices (in part)

(d) Investments

We determine the appropriate classification of investments in fixed maturity and equity securities at the acquisition date and re-evaluate the classification at each balance sheet date. Held-to-maturity investments are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity. Trading investments are securities acquired with the intent to sell in the near term and are carried at fair value. All other securities are classified as available-for-sale and are carried at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income. Substantially all of our investments in equity and fixed maturity securities are classified as available-for-sale.

We utilize the equity method to account for investments when we possess the ability to exercise significant influence, but not control, over the operating and financial policies of the investee. The ability to exercise significant influence is presumed when an investor possesses more than 20% of the voting interests of the investee. This presumption may be overcome based on specific facts and circumstances that demonstrate that the ability to exercise significant influence is restricted. We apply the equity method to investments in common stock and to other investments when such other investments possess substantially identical subordinated interests to common stock.

In applying the equity method, we record the investment at cost and subsequently increase or decrease the carrying amount of the investment by our proportionate share of the net earnings or losses and other comprehensive income of the investee. We record dividends or other equity distributions as reductions in the carrying value of the investment. In the event that net losses of the investee reduce the carrying amount to zero, additional net losses may be recorded if other investments in the investee are at-risk, even if we have not committed to provide financial support to the investee. Such additional equity method losses, if any, are based upon the change in our claim on the investee's book value.

Investment gains and losses arise when investments are sold (as determined on a specific identification basis) or are other-than-temporarily impaired. If a decline in the value of an investment below cost is deemed other than temporary, the cost of the investment is written down to fair value, with a corresponding charge to earnings. Factors considered in determining whether an impairment is other than temporary include: the financial condition, business prospects and creditworthiness of the issuer, the relative amount of the decline, our ability and intent to hold the investment until the fair value recovers and the length of time that fair value has been less than cost. With respect to an investment in a fixed maturity security, we recognize an other-than-temporary impairment if we (a) intend to sell or expect to be required to sell the security before its amortized cost is recovered or (b) do not expect to ultimately recover the amortized cost basis even if we do not intend to sell the security. Under scenario (a), we recognize losses in earnings and under scenario (b), we recognize the credit loss component in earnings and the difference between fair value and the amortized cost basis net of the credit loss in other comprehensive income.

(5) Other Investments (in part)

Other investments include preferred stock of Wm. Wrigley Jr. Company ("Wrigley"), The Dow Chemical Company ("Dow") and Bank of America Corporation ("BAC"), as well as warrants to purchase common stock of BAC and our investments in Restaurant Brands International, Inc. ("RBI"). Other investments are classified as available-for-sale and carried at fair value and are shown in our Consolidated Balance Sheets as follows (in millions).

	Cost		Fair Value	
	December 31,		December 31,	
	2014	2013	2014	2013
Insurance and other	$ 9,970	$ 6,970	$16,346	$12,334
Finance and financial products	3,052	3,052	5,978	5,617
	$13,022	$10,022	$22,324	$17,951

On December 12, 2014, we acquired Class A 9% Cumulative Compounding Perpetual Preferred Shares of RBI having a stated value of $3 billion ("RBI Preferred") and common stock of RBI for an aggregate purchase price of $3 billion. RBI, domiciled in Canada, is a newly formed entity that is the ultimate parent company of Burger King and Tim Hortons. As of the acquisition date, our combined investment in RBI possessed approximately 14.4% of the voting interests of RBI. The RBI Preferred is entitled to dividends on a cumulative basis of 9% per annum plus an additional amount that is intended to produce an after-tax yield to Berkshire as if the dividends were paid by a U.S. based company.

(6) Investments in H.J. Heinz Holding Corporation

On June 7, 2013, Berkshire and an affiliate of the global investment firm 3 G Capital (such affiliate, "3 G"), through a newly formed holding company, H.J. Heinz Holding Corporation ("Heinz Holding"), acquired H.J. Heinz Company ("Heinz"). Berkshire and 3 G each made equity investments in Heinz Holding, which, together with debt financing obtained by Heinz Holding, was used to acquire Heinz for approximately $23.25 billion in the aggregate.

Heinz is one of the world's leading marketers and producers of healthy, convenient and affordable foods specializing in ketchup, sauces, meals, soups, snacks and infant nutrition. Heinz is a global family of leading branded products, including Heinz ® Ketchup, sauces, soups, beans, pasta, infant foods, Ore-Ida ® potato products, Weight Watchers ® Smart Ones ® entrées and T.G.I. Friday's ® snacks.

Berkshire's investments in Heinz Holding consist of 425 million shares of common stock, warrants to acquire approximately 46 million additional shares of common stock, and cumulative compounding preferred stock ("Preferred Stock") with a liquidation preference of $8 billion. The aggregate cost of these investments was $12.25 billion. 3 G acquired 425 million shares of Heinz Holding common stock for $4.25 billion. In addition, Heinz Holding reserved 39.6 million shares of common stock for issuance under stock options.

The Preferred Stock possesses no voting rights except as required by law or for certain matters specified in the Heinz Holding charter. The Preferred Stock is entitled to dividends at 9% per annum whether or not declared, is senior in priority to the common stock and is callable after June 7, 2016 at the liquidation value plus an applicable premium and any accrued and unpaid dividends. Under the Heinz Holding charter and a shareholders' agreement entered into as of the acquisition date (the "shareholders' agreement"), after June 7, 2021, Berkshire can cause Heinz Holding to attempt to sell shares of common stock through public offerings or other issuances ("redemption offerings"), the proceeds of which would be required to be used to redeem any outstanding shares of Preferred Stock. The warrants are exercisable for one cent per share and expire on June 7, 2018.

Berkshire and 3 G each own 50% of the outstanding shares of common stock and possess equal voting interests in Heinz Holding. Under the shareholders' agreement, unless and until Heinz Holding engages in a public offering, Berkshire and 3 G each must approve all significant transactions and governance matters involving Heinz Holding and Heinz so long as Berkshire and 3 G each continue to hold at least 66% of their initial common stock investments, except for (i) the declaration and payment of dividends on the Preferred Stock, and actions related to a Heinz Holding call of the Preferred Stock, for which Berkshire does not have a vote or approval right, and (ii) redemption offerings and redemptions resulting therefrom, which may only be triggered by Berkshire. No dividends may be paid on the common stock if there are any unpaid dividends on the Preferred Stock.

We are accounting for our investments in Heinz Holding common stock and common stock warrants on the equity method. Accordingly, we included our proportionate share of net earnings attributable to common stockholders and other comprehensive income in our Consolidated Statements of Earnings and Comprehensive Income beginning as of the acquisition date. We account for our investment in Preferred Stock as an equity investment and it is carried at cost in our Consolidated Balance Sheets. Dividends earned in connection with the Preferred Stock and our share of Heinz Holding's net earnings or loss attributable to common stockholders are included in interest, dividend and other investment income of Insurance and Other in our Consolidated Statements of Earnings.

Summarized consolidated financial information of Heinz Holding and its subsidiaries follows (in millions).

	December 28, 2014	**December 29, 2013**
Assets	$36,763	$38,972
Liabilities	21,077	22,429
	Fiscal Year Ending December 28, 2014	**June 7, 2013 Through December 29, 2013**
Sales	$10,922	$ 6,240
Net earnings (loss)	$ 657	$ (77)
Preferred stock dividends earned by Berkshire	(720)	(408)
Net earnings (loss) attributable to common stockholders	$ (63)	$ (485)
Earnings attributable to Berkshire Hathaway Shareholders*	$ 687	$ 153

* Includes dividends earned and Berkshire's share of net earnings (loss) attributable to common stockholders.

BUSINESS COMBINATIONS

6.27 MCKESSON CORPORATION (MAR)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In millions)

	Years Ended March 31,		
	2014	**2013**	**2012**
Investing Activities			
Property acquisitions	(274)	(232)	(221)
Capitalized software expenditures	(141)	(153)	(177)
Acquisitions, net of cash and cash equivalents acquired	(4,634)	(1,873)	(1,051)
Proceeds from sales of business and equity investment	97	—	—
Other	(94)	49	(53)
Net cash used in investing activities	(5,046)	(2,209)	(1,502)

FINANCIAL NOTES (in part)

1. Significant Accounting Policies (in part)

Business Combinations: We account for acquired businesses using the acquisition method of accounting, which requires that once control is obtained of a business, 100% of the assets acquired and liabilities assumed, including amounts attributed to noncontrolling interests, be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

2. Business Combinations (in part)

Fiscal 2014 (in part)

On February 6, 2014, we completed the acquisition of 77.6% of the then outstanding common shares of Celesio AG ("Celesio") and certain convertible bonds of Celesio for cash consideration of $4.5 billion, net of cash acquired (the "Acquisition"). Upon the acquisition, our ownership of Celesio's fully diluted common shares was 75.6% and, as required, we consolidated Celesio's debt with a fair value of $2.3

billion as a liability on our consolidated balance sheet. The Acquisition was funded by utilizing a senior bridge loan, our existing accounts receivable sales facility and cash on hand. Celesio is an international wholesale and retail company and a provider of logistics and services to the pharmaceutical and healthcare sectors. Celesio's headquarters is in Stuttgart, Germany and it operates in 14 countries around the world. The acquisition of Celesio expands our global geographic area; the combined company will be one of the largest pharmaceutical wholesalers and providers of logistics and services in the healthcare sector worldwide.

Our acquisition of Celesio was consummated through a series of transactions:

- 129.3 million of common shares of Celesio were acquired from Franz Haniel & Cie. GmbH ("Haniel") for cash consideration of €23.50 per common share or $4,128 million.
- 4,840 of the 7,000 convertible bonds issued by Celesio in the nominal aggregate amount of €350 million due in October 2014 (the "2014 Bonds"), and 2,180 of the 3,500 convertible bonds issued by Celesio in the nominal amount of €350 million due in April 2018 (the "2018 Bonds") were acquired from Elliot International, L.P., The Liverpool Limited Partnership and Elliot Capital Advisers, L.P. (together, the "Elliot Group") for cash consideration of $951 million. The 2,180 acquired 2018 Bonds were converted to 11.4 million common shares of Celesio.
- 303 of the 2014 Bonds and 216 of the 2018 Bonds were acquired in private transactions for cash consideration of $63 million. 139 of the acquired 2018 Bonds were converted to 0.7 million common shares of Celesio.

From February 7, 2014 through March 31, 2014, we converted our remaining 2014 Bonds and 2018 Bonds into 11.9 million of Celesio common shares. Also during this time period, substantially all of the remaining 2014 Bonds and 2018 Bonds held by third parties were converted to 9 million of Celesio common shares valued at $313 million and approximately $30 million in cash. At March 31, 2014, we owned approximately 75.4% of Celesio's outstanding and fully diluted common shares.

In accordance with a business combination agreement that we entered into with Celesio in January 2014, on February 28, 2014 and April 7, 2014 we launched voluntary public tender offers for the common shares of Celesio that remain outstanding for €23.50 per share. In April 2014, the last of these tender offers expired and we acquired 1 million of additional common shares. We also intend to enter into a domination and profit and loss transfer agreement, with Celesio as the dominated party, pursuant to Sections 291 et seq. of the German Stock Corporation Act (Aktiengesetz—AktG). Such a domination and profit and loss transfer agreement does not require any further regulatory approval.

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date. Due to the recent timing of the acquisition, these amounts are subject to change within the measurement period as our fair value assessments are finalized.

(In millions)	Amounts Recognized as of Acquisition Date (Provisional)
Receivables	$ 3,425
Other current assets, net of cash and cash equivalents acquired	2,413
Goodwill	3,570
Intangible assets	3,018
Other long-term assets	1,272
Current liabilities	(4,096)
Short-term borrowings and current portion of long-term debt	(1,990)
Long-term debt	(322)
Other long-term liabilities	(1,293)
Fair value of net assets, less cash and cash equivalents	5,997
Less: Noncontrolling Interests	(1,500)
Net assets acquired, net of cash and cash equivalents	$ 4,497

Included in the purchase price allocation are acquired identifiable intangibles of $3,018 million, the fair value of which was primarily determined by applying the income approach, using several significant unobservable inputs for projected cash flows and a discount rate. These inputs are considered Level 3 inputs under the fair value measurements and disclosure guidance. Acquired intangibles primarily consist of $1,574 million of customer relationships, $1,202 million of pharmacy licenses and $172 million of trademarks. The estimated weighted average life of the customer relationships, pharmacy licenses, trademarks and total intangible assets are eleven years, twenty-six years, fourteen years and seventeen years.

The fair value of Celesio's long-term debt was determined by quoted market prices in a less active market and other observable inputs from available market information, which are considered to be Level 2 inputs under the fair value measurements and disclosure guidance. The fair values of the conversion options on Celesio's convertible bonds, which are classified as current liabilities, were determined by using an option pricing model that uses observable market data for all inputs, such as historical volatility of the Company's common stock, risk-free interest rate and other factors that are considered to be Level 2 inputs under the fair value measurements and disclosure guidance.

The fair value of the noncontrolling interests on the date of acquisition of $1,500 million was made up of the following components:

(In millions)	Amounts Recognized as of Acquisition Date (Provisional)
Fair value of Celesio common shares not acquired by McKesson	$1,412
Fair value of Celesio's previously existing noncontrolling interests	88
Total	$1,500

The fair value of the noncontrolling interests for the Celesio common shares that were not acquired by McKesson was determined by a quoted market price that is considered to be a Level 1 input under the fair value measurements and disclosure guidance.

The excess of the purchase price and the noncontrolling interests over the fair value of the acquired net assets has been allocated to goodwill, which primarily reflects the expected future benefits to be realized upon integrating the business. Most of the goodwill is not expected to be deductible for tax purposes.

RESTRICTED CASH

6.28 MASTERCARD INCORPORATED (DEC)

CONSOLIDATED STATEMENT OF CASH FLOWS (in part)

	For the Years Ended December 31,		
(In millions)	2014	2013	2012
Investing Activities			
Purchases of investment securities available-for-sale	(2,385)	(2,526)	(2,981)
Acquisition of businesses, net of cash acquired	(525)	—	(70)
Purchases of property, plant and equipment	(175)	(155)	(96)
Capitalized software	(159)	(144)	(122)
Proceeds from sales of investment securities available-for-sale	2,477	1,488	390
Proceeds from maturities of investment securities available-for-sale	1,358	1,321	891
Decrease (increase) in restricted cash for litigation settlement	183	3	(726)
Proceeds from maturities of investment securities held-to-maturity	—	36	—
Other investing activities	(84)	(27)	(125)
Net cash provided by (used in) investing activities	690	(4)	(2,839)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1. Summary of Significant Accounting Policies (in part)

Significant Accounting Policies (in part)

Restricted cash—The Company classifies cash as restricted when the cash is unavailable for withdrawal or usage for general operations. Restrictions may include legally restricted deposits, contracts entered into with others, or the Company's statements of intention with regard to particular deposits. In December 2012, the Company made a payment into a qualified cash settlement fund related to its U.S. merchant class litigation. The Company has presented these funds as restricted cash for litigation settlement since the use of the funds under the qualified cash settlement fund is restricted for payment under the settlement agreement.

Note 18. Legal and Regulatory Proceedings (in part)

MasterCard is a party to legal and regulatory proceedings with respect to a variety of matters in the ordinary course of business. Some of these proceedings are based on complex claims involving substantial uncertainties and unascertainable damages. Accordingly, except as discussed below, it is not possible to determine the probability of loss or estimate damages, and therefore, MasterCard has not established reserves for any of these proceedings. When the Company determines that a loss is both probable and estimable, MasterCard records a liability and discloses the amount of the liability if it is material. When a material loss contingency is only reasonably possible, MasterCard does not record a liability, but instead discloses the nature and the amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Unless otherwise stated below with respect to these matters, MasterCard cannot provide an estimate of the possible loss or range of loss based on one or more of the following reasons: (1) actual or potential plaintiffs have not claimed an amount of monetary damages or the amounts are unsupportable or exaggerated, (2) the matters are in early stages, (3) there is uncertainty as to the outcome of pending appeals or motions, (4) there are significant factual issues to be resolved, (5) the existence in many such proceedings of multiple defendants or potential defendants whose share of any potential financial responsibility has yet to be determined, and/or (6) there are novel legal issues presented. Furthermore, except as identified with respect to the matters below, MasterCard does not believe that the outcome of any existing legal or regulatory proceedings to which it is a party will have a material adverse effect on its results of operations, financial condition or overall business. However, with respect to the matters discussed below, an adverse judgment or other outcome or settlement with respect to any such proceedings could result in fines or payments by MasterCard and/or could require MasterCard to change its business practices. In addition, an adverse outcome in a regulatory proceeding could lead to the filing of civil damage claims and possibly result in damage awards in amounts that could be significant. Any of these events could have a material adverse effect on MasterCard's results of operations, financial condition and overall business.

Interchange Litigation and Regulatory Proceedings (in part)

MasterCard's interchange fees and other practices are subject to regulatory and/or legal review and/or challenges in a number of jurisdictions, including the proceedings described below. When taken as a whole, the resulting decisions, regulations and legislation with respect to interchange fees and acceptance practices may have a material adverse effect on the Company's prospects for future growth and its overall results of operations, financial position and cash flows.

United States. In June 2005, the first of a series of complaints were filed on behalf of merchants (the majority of the complaints were styled as class actions, although a few complaints were filed on behalf of individual merchant plaintiffs) against MasterCard International, Visa U.S.A., Inc., Visa International Service Association and a number of financial institutions. Taken together, the claims in the complaints were generally brought under both Sections 1 and 2 of the Sherman Act, which prohibit monopolization and attempts or conspiracies to monopolize a particular industry, and some of these complaints contain unfair competition law claims under state law. The complaints allege, among other things, that MasterCard, Visa, and certain financial institutions conspired to set the price of interchange fees, enacted point of sale acceptance rules (including the no surcharge rule) in violation of antitrust laws and engaged in unlawful tying and bundling of certain products and services. The cases were consolidated for pre-trial proceedings in the U.S. District Court for the Eastern District of New York in MDL No. 1720. The plaintiffs filed a consolidated class action complaint that seeks treble damages.

In July 2006, the group of purported merchant class plaintiffs filed a supplemental complaint alleging that MasterCard's initial public offering of its Class A Common Stock in May 2006 (the "IPO") and certain purported agreements entered into between MasterCard and financial institutions in connection with the IPO: (1) violate U.S. antitrust laws and (2) constituted a fraudulent conveyance because the financial institutions allegedly attempted to release, without adequate consideration, MasterCard's right to assess them for MasterCard's litigation liabilities. The class plaintiffs sought treble damages and injunctive relief including, but not limited to, an order reversing and unwinding the IPO.

In February 2011, MasterCard and MasterCard International entered into each of: (1) an omnibus judgment sharing and settlement sharing agreement with Visa Inc., Visa U.S.A. Inc. and Visa International Service Association and a number of financial institutions; and (2) a MasterCard settlement and judgment sharing agreement with a number of financial institutions. The agreements provide for the apportionment of certain costs and liabilities which MasterCard, the Visa parties and the financial institutions may incur, jointly and/or severally, in the event of an adverse judgment or settlement of one or all of the cases in the merchant litigations. Among a number of scenarios addressed by the agreements, in the event of a global settlement involving the Visa parties, the financial institutions and MasterCard, MasterCard would pay 12% of the monetary portion of the settlement. In the event of a settlement involving only MasterCard and the financial institutions with respect to their issuance of MasterCard cards, MasterCard would pay 36% of the monetary portion of such settlement.

In October 2012, the parties entered into a definitive settlement agreement with respect to the merchant class litigation (including with respect to the claims related to the IPO) and the defendants separately entered into a settlement agreement with the individual merchant plaintiffs. The settlements included cash payments that were apportioned among the defendants pursuant to the omnibus judgment sharing and settlement sharing agreement described above. MasterCard also agreed to provide class members with a short-term reduction in default credit interchange rates and to modify certain of its business practices, including its No Surcharge Rule. Objections to the settlement were filed by both merchants and certain competitors, including Discover. Discover's objections include a challenge to the settlement on the grounds that certain of the rule changes agreed to in the settlement constitute a restraint of trade in violation of Section 1 of the Sherman Act. The court granted final approval of the settlement in December 2013, which has been appealed by objectors to the settlement.

Merchants representing slightly more than 25% of the MasterCard and Visa purchase volume over the relevant period chose to opt out of the class settlement. MasterCard anticipates that most of the larger merchants who opted out of the settlement will initiate separate actions seeking to recover damages, and over 30 opt-out complaints have been filed on behalf of numerous merchants in various jurisdictions. The defendants have consolidated all of these matters (except for one state court action in Texas) in front of the same federal district court that is overseeing the approval of the settlement. In July 2014, the district court denied the defendants' motion to dismiss the opt-out merchant complaints for failure to state a claim.

MasterCard recorded a pre-tax charge of $770 million in the fourth quarter of 2011 and an additional $20 million pre-tax charge in the second quarter of 2012 relating to the settlement agreements described above. In 2012, MasterCard paid $790 million with respect to the settlements, of which $726 million was paid into a qualified cash settlement fund related to the merchant class litigation. At December 31, 2014 and December 31, 2013, MasterCard had $540 million and $723 million, respectively, in the qualified cash settlement fund classified as restricted cash on its balance sheet. The class settlement agreement provided for a return to the defendants of a portion of the class cash settlement fund, based upon the percentage of purchase volume represented by the opt-out merchants. This resulted in $164 million from the cash settlement fund being returned to MasterCard in January 2014 and reclassified at that time from restricted cash to cash and cash equivalents. In the fourth quarter of 2013, MasterCard recorded an incremental net pre-tax charge of $95 million related to the opt-out merchants, representing a change in its estimate of probable losses relating to these matters. During 2014, MasterCard executed settlement agreements with a number of opt-out merchants and no adjustment to the amount previously recorded was deemed necessary. As of December 31, 2014, MasterCard had accrued a liability of $771 million as a reserve for both the merchant class litigation and the filed and anticipated opt-out merchant cases.

The portion of the accrued liability relating to the opt-out merchants does not represent an estimate of a loss, if any, if the opt-out merchant matters were litigated to a final outcome, in which case MasterCard cannot estimate the potential liability. MasterCard's estimate involves significant judgment and may change depending on progress in settlement negotiations or depending upon decisions in any opt-out merchant cases. In addition, in the event that the merchant class litigation settlement approval is overturned on appeal, a negative outcome in the litigation could have a material adverse effect on MasterCard's results of operations, financial position and cash flows.

Cash Flows From Financing Activities

PRESENTATION

6.29 FASB ASC 230-10-45 defines those transactions and events that constitute financing cash receipts and payments. Cash inflows from financing activities include the following:

- Proceeds from issuing equity instruments.
- Proceeds from issuing bonds, mortgages, and notes and from other short- or long-term borrowing.
- Receipts from contributions and investment income that, by donor stipulation, are restricted for the purposes of acquiring, constructing, or improving PPE or other long-lived assets or establishing or increasing a permanent or term endowment.
- Proceeds received from derivative instruments that include financing elements at inception, regardless of whether the proceeds were received at inception or over the term of the derivative instrument, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments.
- Cash that is recognizable for financial reporting purposes because it is retained as a result of the tax deductibility of increases in the value of equity instruments issued under share-based payment arrangements that are not included in the cost of goods or services. For this purpose, excess tax benefits should be determined on an individual award (or portion thereof) basis.

Cash outflows from financing activities include the following:

- Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments.
- Repayments of borrowed amounts.
- Other principal payments to creditors who have extended long-term credit.
- Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument.
- Payments for debt issue costs.

PRESENTATION AND DISCLOSURE EXCERPTS

SPIN-OFF

6.30 DOVER CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In thousands)

	Years Ended December 31,		
	2014	2013	2012
Financing Activities of Continuing Operations			
Cash received from Knowles Corporation, net of cash distributed	359,955	—	—
Proceeds from long-term debt, net of discount and issuance costs	—	403,776	—
Proceeds from exercise of share-based awards, including tax benefits	20,337	38,922	66,062
Change in notes payable, net	251,500	(381,000)	607,500
Reduction of long-term debt	(6,566)	(3,246)	(3,582)
Dividends to stockholders	(258,487)	(247,820)	(240,959)
Purchase of common stock	(601,077)	(457,871)	(748,955)
Payments for employee tax obligations upon exercise of share-based awards	(21,151)	(31,303)	(23,008)
Net cash used in financing activities of continuing operations	(255,489)	(678,542)	(342,942)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

(Amounts in thousands except share data and where otherwise indicated)

1. Description of Business and Summary of Significant Accounting Policies (in part)

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The results of operations of purchased businesses are included from the dates of acquisitions. As discussed in Note 4 Disposed and Discontinued Operations, the Company is reporting certain businesses that are held for sale at December 31, 2014 as discontinued operations. The assets, liabilities, results of operations, and cash flows of these businesses, as well as the results of Knowles Corporation prior to the spin-off, have been separately reported as discontinued operations for all periods presented.

2. Spin-off of Knowles Corporation

On February 28, 2014, Dover completed the distribution of Knowles Corporation to its stockholders. The transaction was completed through the pro rata distribution of 100% of the common stock of Knowles to Dover's shareholders of record as of the close of business on February 19, 2014. Each Dover shareholder received one share of Knowles common stock for every two shares of Dover common stock held as of the record date.

The following is a summary of the assets and liabilities distributed to Knowles as part of the separation on February 28, 2014:

Assets:	
Cash and cash equivalents	$ 40,045
Other current assets	340,945
Non-current assets	1,678,820
Total assets	$2,059,810
Liabilities:	
Current liabilities	$ 252,673
Non-current liabilities	383,940
Total liabilities	$ 636,613
Net assets distributed to Knowles Corporation	$1,423,197

Knowles incurred $100,000 of borrowings under its revolving credit facility and $300,000 of borrowings under its term loan facility to finance a cash payment of $400,000 to Dover immediately prior to the distribution. Dover received net cash of $359,955 upon separation, which reflects $40,045 of cash held by Knowles on the distribution date and retained by it in connection with its separation from Dover. Dover utilized the net proceeds from Knowles to pay down commercial paper and to repurchase shares of its common stock in the first quarter of 2014.

In connection with the spin-off of Knowles, the Company allocated $26,695 of accumulated other comprehensive earnings to Knowles, relating primarily to foreign currency translation gains, offset by unrecognized losses on pension obligations. Also, the Company was required to reallocate a portion of its goodwill from continuing operations to a reporting unit included in the Knowles distribution. The reallocation of $19,749 of goodwill was determined using a relative fair value approach. See Note 7 Goodwill and Other Intangible Assets for additional information.

The historical results of Knowles, including the results of operations, cash flows, and related assets and liabilities have been reclassified to discontinued operations for all periods presented herein. See Note 4 Disposed and Discontinued Operations. Pursuant to the separation of Knowles from Dover, and the related separation and distribution agreements, any agreed upon liabilities are not significant and will be settled in the near future.

DEBT PROCEEDS

6.31 CENVEO, INC. (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(in thousands)

	For The Years Ended		
	2014	**2013**	**2012**
Cash Flows from Financing Activities:			
Proceeds from issuance of 6.000% senior secured priority notes due 2019	540,000	—	—
Proceeds from issuance of 8.500% junior secured priority notes due 2022	250,000	—	—
Repayment of 10.5% senior notes	—	—	(169,875)
Repayment of 7.875% senior subordinated notes	—	(67,848)	(214,831)
(Repayment) borrowing of Term Loan B due 2016	—	(388,205)	31,844
Repayment of 8.375% senior subordinated notes	—	—	(24,787)
Payment of financing related costs and expenses and debt issuance discounts	(37,994)	(15,570)	(37,836)
Proceeds from issuance of other long-term debt	—	20,000	—
Repayments of other long-term debt	(8,493)	(7,865)	(4,846)
Proceeds from issuance of 11.5% senior notes due 2017	—	—	225,000
Repayment of 11.5% senior notes due 2017	(2,680)	—	—
Repayment of 8.500% junior secured priority notes due 2022	(2,000)	—	—
Purchase and retirement of common stock upon vesting of RSUs	(562)	(660)	(735)
Proceeds from issuance of 7% senior exchangeable notes due 2017	—	—	86,250
(Repayment) borrowings under Revolving Credit Facility, net	—	(18,000)	18,000
Proceeds from issuance of 15% Unsecured Term Loan due 2017	—	50,000	—
Repayment of 15% Unsecured Term Loan due 2017	(10,000)	(40,000)	—
Proceeds from exercise of stock options	20	98	—
Proceeds from issuance of Term Loan Facility due 2017	—	360,000	—
Repayment of Term Loan Facility due 2017	(329,100)	(30,900)	—
Repayment of 8.875% senior second lien notes due 2018	(400,000)	—	—
Borrowings under ABL Facility due 2017	520,100	699,200	—
Repayments under ABL Facility due 2017	(506,800)	(577,800)	—
Net cash provided by (used in) financing activities of continuing operations	12,491	(17,550)	(91,816)
Net cash used in financing activities of discontinued operations	—	—	(1,652)
Net cash provided by (used in) financing activities	12,491	(17,550)	(93,468)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

8. Long-Term Debt (in part)

Long-term debt is as follows (in thousands):

	2014	2013
ABL Facility due 2017	$ 134,700	$ 121,400
8.500% junior priority secured notes due 2022 ($248.0 million and $0 outstanding principal amount as of the years ended 2014 and 2013, respectively)	245,384	—
6.000% senior priority secured notes due 2019 ($540.0 million and $0 outstanding principal amount as of the years ended 2014 and 2013, respectively)	534,552	—
8.875% senior second lien notes due 2018 ($0 and $400.0 million outstanding principal amount as of the years ended 2014 and 2013, respectively)	—	398,326
Term Loan Facility due 2017 ($0 and $329.1 million outstanding principal amount as of the years ended 2014 and 2013, respectively)	—	326,013
15% Unsecured Term Loan due 2017 ($0 and $10.0 million outstanding principal amount as of the years ended 2014 and 2013, respectively)	—	9,500
11.5% senior notes due 2017 ($222.3 million and $225.0 million outstanding principal amount as of the years ended 2014 and 2013, respectively)	218,011	219,068
7% senior exchangeable notes due 2017	83,250	86,250
Other debt including capital leases	18,442	24,968
	1,234,339	1,185,525
Less current maturities	(4,355)	(9,174)
Long-term debt	$1,229,984	$1,176,351

6.000% Senior Priority Secured Notes

On June 26, 2014, the Company's wholly-owned subsidiary, Cenveo Corporation (the "Subsidiary Issuer") issued $540.0 million aggregate principal amount of 6.000% senior priority secured notes due 2019 (the "6.000% Notes"), which were sold to qualified institutional buyers in accordance with Rule 144 A under the Securities Act of 1933, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act of 1933. The 6.000% Notes were issued at par, pursuant to an indenture (the "6.000% Indenture") among the Subsidiary Issuer, Cenveo, Inc. and the other guarantors party thereto, and The Bank of New York Mellon, as trustee and collateral agent. The Subsidiary Issuer will pay interest on the 6.000% Notes semi-annually, in cash in arrears, on February 1 and August 1 of each year, commencing on August 1, 2014. The 6.000% Notes have no required principal payments prior to their maturity on August 1, 2019. The 6.000% Notes are guaranteed on a senior secured basis by Cenveo, Inc. and substantially all of its existing and future North American subsidiaries (other than the Subsidiary Issuer). As such, the 6.000% Notes rank pari passu with all of the Subsidiary Issuer's existing and future senior debt, and senior to any of the Subsidiary Issuer's subordinated debt and effectively junior to the Subsidiary Issuer's obligations under the $230 million asset-based revolving credit facility (the "ABL Facility"), to the extent that the ABL Facility has a first priority perfected security interest in certain of our assets. The Subsidiary Issuer may redeem the 6.000% Notes, in whole or in part, on or after February 1, 2019, at a redemption price of 100.0% plus accrued and unpaid interest. In addition, at any time between August 1, 2017, and February 1, 2019, the Subsidiary Issuer may redeem in whole or in part the remaining aggregate principal amount of the notes originally issued at a redemption price of 100% plus accrued and unpaid interest and a "make-whole" premium of not less than 1%. At any time prior to August 1, 2017, the Subsidiary Issuer may redeem up to 35% of the aggregate principal amount of the notes originally issued with the net cash proceeds of certain public equity offerings, at a redemption price of 106.0% plus accrued and unpaid interest. Each holder of the 6.000% Notes has the right to require the Subsidiary Issuer to repurchase such holder's notes at a purchase price of 101% of the principal amount thereof, plus accrued and unpaid interest thereon, upon the occurrence of certain events specified in the indenture that constitute a change of control. The 6.000% Indenture contains a number of covenants which, among other things, restrict, subject to certain exceptions, the Company's ability and the ability of the Subsidiary Issuer and the Company's other subsidiaries, to incur or guarantee additional indebtedness, make restricted payments (including paying dividends on, redeeming or repurchasing our capital stock), permit restricted subsidiaries to pay dividends or make other distributions or payments, dispose of assets, make investments, grant liens on assets, merge or consolidate or transfer certain assets, and enter into transactions with affiliates. The 6.000% Indenture also contains certain customary affirmative covenants and events of default.

8.500% Junior Priority Secured Notes

Concurrently with the issuance of the 6.000% Notes on June 26, 2014, the Subsidiary Issuer issued $250.0 million aggregate principal amount of 8.500% junior priority secured notes due 2022 (the "8.500% Notes") which were sold to qualified institutional buyers in accordance with Rule 144 A under the Securities Act of 1933. The 8.500% Notes were issued at par, pursuant to an indenture (the "8.500% Indenture") among the Subsidiary Issuer, Cenveo, Inc. and the other guarantors party thereto, and The Bank of New York Mellon, as trustee and collateral agent. The Subsidiary Issuer will pay interest on the 8.500% Notes semi-annually, in cash in arrears, on March 15 and September 15 of each year, commencing on September 15, 2014. The 8.500% Notes have no required principal payments prior to their maturity on September 15, 2022. The 8.500% Notes are guaranteed on a junior secured basis by Cenveo, Inc. and substantially all of its existing and future North American subsidiaries (other than the Subsidiary Issuer). As such, the 8.500% Notes rank junior to any senior secured obligations of the Subsidiary Issuer, senior to any existing and future unsecured obligations of the Subsidiary Issuer, and senior to all existing and future obligations of the Subsidiary Issuer that are expressly subordinated to the 8.500% Notes. The Subsidiary Issuer may redeem the 8.500% Notes, in whole or in part, on or after September 15, 2017, September 15, 2018, September 15, 2019, or September 15, 2020, at redemption prices of 106.375%, 104.250%, 102.125% and 100.00%, respectively, plus accrued and unpaid interest. At any time prior to September 15, 2017, the Subsidiary Issuer may redeem up to 35% of the aggregate principal amount of the notes originally issued with the net cash proceeds of certain public equity offerings, at a redemption price of 108.5% plus accrued and unpaid interest. Each holder of the 8.500% Notes has the right to require the Subsidiary Issuer to repurchase such holder's notes at a purchase price of 101% of the principal amount thereof, plus accrued and unpaid interest thereon, upon the occurrence of certain events specified in the indenture that constitute a change of control. The 8.500% Indenture contains a number of covenants which, among other things, restrict, subject to certain exceptions, the Company's ability and the ability of the Subsidiary Issuer and the Company's other subsidiaries, to incur or guarantee additional indebtedness, make restricted payments (including paying dividends on, redeeming or repurchasing our capital stock), permit restricted subsidiaries to pay dividends or make other distributions or payments, dispose of assets, make investments, grant liens on assets, merge or consolidate or transfer certain assets, and enter into transactions with affiliates. The 8.500% Indenture also contains certain customary affirmative covenants and events of default.

Net proceeds of the 6.000% Notes and 8.500% Notes were used to: (i) refinance the $360 million secured term loan facility (the "Term Loan Facility"), which at the time had a remaining principal balance of $327.3 million; (ii) refinance the 8.875% senior second lien notes due 2018 (the "8.875% Notes"), which at the time had a remaining principal balance of $400.0 million; and (iii) pay related fees, expenses and accrued interest. In connection with the issuance of the 6.000% Notes and the 8.500% Notes, the Company capitalized debt issuance costs of $14.7 million and $7.1 million, respectively, all of which will be amortized over the life of the 6.000% Notes and the 8.500% Notes.

A portion of the refinancing was accounted for as a modification of debt. As a result, the Company will continue to amortize a portion of the unamortized debt issuance costs on the 8.875% Notes and Term Loan Facility. The modification resulted in the recording of a discount of $5.9 million on the 6.000% Notes and $2.8 million on the 8.500% Notes.

ISSUANCE OF PREFERRED STOCK

6.32 MORGAN STANLEY (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(dollars in millions)

	2014	2013	2012
Cash Flows from Financing Activities			
Net proceeds from (payments for):			
Commercial paper and other short-term borrowings	119	4	(705)
Noncontrolling interests	(189)	(557)	(296)
Other secured financings	(2,189)	(10,726)	(6,628)
Deposits	21,165	29,113	17,604
Proceeds from:			
Excess tax benefits associated with stock-based awards	101	10	42
Derivatives financing activities	855	1,003	243
Issuance of preferred stock, net of issuance costs	2,782	1,696	—
Issuance of long-term borrowings	36,740	27,939	23,646
Payments for:			
Long-term borrowings	(33,103)	(38,742)	(43,092)
Derivatives financing activities	(776)	(1,216)	(125)
Repurchases of common stock and employee tax withholdings	(1,458)	(691)	(227)
Purchase of additional stake in Wealth Management JV	—	(4,725)	(1,890)
Cash dividends	(904)	(475)	(469)
Net cash provided by (used for) financing activities	23,143	2,633	(11,897)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

15. Total Equity (in part)

Preferred Stock (in part). The Company is authorized to issue 30 million shares of preferred stock, and the Company's preferred stock outstanding consisted of the following:

			Carrying Value	
Series	**Shares Outstanding at December 31, 2014**	**Liquidation Preference Per Share**	**At December 31, 2014**	**At December 31, 2013**
	(shares in millions)		(dollars in millions)	
A	44,000	$25,000	$1,100	$1,100
C	519,882	1,000	408	408
E	34,500	25,000	862	862
F	34,000	25,000	850	850
G	20,000	25,000	500	—
H	52,000	25,000	1,300	—
I	40,000	25,000	1,000	—
Total			$6,020	$3,220

Series G Preferred Stock. On April 29, 2014, the Company issued 20,000,000 Depositary Shares, for an aggregate price of $500 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual 6.625% Non-Cumulative Preferred Stock, Series G, $0.01 par value ("Series G Preferred Stock"). The Series G Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2019 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depositary Share). The Series G Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series G Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $494 million. In December 2014, the Company declared a quarterly dividend of $414.06 per share of Series G Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series H Preferred Stock. On April 29, 2014, the Company issued 1,300,000 Depositary Shares, for an aggregate price of $1,300 million. Each Depositary Share represents a 1/25th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series H, $0.01 par value ("Series H Preferred Stock"). The Series H Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after July 15, 2019 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $1,000 per Depositary Share). The Series H Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series H Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $1,294 million. In December 2014, the Company declared a semi-annual dividend of $681.25 per share of Series H Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

Series I Preferred Stock. On September 18, 2014, the Company issued 40,000,000 Depositary Shares, for an aggregate price of $1,000 million. Each Depositary Share represents a 1/1,000th interest in a share of perpetual Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, $0.01 par value ("Series I Preferred Stock"). The Series I Preferred Stock is redeemable at the Company's option (i) in whole or in part, from time to time, on any dividend payment date on or after October 15, 2024 or (ii) in whole but not in part at any time within 90 days following a regulatory capital treatment event (as described in the terms of that series), in each case at a redemption price of $25,000 per share (equivalent to $25.00 per Depository Share). The Series I Preferred Stock also has a preference over the Company's common stock upon liquidation. The Series I Preferred Stock offering (net of related issuance costs) resulted in proceeds of approximately $994 million. In December 2014, the Company declared the initial quarterly dividend of $517.97 per share of Series I Preferred Stock that was paid on January 15, 2015 to preferred shareholders of record on December 31, 2014.

6.33 REGAL ENTERTAINMENT GROUP (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(in millions)

	Year Ended January 1, 2015	Year Ended December 26, 2013	Year Ended December 27, 2012
Cash Flows from Financing Activities:			
Cash used to pay dividends	(294.8)	(132.2)	(287.3)
Payments on long-term obligations	(29.7)	(23.7)	(20.6)
Proceeds from stock option exercises	0.1	1.3	2.5
Cash paid for tax withholdings and other	(3.8)	(4.4)	(1.8)
Proceeds from issuance of Regal 5 3 / 4 % Senior Notes Due 2022	775.0	—	—
Proceeds from issuance of Regal 5 3 / 4 % Senior Notes Due 2025	—	250.0	—
Proceeds from issuance of Regal 5 3 / 4 % Senior Notes Due 2023	—	250.0	—
Cash used to repurchase 9 1 / 8 % Senior Notes	(336.3)	(244.3)	—
Cash used to repurchase 8 5 / 8 % Senior Notes	(428.0)	—	—
Payment of debt acquisition costs	(14.9)	(13.5)	—
Excess tax benefits from share-based payment arrangements	—	—	0.5
Net Cash Provided by (Used in) Financing Activities	(332.4)	83.2	(306.7)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

9. Capital Stock and Share-Based Compensation (in part)

Dividends

Regal paid four quarterly cash dividends of $0.22 per share on each outstanding share of the Company's Class A and Class B common stock, or approximately $138.6 million in the aggregate, during the year ended January 1, 2015. In addition, on December 15, 2014, Regal paid an extraordinary cash dividend of $1.00 per share on each outstanding share of our Class A and Class B common stock, or approximately $156.2 million. Regal paid four quarterly cash dividends of $0.21 per share on each outstanding share of the Company's Class A and Class B common stock, or approximately $132.2 million in the aggregate, during the year ended December 26, 2013. Regal paid four quarterly cash dividends of $0.21 per share on each outstanding share of the Company's Class A and Class B common stock, or approximately $131.8 million in the aggregate, during the year ended December 27, 2012. In addition, on November 29, 2012, Regal declared an extraordinary cash dividend of $1.00 per share on each outstanding share of its Class A and Class B common stock, or approximately $155.5 million in the aggregate. Stockholders of record at the close of business on December 11, 2012 were paid this dividend on December 27, 2012.

Share-Based Compensation (in part)

Restricted Stock (in part)

The following table represents the restricted stock activity for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 :

	Year Ended January 1, 2015	Year Ended December 26, 2013	Year Ended December 27, 2012
Unvested at beginning of year:	927,261	1,175,830	950,318
Granted during the year	227,447	297,866	335,496
Vested during the year	(576,921)	(813,528)	(453,107)
Forfeited during the year	(23,172)	(6,626)	(17,366)
Conversion of performance shares during the year	330,750	273,719	360,489
Unvested at end of year	885,365	927,261	1,175,830

During the year ended January 1, 2015, the Company paid four cash dividends of $0.22 on each share of outstanding restricted stock totaling approximately $0.8 million. In addition, on December 15, 2014, Regal paid an extraordinary cash dividend of $1.00 on each share of outstanding restricted stock totaling approximately $0.9 million.

Performance Share Units (in part)

The following table summarizes information about the Company's number of performance shares for the years ended January 1, 2015, December 26, 2013 and December 27, 2012 :

	Year Ended January 1, 2015	Year Ended December 26, 2013	Year Ended December 27, 2012
Unvested at beginning of year:	940,767	929,023	1,227,207
Granted (based on target) during the year	226,471	293,961	330,124
Cancelled/forfeited during the year	(23,561)	(8,498)	(267,819)
Conversion to restricted shares during the year	(330,750)	(273,719)	(360,489)
Unvested at end of year	812,927	940,767	929,023

In connection with the conversion of the above 330,750 performance shares, during the year ended January 1, 2015, the Company paid a cumulative cash dividend of $3.52 (representing the sum of all cash dividends paid from January 12, 2011 through January 12, 2014) on each performance share converted, totaling approximately $1.2 million. In connection with the conversion of the above 273,719 performance shares, during the year ended December 26, 2013, the Company paid a cumulative cash dividend of $4.80 (representing the sum of all cash dividends paid from January 13, 2010 through January 13, 2013) on each performance share converted, totaling approximately $1.3 million. In connection with the conversion of the above 360,489 performance shares, during the year ended December 27, 2012, the Company paid a cumulative cash dividend of $3.68 (representing the sum of all cash dividends paid from January 14, 2009 through January 14, 2012) on each performance share converted, totaling approximately $1.3 million. The above table does not reflect the maximum or minimum number of shares of restricted stock contingently issuable. An additional 0.4 million shares of restricted stock could be issued if the performance criteria maximums are met.

14. Subsequent Events

Performance Share and Restricted Stock Activity

On January 11, 2015, 302,644 performance share awards (originally granted on January 11, 2012) were effectively converted to shares of restricted common stock. As of the calculation date, which was January 11, 2015, threshold performance goals for these awards were satisfied, and therefore, all 302,644 outstanding performance shares were converted to restricted shares as of January 11, 2015. In connection with the conversion of the above 302,644 performance shares, the Company paid a cumulative cash dividend of $4.56 (representing the sum of all cash dividends paid from January 11, 2012 through January 11, 2015) on each performance share converted, totaling approximately $1.4 million.

On January 28, 2015, 234,177 performance shares were granted under our Incentive Plan at nominal cost to officers and key employees. Each performance share represents the right to receive from 0% to 150% of the target numbers of shares of restricted Class A common stock. The number of shares of restricted common stock earned will be determined based on the attainment of specified performance goals by January 28, 2018 (the third anniversary of the grant date) set forth in the 2009 Performance Agreement. The shares are subject to the terms and conditions of the Incentive Plan. The closing price of our Class A common stock on the date of this grant was $20.99 per share.

Also on January 28, 2015, 228,116 restricted shares were granted under the Incentive Plan at nominal cost to officers, directors and key employees. Under the Incentive Plan, Class A common stock of the Company may be granted at nominal cost to officers, directors and key employees, subject to a continued employment/service restriction (typically one to four years after the award date). The awards vest 25% at the end of each year for four years (in the case of officers and key employees) and vest 100% at the end of one year (in the case of directors). The plan participants are entitled to cash dividends and to vote their respective shares, although the sale and transfer of such shares is prohibited during the restricted period. The shares are subject to the terms and conditions of the Incentive Plan. The closing price of our Class A common stock on the date of this grant was $20.99 per share.

Quarterly Dividend Declaration

On February 12, 2015, the Company declared a cash dividend of $0.22 per share on each share of the Company's Class A and Class B common stock (including outstanding restricted stock), payable on March 13, 2015, to stockholders of record on March 3, 2015.

LEASE OBLIGATION PAYMENTS

6.34 AXIALL CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

	Year Ended December 31,		
(In millions)	2014	2013	2012
Cash Flows from Financing Activities:			
Borrowings on ABL revolver	148.9	402.5	183.4
Repayments on ABL revolver	(148.9)	(402.5)	(183.4)
Issuance of long-term debt	—	450.0	—
Long-term debt payments	(3.5)	(531.8)	(51.5)
Make-whole and other fees paid related to financing activities	(2.2)	(98.1)	(1.5)
Lease financing obligation payment	(2.3)	—	—
Deferred acquisition payments	(10.0)	—	—
Dividends paid	(45.0)	(22.2)	(8.3)
Distribution to noncontrolling interest	(7.7)	(13.3)	—
Excess tax benefits from share-based payment arrangements	2.3	0.9	2.7
Stock compensation plan activity	(6.9)	(1.7)	(5.2)
Net cash used in financing activities	(75.3)	(216.2)	(63.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

8. Long-Term Debt and Lease Financing Obligation (in part)

Lease Financing Obligation

As of December 31, 2014 and 2013, we had a lease financing obligation of $94.2 million and $104.7 million, respectively. The change from the December 31, 2013 balance is due to a one-time $2.3 million payment and the change in the Canadian dollar exchange rate as of December 31, 2014. The lease financing obligation is the result of the sale and concurrent leaseback of certain land and buildings in Canada in 2007 for a term of ten years. In connection with this transaction, a collateralized letter of credit was issued in favor of the buyer-lessor. That factor and certain other terms and conditions resulted in the transaction being recorded as a financing transaction rather than a sale for GAAP purposes. As a result, the land, building and related accounts continue to be recognized in the consolidated balance sheets. The amount of the collateralized letter of credit was $1.6 million and $3.8 million as of December 31, 2014 and 2013, respectively. The collateralized letter of credit expired on February 2, 2015 and is no longer required. We are not obligated to repay the lease financing obligation amount of $94.2 million. Our obligation is for the future minimum lease payments under the terms of the related lease agreements. The future minimum lease payments under the terms of the related lease agreements as of December 31, 2014 are $5.5 million in 2015, $5.5 million in 2016 and $1.4 million in 2017, the final year of the lease agreements. The change in the future minimum lease payments from such amounts disclosed as of December 31, 2013 is due to the one-time $2.3 million payment, current period lease payments and the change in the Canadian dollar exchange rate as of December 31, 2014.

CONVERTIBLE NOTES

6.35 AGCO CORPORATION (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In millions)

	Years Ended December 31,		
	2014	2013	2012
Cash Flows from Financing Activities:			
Proceeds from debt obligations	1,689.4	1,135.9	926.3
Repayments of debt obligations	(1,588.8)	(1,194.0)	(1,148.8)
Purchases and retirement of common stock	(499.7)	(1.0)	(17.6)
Repurchase or conversion of convertible senior subordinated notes	(201.2)	—	—
Payment of dividends to stockholders	(40.8)	(38.9)	—
Payment of minimum tax withholdings on stock compensation	(13.2)	(17.0)	(0.3)
Purchase of or distribution to noncontrolling interests	(6.1)	(3.1)	(1.0)
Payment of debt issuance costs	(1.4)	(0.1)	(0.2)
Excess tax benefit related to stock compensation	—	11.4	—
Other	(0.2)	—	—
Net cash used in financing activities	(662.0)	(106.8)	(241.6)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

7. Indebtedness (in part)

Indebtedness consisted of the following at December 31, 2014 and 2013 (in millions):

	December 31, 2014	December 31, 2013
$4^{1}/_{2}$% Senior term loan due 2016	$ 242.0	$ 275.0
Credit facility, expires 2019	404.4	360.0
$5^{7}/_{8}$% Senior notes due 2021	300.0	300.0
Other long-term debt	145.5	114.0
$1^{1}/_{4}$% Convertible senior subordinated notes due 2036	—	201.2
	1,091.9	1,250.2
Less: Current portion of long-term debt	(94.3)	(110.5)
$1^{1}/_{4}$% Convertible senior subordinated notes due 2036	—	(201.2)
Total indebtedness, less current portion	$ 997.6	$ 938.5

At December 31, 2014, the aggregate scheduled maturities of long-term debt, excluding the current portion of long-term debt, are as follows (in millions):

2016	$268.0
2017	24.5
2018	4.8
2019	384.9
Thereafter	315.4
	$997.6

Convertible Senior Subordinated Notes

The carrying amount of the equity component of the Company's former 1 1 / 4 % convertible senior subordinated notes was $54.3 million as of December 31, 2013. The discount on the liability component of the notes was fully amortized as of December 31, 2013. The effective interest rate on the liability component for the 1 1 / 4 % convertible senior subordinated notes for each of the years ended December 31, 2013 and 2012 was 6.1%.

The following table sets forth the interest expense recognized for the year ended December 31, 2014 relating to the contractual interest coupon and the interest expense recognized for the years ended December 31, 2013 and 2012 relating to both the contractual interest coupon and the amortization of the discount on the liability component for the Company's former 1 1 / 4 % convertible senior subordinated notes (in millions):

	Years Ended December 31,		
	2014	2013	2012
$1\frac{1}{4}$% Convertible senior subordinated notes:			
Interest expense	$0.9	$11.7	$11.2

Cash payments for interest were approximately $68.4 million, $66.4 million and $70.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company's former 1 1 / 4 % convertible senior subordinated notes, due December 15, 2036, were issued in December 2006 and provided for (i) the settlement upon conversion in cash up to the principal amount of the notes with any excess conversion value settled in shares of the Company's common stock, and (ii) the conversion rate to be increased under certain circumstances if the notes were converted in connection with certain change of control transactions occurring prior to December 15, 2013. The notes were unsecured obligations and were convertible into cash and shares of the Company's common stock upon satisfaction of certain conditions. Interest was payable on the notes at 1 1 / 4 % per annum, payable semi-annually in arrears in cash on June 15 and December 15 of each year. Holders of the Company's former 1 1 / 4 % convertible senior subordinated notes had the ability to convert the notes if, during any fiscal quarter, the closing sales price of the Company's common stock exceeded 120% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. The notes would have been convertible into shares of the Company's common stock at an effective price of $40.27 per share as of June 30, 2014, subject to adjustment, including to reflect the impact to the conversion rate upon payment of any dividends to the Company's stockholders. This effective price reflected a conversion rate for the notes of 24.8295 shares of common stock per $1,000 principal amount of notes.

During the first six months of 2014, holders of the Company's former 1 1 / 4 % convertible senior subordinated notes converted or the Company repurchased approximately $49.7 million of aggregate principal amount of the notes. In May 2014, the Company announced its election to redeem the remaining $151.5 million balance of the notes with a redemption date of June 20, 2014. Substantially all of the holders of the notes elected to convert their remaining notes prior to the redemption date. The redemptions settled in July 2014. For the year ended December 31, 2014, the Company issued a total of 1,437,465 shares of its common stock associated with the $81.0 million excess conversion value of all notes converted. The Company reflected the repayment of the principal of the notes totaling $201.2 million within "Repurchase or conversion of convertible senior subordinated notes" within the Company's Consolidated Statements of Cash Flows for the year ended December 31, 2014.

During the year ended December 31, 2013, holders of the Company's former 1 1 / 4 % convertible senior subordinated notes converted less than $0.1 million of principal amount of the notes. The Company issued 286 shares of its common stock associated with the less than $0.1 million excess conversion value of the notes. The Company reflected the repayment of the principal of the notes totaling less than $0.1 million within "Repurchase or conversion of convertible senior subordinated notes" within the Company's Consolidated Statements of Cash Flows for the year ended December 31, 2013. Due to the ability of the holders of the notes to convert the notes during the three months ending March 31, 2014, the Company classified the notes as a current liability as of December 31, 2013.

MERGER TRANSACTIONS

6.36 KINDER MORGAN, INC. (DEC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in part)

(In Millions)

	Year Ended December 31,		
	2014	2013	2012
Cash Flows From Financing Activities			
Issuance of debt	24,573	13,581	18,148
Payment of debt	(17,801)	(12,393)	(14,755)
Debt issue costs	(89)	(38)	(111)
Cash dividends (Note 10)	(1,760)	(1,622)	(1,184)
Repurchases of shares and warrants	(192)	(637)	(157)
Cash consideration of Merger Transactions (Note 1)	(3,937)	—	—
Merger Transactions costs	(74)	—	—
Contributions from noncontrolling interests	1,767	1,706	1,939
Distributions to noncontrolling interests	(2,013)	(1,692)	(1,219)
Other, net	(3)	—	(77)
Net Cash Provided by (Used in) Financing Activities	471	(1,095)	2,584

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. General (in part)

On November 26, 2014, we completed our acquisition, pursuant to three separate merger agreements, of all of the outstanding common units of Kinder Morgan Energy Partners, L.P. (NYSE: KMP) and El Paso Pipeline Partners, L.P. (NYSE: EPB) and all of the outstanding shares of Kinder Morgan Management, LLC (NYSE: KMR) that we did not already own. The transactions, valued at approximately $77 billion, are referred to collectively as the "Merger Transactions."

Upon completion of the Merger Transactions: (i) each publicly held KMR share received 2.4849 shares of KMI common stock; (ii) through the election and proration mechanisms in the KMP merger agreement, on average, each common unit held by a public KMP unitholder received 2.1931 shares of KMI common stock and $10.77 in cash; and (iii) through the election and proration mechanisms in the EPB merger agreement, on average, each common unit held by a public EPB unitholder received 0.9451 shares of KMI common stock and $4.65 in cash. The cash payments to the public unitholders of KMP and EPB totaled approximately $3.9 billion.

As we controlled each of KMP, KMR and EPB and continued to control each of them after the Merger Transactions, the changes in our ownership interest in each of KMP, KMR and EPB were accounted for as an equity transaction and no gain or loss was recognized in our consolidated statements of income resulting from the Merger Transactions. After closing the KMR Merger Transaction, KMR was merged with and into KMI. On January 1, 2015, EPB and its subsidiary, EPPOC merged with and into KMP and were dissolved.

Prior to November 26, 2014, we owned an approximate 10% limited partner interest (including our interest in KMR) and the 2% general partner interest including incentive distribution rights in KMP, and an approximate 39% limited partner interest and the 2% general partner interest and incentive distribution rights in EPB. Effective with the Merger Transactions, the incentive distribution rights held by the general partner of KMP was eliminated.

The equity interests in KMP, EPB and KMR (which are all consolidated in our financial statements) owned by the public prior to November 26, 2014 are reflected within "Noncontrolling interests" in our accompanying December 31, 2013 consolidated balance sheet. The earnings recorded by KMP, EPB and KMR that are attributed to their units and shares, respectively, held by the public prior to November 26, 2014 are reported as "Net income attributable to noncontrolling interests" in our accompanying consolidated statements of income.

Section 7: **Independent Auditors' Report**

Author's Note
In this section, readers will find guidance for both nonissuers, the audits of which are performed under generally accepted auditing standards (GAAS) issued by the Auditing Standards Board (ASB), and issuers, the audits of which are performed under standards issued by the PCAOB. Under each topic within this section, guidance for both nonissuers and issuers is presented separately, unless noted otherwise. All illustrative reporting excerpts are from the survey entities included in this edition (all of which are public companies) and are, thus, based on PCAOB standards. Illustrative reporting examples based on GAAS can be found in the AICPA's *Audit and Accounting Manual* and *The Auditor's Report: Comprehensive Guidance and Examples.*

Presentation in Annual Report

PRESENTATION

7.01 This section reviews the format and content of independent auditors' reports appearing in the annual reports of the 350 survey entities. AU section 508, *Reports on Audited Financial Statements* (AICPA, *PCAOB Standards and Related Rules,* Interim Standards), applies to auditors' reports of issuers issued in connection with audits of historical financial statements that are intended to present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (GAAP).

7.02 With the adoption of the clarified auditing standards, the following AU-C sections (AICPA, *Professional Standards*), are applicable to the auditor's report:

- AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*
- AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*
- AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*
- AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*
- AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
- AU-C section 708, *Consistency of Financial Statements*
- AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
- AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*
- AU-C section 810, *Engagements to Report on Summary Financial Statements*
- AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*
- AU-C section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

As stated, AICPA clarified auditing standards apply to audits of nonissuers. PCAOB Auditing Standards apply to audits of issuers.

7.03 Section 103(a) of the Sarbanes-Oxley Act of 2002 authorized the PCAOB to establish auditing and related professional practice standards to be used by public accounting firms registered with the PCAOB. PCAOB Rule 3100, *Compliance With Auditing and Related Professional Practice Standards* (AICPA, *PCAOB Standards and Related Rules*, Select Rules of the Board), requires auditors to comply with all applicable auditing and related professional practice standards of the PCAOB. On an initial, transitional basis, the PCAOB adopted, as interim standards, the generally accepted auditing standards described in AU section 150, *Generally Accepted Auditing Standards* (AICPA, *Professional Standards*), in existence on April 16, 2003, to the extent not superseded or amended by the PCAOB.

Auditors' Reports

PRESENTATION

NONISSUERS

7.04 AU-C section 700 explains and provides examples of the unmodified auditor's report. The report should be written and include

- title,
- addressee,
- introductory paragraph,
- paragraph explaining management's responsibilities for the financial statements,
- auditor's responsibility,
- auditor's opinion,
- other reporting responsibilities (if applicable),
- signature of the auditor,
- auditor's address, and
- date of the auditor's report.

7.05 Paragraph .23 of AU-C section 700 states that the auditor's report should have a title that includes the word *independent* to clearly indicate that it is the report of an independent auditor.

7.06 Paragraph .24 of AU-C section 700 states that the auditor's report should be addressed as required by the circumstances of the engagement.

7.07 The introductory paragraph, as described by paragraph .25 of AU-C section 700, should

- identify the entity whose financial statements have been audited,
- state that the financial statements have been audited,
- identify the title of each statement that the financial statements comprise, and
- specify the date or period covered by each financial statement that the financial statements comprise.

7.08 Paragraphs .26–.28 of AU-C section 700 describe what should be included in the paragraph explaining management's responsibilities for the financial statements. These responsibilities include management's responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. The description of management's responsibilities should not reference a separate statement by management if such a statement is included in a document containing the auditor's report.

7.09 Paragraphs .29–.33 of AU-C section 700 explain what should be included in the auditor's responsibility portion of the auditor's report. Included in these responsibilities is that the audit was conducted in accordance with GAAS and determining whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

7.10 Paragraphs .34–.36 of AU-C section 700 describe the opinion paragraph of the auditor's report. This paragraph should state that the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework. The auditor's opinion should also identity the applicable financial reporting framework and its origin.

7.11 Paragraph .A58 of AU-C section 700 presents examples of the auditor's standard reports for single year financial statements and comparative two year financial statements. Two of these examples follow.

An Auditor's Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements[1]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[2] Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Auditor's signature*]
[*Auditor's city and state*]
[*Date of the auditor's report*]

An Auditor's Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Audit of a complete set of general purpose consolidated financial statements (comparative).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

[1] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

[2] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

INDEPENDENT AUDITOR'S REPORT

[*Appropriate Addressee*]

Report on the Financial Statements[3]

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[4] Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Auditor's signature*]
[*Auditor's city and state*]
[*Date of the auditor's report*]

7.12 If the statements of income, retained earnings, and cash flows are presented on a comparative basis for one or more periods, but the balance sheet(s) as of the end of one or more of the prior period(s) is not presented, the phrase "for the years then ended" should be changed to indicate that the auditor's opinion applies to each period for which statements of income, retained earnings, and cash flows are presented, such as "for each of the three years in the period ended [date of latest balance sheet]."

[3] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

[4] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

7.13 If the periods being audited and reported on are prior to the effective date of the clarified auditing standards, the Clarified Auditing Standards, including the reporting standards mentioned previously, may be used. This issue was taken up by the Technical Issues Committee of the AICPA and is addressed in Technical Questions and Answers (Q&A) section 8100.03, "Using Current Auditing Standards for Audits of Prior Periods," (AICPA, *Technical Questions and Answers*).[5]

7.14 FASB *Accounting Standards Codification* (ASC) 220, *Comprehensive Income*, requires entities that provide a full set of general-purpose financial statements (that is, financial position, results of operations, and cash flows) to report comprehensive income and its components either in a single continuous financial statement or in two separate but consecutive financial statements.

7.15 FASB ASC 505-10-50-2 allows for changes in the separate accounts comprising stockholders' equity to be presented either on the face of the basic financial statements or in the form of a separate statement, such as a statement of changes in stockholders' equity.

ISSUERS

7.16 Paragraph .08(a) of AU section 508 states that the title of an auditor's report should include the word *independent*.

7.17 Paragraph .09 of AU section 508 states the following:

> The report may be addressed to the company whose financial statements are being audited or to its board of directors or stockholders. A report on the financial statements of an unincorporated entity should be addressed as circumstances dictate, for example, to the partners, to the general partner, or to the proprietor. Occasionally, an auditor is retained to audit the financial statements of a company that is not a client; in such a case, the report is customarily addressed to the client and not to the directors or stockholders of the company whose financial statements are being audited.

7.18 For audits of public entities (that is, *issuers*, as defined by the Sarbanes-Oxley Act of 2002, and other entities, when prescribed by the rules of the SEC), PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards), directs auditors to state that the engagement was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)" whenever the auditor has performed the engagement in accordance with the PCAOB's standards. An example of a standard independent registered auditor's report presented in the appendix, "Illustrative Reports," of Auditing Standard No. 1 follows:

> *REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM*
>
> We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. 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 financial position of the company as of [at] December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.
>
> [*Signature*]
> [*City and State or Country*]
> [*Date*]

7.19 For audit requirements on reporting on internal controls over financial reporting, refer to paragraph 7.58.

[5] The questions and answers are not sources of established authoritative principles. This material is based on selected practice matters identified by the staff of the AICPA's Technical Hotline and various other bodies within the AICPA and has not been approved, disapproved, or otherwise acted upon by any senior technical committee of the AICPA.

PRICEWATERHOUSECOOPERS LLP AUDITORS' REPORT

Author's Note

Although most audit reports use the exact format and order of paragraphs, PricewaterhouseCoopers uses a variation of the standard auditor's report that rearranges the standard auditor report.

7.20 MASTERCARD INCORPORATED (DEC)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
MasterCard Incorporated:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of MasterCard Incorporated and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, 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 Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 13, 2015

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

7.21 BECTON, DICKINSON AND COMPANY (SEP)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Becton, Dickinson and Company

We have audited the accompanying consolidated balance sheets of Becton, Dickinson and Company as of September 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income and cash flows for each of the three years in the period ended September 30, 2014. 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 Becton, Dickinson and Company at September 30, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Becton, Dickinson and Company's internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated November 26, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York
November 26, 2014

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

7.22 HASBRO, INC. (DEC)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Hasbro, Inc.:

We have audited the accompanying consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 28, 2014 and December 29, 2013, and the related consolidated statements of operations, comprehensive earnings, cash flows, and shareholders' equity for each of the fiscal years in the three-year period ended December 28, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hasbro, Inc. and subsidiaries as of December 28, 2014 and December 29, 2013, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 28, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hasbro, Inc.'s internal control over financial reporting as of December 28, 2014, based on criteria established in Internal Control—Integrated Framework

(1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG

Providence, Rhode Island
February 26, 2015

Reference to the Report of Other Auditors

PRESENTATION

NONISSUERS

7.23 AU-C section 600 establishes requirements and provides guidance for the independent auditor in deciding (*a*) whether he or she may use the work and reports of component auditors who have audited the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements presented and (*b*) the form and content of the principal auditor's report in these circumstances.

7.24 Paragraph .25 of AU-C section 600 explains that when the group engagement partner decides to make reference to the component auditor, the following should be true:

- The component's financial statements are prepared using the same financial reporting framework as the group financial statements.
- The component auditor has performed an audit of the financial statements of the component in accordance with generally accepted accounting standards.
- The component auditor has issued an auditor's report that is not restricted as to use.

7.25 As described in paragraph .28 of AU-C section 600, the group financial statements should clearly indicate that the component was not audited by the auditor of the group financial statements but was audited by the component auditor and should include the magnitude of the portion of the financial statement audited by the component auditor. The disclosure of the magnitude of the portion of the financial statements audited by a component auditor may be achieved by stating either the dollar amounts or percentages (whichever most clearly describes the portion of the financial statements audited by a component auditor) of one or more of the following: total assets, total revenues, or other appropriate criteria. When two or more component auditors participate in the audit, the dollar amounts or the percentages covered by the component auditors may be stated in the aggregate. If the group engagement partner decides to name a component auditor in the auditor's report on the group financial statements, then the component auditor's express permission should be obtained and the component's auditor's report should be presented together with that of the auditor's report on the group financial.

7.26 Exhibit A of AU-C section 600 contains an example of appropriate reporting in the auditor's report on the group financial statements when reference is made to the audit of a component auditor.

ISSUERS

7.27 Paragraphs C8–C11 of PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards), provide guidance on opinions based, in part, on the report of another auditor in an audit of internal control over financial reporting. Paragraphs C8–C11 of Auditing Standard No. 5 state the following:

- If the auditor decides it is appropriate to serve as the principal auditor of the financial statements, then that auditor also should be the principal auditor of the company's internal control over financial reporting. When serving as the principal auditor of internal control over financial reporting, the auditor should decide whether to make reference in the report on internal control over financial reporting to the audit of internal control over financial reporting performed by the other auditor. In these circumstances, the auditor's decision is based on factors analogous to those of the auditor who uses the work and reports of other independent auditors when reporting on a company's financial statements.
- The decision about whether to make reference to another auditor in the report on the audit of internal control over financial reporting might differ from the corresponding decision as it relates to the audit of the financial statements. For example, the audit report on the financial statements may make reference to the audit of a significant equity investment performed by another independent auditor, but the report on internal control over financial reporting might not make a similar reference because management's assessment of internal control over financial reporting ordinarily would not extend to controls at the equity method investee.

- When the auditor decides to make reference to the report of the other auditor as a basis, in part, for his or her opinion on the company's internal control over financial reporting, the auditor should refer to the report of the other auditor when describing the scope of the audit and expressing the opinion.

7.28 When the principal auditor decides not to make reference to the audit of the other auditor, he or she must obtain and review and retain the following information from the other auditor, as prescribed in AU section 508:

- An engagement completion document consistent with paragraphs 12–13 of PCAOB Auditing Standard No. 3, *Audit Documentation* (AICPA, *PCAOB Standards and Related Rules,* Auditing Standards). This engagement completion document should include all cross-referenced supporting audit documentation.
- A list of significant risks, the auditor's responses, and the results of the auditor's related procedures.
- Sufficient information relating to significant findings or issues that are inconsistent with or contradict the auditor's final conclusions, as described in paragraph 8 of Auditing Standard No. 3.
- Any findings affecting the consolidating or combining of accounts in the consolidated financial statements.
- Sufficient information to enable the office issuing the auditor's report to agree or reconcile the financial statement amounts audited by the other firm to the information underlying the consolidated financial statements.
- A schedule of accumulated misstatements, including a description of the nature and cause of each accumulated misstatement, and an evaluation of uncorrected misstatements, including the quantitative and qualitative factors the auditor considered to be relevant to the evaluation.
- All significant deficiencies and material weaknesses in internal control over financial reporting, including a clear distinction between those two categories.
- Letters of representations from management.
- All matters to be communicated to the audit committee.

PRESENTATION AND DISCLOSURE EXCERPT

REFERENCE TO OTHER AUDITORS

7.29 SPX CORPORATION (DEC)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of SPX Corporation:

We have audited the accompanying Consolidated Balance Sheets of SPX Corporation and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related Consolidated Statements of Operations, Comprehensive Income, Equity, and Cash Flows for each of the three years in the period ended December 31, 2014. 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 did not audit the consolidated financial statements of EGS Electrical Group, LLC and subsidiaries ("EGS") for the fiscal years ended September 30, 2013 and 2012, the Company's investment accounted for by use of the equity method (see Note 9 to the Company's consolidated financial statements). The Company's equity in income of EGS for the fiscal years ended September 30, 2013 and 2012 was $41.9 million and $39.0 million, respectively. The consolidated financial statements of EGS were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EGS, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of SPX Corporation and subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting based on our audit.

/s/ Deloitte & Touche LLP
Charlotte, North Carolina
February 20, 2015

Uncertainties

Author's Note

In August 2014, FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. Previously, there was no guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments in this ASU require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term *substantial doubt*, (2) require an evaluation every reporting period, including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. None of the examples that follow contain an example of these disclosures due to the effective date.

PRESENTATION

NONISSUERS

7.30 Paragraph .A13 of AU-C section 705 explains that an audit includes an assessment of whether the audit evidence related to uncertainties supports management's analysis. Absence of the existence of information related to the outcome of an uncertainty does not necessarily lead to a conclusion that the audit evidence supporting management's assertion is not sufficient. Rather, the auditor's professional judgment regarding the sufficiency of the audit evidence is based on the audit evidence that is, or should be, available. This does not apply to uncertainties related to going concern situations, for which AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*), provides guidance.

ISSUERS

7.31 Paragraph .30 of AU section 508 does not require an explanatory paragraph for *uncertainties*, as defined in paragraph .29 of AU section 508. This does not apply to uncertainties related to going concern situations, for which AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *PCAOB Standards and Related Rules,* Interim Standards), provides guidance.

Lack of Consistency

PRESENTATION

NONISSUERS

7.32 As required by paragraph .08 of AU-C section 708, if there has been a change in accounting principles or the method of their application that has a material effect on the comparability of the company's financial statements, the auditor should refer to the change in an emphasis-of-matter paragraph in the report. Such paragraph should follow the opinion paragraph and identify the nature of the change and refer the reader to the note in the financial statements that discusses the change in detail.

7.33 Paragraph .09 of AU-C section 708 states that the auditor should include an emphasis-of-matter paragraph relating to a change in accounting principle in reports on financial statements in the period of the change, and in subsequent periods, until the new accounting principle is applied in all periods presented. If the change in accounting principle is accounted for by retrospective application to the financial statements of all prior periods presented, the emphasis-of-matter paragraph is needed only in the period of such change.

ISSUERS

7.34 Although the information in paragraphs 7.34–.35 apply to issuers as well, PCAOB Auditing Standard No. 6, *Evaluating Consistency of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards), further states that the auditor should evaluate a change in accounting principle to determine whether the

- newly adopted accounting principle is a generally accepted accounting principle.
- method of accounting for the effect of the change is in conformity with GAAP.
- disclosures related to the accounting change are adequate.
- company has justified that the alternative accounting principle is preferable.

7.35 Auditing Standard No. 6 further states that if the auditor concludes that the criteria in paragraph 7.36 for a change in accounting principle are not met, the auditor should consider the matter to be a departure from GAAP and, if the effect of the change in accounting principle is material, should issue a qualified or an adverse opinion.

7.36 In addition to a change in accounting principle, a lack of consistency can also be the result of a correction of a material misstatement in previously issued financial statements. Paragraphs .18 A–.18 C of AU section 508 state that the correction of a material misstatement in previously issued financial statements should be recognized in the auditor's report on the audited financial statements through the addition of an explanatory paragraph following the opinion paragraph.

7.37 The explanatory paragraph should include a

- statement that the previously issued financial statements have been restated for the correction of a misstatement in the respective period.
- reference to the company's disclosure of the correction of the misstatement.

7.38 This type of explanatory paragraph in the auditor's report should be included in reports on financial statements when the related financial statements are restated to correct the prior material misstatement. The paragraph need not be repeated in subsequent years.

PRESENTATION AND DISCLOSURE EXCERPTS

INVENTORY

7.39 SEALED AIR CORPORATION (DEC)
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Sealed Air Corporation:

We have audited the accompanying consolidated balance sheets of Sealed Air Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows, for each of the years in the three-year period ended December 31, 2014. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule, "Schedule II—Valuation and Qualifying Accounts and Reserves." We have also audited Sealed Air Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control— Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sealed Air Corporation's management is responsible for these consolidated financial statements and the consolidated financial statement schedule, 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 these consolidated financial statements and consolidated financial statement schedule, and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sealed Air Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, Sealed Air Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control— Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in Note 2 to the consolidated financial statements, Sealed Air Corporation and subsidiaries has elected to change its method of accounting for certain inventories.

/s/ KPMG LLP
Short Hills, New Jersey
February 27, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 2. Summary of Significant Accounting Policies and Recently Issued Accounting Standards (in part)

Summary of Significant Accounting Policies (in part)

Changes in Accounting /Retrospective application

During the fourth quarter of 2014, we changed the method of valuing our inventories that used the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method, so that all of our inventories are now valued at FIFO. As a result of this accounting change, inventories, retained earnings, non-current deferred tax liability, net earnings (loss) from continuing operations, net earnings (loss) available to common stockholders, basic earnings per share—continuing operations and diluted earnings per share—continuing operations, among other accounts, have been retrospectively changed. Refer to Note 2—Inventories for further information regarding this change in accounting policy.

During the third quarter of 2014, we determined that we did not include any PSU awards in our diluted weighted average number of common shares outstanding previously reported in 2013, although the achievement levels of the respective performance conditions for the PSU awards were met as of December 31, 2013. The impact of excluding 0.7 million of contingently issuable shares under the treasury stock method did not have a material effect on the number of weighted average common shares and had no impact on the diluted net earnings per common share for the year ended December 31, 2013. Accordingly, we do not consider this correction to be material to our previously reported diluted weighted average number of common shares outstanding or to our previously reported net earnings per common share.

In addition, certain other prior period amounts have been reclassified to conform to the current year presentation. These reclassifications, individually and in the aggregate, had no impact on our consolidated financial condition, results of operations and cash flows.

Inventories

During the fourth quarter of 2014, we changed the method of valuing our inventories that used the LIFO method to the FIFO method, so that all of our inventories are now valued at FIFO. We believe that the change is preferable because it will more closely reflect the current value of our inventories in our balance sheet, and conform all of our inventories to the FIFO valuation method for better reporting consistency across our segments and regions. We applied this change in accounting principle retrospectively to all prior periods presented herein in accordance with ASC 250, Accounting Changes and Error Corrections. As a result of this accounting change, Inventories and Retained Earnings as of January 1, 2012 increased by $41 million and $25 million respectively.

As a result of the retrospective application of this change in accounting principle, the following financial statement line items within the accompanying financial statements were restated, as follows:

	December 31, 2014			December 31, 2013			December 31, 2012		
(In millions, except per share amounts)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)	As Reported Under FIFO	As Computed Under LIFO	Effect of Change Increase (Decrease)
Consolidated Statements of Operations:									
Cost of sales	$5,062.9	$5,061.4	$ 1.5	$5,100.9	$5,103.3	$ (2.4)	$ 5,038.7	$ 5,036.9	$ 1.8
Gross profit	2,687.6	2,689.1	(1.5)	2,589.9	2,587.5	2.4	2,520.5	2,522.3	(1.8)
Earnings (loss) from continuing operations before income tax provision (benefit)	267.2	268.7	(1.5)	180.2	177.8	2.4	(1,884.4)	(1,882.6)	(1.8)
Income tax provision (benefit)	9.1	9.7	(0.6)	84.9	84.0	0.9	(265.4)	(264.7)	(0.7)
Net earnings (loss) from continuing operations	258.1	259.0	(0.9)	95.3	93.7	1.6	(1,619.0)	(1,617.9)	(1.1)
Net earnings (loss) available to common shareholders	$ 258.1	$ 259.0	$ (0.9)	$ 125.8	$ 124.2	$ 1.6	$(1,411.4)	$(1,410.3)	$ (1.1)
Net earnings (loss) per common share:									
Basic—continuing operations	$ 1.22	$ 1.22	$ —	$ 0.49	$ 0.48	$0.01	$ (8.40)	$ (8.39)	$(0.01)
Diluted—continuing operations	$ 1.20	$ 1.20	$ —	$ 0.44	$ 0.44	$ —	$ (8.40)	$ (8.39)	$(0.01)
Consolidated Statements of Comprehensive Income:									
Net earnings (loss) available to common shareholders	$ 258.1	$ 259.0	$ (0.9)	$ 125.8	$ 124.2	$ 1.6	$(1,411.4)	$(1,410.3)	$ (1.1)
Comprehensive income (loss), net of taxes	$ (78.3)	$ (77.4)	$ (0.9)	$ 13.3	$ 11.7	$ 1.6	$(1,431.2)	$(1,430.1)	$ (1.1)
Consolidated Statements of Cash Flows:									
Net cash (used in) provided by operating activities from continuing operations	$ (201.9)	$ (201.9)	$ —	$ 624.8	$ 624.8	$ —	$ 394.2	$ 394.2	$ —
Net earnings (loss) available to common stockholders from continuing operations	258.1	259.0	(0.9)	95.3	93.7	1.6	(1,619.0)	(1,617.9)	(1.1)
Inventories	(48.6)	(50.1)	1.5	22.0	24.5	(2.5)	35.2	33.4	1.8
Deferred taxes, net	$ 136.1	$ 136.7	$ (0.6)	$ 7.9	$ 7.0	$ 0.9	$ (319.3)	$ (318.6)	$ (0.7)
Consolidated Balance Sheets:									
Inventories	$ 707.6	$ 667.3	$40.3	$ 730.2	$ 688.4	$41.8			
Non-current deferred tax liability	161.5	146.1	15.4	294.6	278.6	16.0			
Retained earnings	$ 448.5	$ 423.6	$24.9	$ 302.2	$ 276.4	$25.8	$ 279.0	$ 254.8	$ 24.2

As a result of the accounting change, all of our inventories are now determined using the FIFO method. We state inventories at the lower of cost or market.

Note 5. Inventories

The following table details our inventories:

(In millions)	December 31, 2014	December 31, 2013
Inventories:		
Raw materials	$108.9	$116.6
Work in process	104.0	110.9
Finished goods	494.7	502.7
Total	$707.6	$730.2

During the fourth quarter of 2014, we changed the method of valuing our inventories that used the LIFO method to the FIFO method, so that all of our inventories are now valued at FIFO. Refer to Note 2, "Summary of Significant Accounting Policies—Inventories" for a discussion of our change in accounting policy.

DISCONTINUED OPERATIONS

7.40 MERITOR, INC. (SEP)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of Meritor, Inc.
Troy, Michigan

We have audited the accompanying consolidated balance sheets of Meritor, Inc. and subsidiaries (the "Company") as of September 28, 2014 and September 29, 2013, and the related consolidated statements of operations, comprehensive income (loss), equity (deficit), and cash flows for each of the three years in the period ended September 28, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule 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, such consolidated financial statements present fairly, in all material respects, the financial position of Meritor, Inc. and subsidiaries as of September 28, 2014 and September 29, 2013, and the results of their operations and their cash flows for each of the three years in the period ended September 28, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company discontinued the Mascot business, previously included in the Aftermarket and Trailer segment of its operations, when it sold the business on September 26, 2014. The loss on sale and results prior to the sale are included in loss from discontinued operations in the accompanying consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 28, 2014, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated November 19, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP
Detroit, Michigan
November 19, 2014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Basis of Presentation (in part)

Meritor, Inc. (the "company" or "Meritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers ("OEMs") and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, military, bus and coach, construction and other industrial OEMs and certain aftermarkets. The consolidated financial statements are those of the company and its consolidated subsidiaries.

Certain businesses are reported in discontinued operations in the consolidated statement of operations, statement of cash flows and related notes for all periods presented. In the fourth quarter of fiscal year 2014, the company sold substantially all of its inventory and other assets of its Mascot business and liquidated the remaining assets. The results of operations, loss on disposal and cash flows of the company's Mascot business are presented in discontinued operations in the consolidated statements of operations, and consolidated statement of cash flows, and prior period information has been recast to reflect this presentation. Additional information regarding discontinued operations is discussed in Note 3.

2. Significant Accounting Policies (in part)

Discontinued Operations

A business component that either has been disposed of or is classified as held for sale is reported as discontinued operations if the cash flows of the component have been or will be eliminated from the ongoing operations of the company, and the company will no longer have any significant continuing involvement in the business component. The results of discontinued operations are aggregated and presented separately in the consolidated statement of operations and consolidated statement of cash flows (see Note 3).

3. Discontinued Operations (in part)

Results of the discontinued operations are summarized as follows (in millions):

	Year Ended September 30,		
	2014	**2013**	**2012**
Sales	$ 29	$ 29	$ 36
Operating losses, net (primarily Mascot)	$ (8)	$ (3)	$—
Net loss on sales of businesses	(23)	—	(1)
Charge for contingency and indemnity obligation (see Note 22)	—	—	(10)
Restructuring costs	—	(3)	(1)
Environmental remediation charges (see Note 22)	(4)	(5)	(3)
Other, net	(2)	(1)	(5)
Income (loss) before income taxes	(37)	(12)	(20)
Benefit for income taxes	7	5	3
Loss from discontinued operations attributable to Meritor, Inc.	$(30)	$ (7)	$(17)

Total discontinued operations assets and liabilities as of September 30, 2014 were $8 million and $21 million, respectively.

Mascot Divestiture

On August 15, 2014, the company completed its strategic review of certain remanufacturing product lines within the aftermarket business in North America, and the Board of Directors concluded the company should exit the Mascot business. Mascot is a remanufacturer and distributor of all makes differentials, transmissions and steering gears primarily for OEMs. In the fourth quarter of fiscal year 2014, the company disposed of its Mascot business which was part of the company's Aftermarket & Trailer segment. All manufacturing operations and use of productive assets ceased prior to September 30, 2014. The company sold certain long-lived and current assets of the business to a third party and recognized a loss of $23 million during the fourth quarter of fiscal year 2014 in connection with the disposal. These charges include loss on sale, severance and other disposal costs. Total sales from this business were $29 million in fiscal years 2014 and 2013, and $34 million in 2012.

During the first quarter of fiscal year 2013, the company announced the planned consolidation of its Mascot remanufacturing operations in the Aftermarket & Trailer segment resulting in the closure of one remanufacturing plant in Canada. The closure resulted in the elimination of 85 hourly positions, including approximately 65 positions which were transferred to the company's facility in Indiana. The company recorded restructuring charges of $3 million during fiscal year 2013, primarily associated with employee severance charges. Restructuring actions associated with the remanufacturing consolidation were substantially complete as of September 30, 2013.

The results of operations and cash flows of the company's Mascot business are presented in discontinued operations in the consolidated statements of operations and consolidated statement of cash flows, and prior period information has been recast to reflect this presentation.

CHANGE IN FISCAL YEAR END

7.41 BEST BUY CO., INC. (JAN)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Best Buy Co., Inc.:
Richfield, Minnesota

We have audited the accompanying consolidated balance sheets of Best Buy Co., Inc. and subsidiaries (the "Company") as of February 1, 2014 and February 2, 2013 and the related consolidated statements of earnings, comprehensive income, cash flows, and changes in shareholders' equity for the 12 months ended February 1, 2014, the 11 months ended February 2, 2013, and the 12 months ended March 3, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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, such consolidated financial statements present fairly, in all material respects, the financial position of Best Buy Co., Inc. and subsidiaries as of February 1, 2014 and February 2, 2013, and the results of their operations and their cash flows for the 12 months ended February 1, 2014, the 11 months ended February 2, 2013, and the 12 months ended March 3, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 4 to the consolidated financial statements, during fiscal 2014 the Company completed the sale of their 50% ownership interest in Best Buy Europe and the sale of mindSHIFT Technologies, Inc. The losses from each sale and the results of each business prior to their respective sale are included in the loss from discontinued operations in the accompanying financial statements.

As discussed in Note 2 to the consolidated financial statements, effective for fiscal year 2013, the Company changed its fiscal year end from the Saturday nearest the end of February to the Saturday nearest the end of January. As a result of this change, fiscal year 2013 was an 11-month transition period beginning March 4, 2012 through February 2, 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of February 1, 2014, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2014, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Minneapolis, Minnesota
March 28, 2014

CONSOLIDATED STATEMENTS OF CASH FLOWS

$ in millions

	12 Months Ended	11 Months Ended		12 Months Ended
Fiscal Years Ended	**February 1, 2014**	**February 2, 2013**	**January 28, 2012**	**March 3, 2012**
			(Unaudited recast)	
Operating Activities				
Net earnings (loss) including noncontrolling interests	$ 523	$ (420)	$ (177)	$ 22
Adjustments to reconcile net earnings (loss) to total cash provided by operating activities:				
Depreciation	701	794	811	897
Amortization of definite-lived intangible assets	15	38	42	48
Restructuring charges	259	449	280	287
Goodwill impairments	—	822	1,207	1,207
Loss on sale of business	143	—	—	—
Stock-based compensation	90	107	110	120
Realized gain on sale of investment	—	—	(55)	(55)
Deferred income taxes	(28)	(19)	110	28
Other, net	62	41	20	26
Changes in operating assets and liabilities, net of assets and liabilities acquired or sold:				
Receivables	7	(551)	(342)	41
Merchandise inventories	597	(912)	(1,067)	120
Other assets	(70)	(65)	29	(24)
Accounts payable	(986)	1,735	2,095	574
Other liabilities	(273)	(339)	82	(23)
Income taxes	54	(226)	(48)	25
Total cash provided by operating activities	1,094	1,454	3,097	3,293
Investing Activities				
Additions to property and equipment, net of $13, $29, $13 and $18 non-cash capital expenditures	(547)	(705)	(709)	(766)
Purchases of investments	(230)	(13)	(111)	(112)
Sales of investments	50	69	290	290
Acquisition of businesses, net of cash acquired	—	(31)	(174)	(174)
Proceeds from sale of business, net of cash transferred	206	25	1	—
Change in restricted assets	5	101	58	40
Other, net	(1)	16	(2)	(2)
Total cash used in investing activities	(517)	(538)	(647)	(724)
Financing Activities				
Repurchase of common stock	—	(122)	(1,368)	(1,500)
Issuance of common stock under employee stock purchase plan and for the exercise of stock options	171	25	66	67
Dividends paid	(233)	(224)	(228)	(228)
Repayments of debt	(2,033)	(1,614)	(3,192)	(3,412)
Proceeds from issuance of debt	2,414	1,741	3,911	3,921
Payment to noncontrolling interest (Note 3)	—	—	(1,303)	(1,303)
Other, net	—	(17)	(27)	(23)
Total cash provided by (used in) financing activities	319	(211)	(2,141)	(2,478)
Effect of Exchange Rate Changes on Cash	(44)	(4)	(6)	5
Increase in Cash and Cash Equivalents	852	701	303	96
Adjustment for Fiscal Year-end Change (Note 2)	—	(74)	(5)	—
Increase in Cash and Cash Equivalents After Adjustment	852	627	298	96
Cash and Cash Equivalents at Beginning of Year	1,826	1,199	1,103	1,103
Cash and Cash Equivalents at End of Year	$ 2,678	$ 1,826	$ 1,401	$ 1,199
Supplemental Disclosure of Cash Flow Information				
Income taxes paid	$ 332	$ 478	$ 476	$ 568
Interest paid	82	106	86	89

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

$ and shares in millions

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Best Buy Co., Inc. Shareholders' Equity	Non controlling Interests	Total Equity
Balances at February 26, 2011	393	$ 39	$ 18	$ 6,372	$ 173	$ 6,602	$ 690	$ 7,292
Net earnings (loss)	—	—	—	(1,231)	—	(1,231)	1,253	22
Other comprehensive loss, net of tax:								
Foreign currency translation adjustments	—	—	—	—	(9)	(9)	(12)	(21)
Unrealized losses on available-for-sale investments	—	—	—	—	(26)	(26)	—	(26)
Reclassification of gains on available-for-sale investments into earnings	—	—	—	—	(48)	(48)	—	(48)
Payment to noncontrolling interest	—	—	—	—	—	—	(1,303)	(1,303)
Dividend distribution	—	—	—	—	—	—	(7)	(7)
Stock options exercised	1	—	27	—	—	27	—	27
Tax loss from stock options canceled or exercised, restricted stock vesting and employee stock purchase plan	—	—	(2)	—	—	(2)	—	(2)
Issuance of common stock under employee stock purchase plan	2	—	40	—	—	40	—	40
Stock-based compensation	—	—	120	—	—	120	—	120
Common stock dividends, $0.62 per share	—	—	—	(228)	—	(228)	—	(228)
Repurchase of common stock	(55)	(5)	(203)	(1,292)	—	(1,500)	—	(1,500)
Balances at March 3, 2012	341	34	—	3,621	90	3,745	621	4,366
Adjustment for fiscal year-end change (Note 2)	—	—	—	(14)	11	(3)	9	6
Net earnings (loss)	—	—	—	(441)	—	(441)	21	(420)
Other comprehensive income, net of tax:								
Foreign currency translation adjustments	—	—	—	—	9	9	6	15
Unrealized gains on available-for-sale investments	—	—	—	—	2	2	—	2
Dividend distribution	—	—	—	—	—	—	(3)	(3)
Stock options exercised	2	—	1	—	—	1	—	1
Tax loss from stock options canceled or exercised, restricted stock vesting and employee stock purchase plan	—	—	(44)	—	—	(44)	—	(44)
Issuance of common stock under employee stock purchase plan	1	—	24	—	—	24	—	24
Stock-based compensation	—	—	112	—	—	112	—	112
Common stock dividends, $0.66 per share	—	—	—	(222)	—	(222)	—	(222)
Repurchase of common stock	(6)	—	(39)	(83)	—	(122)	—	(122)
Balances at February 2, 2013	338	34	54	2,861	112	3,061	654	3,715
Net earnings (loss)	—	—	—	532	—	532	(9)	523
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments	—	—	—	—	(136)	(136)	(11)	(147)
Unrealized gains (losses) on available-for-sale investments	—	—	—	—	7	7	(1)	6
Reclassification of foreign currency translation adjustments into earnings	—	—	—	—	508	508	146	654
Reclassification of losses on available-for-sale investments into earnings	—	—	—	—	1	1	1	2
Sale of noncontrolling interest	—	—	—	—	—	—	(776)	(776)
Dividend distribution	—	—	—	—	—	—	(1)	(1)
Tax loss from stock options canceled or exercised, restricted stock vesting and employee stock purchase plan	—	—	(22)	—	—	(22)	—	(22)
Issuance of common stock under employee stock purchase plan	1	—	13	—	—	13	—	13
Stock-based compensation	—	—	97	—	—	97	—	97
Restricted stock vested and stock options exercised	8	1	158	—	—	159	—	159
Common stock dividends, $0.68 per share	—	—	—	(234)	—	(234)	—	(234)
Balances at February 1, 2014	347	$ 35	$ 300	$ 3,159	$ 492	$ 3,986	$ 3	$ 3,989

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

1. Summary of Significant Accounting Policies (in part)

Fiscal Year

On November 2, 2011, our Board of Directors approved a change in our fiscal year-end from the Saturday nearest the end of February to the Saturday nearest the end of January, effective beginning with our fiscal year 2013. As a result of this change, our fiscal year 2013 was an 11-month transition period beginning March 4, 2012, through February 2, 2013. Concurrent with the change, we began consolidating the results of our Europe, China and Mexico operations on a one-month lag, compared to a two-month lag in prior years, to continue aligning the fiscal reporting periods of our international operations with statutory filing requirements. In these consolidated statements, including the notes thereto, financial results for fiscal 2013 are for an 11-month period. Corresponding results for fiscal 2014 and fiscal 2012 are both for 12-month periods. In addition, our Consolidated Statements of Earnings and Consolidated Statements of Cash Flows also include an unaudited 11-month fiscal 2012 (recast). Fiscal 2014 included 52 weeks, fiscal 2013 (11-month) included 48 weeks and fiscal 2012 included 53 weeks.

Basis of Presentation

The consolidated financial statements include the accounts of Best Buy Co., Inc. and its consolidated subsidiaries. All intercompany balances and transactions are eliminated upon consolidation.

In order to align our fiscal reporting periods and comply with statutory filing requirements, we consolidate the financial results of our Europe, China and Mexico operations on a lag. Due to our fiscal year-end change, this was a one-month lag in fiscal 2014 and 2013 (11-month) and a two-month lag in fiscal 2012. Our policy is to accelerate recording the effect of events occurring in the lag period that significantly affect our consolidated financial statements. In fiscal 2012, we recorded $82 million of restructuring charges recorded in January 2012 related to our large-format Best Buy branded store closures in the United Kingdom ("U.K.") as well as a $1.2 billion goodwill impairment charge attributable to our Best Buy Europe reporting unit. Except for these restructuring activities and the goodwill impairment in fiscal 2012, no significant intervening event occurred in these operations that would have materially affected our financial condition, results of operations, liquidity or other factors had it been recorded during fiscal 2014 or 2013 (11-month). For further information about our restructuring and the nature of the charges we recorded, refer to Note 6, *Restructuring Charges*. For further information about the goodwill impairment, refer to *Goodwill and Intangible Assets* below, as well as Note 3, *Profit Share Buy-Out*.

In preparing the accompanying consolidated financial statements, we evaluated the period from February 2, 2014, through the date the financial statements were issued for material subsequent events requiring recognition or disclosure. No such events were identified for this period.

2. Fiscal Year-end Change

On November 2, 2011, our Board of Directors approved a change to our fiscal year-end from the Saturday nearest the end of February to the Saturday nearest the end of January. As a result of this change, our fiscal year 2013 was an 11-month transition period beginning March 4, 2012, through February 2, 2013. In the first quarter of fiscal 2013 (11-month), we also began consolidating the results of our Europe, China and Mexico operations on a one-month lag, compared to a two-month lag in fiscal year 2012, to continue to align our fiscal reporting periods with statutory filing requirements.

The following table shows the fiscal months included within our financial statements and footnotes for fiscal 2014, fiscal 2013 (11-month) and fiscal 2012.

New Fiscal Calendar[1]		Previous Fiscal Calendar[1]
2014	**2013 (11-Month)**	**2012**
February 2013—January 2014	March 2012—January 2013	March 2011—February 2012

[1] For entities reported on a lag, the fiscal months included in fiscal 2013 (11-month) were February through December, and in fiscal 2014 and 2012 were January through December.

January Results for Entities Reported on a Lag

As a result of the 11-month transition period in fiscal 2013, the month of January 2012 was not captured in our consolidated fiscal 2013 (11-month) results for those entities reported on a one-month lag. The following is selected financial data for the one month ended January 31, 2012, and the comparable prior year period, for entities reported on a lag ($ in millions):

	One Month Ended	
	January 31, 2012 (unaudited)	**January 31, 2011** (unaudited)
Revenue	$189	$249
Gross profit	16	24
Operating loss	(14)	(1)
Net earnings (loss) from continuing operations	(13)	—
Loss from discontinued operations, net of tax	(12)	(28)
Net loss including noncontrolling interests	(25)	(28)
Net loss attributable to Best Buy Co., Inc. shareholders[1]	(14)	(33)

[1] The net loss attributable to Best Buy Co., Inc. shareholders for the one month ended January 31, 2012, represents the adjustment to retained earnings within the Consolidated Statements of Changes in Shareholders' Equity as a result of the exclusion of January results for entities reported on a lag.

In addition, the Consolidated Statements of Cash Flows includes a net reconciling adjustment for the cash flows as a result of the exclusion of January 2012 in fiscal 2013 (11-month) described above. The total adjustment was $74 million, primarily due to $50 million of cash used in financing activities and $18 million of cash used in investing activities. The total adjustment for January 2011 in fiscal 2012 (11-month recast) was $5 million. The adjustments for both periods included the effect of exchange rate changes on our cash balances.

Emphasis of a Matter

PRESENTATION

NONISSUERS

7.42 Paragraph .06 of AU-C section 706 explains that if the auditor considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements, the auditor should include an emphasis-of-matter paragraph. Paragraph .07 of AU-C section 706 states that the emphasis-of-matter paragraph should

- be included immediately after the opinion paragraph in the auditor's report,
- use the heading "Emphasis of Matter" or other appropriate heading,
- include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements, and
- indicate that the auditor's opinion is not modified with respect to the matter emphasized.

7.43 Other-matter paragraphs should be included in the auditor's report when the auditor considers it necessary to communicate matters other than those that are presented or disclosed in the financial statements, as described in paragraph .08 of AU-C section 706. The paragraph should be included immediately after the opinion paragraph and any emphasis-of-matter paragraph or elsewhere in the auditor's report if the content of the other-matter paragraph is relevant to the "Other Reporting Responsibilities" section.

ISSUERS

7.44 Paragraph .19 of AU section 508 states the following:

> In any report on financial statements, the auditor may emphasize a matter regarding the financial statements. Such explanatory information should be presented in a separate paragraph of the auditor's report. Phrases such as "with the foregoing [following] explanation" should not be used in the opinion paragraph if an emphasis paragraph is included in the auditor's report. Emphasis paragraphs are never required; they may be added solely at the auditor's discretion. Examples of matters the auditor may wish to emphasize are—
>
> - That the entity is a component of a larger business enterprise.
> - That the entity has had significant transactions with related parties.
> - Unusually important subsequent events.
> - Accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

PRESENTATION AND DISCLOSURE EXCERPT

EMPHASIS OF A MATTER

7.45 PPG INDUSTRIES, INC. (DEC)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PPG Industries, Inc.

In our opinion, the accompanying consolidated balance sheets as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended present fairly, in all material respects, the financial position of PPG Industries, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the years ended December 31, 2014 and 2013 listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management Report on Establishing and Maintaining Adequate Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

We also have audited the adjustments to the 2012 consolidated financial statements to retrospectively reflect the discontinued operations of the Transitions Optical joint venture and sunlens business discussed in Note 2 and to retrospectively reflect the change in the composition of reportable segments discussed in Note 19. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2012 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 financial statements taken as a whole.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

As described in the Management Report on Establishing and Maintaining Adequate Internal Control Over Financial Reporting, management has excluded Consorcio Comex, S. A. de C.V. from its assessment of internal control over financial reporting as of December 31, 2014 because it was acquired by the Company in a purchase business combination in November, 2014. We have also excluded Consorcio Comex, S.A. de C.V. from our audit of internal control over financial reporting. Consorcio Comex, S.A. de C.V. is a wholly-owned subsidiary whose total assets and total revenues excluded from management's assessment and our audit represent 2% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.

/s/ PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 19, 2015

2012 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PPG Industries, Inc.

We have audited, before the effects of the adjustments to retrospectively reflect the discontinued operations of the Transitions Optical joint venture and sunlens business discussed in Note 2 and to retrospectively reflect the change in the composition of reportable segments discussed in Note 19, the consolidated statements of income, comprehensive income, shareholders' equity, and cash flows of PPG Industries, Inc. for the year ended December 31, 2012. Our audit also included the financial statement schedule listed in the Index at Item 15(a)(2) for the year ended December 31, 2012. The 2012 financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 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 audit provide a reasonable basis for our opinion.

In our opinion, the 2012 financial statements, before the effects of the adjustments to retrospectively reflect the discontinued operations of the Transitions Optical joint venture and sunlens business discussed in Note 2 and to retrospectively reflect the change in the composition of reportable segments discussed in Note 19, present fairly, in all material respects, the results of operations and cash flows of PPG Industries, Inc. for the year ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect the discontinued operations of the Transitions Optical joint venture and sunlens business discussed in Note 2 and to retrospectively reflect the change in the composition of reportable segments discussed in Note 19 and, accordingly we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

/s/ DELOITTE & TOUCHE LLP
Pittsburgh, Pennsylvania
February 21, 2013
(July 29, 2013 as to the effects of the discontinued operations of PPG's former commodity chemicals business discussed in Note 2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in part)

2. Acquisitions and Dispositions (in part)

Dispositions (in part)

Transitions Optical Joint Venture and Sunlens Business

In March 2014, the Company completed the sale of its 51% ownership interest in its Transitions Optical joint venture and 100% of its optical sunlens business to Essilor International (Compagnie Generale D'Optique) SA ("Essilor"). PPG received cash at closing of $1.735 billion pre-tax (approximately $1.5 billion after-tax). The sale of these businesses, which were previously reported in the former Optical and Specialty Materials segment, resulted in a first quarter of 2014 pre-tax gain of $1,468 million ($946 million after-tax) reported in discontinued operations. During the first quarter of 2014, the Company recognized $522 million of tax expense on the sale, of which $262 million is deferred U.S. income tax on the foreign earnings of the sale, as PPG does not consider these earnings to be reinvested for an indefinite period of time. The pre-tax gain on this sale reflects the excess of the sum of the cash proceeds received over the net book value of the net assets of PPG's former Transitions Optical and sunlens business. The Company also incurred $55 million of pre-tax expense, primarily for professional services related to the sale, post-closing adjustments, costs and other contingencies under the terms of the agreements. The net gain on the sale includes these related losses and expenses. During 2014, revisions to estimated tax liabilities associated with the transaction were recorded to discontinued operations.

The results of operations and cash flows of these businesses for the year ended December 31, 2014, and the net gain on the sale, are reported as results from discontinued operations for the year ended December 31, 2014. In prior periods presented, the results of operations and cash flows of these businesses were reclassified from continuing operations and presented as results from discontinued operations.

Essilor has also entered into 5 year agreements with PPG for the continued supply of photochromic materials and for research and development services, subject to renewal. PPG considered the significance of the revenues associated with the agreements compared to total operating revenues of the disposed businesses and determined that they were not significant.

Net sales and earnings from discontinued operations related to the Transitions Optical and sunlens transaction are presented in the table below:

	Year-Ended		
($ in millions)	2014	2013	2012
Net sales	$ 247	$843	$826
Income from operations	$ 104	$263	$229
Net gain from divestiture of PPG's interest in the Transitions Optical joint venture and sunlens business	1,468	—	—
Income tax expense	570	80	73
Income from discontinued operations, net of tax	$1,002	$183	$156
Less: Net income attributable to non-controlling interests, discontinued operations	$ (33)	$ (99)	$ (93)
Net income from discontinued operations (attributable to PPG)	$ 969	$ 84	$ 63

The major classes of assets and liabilities of the Transitions Optical and sunlens businesses included in the PPG balance sheet at December 31, 2013 were as follows:

($ in millions)	
Cash	$ 154
Receivables	225
Inventory	68
Other current assets	13
Property, plant, and equipment	158
Goodwill	47
Other non-current assets	3
Total assets	$ 668
Accounts payable and accrued liabilities	(199)
Short-term debt and current portion of long-term debt	(24)
Accrued pensions	(1)
Other long-term liabilities	(10)
Noncontrolling interests	(167)
Net assets	$ 267

19. Reportable Business Segment Information

Segment Organization and Products

PPG is a multinational manufacturer with 11 operating segments (which the Company refers to as "strategic business units") that are organized based on the Company's major products lines. These operating segments are also the Company's reporting units for purposes of testing goodwill for impairment (see Note 1, "Summary of Significant Accounting Policies").

In conjunction with the Company's continued strategic focus on its coatings businesses, including the growth of the Company's global architectural coatings business, as well as the divestiture of its 51% ownership interest in its Transitions Optical joint venture and 100% of its sunlens business to Essilor, the Company realigned its segment reporting structure in the first quarter ended March 31, 2014.

Under the new segment reporting structure, the Company's reportable business segments have changed from the five segments of Performance Coatings, Industrial Coatings, Architectural Coatings-Europe, Middle East and Africa, Optical and Specialty Materials and Glass to the following three segments: Performance Coatings, Industrial Coatings and Glass. The segment financial results of the former Architectural Coatings-Europe, Middle East and Africa segment are now included in the Performance Coatings segment along with the architectural coatings—Americas and Asia Pacific businesses, and the segment financial results of the remaining former Optical and Specialty Materials segment, renamed specialty coatings and materials, are included in the Industrial Coatings segment. The operating segments have been aggregated based on economic similarities, the nature of their products, production processes, end-use markets and methods of distribution. The prior year information has been adjusted to conform to the new segment reporting structure.

The Performance Coatings reportable segment is comprised of the refinish, aerospace, architectural coatings—Americas and Asia Pacific, architectural coatings—EMEA, and protective and marine coatings operating segments. This reportable segment primarily supplies a variety of protective and decorative coatings, sealants and finishes along with paint strippers, stains and related chemicals, as well as transparencies and transparent armor.

The Industrial Coatings reportable segment is comprised of the automotive original equipment manufacturer ("OEM") coatings, industrial coatings, packaging coatings, and the specialty coatings and materials operating segments. This reportable segment primarily supplies a variety of protective and decorative coatings and finishes along with adhesives, sealants, metal pretreatment products, optical monomers and coatings, precipitated silicas and other specialty materials.

The Glass reportable segment is comprised of the flat glass and fiber glass operating segments. This reportable segment primarily supplies flat glass and continuous-strand fiber glass products.

Production facilities and markets for Performance Coatings, Industrial Coatings, and Glass are global. PPG's reportable segments continue to pursue opportunities to further develop their global markets, including efforts in Asia, Eastern Europe and Latin America. Each of the reportable segments in which PPG is engaged is highly competitive. The diversification of our product lines and the worldwide markets served tend to minimize the impact on PPG's total sales and income from continuing operations of changes in demand in a particular market or in a particular geographic area.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (See Note 1, "Summary of Significant Accounting Policies"). The Company allocates resources to operating segments and evaluates the performance of operating segments based upon segment income, which is income before interest expense—net, income taxes, and noncontrolling interests and excludes certain charges which are considered to be unusual or non-recurring. The Company also evaluates performance of operating segments based on working capital reduction, margin growth, and sales volume growth. Legacy items include current costs related to former operations of the Company, including certain environmental remediation, pension and other postretirement benefit costs, and certain charges for legal and other matters which are considered to be unusual or non-recurring. These legacy costs are excluded from the segment income that is used to evaluate the performance of the operating segments. Legacy items also include equity earnings from PPG's approximate 40% investment in its former automotive glass and services business and $19 million, $30 million and $35 million of costs in 2014, 2013 and 2012, respectively, related to the pension and other postemployment benefit liabilities of the divested business retained by PPG. Corporate unallocated costs include the costs of corporate staff functions not directly associated with the operating segments, the cost of corporate legal cases, net of related insurance recoveries and the cost of certain insurance and stock-based compensation programs. Net periodic pension expense is allocated to the operating segments and the portion of net periodic pension expense related to the corporate staff functions is included in the Corporate unallocated costs.

For the sales between the Industrial Coatings and Glass segments, intersegment sales and transfers are recorded at selling prices that approximate market prices. Product movement between Performance Coatings and Industrial Coatings is limited, is accounted for as an inventory transfer, and is recorded at cost plus a mark-up, the impact of which is not significant to the segment income of the coatings reportable segments.

($ in millions) **Reportable Business Segments**	**Performance Coatings**	**Industrial Coatings**	**Glass**	**Corporate / Eliminations / Non-Segment Items[1]**	**Consolidated Totals**
2014					
Net sales to external customers	$ 8,698	$5,552	$1,110	$ —	$15,360
Intersegment net sales	—	1	1	(2)	—
Total net sales	$ 8,698	$5,553	$1,111	$ (2)	$15,360
Segment income	$ 1,205	$ 951	$ 81	$ —	$ 2,237
Legacy items[2]					(49)
Debt refinancing charge					(317)
Transaction-related costs[5]					(62)
Interest expense, net of interest income					(137)
Corporate unallocated[1]					(256)
Income before income taxes					1,416
Depreciation and amortization	$ 284	$ 115	$ 53	$ 24	$ 476
Share of net earnings (loss) of equity affiliates	—	—	(3)	104	101
Segment assets[3]	10,709	3,621	859	2,394	17,583
Investment in equity affiliates	41	15	127	112	295
Expenditures for property (including business acquisitions)	2,374	251	56	39	2,720

($ in millions) **Reportable Business Segments**	**Performance Coatings**	**Industrial Coatings**	**Glass**	**Corporate / Eliminations / Non-Segment Items[1]**	**Consolidated Totals**
2013					
Net sales to external customers	$7,934	$5,264	$1,067	$ —	$14,265
Intersegment net sales	—	1	—	(1)	—
Total net sales	$7,934	$5,265	$1,067	$ (1)	$14,265
Segment income	$1,043	$ 824	$ 56	$ —	$ 1,923
Legacy items[2]					(165)
Business restructuring					(98)
Transaction-related costs[5]					(36)
Interest expense, net of interest income					(153)
Corporate unallocated[1]					(245)
Income before income taxes					1,226
Depreciation and amortization	$ 268	$ 110	$ 52	$ 22	$ 452
Share of net earnings/(loss) of equity affiliates	1	(1)	(6)	(2)	(8)
Segment assets[3]	8,067	3,447	917	3,432	15,863
Investment in equity affiliates	32	16	149	48	245
Expenditures for property (including business acquisitions)	1,167	209	80	52	1,508

($ in millions) **Reportable Business Segments**	**Performance Coatings**	**Industrial Coatings**	**Glass**	**Corporate / Eliminations / Non-Segment Items[1]**	**Consolidated Totals**
2012					—
Net sales to external customers	$6,899	$4,755	$1,032	$ —	$12,686
Intersegment net sales	$ —	$ 1	$ —	$ (1)	$ —
Total net sales	$6,899	$4,756	$1,032	$ (1)	$12,686
Segment income	$889	$ 677	$ 63	$ —	$ 1,629
Legacy items[2]					(216)
Business restructuring					(176)
Transaction-related costs[5]					(11)
Interest expense, net of interest income					(170)
Corporate unallocated[1]					(228)
Income before income taxes					$ 828
Depreciation and amortization	$ 226	$ 98	$ 53	$ 22	$ 399
Share of net earnings of equity affiliates	3	(1)	4	3	9
Segment assets[3]	6,720	3,107	914	5,137	15,878
Investment in equity affiliates	29	15	166	52	262
Expenditures for property (including business acquisitions)	155	195	46	124	520

($ in millions) **Geographic Information**	**2014**	**2013**	**2012**
Net sales[4]			
The Americas			
United States	$ 6,323	$ 5,712	$ 4,620
Other Americas	1,718	1,445	1,046
Europe, Middle East and Africa ("EMEA")	4,802	4,650	4,612
Asia Pacific	2,517	2,458	2,408
Total	$15,360	$14,265	$12,686
Segment income			
The Americas			
United States	$ 1,167	$ 1,031	$ 845
Other Americas	175	117	74
EMEA	576	475	430
Asia Pacific	319	300	280
Total	$ 2,237	$ 1,923	$ 1,629

(continued)

($ in millions)

Geographic Information	2014	2013	2012
Property—Net			
The Americas			
United States	$ 1,386	$ 1,285	$ 1,379
Other Americas	461	153	100
EMEA	831	935	903
Asia Pacific	414	503	506
Total	$ 3,092	$ 2,876	$ 2,888

[1] Corporate intersegment net sales represent intersegment net sales eliminations. Corporate unallocated costs include the costs of corporate staff functions not directly associated with the operating segments, certain legal and insurance costs and stock-based compensation expense.

[2] Legacy items include current costs related to former operations of the Company, including certain environmental remediation, pension and other postretirement benefit costs, legal costs and certain charges which are considered to be non-recurring. The Legacy items for 2014, 2013, and 2012 include environmental remediation pre-tax charges of $138 million, $101 million, and $159 million, respectively. These charges relate to continued environmental remediation activities at legacy chemicals sites, primarily at PPG's former Jersey City, N.J. chromium manufacturing plant and associated sites (See Note 13). In 2014, Legacy items includes the gains from an equity affiliates sale of a business line and the sale of a flat glass plant (See Note 2). Legacy items also include equity earnings from PPG's approximate 40% investment in the former automotive glass and services business.

[3] Segment assets are the total assets used in the operation of each segment. Corporate assets are principally cash and cash equivalents, cash held in escrow, short term investments, deferred tax assets and the approximate 40% investment in the former automotive glass and services business. Non-segment items also includes the assets of businesses which have been reclassified as discontinued operations in the Consolidated Statement of Income. (See Note 2).

[4] Net sales to external customers are attributed to geographic regions based upon the location of the operating unit shipping the product.

[5] Transaction-related costs include advisory, legal, accounting, valuation, and other professional or consulting fees incurred to effect significant acquisitions, as well as similar fees and other costs to effect disposals not classified as discontinued operations. These costs also includes the flow-through cost of sales of the step up to fair value of inventory acquired in acquisitions.

Departures From Unmodified (Unqualified) Opinions

PRESENTATION

Author's Note

The clarified auditing standards use the term *unmodified opinions*, and the extant standards as adopted by the PCAOB use the term *unqualified opinions*.

NONISSUERS

7.46 Paragraph .07 of AU-C section 705 states that the auditor should modify the opinion in the auditor's report when the auditor concludes the financial statements as a whole are materially misstated or when the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

ISSUERS

7.47 AU section 508 does not require auditors to express qualified opinions about the effects of uncertainties or lack of consistency. Under AU section 508, departures from unqualified opinions include opinions qualified because of a scope limitation or departure from GAAP, including inadequate disclosures; adverse opinions; and disclaimers of opinion. Paragraphs .20–.63 of AU section 508 discuss these departures. None of the auditors' reports issued in connection with the financial statements of the survey entities contained a *departure*, as defined by AU section 508.

Reports on Comparative Financial Statements

PRESENTATION

NONISSUERS

7.48 AU-C section 700 discusses reports on comparative statements. Paragraph .53 of AU-C section 700 states that when reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor, the auditor should disclose the following in an emphasis-of-matter or other-matter paragraph, in accordance with AU-C section 706:

- The date of the auditor's previous report
- The type of opinion previously expressed
- The substantive reasons for the different opinion
- That the auditor's opinion on the amended financial statements is different from the auditor's previous opinion

ISSUERS

7.49 Paragraphs .65–.74 of AU section 508 discuss reports on comparative financial statements.

PRESENTATION AND DISCLOSURE EXCERPT

CHANGE IN AUDITORS

7.50 BARNES & NOBLE, INC. (APR)

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

As previously disclosed, the Audit Committee completed a competitive process to review the appointment of the Company's independent registered public accounting firm for the fiscal year ending April 27, 2013. The Audit Committee invited several firms to participate in this process. As a result of this process and following careful deliberation, on October 16, 2012, the Audit Committee notified BDO USA, LLP (BDO) that it had determined to dismiss BDO as the Company's independent registered public accounting firm, effective as of that same date. On and effective as of that same date, the Company entered into an engagement letter with Ernst & Young LLP (E&Y), approved by the Audit Committee, and engaged E&Y as the Company's independent registered public accounting firm. In approving the selection of E&Y as the Company's independent registered public accounting firm, the Audit Committee considered all relevant factors, including any non-audit services previously provided by E&Y to the Company.

BDO's reports on the Company's consolidated financial statements for the year ended April 28, 2012 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's fiscal 2012 and the subsequent interim period preceding BDO's dismissal, there were:

(i) no "disagreements" (within the meaning of Item 304(a) of Regulation S-K) with BDO on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of BDO, would have caused it to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements of the Company; and

(ii) no "reportable events" (as such term is defined in Item 304(a)(1)(v) of Regulation S-K).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Barnes & Noble, Inc.

We have audited the accompanying consolidated balance sheets of Barnes & Noble, Inc. as of May 3, 2014 and April 27, 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the fiscal years then ended. Our audits also included the financial statement schedule listed in the Index at Item 15(a) for fiscal years 2013 and 2014. 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 Barnes & Noble, Inc. at May 3, 2014 and April 27, 2013, and the consolidated results of its operations and its cash flows for the fiscal years then ended, 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, present fairly in all material respects the information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Barnes & Noble, Inc.'s internal control over financial reporting as of May 3, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 27, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, NY
June 27, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Barnes & Noble, Inc.
New York, New York

We have audited the accompanying consolidated statement of operations of Barnes & Noble, Inc., as of April 28, 2012 and the related statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the fiscal year ended April 28, 2012. 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 audit.

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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations of Barnes & Noble, Inc. as of April 28, 2012 and its cash flows for the fiscal year ended April 28, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP
BDO USA, LLP
New York, New York
June 27, 2012, except for Note 22, as to which the date is July 26, 2013

Opinion Expressed on Supplementary Financial Information

PRESENTATION

Author's Note

Because the report on supplementary financial information is applicable only for issuers, the following guidance is not intended for nonissuers.

7.51 Annual reports to security holders may be combined with the required information of SEC Form 10-K and are suitable for filing with the SEC if certain conditions are satisfied. Accordingly, many survey entities prepare an integrated annual report or simply provide to stockholders a copy of Form 10-K in lieu of the annual report. Form 10-K requires inclusion of certain supplementary financial information, including schedules (Article 12 of Regulation S-X) that must be audited. The report on the audit of schedules may be a separate report or combined with the report on the audit of the basic financial statements.

PRESENTATION AND DISCLOSURE EXCERPTS

SUPPLEMENTARY FINANCIAL INFORMATION

7.52 ORACLE CORPORATION (MAY)

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Oracle Corporation

We have audited the accompanying consolidated balance sheets of Oracle Corporation as of May 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a) 2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 Oracle Corporation at May 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2014, 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), Oracle Corporation's internal control over financial reporting as of May 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 26, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
June 26, 2014

SCHEDULE II

Valuation and Qualifying Accounts

(in millions)	Beginning Balance	Additions Charged to Operations or Other Accounts	Write-offs	Translation Adjustments and Other	Ending Balance
Allowances for Doubtful Trade Receivables					
Year Ended:					
May 31, 2012	$372	$ 92	$(107)	$(34)	$323
May 31, 2013	$323	$118	$(167)	$ 22	$296
May 31, 2014	$296	$122	$(120)	$ 8	$306

7.53 BAXTER INTERNATIONAL INC. (DEC)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Baxter International Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(1) present fairly, in all material respects, the financial position of Baxter International Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting incorporated by reference under Item 9 A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders of Baxter International Inc.:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 26, 2015 listed in the index appearing under Item 15(1) in this Form 10-K also included an audit of the financial statement schedule listed in the index appearing under Item 15(2) of this Annual Report on Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 26, 2015

SCHEDULE II

		Additions			
Valuation and Qualifying Accounts (In millions)	**Balance at Beginning of Period**	**Charged to Costs and Expenses**	**Charged (Credited) to Other Accounts**[1]	**Deductions from Reserves**	**Balance at End of Period**
Year ended December 31, 2014:					
Allowance for doubtful accounts	$169	1	(16)	(15)	$139
Deferred tax asset valuation allowance	$137	10	(7)	(3)	$137
Year ended December 31, 2013:					
Allowance for doubtful accounts	$127	26	27	(11)	$169
Deferred tax asset valuation allowance	$104	13	25	(5)	$137
Year ended December 31, 2012:					
Allowance for doubtful accounts	$128	12	(2)	(11)	$127
Deferred tax asset valuation allowance	$116	10	(4)	(18)	$104

[1] Valuation accounts of acquired or divested companies and foreign currency translation adjustments.

Reserves are deducted from assets to which they apply.

Dating of Report

PRESENTATION

NONISSUERS

7.54 Dating of the auditor's report is discussed in both AU-C section 700 and AU-C section 560. Paragraph .41 of AU-C section 700 states that the auditor's report should be dated no earlier than the date on which the auditors has obtained sufficient appropriate audit evidence on which to base the auditor's opinion, including evidence that

- the audit documentation has been reviewed;
- all statements that the financial statements comprise, including related notes, have been prepared; and
- management has asserted that it has taken responsibility for those financial statements.

7.55 Paragraph .13 of AU-C section 560 states that if management revises the financial statements, the auditor should perform the audit procedures necessary in the circumstances on the revision. The auditor also should either

- date the auditor's report as of a later date or
- include an additional date in the auditor's report on the revised financial statements that is limited to the revision (that is, dual-date the auditor's report for that revision), thereby indicating that the auditor's procedures subsequent to the original date of the auditor's report are limited solely to the revision of the financial statements described in the relevant note to the financial statements.

ISSUERS

7.56 Paragraphs .01 and .05 of AU section 530, *Dating of the Independent Auditor's Report* (AICPA, *PCAOB Standards and Related Rules*, Interim Standards), state the following:

> **.01** The auditor should date the audit report no earlier than the date on which the auditor has obtained sufficient appropriate evidence to support the auditor's opinion. Paragraph .05 describes the procedure to be followed when a subsequent event occurring after the report date is disclosed in the financial statements.
>
> Note: When performing an integrated audit of financial statements and internal control over financial reporting, the auditor's reports on the company's financial statements and on internal control over financial reporting should be dated the same date.
>
> Note: If the auditor concludes that a scope limitation will prevent the auditor from obtaining the reasonable assurance necessary to express an opinion on the financial statements, then the auditor's report date is the date that the auditor has obtained sufficient appropriate evidence to support the representations in the auditor's report.
>
> **.05** The independent auditor has two methods for dating the report when a subsequent event disclosed in the financial statements occurs after the auditor has obtained sufficient appropriate evidence on which to base his or her opinion, but before the issuance of the related financial statements. The auditor may use "dual dating," for example, "February 16, 20___, except for Note___, as to which the date is March 1, 20___," or may date the report as of the later date. In the former instance, the responsibility for events occurring subsequent to the original report date is limited to the specific event referred to in the note (or otherwise disclosed). In the latter instance, the independent auditor's responsibility for subsequent events extends to the later report date and, accordingly, the procedures outlined in section 560.12 generally should be extended to that date.

PRESENTATION AND DISCLOSURE EXCERPT

DATING OF REPORT

7.57 GREIF, INC. (OCT)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Greif, Inc. and subsidiary companies:

We have audited the accompanying consolidated balance sheet of Greif, Inc. and subsidiary companies (the "Company") as of October 31, 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year ended October 31, 2014. Our audit also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Greif, Inc. and subsidiary companies as of October 31, 2014, and the results of their operations and their cash flows for the year ended October 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of October 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 21, 2015 expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

/s/ Deloitte & Touche LLP
Columbus, Ohio
January 21, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Greif, Inc. and subsidiary companies:

We have audited the accompanying consolidated balance sheets of Greif, Inc. and subsidiary companies as of October 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended October 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 Greif, Inc. and subsidiary companies at October 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the two years in the period ended October 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.

/s/ Ernst & Young LLP
December 23, 2013, except for the impact of the matters discussed in Notes 1, 20 and 21 pertaining to the correction of errors and restatement, as to which the date is January 21, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)

Note 1—Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation (in part)

Certain amounts have been restated to correct errors that were not material to the Company in any prior quarter or year. Refer to Note 21 for additional information.

Note 20—Quarterly Financial Data (Unaudited)

The quarterly results of operations for 2014 and 2013 are shown below (Dollars in millions, except per share amounts):

2014	January 31	April 30	July 31	October 31
Net sales	$ 1,001.5	$ 1,065.5	$ 1,124.0	$ 1,048.1
Gross profit	$ 186.1	$ 204.3	$ 217.7	$ 202.9
Net income[1]	$ 31.8	$ 37.1	$ 11.5	$ (35.5)
Net income attributable to Greif, Inc.[1]	$ 30.7	$ 38.4	$ 13.7	$ 8.7
Earnings per share				
Basic:				
Class A Common Stock	$ 0.53	$ 0.65	$ 0.23	$ 0.15
Class B Common Stock	$ 0.78	$ 0.98	$ 0.35	$ 0.22
Diluted:				
Class A Common Stock	$ 0.53	$ 0.65	$ 0.23	$ 0.15
Class B Common Stock	$ 0.78	$ 0.98	$ 0.35	$ 0.22
Earnings per share were calculated using the following number of shares:				
Basic:				
Class A Common Stock	25,470,354	25,540,341	25,576,452	25,603,452
Class B Common Stock	22,119,966	22,119,966	22,119,966	22,119,966
Diluted:				
Class A Common Stock	25,495,642	25,560,846	25,581,952	25,554,934
Class B Common Stock	22,119,966	22,119,966	22,119,966	22,119,966
Market price (Class A Common Stock):				
High	$ 56.47	$ 54.98	$ 56.53	$ 50.85
Low	$ 50.35	$ 47.91	$ 49.70	$ 41.75
Close	$ 50.63	$ 54.19	$ 50.18	$ 44.06
Market price (Class B Common Stock):				
High	$ 60.00	$ 59.20	$ 61.09	$ 55.00
Low	$ 51.10	$ 53.03	$ 53.06	$ 47.90
Close	$ 55.51	$ 58.81	$ 53.62	$ 50.20

[1] We recorded the following significant transactions during the fourth quarter of 2014: (i) restructuring charges of $5.6 million and (ii) non-cash asset impairment charges of $70.2 million, (iii) gain on disposals of properties, plants, equipment, net of $2.8 million, and (iv) gain on disposals of businesses, net of $21.2 million. Refer to Form 10-Q filings, as previously filed with the SEC, for prior quarter significant transactions or trends.

2013	January 31	April 30	July 31	October 31
Net sales	$ 976.2	$ 1,054.7	$ 1,094.8	$ 1,094.2
Gross profit	$ 186.5	$ 202.4	$ 217.2	$ 226.1
Net income[(1)]	$ 24.2	$ 39.7	$ 48.4	$ 35.2
Net income attributable to Greif, Inc.[(1)]	$ 22.9	$ 37.6	$ 46.2	$ 38.0
Earnings per share				
Basic:				
Class A Common Stock	$ 0.40	$ 0.64	$ 0.79	$ 0.65
Class B Common Stock	$ 0.58	$ 0.96	$ 1.18	$ 0.97
Diluted:				
Class A Common Stock	$ 0.40	$ 0.64	$ 0.79	$ 0.65
Class B Common Stock	$ 0.58	$ 0.96	$ 1.18	$ 0.97
Earnings per share were calculated using the following number of shares:				
Basic:				
Class A Common Stock	25,316,395	25,390,486	25,435,379	25,454,762
Class B Common Stock	22,119,966	22,119,966	22,119,966	22,119,966
Diluted:				
Class A Common Stock	25,380,502	25,432,388	25,464,664	25,473,695
Class B Common Stock	22,119,966	22,119,966	22,119,966	22,119,966
Market price (Class A Common Stock):				
High	$ 47.93	$ 54.28	$ 56.38	$ 58.27
Low	$ 39.80	$ 45.49	$ 47.35	$ 47.76
Close	$ 46.98	$ 48.17	$ 55.32	$ 53.49
Market price (Class B Common Stock):				
High	$ 51.73	$ 57.44	$ 58.54	$ 60.00
Low	$ 43.45	$ 48.24	$ 51.01	$ 52.02
Close	$ 50.34	$ 51.79	$ 57.17	$ 56.85

[(1)] We recorded the following significant transactions during the fourth quarter of 2013: (i) restructuring charges of $2.2 million, (ii) gain on sale of timberland of $17.3 million and (iii) non-cash asset impairment charges of $26.9 million. Refer to Form 10-Q filings, as previously filed with the SEC, for prior quarter significant transactions or trends.

Shares of the Company's Class A Common Stock and Class B Common Stock are listed on the New York Stock Exchange where the symbols are GEF and GEF.B, respectively.

As of January 9, 2015, there were 413 stockholders of record of the Class A Common Stock and 102 stockholders of record of the Class B Common Stock.

The following information represents unaudited restated quarterly information for the years ending October 31, 2014 and 2013. Refer to Note 21 for additional information regarding the restatement of prior financial information.

	Three Months Ended July 31, 2014		
	As Reported	Adjustments	As Adjusted
Net sales	$1,161.1	$(37.1)	$1,124.0
Cost of products sold	944.8	(38.5)	906.3
Gross profit	216.3	1.4	217.7
Selling, general and administrative expenses	129.4	(0.3)	129.1
Operating profit	59.6	1.7	61.3
Other (income) expense, net	1.4	0.2	1.6
Income before income tax expense and equity earnings of unconsolidated affiliates, net	37.5	1.5	39.0
Net Income	10.0	1.5	11.5
Net income attributable to Greif, Inc.	12.2	1.5	13.7
Basic Earnings Per Share Attributable To Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.21	$ 0.02	$ 0.23
Class B Common Stock	$ 0.31	$ 0.04	$ 0.35
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.21	$ 0.02	$ 0.23
Class B Common Stock	$ 0.31	$ 0.04	$ 0.35

	Three Months Ended April 30, 2014		
	As Reported	**Adjustments**	**As Adjusted**
Net sales	$1,100.7	$(35.2)	$1,065.5
Cost of products sold	896.5	(35.3)	861.2
Gross profit	204.2	0.1	204.3
Selling, general and administrative expenses	135.4	(2.7)	132.7
Timberland gains	(8.2)	(0.5)	(8.7)
Operating profit	75.8	3.3	79.1
Other (income) expense, net	1.5	0.7	2.2
Income before income tax expense and equity earnings of unconsolidated affiliates, net	53.9	2.6	56.5
Net Income	34.5	2.6	37.1
Net income attributable to Greif, Inc.	35.8	2.6	38.4
Basic Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.61	$ 0.04	$ 0.65
Class B Common Stock	$ 0.92	$ 0.06	$ 0.98
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.61	$ 0.04	$ 0.65
Class B Common Stock	$ 0.92	$ 0.06	$ 0.98

	Three Months Ended January 31, 2014		
	As Reported	**Adjustments**	**As Adjusted**
Net sales	$1,034.4	$(32.9)	$1,001.5
Cost of products sold	847.8	(32.4)	815.4
Gross profit	186.6	(0.5)	186.1
Selling, general and administrative expenses	121.5	(0.2)	121.3
Timberland gains	(8.7)	0.3	(8.4)
Operating profit	72.0	(0.6)	71.4
Other (income) expense, net	4.6	(1.8)	2.8
Income before income tax expense and equity earnings of unconsolidated affiliates, net	47.0	1.2	48.2
Net Income	30.6	1.2	31.8
Net income attributable to Greif, Inc.	29.5	1.2	30.7
Basic Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.51	$ 0.02	$ 0.53
Class B Common Stock	$ 0.75	$ 0.03	$ 0.78
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.51	$ 0.02	$ 0.53
Class B Common Stock	$ 0.75	$ 0.03	$ 0.78

	Three Months Ended July 31, 2013		
	As Reported	**Adjustments**	**As Adjusted**
Net sales	$1,129.7	$(34.9)	$1,094.8
Cost of products sold	912.4	(34.8)	877.6
Gross profit	217.3	(0.1)	217.2
Selling, general and administrative expenses	118.2	0.1	118.3
Operating profit	96.7	(0.2)	96.5
Other (income) expense, net	4.0	(0.1)	3.9
Income before income tax expense and equity earnings of unconsolidated affiliates, net	73.5	(0.1)	73.4
Income tax (benefit) expense	25.9	0.3	26.2
Net Income	48.8	(0.4)	48.4
Net (income) loss attributable to noncontrolling interests	(2.1)	(0.1)	(2.2)
Net income attributable to Greif, Inc.	46.7	(0.5)	46.2
Basic Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.80	$(0.01)	$ 0.79
Class B Common Stock	$ 1.20	$(0.02)	$ 1.18
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.80	$(0.01)	$ 0.79
Class B Common Stock	$ 1.20	$(0.02)	$ 1.18

	Three Months Ended April 30, 2013		
	As Reported	Adjustments	As Adjusted
Net sales	$1,088.9	$(34.2)	$1,054.7
Cost of products sold	886.3	(34.0)	852.3
Gross profit	202.6	(0.2)	202.4
Selling, general and administrative expenses	120.1	0.2	120.3
Non-cash asset impairment charges	2.2	(0.1)	2.1
Operating profit	83.9	(0.3)	83.6
Other (income) expense, net	0.8	2.0	2.8
Income before income tax expense and equity earnings of unconsolidated affiliates, net	61.7	(2.3)	59.4
Income tax (benefit) expense	19.6	0.3	19.9
Net Income	42.3	(2.6)	39.7
Net income attributable to Greif, Inc.	40.2	(2.6)	37.6
Basic Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.69	$(0.05)	$ 0.64
Class B Common Stock	$ 1.03	$(0.07)	$ 0.96
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.69	$(0.05)	$ 0.64
Class B Common Stock	$ 1.03	$(0.07)	$ 0.96

	Three Months Ended January 31, 2013		
	As Reported	Adjustments	As Adjusted
Net sales	$1,008.6	$(32.4)	$976.2
Cost of products sold	821.9	(32.2)	789.7
Gross profit	186.7	(0.2)	186.5
Selling, general and administrative expenses	122.6	0.2	122.8
Operating profit	64.0	(0.4)	63.6
Income before income tax expense and equity earnings of unconsolidated affiliates, net	38.0	(0.4)	37.6
Income tax (benefit) expense	13.2	0.3	13.5
Net Income	24.9	(0.7)	24.2
Net income attributable to Greif, Inc.	23.6	(0.7)	22.9
Basic Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.41	$(0.01)	$ 0.40
Class B Common Stock	$ 0.60	$(0.02)	$ 0.58
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 0.41	$(0.01)	$ 0.40
Class B Common Stock	$ 0.60	$(0.02)	$ 0.58

Note 21—Correction of Errors and Restatement

In the fourth quarter of 2014, the Company's financial reporting and income tax processes identified financial statement errors in several prior periods within its Rigid Industrial Packaging & Services segment, its Paper Packaging segment and its Flexible Products & Services segment. The errors related to improperly stated deferred tax assets and liabilities, uncertain tax positions, income tax expense, accounting for paper trading activities at cost, Venezuela hyperinflation accounting, inventory, fixed assets and other asset and liability balances. Consequently, the Company has restated certain prior period amounts.

The impact of these prior period errors were not material to the Company in any of those years. However, the aggregate amount of prior period errors, net of tax, of $24.5 million would have been material to the Company's current year consolidated statement of income. The Company has corrected these errors for all prior periods presented, including each of the quarters ended in 2014 and 2013, by restating the consolidated financial statements and other financial information included herein.

The amounts for prior period errors consisted of the following: $8.3 million for deferred tax assets and liabilities; $5.4 million for uncertain tax positions; $6.5 million for Venezuela hyperinflation accounting; $2.4 million for amortization expense; and $1.9 million for the other asset and liability accounts. In addition, the revenue eliminations from the paper trading transactions reduced both net sales and cost of products sold in the Paper Packing segment by $133.5 million and $140.0 million, for the years ended October 31, 2013 and 2012, respectively.

The following are the previously stated and corrected balances of certain consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows. The "As Reported" amounts are the amounts reported in the Annual Report on Form 10-K for the fiscal year ended October 31, 2013 (Dollars in millions, except per share amounts):

	For the Year Ended October 31, 2013		
	As Reported	Adjustments	As Adjusted
Net Sales	$4,353.4	$(133.5)	$4,219.9
Cost of products sold	3,520.8	(133.1)	3,387.7
Gross profit	832.6	(0.4)	832.2
Timberland gains	(17.5)	0.2	(17.3)
Non-cash asset impairment charges	34.0	(2.6)	31.4
Operating profit	339.6	2.0	341.6
Other (income) expense, net	10.8	2.3	13.1
Income before income tax expense and equity earnings of unconsolidated affiliates, net	243.7	(0.3)	243.4
Income tax (benefit) expense	97.6	1.2	98.8
Net Income	149.0	(1.5)	147.5
Net (income) loss attributable to noncontrolling interests	(1.7)	(1.1)	(2.8)
Net income attributable to Greif, Inc.	147.3	(2.6)	144.7
Basic Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 2.52	$ (0.05)	$ 2.47
Class B Common Stock	$ 3.77	$ (0.07)	$ 3.70
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 2.52	$ (0.05)	$ 2.47
Class B Common Stock	$ 3.77	$ (0.07)	$ 3.70

	October 31, 2013		
	As Reported	Adjustments	As Adjusted
Current Assets			
Inventories	$ 375.3	$ (0.9)	$ 374.4
Deferred tax assets	22.2	7.6	29.8
Prepaid expenses and other current assets	132.2	(0.4)	131.8
Total current assets	1,094.0	6.3	1,100.3
Long-Term Assets			
Goodwill	1,003.5	(5.1)	998.4
Other intangible assets, net of amortization	180.8	4.4	185.2
Total long-term assets	1,389.9	(0.7)	1,389.2
Properties, Plants and Equipment			
Machinery and equipment	1,523.7	(1.1)	1,522.6
Total properties, plants and equipment, net	1,398.3	(1.1)	1,397.2
Total assets	3,882.2	4.5	3,886.7
Current Liabilities			
Other current liabilities	178.8	7.7	186.5
Total current liabilities	801.7	7.7	809.4
Long-Term Liabilities			
Deferred tax liabilities	238.1	8.3	246.4
Other long-term liabilities	92.9	6.6	99.5
Total long-term liabilities	1,682.5	14.9	1,697.4
Shareholders' Equity			
Retained earnings	1,443.8	(25.0)	1,418.8
Accumulated other comprehensive loss	(159.0)	6.4	(152.6)
Total Greif, Inc. shareholders' equity	1,283.2	(18.6)	1,264.6
Noncontrolling interests	114.8	0.5	115.3
Total shareholders' equity	1,398.0	(18.1)	1,379.9
Total liabilities and shareholders' equity	3,882.2	4.5	3,886.7

	For the Year Ended October 31, 2013		
	As Reported	Adjustments	As Adjusted
Cash Flows from Operating Activities:			
Net income	$ 149.0	$ (1.5)	$ 147.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	156.9	0.7	157.6
Asset impairments	34.0	(2.6)	31.4
Deferred income taxes	2.0	0.6	2.6
Gain on disposals of properties, plants and equipment, net	(23.1)	17.5	(5.6)
Gain on disposals of timberland, net	—	(17.3)	(17.3)
Increase (decrease) in cash from changes in certain assets and liabilities:			
Trade accounts receivable	(35.4)	(0.2)	(35.6)
Inventories	(3.5)	0.9	(2.6)
Pension and postretirement benefit liabilities	7.5	(11.6)	(4.1)
Other, net	8.1	13.5	21.6
Net cash provided by operating activities	250.3	—	250.3
Cash Flows from Investing Activities:			
Net cash used in investing activities	(100.7)	—	(100.7)
Cash Flows from Financing Activities:			
Proceeds from (payments on) trade accounts receivable credit facility, net	30.0	(30.0)	—
Proceeds from trade accounts receivable credit facility	—	75.6	75.6
Payments on trade accounts receivable credit facility	—	(45.6)	(45.6)
Net cash used in financing activities	(159.9)	—	(159.9)

	For the Year Ended October 31, 2012		
	As Reported	Adjustments	As Adjusted
Net Sales	$4,269.5	$(140.0)	$4,129.5
Cost of products sold	3,489.9	(139.9)	3,350.0
Gross profit	779.6	(0.1)	779.5
Selling, general and administrative expenses	468.4	1.4	469.8
Non-cash asset impairment charges	12.9	0.3	13.2
Operating profit	282.8	(1.8)	281.0
Other (income) expense, net	7.5	0.2	7.7
Income before income tax expense and equity earnings of unconsolidated affiliates, net	185.4	(2.0)	183.4
Income tax (benefit) expense	58.8	2.3	61.1
Net Income	127.9	(4.3)	123.6
Net income attributable to Greif, Inc.	122.4	(4.3)	118.1
Basic Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 2.10	$ (0.07)	$ 2.03
Class B Common Stock	$ 3.14	$ (0.11)	$ 3.03
Diluted Earnings Per Share Attributable to Greif, Inc. Common Shareholders:			
Class A Common Stock	$ 2.10	$ (0.07)	$ 2.03
Class B Common Stock	$ 3.14	$ (0.11)	$ 3.03

	October 31, 2012		
	As Reported	Adjustments	As Adjusted
Current Assets			
Trade accounts receivable, less allowance	$ 453.8	$ (0.2)	$ 453.6
Deferred tax assets	18.9	6.6	25.5
Prepaid expenses and other current assets	114.8	(0.5)	114.3
Total current assets	1,055.3	5.9	1,061.2
Long-Term Assets			
Goodwill	976.1	(5.1)	971.0
Other intangible assets, net of amortization	198.6	5.2	203.8
Total long-term assets	1,373.2	0.1	1,373.3
Properties, Plants and Equipment			
Machinery and equipment	1,472.6	(3.5)	1,469.1
Total properties, plants and equipment, net	1,424.9	(3.5)	1,421.4
Total assets	3,853.4	2.5	3,855.9
Current Liabilities			
Other current liabilities	187.9	8.5	196.4
Total current liabilities	867.3	8.5	875.8
Long-Term Liabilities			
Deferred tax liabilities	197.0	7.8	204.8
Other long-term liabilities	117.0	5.1	122.1
Total long-term liabilities	1,675.3	12.9	1,688.2
Shareholders' Equity			
Retained earnings	1,394.8	(22.6)	1,372.2
Accumulated other comprehensive loss	(196.0)	4.3	(191.7)
Total Greif, Inc. shareholders' equity	1,191.2	(18.3)	1,172.9
Noncontrolling interests	119.6	(0.6)	119.0
Total shareholders' equity	1,310.8	(18.9)	1,291.9
Total liabilities and shareholders' equity	3,853.4	2.5	3,855.9

	For the Year Ended October 31, 2012		
	As Reported	Adjustments	As Adjusted
Cash Flows from Operating Activities:			
Net income	$ 127.9	$ (4.3)	$ 123.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	154.8	0.8	155.6
Asset impairments	12.9	0.3	13.2
Deferred income taxes	20.2	1.8	22.0
Increase (decrease) in cash from changes in certain assets and liabilities:			
Trade accounts receivable	96.7	0.1	96.8
Accounts payable	3.5	(0.2)	3.3
Other, net	45.3	1.5	46.8
Net cash provided by operating activities	473.3	—	473.3
Cash Flows from Investing Activities:			
Net cash used in investing activities	(153.8)	—	(153.8)
Cash Flows from Financing Activities:			
Proceeds from (payments on) trade accounts receivable credit facility, net	(20.0)	20.0	—
Proceeds from trade accounts receivable credit facility	—	40.8	40.8
Payments on trade accounts receivable credit facility	—	(60.8)	(60.8)
Net cash used in financing activities	(352.2)	—	(352.2)

The following are the previously reported and corrected balances of certain equity accounts as of October 31, 2011.

	October 31, 2011		
	As Reported	Adjustments	As Adjusted
Retained Earnings	$1,370.1	$(18.5)	$1,351.6
Noncontrolling interests	127.9	(0.6)	127.3
Accumulated Other Comprehensive Income (Loss)	(143.6)	4.3	(139.3)
Shareholders' Equity	1,336.2	(14.8)	1,321.4

Auditors' Reports on Internal Control Over Financial Reporting

PRESENTATION

Author's Note

Because the report on internal control over financial reporting is required only for issuers, the following guidance is not applicable for nonissuers.

7.58 Section 404(a) of the Sarbanes-Oxley Act of 2002 requires that management of a public entity assess the effectiveness of the entity's internal control over financial reporting as of the end of the entity's most recent *fiscal* year and include in the entity's annual report management's conclusions about the effectiveness of the entity's internal control structure and procedures. Management is required to state a direct conclusion about whether the entity's internal control over financial reporting is effective. Management's report on internal control over financial reporting is required to include the following:

- A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the entity
- A statement identifying the framework used by management to conduct the required assessment of the effectiveness of the entity's internal control over financial reporting
- An assessment of the effectiveness of the entity's internal control over financial reporting as of the end of the entity's most recent fiscal year, including an explicit statement about whether that internal control over financial reporting is effective
- A statement that the registered public accounting firm that audited the financial statements included in the annual report has issued an attestation report on management's assessment of the entity's internal control over financial reporting

7.59 Under Section 404(b) of the Sarbanes-Oxley Act of 2002, the auditor who audits the public entity's financial statements included in the annual report is required to audit the entity's internal control over financial reporting. In addition, the auditor is required to audit and report on management's assessment of the effectiveness of internal control over financial reporting. Under PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards), the auditor's objective in an audit of internal control over financial reporting is to express an opinion on the effectiveness of the entity's internal control over financial reporting. The audit of internal control over financial reporting should be integrated with the audit of the financial statements. Accordingly, independent auditors engaged to audit the financial statements of such entities also are required to audit and report on the entity's internal control over financial reporting as of the end of such fiscal year. Further, if the auditor determines that elements of management's annual report on internal control over financial reporting are incomplete or improperly presented, the auditor should modify the report to include an explanatory paragraph describing the reasons for this determination and identify and fairly describe any material weakness. Paragraph 86 of Auditing Standard No. 5 allows the auditor to issue a combined report (that is, one report containing both an opinion on the financial statements and an opinion on internal control over financial reporting) or separate reports on the entity's financial statements and on internal control over financial reporting.

7.60 In September 2010, the SEC approved a final rule related to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act provides that Section 404(b) of the Sarbanes-Oxley Act of 2002 shall not apply with respect to any audit report prepared for an issuer that is neither an accelerated filer nor a large accelerated filer. Prior to the Dodd-Frank Act, a nonaccelerated filer would have been required, under existing SEC rules, to include an attestation report of its registered public accounting firm on internal control over financial reporting in the filer's annual report filed with the SEC for fiscal years ending on or after June 15, 2010.

SEPARATE REPORT ON INTERNAL CONTROL

7.61 LENNAR CORPORATION (NOV)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lennar Corporation

We have audited the accompanying consolidated balance sheets of Lennar Corporation and subsidiaries (the "Company") as of November 30, 2014 and 2013, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended November 30, 2014. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Lennar Corporation and subsidiaries as of November 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of November 30, 2014, based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 23, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Certified Public Accountants
Miami, Florida
January 23, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lennar Corporation

We have audited the internal control over financial reporting of Lennar Corporation and subsidiaries (the "Company") as of November 30, 2014, based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company'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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2014, based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended November 30, 2014 of the Company and our report dated January 23, 2015 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP
Certified Public Accountants
Miami, Florida
January 23, 2015

COMBINED REPORT ON FINANCIAL STATEMENTS AND INTERNAL CONTROL

7.62 ROCKWELL AUTOMATION, INC. (SEP)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareowners of Rockwell Automation, Inc.
Milwaukee, Wisconsin

We have audited the accompanying consolidated balance sheets of Rockwell Automation, Inc. (the "Company") as of September 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, cash flows, and shareowners' equity for each of the three years in the period ended September 30, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). We also have audited the Company's internal control over financial reporting as of September 30, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, 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 Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rockwell Automation, Inc. as of September 30, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP
Milwaukee, Wisconsin
November 18, 2014

REPORT ON INTERNAL CONTROL WITH SPECIFIC ITEMS EXCLUDED

7.63 BADGER METER, INC. (DEC)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Badger Meter, Inc.

We have audited Badger Meter, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Badger Meter, Inc.'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.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of National Meter and Automation, Inc., which is included in the 2014 consolidated financial statements of Badger Meter, Inc. and constituted 7.5% and 11.3% of total and net assets, respectively, as of December 31, 2014 and 2.8% and 3.1% of revenue and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Badger Meter, Inc. also did not include the evaluation of internal control over financial reporting of National Meter and Automation, Inc.

In our opinion, Badger Meter, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, 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 Badger Meter, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014 and our report dated March 4, 2015, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 4, 2015

INEFFECTIVE INTERNAL CONTROLS & MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

7.64 L-3 COMMUNICATIONS HOLDINGS, INC. (DEC)

ITEM 9 A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 ("Exchange Act") related to L-3 Holdings and L-3 Communications (collectively "L-3") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chairman, president and chief executive officer and our senior vice president and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our chairman, president and chief executive officer and our senior vice president and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. Based upon that evaluation, our chairman, president and chief executive officer and our senior vice president and chief financial officer concluded that, as of December 31, 2014, the design and operation of our disclosure controls and procedures were not effective to accomplish their objectives at the reasonable assurance level due to the existence of the material weaknesses discussed below. The material weaknesses were identified in connection with the internal review of our Aerospace Systems segment, which is discussed in "Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Internal Review of Aerospace Systems segment and Related Matters" of this Form 10-K. The review was completed in October 2014.

Notwithstanding the material weaknesses described below, management has concluded that the Company's consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America for each of the periods presented herein.

Management's Report on Internal Control over Financial Reporting

As required by SEC rules and regulations, our management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"), as such term is defined in Exchange Act Rule 13 a-15(f). Our ICFR is designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Our ICFR includes 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 L-3, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with the authorizations of our management and our board of directors, and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets, in each case, that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, ICFR 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.

Management assessed the effectiveness of L-3's internal control over financial reporting as of December 31, 2014. In making these assessments, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)* (the "COSO Criteria"). Based on our assessments and those criteria, management determined that L-3 did not maintain effective ICFR as of December 31, 2014. This assessment was due to the existence of the material weaknesses discussed below that were identified in connection with the internal review as discussed above.

Description of Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Based on our assessment following the completion of the internal review of the Aerospace Systems segment, management identified the following material weaknesses in its ICFR.

1. The Company did not maintain an effective control environment at its Aerospace Systems segment due to: (a) the inadequate execution of existing controls related to the annual review and approval of contract (revenue arrangement) estimates, (b) not following established Company accounting policies, controls and procedures, and (c) the intentional override of numerous transactional and monitoring internal controls at its Army Sustainment division, with regard to the: (i) valuation of inventories, unbilled contract receivables and billed receivables; (ii) preparation of contract invoices; (iii) preparation, review and approval of contract estimates; (iv) recognition of costs overruns on a fixed-price maintenance and logistics support contract; (v) review and analysis of division quarterly financial statements; (vi) physical counts of inventory; and (vii) preparation, review and approval of journal entries.
2. Company personnel did not perform reviews of certain employee concerns regarding violations of the Company's accounting policies and ICFR in a sufficient and effective manner, including assigning those matters to the appropriate subject matter experts for resolution, and informing appropriate members of senior management and the audit committee about the nature of the concerns and the scope and results of the reviews.

The material weaknesses did not result in any material misstatements of the Company's financial statements and disclosures for the years ended December 31, 2014, 2013, or 2012. However, these material weaknesses, if not remediated, could result in material misstatements to the Company's annual financial statements or to its interim consolidated financial statements and related disclosures that would not be prevented or detected.

The effectiveness of the Company's ICFR as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report. See page F-2 to our consolidated financial statements for their report.

Remediation Plans for Material Weaknesses in Internal Control over Financial Reporting

In response to these identified material weaknesses, our management, with oversight from our audit committee, is dedicating significant resources to improve our ICFR and to remediate the identified material weaknesses. These efforts are ongoing and are focused on strengthening the Company's control environment and organizational structure by taking the following actions:

- The Company terminated four employees at its Aerospace Systems segment and one employee at its Aerospace Systems segment resigned. The Company replaced its Aerospace Systems segment chief financial officer, the Logistics Solutions sector president, the Logistics Solutions sector general counsel, the Army Sustainment division president and the Army Sustainment Division vice president of finance at the time of the misconduct.
- The Company has enhanced and reinforced its quarterly and annual financial statement certification process for the Company's Aerospace Systems segment and its divisions.

- During the fourth quarter of 2014, the Company conducted re-training sessions for the financial management personnel at the Aerospace Systems segment and its divisions with regard to the Company's accounting policies and ICFR for: (i) valuation of inventories, unbilled contract receivables and billed receivables; (ii) the preparation of contract invoices; (iii) the preparation, review and approval of contract estimates; (iv) the recognition of incurred costs on fixed-price service contracts; (v) review and analysis of division quarterly financial statements; (vi) physical counts of inventory; and (vii) preparation, review and approval of journal entries. This training was conducted by senior corporate and segment financial management.
- During the fourth quarter of 2014, the Company's corporate controllers office validated and reperformed, as appropriate, Aerospace Systems' segment and its divisions' compliance with the Company's ICFR, including controls related to: (1) valuation of inventories, and unbilled and billed contract receivables, (2) preparation, review and approval of contract estimates, (3) account reconciliations, (4) revenue recognition, and (5) variance analyses. The Company expects to continue with these efforts until it is comfortable that these control deficiencies have been remediated.
- During the fourth quarter of 2014, in order to strengthen the Aerospace Systems segment organizational structure, the Company combined the Platform Systems sector and the Logistics Solutions sector to create the Platform and Logistics Solutions sector. The Company appointed a new president of the Platform and Logistics Solutions sector. In addition, the Company appointed a new chief financial officer of the Logistics Solutions division.
- Effective January 2, 2015, the Company also expanded the financial reporting leadership team at the Aerospace Systems segment by establishing and filling a controller position.
- Strengthened the Company's procedures for the review of employee concerns regarding violations of the Company's accounting policies and ICFR by designating Senior employees to ensure that these concerns are reviewed in an effective manner. These procedures consisted of: (i) when appropriate, assigning these matters to subject matter experts for review and resolution, and (ii) informing the appropriate members of senior management and the audit committee on a timely basis about the nature, scope and results of such reviews. These senior employees report to the Company's chief executive officer and the audit committee with respect to these monitoring activities.

We are evaluating additional remedial actions at the Aerospace Systems segment, in particular at the Logistics Solutions division, including, with respect to appropriate staffing requirements, to remediate the control deficiencies identified at December 31, 2014. We are also evaluating staffing requirements related to the review of employee concerns. As we continue to evaluate and work to improve our ICFR, we may implement additional measures to address the identified material weaknesses or to modify the remediation plan. The identified material weaknesses will continue to exist until the remedial actions described above are implemented and successfully tested.

Changes in Internal Control Over Financial Reporting

Other than the steps taken to remediate the material weakness described above, there have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of L-3 Communications Holdings, Inc. and L-3 Communications Corporation:

In our opinion, the accompanying (1) consolidated balance sheets of L-3 Communications Holdings, Inc. and the related consolidated statements of operations, comprehensive income, equity, and cash flows, and (2) consolidated balance sheets of L-3 Communications Corporation and the related consolidated statements of operations, comprehensive income, equity, and cash flows present fairly, in all material respects, the financial positions of (1) L-3 Communications Holdings, Inc. and its subsidiaries and (2) L-3 Communications Corporation and its subsidiaries (collectively, the "Company") at December 31, 2014 and 2013, and the results of the operations and the cash flows of (1) L-3 Communications Holdings, Inc. and (2) L-3 Communications Corporation for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, (1) L-3 Communications Holdings, Inc. and (2) L-3 Communications Corporation did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to (1) the Company did not maintain an effective control environment at its Aerospace Systems segment with respect to: (a) inadequate execution of existing controls around the annual review and approval of contract (revenue arrangement) estimates, (b) not following established Company accounting policies, controls and procedures, and (c) intentional override of numerous transactional and monitoring internal controls at its Army Sustainment division; and (2) Company personnel did not perform reviews of certain employee concerns regarding violations of the Company's accounting policies and internal control over financial reporting in a sufficient and effective manner, including assigning those matters to the appropriate subject matter experts for resolution, and informing appropriate members of senior management and the audit committee about the nature of the concerns and the scope and results of the reviews existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control over Financial Reporting of the Company appearing under Item 9 A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audits of the 2014 consolidated financial statements of L-3 Communications Holdings, Inc. and of L-3 Communications Corporation, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for the financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the internal control over financial reporting of L-3 Communications Holdings, Inc. and of L-3 Communications Corporation based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

PricewaterhouseCoopers LLP
New York, New York
February 26, 2015

7.65 GENCORP INC. (NOV)

ITEM 9 A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of November 30, 2014, we conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13 a-15 (e) and 15 d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of November 30, 2014 because of the material weaknesses in our internal control over financial reporting described below. Our management has concluded that these material weaknesses were a result of the incomplete integration of the Rocketdyne Business into the Company's primary accounting system and internal control framework.

Notwithstanding the ineffectiveness of our disclosure controls and procedures as of November 30, 2014 and the material weaknesses in our internal control over financial reporting that existed as of that date, as described below, management, including our Chief Executive Officer and Chief Financial Officer, believes, based on additional analyses and supplementary procedures, that (i) this Form 10-K does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading with respect to the periods covered by this Report and (ii) the consolidated financial statements, and other financial information, included in this Report fairly present in all material respects in accordance with generally accepted accounting principles our financial condition, results of operations and cash flows as of, and for the dates and periods presented.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate "internal control over financial reporting," as defined in Rules 13 a-15(f) and 15 d-15(f) under the Exchange Act. The rules define internal control over financial reporting as a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, 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. Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- 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
- 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. In addition, 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.

With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. In connection with management's evaluation of the effectiveness of our internal control over financial reporting described above, management has identified control deficiencies that constituted material weaknesses in our internal control over financial reporting as of November 30, 2014, as described below:

- We did not maintain effective controls over information and communications between the Aerojet Rocketdyne parent, the Rocketdyne Business and other third parties performing services for the Company under Transition Service Agreements ("TSA") associated with the acquisition of the Rocketdyne Business; and
- We did not maintain effective controls over the integration of the Company's policies, practices and controls applicable to the acquired Rocketdyne Business.

These material weaknesses resulted in adjustments to net sales, cost of sales, inventory, accounts receivable and other current assets in the consolidated financial statements for the year ended November 30, 2014.

- We did not maintain effective controls over the timely capitalization and depreciation of assets placed into service at the acquired Rocketdyne Business.

This material weakness resulted in errors to property, plant and equipment, net and depreciation expense in the consolidated interim financial statements for the quarters ending February 28, 2014, May 31, 2014 and August 31, 2014, which were corrected through revision of those periods.

Additionally, these material weaknesses could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Because of the material weaknesses, management concluded that the Company did not maintain effective internal control over financial reporting as of November 30, 2014, based on criteria in *Internal Control—Integrated Framework* (1992) issued by the COSO.

The effectiveness of our internal control over financial reporting as of November 30, 2014 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. Their report appears in Item 8 of this Form 10-K.

Remediation Efforts to Address Material Weaknesses

Beginning on January 1, 2015, the Company is in the process of transitioning its Rocketdyne Business from a third party hosted enterprise resource planning ("ERP") system and third party TSAs to the Company's Oracle ERP system and business processes. Our management has, and will continue to implement changes to our processes to improve our internal control over financial reporting. We are committed to ensuring that such controls are operating effectively. In addition to the system conversion, the following steps are being taken to remediate the events and conditions leading to the identified material weaknesses:

- Examination and modification, if necessary, of existing policies and procedures to identify areas where more explicit guidance is required to clearly define roles and responsibilities between the Aerojet Rocketdyne parent and the Rocketdyne Business; and
- Reassessment of existing policies and practices and related internal controls with respect to the extent and precision of controls impacting contractual balance sheet accounts.

Our management believes that the implementation, further improvement and close monitoring of changes in policies and procedures will improve our internal control over financial reporting and correct these material weaknesses in future periods. Finally, as part of our ongoing monitoring effort of the Company's internal control over financial reporting, we will report progress and status of the above remediation efforts to the Audit Committee on a periodic basis throughout the year.

Changes in Internal Control Over Financial Reporting

Other than including the Rocketdyne Business in management's assessment of the effectiveness of our internal control over financial reporting, and except as noted above, there were no other material changes to our internal control over financial reporting (as defined in Rules 13 a-15(f) and 15 d-15(f) under the Exchange Act) that occurred during the most recent fiscal quarter that have materially, or are reasonably likely to materially affect, the effectiveness of our internal controls over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of GenCorp Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive (loss) income, of stockholders' (deficit) equity, and of cash flows present fairly, in all material respects, the financial position of GenCorp Inc. and its subsidiaries at November 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of November 30, 2014, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to ineffective controls over information and communications between the Aerojet Rocketdyne parent, the Rocketdyne Business and other third parties performing services associated with the acquisition of the Rocketdyne Business, ineffective controls over the integration of policies, practices and controls applicable to the acquired Rocketdyne Business, and ineffective controls over the timely capitalization and depreciation of assets placed into service at the acquired Rocketdyne Business. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9 A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal 2014 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP
Sacramento, California
January 30, 2015

General Management and Special-Purpose Committee Reports

PRESENTATION

7.66 Some survey entities presented a report of management on financial statements. These reports may include the following:

- Description of management's responsibility for preparing the financial statements
- Description of Audit Committee activities
- Identification of independent auditors
- General description of the entity's system of internal control

Occasionally, survey entities presented a report of a special-purpose committee, such as the audit committee or compensation committee.

PRESENTATION AND DISCLOSURE EXCERPTS

REPORTS OF MANAGEMENT

7.67 UNITED STATES STEEL CORPORATION (DEC)
MANAGEMENT'S REPORT TO STOCKHOLDERS

February 24, 2015

To the stockholders of United States Steel Corporation:

Financial Statements and Practices

The accompanying consolidated financial statements of United States Steel Corporation are the responsibility of and have been prepared by United States Steel Corporation in conformity with accounting principles generally accepted in the United States of America. They necessarily include some amounts that are based on our best judgments and estimates. United States Steel Corporation's financial information displayed in other sections of this report is consistent with these financial statements.

United States Steel Corporation seeks to assure the objectivity and integrity of its financial records by careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at assuring that its policies, procedures and methods are understood throughout the organization.

United States Steel Corporation has a comprehensive, formalized system of internal controls designed to provide reasonable assurance that assets are safeguarded, that financial records are reliable and that information required to be disclosed in reports filed with or submitted to the Securities and Exchange Commission is recorded, processed, summarized and reported within the required time limits. Appropriate management monitors the system for compliance and evaluates it for effectiveness, and the internal auditors independently measure its effectiveness and recommend possible improvements thereto.

The Board of Directors exercises its oversight role in the area of financial reporting and internal control over financial reporting through its Audit Committee. This Committee, composed solely of independent directors, regularly meets (jointly and separately) with the independent registered public accounting firm, management, internal audit and other executives to monitor the proper discharge by each of their responsibilities relative to internal control over financial reporting and United States Steel Corporation's financial statements.

Internal Control Over Financial Reporting

United States Steel Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13 a-15(f). Under the supervision and with the participation of United States Steel Corporation's management, including the chief executive officer and chief financial officer, United States Steel Corporation conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, United States Steel Corporation's management concluded that United States Steel Corporation's internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of United States Steel Corporation's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

7.68 ASHLAND INC. (SEP)

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the preparation and integrity of the Consolidated Financial Statements and other financial information included in this annual report on Form 10-K. Such financial statements are prepared in accordance with accounting principles generally accepted in the United States. Accounting principles are selected and information is reported which, using management's best judgment and estimates, present fairly Ashland's consolidated financial position, results of operations and cash flows. The other financial information in this annual report on Form 10-K is consistent with the Consolidated Financial Statements.

Ashland's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13 a-15(f) and 15 d-15(f). Ashland's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Ashland's Consolidated Financial Statements. Ashland's internal control over financial reporting is supported by a code of business conduct which summarizes our guiding values such as obeying the law, adhering to high ethical standards and acting as responsible members of the communities where we operate. Compliance with that Code forms the foundation of our internal control systems, which are designed to provide reasonable assurance that Ashland's assets are safeguarded and its records reflect, in all material respects, transactions in accordance with management's authorization. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the related benefits. Management believes that adequate internal controls are maintained by the selection and training of qualified personnel, by an appropriate division of responsibility in all organizational arrangements, by the establishment and communication of accounting and business policies, and by internal audits.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Board, subject to stockholder ratification, selects and engages the independent auditors based on the recommendation of the Audit Committee. The Audit Committee, composed of directors who are not members of management, reviews the adequacy of Ashland's policies, procedures, controls and risk management strategies, the scope of auditing and other services performed by the independent auditors, and the scope of the internal audit function. The Committee holds meetings with Ashland's internal auditor and independent auditors, with and without management present, to discuss the findings of their audits, the overall quality of Ashland's financial reporting and their evaluation of Ashland's internal controls. The report of Ashland's Audit Committee can be found in Ashland's 2014 Proxy Statement.

Management assessed the effectiveness of Ashland's internal control over financial reporting as of September 30, 2014. Management conducted its assessment utilizing the framework described in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that Ashland maintained effective internal control over financial reporting as of September 30, 2014.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited and reported on the Consolidated Financial Statements of Ashland Inc. and consolidated subsidiaries and the effectiveness of Ashland's internal control over financial reporting. The report of the independent registered public accounting firm is contained in this Annual Report on Form 10-K.

November 24, 2014

7.69 ALLERGAN, INC. (DEC)

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting, as such term is defined in Rule 13 a-15(f) under the Securities Exchange Act of 1934, as amended, refers to the process designed by, or under the supervision of, our Principal Executive Officer and Principal Financial Officer, and effected by our board of directors, management and other personnel, 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, and 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 Allergan;
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 Allergan are being made only in accordance with authorizations of management and directors of Allergan; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Allergan's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Allergan. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Allergan's internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report on internal control over financial reporting as of December 31, 2014.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, published an updated Internal Control—Integrated Framework (2013) and related illustrative documents. We adopted the new framework during 2014. Management has concluded that Allergan's internal control over financial reporting was effective as of December 31, 2014, based on those criteria.

February 17, 2015

REPORT OF THE AUDIT COMMITTEE

7.70 HARLEY-DAVIDSON, INC. (DEC)

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors reviews the Company's financial reporting process and the audit process. All of the Audit Committee members are independent in accordance with the Audit Committee requirements of the New York Stock Exchange, Inc.

The Audit Committee of the Board of Directors has reviewed and discussed with management its assessment of the effectiveness of the Company's internal control system over financial reporting as of December 31, 2014. Management has concluded that the internal control system was effective. Additionally, the Company's internal control over financial reporting as of December 31, 2014 was audited by Ernst & Young LLP, the Company's independent registered public accounting firm for the 2014 fiscal year. The Audit Committee has reviewed and discussed the audited financial statements of the Company for the 2014 fiscal year with management as well as with representatives of Ernst & Young LLP. The Audit Committee has also discussed with Ernst & Young LLP matters required to be discussed under Public Company Accounting Oversight Board (PCAOB) No. 16, Communications with Audit Committees. The Audit Committee has received written disclosures from Ernst & Young LLP regarding their independence as required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and has discussed with representatives of Ernst & Young LLP the independence of Ernst & Young LLP. Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements for the 2014 fiscal year be included in the Company's Annual Report on Form 10-K for the 2014 fiscal year.

Appendix of 350 Entities

List of 350 Survey Entities and Where in the Text Excerpts From Their Annual Reports Can Be Found

The following table lists the 350 entities surveyed in alphabetical order, as well as where in the text their annual reports are excerpted.

Company Name	*Month of Fiscal Year End*	*Accounting Technique Illustration*
3M Company	December	2.19, 5.41, 6.11
A. O. Smith Corporation	December	
Abbott Laboratories	December	3.53, 3.72
ABM Industries Incorporated	October	1.25, 1.96, 2.116
Acuity Brands, Inc.	August	3.16
AECOM Technology Corporation	September	
AGCO Corporation	December	2.38, 6.35
Air Products and Chemicals, Inc.	September	
Airgas, Inc.	March	1.76, 2.119
AK Steel Holding Corporation	December	6.24
Alcoa Inc.	December	1.22, 2.123, 5.08
Allegheny Technologies Incorporated	December	
Allergan, Inc.	December	2.148, 3.10, 3.31, 7.69
Alliance One International, Inc.	March	1.85, 2.55, 2.84, 3.36
Alliant Techsystems Inc.	March	2.129, 3.78
Altria Group, Inc.	December	
Amazon.com, Inc.	December	
American International Group, Inc.	December	
AmerisourceBergen Corporation	September	1.86, 5.12
AMETEK, Inc.	December	2.156
Amkor Technology, Inc.	December	
Amphenol Corporation	December	
Anadarko Petroleum Corporation	December	2.120
Analog Devices, Inc.	October	
Ann Inc.	January	3.19
Anthem, Inc.	December	3.15
Apache Corporation	December	
Apple Inc.	September	4.07, 5.33
Applied Materials, Inc.	October	6.10
Archer-Daniels-Midland Company	December	1.48
ArcBest Corporation	December	6.21
Armstrong World Industries, Inc.	December	1.47, 1.73, 4.06
Arrow Electronics, Inc.	December	3.41
Ashland Inc.	September	7.68
AT&T Inc.	December	
Atmel Corporation	December	
Autodesk, Inc.	January	
Automatic Data Processing, Inc.	June	
AutoNation, Inc.	December	2.56
AutoZone, Inc.	August	
Avnet, Inc.	June	
Avon Products, Inc.	December	1.121, 2.88
Axiall Corporation	December	1.50, 4.10, 6.34
B/E Aerospace, Inc.	December	5.38

Company Name	*Month of Fiscal Year End*	*Accounting Technique Illustration*
Badger Meter, Inc.	December	5.49, 7.63
Baker Hughes Incorporated	December	3.37
Ball Corporation	December	1.54
Barnes & Noble, Inc.	April	7.50
Bassett Furniture Industries, Incorporated	November	2.111
Baxter International Inc.	December	7.53
BB&T Corporation	December	
Becton, Dickinson and Company	September	1.21, 7.21
Berkshire Hathaway Inc.	December	6.26
Best Buy Co., Inc.	January	7.41
Boeing Company, The	December	3.67
Bon-Ton Stores, Inc., The	January	1.99
Boston Scientific Corporation	December	1.112, 2.144
Briggs & Stratton Corporation	June	3.27
Brink's Company, The	December	
Brown Shoe Company, Inc.	January	3.87
Brown-Forman Corporation	April	
Brunswick Corporation	December	2.147, 3.11
CA, Inc.	March	
Cablevision Systems Corporation	December	1.116
Cabot Corporation	September	1.35, 4.11
CACI International Inc	June	3.42, 3.80, 5.10
Campbell Soup Company	July	1.28
Cardinal Health, Inc.	June	
Career Education Corporation	December	1.49, 2.131, 2.138, 5.35
Carlisle Companies Incorporated	December	2.43
Carpenter Technology Corporation	June	
Caterpillar Inc.	December	
CBS Corporation	December	
CenturyLink, Inc.	December	1.52
Cenveo, Inc.	December	6.31
CF Industries Holdings, Inc.	December	5.48, 6.25
Chesapeake Energy Corporation	December	1.65, 2.112
Chevron Corporation	December	3.23
Children's Place Retail Stores, Inc., The	January	6.19
Cisco Systems, Inc.	July	1.46, 2.65
Citigroup Inc.	December	1.26, 1.66, 2.20, 3.24, 3.60
Cliffs Natural Resources Inc.	December	3.88
Clorox Company, The	June	
Coach, Inc.	June	
Coca-Cola Company, The	December	
Coca-Cola Enterprises, Inc.	December	
Coherent, Inc.	September	
Colgate-Palmolive Company	December	
Comcast Corporation	December	
Commercial Metals Company	August	1.45
Community Health Systems, Inc.	December	3.56
Computer Sciences Corporation	March	
ConAgra Foods, Inc.	May	2.73, 3.26
ConocoPhillips	December	2.150, 3.21
Constellation Brands, Inc.	February	3.12, 3.92
Convergys Corporation	December	1.69
Cooper Tire & Rubber Company	December	
Corning Incorporated	December	
Costco Wholesale Corporation	August	
Crane Co.	December	2.26
CSX Corporation	December	3.69
Cummins Inc.	December	2.113, 3.09
CVS Health Corporation	December	2.122
Dana Holding Corporation	December	
Danaher Corporation	December	
Darden Restaurants, Inc.	May	3.48
Dean Foods Company	December	5.24
Deere & Company	October	

Company Name	*Month of Fiscal Year End*	*Accounting Technique Illustration*
DIRECTV	December	
Discovery Communications, Inc.	December	5.23
Dollar General Corporation	January	
Domino's Pizza, Inc.	December	
Donaldson Company, Inc.	July	
Dover Corporation	December	3.51, 6.30
Dow Chemical Company, The	December	
Dun & Bradstreet Corporation, The	December	
E. I. du Pont de Nemours and Company	December	
E. W. Scripps Company, The	December	
Eastman Chemical Company	December	1.82
eBay Inc.	December	
Ecolab Inc.	December	
Electronic Arts Inc.	March	2.48
Eli Lilly and Company	December	
EMC Corporation	December	2.118, 4.15, 6.16
EMCOR Group, Inc.	December	2.46, 3.50
Emerson Electric Co.	September	
Energizer Holdings, Inc.	September	1.74
Equifax Inc.	December	2.61
Estee Lauder Companies Inc., The	June	
Express Scripts Holding Company	December	1.20
Exxon Mobil Corporation	December	3.68
FedEx Corporation	May	
Fidelity National Information Services, Inc.	December	3.32
First Solar, Inc.	December	
Flowers Foods, Inc.	December	2.82
Fluor Corporation	December	
FMC Corporation	December	2.118
Foot Locker, Inc.	January	
Ford Motor Company	December	1.51
Fred's, Inc.	January	
Freeport-McMoRan Inc.	December	
GameStop Corp.	January	
GenCorp Inc.	November	1.29, 3.93, 7.65
General Cable Corporation	December	1.84
General Dynamics Corporation	December	
General Electric Company	December	1.104
General Mills, Inc.	May	
Genuine Parts Company	December	
Gilead Sciences, Inc.	December	2.95
Goldman Sachs Group, Inc., The	December	1.24
Goodyear Tire & Rubber Company, The	December	
Google Inc.	December	3.95
Graham Holdings Company	December	4.12
Greif, Inc.	October	7.57
Griffon Corporation	September	
Guess?, Inc.	January	3.49
Halliburton Company	December	1.80
Hanesbrands Inc.	December	2.32
Harley-Davidson, Inc.	December	2.25, 7.70
Harman International Industries, Incorporated	June	3.25, 6.09
Harris Corporation	June	3.79
Hasbro, Inc.	December	3.34, 7.22
Health Net, Inc.	December	2.62, 3.29
Hershey Company, The	December	2.94
Hess Corporation	December	
Hewlett-Packard Company	October	2.85
Hill-Rom Holdings, Inc.	September	
Home Depot, Inc., The	January	
Honeywell International Inc.	December	
Hormel Foods Corporation	October	
Hovnanian Enterprises, Inc.	October	
Humana Inc.	December	

Company Name	*Month of Fiscal Year End*	*Accounting Technique Illustration*
Huntsman Corporation	December	3.91
IAC/InterActiveCorp	December	2.106
IDT Corporation	July	
Illinois Tool Works Inc.	December	
Ingram Micro Inc.	December	
Ingredion Incorporated	December	
Insperity, Inc.	December	
Intel Corporation	December	
International Business Machines Corporation	December	2.152
International Flavors & Fragrances Inc.	December	
International Paper Company	December	1.19
Interpublic Group of Companies, Inc., The	December	
Iron Mountain Incorporated	December	5.19
ITT Corporation	December	2.151
J. C. Penney Company, Inc.	January	3.74
J. M. Smucker Company, The	April	
Jabil Circuit, Inc.	August	2.30
Jack in the Box Inc.	September	2.86, 2.139
Jarden Corporation	December	
JDS Uniphase Corporation	June	
Johnson & Johnson	December	1.23, 4.14
Johnson Controls, Inc.	September	
Joy Global Inc.	October	
JPMorgan Chase & Co.	December	2.21, 5.17
Juniper Networks, Inc.	December	
KB Home	November	3.73
Kellogg Company	December	
Kimberly-Clark Corporation	December	
Kinder Morgan, Inc.	December	6.36
KLA-Tencor Corporation	June	
Kohl's Corporation	January	
Kraft Foods Group, Inc.	December	
Kroger Co., The	January	1.70, 3.55
L.S. Starrett Company, The	June	7.64
L-3 Communications Holdings, Inc.	December	
Lam Research Corporation	June	
Las Vegas Sands Corp.	December	
La-Z-Boy Incorporated	April	
Lear Corporation	December	
Lee Enterprises, Incorporated	September	
Leggett & Platt, Incorporated	December	
Lennar Corporation	November	7.61
Lockheed Martin Corporation	December	
Louisiana-Pacific Corporation	December	2.149
Lowe's Companies, Inc.	January	2.117
Macy's Inc	January	
Manitowoc Company, Inc., The	December	
Marriott International, Inc.	December	2.66
MasterCard Incorporated	December	6.28, 7.20
McClatchy Company, The	December	1.83, 6.20
McKesson Corporation	March	2.39, 6.27
Medtronic, Inc.	April	3.33, 3.38
Merck & Co., Inc.	December	1.30, 1.98, 3.20
Meritor, Inc.	September	7.40
MetLife, Inc.	December	
Micron Technology, Inc.	August	2.109
Microsoft Corporation	June	
Molson Coors Brewing Company	December	1.55
Monsanto Company	August	
Morgan Stanley	December	6.32
Mosaic Company, The	December	
Motorola Solutions, Inc.	December	
Mueller Industries, Inc.	December	3.35
NACCO Industries, Inc.	December	3.03, 4.16

Company Name	*Month of Fiscal Year End*	*Accounting Technique Illustration*
National Oilwell Varco, Inc.	December	5.34
NetApp, Inc.	April	
New York Times Company, The	December	
Newell Rubbermaid Inc.	December	
NewMarket Corporation	December	
Nike, Inc.	May	3.22, 5.32
Noble Energy, Inc.	December	3.14
Northrop Grumman Corporation	December	2.06
NVR, Inc.	December	
Office Depot, Inc.	December	3.75
Oracle Corporation	May	2.153, 3.07, 7.52
Owens-Illinois, Inc.	December	2.83
PACCAR Inc	December	4.09
Parker-Hannifin Corporation	June	
Peabody Energy Corporation	December	1.75
PepsiCo, Inc.	December	1.27
PerkinElmer, Inc.	December	
Pfizer Inc.	December	
Pilgrim's Pride Corporation	December	
Pitney Bowes Inc.	December	
Plum Creek Timber Company, Inc.	December	
PNC Financial Services Group, Inc., The	December	5.31
Polaris Industries Inc.	December	2.145, 3.57
PolyOne Corporation	December	
PPG Industries, Inc.	December	3.59, 7.45
Praxair, Inc.	December	6.08
Precision Castparts Corp.	March	
Priceline Group Inc., The	December	1.81
Procter & Gamble Company, The	June	3.61
Prudential Financial, Inc.	December	
PulteGroup, Inc.	December	1.36, 5.07
PVH Corp.	January	1.111, 5.09
QUALCOMM Incorporated	September	
Ralph Lauren Corporation	March	
Raytheon Company	December	2.49
Regal Beloit Corporation	December	1.114, 2.75
Regal Entertainment Group	December	1.97, 6.33
Republic Services, Inc.	December	2.146, 3.28
Reynolds American Inc.	December	2.74
Rite Aid Corporation	February	2.128
Rock-Tenn Company	September	3.30, 5.20
Rockwell Automation, Inc.	September	7.62
Rockwell Collins, Inc.	September	
Safeway Inc.	December	1.113
Schnitzer Steel Industries, Inc.	August	1.118
Scotts Miracle-Gro Company, The	September	2.102
Seaboard Corporation	December	
Sealed Air Corporation	December	5.30, 7.39
Service Corporation International	December	
Sherwin-Williams Company, The	December	
Snap-on Incorporated	December	
Spectrum Brands Holdings, Inc.	September	2.89
SPX Corporation	December	2.114, 7.29
St. Jude Medical, Inc.	December	
Standard Pacific Corp.	December	3.96
Stanley Black & Decker, Inc.	December	3.58, 3.86
Steel Dynamics, Inc.	December	
Steelcase Inc.	February	
SYNNEX Corporation	November	6.12
Sysco Corporation	June	
Target Corporation	January	
Teleflex Incorporated	December	3.47
Tempur Sealy International, Inc.	December	
Tenet Healthcare Corporation	December	
Tenneco Inc.	December	

Company Name	*Month of Fiscal Year End*	*Accounting Technique Illustration*
Terex Corporation	December	2.40
Texas Instruments Incorporated	December	
Textron Inc.	December	4.08
Thermo Fisher Scientific Inc.	December	3.66
Tiffany & Co.	January	
Time Warner Inc.	December	
Toll Brothers, Inc.	October	2.127
TRW Automotive Holdings Corp.	December	
Tupperware Brands Corporation	December	2.47
Tutor Perini Corporation	December	1.53
Tyson Foods, Inc.	September	4.13
Unifi, Inc.	June	1.72
Unisys Corporation	December	
United Continental Holdings, Inc.	December	2.121, 3.62
United Parcel Service, Inc.	December	2.87, 5.46
United States Steel Corporation	December	3.08, 7.67
UnitedHealth Group Incorporated	December	
Universal Corporation	March	2.44, 6.22
Universal Forest Products, Inc.	December	
Universal Health Services, Inc.	December	
Valero Energy Corporation	December	
Varian Medical Systems, Inc.	September	
Verizon Communications Inc.	December	
Viacom Inc.	September	
Visa Inc.	September	2.24, 2.45, 2.155
Vishay Intertechnology, Inc.	December	
Visteon Corporation	December	5.47
Vulcan Materials Company	December	
W. R. Grace & Co.	December	
Wal-Mart Stores, Inc.	January	2.41, 2.137
Walt Disney Company, The	September	
Walter Energy, Inc.	December	3.17
Waste Management, Inc.	December	
Weis Markets, Inc.	December	
Wendy's Company, The	December	1.117, 5.11, 6.18
Werner Enterprises, Inc.	December	
Western Union Company, The	December	3.39
Weyerhaeuser Company	December	
Whirlpool Corporation	December	
Williams-Sonoma, Inc.	January	
Winnebago Industries, Inc.	August	
Worthington Industries, Inc.	May	2.79
Wyndham Worldwide Corporation	December	
Wynn Resorts, Limited	December	
Xerox Corporation	December	2.31, 2.77, 2.115
Xilinx, Inc.	March	
Yahoo! Inc.	December	2.60
YUM! Brands, Inc.	December	2.78, 3.40
Zimmer Holdings, Inc.	December	2.76, 6.17

Appendix of Survey Entity Industries

List of Industries Represented by the 350 Survey Entities

The following table lists the industries represented by the 350 survey entities and lists the entities within each industry classification. All industry classifications were obtained from Morningstar, Inc.

Industry Classification	*Company Name*
Basic Materials/Agricultural Inputs	CF Industries Holdings, Inc.
	E. I. du Pont de Nemours and Company
	Monsanto Company
	Scotts Miracle-Gro Company, The
Basic Materials/Aluminum	Alcoa Inc.
Basic Materials/Building Materials	Armstrong World Industries, Inc.
	Griffon Corporation
	Vulcan Materials Company
Basic Materials/Chemicals	Air Products and Chemicals, Inc.
	Ashland Inc.
	Axiall Corporation
	Dow Chemical Company, The
	Eastman Chemical Company
	FMC Corporation
	Huntsman Corporation
	International Flavors & Fragrances Inc.
	PolyOne Corporation
Basic Materials/Coal	Peabody Energy Corporation
	Walter Energy, Inc.
Basic Materials/Copper	Freeport-McMoRan Inc.
Basic Materials/Industrial Metals & Minerals	Cliffs Natural Resources Inc.
Basic Materials/Lumber & Wood Production	Louisiana-Pacific Corporation
	Universal Forest Products, Inc.
Basic Materials/Paper & Paper Products	Cenveo, Inc.
	International Paper Company
Basic Materials/Specialty Chemicals	Cabot Corporation
	Mosaic Company, The
	NewMarket Corporation
	PPG Industries, Inc.
	Praxair, Inc.
	W. R. Grace & Co.
Basic Materials/Steel	AK Steel Holding Corporation
	Carpenter Technology Corporation
	Commercial Metals Company
	Schnitzer Steel Industries, Inc.
	Steel Dynamics, Inc.
	Worthington Industries, Inc.
Communication Services/Pay TV	Cablevision Systems Corporation
	Comcast Corporation
	DIRECTV
Communication Services/Telecom Services	AT&T Inc.
	CenturyLink, Inc.
	IDT Corporation
	Verizon Communications Inc.
Consumer Cyclical/Advertising Agencies	Interpublic Group of Companies, Inc., The

Industry Classification	*Company Name*
Consumer Cyclical/Apparel Manufacturing	Guess?, Inc.
	Hanesbrands Inc.
	PVH Corp.
	Ralph Lauren Corporation
Consumer Cyclical/Apparel Stores	Ann Inc.
	Children's Place Retail Stores, Inc., The
Consumer Cyclical/Auto & Truck Dealerships	AutoNation, Inc.
Consumer Cyclical/Auto Manufacturers	Ford Motor Company
Consumer Cyclical/Auto Parts	AutoZone, Inc.
	Dana Holding Corporation
	Johnson Controls, Inc.
	Lear Corporation
	Tenneco Inc.
	TRW Automotive Holdings Corp.
	Visteon Corporation
Consumer Cyclical/Broadcasting—TV	CBS Corporation
Consumer Cyclical/Department Stores	Bon-Ton Stores, Inc., The
	J. C. Penney Company, Inc.
	Kohl's Corporation
	Macy's Inc
Consumer Cyclical/Footwear & Accessories	Brown Shoe Company, Inc.
	Foot Locker, Inc.
	Nike, Inc.
Consumer Cyclical/Home Furnishings & Fixtures	Bassett Furniture Industries, Incorporated
	Jarden Corporation
	La-Z-Boy Incorporated
	Leggett & Platt, Incorporated
	Tempur Sealy International, Inc.
Consumer Cyclical/Home Improvement Stores	Home Depot, Inc., The
	Lowe's Companies, Inc.
Consumer Cyclical/Leisure	Brunswick Corporation
	Hasbro, Inc.
	Priceline Group Inc., The
	Regal Entertainment Group
Consumer Cyclical/Lodging	Marriott International, Inc.
	Wyndham Worldwide Corporation
Consumer Cyclical/Luxury Goods	Coach, Inc.
	Tiffany & Co.
Consumer Cyclical/Media—Diversified	Discovery Communications, Inc.
	Time Warner Inc.
	Viacom Inc.
	Walt Disney Company, The
Consumer Cyclical/Packaging & Containers	Ball Corporation
	Greif, Inc.
	Owens-Illinois, Inc.
	Rock-Tenn Company
	Sealed Air Corporation
Consumer Cyclical/Personal Services	Service Corporation International
	Western Union Company, The
Consumer Cyclical/Publishing	E. W. Scripps Company, The
	Lee Enterprises, Incorporated
	McClatchy Company, The
	New York Times Company, The
Consumer Cyclical/Recreational Vehicles	Harley-Davidson, Inc.
	Polaris Industries Inc.
	Winnebago Industries, Inc.
Consumer Cyclical/Residential Construction	Hovnanian Enterprises, Inc.
	KB Home
	Lennar Corporation
	NVR, Inc.
	PulteGroup, Inc.
	Standard Pacific Corp.
	Toll Brothers, Inc.
Consumer Cyclical/Resorts & Casinos	Las Vegas Sands Corp.
	Wynn Resorts, Limited

Industry Classification	*Company Name*
Consumer Cyclical/Restaurants	Darden Restaurants, Inc.
	Domino's Pizza, Inc.
	Jack in the Box Inc.
	Wendy's Company, The
	YUM! Brands, Inc.
Consumer Cyclical/Rubber & Plastics	Carlisle Companies Incorporated
	Cooper Tire & Rubber Company
	Goodyear Tire & Rubber Company, The
Consumer Cyclical/Specialty Retail	Amazon.com, Inc.
	Barnes & Noble, Inc.
	Best Buy Co., Inc.
	eBay Inc.
	GameStop Corp.
	Office Depot, Inc.
	Sherwin-Williams Company, The
	Williams-Sonoma, Inc.
Consumer Cyclical/Textile Manufacturing	Unifi, Inc.
Consumer Defensive/Beverages—Brewers	Molson Coors Brewing Company
Consumer Defensive/Beverages—Soft Drinks	Coca-Cola Company, The
	Coca-Cola Enterprises, Inc.
	PepsiCo, Inc.
Consumer Defensive/Beverages—Wineries & Distilleries	Brown-Forman Corporation
	Constellation Brands, Inc.
Consumer Defensive/Confectioners	Hershey Company, The
Consumer Defensive/Discount Stores	Costco Wholesale Corporation
	Dollar General Corporation
	Fred's, Inc.
	Target Corporation
	Wal-Mart Stores, Inc.
Consumer Defensive/Education & Training Services	Career Education Corporation
	Graham Holdings Company
Consumer Defensive/Farm Products	Archer-Daniels-Midland Company
	Hormel Foods Corporation
	Pilgrim's Pride Corporation
	Seaboard Corporation
	Tyson Foods, Inc.
Consumer Defensive/Food Distribution	Sysco Corporation
Consumer Defensive/Grocery Stores	Kroger Co., The
	Safeway Inc.
	Weis Markets, Inc.
Consumer Defensive/Household & Personal Products	Avon Products, Inc.
	Clorox Company, The
	Colgate-Palmolive Company
	Energizer Holdings, Inc.
	Estee Lauder Companies Inc., The
	Kimberly-Clark Corporation
	Newell Rubbermaid Inc.
	Procter & Gamble Company, The
	Tupperware Brands Corporation
Consumer Defensive/Packaged Foods	Campbell Soup Company
	ConAgra Foods, Inc.
	Dean Foods Company
	Flowers Foods, Inc.
	General Mills, Inc.
	Ingredion Incorporated
	J. M. Smucker Company, The
	Kellogg Company
	Kraft Foods Group, Inc.
Consumer Defensive/Pharmaceutical Retailers	CVS Health Corporation
	Rite Aid Corporation
Consumer Defensive/Tobacco	Alliance One International, Inc.
	Altria Group, Inc.
	Reynolds American Inc.
	Universal Corporation

Industry Classification	*Company Name*
Energy/Oil & Gas E&P	Apache Corporation
	Chesapeake Energy Corporation
	Noble Energy, Inc.
Energy/Oil & Gas Equipment & Services	Baker Hughes Incorporated
	Halliburton Company
	National Oilwell Varco, Inc.
Energy/Oil & Gas Integrated	Chevron Corporation
	ConocoPhillips
	Exxon Mobil Corporation
	Hess Corporation
Energy/Oil & Gas Midstream	Kinder Morgan, Inc.
Energy/Oil & Gas Refining & Marketing	Valero Energy Corporation
Financial Services/Banks—Global	Citigroup Inc.
	JPMorgan Chase & Co.
Financial Services/Banks—Regional—US	BB&T Corporation
	PNC Financial Services Group, Inc., The
Financial Services/Capital Markets	Goldman Sachs Group, Inc., The
	Morgan Stanley
Financial Services/Credit Services	MasterCard Incorporated
	Visa Inc.
Financial Services/Insurance—Diversified	American International Group, Inc.
	Berkshire Hathaway Inc.
Financial Services/Insurance—Life	MetLife, Inc.
	Prudential Financial, Inc.
Healthcare/Biotechnology	Gilead Sciences, Inc.
Healthcare/Drug Manufacturers—Major	Abbott Laboratories
	Allergan, Inc.
	Eli Lilly and Company
	Johnson & Johnson
	Merck & Co., Inc.
	Pfizer Inc.
Healthcare/Health Care Plans	Anthem, Inc.
	Express Scripts Holding Company
	Health Net, Inc.
	UnitedHealth Group Incorporated
Healthcare/Medical Care	Community Health Systems, Inc.
	Tenet Healthcare Corporation
	Universal Health Services, Inc.
Healthcare/Medical Devices	Medtronic, Inc.
	St. Jude Medical, Inc.
	Teleflex Incorporated
	Zimmer Holdings, Inc.
Healthcare/Medical Distribution	AmerisourceBergen Corporation
	Cardinal Health, Inc.
	McKesson Corporation
Healthcare/Medical Instruments & Supplies	Baxter International Inc.
	Becton, Dickinson and Company
	Boston Scientific Corporation
	Hill-Rom Holdings, Inc.
	PerkinElmer, Inc.
	Thermo Fisher Scientific Inc.
	Varian Medical Systems, Inc.
Industrials/Aerospace & Defense	Alliant Techsystems Inc.
	B/E Aerospace, Inc.
	Boeing Company, The
	GenCorp Inc.
	General Dynamics Corporation
	L-3 Communications Holdings, Inc.
	Lockheed Martin Corporation
	Raytheon Company
	Rockwell Collins, Inc.
Industrials/Airlines	United Continental Holdings, Inc.
Industrials/Business Equipment	Pitney Bowes Inc.
	Steelcase Inc.
	Xerox Corporation

Industry Classification	*Company Name*
Industrials/Business Services	ABM Industries Incorporated
	Automatic Data Processing, Inc.
	Dun & Bradstreet Corporation, The
	Ecolab Inc.
	Equifax Inc.
	Fidelity National Information Services, Inc.
	Humana Inc.
	Iron Mountain Incorporated
	SYNNEX Corporation
Industrials/Conglomerates	Northrop Grumman Corporation
	Spectrum Brands Holdings, Inc.
Industrials/Diversified Industrials	3M Company
	A. O. Smith Corporation
	Airgas, Inc.
	AMETEK, Inc.
	Anadarko Petroleum Corporation
	Briggs & Stratton Corporation
	Crane Co.
	Danaher Corporation
	Donaldson Company, Inc.
	Dover Corporation
	Emerson Electric Co.
	General Cable Corporation
	General Electric Company
	Honeywell International Inc.
	Illinois Tool Works Inc.
	ITT Corporation
	Parker-Hannifin Corporation
	Regal Beloit Corporation
	Rockwell Automation, Inc.
	SPX Corporation
	Textron Inc.
Industrials/Engineering & Construction	AECOM Technology Corporation
	EMCOR Group, Inc.
	Fluor Corporation
	Tutor Perini Corporation
Industrials/Farm & Construction Equipment	AGCO Corporation
	Caterpillar Inc.
	Deere & Company
	Joy Global Inc.
	Manitowoc Company, Inc., The
	NACCO Industries, Inc.
	Terex Corporation
Industrials/Industrial Distribution	Genuine Parts Company
Industrials/Integrated Shipping & Logistics	FedEx Corporation
	United Parcel Service, Inc.
Industrials/Metal Fabrication	Allegheny Technologies Incorporated
	Mueller Industries, Inc.
	Precision Castparts Corp.
	United States Steel Corporation
Industrials/Railroads	CSX Corporation
Industrials/Security & Protection Services	Brink's Company, The
Industrials/Staffing & Outsourcing Services	Insperity, Inc.
Industrials/Tools & Accessories	L.S. Starrett Company, The
	Snap-on Incorporated
	Stanley Black & Decker, Inc.
Industrials/Truck Manufacturing	Cummins Inc.
	PACCAR Inc
Industrials/Trucking	ArcBest Corporation
	Werner Enterprises, Inc.
Industrials/Waste Management	Republic Services, Inc.
	Waste Management, Inc.
Real Estate/REIT—Industrial	Plum Creek Timber Company, Inc.

Industry Classification	*Company Name*
	Weyerhaeuser Company
Technology/Communications Equipment	Cisco Systems, Inc.
	Harris Corporation
	JDS Uniphase Corporation
	Juniper Networks, Inc.
	Motorola Solutions, Inc.
	QUALCOMM Incorporated
Technology/Computer Distribution	Ingram Micro Inc.
Technology/Computer Systems	Apple Inc.
	Hewlett-Packard Company
	International Business Machines Corporation
Technology/Consumer Electronics	Harman International Industries, Incorporated
	Whirlpool Corporation
Technology/Contract Manufacturers	Jabil Circuit, Inc.
Technology/Data Storage	EMC Corporation
	NetApp, Inc.
Technology/Electronic Components	Acuity Brands, Inc.
	Amphenol Corporation
	Corning Incorporated
	Vishay Intertechnology, Inc.
Technology/Electronic Gaming & Multimedia	Electronic Arts Inc.
Technology/Electronics Distribution	Arrow Electronics, Inc.
	Avnet, Inc.
Technology/Information Technology Services	CACI International Inc
	Computer Sciences Corporation
	Unisys Corporation
Technology/Internet Content & Information	Google Inc.
	IAC/InterActiveCorp
	Yahoo! Inc.
Technology/Scientific & Technical Instruments	Badger Meter, Inc.
	Coherent, Inc.
Technology/Semiconductor Equipment & Materials	Applied Materials, Inc.
	KLA-Tencor Corporation
	Lam Research Corporation
Technology/Semiconductor Memory	Micron Technology, Inc.
Technology/Semiconductors	Amkor Technology, Inc.
	Analog Devices, Inc.
	Atmel Corporation
	Intel Corporation
	Meritor, Inc.
	Texas Instruments Incorporated
	Xilinx, Inc.
Technology/Software—Application	Autodesk, Inc.
	Convergys Corporation
Technology/Software—Infrastructure	CA, Inc.
	Microsoft Corporation
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