BECTON DICKINSON & CO
Form 10-Q
August 04, 2010

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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 June 30, 2010

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	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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 June 30, 2010
Common stock, par value $1.00	232,145,867

BECTON, DICKINSON AND COMPANY
FORM 10-Q
For the quarterly period ended June 30, 2010
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ITEM 1. FINANCIAL STATEMENTS
BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Thousands of dollars

	June 30, 2010 (Unaudited)	September 30, 2009
Assets		
Current Assets:		
Cash and equivalents	$ 750,106	$ 1,394,244
Short-term investments	695,130	551,561
Trade receivables, net	1,090,093	1,168,662
Inventories:		
Materials	158,084	171,449
Work in process	215,909	223,094
Finished products	747,650	762,219
	1,121,643	1,156,762
Prepaid expenses, deferred taxes and other	385,383	375,725
Assets held for sale	80,706	
Total Current Assets	4,123,061	4,646,954
Property, plant and equipment	6,191,493	6,241,329
Less allowances for depreciation and amortization	3,304,100	3,274,700
	2,887,393	2,966,629
Goodwill	754,951	621,872
Core and Developed Technology, Net	308,608	309,990
Other Intangibles, Net	229,766	96,659
Capitalized Software, Net	241,223	197,224
Other	486,671	465,296
Total Assets	$ 9,031,673	$ 9,304,624
Liabilities and Shareholders Equity		
Current Liabilities:		
Short-term debt	$ 202,221	$ 402,965
Payables and accrued expenses	1,315,597	1,374,128
Liabilities held for sale	13,608	
Total Current Liabilities	1,531,426	1,777,093

Long-Term Debt	1,493,400	1,488,460
Long-Term Employee Benefit Obligations	643,267	782,034
Deferred Income Taxes and Other	209,703	114,325
Commitments and Contingencies		
Shareholders Equity:		
Common stock	332,662	332,662
Capital in excess of par value	1,600,956	1,485,674
Retained earnings	8,412,924	7,752,831
Deferred compensation	14,058	17,906
Common shares in treasury at cost	(4,608,348)	(4,073,699)
Accumulated other comprehensive loss	(598,375)	(372,662)
Total Shareholders Equity	5,153,877	5,142,712
Total Liabilities and Shareholders Equity	$ 9,031,673	$ 9,304,624

See notes to condensed consolidated financial statements

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 1,878,229	$ 1,820,255	$ 5,639,857	$ 5,263,141
Cost of products sold	905,822	860,063	2,712,259	2,485,687
Selling and administrative	423,684	429,940	1,300,958	1,272,318
Research and development	108,623	98,489	310,025	294,391
Total Operating Costs and Expenses	1,438,129	1,388,492	4,323,242	4,052,396
Operating Income	440,100	431,763	1,316,615	1,210,745
Interest income	2,094	12,767	20,535	18,730
Interest expense	(13,085)	(11,288)	(38,985)	(26,607)
Other income (expense), net	1,348	(4,247)	(843)	(538)
Income From Continuing Operations Before Income Taxes	430,457	428,995	1,297,322	1,202,330
Income tax provision	124,174	90,291	377,336	295,033
Income From Continuing Operations	306,283	338,704	919,986	907,297
Income from Discontinued Operations, net	625	2,323	929	7,086
Net Income	$ 306,908	$ 341,027	$ 920,915	$ 914,383
Basic Earnings per Share:				
Income from Continuing Operations	$ 1.31	$ 1.41	$ 3.91	$ 3.77
Income from Discontinued Operations	0.00	0.01	0.00	0.03
Basic Earnings per Share (A)	$ 1.32	$ 1.42	$ 3.91	$ 3.80
Diluted Earnings per Share:				
Income from Continuing Operations	$ 1.29	$ 1.38	$ 3.81	$ 3.67
Income from Discontinued Operations	0.00	0.01	0.00	0.03

Diluted Earnings per Share (A)	$ 1.29	$ 1.39	$ 3.82	$ 3.70
Dividends per Common Share	$ 0.370	$ 0.330	$ 1.110	$ 0.990

(A) Total per share amounts may not add due to rounding.

See notes to condensed consolidated financial statements

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

	Nine Months Ended June 30,	
	2010	2009
Operating Activities		
Net income	$ 920,915	$ 914,383
Less: income from discontinued operations, net	(929)	(7,086)
Income from continuing operations	919,986	907,297
Adjustments to income from continuing operations to derive net cash provided by continuing operating activities, net of amounts acquired:		
Depreciation and amortization	383,005	352,246
Share-based compensation	69,117	78,984
Deferred income taxes	7,088	(21,627)
Change in operating assets and liabilities	(94,027)	(214,969)
Pension obligation	(119,062)	(75,909)
Other, net	28,240	22,126
Net Cash Provided by Continuing Operating Activities	1,194,347	1,048,148
Investing Activities		
Capital expenditures	(329,985)	(354,068)
Capitalized software	(78,113)	(81,183)
Purchases of investments, net	(146,879)	(223,064)
Acquisitions of businesses, net of cash acquired	(281,367)	
Other, net	(42,924)	(55,634)
Net Cash Used for Continuing Investing Activities	(879,268)	(713,949)
Financing Activities		
Change in short-term debt	(200,448)	1,605
Proceeds from long-term debt		736,207
Payments of debt	(68)	(289)
Repurchase of common stock	(549,999)	(371,426)
Excess tax benefits from payments under share-based compensation plans	18,911	12,170
Dividends paid	(260,344)	(237,908)
Issuance of common stock and other, net	35,764	21,655
Net Cash (Used for) Provided by Continuing Financing Activities	(956,184)	162,014
Discontinued Operations		
Net cash (used for) provided by operating activities	(103)	9,778

Net cash used for investing activities		(127)
Net Cash (Used for) Provided by Discontinued Operations	(103)	9,651
Effect of exchange rate changes on cash and equivalents	(2,930)	(4,740)
Net (decrease) increase in cash and equivalents	(644,138)	501,124
Opening Cash and Equivalents	1,394,244	830,477
Closing Cash and Equivalents	$ 750,106	$ 1,331,601

See notes to condensed consolidated financial statements

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BECTON, DICKINSON AND COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Dollar and share amounts in thousands, except per share data
June 30, 2010

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 footnotes 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 2009 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.

The Company evaluates subsequent events and the evidence they provide about conditions existing at the date of the balance sheet as well as conditions that arose after the balance sheet date but before the financial statements are issued. The effects of conditions that existed at the date of the balance sheet date are recognized in the financial statements. Events and conditions arising after the balance sheet date but before the financial statements are issued are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying condensed consolidated financial statements and the following notes to these financial statements, the Company evaluated subsequent events through the date the financial statements were issued. See Note 14 for the subsequent event relating to the sale of certain assets of the Medical segment.

Note 2 Accounting Changes

The Company implemented the revised business combination rules for acquisitions occurring after October 1, 2009. Under the new rules, acquired in-process research and development assets will be recorded as indefinite-lived intangible assets until projects are completed or abandoned and acquisition-related costs are expensed as incurred. Disclosures required under the revised business combination rules relating to the Company s acquisition of HandyLab, Inc., on November 19, 2009, are provided in Note 9.

The Company implemented new fair value measurement requirements for nonfinancial assets and liabilities measured on a nonrecurring basis on October 1, 2009. The new guidance defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures relating to fair value measurements. Assets and liabilities subject to this guidance primarily include goodwill and indefinite-lived intangible assets measured at fair value for impairment

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assessments, long-lived assets measured at fair value when impaired and non-financial assets and liabilities measured at fair value in business combinations. The Company s adoption of this guidance did not materially impact the consolidated financial statements.

Note 3 Comprehensive Income

Comprehensive income was comprised of the following:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net Income	$ 306,908	$ 341,027	$ 920,915	$ 914,383
Other Comprehensive (Loss) Income, Net of Tax				
Foreign currency translation adjustments	(158,700)	180,430	(304,933)	(103,564)
Benefit plans adjustment	8,059	3,097	24,177	9,291
Unrealized losses on investments, net of amounts reclassified		(22)		(87)
Unrealized gains (losses) on cash flow hedges, net of amounts realized	11,871	(43,330)	55,043	(48,427)
	(138,770)	140,175	(225,713)	(142,787)
Comprehensive Income	$ 168,138	$ 481,202	$ 695,202	$ 771,596

The losses recorded as foreign currency translation adjustments for the three months ended June 30, 2010, as well as for the nine months ended June 30, 2010, are mainly attributable to the strengthening of the U.S. dollar against the Euro 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 June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Average common shares outstanding	233,242	240,109	235,316	240,923
Dilutive share equivalents from share-based plans	5,077	5,587	5,835	6,160
Average common and common equivalent shares outstanding assuming dilution	238,319	245,696	241,151	247,083

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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 direct purchasers of the Company s products, such as distributors, alleging that the Company violated federal antitrust laws, resulting in the charging of higher prices for the Company s products to the plaintiff 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.*

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The Company is also named as a defendant in the following purported class action suits brought on behalf of indirect purchasers of the Company s products, alleging that the Company violated federal and state antitrust laws, resulting in the charging of higher prices for the Company s products to the plaintiff 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

A fifth purported class action on behalf of indirect purchasers, *International Multiple Sclerosis Management Practice v. Becton Dickinson & Company* (U.S. District Court, Newark, New Jersey), filed on April 5, 2007 was voluntarily withdrawn by the plaintiff.

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 direct purchaser plaintiffs in these actions. Under the terms of the settlement agreement, which is subject to preliminary and final approval by the court following notice to potential class members, the Company will pay $45,000 into a settlement fund in exchange for a release by all potential class members of the direct purchaser claims related to the products and acts enumerated in the Complaint, as well as a dismissal of the case with prejudice. The release would not cover potential class members that affirmatively opt out of the settlement. No settlement has been reached to date with the indirect purchaser plaintiffs in these cases, which will continue to the extent these cases relate to their claims. On May 7, 2009, certain indirect purchaser plaintiffs in the litigation, who are not parties to the settlement, filed a motion with the court seeking to enjoin the consummation of the settlement agreement on the grounds that, among other things, the court had not yet ruled on the issue of which plaintiffs have direct purchaser standing. The Court has not yet scheduled a hearing on the indirect plaintiffs motions regarding direct purchaser standing and the proposed injunction of the settlement.

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

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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 granted the Company s motion to sever the patent and non-patent claims into separate cases. 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 these 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 longer of twelve months or the duration of any appeal. At the same time, the court lifted a stay of RTI s non-patent claims that the court had imposed during the pendency of the patent claims at the trial court level. On June 16, 2010, the Company filed its appeal with the Court of Appeals for the Federal Circuit.

On November 25, 1998, a suit was filed against the Company on behalf of an unspecified number of healthcare workers seeking class action certification in state court under the caption *Bales v. Becton Dickinson et. al.* (Case No. 98-CP-40- 4343, Richland County Court of Common Pleas). The action alleges that healthcare workers have sustained needlesticks using hollow-bore needle devices manufactured by the Company and, as a result, require medical testing, counseling and/or treatment. The plaintiff seeks money damages. There is no current activity in this case. The Company continues to oppose class action certification in this case, including pursuing all appropriate rights of appeal.

The Company, along with a number of other manufacturers, was named as a defendant in product liability lawsuits in various state and Federal courts related to natural rubber latex gloves which the Company ceased manufacturing in 1995. Cases pending in Federal court are being coordinated under the matter *In re Latex Gloves Products Liability Litigation* (MDL Docket No. 1148) in Philadelphia, and analogous procedures have been implemented in the state courts of California, Pennsylvania, New Jersey and New York. Generally, these actions allege that medical personnel have suffered allergic reactions ranging from skin irritation to anaphylaxis as a result of exposure to medical gloves containing natural rubber latex. Since the inception of this litigation, all but two of these cases have either been closed with no liability to the Company or been settled for amounts that, in the aggregate, are immaterial.

On May 28, 2004, Therasense, Inc. (Therasense) filed suit against the Company (*Therasense, Inc. and Abbott Laboratories v. Nova Biomedical Corporation and Becton, Dickinson and Company* (Case Number: C 04-02123 WDA, U.S. District Court, Northern District of California)) asserting that the Company s blood glucose monitoring products (which are no longer sold by the Company) infringe certain patents and seeking money damages. On August 10, 2004, in response to a motion filed by Therasense in the U.S. District Court for the District of Massachusetts, the court transferred to the U.S. District Court in California an action previously filed by the Company against Therasense requesting a declaratory judgment that the Company s products do not infringe the patents and that the patents are invalid. On April 4, 2008, the District

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Court granted the Company summary judgment with respect to certain of the patents asserted against the Company, finding no infringement by the Company. On June 24, 2008, the District Court ruled that another patent asserted against the Company was invalid based on obviousness, and unenforceable due to inequitable conduct. On August 8, 2008, a jury delivered a verdict in the Company s favor, finding that the last of the patents asserted against the Company was invalid. On January 25, 2010, the U.S. Court of Appeals for the Federal Circuit upheld the findings at the District Court. The plaintiffs requested an *en banc* rehearing solely on the issue of inequitable conduct, and on April 26, 2010, the U.S. Court of Appeals for the Federal Circuit granted such request. The rehearing on the lower court s finding on inequitable conduct will not affect the lower court findings of non-infringement and invalidity. From the Company s standpoint, the only remaining issue is the award of attorneys fees to the defendants based on the finding of inequitable conduct.

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. Additional disclosures regarding this instrument are provided in Note 9. The patents alleged to be infringed are a subset of the Gen-Probe patents asserted against the Company in the October 2009 suit. In each case, Gen-Probe is seeking monetary damages and injunctive relief.

On September 19, 2007, the Company was served with a qui tam complaint filed by a private party against the Company in the U.S. District Court, Northern District of Texas, alleging violations of the Federal False Claims Act (FCA) and the Texas False Claims Act (the TFCA) (*U.S. ex rel Fitzgerald v. BD et al.* (Civil Action No. 3:03-CV-1589, U.S. District Court, Northern District of Texas). The suit alleges that a group purchasing organization s practices with its suppliers, including the Company, inflated the costs of healthcare reimbursement. In April 2010, an agreement to settle this matter was entered into, pursuant to which the Company subsequently paid $1,550 as its portion of the settlement following receipt of government approval, and the matter was dismissed with prejudice.

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.

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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. 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 June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenues (A)				
Medical	$ 992,840	$ 968,671	$ 2,978,546	$ 2,725,347
Diagnostics	576,269	566,379	1,727,415	1,646,211
Biosciences	309,120	285,205	933,896	891,583
	$ 1,878,229	$ 1,820,255	$ 5,639,857	$ 5,263,141
Segment Operating Income				
Medical	$ 290,270	$ 303,663	$ 889,716	$ 811,111
Diagnostics	146,703	154,836	452,789	450,637
Biosciences	87,101	76,176	269,797	268,012
Total Segment Operating Income	524,074	534,675	1,612,302	1,529,760
Unallocated Items (B)	(93,617)	(105,680)	(314,980)	(327,430) (C)
Income from Continuing Operations Before Income Taxes	$ 430,457	$ 428,995	$ 1,297,322	$ 1,202,330

(A) Intersegment revenues are not material.

(B) Includes primarily interest, net; foreign exchange; corporate expenses; and share-based compensation expense.

(C) Includes charge associated with

the pending settlement with the direct purchaser plaintiffs (which includes BD s distributors) in the antitrust class actions.

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	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenues by Organizational Units				
BD Medical				
Medical Surgical Systems	$ 519,899	$ 498,872	$ 1,586,014	$ 1,451,954
Diabetes Care	197,152	185,851	586,658	534,249
Pharmaceutical Systems	254,817	263,963	743,174	679,895
Ophthalmic Systems	20,972	19,985	62,700	59,249
	$ 992,840	$ 968,671	$ 2,978,546	$ 2,725,347
BD Diagnostics				
Preanalytical Systems	$ 303,526	$ 292,187	$ 891,362	$ 848,806
Diagnostic Systems	272,743	274,192	836,053	797,405
	$ 576,269	$ 566,379	$ 1,727,415	$ 1,646,211
BD Biosciences				
Cell Analysis	$ 230,433	$ 209,769	$ 704,243	$ 670,283
Discovery Labware	78,687	75,436	229,653	221,300
	$ 309,120	$ 285,205	$ 933,896	$ 891,583
	$ 1,878,229	$ 1,820,255	$ 5,639,857	$ 5,263,141

Revenues by the geographic areas were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Total Revenues				
United States	$ 829,632	$ 805,408	$ 2,513,091	$ 2,365,043
International	1,048,597	1,014,847	3,126,766	2,898,098
	$ 1,878,229	$ 1,820,255	$ 5,639,857	$ 5,263,141

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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 such awards align the interests of its employees and directors with those of its shareholders.

The fair value of share-based payments is recognized as compensation expense in net income. For the three months ended June 30, 2010 and 2009, compensation expense charged to income was $16,650 and $22,514, respectively. For the nine months ended June 30, 2010 and 2009, compensation expense was $69,117 and $78,984, respectively. Share-based compensation attributable to discontinued operations was not material.

The amount of unrecognized compensation expense for all non-vested share-based awards as of June 30, 2010 was approximately $119,086, which is expected to be recognized over a weighted-average remaining life of approximately 2.3 years.

The fair values of stock appreciation rights granted during the annual share-based grants in November of 2009 and 2008, respectively, were estimated on the date of grant using a lattice-based binomial valuation model based on the following assumptions:

	2010	2009
Risk-free interest rate	2.60%	2.73%
Expected volatility	28.00%	28.00%
Expected dividend yield	1.96%	2.11%
Expected life	6.5 years	6.5 years
Fair value derived	$19.70	$16.11

Note 8 Benefit Plans

The Company has defined benefit pension plans covering substantially all of its 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.

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

	Pension Plans		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	$ 18,070	$ 13,035	$ 1,252	$ 865
Interest cost	22,533	21,293	3,548	3,808
Expected return on plan assets	(24,710)	(20,646)		
Amortization of prior service (credit) cost	(266)	(279)	1	(116)
Amortization of loss (gain)	10,308	4,297	853	(36)
	$ 25,935	$ 17,700	$ 5,654	$ 4,521

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

	Pension Plans		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	$ 54,781	$ 39,363	$ 3,755	$ 2,591
Interest cost	68,309	64,299	10,643	11,423
Expected return on plan assets	(74,908)	(62,348)		
Amortization of prior service (credit) cost	(806)	(841)	3	(347)
Amortization of loss (gain)	31,246	12,978	2,557	(109)
Net pension and postretirement cost	$ 78,622	$ 53,451	$ 16,958	$ 13,558

Postemployment benefit costs for the three months ended June 30, 2010 and 2009 were $5,467 and $4,502, respectively. For the nine months ended June 30, 2010 and 2009, postemployment benefit costs were $16,401 and $13,505, respectively.

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Note 9 Acquisition

On November 19, 2009, the Company acquired all of the outstanding shares of HandyLab, Inc. (HandyLab), a company that develops and manufactures molecular diagnostic assays and automation platforms. The acquisition-date fair value of consideration transferred totaled $277,610, net of cash acquired, which consisted of the following:

Cash	$ 274,756
Settlement of preexisting relationship	2,854 (A)
Total	$ 277,610

(A) The acquisition effectively settled a prepaid asset associated with a pre-existing relationship with HandyLab, as discussed in further detail below.

HandyLab has developed and commercialized a flexible automated platform (Jaguar Plus) for performing molecular diagnostics which complements the Company s molecular diagnostics offerings, specifically in the area of healthcare-associated infections. The Company plans to place its BD GeneOhm™ molecular assays onto the HandyLab platform and market them as the new BD Max™ System. The Company intends for this acquisition to allow further expansion of the BD molecular diagnostic menu and the achievement of revenue and cost synergies. The acquisition was accounted for under the acquisition method of accounting for business combinations and HandyLab s results of operations were included in the Diagnostics segment s results from the acquisition date. Pro forma information was not provided as the acquisition did not have a material effect on the Company s consolidated results. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. These fair values are based upon the information available as of June 30, 2010 and may be adjusted should further information regarding events or circumstances existing at the acquisition date become available.

Acquired in-process research and development	$ 169,000
Deferred tax assets	22,330
Other	8,843
Total identifiable assets acquired	200,173
Deferred tax liabilities	(64,220)
Other	(6,468)
Total liabilities assumed	(70,688)
Net identifiable assets acquired	129,485

Goodwill	148,125
Net assets acquired	$ 277,610

The acquired in-process research and development assets of $169,000 consisted of two projects that were still in development at the acquisition date: Platform technology for $26,000 and Jaguar Plus technology for $143,000. The Platform technology is incorporated into an automated platform that performs molecular diagnostics on certain specimens. The Jaguar Plus

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technology incorporates the Platform technology as well as additional technology to perform assays or molecular tests. The fair values of these projects were determined based on the present value of projected cash flows utilizing an income approach reflecting an appropriate risk-adjusted discount rate based on the applicable technological and commercial risk of each project. During the three months ended June 30, 2010, the Platform technology project was completed and as a result, the $26,000 associated with this project was reclassified from *Other Intangibles, Net* to *Core and Developed Technology, Net* and will now be amortized over the estimated useful life of 20 years.

The $148,125 of goodwill was allocated to the Diagnostics segment. The primary item that generated goodwill is the value of the Company s access to HandyLab s flexible automated platform and expected synergies. No portion of this goodwill is expected to be deductible for tax purposes. The Company recognized $2,500 of acquisition related costs that were expensed in the current year-to-date period and reported in the Condensed Consolidated Statements of Income as *Selling and administrative*.

In May 2009, the Company entered into a twenty-year product development and supply agreement with HandyLab. This agreement provided the Company with access and distribution rights to HandyLab s proprietary technology. Upon executing this agreement, the Company recorded an initial payment for exclusive distribution rights over a twelve-year term. At the acquisition date, the unamortized balance of the recognized prepaid was $2,854. The Company s acquisition of HandyLab effectively settled the preexisting product development and supply agreement. Because the terms of the contract were determined to represent fair value at the acquisition date, the Company did not record any gain or loss separately from the acquisition.

Note 10 Divestiture

In May 2010, the Company signed agreements to sell certain assets of its Medical segment, including the Ophthalmic Systems unit as well as the surgical blades, critical care and extended dwell catheter product platforms of the Medical Surgical Systems unit. The Company expects these divestitures will increase concentration of the Medical segment s resources on opportunities relating to a preferred strategy focusing on parenteral medication delivery.

The results of operations associated with these asset groups have not been classified as discontinued operations as the criteria for such classification has not been met as of the date of these financial statements. The Company expects to record a gain on the sale in the fourth fiscal quarter 2010 when the transaction is expected to be completed.

Assets held for sale included the following at June 30, 2010:

Inventory	$ 31,991
Other current assets	674
Property, plant and equipment, net	40,040
Other intangibles, net	7,777
Other assets	224
Assets held for sale	$ 80,706

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Liabilities held for sale at June 30, 2010 include current liabilities of $12,916 and *Deferred Income Taxes and Other* of $692.

On July 8, 2009, the Company sold certain assets and liabilities related to the elastics and thermometer components of the Home Healthcare product line of the Medical segment for $51,022. The Company recognized a pre-tax gain on sale of $18,145. Concurrent with the sale, the Company exited the remaining portion of the Home Healthcare product line. The results of operations associated with the Home Healthcare product line are reported as discontinued operations for all periods presented in the accompanying Condensed Consolidated Statements of Income and Cash Flows and related disclosures.

Results of discontinued operations are provided below.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ (2)	$ 20,798	$ 654	$ 52,214
Income from discontinued operations before income taxes	6	2,537	410	8,767
Less income tax (benefit) provision	(619)	214	(519)	1,681
Income from discontinued operations, net	$ 625	$ 2,323	$ 929	$ 7,086

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Note 11 Intangible Assets

The components of intangible assets are provided below and the amounts as of June 30, 2010 exclude any intangible assets reported as assets held for sale as provided in Note 10.

	June 30, 2010		September 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Core and developed technology	$ 553,131	$ 244,523	$ 539,674	$ 229,684
Patents, trademarks, and other	299,863	215,864	312,430	218,531
	$ 852,994	$ 460,387	$ 852,104	$ 448,215
Unamortized intangible assets				
Acquired in-process research and development	$ 143,000		$	
Trademarks	2,767		2,760	
	$ 145,767		$ 2,760	

Intangible amortization expense for the three months ended June 30, 2010 and 2009 was $12,779 and $11,946, respectively. Intangible amortization expense for the nine months ended June 30, 2010 and 2009 was $37,271 and $35,193, respectively.

Note 12 Derivative Instruments and Hedging Activities

The Company uses derivative instruments to mitigate certain exposures. The effects these derivative instruments and hedged items have on financial position, financial performance, and cash flows are provided below.

Foreign Currency Risks and Related Strategies

The Company has foreign currency exposures throughout Europe, Asia Pacific, Canada, Japan and Latin America. From time to time, the Company may partially hedge forecasted export sales denominated in foreign currencies using forward and option contracts, generally with one-year terms. The Company s hedging program has been designed to mitigate exposures resulting from movements of the U.S. dollar, from the beginning of a reporting period, against other foreign currencies. The Company s strategy is to offset the changes in the present value of future foreign currency revenue resulting from these movements with either gains or losses in the fair value of foreign currency derivative contracts. Forward contracts were used to hedge forecasted sales in fiscal years 2010 and 2009.

The Company designates forward contracts used to hedge these certain forecasted sales denominated in foreign currencies as cash flow hedges. Changes in the effective portion of the fair value of the Company s forward contracts that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk) are included in *Other comprehensive income (loss)* until the hedged transactions are reclassified in earnings. These changes result from the maturity of derivative

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instruments as well as the commencement of new derivative instruments. The changes also reflect movements in the period-end foreign exchange rates against the spot rates at the time the Company enters into any given derivative instrument contract. Once the hedged revenue transaction occurs, the gain or loss on the contract is recognized from *Accumulated other comprehensive income (loss)* to *Revenues*. The Company records the premium or discount of the forward contracts, which is included in the assessment of hedge effectiveness, to *Revenues*.

At June 30, 2010, the Company expected to reclassify $10,469, net of tax, of net gains on foreign currency exchange instruments from *Accumulated other comprehensive income (loss)* to *Revenues* during the next three months due to actual and forecasted export sales. The Company currently has not entered into contracts to hedge cash flows in fiscal year 2011. In the event the revenue transactions underlying a derivative instrument are no longer probable of occurring, accounting for the instrument under hedge accounting must be discontinued. Gains and losses previously recognized in *Other comprehensive income (loss)* must be reclassified into *Other income (expense)*. If only a portion of the revenue transaction underlying a derivative instrument is no longer probable of occurring, only the portion of the derivative relating to those revenues would no longer be eligible for hedge accounting.

Transactional currency exposures that arise from entering into transactions, generally on an intercompany basis, in non-hyperinflationary countries that are denominated in currencies other than the functional currency are mitigated primarily through the use of forward contracts and currency options. Hedges of the transactional foreign exchange exposures resulting primarily from intercompany payables and receivables are undesignated hedges. As such, the gains or losses on these instruments are recognized immediately in income. The offset of these gains or losses against the gains and losses on the underlying hedged items, as well as the hedging costs associated with the derivative instruments, are recognized in *Other income (expense)*.

The total notional amounts of the Company s outstanding foreign exchange contracts as of June 30, 2010 and September 30, 2009 were $1,455,683 and $2,601,109, respectively.

Interest Rate Risks and Related Strategies

The Company s primary interest rate exposure results from changes in short-term U.S. dollar interest rates. The Company s policy is to manage interest cost using a mix of fixed and variable rate debt. The Company periodically uses interest rate swaps to manage such exposures. Under these interest rate swaps, the Company exchanges, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated as either fair value or cash flow hedges.

For interest rate swaps designated as fair value hedges (i.e., hedges against the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt due to changes in market interest rates. Changes in the fair value of the interest rate swaps designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk) are offset by amounts recorded in *Other comprehensive income (loss)*. If interest rate derivatives designated as cash flow hedges are terminated, the balance in *Accumulated other comprehensive income (loss)* attributable to those derivatives is reclassified into earnings over the remaining life

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of the hedged debt. The amount, related to terminated interest rate swaps, expected to be reclassified and recorded in *Interest expense* within the next 12 months is $1,245, net of tax.

As of June 30, 2010 and September 30, 2009, the total notional amounts of the Company s outstanding interest rate swaps designated as fair value hedges were $200,000 and $400,000, respectively. The current year s outstanding swap represents a fixed-to-floating rate swap agreement that was entered into to convert the interest payments on $200,000 in 4.55% notes, due April 15, 2013, from the fixed rate to a floating interest rate based on LIBOR. The Company had no outstanding interest rate swaps designated as cash flow hedges as of June 30, 2010.

Commodity Price Risks and Related Strategies

The Company also manages risks associated with certain forecasted commodity purchases by using forward contracts. In 2009, the Company entered into a commodity forward contract on ethane to manage the price risk associated with forecasted purchases of polyethylene used in the Company s manufacturing process. The contract was designated as a cash flow hedge and once hedged commodity purchases occurred, the gain or loss on the contract was recognized from *Accumulated other comprehensive income (loss)* to *Cost of products sold*. The ethane forward contract matured in the first quarter 2010 and as such, there were no unrecognized amounts relating to this contract recorded in *Accumulated other comprehensive income (loss)* as of June 30, 2010. The notional amount of the Company s commodity contracts at September 30, 2009 was 206,000 gallons of ethane.

Risk Exposures Not Hedged

The Company purchases resins, which are oil-based components used in the manufacture of certain products. While the Company has been able to hedge certain purchases of polyethylene, the Company does not currently use any hedges to manage the risk exposures related to other resins. Significant increases in world oil prices that lead to increases in resin purchase costs could impact future operating results.

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Effects on Consolidated Balance Sheets

The location and amounts of derivative instrument fair values in the consolidated balance sheet are segregated below between designated, qualifying hedging instruments and ones that are not designated under for hedge accounting.

	June 30, 2010	September 30, 2009
Asset derivatives-designated for hedge accounting		
Forward exchange contracts	$ 14,903	$ 618
Interest rate swaps	6,721	1,971
Total asset derivatives-designated for hedge accounting	$ 21,624	$ 2,589
Asset derivatives-undesignated for hedge accounting		
Forward exchange contracts	$ 4,176	$ 12,575
Total asset derivatives (A)	$ 25,800	$ 15,164
Liability derivatives-designated for hedge accounting		
Forward exchange contracts	$ 2,540	$ 70,980
Commodity forward contracts		6
Total liability derivatives-designated for hedge accounting	$ 2,540	$ 70,986
Liability derivatives-undesignated for hedge accounting		
Forward exchange contracts	$ 5,850	$ 18,490
Total liability derivatives (B)	$ 8,390	$ 89,476

(A) All asset derivatives are included in *Prepaid expenses, deferred taxes and other*.

(B) All liability derivatives are included in *Accrued expenses*.

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Effects on Consolidated Statements of Income

Cash flow hedges

The location and amount of gains and losses on designated derivative instruments recognized in the consolidated statement of income for the three months ended June 30 consisted of:

Derivatives Accounted for as Designated Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivatives Three Months Ended June 30, 2010	2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Gain (Loss) Reclassified from Accumulated OCI into Income Three Months Ended June 30, 2010	2009
Forward exchange contracts	$ 11,561	$ (43,759)	Revenues	$ (1,474)	$ 27,766
Interest rate swaps	310	274	Interest expense	(500)	(441)
Commodity forward contracts		155	Cost of sales		(107)
Total	$ 11,871	$ (43,330)		$ (1,974)	$ 27,218

The location and amount of gains and losses on designated derivative instruments recognized in the consolidated statement of income for the nine months ended June 30 consisted of:

Derivatives Accounted for as Designated Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivatives Nine Months Ended June 30, 2010	2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Gain (Loss) Reclassified from Accumulated OCI into Income Nine Months Ended June 30, 2010	2009
Forward exchange contracts	$ 54,093	$ (49,187)	Revenues	$ (42,672)	$ 93,567
Interest rate swaps	928	820	Interest expense	(1,496)	(1,322)
Commodity forward contracts	22	(60)	Cost of sales	(35)	(169)
Total	$ 55,043	$ (48,427)		$ (44,203)	$ 92,076

The Company s designated derivative instruments are perfectly effective. As such, there were no gains or losses, related to hedge ineffectiveness and amounts excluded from hedge effectiveness testing, recognized immediately in income for the three-month and nine-month periods ending June 30, 2010.

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Fair value hedge

The location and amount of gains or losses on the hedged fixed rate debt attributable to changes in the market interest rates and the offsetting gain (loss) on the related interest rate swaps were as follows:

	Gain/(Loss) on Swaps		Gain/(Loss) on Borrowings	
Income Statement	Three Months Ended June 30,	Nine Months Ended June 30,	Three Months Ended June 30,	Nine Months Ended June 30,