QUEST DIAGNOSTICS INC
Form 10-Q
October 21, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016
Commission file number 001-12215

Quest Diagnostics Incorporated

Three Giralda Farms
Madison, NJ 07940
(973) 520-2700

Delaware
(State of Incorporation)

16-1387862
(I.R.S. Employer Identification Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of October 13, 2016, there were outstanding 138,639,955 shares of the registrant’s common stock, $.01 par value.

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PART I - FINANCIAL INFORMATION

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(unaudited)
(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues	$1,885	$1,880	$5,654	$5,644
Operating costs, expenses and other income:				
Cost of services	1,157	1,162	3,456	3,507
Selling, general and administrative	409	402	1,281	1,250
Amortization of intangible assets	18	20	54	61
Gain on disposition of business	—	(334)	(118)	(334)
Other operating income, net	(21)	(1)	(20)	—
Total operating costs, expenses and other income, net	1,563	1,249	4,653	4,484
Operating income	322	631	1,001	1,160
Other income (expense):				
Interest expense, net	(37)	(35)	(107)	(117)
Other income (expense), net	4	(4)	(50)	(146)
Total non-operating expenses, net	(33)	(39)	(157)	(263)
Income before income taxes and equity in earnings of equity method investees	289	592	844	897
Income tax expense	(95)	(239)	(345)	(359)
Equity in earnings of equity method investees, net of taxes	11	1	30	15
Net income	205	354	529	553
Less: Net income attributable to noncontrolling interests	13	12	39	32
Net income attributable to Quest Diagnostics	$192	$342	$490	$521
Earnings per share attributable to Quest Diagnostics' common stockholders:				
Basic	$1.37	$2.37	$3.46	$3.61
Diluted	$1.34	$2.35	$3.42	$3.58
Weighted average common shares outstanding:				
Basic	139	144	141	144
Diluted	142	145	143	145
Dividends per common share	$0.40	$0.38	$1.20	$1.14

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(unaudited)
(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$205	$354	$529	$553
Other comprehensive (loss) income:				
Currency translation	(5)	(5)	(23)	(7)
Market valuation, net of taxes	—	(2)	(1)	—
Net deferred loss on cash flow hedges, net of taxes	—	1	1	3
Other comprehensive loss	(5)	(6)	(23)	(4)
Comprehensive income	200	348	506	549
Less: Comprehensive income attributable to noncontrolling interests	13	12	39	32
Comprehensive income attributable to Quest Diagnostics	$187	$336	$467	$517

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2016 AND DECEMBER 31, 2015
(unaudited)
(in millions, except per share data)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 406	$ 133
Accounts receivable, net of allowance for doubtful accounts of $284 and $254 at September 30, 2016 and December 31, 2015, respectively	966	901
Inventories	82	84
Prepaid expenses and other current assets	179	207
Assets held for sale	9	176
Total current assets	1,642	1,501
Property, plant and equipment, net	952	925
Goodwill	6,000	5,905
Intangible assets, net	972	984
Investment in equity method investees	452	473
Other assets	155	174
Total assets	$ 10,173	$ 9,962
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,039	$ 1,014
Current portion of long-term debt	7	159
Total current liabilities	1,046	1,173
Long-term debt	3,815	3,492
Other liabilities	542	514
Commitments and contingencies		
Redeemable noncontrolling interest	76	70
Stockholders’ equity:		
Quest Diagnostics stockholders’ equity:		
Common stock, par value $0.01 per share; 600 shares authorized at both September 30, 2016 and December 31, 2015; 216 shares issued at both September 30, 2016 and December 31, 2015	2	2
Additional paid-in capital	2,526	2,481
Retained earnings	6,520	6,199
Accumulated other comprehensive loss	(61)	(38)
Treasury stock, at cost; 77 shares and 73 shares at September 30, 2016 and December 31, 2015, respectively	(4,324)	(3,960)
Total Quest Diagnostics stockholders’ equity	4,663	4,684
Noncontrolling interests	31	29
Total stockholders’ equity	4,694	4,713
Total liabilities and stockholders’ equity	$ 10,173	$ 9,962

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(unaudited)
(in millions)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$529	$553
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	186	230
Provision for doubtful accounts	242	232
Deferred income tax provision	19	138
Stock-based compensation expense	52	39
Gain on disposition of business	(118)	(334)
Other, net	(15)	(4)
Changes in operating assets and liabilities:		
Accounts receivable	(316)	(214)
Accounts payable and accrued expenses	43	(35)
Income taxes payable	74	(15)
Termination of interest rate swap agreements	54	—
Other assets and liabilities, net	15	(41)
Net cash provided by operating activities	765	549
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(139)	(41)
Proceeds from disposition of businesses	270	—
Capital expenditures	(165)	(169)
Investment in equity method investee	—	(37)
(Increase) decrease in investments and other assets	(11)	10
Net cash used in investing activities	(45)	(237)
Cash flows from financing activities:		
Proceeds from borrowings	1,869	2,214
Repayments of debt	(1,722)	(2,235)
Purchases of treasury stock	(440)	(174)
Exercise of stock options	63	58
Employee payroll tax withholdings on stock issued under stock-based compensation plans	(10)	(6)
Dividends paid	(168)	(158)
Distributions to noncontrolling interests	(31)	(28)
Sale of noncontrolling interest in subsidiary	—	51
Payment of deferred business acquisition consideration	—	(51)
Other financing activities, net	(8)	(52)
Net cash used in financing activities	(447)	(381)

Net change in cash and cash equivalents	273	(69)
Cash and cash equivalents, beginning of period	133	192
Cash and cash equivalents, end of period	$406	$123

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(unaudited)
(in millions)

	Quest Diagnostics Stockholders' Equity								
	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at Cost	Non-controlling Interests	Total Stock-holders' Equity	Redeemable Non-controlling Interest
Balance, December 31, 2015	143	$2	$2,481	$6,199	$(38)	$(3,960)	$29	$4,713	$70
Net income				490			33	523	6
Other comprehensive loss, net of taxes					(23)			(23)	
Dividends declared				(169)				(169)	
Distributions to noncontrolling interests							(31)	(31)	
Issuance of common stock under benefit plans	1		5			11		16	
Stock-based compensation expense			49			3		52	
Exercise of stock options	1		1			62		63	
Shares to cover employee payroll tax withholdings on stock issued under stock-based compensation plans			(10)					(10)	
Purchases of treasury stock	(6)					(440)		(440)	
Balance, September 30, 2016	139	$2	$2,526	$6,520	$(61)	$(4,324)	$31	$4,694	$76
Balance, December 31, 2014	144	$2	$2,418	$5,723	$(27)	$(3,815)	$29	$4,330	$—
Net income				521			31	552	1
Other comprehensive loss, net of taxes					(4)			(4)	
Dividends declared				(164)				(164)	
Distributions to noncontrolling interests							(28)	(28)	
Issuance of common stock under benefit plans	1		5			12		17	
Stock-based compensation expense			37			2		39	
Exercise of stock options	1					58		58	
Shares to cover employee payroll tax withholdings on stock issued under stock-based compensation plans			(6)					(6)	
			4					4	

Tax benefits associated with stock-based compensation plans									
Purchases of treasury stock	(2)					(174)		(174)	
Sale of redeemable noncontrolling interest			11					11	54
Adjustment to fair value				(14)				(14)	14
Balance, September 30, 2015	144	$2	$2,469	$6,066	$ (31)	$(3,917)	$ 32	$4,621	$ 69

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(in millions, except per share data)

1. DESCRIPTION OF BUSINESS

Background

Quest Diagnostics Incorporated and its subsidiaries ("Quest Diagnostics" or the "Company") empower people to take action to improve health outcomes. The Company uses its extensive database of clinical lab results to derive diagnostic insights that reveal new avenues to identify and treat disease, inspire healthy behaviors and improve healthcare management. The Company's diagnostic information services business ("DIS") provides insights through clinical testing and related services to patients, physicians, hospitals, accountable care organizations ("ACOs"), integrated delivery networks ("IDNs"), health plans, employers and others. The Company offers the broadest access in the United States to diagnostic information services through its nationwide network of laboratories, Company-owned patient service centers and phlebotomists in physician offices. The Company is the world's leading provider of diagnostic information services, which includes providing clinical testing services such as routine (including drugs-of-abuse) testing, advanced testing solutions (including gene-based and esoteric testing), and anatomic pathology services, as well as related services and insights. The Company provides interpretive consultation with one of the largest medical and scientific staffs in the industry and hundreds of M.D.s and Ph.D.s, many of whom are recognized leaders in their fields. The Company's Diagnostic Solutions ("DS") businesses offer a variety of solutions for life insurers, healthcare providers and others. The Company is the leading provider of risk assessment services for the life insurance industry. In addition, the Company offers healthcare organizations, clinicians and patients robust information technology solutions. Prior to the sale of the Focus Diagnostics products business on May 13, 2016 (see Note 6), the Company's diagnostics products business manufactured and marketed diagnostic products. Prior to the contribution of its clinical trials testing business to the Q^2 Solutions joint venture on July 1, 2015, the Company's clinical trials testing business was a leading provider of central laboratory testing for clinical trials.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The interim unaudited consolidated financial statements reflect all adjustments which in the opinion of management are necessary for a fair statement of results of operations, comprehensive income, financial condition, cash flows and stockholders' equity for the periods presented. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's 2015 Annual Report on Form 10-K. The year-end balance sheet data was derived from the audited financial statements as of December 31, 2015, but does not include all the disclosures required by accounting principles generally accepted in the United States ("GAAP").

Reclassifications

As a result of the early adoption of the accounting standard update ("ASU") associated with simplifying several aspects of stock-based compensation, certain reclassifications have been made to the prior period financial statements to conform with the current period presentation. For further details regarding the impact of the ASU, see New Accounting Pronouncements.

Use of Estimates

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

Earnings Per Share

The Company's unvested restricted stock units that contain non-forfeitable rights to dividends are participating securities and, therefore, are included in the earnings allocation in computing earnings per share using the two-class method. Basic earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of common shares outstanding. Diluted earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of common shares outstanding after giving effect to all potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the dilutive effect of outstanding stock options and performance share units granted under the Company's Amended and Restated Employee Long-Term Incentive Plan and its Amended and Restated Non-Employee Director Long-Term Incentive Plan. Earnings allocable to participating securities include the portion of dividends declared as well as the portion of undistributed earnings during the period allocable to participating securities.

Property, Plant and Equipment

In connection with the Company’s annual review of the estimated useful lives of its property, plant and equipment completed during the first quarter of 2016, the Company revised the estimated useful lives of certain classes of its property, plant and equipment. In order to better reflect the Company's current expectations regarding the use of its assets, the recent operational improvements from its Invigorate program and considering historical and other data, the Company revised the estimated useful lives of its laboratory equipment from a range of five to seven years to a range of seven to ten years, furniture and fixtures from a range of three to seven years to a range of five to twelve years and computer software obtained for internal use from three years to five years. The change in estimated useful lives was accounted for prospectively as a change in accounting estimate effective in the first quarter of 2016. The impact of this change for the three months ended September 30, 2016, was a decrease in depreciation expense and an increase in operating income of $9 million and an increase in net income of $6 million, or $0.04 per share on a basic and diluted basis. The impact of this change for the nine months ended September 30, 2016, was a decrease in depreciation expense and an increase in operating income of $29 million and an increase in net income of $18 million, or $0.12 per share on a basic and diluted basis. The full year impact for 2016 is expected to be a decrease in depreciation expense and an increase in operating income of approximately $36 million and an increase in net income of approximately $22 million, or $0.16 per share on a basic and diluted basis.

New Accounting Pronouncements

New Accounting Standards To Be Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued an ASU on revenue recognition. This ASU outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. This standard supersedes existing revenue recognition requirements and eliminates most industry-specific guidance from GAAP. The core principle of the revenue recognition standard is to require an entity to recognize as revenue the amount that reflects the consideration to which it expects to be entitled in exchange for goods or services as it transfers control to its customers. The standard requires additional disclosures including those that are qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of this ASU to the first quarter of

2018, with early adoption permitted beginning in the first quarter of 2017. The ASU can be applied using a full retrospective method or a modified retrospective method of adoption. The Company is currently assessing the impact of the adoption of this ASU on the Company's results of operations, financial position and cash flows.

In January 2016, the FASB issued an ASU on the recognition and measurement of financial assets and financial liabilities. This ASU requires that all equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. However, companies may elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. In addition, the ASU eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. The ASU is effective for the Company in the first quarter of 2018. The Company does not expect the adoption of this ASU to have a material impact on its results of operations, financial position and cash flows.

In February 2016, the FASB issued an ASU that amends accounting for leases. Under the new guidance, a lessee will recognize assets and liabilities for most leases on its balance sheet but will recognize expense on its statement of operations similar to current lease accounting. The ASU is effective for the Company in the first quarter of 2019 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach, and provides for certain practical expedients. The adoption of this ASU will result in a significant increase to the Company’s balance sheet for lease liabilities and right-of-use assets, which has not yet been quantified. The Company is currently evaluating this and the other effects of adoption of this ASU on its consolidated financial statements.

In March 2016, the FASB issued an ASU that simplifies the transition to the equity method of accounting by requiring adoption as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence, no retroactive adjustment of the investment is required. The ASU is effective for the Company in the first quarter of 2017 with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its results of operations, financial position and cash flows.

In June 2016, the FASB issued an ASU that changes the impairment model for most financial instruments, including trade receivables from an incurred loss method to a new forward-looking approach, based on expected losses. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU is effective for the Company in the first quarter of 2020 and must be adopted using a modified retrospective transition approach. The Company is currently assessing the impact of the adoption of this ASU on the Company’s results of operations, financial position and cash flows.

In August 2016, the FASB issued an ASU that clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for the Company in the first quarter of 2018 with early adoption permitted and must be applied retrospectively to all periods presented. The Company is currently assessing the impact of the adoption of this ASU on the presentation and classification of the Company’s cash flows.

Adoption of New Accounting Standards

On January 1, 2016, the Company adopted a new accounting standard issued by the FASB which makes targeted amendments to the current consolidation guidance for variable interest entities and limited partnerships and similar entities. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

On January 1, 2016, the Company prospectively adopted a new accounting standard issued by the FASB which provides guidance in determining whether a cloud computing arrangement includes a software license. If it is determined that a cloud computing arrangement does include a software license, the software element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If the arrangement does not include a software license, it should be accounted for as a service contract. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

On January 1, 2016, the Company prospectively adopted a new accounting standard issued by the FASB which requires that an acquirer recognize adjustments to provisional amounts in a business combination that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

During the first quarter of 2016, the Company prospectively adopted a new accounting standard issued by the FASB that clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The adoption of this standard did not have a material impact on the Company's results of operations, financial position and cash flows.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(unaudited)
(in millions, except per share data)

In March 2016, the FASB issued an ASU that simplifies several aspects of the accounting for stock-based compensation award transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and accounting for forfeitures. In the second quarter of 2016, the Company elected to early adopt this standard, effective January 1, 2016. As a result:

- Excess income tax benefits and deficiencies from stock-based compensation arrangements are recognized as a discrete item within income tax expense, rather than additional paid-in capital. The adoption of this provision, which was done on a prospective basis, resulted in the classification of $3 million and $7 million of tax benefits in income tax expense for the three and nine months ended September 30, 2016, respectively. In addition, excess income tax benefits and deficiencies are no longer considered when applying the treasury stock method for computing the effect of dilutive securities, which resulted in an increase in the effect of the dilutive securities for both the three and nine months ended September 30, 2016.
- Excess income tax benefits from stock-based compensation arrangements are classified as an operating activity and cash paid for employee payroll tax withholdings by directly withholding shares are classified as a financing activity in the consolidated statements of cash flows. The adoption of these provisions, which was done on a retrospective basis, resulted in the reclassification of $4 million of excess tax benefits related to the settlement of stock-based compensation awards from financing to operating activities and $6 million of taxes paid related to employee payroll tax withholdings on stock issued under stock-based compensation plans from operating to financing activities for the nine months ended September 30, 2015.

In addition, the ASU permits the Company to make a policy election to either estimate the forfeitures expected to occur in order to determine the amount of compensation cost to be recognized in each period or to account for forfeitures in the period they occur. The Company elected to continue to estimate the forfeitures expected to occur in order to determine the amount of compensation cost to be recognized in each period.

3. EARNINGS PER SHARE

The computation of basic and diluted earnings per common share was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Amounts attributable to Quest Diagnostics' stockholders:				
Net income attributable to Quest Diagnostics	$192	$342	$490	$521
Less: Earnings allocated to participating securities	2	2	3	3
Earnings available to Quest Diagnostics' common stockholders – basic and diluted	$190	$340	$487	$518
Weighted average common shares outstanding – basic	139	144	141	144
Effect of dilutive securities:				
Stock options and performance share units	3	1	2	1
Weighted average common shares outstanding – diluted	142	145	143	145

Earnings per share attributable to Quest Diagnostics' common stockholders:				
Basic	$1.37	$2.37	$3.46	$3.61
Diluted	$1.34	$2.35	$3.42	$3.58

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(unaudited)
(in millions, except per share data)

The following securities were not included in the calculation of diluted earnings per share due to their antidilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options and performance share units	—	2	1	2

4. RESTRUCTURING ACTIVITIES

Invigorate Program

During 2012, the Company committed to a course of action related to a multi-year program called Invigorate which is designed to reduce its cost structure. Invigorate has consisted of several flagship programs, with structured plans in each, to drive savings and improve performance across the customer value chain. These flagship programs include: organization excellence; information technology excellence; procurement excellence; service excellence; lab excellence; and billing excellence. From 2012 through 2014, the Invigorate program was intended to partially offset reimbursement pressures and labor and benefit cost increases; free up additional resources to invest in science, innovation and other growth initiatives; and enable us to improve service quality and operating profitability.

In January 2015, the Company adopted a course of action related to its multi-year Invigorate program to further reduce its cost structure through 2017. This multi-year course of action continues to focus on the flagship program opportunities and new key opportunities such as: standardizing processes, information technology systems, equipment and data; enhancing electronic enabling services; and enhancing reimbursement for work performed.

Restructuring Charges

The following table provides a summary of the Company's pre-tax restructuring charges for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Employee separation costs	$ 1	$ 14	$ 7	$ 35
Facility-related costs	2	1	2	1
Total restructuring charges	$ 3	$ 15	$ 9	$ 36

The restructuring charges incurred for the three and nine months ended September 30, 2016 are primarily associated with various workforce reduction initiatives as the Company continues to simplify and restructure its organization. Of the total restructuring charges incurred during the three months ended September 30, 2016, $1 million and $2 million were recorded in cost of services and selling, general and administrative expenses, respectively. Of the total restructuring charges incurred during the nine months ended September 30, 2016, $4 million and $5 million were recored in cost of services and selling, general and administrative expenses, respectively.

The restructuring charges incurred for the three and nine months ended September 30, 2015 are primarily associated with various workforce reduction initiatives as the Company continues to simplify and restructure its organization. Of the total restructuring charges incurred during the three months ended September 30, 2015, $12 million and $3 million were recorded in cost of services and selling, general and administrative expenses, respectively. Of the total restructuring charges incurred during the nine months ended September 30, 2015, $29 million and $7 million were recorded in cost of services and selling, general and administrative expenses, respectively.

Charges for all periods presented were primarily recorded in the Company's DIS business.

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The restructuring liability as of September 30, 2016 and December 31, 2015, which is included in accounts payable and accrued expenses, was $10 million and $19 million, respectively.

5. BUSINESS ACQUISITIONS

On February 29, 2016, the Company completed the acquisition of the outreach laboratory service business of Clinical Laboratory Partners, LLC ("CLP"), a wholly-owned subsidiary of Hartford HealthCare Corporation, in an all-cash transaction for $135 million. CLP provides clinical testing services to physicians, hospitals, clinics and long-term care facilities in Connecticut. The assets acquired principally consist of $91 million of tax deductible goodwill and $43 million of customer-related intangible assets, which are being amortized over a useful life of 15 years. The goodwill recorded primarily includes the expected synergies resulting from combining the operations of CLP with those of the Company and the value associated with an assembled workforce and other intangible assets that do not qualify for separate recognition. The acquired outreach laboratory service business of CLP is included in the Company's DIS business. For further details regarding business segment information, see Note 14.

Supplemental pro forma combined financial information has not been presented as the impact of the CLP acquisition is not material to the Company's consolidated financial statements.

For details regarding the Company's 2015 acquisitions, see Note 5 to the consolidated financial statements in the Company's 2015 Annual Report on Form 10-K.

6. DISPOSITION

Sale of Focus Diagnostics Products

On March 29, 2016, the Company entered into a definitive agreement to sell the assets of its non-core Focus Diagnostics products business ("Focus Diagnostics") to DiaSorin S.p.A. ("DiaSorin"). On May 13, 2016, the Company completed the sale of Focus Diagnostics for $300 million in cash, or $293 million net of transaction costs and working capital adjustments, which includes $25 million of proceeds held in escrow. For the nine months ended September 30, 2016, the Company recorded a $118 million pre-tax gain on disposition of business. The Company also recorded income tax expense of $84 million, consisting of $91 million of current income tax expense and a deferred income tax benefit of $7 million. The income tax expense resulted in an effective tax rate of 71.4%, which was significantly in excess of the statutory tax rate primarily due to a lower tax basis in the assets sold, specifically the goodwill associated with the disposition. Of the $91 million of current income tax expense, $68 million was paid in the third quarter of 2016 and $23 million was included in accounts payable and accrued expenses as of September 30, 2016 and is expected to be paid in the fourth quarter of 2016.

The assets disposed of consisted of $113 million of goodwill, $30 million of intangible assets, with the remaining $38 million consisting of accounts receivable, inventories and property, plant and equipment. In addition, the disposition included liabilities of $6 million. As of December 31, 2015, the assets to be disposed of as part of the transaction primarily consisted of $113 million of goodwill, with the remainder consisting of property, plant and equipment, inventories and intangible assets, which were classified and included in current assets held for sale.

In connection with the sale, the Company entered into a five year supply agreement with DiaSorin. The supply agreement, which does not include a minimum purchase commitment, enables the Company to purchase certain products and supplies used in its DIS business. Purchases by the Company under this supply agreement subsequent to the sale of Focus Diagnostics were not material.

Focus Diagnostics, prior to May 13, 2016, is included in all other operating segments and has not been classified as a discontinued operation. For further details regarding business segment information, see Note 14.

For details regarding the Company's 2015 dispositions and assets held for sale, see Note 6 to the consolidated financial statements in the Company's 2015 Annual Report on Form 10-K.

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7. FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table provides a summary of the recognized assets and liabilities that are measured at fair value on a recurring basis:

		Basis of Fair Value Measurements		
September 30, 2016	Total	Quoted Prices in Active Markets for Identical Assets / Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Trading securities	$ 50	$ 50	$ —	$ —
Cash surrender value of life insurance policies	31	—	31	—
Available-for-sale equity securities	4	4	—	—
Total	$ 85	$ 54	$ 31	$ —
Liabilities:				
Deferred compensation liabilities	$ 89	$ —	$ 89	$ —
Interest rate swaps	5	—	5	—
Contingent consideration	3	—	—	3
Total	$ 97	$ —	$ 94	$ 3

		Basis of Fair Value Measurements		
December 31, 2015	Total	Level 1	Level 2	Level 3
Assets:				
Trading securities	$49	$ 49	$ —	$ —
Cash surrender value of life insurance policies	29	—	29	—
Interest rate swaps	23	—	23	—
Available-for-sale equity securities	6	6	—	—
Total	$107	$ 55	$ 52	$ —

Liabilities:				
Deferred compensation liabilities	$85	$—	$ 85	$ —
Interest rate swaps	6	—	6	—
Contingent consideration	3	—	—	3
Total	$94	$—	$ 91	$ 3

A full description regarding the Company's fair value measurements is contained in Note 7 to the consolidated financial statements in the Company's 2015 Annual Report on Form 10-K.

The Company offers certain employees the opportunity to participate in non-qualified supplemental deferred compensation plans. A participant's deferrals, together with Company matching credits, are invested in a variety of participant-directed stock and bond mutual funds that are classified as trading securities. Changes in the fair value of these securities are measured using quoted prices in active markets based on the market price per unit multiplied by the number of units held exclusive of any transaction costs. A corresponding adjustment for changes in fair value of the trading securities is also reflected in the changes in fair value of the deferred compensation obligation. The deferred compensation liabilities are classified within Level 2 because their inputs are derived principally from observable market data by correlation to the trading securities.

The Company offers certain employees the opportunity to participate in a non-qualified deferred compensation program. A participant's deferrals, together with Company matching credits, are “invested” at the direction of the employee in a hypothetical portfolio of investments which are tracked by an administrator. The Company purchases life insurance policies, with the Company named as beneficiary of the policies, for the purpose of funding the program's liability. Changes in the cash surrender value of the life insurance policies are based upon earnings and changes in the value of the underlying investments. Changes in the fair value of the deferred compensation obligation are derived using quoted prices in active markets based on the market price per unit multiplied by the number of units. The cash surrender value and the deferred compensation obligations are classified within Level 2 because their inputs are derived principally from observable market data by correlation to the hypothetical investments.

The fair value measurements of the Company's interest rate swaps classified within Level 2 of the fair value hierarchy are model-derived valuations as of a given date in which all significant inputs are observable in active markets including certain financial information and certain assumptions regarding past, present and future market conditions.

Investment in available-for-sale equity securities represents an investment in registered shares of a publicly-held company. The Company's investment in available-for-sale equity securities is classified within Level 1 of the fair value hierarchy because the fair value is obtained from quoted prices in an active market.

In April 2014, and as further detailed in Note 5 to the consolidated financial statements in the Company's 2015 Annual Report on Form 10-K, the Company completed the acquisitions of Summit Health, Inc. ("Summit Health") and Steward Health Care Systems, LLC's laboratory outreach business ("Steward"). In connection with the acquisitions, the Company initially recorded an aggregate contingent consideration liability of $26 million. The contingent consideration liability was classified within Level 3 measured at fair value using a probability weighted and discounted cash flow method. These measurements are based on externally obtained inputs and management's probability assessments of the occurrence of triggering events, appropriately discounted considering the uncertainties associated with the obligations, as well as the likelihood of achieving financial targets. The initial probability estimate of the occurrence of such triggering events associated with the amounts the Company could be obligated to pay in future periods for both Summit Health and Steward was between 5% and 95%. The probability-weighted cash flows were then discounted using a discount rate of 1.5% to 2.8%. Based on actual 2015 results for Summit Health compared to the earn-out target included in the contingent consideration arrangement, no payment was required. Therefore, the fair value of the contingent consideration accrual associated with Summit Health was reduced to $0 in the second quarter of 2015, which resulted in a $13 million gain included in other operating income, net for the nine months ended September 30, 2015. The remaining contingent consideration associated with Steward is projected to be paid out in three equal annual installments, with a maximum payout of $4 million.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value based on the short maturities of these instruments. At September 30, 2016 and December 31, 2015, the fair value of the Company’s debt was estimated at $4.1 billion and $3.7 billion, respectively. Principally all of the Company's debt is classified within Level 1 of the fair value hierarchy because the fair value of the debt is estimated based on rates currently offered to the Company with identical terms and maturities, using quoted active market prices and yields, taking into account the underlying terms of the debt instruments.

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8. GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill for the nine months ended September 30, 2016 and for the year ended December 31, 2015 are as follows:

	September 30, 2016	December 31, 2015
Balance, beginning of period	$ 5,905	$ 6,032
Goodwill acquired during the period	95	33
Reclassification to assets held for sale	—	(160)
Balance, end of period	$ 6,000	$ 5,905

Principally all of the Company’s goodwill as of September 30, 2016 and December 31, 2015 is associated with its DIS business.

For the nine months ended September 30, 2016, goodwill acquired during the period was principally associated with the CLP acquisition (see Note 5). For the year ended December 31, 2015, goodwill acquired was principally associated with the acquisition of MemorialCare Health System's laboratory outreach business and the acquisition of the business assets of Superior Mobile Medics, Inc. The reclassification to assets held for sale was principally associated with the contribution of the Company's clinical trials testing business to the Q^2 Solutions joint venture and the sale of Focus Diagnostics (see Note 6).

Intangible assets at September 30, 2016 and December 31, 2015 consisted of the following:

	Weighted Average Amortization Period (in years)	September 30, 2016			December 31, 2015		
		Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizing intangible assets:							
Customer-related	18	$978	$ (336)	$642	$936	$ (296)	$640
Non-compete agreements	6	6	(4)	2	6	(3)	3
Technology	18	93	(39)	54	93	(35)	58
Other	9	106	(68)	38	106	(59)	47
Total	18	1,183	(447)	736	1,141	(393)	748
Intangible assets not subject to amortization:							
Trade names		235	—	235	235	—	235
Other		1	—	1	1	—	1
Total intangible assets		$1,419	$ (447)	$972	$1,377	$ (393)	$984

Amortization expense related to intangible assets was $18 million and $20 million for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, amortization expense related to intangible assets was $54 million and $61 million, respectively.

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The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of September 30, 2016 is as follows:

Year Ending December 31,	
Remainder of 2016	$18
2017	69
2018	65
2019	65
2020	65
2021	58
Thereafter	396
Total	$736

9. DEBT

Long-Term Debt

Long-term debt at September 30, 2016 and December 31, 2015 consisted of the following:

	September 30, 2016	December 31, 2015
3.20% Senior Notes due April 2016	$ —	$ 150
2.70% Senior Notes due April 2019	300	300
4.75% Senior Notes due January 2020	523	522
2.50% Senior Notes due March 2020	299	299
4.70% Senior Notes due April 2021	564	554
4.25% Senior Notes due April 2024	323	313
3.50% Senior Notes due March 2025	608	601
3.45% Senior Notes due June 2026	497	—
6.95% Senior Notes due July 2037	174	247
5.75% Senior Notes due January 2040	244	368
4.70% Senior Notes due March 2045	300	300
Other	15	22
Debt issuance costs	(25)	(25)
Total long-term debt	3,822	3,651
Less: Current portion of long-term debt	7	159
Total long-term debt, net of current portion	$ 3,815	$ 3,492

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2016 Senior Notes Offering

In May 2016, the Company completed a $500 million senior notes offering (the “2016 Senior Notes”). The offering consisted of $500 million in aggregate principal of 3.45% senior notes due June 2026, issued at a discount of $1 million. These senior notes are unsecured obligations of the Company and rank equally with the Company's other senior unsecured obligations. The senior notes do not have a sinking fund requirement. The Company incurred $4 million of costs associated with the 2016 Senior Notes, which is included as a reduction to the carrying amount of long-term debt and is being amortized over the term of the related debt.

The net proceeds from the 2016 Senior Notes were used to repay outstanding indebtedness under the senior unsecured revolving credit facility and the secured receivables credit facility and for general corporate purposes.

Retirement of Debt

In March 2016, the Company completed a cash tender offer to purchase up to $200 million aggregate principal amount of its 6.95% Senior Notes due July 2037 ("Senior Notes due 2037") and 5.75% Senior Notes due January 2040 ("Senior Notes due 2040"). The Company purchased $73 million of its Senior Notes due 2037 and $127 million of its Senior Notes due 2040.

In March 2015, the Company completed a cash tender offer to purchase up to $250 million aggregate principal amount of its Senior Notes due 2037 and Senior Notes due 2040. The Company purchased $176 million of its Senior Notes due 2037 and $74 million of its Senior Notes due 2040. In April 2015, the Company redeemed all of its 5.45% Senior Notes due November 2015, $150 million of its 3.20% Senior Notes due April 2016 and all of its 6.40% Senior Notes due July 2017.

For the nine months ended September 30, 2016 and 2015, the Company recorded a loss on retirement of debt, principally comprised of premiums paid, of $48 million and $144 million, respectively, in other income (expense), net.

Maturities of Long-Term Debt

As of September 30, 2016, long-term debt matures as follows:

Year Ending December 31,	
Remainder of 2016	$2
2017	6
2018	4
2019	302
2020	801
2021	550
Thereafter	2,125
Total maturities of long-term debt	3,790
Unamortized discount	(13)
Debt issuance costs	(25)

Fair value basis adjustments attributable to hedged debt	70
Total long-term debt	3,822
Less: Current portion of long-term debt	7
Total long-term debt, net of current portion	$3,815

For further discussion regarding the Company's debt, see Note 13 to the consolidated financial statements in the Company's 2015 Annual Report on Form 10-K.

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10. FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to market risks for changes in interest rates and, from time to time, foreign currencies. This strategy includes the use of interest rate swap agreements, forward starting interest rate swap agreements, treasury lock agreements and foreign currency forward contracts to manage its exposure to movements in interest and currency rates. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. These policies prohibit holding or issuing derivative financial instruments for speculative purposes. The Company does not enter into derivative financial instruments that contain credit-risk-related contingent features or requirements to post collateral.

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents and its debt obligations. Interest income earned on cash and cash equivalents may fluctuate as interest rates change; however, due to their relatively short maturities, the Company does not hedge these assets or their investment cash flows and the impact of interest rate risk is not material. The Company's debt obligations consist of fixed-rate and variable-rate debt instruments. The Company's primary objective is to achieve the lowest overall cost of funding while managing the variability in cash outflows within an acceptable range. In order to achieve this objective, the Company has entered into interest rate swaps. Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net settlements between the counterparties are recognized as an adjustment to interest expense, net.

Interest Rate Derivatives – Cash Flow Hedges

From time to time, the Company has entered into various interest rate lock agreements and forward starting interest rate swap agreements to hedge part of the Company's interest rate exposure associated with the variability in future cash flows attributable to changes in interest rates.

In May 2016, the Company entered into interest rate lock agreements with several financial institutions for a total notional amount of $250 million which were accounted for as cash flow hedges. These agreements were entered into to hedge a portion of the Company’s interest rate exposure associated with variability in future cash flows attributable to changes in the ten-year treasury rates related to the planned issuance of the 2016 Senior Notes. In connection with the issuance of the 2016 Senior Notes, these agreements were settled, and the Company paid $1 million. These losses are deferred in stockholders’ equity, net of income taxes, as a component of accumulated other comprehensive loss, and amortized as an adjustment to interest expense, net over the term of the respective senior notes.

In March 2015, the Company entered into interest rate lock agreements with several financial institutions for a total notional amount of $350 million which were accounted for as cash flow hedges. These agreements were entered into to hedge a portion of the Company’s interest rate exposure associated with variability in future cash flows attributable to changes in the five-year, ten-year and thirty-year treasury rates related to the planned debt issuance in 2015. In connection with the 2015 senior notes offering, these agreements were settled and the Company received $3 million. These gains are deferred in stockholders’ equity, net of income taxes, as a component of accumulated other comprehensive loss, and amortized as an adjustment to interest expense, net over the term of the respective senior notes.

During the fourth quarter of 2013 and first quarter of 2014, the Company entered into various forward starting interest rate swap agreements for an aggregate notional amount of $150 million which were accounted for as cash flow hedges. In connection with the issuance of the 2015 senior notes offering, all of these agreements were settled, and the Company paid $17 million. These losses are deferred in stockholders’ equity, net of income taxes, as a component of accumulated other comprehensive loss, and amortized as an adjustment to interest expense, net over the term of the Senior Notes due 2025.

The total net loss, net of taxes, recognized in accumulated other comprehensive loss, related to the Company's cash flow hedges as of September 30, 2016 and December 31, 2015 was $11 million and $12 million, respectively. The loss recognized on the Company's cash flow hedges for the three and nine months ended September 30, 2016 and 2015, as a result of ineffectiveness, was not material. The net amount of deferred losses on cash flow hedges that is expected to be reclassified from accumulated other comprehensive loss into interest expense, net within the next twelve months is $3 million.

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Interest Rate Derivatives – Fair Value Hedges

The Company maintains various fixed-to-variable interest rate swaps to convert a portion of the Company's long-term debt into variable interest rate debt. A summary of the notional amounts of these interest rate swaps as of September 30, 2016 and December 31, 2015 is as follows:

Debt Instrument	Floating Rate Paid by the Company as of September 30, 2016	Notional Amount September 30, 2016	Notional Amount December 31, 2015
4.75% Senior Notes due January 2020		$—	$ 350
4.70% Senior Notes due April 2021		—	400
4.25% Senior Notes due April 2024	One-month LIBOR plus a 3.02% spread	250	250
3.50% Senior Notes due March 2025	One-month LIBOR plus a 2.24% to 2.28% spread	600	200
3.45% Senior Notes due June 2026	One-month LIBOR plus a 2.15% spread	350	—
		$1,200	$ 1,200

As of December 31, 2015, the Company had entered into various fixed-to-variable interest rate swap agreements with an aggregate notional amount of $1.2 billion and variable interest rates ranging from one-month LIBOR plus 1.4% to one-month LIBOR plus 3.6%. In July 2016, the Company terminated those interest rate swaps agreements. As a result of the termination, the Company received proceeds of $60 million, which included $6 million of accrued interest. The remaining basis adjustment on the respective debt obligation of $54 million will be amortized as a reduction of interest expense over the remaining terms of the hedged debt instrument. Immediately after the termination of these interest rate swaps, the Company entered into new fixed-to-variable interest rate swap agreements, which are reflected in the table above.

Since inception, the fair value hedges have been effective or highly effective; therefore, there is no impact on earnings for the three and nine months ended September 30, 2016 and 2015 as a result of hedge ineffectiveness.

Interest Rate Derivatives - Economic Hedges

In March 2016, in connection with the retirement of debt discussed in Note 9, the Company entered into reverse interest rate lock agreements with several financial institutions which were not designated for hedge accounting. The Company entered into these agreements to hedge the variability in cash flows associated with $75 million of the $200 million principal amount of debt that was retired in the first quarter of 2016. These agreements were settled during the first quarter of 2016 resulting in a gain of $1 million which was recognized in other income (expense), net.
In March 2015, in connection with the 2015 retirement of debt discussed in Note 9, the Company entered into reverse interest rate lock agreements with several financial institutions which were not designated for hedge accounting. The Company entered into these agreements to hedge the variability in cash flows associated with $280 million of the $1.3 billion principal amount of debt that was retired in the first and second quarters of 2015. These agreements were settled during the first and second quarters of 2015, resulting in a gain of $3 million which was recognized in other income (expense), net.

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A summary of the fair values of derivative instruments in the consolidated balance sheets is stated in the table below:

	September 30, 2016		December 31, 2015	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Derivatives Designated as Hedging Instruments				
Asset Derivatives:				
Interest rate swaps		$ —	Other assets	$ 23
Liability Derivatives:				
Interest rate swaps	Other liabilities	5	Other liabilities	6
Total Net Derivatives (Liabilities) Assets		$ (5)		$ 17

A full description regarding the Company's use of derivative financial instruments is contained in Note 14 to the consolidated financial statements in the Company's 2015 Annual Report on Form 10-K.

11. STOCKHOLDERS’ EQUITY AND REDEEMABLE NONCONTROLLING INTEREST

Stockholders' Equity

Components of Comprehensive Income

The market value adjustments represent unrealized holding gains (losses) on available-for-sale securities, net of taxes. The net deferred loss on cash flow hedges represents deferred losses, net of taxes on the Company’s interest rate related derivative financial instruments designated as cash flow hedges, net of amounts reclassified to interest expense (see Note 10). For the three and nine months ended September 30, 2016 and 2015, the tax effects related to the market valuation adjustments and deferred losses were not material. Foreign currency translation adjustments are not adjusted for income taxes since they relate to indefinite investments in non-U.S. subsidiaries.

Dividend Program

During each of the quarters of 2016, the Company's Board of Directors declared a quarterly cash dividend of $0.40 per common share. During each of the quarters of 2015, the Company's Board of Directors declared a quarterly cash dividend of $0.38 per common share.

Share Repurchase Program

As of September 30, 2016, $532 million remained available under the Company’s share repurchase authorizations. The share repurchase authorization has no set expiration or termination date.

Share Repurchases

For the nine months ended September 30, 2016, the Company repurchased 5.7 million shares of its common stock for $440 million, which includes 3.1 million shares repurchased under an accelerated share repurchase agreement ("ASR") as follows:

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In May 2016, the Company entered into an ASR with a financial institution to repurchase $250 million of the Company's common stock as part of the Company's share repurchase program. The ASR was structured as a combination of two transactions: (1) a treasury stock repurchase; and (2) a forward contract, which permitted the Company to purchase shares immediately with the final purchase price of those shares determined by the volume weighted average price of the Company's common stock during the repurchase period, less a fixed discount. Under the ASR, the Company paid $250 million to the financial institution and received 3.1 million shares of common stock, resulting in a final price per share of $81.04. The Company initially received 2.8 million shares of its common stock during the second quarter of 2016 and received an additional 0.3 million shares upon completion of the ASR during the third quarter of 2016. As of June 30, 2016, the Company recorded this transaction as an increase to treasury stock for $212 million, and recorded the remaining $38 million as a decrease to additional paid-in capital. Upon completion of the ASR in the third quarter of 2016, the Company reclassified the $38 million to treasury stock from additional paid-in capital.

For the nine months ended September 30, 2015, the Company repurchased 2.4 million shares of its common stock for $174 million.

Shares Reissued from Treasury Stock

For the nine months ended September 30, 2016 and 2015, the Company reissued 1.4 million shares and 1.3 million shares, respectively, from treasury stock for employee benefit plans.

Redeemable Noncontrolling Interest

In connection with the sale of an 18.9% noncontrolling interest in a subsidiary to UMass Memorial Medical Center ("UMass") on July 1, 2015, the Company granted UMass the right to require the Company to purchase all of its interest in the subsidiary at fair value commencing July 1, 2020. The subsidiary performs diagnostic information services in a defined territory within the state of Massachusetts. In 2015, the Company received consideration of $68 million. Since the redemption of the noncontrolling interest is outside of the Company's control, it has been presented outside of stockholders' equity at the greater of its carrying amount or its fair value. The Company will record changes in the fair value of the noncontrolling interest immediately as they occur. As of September 30, 2016, the redeemable noncontrolling interest was presented at its fair value.

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12. SUPPLEMENTAL CASH FLOW & OTHER DATA

Supplemental cash flow and other data for the three and nine months ended September 30, 2016 and 2015 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Depreciation expense	$45	$57	$132	$169
Amortization expense	18	20	54	61
Depreciation and amortization expense	$63	$77	$186	$230
Interest expense	$(37)	$(35)	$(108)	$(118)
Interest income	—	—	1	1
Interest expense, net	$(37)	$(35)	$(107)	$(117)
Interest paid	$41	$52	$116	$151
Income taxes paid	$141	$140	$262	$249
Assets acquired under capital leases	$—	$—	$—	$2
Accounts payable associated with capital expenditures	$11	$11	$11	$11
Dividends payable	$56	$55	$56	$55
Businesses acquired:				
Fair value of assets acquired	$4	$35	$139	$37
Fair value of liabilities assumed	—	—	—	—
Fair value of net assets acquired	4	35	139	37
Merger consideration paid (payable), net	—	—	—	4
Cash paid for business acquisitions	4	35	139	41
Less: Cash acquired	—	—	—	—
Business acquisitions, net of cash acquired	$4	$35	$139	$41

13. COMMITMENTS AND CONTINGENCIES

Letters of Credit

The Company can issue letters of credit totaling $100 million under its secured receivables credit facility and $150 million under its senior unsecured revolving credit facility. For further discussion regarding the Company's secured receivables credit facility and senior unsecured revolving credit facility, see Note 13 to the consolidated financial statements in the Company's 2015 Annual Report on Form 10-K.

In support of its risk management program, to ensure the Company's performance or payment to third parties, $68 million in letters of credit under the secured receivables credit facility were outstanding at September 30, 2016. The letters of credit primarily represent collateral for current and future automobile liability and workers' compensation loss payments.

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