BECTON DICKINSON & CO
Form 10-Q
August 04, 2016
Table of Contents

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-4802

Becton, Dickinson and Company
(Exact name of registrant as specified in its charter)

New Jersey	22-0760120
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Becton Drive, Franklin Lakes, New Jersey 07417-1880
(Address of principal executive offices)
(Zip Code)
(201) 847-6800
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by checkmark 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. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock	Shares Outstanding as of June 30, 2016
Common stock, par value $1.00	212,925,842

BECTON, DICKINSON AND COMPANY
FORM 10-Q
For the quarterly period ended June 30, 2016
TABLE OF CONTENTS

ITEM 1. FINANCIAL STATEMENTS
BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions of dollars

	June 30, 2016 (Unaudited)	September 30, 2015
Assets		
Current Assets:		
Cash and equivalents	$ 1,686	$ 1,424
Short-term investments	15	20
Trade receivables, net	1,618	1,618
Current portion of net investment in sales-type leases	345	75
Inventories:		
Materials	315	384
Work in process	303	280
Finished products	1,218	1,295
	1,835	1,959
Assets held for sale	625	—
Prepaid expenses and other	409	563
Total Current Assets	6,534	5,659
Property, Plant and Equipment	8,282	8,277
Less allowances for depreciation and amortization	4,469	4,217
Property, Plant and Equipment, Net	3,813	4,060
Goodwill	7,425	7,537
Customer Relationships, Net	3,075	3,250
Developed Technology, Net	2,658	2,977
Other Intangibles, Net	673	797
Capitalized Software, Net	340	362
Net Investment in Sales-Type Leases, Less Current Portion	785	1,118
Other Assets	712	717
Total Assets	$ 26,016	$ 26,478
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term debt	$ 1,351	$ 1,452
Payables and accrued expenses	2,672	2,930
Liabilities held for sale	195	—
Total Current Liabilities	4,219	4,381
Long-Term Debt	10,561	11,370
Long-Term Employee Benefit Obligations	1,159	1,133
Deferred Income Taxes and Other	2,045	2,430
Commitments and Contingencies (See Note 5)		
Shareholders' Equity		
Common stock	333	333
Capital in excess of par value	4,650	4,475
Retained earnings	12,850	12,314
Deferred compensation	20	20
Common stock in treasury - at cost	(8,215)	(8,239)
Accumulated other comprehensive loss	(1,605)	(1,738)

Total Shareholders’ Equity	8,033	7,164
Total Liabilities and Shareholders’ Equity	$ 26,016	$ 26,478

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Millions of dollars, except per share data
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$3,198	$3,120	$9,252	$7,222
Cost of products sold	1,651	1,946	4,813	3,957
Selling and administrative expense	728	751	2,209	1,806
Research and development expense	207	178	575	436
Acquisitions and other restructurings	96	108	321	244
Total Operating Costs and Expenses	2,682	2,983	7,918	6,444
Operating Income	516	137	1,334	779
Interest expense	(97)	(105)	(293)	(272)
Interest income	5	2	14	20
Other (expense) income, net	(1)	5	10	23
Income Before Income Taxes	422	39	1,065	549
Income tax provision (benefit)	32	(23)	107	35
Net Income	390	62	958	514
Basic Earnings per Share	$1.83	$0.30	$4.51	$2.58
Diluted Earnings per Share	$1.80	$0.29	$4.41	$2.52
Dividends per Common Share	$0.66	$0.60	$1.98	$1.80

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Millions of dollars
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net Income	$390	$62	$958	$514
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustments	38	80	101	(558)
Defined benefit pension and postretirement plans	12	11	36	33
Net unrealized losses on cash flow hedges, net of reclassifications	(7)	(2)	(3)	(8)
Other Comprehensive Income (Loss), Net of Tax	43	88	134	(533)
Comprehensive Income (Loss)	$433	$150	$1,091	$(19)

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Millions of dollars
(Unaudited)

	Nine Months Ended June 30,	
	2016	2015
Operating Activities		
Net income	$958	$514
Adjustments to net income to derive net cash provided by operating activities:		
Depreciation and amortization	841	576
Share-based compensation	158	138
Deferred income taxes	(150)	(137)
Change in operating assets and liabilities	(49)	(42)
Pension obligation	63	17
Other, net	34	(14)
Net Cash Provided by Operating Activities	1,854	1,052
Investing Activities		
Capital expenditures	(405)	(387)
Capitalized software	(19)	(26)
Proceeds from investments, net	12	837
Acquisitions of businesses, net of cash acquired	—	(8,334)
Divestitures of businesses	158	—
Other, net	(64)	(92)
Net Cash Used for Investing Activities	(318)	(8,003)
Financing Activities		
Change in short-term debt	(150)	846
Proceeds from long-term debt	—	6,164
Payments of debt	(751)	(3)
Excess tax benefits from payments under share-based compensation plans	75	48
Dividends paid	(421)	(358)
Issuance of common stock and other, net	(29)	(30)
Net Cash (Used for) Provided by Financing Activities	(1,276)	6,667
Effect of exchange rate changes on cash and equivalents	2	(17)
Net increase (decrease) in cash and equivalents	262	(302)
Opening Cash and Equivalents	1,424	1,861
Closing Cash and Equivalents	$1,686	$1,559

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of the management of the Company, include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position and the results of operations and cash flows for the periods presented. However, the financial statements do not include all information and accompanying notes required for a presentation in accordance with U.S. generally accepted accounting principles. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s 2015 Annual Report on Form 10-K. Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Note 2 – Accounting Changes

New Accounting Principle Adopted

In November 2015, the Financial Accounting Standards Board ("FASB") issued amended guidance that requires entities to present deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Early adoption is permitted under the amendments. The Company has retrospectively adopted the guidance effective October 1, 2015 and as such, the condensed consolidated balance sheet as of September 30, 2015 reflects the reclassification of current deferred tax assets of $387 million as noncurrent amounts, after giving effect to jurisdictional netting requirements.

New Accounting Principle Not Yet Adopted

In March 2016, the FASB issued guidance which amends certain aspects of the accounting for share-based compensation awards to employees. The aspects of share-based compensation accounting which are affected by the guidance include the timing of recognition for award-related income tax effects and the classification of awards as either equity or liabilities on the balance sheet. The amended guidance is effective for the Company on October 1, 2017 and early adoption is permitted. The Company is currently evaluating the impact that the guidance will have on its consolidated financial statements.

In February 2016, the FASB issued a new lease accounting standard which requires lessees to recognize lease assets and lease liabilities on the balance sheet. The new standard also requires expanded disclosures regarding leasing arrangements. The Company is currently evaluating the impact that this new lease accounting standard will have on its consolidated financial statements upon its adoption of the standard on October 1, 2019.

In May 2014, the FASB issued a new revenue recognition standard. Under this standard, revenue will be recognized upon the transfer of goods or services to customers and the amount of revenue recognized will reflect the consideration to which a reporting entity expects to be entitled in exchange for those goods or services. The Company is currently evaluating the impact that this new revenue recognition standard will have on its consolidated financial statements and the Company currently intends to adopt the standard on October 1, 2018, as is allowed under the FASB's July 2015 amendment which deferred the effective date for this standard.

Note 3 – Accumulated Other Comprehensive Income (Loss)

The components and changes of Accumulated other comprehensive income (loss) for the nine-month period ended June 30, 2016 were as follows:

(Millions of dollars)	Total	Foreign Currency Translation	Benefit Plans	Cash Flow Hedges
Balance at September 30, 2015	$(1,738)	$ (961)	$ (741)	$ (36)
Other comprehensive income (loss) before reclassifications, net of taxes	89	101 (A)	—	(12)
Amounts reclassified into income, net of taxes	45	—	36	9
Balance at June 30, 2016	$(1,605)	$ (861)	$ (705)	$ (39)

(A) The gain for the nine months ended June 30, 2016 was primarily attributable to the strengthening of certain European and Asian currencies against the U.S. dollar during the period.

Reclassifications out of Accumulated other comprehensive income (loss) were as follows:

(Millions of dollars)	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
Benefit Plans				
Reclassification of losses into income	$18	$17	$55	$51
Associated tax benefits	(6)	(6)	(19)	(17)
Amounts reclassified into income, net of taxes (A)	$12	$11	$36	$33
Cash Flow Hedges				
Reclassification of losses into income	$5	$2	$14	$7
Associated tax benefits	(2)	(1)	(5)	(3)
Amounts reclassified into income, net of taxes (B)	$3	$2	$9	$4

(A) These reclassifications were not recorded into income in their entirety and were included in the computation of net periodic benefit plan costs. Additional details are provided in Note 8.

(B) These reclassifications were recorded to Interest expense and Cost of products sold.

Note 4 – Earnings per Share

The weighted average common shares used in the computations of basic and diluted earnings per share (shares in thousands) were as follows:

	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
Average common shares outstanding	213,083	210,175	212,411	199,690
Dilutive share equivalents from share-based plans	4,289	4,753	4,735	4,546
Average common and common equivalent shares outstanding – assuming dilution	217,372	214,928	217,146	204,236

Note 5 – Contingencies

Given the uncertain nature of litigation generally, the Company is not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome of the litigation to which the Company is a party. In accordance with U.S.

8

generally accepted accounting principles, the Company establishes accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). In view of the uncertainties discussed below, the Company could incur charges in excess of any currently established accruals and, to the extent available, liability insurance. In the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on the Company’s consolidated results of operations and consolidated cash flows.

In June 2007, Retractable Technologies, Inc. (“RTI”) filed a complaint against the Company under the caption Retractable Technologies, Inc. vs. Becton Dickinson and Company (Civil Action No. 2:07-cv-250, U.S. District Court, Eastern District of Texas) alleging that the BD Integra™ syringes infringe patents licensed exclusively to RTI. In its complaint, RTI also alleged that the Company engaged in false advertising with respect to certain of the Company’s safety-engineered products in violation of the Lanham Act; acted to exclude RTI from various product markets and to maintain its market share through, among other things, exclusionary contracts in violation of state and federal antitrust laws; and engaged in unfair competition. In January 2008, the court severed the patent and non-patent claims into separate cases, and stayed the non-patent claims during the pendency of the patent claims at the trial court level. On April 1, 2008, RTI filed a complaint against BD under the caption Retractable Technologies, Inc. and Thomas J. Shaw v. Becton Dickinson and Company (Civil Action No. 2:08-cv-141, U.S. District Court, Eastern District of Texas) alleging that the BD Integra™ syringes infringe another patent licensed exclusively to RTI. On August 29, 2008, the court ordered the consolidation of the patent cases. As further set forth in the Company's 2015 Annual Report on Form 10-K, RTI was subsequently awarded $5 million in damages at a jury trial with respect to the patent claims, which has been paid, and the patent cases are now concluded.

On September 19, 2013, a jury returned a verdict against BD with respect to RTI’s Lanham Act claim and claim for attempted monopolization based on deception in the safety syringe market. The jury awarded RTI $113.5 million for its attempted monopolization claim (which will be trebled under the antitrust statute). The jury’s verdict rejected RTI’s monopolization claims in the markets for safety syringes, conventional syringes and safety IV catheters; its attempted monopolization claims in the markets for conventional syringes and safety IV catheters; and its claims for contractual restraint of trade and exclusive dealing in the markets for safety syringes, conventional syringes and safety IV catheters. In connection with the verdict, the Company recorded a pre-tax charge of approximately $341 million in the fourth quarter of fiscal year 2013. With respect to RTI's requested injunction relief, in November 2014, the Court granted RTI’s request that BD be ordered to issue certain corrective statements regarding its advertising and enjoined from making certain advertising claims. The Court denied RTI’s request for injunctive relief relating to BD’s contracting practices and BD’s safety syringe advertising, finding that RTI failed to prove that BD’s contracting practices violated the antitrust laws or that BD’s safety syringe advertising is false. On January 14, 2015, the Court granted in part and denied in part BD’s motion for a stay of the injunction. The Court held that, pending appeal, BD would not be required to send the corrective advertising notices to end-user customers, but only to employees, distributors and Group Purchasing Organizations. On January 15, 2015, the Court entered its Final Judgment in the case ordering that RTI recovers $341 million for its attempted monopolization claim and $12 million for attorneys’ fees, and awarded pre and post-judgment interest and costs. On February 3, 2015, the Court of Appeals for the Fifth Circuit denied BD’s motion for a stay of the injunction pending the final appeal, and BD thereafter complied with the Court’s order. On April 23, 2015, the Court granted BD’s motion to eliminate the award of pre-judgment interest, and entered a new Final Judgment. BD has filed its appeal to the Court of Appeals challenging the entirety of the Final Judgment.

On July 17, 2015, a class action complaint was filed against the Company in the U.S. District Court for the Southern District of Georgia. The plaintiffs, Glynn-Brunswick Hospital Authority, trading as Southeast Georgia Health System, and Southeast Georgia Health System, Inc., seek to represent a class of acute care purchasers of BD syringes and IV catheters. The complaint alleges that BD monopolized the markets for syringes and IV catheters through contracts, theft of technology, false advertising, acquisitions, and other conduct. The complaint seeks treble damages but does not specify the amount of alleged damages. The Company filed a motion to dismiss the complaint which was granted on January 29, 2016. Plaintiffs have sought to file an amended complaint, which BD has opposed.

The Company believes that it has meritorious defenses to each of the above-mentioned suits pending against the Company and is engaged in a vigorous defense of each of these matters.

The Company is also involved both as a plaintiff and a defendant in other legal proceedings and claims that arise in the ordinary course of business.

The Company is a potentially responsible party to a number of federal administrative proceedings in the United States brought under the Comprehensive Environment Response, Compensation and Liability Act, also known as “Superfund,” and similar state laws. The affected sites are in varying stages of development. In some instances, the remedy has been completed, while in others, environmental studies are underway or commencing. For several sites, there are other potentially responsible parties that may be jointly or severally liable to pay all cleanup costs.

Note 6 – Segment Data

The Company's organizational structure is based upon two principal business segments: BD Medical ("Medical") and BD Life Sciences ("Life Sciences"). These segments are strategic businesses that are managed separately because each one develops, manufactures and markets distinct products and services. The Company evaluates performance of its business segments and allocates resources to them primarily based upon operating income. Segment operating income represents revenues reduced by product costs and operating expenses.

Financial information for the Company's segments was as follows:

(Millions of dollars)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Revenues (A)				
Medical	$2,235	$2,199	$6,420	$4,377
Life Sciences	963	921	2,832	2,845
Total Revenues	$3,198	$3,120	$9,252	$7,222
Income Before Income Taxes				
Medical	$571	$483	$1,549	$1,115
Life Sciences	200	197	604	610
Total Segment Operating Income	771	680	2,152	1,725
Acquisitions and other restructurings	(96)	(108)	(321)	(244)
Net interest expense	(92)	(103)	(279)	(252)
Other unallocated items (B)	(160)	(430)	(488)	(680)
Income Before Income Taxes	$422	$39	$1,065	$549

(A) Intersegment revenues are not material.

(B) Primarily comprised of foreign exchange, corporate expenses, and share-based compensation expense. The amounts in the three and nine-month periods of fiscal year 2015 also included a fair value step-up adjustment of $281 million recorded relative to CareFusion's inventory on the acquisition date.

Revenues by geographic areas were as follows:

(Millions of dollars)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Revenues				
United States	$1,735	$1,693	$5,145	$3,437
International	1,463	1,427	4,107	3,785
Total Revenues	$3,198	$3,120	$9,252	$7,222

Note 7 – Share-Based Compensation

The Company grants share-based awards under the 2004 Employee and Director Equity-Based Compensation Plan (the "2004 Plan"), which provides long-term incentive compensation to employees and directors. The Company believes that such awards align the interests of its employees and directors with those of its shareholders.

The fair values of stock appreciation rights granted during the annual share-based grants in November of 2015 and 2014, respectively, were estimated on the date of grant using a lattice-based binomial valuation model based on the following assumptions:

	2016	2015
Risk-free interest rate	2.17 %	2.20 %
Expected volatility	19.00 %	19.00 %
Expected dividend yield	1.76 %	1.78 %
Expected life	7.6 years	7.6 years
Fair value derived	$27.69	$24.82

The fair value of share-based payments is recognized as compensation expense in net income. For the three months ended June 30, 2016 and 2015, compensation expense charged to income was $39 million and $46 million, respectively. For the nine months ended June 30, 2016 and 2015, compensation expense charged to income was $158 million and $138 million, respectively.

The amount of unrecognized compensation expense for all non-vested share-based awards as of June 30, 2016 was approximately $217 million, which is expected to be recognized over a weighted-average remaining life of approximately 2.1 years. Certain pre-acquisition equity awards of CareFusion were converted into either BD restricted stock awards or BD stock options, as applicable, as of the acquisition date, with substantially the same terms and conditions as were applicable under such CareFusion awards immediately prior to the acquisition date. Included in the unrecognized compensation expense is $14 million associated with these replacement awards.

Note 8 – Benefit Plans

The Company has defined benefit pension plans covering certain employees in the United States and certain foreign locations. The Company also provides certain postretirement healthcare and life insurance benefits to qualifying domestic retirees. Other postretirement benefit plans in foreign countries are not material. The measurement date used for the Company's employee benefit plans is September 30.

Net pension and postretirement cost included the following components for the three months ended June 30:

	Pension Plans		Other Postretirement Benefits	
(Millions of dollars)	2016	2015	2016	2015
Service cost	$20	$20	$ 1	$ 1
Interest cost	18	22	1	2
Expected return on plan assets	(27)	(32)	—	—
Amortization of prior service credit	(4)	(4)	(1)	(1)
Amortization of loss	19	18	—	1
Settlements	3	—	—	—
Net pension and postretirement cost	$29	$24	$ 1	