BECTON DICKINSON & CO
Form 10-Q
May 04, 2011

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

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

o **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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 þ No o

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

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

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

Class of Common Stock	Shares Outstanding as of March 31, 2011
Common stock, par value $1.00	218,751,720

BECTON, DICKINSON AND COMPANY
FORM 10-Q
For the quarterly period ended March 31, 2011
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ITEM 1. FINANCIAL STATEMENTS
BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Thousands of dollars

	March 31, 2011 (Unaudited)	September 30, 2010
Assets		
Current Assets:		
Cash and equivalents	$ 748,588	$ 1,215,989
Short-term investments	1,109,832	528,206
Trade receivables, net	1,209,700	1,205,377
Inventories:		
Materials	171,724	169,268
Work in process	252,365	225,878
Finished products	852,842	750,191
	1,276,931	1,145,337
Prepaid expenses, deferred taxes and other	511,579	410,341
Total Current Assets	4,856,630	4,505,250
Property, plant and equipment	6,789,566	6,532,062
Less allowances for depreciation and amortization	3,623,883	3,431,570
	3,165,683	3,100,492
Goodwill	866,260	763,961
Core and Developed Technology, Net	411,507	310,783
Other Intangibles, Net	273,625	227,857
Capitalized Software, Net	279,034	254,761
Other	491,484	487,590
Total Assets	$ 10,344,223	$ 9,650,694
Liabilities and Shareholders Equity		
Current Liabilities:		
Short-term debt	$ 241,431	$ 202,758
Payables and accrued expenses	1,337,480	1,468,915
Total Current Liabilities	1,578,911	1,671,673
Long-Term Debt	2,484,168	1,495,357

Long-Term Employee Benefit Obligations	905,998	899,109
Deferred Income Taxes and Other	276,085	149,975
Commitments and Contingencies		
Shareholders Equity:		
Common stock	332,662	332,662
Capital in excess of par value	1,723,267	1,624,768
Retained earnings	9,168,895	8,724,228
Deferred compensation	17,371	17,164
Common shares in treasury at cost	(5,852,511)	(4,806,333)
Accumulated other comprehensive loss	(290,623)	(457,909)
Total Shareholders Equity	5,099,061	5,434,580
Total Liabilities and Shareholders Equity	$ 10,344,223	$ 9,650,694

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Revenues	$ 1,922,023	$ 1,799,409	$ 3,764,028	$ 3,668,227
Cost of products sold	920,589	864,492	1,786,020	1,758,816
Selling and administrative	441,942	421,076	889,897	866,749
Research and development	119,152	100,193	234,693	199,344
Total Operating Costs and Expenses	1,481,683	1,385,761	2,910,610	2,824,909
Operating Income	440,340	413,648	853,418	843,318
Interest income	14,564	9,652	29,786	18,441
Interest expense	(23,921)	(12,913)	(39,474)	(25,900)
Other (expense) income, net	(2,522)	164	(7,118)	(2,190)
Income From Continuing Operations Before Income Taxes	428,461	410,551	836,612	833,669
Income tax provision	117,399	125,517	211,273	244,542
Income From Continuing Operations	311,062	285,034	625,339	589,127
Income from Discontinued Operations, net	957	12,597	2,617	24,880
Net Income	$ 312,019	$ 297,631	$ 627,956	$ 614,007
Basic Earnings per Share:				
Income from Continuing Operations	$ 1.41	$ 1.21	$ 2.79	$ 2.49
Income from Discontinued Operations		0.05	0.01	0.11
Basic Earnings per Share	$ 1.41	$ 1.26	$ 2.80	$ 2.60
Diluted Earnings per Share:				
Income from Continuing Operations	$ 1.38	$ 1.18	$ 2.72	$ 2.43
Income from Discontinued Operations		0.05	0.01	0.10

Diluted Earnings per Share (A)	$	1.38	$	1.24	$	2.74	$	2.53
Dividends per Common Share	$	0.410	$	0.370	$	0.820	$	0.740

(A) Total per share amounts may not add due to rounding.
See notes to condensed consolidated financial statements

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

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Operating Activities		
Net income	$ 627,956	$ 614,007
Less: Income from discontinued operations, net	2,617	24,880
Income from continuing operations	625,339	589,127
Adjustments to income from continuing operations to derive net cash provided by continuing operating activities, net of amounts acquired:		
Depreciation and amortization	245,397	249,012
Share-based compensation	53,720	52,467
Deferred income taxes	27,030	14,125
Change in operating assets and liabilities	(285,068)	(154,406)
Pension obligation	33,489	(139,337)
Other, net	6,981	36,523
Net Cash Provided by Continuing Operating Activities	706,888	647,511
Investing Activities		
Capital expenditures	(193,688)	(227,838)
Capitalized software	(33,720)	(50,369)
(Purchases) proceeds of investments, net	(566,688)	123,633
Acquisitions of businesses, net of cash acquired	(204,970)	(281,367)
Other, net	(24,930)	(34,591)
Net Cash Used for Continuing Investing Activities	(1,023,996)	(470,532)
Financing Activities		
Change in short-term debt	36,787	(202,196)
Proceeds from long-term debt	991,265	
Payments of debt	(14)	(49)
Repurchase of common stock	(1,057,791)	(450,000)
Excess tax benefits from payments under share-based compensation plans	19,133	17,591
Dividends paid	(182,866)	(174,232)
Issuance of common stock and other, net	37,996	31,258
Net Cash Used for Continuing Financing Activities	(155,490)	(777,628)
Discontinued Operations		
Net cash provided by operating activities	780	39,024

Net cash used for investing activities	(88)	(1,759)
Net Cash Provided by Discontinued Operations	692	37,265
Effect of exchange rate changes on cash and equivalents	4,505	(172)
Net decrease in cash and equivalents	(467,401)	(563,556)
Opening Cash and Equivalents	1,215,989	1,394,244
Closing Cash and Equivalents	$ 748,588	$ 830,688

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Dollar and share amounts in thousands, except per share data
March 31, 2011

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 or incorporated by reference in the Company s 2010 Annual Report on Form 10-K. 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

In October 2009, the Financial Accounting Standards Board (FASB) issued revised revenue recognition guidance affecting the accounting for software-enabled devices and multiple-element arrangements. The revisions expand the scope of multiple-element arrangement guidance to include revenue arrangements containing certain nonsoftware elements and related software elements. Additionally, the revised guidance changes the manner in which separate units of accounting are identified within a multiple-element arrangement and modifies the manner in which transaction consideration is allocated across the separately identified deliverables. The Company adopted the revised revenue recognition guidance for new arrangements the Company entered into on or after October 1, 2010. The adoption of these new requirements did not significantly impact the Company s consolidated financial statements.

In June 2009, the FASB issued guidance amending the variable interest consolidation model. The revised model amends certain guidance for determining whether an entity is a variable interest entity and requires a qualitative, rather than quantitative, analysis to determine the primary beneficiary of a variable interest entity. The Company s adoption of the amended variable interest consolidation model on October 1, 2010 did not significantly impact the Company s consolidated financial statements.

Note 3 Comprehensive Income

Comprehensive income was comprised of the following:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net Income	$ 312,019	$ 297,631	$ 627,956	$ 614,007
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustments	175,338	(167,565)	136,610	(146,233)
Benefit plans adjustment	10,764	8,059	21,529	16,118
Unrealized gains on cash flow hedges, net of amounts realized	249	37,728	9,147	43,172
	186,351	(121,778)	167,286	(86,943)
Comprehensive Income	$ 498,370	$ 175,853	$ 795,242	$ 527,064

The gains recorded as foreign currency translation adjustments for the three and six months ended March 31, 2011 are mainly attributable to the strengthening of the Euro against the U.S. dollar during these periods.

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 March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Average common shares outstanding	220,894	235,325	224,528	236,353
Dilutive share equivalents from share-based plans	4,573	5,538	5,001	5,974
Average common and common equivalent shares outstanding assuming dilution	225,467	240,863	229,529	242,327

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. 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, excess 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.

The Company is named as a defendant in the following purported class action suits brought on behalf of distributors and other entities that purchase the Company s products (the Distributor Plaintiffs), alleging that the Company violated federal antitrust laws, resulting in the charging of higher prices for the Company s products to the plaintiffs and other purported class members.

Case	Court	Date Filed
Louisiana Wholesale Drug Company, Inc., et. al. vs. Becton Dickinson and Company	U.S. District Court, Newark, New Jersey	March 25, 2005
SAJ Distributors, Inc. et. al. vs. Becton Dickinson & Co.	U.S. District Court, Eastern District of Pennsylvania	September 6, 2005
Dik Drug Company, et. al. vs. Becton, Dickinson and Company	U.S. District Court, Newark, New Jersey	September 12, 2005
American Sales Company, Inc. et. al. vs. Becton, Dickinson & Co.	U.S. District Court, Eastern District of Pennsylvania	October 3, 2005
Park Surgical Co. Inc. et. al. vs. Becton, Dickinson and Company	U.S. District Court, Eastern District of Pennsylvania	October 26, 2005

These actions have been consolidated under the caption *In re Hypodermic Products Antitrust Litigation.*

The Company is also named as a defendant in the following purported class action suits brought on behalf of purchasers of the Company s products, such as hospitals (the Hospital Plaintiffs), alleging that the Company violated federal and state antitrust laws, resulting in the charging of higher prices for the Company s products to the plaintiffs and other purported class members.

Case	Court	Date Filed
Jabo s Pharmacy, Inc., et. al. v. Becton Dickinson & Company	U.S. District Court, Greenville, Tennessee	June 7, 2005
Drug Mart Tallman, Inc., et. al. v. Becton Dickinson and Company	U.S. District Court, Newark, New Jersey	January 17, 2006
Medstar v. Becton Dickinson	U.S. District Court, Newark, New Jersey	May 18, 2006
The Hebrew Home for the Aged at Riverdale v. Becton Dickinson and Company	U.S. District Court, Southern District of New York	March 28, 2007

The plaintiffs in each of the above antitrust class action lawsuits seek monetary damages. All of the antitrust class action lawsuits have been consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in Federal court in New Jersey.

On April 27, 2009, the Company entered into a settlement agreement with the Distributor Plaintiffs in these actions. The settlement agreement provided for, among other things, the payment by the Company of $45,000 in exchange for a release by all potential class members of the direct purchaser claims under federal antitrust laws related to the products and acts enumerated in the complaint, and a dismissal of the case with prejudice, insofar as it relates to direct purchaser claims. The release would not cover potential class members that affirmatively opt out of the settlement. On September 30, 2010, the court issued an order denying a motion to approve the settlement agreement, ruling that the Hospital Plaintiffs, and not the Distributor Plaintiffs, are the direct purchasers entitled to pursue damages under the federal antitrust laws for certain sales of BD products. The settlement agreement currently remains in effect, subject to certain termination provisions, and the Distributor Plaintiffs are seeking appellate review of the court s order. The Company currently cannot estimate the range of reasonably possible losses with respect to these class action matters beyond the amount already reserved and changes to the amount already recognized may be required in the future as additional information becomes available.

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). RTI alleges that the BD Integra™ syringes infringe patents licensed exclusively to RTI. In its complaint, RTI also alleges 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. RTI seeks money damages and injunctive relief. 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). RTI alleges that the BD Integra™ syringes infringe another patent licensed exclusively to RTI. RTI seeks money damages and injunctive relief. On August 29, 2008, the court ordered the consolidation of the patent cases. On November 9, 2009, at a trial of these consolidated cases, the jury rendered a verdict in favor of RTI on all but one of its infringement claims, but did not find any willful infringement, and awarded RTI $5,000 in damages. On May 19, 2010, the court granted RTI s motion for a permanent injunction against the continued sale by the Company of its BD Integra™ products in their current form, but stayed the injunction for the duration of the Company s appeal. At the same time, the court lifted a stay of RTI s non-patent claims. The Company s appeal of the jury verdict was heard by the Court of Appeals for the Federal Circuit on March 10, 2011. On March 15, 2011, the court granted in part and denied in part the Company s motion to dismiss RTI s antitrust claims, and permitted RTI to file an amended complaint to address the deficiencies in its original complaint. The trial on RTI s antitrust and false advertising claims is scheduled to begin in January 2012. With respect to RTI s antitrust and false advertising claims, the Company cannot estimate the range of reasonably possible losses as the proceedings are in the early stages and there are significant issues to be resolved.

On October 19, 2009, Gen-Probe Incorporated (Gen-Probe) filed a patent infringement action against BD in the U.S. District Court for the Southern District of California. The complaint alleges that the BD Viper and BD Viper XTR systems and BD ProbeTec specimen collection products infringe certain U.S. patents of Gen-Probe. On March 23, 2010, Gen-Probe filed a complaint, also in the U.S. District Court for the Southern District of California, alleging that the BD Max™ instrument infringes Gen-Probe patents. The patents alleged to be infringed are a subset of the Gen-Probe patents asserted against the Company in the October 2009 suit. On June 8, 2010, the Court consolidated these cases. Gen-Probe is seeking monetary damages and injunctive relief. The Company currently cannot estimate the range of reasonably possible losses for this matter as the proceedings are in relatively early stages and there are significant issues to be resolved.

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 party to a number of Federal 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 commencing. For all 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 its three principal business segments: BD Medical (Medical), BD Diagnostics (Diagnostics), and BD Biosciences (Biosciences). The Company evaluates segment performance based upon operating income. Segment operating income represents revenues reduced by product costs and operating expenses. From time to time, the Company hedges against certain forecasted sales of U.S.-produced products sold outside the United States. Gains and losses associated with these foreign currency translation hedges are reported in segment revenues based upon their proportionate share of these international sales of U.S.-produced products.

Financial information for the Company s segments was as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Revenues (A)				
Medical	$ 981,332	$ 921,633	$ 1,907,877	$ 1,892,303
Diagnostics	605,347	555,672	1,207,070	1,151,147
Biosciences	335,344	322,104	649,081	624,777
	$ 1,922,023	$ 1,799,409	$ 3,764,028	$ 3,668,227
Segment Operating Income				
Medical	$ 287,313	$ 263,495	$ 562,910	$ 566,249
Diagnostics	155,866	143,685	317,029	306,086
Biosciences	95,237	97,230	185,701	182,696
Total Segment Operating Income	538,416	504,410	1,065,640	1,055,031
Unallocated Items (B)	(109,955)	(93,859)	(229,028)	(221,362)