

BECTON DICKINSON & CO  
Form 10-Q  
August 04, 2014  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2014**

**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** **(I.R.S. Employer**  
**incorporation or organization)** **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  No

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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  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  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

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, 2014 |
|--------------------------------|--|
| Common stock, par value \$1.00 | 191,835,949                            |

Table of Contents

BECTON, DICKINSON AND COMPANY

FORM 10-Q

For the quarterly period ended June 30, 2014

TABLE OF CONTENTS

|                   | Page<br>Number   |    |
|-------------------|--|----|
| <u>Part I.</u>    | <u>FINANCIAL INFORMATION</u>   |    |
| Item 1.           | <u>Financial Statements (Unaudited)</u>  |    |
|                   | <u>Condensed Consolidated Balance Sheets</u>   | 3  |
|                   | <u>Condensed Consolidated Statements of Income</u>   | 4  |
|                   | <u>Condensed Consolidated Statements of Comprehensive Income</u>                             | 5  |
|                   | <u>Condensed Consolidated Statements of Cash Flows</u>                                       | 6  |
|                   | <u>Notes to Condensed Consolidated Financial Statements</u>                                  | 7  |
| Item 2.           | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 22 |
| Item 3.           | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 36 |
| Item 4.           | <u>Controls and Procedures</u>   | 36 |
| <u>Part II.</u>   | <u>OTHER INFORMATION</u>   |    |
| Item 1.           | <u>Legal Proceedings</u>   | 37 |
| Item 1A.          | <u>Risk Factors</u>  | 38 |
| Item 2.           | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 38 |
| Item 3.           | <u>Defaults Upon Senior Securities</u>   | 39 |
| Item 4.           | <u>Mine Safety Disclosures</u>   | 39 |
| Item 5.           | <u>Other Information</u>   | 39 |
| Item 6.           | <u>Exhibits</u>  | 39 |
| <u>Signatures</u> |  | 40 |
| <u>Exhibits</u>   |  | 41 |

**Table of Contents**

## ITEM 1. FINANCIAL STATEMENTS

## BECTON, DICKINSON AND COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

Millions of dollars

|   | June 30, 2014<br>(Unaudited) | September 30, 2013 |
|---|------------------------------|--------------------|
| <b>Assets</b>                                     |                              |                    |
| Current Assets:                                   |                              |                    |
| Cash and equivalents                              | \$ 1,661                     | \$ 1,890           |
| Short-term investments                            | 978                          | 718                |
| Trade receivables, net                            | 1,204                        | 1,240              |
| Inventories:                                      |                              |                    |
| Materials   | 231                          | 226                |
| Work in process                                   | 302                          | 258                |
| Finished products                                 | 1,021                        | 918                |
|   | 1,553                        | 1,402              |
| Prepaid expenses, deferred taxes and other        | 649                          | 623                |
| Total Current Assets                              | 6,045                        | 5,873              |
| Property, plant and equipment                     | 7,741                        | 7,437              |
| Less allowances for depreciation and amortization | 4,191                        | 3,961              |
| Property, plant and equipment, net                | 3,551                        | 3,476              |
| Goodwill  | 1,116                        | 1,109              |
| Core and Developed Technology, Net                | 531                          | 541                |
| Other Intangibles, Net                            | 264                          | 293                |
| Capitalized Software, Net                         | 365                          | 371                |
| Other   | 502                          | 487                |
| Total Assets                                      | \$ 12,374                    | \$ 12,149          |
| <b>Liabilities and Shareholders' Equity</b>       |                              |                    |
| Current Liabilities:                              |                              |                    |
| Short-term debt                                   | \$ 205                       | \$ 207             |
| Payables and accrued expenses                     | 1,888                        | 1,923              |
| Total Current Liabilities                         | 2,093                        | 2,130              |
| Long-Term Debt                                    | 3,768                        | 3,763              |

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|  |           |           |
|--|-----------|-----------|
| Long-Term Employee Benefit Obligations     | 703       | 805       |
| Deferred Income Taxes and Other            | 432       | 408       |
| Commitments and Contingencies              |           |           |
| Shareholders' Equity:                      |           |           |
| Common stock                               | 333       | 333       |
| Capital in excess of par value             | 2,176     | 2,068     |
| Retained earnings                          | 11,909    | 11,342    |
| Deferred compensation                      | 17        | 19        |
| Common shares in treasury at cost          | (8,600)   | (8,204)   |
| Accumulated other comprehensive loss       | (457)     | (516)     |
| Total Shareholders' Equity                 | 5,378     | 5,043     |
| Total Liabilities and Shareholders' Equity | \$ 12,374 | \$ 12,149 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

Table of Contents

BECTON, DICKINSON AND COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Millions of dollars, except per share data

(Unaudited)

|   | Three Months Ended<br>June 30, |              | Nine Months Ended<br>June 30, |              |
|---|--------------------------------|--------------|-------------------------------|--------------|
|   | 2014                           | 2013         | 2014                          | 2013         |
| Revenues  | \$ 2,157                       | \$ 2,053     | \$ 6,244                      | \$ 5,953     |
| Cost of products sold                                 | 1,046                          | 993          | 3,045                         | 2,869        |
| Selling and administrative                            | 528                            | 534          | 1,584                         | 1,545        |
| Research and development                              | 137                            | 121          | 410                           | 362          |
| <b>Total Operating Costs and Expenses</b>             | <b>1,712</b>                   | <b>1,648</b> | <b>5,039</b>                  | <b>4,775</b> |
| Operating Income                                      | 445                            | 405          | 1,204                         | 1,178        |
| Interest income                                       | 12                             | 6            | 36                            | 26           |
| Interest expense                                      | (33)                           | (35)         | (99)                          | (104)        |
| Other (expense) income, net                           | (2)                            | 3            | 4                             | 6            |
| Income From Continuing Operations Before Income Taxes | 423                            | 379          | 1,145                         | 1,105        |
| Income tax provision                                  | 97                             | 87           | 261                           | 267          |
| Income From Continuing Operations                     | 326                            | 292          | 884                           | 838          |
| Income from Discontinued Operations, net              |                                | 10           |                               | 364          |
| Net Income  | \$ 326                         | \$ 302       | \$ 884                        | \$ 1,203     |
| <b>Basic Earnings per Share:</b>                      |                                |              |                               |              |
| Income from Continuing Operations                     | \$ 1.69                        | \$ 1.50      | \$ 4.57                       | \$ 4.29      |
| Income from Discontinued Operations                   |                                | 0.05         |                               | 1.87         |
| Basic Earnings per Share                              | \$ 1.69                        | \$ 1.55      | \$ 4.57                       | \$ 6.16      |
| <b>Diluted Earnings per Share:</b>                    |                                |              |                               |              |
| Income from Continuing Operations                     | \$ 1.65                        | \$ 1.47      | \$ 4.47                       | \$ 4.21      |
| Income from Discontinued Operations                   |                                | 0.05         |                               | 1.83         |

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|                            |          |          |          |          |
|----------------------------|----------|----------|----------|----------|
| Diluted Earnings per Share | \$ 1.65  | \$ 1.52  | \$ 4.47  | \$ 6.04  |
| Dividends per Common Share | \$ 0.545 | \$ 0.495 | \$ 1.635 | \$ 1.485 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements



Table of Contents

BECTON, DICKINSON AND COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Millions of dollars

(Unaudited)

|   | Three Months Ended<br>June 30, |        | Nine Months Ended<br>June 30, |          |
|---|--------------------------------|--------|-------------------------------|----------|
|   | 2014                           | 2013   | 2014                          | 2013     |
| Net Income  | \$ 326                         | \$ 302 | \$ 884                        | \$ 1,203 |
| Other Comprehensive Income (Loss), Net of Tax                 |                                |        |                               |          |
| Foreign currency translation adjustments                      | (11)                           | (75)   | 3                             | (109)    |
| Defined benefit pension and postretirement plans              | 8                              | 14     | 51                            | 41       |
| Unrealized gains on cash flow hedges, net of amounts realized | 1                              | 1      | 4                             | 6        |
| Other Comprehensive Income (Loss), Net of Tax                 | (2)                            | (61)   | 58                            | (62)     |
| Comprehensive Income  | \$ 324                         | \$ 240 | \$ 943                        | \$ 1,140 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

Table of Contents

## BECTON, DICKINSON AND COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions of dollars

(Unaudited)

|   | Nine Months Ended<br>June 30, |          |
|---|-------------------------------|----------|
|   | 2014                          | 2013     |
| <u>Operating Activities</u>   |                               |          |
| Net income  | \$ 884                        | \$ 1,203 |
| Less: Income from discontinued operations, net  |                               | 364      |
| Income from continuing operations   | 884                           | 838      |
| Adjustments to income from continuing operations to derive net cash provided by continuing operating activities, net of amounts acquired: |                               |          |
| Depreciation and amortization   | 413                           | 404      |
| Share-based compensation  | 91                            | 79       |
| Deferred income taxes   | (53)                          | (29)     |
| Change in operating assets and liabilities  | (114)                         | (229)    |
| Pension obligation  | (41)                          | (70)     |
| Other, net  | 27                            | (4)      |
| Net Cash Provided by Continuing Operating Activities  | 1,207                         | 989      |
| <u>Investing Activities</u>   |                               |          |
| Capital expenditures  | (339)                         | (339)    |
| Capitalized software  | (41)                          | (49)     |
| (Purchases of) proceeds from investments, net   | (244)                         | 157      |
| Acquisitions of businesses, net of cash acquired  | (40)                          | (136)    |
| Divestitures of businesses  |                               | 736      |
| Other, net  | (66)                          | (72)     |
| Net Cash (Used for) Provided by Continuing Investing Activities   | (730)                         | 296      |
| <u>Financing Activities</u>   |                               |          |
| Change in short-term debt   | (3)                           | (200)    |
| Repurchase of common stock  | (400)                         | (406)    |
| Excess tax benefits from payments under share-based compensation plans  | 26                            | 20       |
| Dividends paid  | (316)                         | (290)    |
| Issuance of common stock and other, net   | (7)                           | 45       |
| Net Cash Used for Financing Activities  | (701)                         | (830)    |

Discontinued Operations

|   |          |          |
|---|----------|----------|
| Net cash used for operating activities                  |          | (153)    |
| Net Cash Used for Discontinued Operations               |          | (154)    |
| Effect of exchange rate changes on cash and equivalents | (5)      | (11)     |
| Net (decrease) increase in cash and equivalents         | (229)    | 291      |
| Opening Cash and Equivalents                            | 1,890    | 1,671    |
| Closing Cash and Equivalents                            | \$ 1,661 | \$ 1,962 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

Table of Contents

BECTON, DICKINSON AND COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

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 2013 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*

In May 2014, the Financial Accounting Standards Board 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 upon required adoption of the standard on October 1, 2017.

**Table of Contents****Note 3 Accumulated Other Comprehensive Income**

The components and changes in accumulated other comprehensive income (loss) for the nine-month period ended June 30, 2014 were as follows:

| (millions of dollars)                               | Total    | Foreign<br>Currency<br>Translation<br>Adjustments | Benefit<br>Plans<br>Adjustments <sup>(A)</sup> | Unrealized<br>Losses<br>on<br>Cash<br>Flow<br>Hedges <sup>(B)</sup> |
|---|----------|---|--|---|
| Balance at September 30, 2013                       | \$ (516) | \$ 74   | \$ (558)                                       | \$ (31)   |
| Other comprehensive income before reclassifications | 30       | 3   | 27   |   |
| Amounts reclassified into income <sup>(C)</sup>     | 29       |   | 25   | 4   |
| Balance at June 30, 2014                            | \$ (457) | \$ 77   | \$ (506)                                       | \$ (28)   |

- (A) The reclassifications from accumulated other comprehensive income (loss) are included in the computation of net periodic pension cost and additional details are provided in Note 8. The reclassification amount for the three months ended June 30, 2014 was \$8 million. The reclassification amounts for the three and nine months ended June 30, 2013 were \$14 million and \$41 million, respectively. Amounts are net of taxes.
- (B) The reclassification amount for the three months ended June 30, 2014 was \$1 million. The reclassification amounts for the three and nine months ended June 30, 2013 were \$1 million and \$4 million, respectively. Additional details regarding the reclassifications from accumulated other comprehensive income (loss) related to cash flow hedges are provided in Note 11. Amounts are net of taxes.
- (C) The benefit plan-related amount is not reclassified into income in its entirety. The reclassification amounts related to cash flow hedges for the three and nine months ended June 30, 2014 and 2013 were primarily recorded in *Interest expense*.

The gain in foreign currency translation adjustments for the nine months ended June 30, 2014 was primarily attributable to the strengthening of the Euro and of currencies in Asia Pacific against the U.S. dollar, partially offset by the weakening of the Canadian Dollar and Japanese Yen against the U.S. dollar during the period.

The income tax provision associated with the net gain recorded in other comprehensive income as a result of the Company's remeasurement of its U.S. postretirement healthcare benefit plan in the nine-months ending June 30, 2014 was \$16 million. Additional disclosures regarding this remeasurement are provided in Note 8. The income tax benefits associated with the benefit plan-related reclassification adjustments for amortization of prior service credit and amortization of net actuarial losses for the three months ended June 30, 2014 and 2013 were \$4 million and \$8 million, respectively. The income tax benefits associated with the reclassification adjustments for amortization of prior service credit and amortization of net actuarial losses for the nine months ended June 30, 2014 and 2013 were \$13 million and \$23 million, respectively.

There were no unrealized gains or losses recognized on cash flow hedges in the three and nine months ended June 30, 2014. The income tax benefit recorded in the three months ended June 30, 2013 for unrealized losses on cash flow

hedges was immaterial and the income tax provision recorded in the nine months ended June 30, 2013 for unrealized gains on cash flow hedges was \$1 million. The tax benefit associated with the reclassification adjustments for realized hedge losses in the three months ended June 30, 2014 was \$1 million and the tax benefit associated with the reclassification adjustments for realized hedge losses in the three months ended June 30, 2013 was immaterial. The tax benefits associated with the reclassification adjustments for realized hedge losses in the nine months ended June 30, 2014 and 2013 were \$2 million.

**Table of Contents****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 |         | Nine Months Ended |         |
|---|--------------------|---------|-------------------|---------|
|   | June 30,           |         | June 30,          |         |
|   | 2014               | 2013    | 2014              | 2013    |
| Average common shares outstanding   | 193,054            | 194,879 | 193,624           | 195,312 |
| Dilutive share equivalents from share-based plans                         | 3,951              | 3,840   | 4,189             | 3,799   |
| Average common and common equivalent shares outstanding assuming dilution | 197,005            | 198,719 | 197,813           | 199,111 |

**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.

**Table of Contents**

The Company was named as a defendant in the following purported class action suits brought on behalf of indirect purchasers of the Company's products, such as hospitals and retailers (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.

| <b>Case</b>  | <b>Court</b>                                       | <b>Date Filed</b> |
|--|--|-------------------|
| <i>Jabos Pharmacy, Inc., et. al. v. Becton Dickinson &amp; Company</i>           | U.S. District Court, Greenville, Tennessee         | June 3, 2005      |
| <i>Drug Mart Tallman, Inc., et. al. v. Becton Dickinson and Company</i>          | U.S. District Court, Newark, New Jersey            | January 17, 2006  |
| <i>Medstar v. Becton Dickinson</i>   | U.S. District Court, Newark, New Jersey            | May 18, 2006      |
| <i>The Hebrew Home for the Aged at Riverdale v. Becton Dickinson and Company</i> | U.S. District Court, Southern District of New York | March 28, 2007    |

The plaintiffs in each of the above antitrust class action lawsuits sought monetary damages. These antitrust class action lawsuits were consolidated for pre-trial purposes in a Multi-District Litigation in Federal court in New Jersey.

Pursuant to a settlement agreement that the Company entered into with the Hospital Plaintiffs on July 30, 2013 and following approval by the New Jersey District Court (on a preliminarily basis in November 2013 and on a final basis in March 2014), the Company has paid \$22 million in exchange for a release by all potential class members of the indirect purchaser claims related to the products and acts enumerated in the complaint, and a dismissal of the case with prejudice.

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 million in damages. On May 19, 2010, the court granted



**Table of Contents**

RTI's motion for a permanent injunction against the continued sale by the Company of its BD Integra<sup>TM</sup> 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. On July 8, 2011, the Court of Appeals for the Federal Circuit reversed the District Court judgment that the Company's 3ml BD Integra products infringed the asserted RTI patents and affirmed the District Court judgment of infringement against the Company's discontinued 1ml BD Integra products. On October 31, 2011, the Federal Circuit Court of Appeals denied RTI's request for an en banc rehearing. In January 2013, RTI's petition for review with the U.S. Supreme Court was denied. BD's motion for further proceedings on damages was denied by the District Court on the grounds that the District Court did not have authority to modify the \$5 million damage award. BD appealed this ruling to the Federal Circuit Court of Appeals, and on July 7, 2014, the Court affirmed the District Court ruling leaving the damages award intact.

On September 19, 2013, a jury returned a verdict against BD with respect to certain of RTI's non-patent claims. The verdict was unfavorable to 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 and attorneys' fees added to under the antitrust statute). The Court will determine whether to award equitable relief under the Lanham Act including disgorgement. 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. The Company plans to appeal the jury's verdict.

On November 4, 2013, the Secretariat of Foreign Trade ( SECEX ) of the Federal Republic of Brazil, initiated an administrative anti-dumping investigation of imports of vacuum plastic tubes for blood collection into Brazil from the United States of America, the United Kingdom of Great Britain and Northern Ireland, the Federal Republic of Germany and the People's Republic of China during the period from January 2012 through December 2012. BD, through its United States and international subsidiaries, exports vacuum plastic tubes for blood collection into Brazil and is cooperating with the investigation. The investigation is expected to be completed by November 2014, but could extend longer. During the course of the investigation (on a provisional basis) and upon completion of the investigation (on a final basis), the SECEX will issue a decision on whether grounds exist to apply anti-dumping measures (including, without limitation, the imposition of duties on such vacuum plastic tubes imported into Brazil). Once applied, anti-dumping measures will last for as long as the measures are deemed necessary, which, in most cases, is for five years. The Company does not expect that the outcome of the investigation will materially affect results of operations.

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.

**Table of Contents**

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 ). 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<br>June 30, |                 | Nine Months Ended<br>June 30, |                 |
|--|--------------------------------|-----------------|-------------------------------|-----------------|
|  | 2014                           | 2013            | 2014                          | 2013            |
| <b><u>Revenues (A)</u></b>                                       |                                |                 |                               |                 |
| Medical  | \$ 1,201                       | \$ 1,140        | \$ 3,381                      | \$ 3,186        |
| Diagnostics  | 679                            | 655             | 2,005                         | 1,966           |
| Biosciences  | 277                            | 257             | 858                           | 801             |
| <b>Total Revenues</b>  | <b>\$ 2,157</b>                | <b>\$ 2,053</b> | <b>\$ 6,244</b>               | <b>\$ 5,953</b> |
| <b><u>Segment Operating Income</u></b>                           |                                |                 |                               |                 |
| Medical  | \$ 356(B)                      | \$ 334          | \$ 968(B)                     | \$ 913          |
| Diagnostics  | 155                            | 159             | 448(C)                        | 473             |
| Biosciences  | 66                             | 58              | 205(D)                        | 195             |
| <b>Total Segment Operating Income</b>                            | <b>578</b>                     | <b>551</b>      | <b>1,621</b>                  | <b>1,581</b>    |
| <b>Unallocated Items (E)</b>                                     | <b>(155)</b>                   | <b>(172)(F)</b> | <b>(476)(G)</b>               | <b>(476)(F)</b> |
| <b>Income from Continuing Operations Before<br/>Income Taxes</b> | <b>\$ 423</b>                  | <b>\$ 379</b>   | <b>\$ 1,145</b>               | <b>\$ 1,105</b> |

- (A) Intersegment revenues are not material.  
 (B) Includes a \$9 million charge associated with the decision to terminate a research and development program; the charge relates to program asset write-offs and obligations.  
 (C) Includes an \$11 million charge that resulted from the early termination of a European distributor agreement.  
 (D) Includes a \$20 million charge primarily resulting from the discontinuance of an instrument product development program. The charge is largely attributable to capitalized product software, but also includes a lesser amount

attributable to fixed assets.

- (E) Includes primarily interest, net; foreign exchange; corporate expenses; and share-based compensation expense.
- (F) Includes the \$22 million charge associated with the litigation settlement related to indirect purchaser antitrust class action cases as disclosed in Note 5.
- (G) Includes an \$8 million gain resulting from the Company's receipt of cash proceeds from the sale of a company in which it held a small equity ownership interest.

**Table of Contents**

| (millions of dollars)                          | Three Months Ended<br>June 30, |          | Nine Months Ended<br>June 30, |          |
|--|--------------------------------|----------|-------------------------------|----------|
|  | 2014                           | 2013     | 2014                          | 2013     |
| <b><u>Revenues by Organizational Units</u></b> |                                |          |                               |          |
| <b><u>BD Medical</u></b>                       |                                |          |                               |          |
| Medical Surgical Systems                       | \$ 590                         | \$ 561   | \$ 1,720                      | \$ 1,635 |
| Diabetes Care                                  | 258                            | 250      | 773                           | 725      |
| Pharmaceutical Systems                         | 353                            | 330      | 888                           | 826      |
| Total  | 1,201                          | 1,140    | 3,381                         | 3,186    |
| <b><u>BD Diagnostics</u></b>                   |                                |          |                               |          |
| Preanalytical Systems                          | 364                            | 345      | 1,054                         | 1,010    |
| Diagnostic Systems                             | 315                            | 310      | 951                           | 956      |
| Total  | 679                            | 655      | 2,005                         | 1,966    |
| <b><u>BD Biosciences</u></b>                   |                                |          |                               |          |
|  | 277                            | 257      | 858                           | 801      |
| Total Revenues                                 | \$ 2,157                       | \$ 2,053 | \$ 6,244                      | \$ 5,953 |

Revenues by geographic areas were as follows:

| (millions of dollars)        | Three Months Ended<br>June 30, |          | Nine Months Ended<br>June 30, |          |
|------------------------------|--------------------------------|----------|-------------------------------|----------|
|                              | 2014                           | 2013     | 2014                          | 2013     |
| <b><u>Total Revenues</u></b> |                                |          |                               |          |
| United States                | \$ 871                         | \$ 848   | \$ 2,546                      | \$ 2,501 |
| International                | 1,286                          | 1,205    | 3,698                         | 3,452    |
| Total Revenues               | \$ 2,157                       | \$ 2,053 | \$ 6,244                      | \$ 5,953 |

**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 value of share-based payments is recognized as compensation expense in net income. For the three months ended June 30, 2014 and 2013, compensation expense charged to income was \$24 million and \$20 million, respectively. For the nine months ended June 30, 2014 and 2013, compensation expense was \$91 million and \$79 million, respectively.

The amount of unrecognized compensation expense for all non-vested share-based awards as of June 30, 2014 was approximately \$132 million, which is expected to be recognized over a weighted-average remaining life of approximately 2.0 years.

**Table of Contents**

The fair values of stock appreciation rights granted during the annual share-based grants in November of 2013 and 2012, respectively, were estimated on the date of grant using a lattice-based binomial valuation model based on the following assumptions:

|                         | 2014      | 2013      |
|-------------------------|-----------|-----------|
| Risk-free interest rate | 2.31%     | 1.33%     |
| Expected volatility     | 19.00%    | 21.00%    |
| Expected dividend yield | 2.00%     | 2.60%     |
| Expected life           | 7.8 years | 8.0 years |
| Fair value derived      | \$ 19.90  | \$ 12.08  |

**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. The measurement date used for the Company's employee benefit plans is September 30.

Effective April 1, 2014, the Company replaced its current post-65 group medical coverage with a new approach for retirees age 65 and older and their eligible dependents to access post-65 retiree medical and prescription drug coverage in the U.S. Such changes were communicated to active employees and retirees in early January 2014 and as such, the Company remeasured its U.S. postretirement healthcare benefit plan as of January 1, 2014. The impact of this plan change and remeasurement is immaterial to the Company's consolidated financial results. The plan design changes included, among other modifications, a replacement of the Company-sponsored healthcare coverage program for post-65 retirees with contributions to a health reimbursement account that can be used to purchase coverage through a Medicare insurance exchange.

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

| (millions of dollars)                | Pension Plans |       | Other Postretirement Benefits |      |
|--------------------------------------|---------------|-------|-------------------------------|------|
|                                      | 2014          | 2013  | 2014                          | 2013 |
| Service cost                         | \$ 18         | \$ 21 | \$ 1                          | \$ 1 |
| Interest cost                        | 23            | 22    | 2                             | 3    |
| Expected return on plan assets       | (32)          | (29)  |                               |      |
| Amortization of prior service credit | (4)           | (3)   | (1)                           |      |
| Amortization of loss                 | 12            | 19    |                               | 1    |
| Net pension and postretirement cost  | \$ 18         | \$ 29 | \$ 2                          | \$ 5 |

**Table of Contents**

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

| (millions of dollars)                | Pension Plans |       | Other Postretirement Benefits |       |
|--------------------------------------|---------------|-------|-------------------------------|-------|
|                                      | 2014          | 2013  | 2014                          | 2013  |
| Service cost                         | \$ 53         | \$ 63 | \$ 3                          | \$ 4  |
| Interest cost                        | 69            | 65    | 7                             | 8     |
| Expected return on plan assets       | (94)          | (87)  |                               |       |
| Amortization of prior service credit | (11)          | (10)  | (3)                           | (1)   |
| Amortization of loss                 | 36            | 56    | 2                             | 3     |
| Net pension and postretirement cost  | \$ 53         | \$ 87 | \$ 8                          | \$ 14 |

The amounts provided above for amortization of prior service credit and amortization of loss represent the reclassifications of prior service credits and net actuarial losses that were recognized in *Accumulated other comprehensive (loss) income* in prior periods.

Postemployment benefit costs were \$12 million for the three-month periods ended June 30, 2014 and 2013 and \$35 million for the nine-month periods ended June 30, 2014 and 2013.

**Note 9 Divestiture**

On October 31, 2012, the Company completed the sale of its BD Biosciences - Discovery Labware unit, excluding its Advanced Bioprocessing platform. Gross cash proceeds from the sale were approximately \$740 million, subject to post-closing adjustments. Total gross proceeds included a payment of approximately \$16 million received in the third quarter of fiscal year 2013 as reimbursement of additional tax costs incurred by the Company as a result of the buyer's treatment of the acquisition as an asset purchase for federal tax purposes. The Company recognized a pre-tax gain on sale from this divestiture of \$577 million. The after-tax gain recognized from this divestiture was \$355 million. As a result of this divestiture, the Company derecognized \$17 million of goodwill, allocated based upon the relative fair values of the disposed assets.

The Company agreed to perform some contract manufacturing and other transition services for a defined period after the sale; however, the Company did not have the ability to exert significant influence over the Discovery Labware disposal group after the sale, and cash flows associated with these activities have not been material. The net cash flows from these activities are reported in the Condensed Consolidated Statements of Income as *Other income (expense)*.

The results of operations associated with the Discovery Labware disposal group are reported as discontinued operations for all periods presented in the accompanying Condensed Consolidated Statements of Income and Cash Flows and related disclosures.

**Table of Contents**

Results of discontinued operations were as follows:

|   | Three Months Ended |       | Nine Months Ended |        |
|---|--------------------|-------|-------------------|--------|
|   | June 30,           |       | June 30,          |        |
| (millions of dollars)                                   | 2014               | 2013  | 2014              | 2013   |
| Revenues  | \$                 | \$    | \$                | \$ 20  |
| Income from discontinued operations before income taxes |                    | 16    |                   | 586    |
| Less income tax provision                               |                    | 6     |                   | 222    |
| Income from discontinued operations, net                | \$                 | \$ 10 | \$                | \$ 364 |

**Note 10 Intangible Assets**

Intangible assets consisted of:

|  | June 30, 2014         |                          | September 30, 2013    |                          |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| (millions of dollars)                        |                       |                          |                       |                          |
| Amortized intangible assets                  |                       |                          |                       |                          |
| Core and developed technology                | \$ 966                | \$ 435                   | \$ 942                | \$ 401                   |
| Product rights                               | 159                   | 31                       | 167                   | 24                       |
| Patents, trademarks, and other               | 328                   | 242                      | 349                   | 254                      |
| Amortized intangible assets                  | \$ 1,454              | \$ 708                   | \$ 1,457              | \$ 679                   |
| Unamortized intangible assets                |                       |                          |                       |                          |
| Acquired in-process research and development | \$ 48                 |                          | \$ 54                 |                          |
| Trademarks                                   | 2                     |                          | 2                     |                          |
| Unamortized intangible assets                | \$ 50                 |                          | \$ 56                 |                          |

Intangible amortization expense for the three months ended June 30, 2014 and 2013 was \$21 million and \$22 million, respectively. Intangible amortization expense for the nine months ended June 30, 2014 and 2013 was \$63 million and \$62 million, respectively.



**Table of Contents**

The following is a reconciliation of goodwill by business segment:

| (millions of dollars)             | Medical | Diagnostics | Biosciences | Total    |
|-----------------------------------|---------|-------------|-------------|----------|
| Goodwill as of September 30, 2013 | \$ 511  | \$ 378      | \$ 220      | \$ 1,109 |
| Acquisitions (A)                  |         | 13          |             | 13       |
| Currency translation/other (B)    | (6)     |             |             | (5)      |
| Goodwill as of June 30, 2014      | \$ 505  | \$ 392      | \$ 220      | \$ 1,116 |

(A) Represents goodwill recognized upon the Company's acquisition of Alverix, Inc. in the second quarter of fiscal year 2014.

(B) Includes amounts resulting from foreign currency translation as well as acquisition accounting adjustments.

**Note 11 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. 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, is recognized in *Other income (expense)*.

The total notional amounts of the Company's outstanding foreign exchange contracts as of June 30, 2014 and September 30, 2013 were \$1.4 billion and \$2.2 billion, respectively.

*Interest Rate Risks and Related Strategies*

The Company's primary interest rate exposure results from changes in 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)

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**Table of Contents**

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 of the hedged debt. Losses on interest rate swaps designated as cash flow hedges recognized in the consolidated statements of income for the three and nine months ended June 30, 2014 and 2013 were immaterial. The net realized loss, related to terminated interest rate swaps, expected to be reclassified and recorded in *Interest expense* within the next 12 months is \$6 million, net of tax. The Company had no outstanding interest rate swaps designated as cash flow hedges as of June 30, 2014 or as of September 30, 2013.

The total notional amount of the Company's outstanding interest rate swaps designated as fair value hedges was \$250 million at June 30, 2014. The outstanding swaps represent fixed-to-floating interest rate swap agreements the Company entered into, in March 2014, to convert the interest payments on \$250 million of the Company's 3.125% notes, due November 8, 2021, from the fixed rate to a floating interest rate based on LIBOR. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt. The gain recorded on these fair value hedges and the offsetting loss recorded on the underlying debt instrument was \$4 million for the three and nine months ended June 30, 2014.

*Other Risk Exposures*

The Company purchases resins, which are oil-based components used in the manufacture of certain products. Significant increases in world oil prices that lead to increases in resin purchase costs could impact future operating results. From time to time, the Company has managed price risks associated with these commodity purchases. The Company had no outstanding commodity derivative contracts designated as cash flow hedges as of June 30, 2014 and September 30, 2013. Reclassifications from *Accumulated other comprehensive income (loss)* relating to commodity derivative contracts are recorded in *Cost of products sold*. There were no gains or losses on commodity derivative contracts recognized in the consolidated statements of income for the three months ended June 30, 2014. Gains and losses on commodity derivative contracts recognized in the consolidated statements of income for the nine months ended June 30, 2014 and the three and nine months ended June 30, 2013 were immaterial.

**Table of Contents**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 for hedge accounting.

| (millions of dollars)                                 | June 30, 2014 | September 30,<br>2013 |
|---|---------------|-----------------------|
| Asset derivatives-designated for hedge accounting     |               |                       |
| Interest rate swaps                                   | \$ 4          | \$                    |
| Asset derivatives-undesigned for hedge accounting     |               |                       |
| Forward exchange contracts                            | 4             | 13                    |
| <b>Total asset derivatives (A)</b>                    | <b>\$ 8</b>   | <b>\$ 13</b>          |
| Liability derivatives-undesigned for hedge accounting |               |                       |
| Forward exchange contracts                            | 8             | 7                     |
| <b>Total liability derivatives (B)</b>                | <b>\$ 8</b>   | <b>\$ 7</b>           |

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

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

Effects on Consolidated Statements of Income*Cash flow hedges*

The Company's designated derivative instruments have been highly effective. As such, there were no gains or losses, related to hedge ineffectiveness or amounts excluded from hedge effectiveness testing, recognized immediately in income for the three and nine-month periods ending June 30, 2013 relating to commodity derivative contracts outstanding at June 30, 2013.

*Undesignated hedges*

The location and amount of gains and losses recognized in income on derivatives not designated for hedge accounting were as follows:

| (millions of dollars)<br>Derivatives Not Designated as | Location of Loss<br>Recognized in | Amount of Loss Recognized in Income on Derivatives |      |                               |      |
|--|-----------------------------------|--|------|-------------------------------|------|
|  |                                   | Three Months Ended<br>June 30,                     |      | Nine Months Ended<br>June 30, |      |
| Hedging Instruments                                    | Income on Derivatives             | 2014   | 2013 | 2014                          | 2013 |
|  |                                   |  |      |                               |      |

|                                |                        |         |        |        |        |
|--------------------------------|------------------------|---------|--------|--------|--------|
| Forward exchange contracts (A) | Other income (expense) | \$ (10) | \$ (5) | \$ (5) | \$ (1) |
|--------------------------------|------------------------|---------|--------|--------|--------|

(A) The gains and losses on forward contracts and currency options utilized to hedge the intercompany transactional foreign exchange exposures are largely offset by gains and losses on the underlying hedged items in *Other income (expense)*.

**Table of Contents****Note 12 Financial Instruments and Fair Value Measurements**

The fair values of financial instruments, including those not recognized on the statement of financial position at fair value, carried at June 30, 2014 and September 30, 2013 are classified in accordance with the fair value hierarchy in the tables below:

| (millions of dollars)                  | June 30, 2014<br>Total | Basis of Fair Value Measurement   |  |   |
|--|------------------------|---|--|---|
|  |                        | Quoted Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
| <b>Assets</b>                          |                        |   |  |   |
| Institutional money market investments | \$ 985                 | \$ 985  | \$   | \$  |
| Interest rate swaps                    | 4                      |   | 4  |   |
| Forward exchange contracts             | 4                      |   | 4  |   |
| <b>Total Assets</b>                    | <b>\$ 993</b>          | <b>\$ 985</b>   | <b>\$ 8</b>  | <b>\$</b>                                       |
| <b>Liabilities</b>                     |                        |   |  |   |
| Forward exchange contracts             | \$ 8                   | \$  | \$ 8   | \$  |
| Contingent consideration liabilities   | 24                     |   |  | 24  |
| <b>Total Liabilities</b>               | <b>\$ 31</b>           | <b>\$</b>   | <b>\$ 8</b>  | <b>\$ 24</b>                                    |

| (millions of dollars)                  | September 30, 2013<br>Total | Basis of Fair Value Measurement   |  |   |
|--|-----------------------------|---|--|---|
|  |                             | Quoted Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
| <b>Assets</b>                          |                             |   |  |   |
| Institutional money market investments | \$ 881                      | \$ 881  | \$   | \$  |
| Forward exchange contracts             | 13                          |   | 13   |   |
| <b>Total Assets</b>                    | <b>\$ 895</b>               | <b>\$ 881</b>   | <b>\$ 13</b>   | <b>\$</b>                                       |

| <u>Liabilities</u>                   |    |    |    |      |
|--------------------------------------|----|----|----|------|
| Forward exchange contracts           | \$ | 7  | \$ | \$ 7 |
| Contingent consideration liabilities |    | 23 |    | 23   |
| Total Liabilities                    | \$ | 30 | \$ | \$ 7 |

The Company's institutional money market accounts permit daily redemption and the fair values of these investments are based upon the quoted prices in active markets provided by the holding financial institutions. The Company's remaining cash equivalents were \$676 million and \$1.009 billion at June 30, 2014 and September 30, 2013, respectively. Short-term investments are held to their maturities and are carried at cost, which approximates fair value. The cash equivalents consist of liquid investments with a maturity of three months or less and the short-term investments consist of instruments with maturities greater than three months and less than one year.

**Table of Contents**

The Company measures the fair value of forward exchange contracts and interest rate swaps based upon the present value of expected future cash flows using market-based observable inputs including credit risk, interest rate yield curves, foreign currency spot prices and forward prices.

Long-term debt is recorded at amortized cost. The fair value of long-term debt is measured based upon quoted prices in active markets for similar instruments, which are considered Level 2 inputs in the fair value hierarchy. The fair value of long-term debt was \$4.1 billion and \$4.0 billion at June 30, 2014 and September 30, 2013, respectively.

The contingent consideration liabilities were recognized as part of the consideration transferred in the Company's acquisition of the following: Kiestra, which occurred in the second quarter of fiscal year 2012; Sirigen, which occurred in the fourth quarter of fiscal year 2012; and Cato, which occurred in the second quarter of fiscal year 2013. The fair values of the contingent consideration liabilities were estimated using probability-weighted discounted cash flow models that were based upon the probabilities assigned to the contingent events. The estimated fair values of the contingent consideration liabilities are remeasured at each reporting period based upon increases or decreases in the probability of the contingent payments. The changes to the total contingent consideration liability in the three and nine-month periods ending June 30, 2014 were immaterial.

The Company's policy is to recognize any transfers into fair value measurement hierarchy levels and transfers out of levels at the beginning of each reporting period. There were no transfers in and out of Level 1, Level 2 or Level 3 measurements for the three and nine months ended June 30, 2014 and 2013.



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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following commentary should be read in conjunction with the condensed consolidated financial statements and accompanying notes. Within the tables presented throughout this discussion, certain columns 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.

**Company Overview**

Becton, Dickinson and Company (BD) is a global medical technology company engaged principally in the development, manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by healthcare institutions, life science researchers, clinical laboratories, pharmaceutical industry and the general public. Our business consists of three worldwide business segments—BD Medical (Medical), BD Diagnostics (Diagnostics) and BD Biosciences (Biosciences). Our products are marketed in the United States and internationally through independent distribution channels and directly to end-users by BD and independent sales representatives.

BD's products are manufactured and sold worldwide. We organize our operations outside the United States as follows: Europe (which includes the Middle East and Africa); Greater Asia (which includes Japan and Asia Pacific); Latin America (which includes Mexico and Brazil) and Canada. We continue to pursue growth opportunities in emerging markets, which include the following geographic regions: Eastern Europe, the Middle East, Africa, Latin America and Asia Pacific (excluding Japan). We are particularly focused on certain countries whose economic and healthcare sectors are growing rapidly, in particular, China, India, Brazil and Turkey.

**Overview of Financial Results and Financial Condition**

Third quarter revenues of \$2.2 billion represented an increase of 5.1% from the prior year's period and reflected volume increases of approximately 4.6% as well as favorable foreign currency translation of approximately 0.5%. Pricing had an immaterial impact on revenue growth in the quarter. Revenue growth in the current year's period was driven primarily by our Medical and Biosciences segments, as our Diagnostics segment's revenue growth was constrained by continued challenges in the United States. Medical segment growth was primarily driven by strong sales in the Medical Surgical Systems unit. Third quarter revenues in our Diagnostics segment reflected strong growth in the Preanalytical Systems unit which was partially offset by ongoing weakness in sales of the Women's Health and Cancer platform in the United States. Biosciences segment revenue growth was driven by solid instrument placements and a favorable comparison to the prior-year period, as discussed below. Third quarter revenues also reflected strong international safety and emerging markets sales as these areas continue to be key growth drivers for the Company. Third quarter sales in the United States of safety-engineered devices of \$304 million grew 1.2% over the prior year's quarter. Third quarter international sales of safety-engineered devices of \$265 million grew 11.6% over the prior year's period, including an estimated 0.8% unfavorable impact due to foreign currency translation. International safety-engineered device revenue growth was driven by good performance in Western Europe, Asia and Latin America.

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**Table of Contents**

We continue to invest in research and development spending, geographic expansion, and new product promotions to drive further revenue and profit growth. Our ability to sustain our long-term growth will depend on a number of factors, including our ability to expand our core business (including geographical expansion), develop innovative new products, and continue to improve operating efficiency and organizational effectiveness. While the economic environment for the healthcare industry has stabilized, pricing pressures continue for some of our products. Healthcare utilization has continued to stabilize in the United States; however, any destabilization could adversely impact our U.S. businesses. Additionally, macroeconomic challenges in Europe continue to constrain healthcare utilization, although we currently view the environment as stable. In emerging markets, the Company's growth is dependent on government funding for healthcare systems.

In addition to the economic conditions in the United States and elsewhere, numerous other factors can affect our ability to achieve our goals including, without limitation, increased competition and healthcare reform initiatives. For example, the U.S. Patient Protection and Affordable Care Act contains certain tax provisions that affect BD. The most significant impact is the medical device excise tax that imposed a 2.3% tax on certain U.S. sales of medical devices. This tax became effective at the beginning of BD's second quarter of fiscal year 2013. As a result, this tax incrementally increases selling and administrative expense for the first nine months of fiscal year 2014 by \$14 million.

Our financial position remains strong, with cash flows from operating activities totaling \$1.207 billion in the first nine months of 2014. At June 30, 2014, we had \$2.6 billion in cash and equivalents and short-term investments. Also, we continued to return value to our shareholders in the form of share repurchases and dividends. During the first nine months of 2014, we repurchased \$400 million of our common stock and paid cash dividends of \$316 million.

We face currency exposure each reporting period that arises from translating the results of our worldwide operations to the U.S. dollar at exchange rates that fluctuate from the beginning of such period. We evaluate our results of operations on both an as reported and a foreign currency-neutral basis, which excludes the impact of fluctuations in foreign currency exchange rates. We calculate foreign currency-neutral percentages by converting our current-period local currency financial results using the prior-period foreign currency exchange rates and comparing these adjusted amounts to our current-period reported results. From time to time, we may purchase forward contracts and options to partially protect against adverse foreign exchange rate movements. Gains or losses on our derivative instruments are largely offset by the gains or losses on the underlying hedged transactions. We do not enter into derivative instruments for trading or speculative purposes. For further discussion, refer to Note 11 in the Notes to Condensed Consolidated Financial Statements.

Comparisons of income from continuing operations between the third quarter of fiscal years 2014 and 2013 are affected by the following items that were reflected in our financial results:

Our Medical segment results for the current year's quarter reflected a pre-tax charge of \$9 million, or \$0.03 diluted earnings per share from continuing operations, in *Research and development*, associated with the decision to terminate a research and development program. The charge relates to program asset write-offs and obligations.

Our third quarter fiscal year 2013 unallocated corporate results reflected a pre-tax charge of \$22 million, or \$0.07 diluted earnings per share from continuing operations, in *Selling*

**Table of Contents**

*and administrative*, associated with the litigation settlement related to indirect purchaser antitrust class action cases. For further discussion, refer to Note 5 in the Notes to Condensed Consolidated Financial Statements. Comparisons of income from continuing operations between the nine-month periods of fiscal years 2014 and 2013 are affected by the items discussed immediately above as well as by the following items that were reflected in our financial results:

Our Biosciences segment results reflected the second quarter fiscal year 2014 pre-tax charge of \$20 million, or \$0.06 diluted earnings per share from continuing operations, in *Research and development*, for asset write-offs primarily resulting from the discontinuance of an instrument product development program. The charge is largely attributable to capitalized product software, but also includes a lesser amount attributable to fixed assets.

Our Diagnostics segment results reflected the second quarter fiscal year 2014 pre-tax charge of \$11 million, or \$0.04 diluted earnings per share from continuing operations, in *Selling and administrative*, for contract termination costs that resulted from the early termination of a European distributor arrangement.

Our unallocated corporate results reflected the second quarter fiscal year 2014 pre-tax gain of \$8 million, or \$0.03 diluted earnings per share from continuing operations, in *Other income, net* resulting from the Company's receipt of cash proceeds from the sale of a company in which it held a small equity ownership interest.

**Results of Operations****Revenues**

Refer to Note 6 in the Notes to Condensed Consolidated Financial Statements for segment financial data.

*Medical Segment*

Third quarter revenues of \$1.2 billion increased 5.3% over the prior year's quarter, which reflected an estimated favorable foreign currency translation impact of 0.6%.

The following is a summary of third quarter Medical revenues by organizational unit:

| (millions of dollars)    | Three months ended June 30, |          |              |                                   |
|--------------------------|-----------------------------|----------|--------------|-----------------------------------|
|                          | 2014                        | 2013     | Total Change | Estimated Foreign Exchange Impact |
| Medical Surgical Systems | \$ 590                      | \$ 561   | 5.1%         | (0.9)%                            |
| Diabetes Care            | 258                         | 250      | 3.5%         | (0.1)%                            |
| Pharmaceutical Systems   | 353                         | 330      | 6.9%         | 3.5%                              |
| Total Revenues           | \$ 1,201                    | \$ 1,140 | 5.3%         | 0.6%                              |

Medical segment revenue growth was driven by strong emerging market and international safety sales particularly in the Medical Surgical Systems unit. The Diabetes Care unit's revenue

**Table of Contents**

growth reflected continued strong sales of pen needles, particularly the BD Ultra-Fine Nano product. This growth was partially offset by a delay in tender order timing as well as unfavorable comparison to the prior-year period due to a fluctuation in retailer ordering patterns that we experienced in the prior period. We expect this unit's revenue growth to normalize in the fourth quarter of fiscal year 2014. Revenue growth in the Pharmaceutical Systems unit in the current quarter was unfavorably impacted by the favorable timing of orders that occurred in the first half of fiscal year 2014. Global sales of safety-engineered products were \$284 million, as compared with \$268 million in the prior year's quarter, and included an estimated \$1 million unfavorable impact due to foreign currency translation. Total Medical revenues for the nine-month period ended June 30, 2014 increased 6.1% from the prior-year nine-month period, including an estimated 0.3% unfavorable impact from foreign currency translation. For the nine-month period ended June 30, 2014, global sales of safety-engineered products were \$832 million, compared with \$776 million in the prior year's period, and included an estimated \$8 million unfavorable impact due to foreign currency translation.

Medical operating income for the third quarter was \$356 million, or 29.7% of Medical revenues, compared with \$334 million, or 29.3% of segment revenues, in the prior year's quarter. Gross profit margin was higher in the current quarter than the third quarter of 2013 due to lower manufacturing costs resulting from continuous improvement projects, particularly Project ReLoCo, favorable pricing on certain product lines and lower pension costs. Gross profit margin in the current year's quarter also reflected the impact of a favorable product mix resulting from higher sales of products which have higher gross margins. These favorable impacts on gross profit margin were partially offset by higher start-up costs, higher raw material costs and costs to remediate a quality issue, including incremental investment in manufacturing processes, within the Pharmaceutical Systems unit. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Medical revenues in the third quarter of 2014 was lower as compared with the third quarter of 2013 primarily due to the favorable impact of higher sales growth in the current year's period. Research and development expenses for the quarter increased \$9 million, or 21% above the prior year's period, reflecting the \$9 million research and development program termination charge previously discussed. Segment operating income for the nine-month period was \$968 million, or 28.6% of Medical revenues, compared with \$913 million, or 28.7%, in the prior year's period.

*Diagnostics Segment*

Third quarter revenues of \$679 million increased 3.7% compared with the prior year's quarter, which reflected an immaterial foreign currency translation impact.

The following is a summary of third quarter Diagnostics revenues by organizational unit:

| (millions of dollars) | Three months ended June 30, |               |              |                                   |
|-----------------------|-----------------------------|---------------|--------------|-----------------------------------|
|                       | 2014                        | 2013          | Total Change | Estimated Foreign Exchange Impact |
| Preanalytical Systems | \$ 364                      | \$ 345        | 5.6%         | (0.3)%                            |
| Diagnostic Systems    | 315                         | 310           | 1.6%         | 0.2%                              |
| <b>Total Revenues</b> | <b>\$ 679</b>               | <b>\$ 655</b> | <b>3.7%</b>  |                                   |



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**Table of Contents**

Diagnostics segment revenues for the quarter reflected strong sales in the Preanalytical Systems unit. Global sales of safety-engineered products in the Preanalytical Systems unit totaled \$285 million, compared with \$270 million in the prior year's quarter, and included an estimated \$1 million unfavorable impact due to foreign currency translation. Diagnostic Systems revenue growth in the quarter was unfavorably impacted by continued weaker sales of the Women's Health and Cancer platform due to guidelines providing for increased Pap smear testing intervals in the United States. Total Diagnostics revenues for the nine-month period ended June 30, 2014 increased by 2.0% from the prior-year nine-month period, including an estimated 1.0% unfavorable impact from foreign currency translation. For the nine-month period ended June 30, 2014, global sales of safety-engineered products in the Preanalytical Systems unit were \$825 million, compared with \$788 million in the prior year's period, and included an estimated \$7 million unfavorable impact due to foreign currency translation.

Diagnostics operating income for the third quarter was \$155 million, or 22.8% of Diagnostics revenues, compared with \$159 million, or 24.2% of segment revenues, in the prior year's quarter. Gross profit margin was lower in the third quarter of fiscal year 2014 compared with the third quarter of 2013 primarily due to the impact of an unfavorable product mix resulting from lower sales of products which have higher gross margins as well as unfavorable foreign currency translation. These unfavorable impacts on gross profit margin were partially offset by lower start-up costs, lower pension costs and lower raw material costs. See further discussion on gross profit margin below. Selling and administrative expense as a percentage of Diagnostics revenues in the third quarter of 2014 was lower compared with the third quarter of 2013 reflecting lower pension costs and other various immaterial items. Research and development expenses in the third quarter of 2014 decreased by \$2 million, or 4% compared with the prior year's period. Segment operating income for the nine-month period was \$448 million, or 22.4% of Diagnostics revenues, compared with \$473 million, or 24.1%, in the prior year's period.

*Biosciences Segment*

Third quarter revenues of \$277 million increased 7.7% over the prior year's quarter, which reflected an estimated favorable foreign currency translation impact of 1.1%. Biosciences segment revenue growth was driven by solid instrument placements, new platforms and continued stability in the U.S. research spending environment. Segment revenue growth also reflected a favorable comparison to the prior-year period, as further discussed below. For the nine-month period ended June 30, 2014, total Biosciences revenues increased 7.1% from the prior-year nine-month period, including an estimated 0.5% unfavorable impact from foreign currency translation.

Biosciences operating income for the third quarter was \$66 million, or 23.9% of Biosciences revenues, compared with \$58 million, or 22.6% of segment revenues, in the prior year's quarter. Gross profit margin as a percent of Biosciences revenues was flat compared with the prior year's quarter primarily reflecting favorable foreign currency translation, offset by unfavorable pricing on certain product lines and other various immaterial items. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Biosciences revenues in the third quarter of 2014 was lower compared with the third quarter of 2013 and reflected the favorable impact of higher sales growth in the current year's period and other various immaterial items. Research and development expenses in the third quarter of 2014 increased by \$2 million, or 8% compared with the prior year's period, reflecting increased investment in new products and platforms. Segment operating income for the nine-month period was \$205 million, or 23.9% of Biosciences revenues, compared with \$195 million, or 24.3%, in the prior year's period.

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**Table of Contents***Geographic Revenues*

Revenues in the United States for the third quarter of \$871 million grew 2.8% compared to the prior year's period. U.S. revenue growth in our Medical segment was attributable to strong sales in the Pharmaceutical Systems unit and solid growth in the Medical Surgical Systems unit, partially offset by the unfavorable timing and prior-period comparison reflected in the Diabetes Care unit's revenues for the quarter, as previously discussed. U.S. Diagnostics growth was unfavorably impacted by the continued decline in Women's Health and Cancer platform sales, as previously discussed, as well as share losses. These unfavorable impacts to U.S. Diagnostics revenue growth in the quarter were partially offset by solid growth in the Preanalytical Systems unit. U.S. Biosciences revenues reflected solid instrument placements and growth in reagent revenues as well as a favorable comparison to the prior-year period, which was adversely impacted by unfavorable timing of Advanced Bioprocessing orders.

International revenues for the third quarter of \$1.3 billion represented an increase of 6.7% over the prior year's quarter, including a 0.7% favorable impact due to foreign currency translation. International revenues for the third quarter of fiscal year 2014 reflected growth in all segments. Emerging market revenues for the third quarter of \$530 million represented an increase of 4.9% over the prior year's quarter, including a 4.0% unfavorable impact due to foreign currency translation, and accounted for approximately 25% of our total revenues. International Medical and Diagnostics revenue growth was largely driven by emerging market growth as well as by strong sales of safety-engineered products. Biosciences international revenue growth reflected strong growth in Western Europe as well as a favorable comparison to the prior-year period, which was adversely impacted by weaker Western European sales due to austerity measures and the timing of government funding in Japan.

**Gross Profit Margin**

Gross profit margin was 51.5% for the third quarter, compared with 51.6% for the comparable prior-year period. Operating performance was unfavorably impacted by approximately 70 basis points primarily due to net unfavorable product mix resulting from lower sales of products which have higher gross margins. Operating performance was also unfavorably impacted by approximately 50 basis points due to higher start-up costs, higher raw material costs as well as costs to remediate a quality issue, including incremental investment in manufacturing processes, within the Pharmaceutical Systems unit. These unfavorable impacts on operating performance were partially offset by approximately 100 basis points due to lower manufacturing costs from continuous improvement projects and lower pension costs as well as an estimated 10 basis points relating to foreign currency translation.

Gross profit margin was 51.2% in the nine-month period of 2014, compared with 51.8% for the comparable prior-year period. The decrease in gross profit margin reflected an estimated unfavorable impact of 60 basis points relating to foreign currency translation. Operating performance was unfavorably impacted by approximately 60 basis points primarily due to net unfavorable product mix resulting from lower sales of products which have higher gross margins. Operating performance was also unfavorably impacted by approximately 30 basis points due to higher start-up costs and higher raw material costs. These unfavorable impacts on operating performance were substantially offset by approximately 90 basis points due to lower manufacturing costs from continuous improvement projects and lower pension costs.



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**Table of Contents****Selling and Administrative Expense**

Selling and administrative expense was 24.5% of revenues for the third quarter, compared with 26.0% for the prior year's period. Aggregate expenses for the third quarter reflected an increase in core spending of approximately \$18 million, including spending relating to the expansion of our business in emerging markets. Aggregate expenses for the third quarter of 2014 also reflected increased spending of \$7 million related to our global enterprise resource planning initiative to update our business information systems as well as an increase in the deferred compensation liability of \$5 million. This change in the deferred compensation liability is further discussed below. Selling and administrative expense in the current year's period was favorably impacted by lower pension costs of approximately \$6 million, lower legal costs of approximately \$7 million, favorable foreign currency translation of approximately \$2 million and a favorable comparison to the prior-year period which included the \$22 million litigation settlement charge previously discussed.

Selling and administrative expense was 25.4% of revenues for the nine-month period of fiscal year 2014, compared with 25.9% for the prior year's period. Aggregate expenses for the nine-month period of 2014 reflected an increase in core spending of approximately \$68 million, including spending relating to the expansion of our business in emerging markets. Aggregate expenses for the nine-month period of 2014 also reflected the incremental first quarter fiscal year 2014 impact of \$14 million related to the medical device excise tax and the \$11 million early termination charge, as previously discussed. Aggregate expenses in the current year-to-date period additionally reflected an increase in the deferred compensation liability of \$6 million and \$3 million related to our global enterprise resource planning initiative to update our business information systems. Selling and administrative expense in the current year's period was favorably impacted by lower pension costs of approximately \$17 million, favorable foreign currency translation of \$14 million and lower legal costs of approximately \$5 million. Aggregate expenses for the nine-month period of 2014 were also favorably impacted by a favorable comparison to the prior-year period, which included the \$22 million litigation settlement charge, as well as a \$6 million reversal of bad debt expense that was recorded in the second quarter of fiscal year 2014, as further discussed below.

**Research and Development Expense**

Research and development expense was \$137 million, or 6.4% of revenues, for the third quarter, representing an increase of 13.5% compared with the prior year's amount of \$121 million, or 5.9% of revenues. The increase in research and development expense for the third quarter compared with the prior year's third quarter primarily reflected the \$9 million research and development program termination charge previously discussed. Research and development expense was \$410 million, or 6.6% of revenues, for the nine-month period in the current year, representing an increase of 13.4% compared with the prior year's amount of \$362 million, or 6.1% of revenues. Research and development expense for the nine-month period compared with the prior year's period reflected increased investment in new products and platforms within the Medical segment, in addition to the research and development program termination charge and the \$20 million asset write-off primarily resulting from the discontinuance of an instrument product development program, as previously discussed.

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**Table of Contents****Non-Operating Expense and Income**

Interest income was \$12 million in the third quarter and \$36 million in the nine-month period of 2014, compared with \$6 million and \$26 million, respectively, in the prior year's periods. The increases in the current year's periods compared with the prior year's periods primarily reflected the impact of higher investment gains on assets related to our deferred compensation plan and higher interest rates on investments outside the United States. The offsetting movements in the deferred compensation plan liability were recorded in selling and administrative expense. Interest expense was \$33 million in the third quarter and \$99 million in the nine-month period of 2014, compared with \$35 million and \$104 million, respectively, in the prior year's periods. These decreases were primarily due to lower levels of long-term fixed-rate debt and a reduction of interest payments through fixed-to-floating interest rate swap agreements. For further discussion regarding these swap arrangements, refer to Note 11 in the Notes to Condensed Consolidated Financial Statements.

**Income Taxes**

The income tax rate was 23.0% for the third quarters of fiscal years 2014 and 2013. During the third quarter of 2014, we made a decision to change our position of permanent reinvestment with respect to the unremitted earnings of Brazil and certain other Latin American jurisdictions. The impact of this change on the income tax rate was largely offset by the benefit of some discrete one-time items in the current quarter with respect to other non-U.S. operations. The current year's nine-month tax rate was 22.8% compared with the prior year's rate of 24.2%. The decrease in the income tax rate in the nine-month period of fiscal year 2014 was primarily attributable to geographic mix, the benefit of some discrete one-time items and a favorable comparison to the prior-year period which was unfavorably impacted by some discrete tax expenses.

**Income from Continuing Operations and Diluted Earnings Per Share from Continuing Operations**

Income from continuing operations and diluted earnings per share from continuing operations for the third quarter of 2014 were \$326 million and \$1.65, respectively. Income from continuing operations and diluted earnings per share from continuing operations for the prior year's third quarter were \$292 million and \$1.47, respectively. The current quarter's earnings reflected an estimated \$0.02 favorable impact due to foreign currency translation. The research and development program termination charge previously discussed decreased income from continuing operations for the current year's quarter by \$6 million, or \$0.03 per share. The charge relating to the litigation settlement decreased income from continuing operations in the prior year's period by \$14 million, or \$0.07 diluted earnings per share.

For the nine-month periods, income from continuing operations and diluted earnings per share from continuing operations were \$884 million and \$4.47, respectively, in 2014 and \$838 million and \$4.21, respectively, in 2013. The current year-to-date period's earnings reflected an estimated \$0.16 unfavorable impact due to foreign currency translation. Diluted earnings per share in the current and prior-year nine-month periods also reflected the third quarter impacts discussed above of \$0.03 and \$0.07, respectively. The incremental first quarter fiscal year 2014 impact of the medical device excise tax decreased income from continuing operations for the nine-month period of fiscal year 2014 by \$9 million, or \$0.05 diluted earnings per share. The after-tax asset write-off and contract termination charges previously discussed decreased income from continuing operations for the nine-month period ended June 30, 2014 by \$12 million, or \$0.06 per share, and \$8 million, or \$0.04 per share, respectively. The after-tax gain from the sale of an investment previously discussed increased income from continuing operations for the nine-month period ended June 30, 2014 by \$5 million, or \$0.03 per share.



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**Table of Contents****Liquidity and Capital Resources**

Cash generated from operations, along with available cash and cash equivalents, is expected to be sufficient to fund our normal operating needs for the remainder of fiscal year 2014. Normal operating needs in fiscal year 2014 include working capital, capital expenditures, cash dividends and common stock repurchases. Net cash provided by continuing operating activities was \$1.207 billion during the first nine months of 2014, compared with \$989 million in the same period in 2013. The current period change in operating assets and liabilities was a net use of cash and primarily reflected higher levels of inventory, partially offset by lower levels of accounts receivable. The current period change in operating liabilities included the payment of \$22 million into a fund under a settlement agreement related to indirect purchaser antitrust class action cases. Refer to Note 5 in the Notes to Condensed Consolidated Financial Statements for further discussion regarding this matter. The current period's decrease in accounts receivable reflects a \$36 million payment of government receivables balances in Spain. This payment is further discussed below. Net cash provided by continuing operating activities in the third quarter of 2014 was reduced by changes in the pension obligation resulting primarily from discretionary cash contributions of \$75 million. Net cash provided by continuing operating activities in the prior-year period was also reduced by changes in the pension obligation resulting primarily from discretionary cash contributions of approximately \$138 million.

Net cash used for continuing investing activities for the first nine months of the current year was \$730 million, compared with net cash provided by continuing investing activities of \$296 million in the prior-year period. Cash outflows relating to acquisitions were \$40 million in the first nine months of the current year as a result of the Company's acquisition of Alverix in the second quarter of fiscal year 2014. Cash outflows relating to acquisitions of \$136 million in the prior year's period related to the Company's acquisitions of Safety Syringes and Cato in the first and second quarters of fiscal year 2013, respectively. The prior period's net cash provided by continuing investing activities included approximately \$736 million of net proceeds from the sale of the Discovery Labware disposal group. Capital expenditures were \$339 million in the first nine months of 2014 and 2013.

Net cash used for financing activities for the first nine months of the current year was \$701 million, compared with \$830 million in the prior-year period. For the first nine months of the current year, we repurchased approximately 3.6 million shares of our common stock for \$400 million, compared with approximately 5 million shares of our common stock for \$406 million in the prior-year period. Aggregate common stock repurchases are estimated to be approximately \$450 million for the full fiscal year 2014, subject to market conditions. At June 30, 2014, a total of approximately 9.1 million common shares remained available for purchase under the Board of Directors' September 2013 repurchase authorization.

At June 30, 2014, total worldwide cash and short-term investments were approximately \$2.6 billion, of which \$2.4 billion was held in jurisdictions outside of the United States. We regularly review the amount of cash and short-term investments held outside the United States and currently intend to use most of such amounts to fund our international operations and their growth initiatives. However, if these amounts were moved out of these jurisdictions or repatriated to the United States, there could be adverse tax consequences. As discussed above, for Brazil and certain other Latin American jurisdictions, a decision was made in the third quarter of fiscal year 2014 to change our position of permanent reinvestment as it relates to their unremitted earnings. As of June 30, 2014, we have not repatriated any of these earnings.

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**Table of Contents**

As of June 30, 2014, total debt of \$4.0 billion represented 41.6% of total capital (shareholders' equity, net non-current deferred income tax liabilities, and debt), versus 43.1% at September 30, 2013. Short-term debt represented 5.2% of total debt at June 30, 2014 and September 30, 2013.

We have in place a commercial paper borrowing program that is available to meet our short-term financing needs, including working capital requirements. Borrowings outstanding under this program were \$200 million at June 30, 2014. We have available a \$1 billion syndicated credit facility. This credit facility, under which there were no borrowings outstanding at June 30, 2014, provides backup support for our commercial paper program and can also be used for other general corporate purposes. It includes a provision that enables BD, subject to additional commitments made by the lenders, to access up to an additional \$500 million in financing through the facility, for a maximum aggregate commitment of \$1.5 billion. During the third quarter of fiscal year 2014, we extended the expiration date of this credit facility to May 2018 from the original expiration date of May 2017. The credit facility includes a single financial covenant that requires BD to maintain an interest expense coverage ratio (ratio of earnings before income taxes, depreciation and amortization to interest expense) of not less than 5-to-1 for the most recent four consecutive fiscal quarters. On the last eight measurement dates, this ratio has ranged from 11-to-1 to 16-to-1. In addition, we have informal lines of credit outside the United States.

**Government Receivables**

Accounts receivable balances include sales to government-owned or government-supported healthcare facilities in several countries, which are subject to payment delays. Payment may be dependent upon the financial stability and creditworthiness of those countries' national economies. In recent years, due to economic conditions in parts of Western Europe, particularly in Italy and Spain, the average length of time it takes us to collect our accounts receivable in certain regions within these countries has increased. Outstanding governmental receivable balances, net of reserves, in Italy at June 30, 2014 and September 30, 2013 were \$61 million and \$73 million, respectively. Outstanding governmental receivable balances, net of reserves, in Spain were \$42 million and \$61 million at June 30, 2014 and September 30, 2013, respectively. During the second quarter of fiscal year 2014, we received a \$36 million payment from the Spanish government, and as a result, we reversed \$6 million of bad debt expense that was previously recorded to reserve for uncollected outstanding government receivable balances in Spain.

We continually evaluate all governmental receivables for potential collection risks associated with the availability of government funding and reimbursement practices. We believe the current reserves related to all governmental receivables are adequate and that this concentration of credit risk will not have a material adverse impact on our financial position or liquidity.

**Cautionary Statement Regarding Forward-Looking Statements**

BD and its representatives may from time to time make certain forward-looking statements in publicly released materials, both written and oral, including statements contained in filings with the Securities and Exchange Commission, press releases, and our reports to shareholders. Forward-looking statements may be identified by the use of words such as "plan," "expect,"

**Table of Contents**

believe, intend, will, anticipate, estimate and other words of similar meaning in conjunction with, among other things, discussions of future operations and financial performance, as well as our strategy for growth, product development, regulatory approvals, market position and expenditures. All statements that address operating performance or events or developments that we expect or anticipate will occur in the future – including statements relating to volume growth, sales and earnings per share growth, cash flows or uses, and statements expressing views about future operating results – are forward-looking statements.

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

The following are some important factors that could cause our actual results to differ from our expectations in any forward-looking statements. For further discussion of certain of these factors, see Item 1A. Risk Factors in our 2013 Annual Report on Form 10-K.

Weakness in the global economy and financial markets, and the potential adverse effect on the cost of operating our business, the demand for our products and services, prices for our products and services due to increases in pricing pressure, or our ability to produce our products, including the impact on developing countries.

Deficit reduction efforts or other adverse changes in the availability of government funding for healthcare and research, particularly in the United States and Europe, that could further weaken demand for our products and result in additional pricing pressures, as well as create potential collection risks associated with such sales, and any future U.S. federal government shutdown.

The consequences of the Patient Protection and Affordable Care Act in the United States, which implemented an excise tax on U.S. sales of certain medical devices, and which could result in reduced demand for our products, increased pricing pressures or otherwise adversely affect BD's business.

Future healthcare reform in the countries in which we do business may also involve changes in government pricing and reimbursement policies or other cost containment reforms.

Changes in domestic and foreign healthcare industry practices that result in a reduction in procedures using our products or increased pricing pressures, including the continued consolidation among healthcare providers and trends toward managed care and healthcare cost containment.

**Table of Contents**

Changes in reimbursement practices of third-party payers.

Our ability to penetrate developing and emerging markets, which depends on local economic and political conditions and how well we are able to acquire or form strategic business alliances with local companies and make necessary infrastructure enhancements to production facilities, distribution networks, sales equipment and technology. Our international operations also increase our compliance risks under the Foreign Corrupt Practices Act and other anti-corruption laws.

Political conditions in international markets, including civil unrest, terrorist activity, governmental changes, restrictions on the ability to transfer capital across borders and expropriation of assets by a government.

Security breaches of our computer and communications systems, including computer viruses, hacking and cyber-attacks, which could impair our ability to conduct business, or result in the loss of BD trade secrets or otherwise compromise sensitive information of BD or its customers, suppliers and other business partners.

Fluctuations in the cost and availability of oil-based resins and other raw materials, as well as certain sub-assemblies and finished goods, the ability to maintain favorable supplier arrangements and relationships (particularly with respect to sole-source suppliers), and the potential adverse effects of any disruption in the availability of such items.

Regional, national and foreign economic factors, including inflation, deflation, fluctuations in interest rates and, in particular, foreign currency exchange rates, and the potential effect on our revenues, expenses, margins and credit ratings.

New or changing laws and regulations affecting our domestic and foreign operations, or changes in enforcement practices, including laws relating to trade, monetary and fiscal policies, taxation (including tax reforms that could adversely impact multinational corporations), sales practices, environmental protection, price controls and licensing and regulatory requirements for new products and products in the postmarketing phase. In particular, the U.S. and other countries may impose new requirements regarding registration, labeling or prohibited materials that may require us to re-register products already on the market or otherwise impact our ability to market our products. Environmental laws, particularly with respect to the emission of greenhouse gases, are also becoming more stringent throughout the world, which may increase our costs of operations or necessitate changes in our manufacturing plants or processes or those of our suppliers, or result in liability to BD.

Product efficacy or safety concerns regarding our products resulting in product recalls, regulatory action on the part of the U.S. Food and Drug Administration (FDA) or foreign counterparts, declining sales and product liability claims, particularly in light of the current regulatory environment, including increased enforcement activity by the FDA.

**Table of Contents**

Competitive factors that could adversely affect our operations, including new product introductions (for example, new forms of drug delivery) by our current or future competitors, increased pricing pressure due to the impact of low-cost manufacturers as certain competitors have established manufacturing sites or have contracted with suppliers in low-cost manufacturing locations as a means to lower their costs, patents attained by competitors (particularly as patents on our products expire), and new entrants into our markets.

The effects of events that adversely impact our ability to manufacture our products (particularly where production of a product line is concentrated in one or more plants) or our ability to source materials or components from suppliers (including sole-source suppliers) that are needed for such manufacturing, including pandemics, natural disasters, or environmental factors.

Difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and abroad, obtain intellectual property protection for our products, obtain coverage and adequate reimbursement for new products, or gain and maintain market approval of products, as well as the possibility of infringement claims by competitors with respect to patents or other intellectual property rights, all of which can preclude or delay commercialization of a product. Delays in obtaining necessary approvals or clearances from the FDA or other regulatory agencies or changes in the regulatory process may also delay product launches and increase development costs.

Fluctuations in the demand for products we sell to pharmaceutical companies that are used to manufacture, or are sold with, the products of such companies, as a result of funding constraints, consolidation or otherwise.

Fluctuations in university or U.S. and international governmental funding and policies for life sciences research.

Our ability to achieve our projected level or mix of product sales, as our earnings forecasts are based on projected volumes and sales of many product types, some of which are more profitable than others.

Our ability to implement our ongoing upgrade of our enterprise resource planning system, as any delays or deficiencies in the design and implementation of our upgrade could adversely affect our business.

Pending and potential future litigation or other proceedings adverse to BD, including antitrust claims, product liability claims, environmental claims and patent infringement claims, and the availability or collectability of insurance relating to any such claims.

The effect of adverse media exposure or other publicity regarding BD's business or operations, including the effect on BD's reputation or demand for its products.



**Table of Contents**

The effects, if any, of governmental and media activities regarding the business practices of group purchasing organizations, which negotiate product prices on behalf of their member hospitals with BD and other suppliers.

The effect of market fluctuations on the value of assets in BD's pension plans and on actuarial interest rate and asset return assumptions, which could require BD to make additional contributions to the plans or increase our pension plan expense.

The impact of business combinations, including any volatility in earnings relating to acquired in-process research and development assets, and our ability to successfully integrate any business we may acquire.

Our ability to obtain the anticipated benefits of restructuring programs, if any, that we may undertake.

Issuance of new or revised accounting standards by the Financial Accounting Standards Board or the Securities and Exchange Commission.

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

**Table of Contents**

Item 3. **Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in information reported since the end of the fiscal year ended September 30, 2013.

Item 4. **Controls and Procedures**

An evaluation was carried out by BD's management, with the participation of BD's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of BD's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2014. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were, as of the end of the period covered by this report, effective and designed to ensure that material information relating to BD and its consolidated subsidiaries would be made known to them by others within these entities. There were no changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2014 identified in connection with the above-referenced evaluation that have materially affected, or are reasonably likely to materially affect, BD's internal control over financial reporting.

**Table of Contents**

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved, both as a plaintiff and a defendant, in various legal proceedings which arise in the ordinary course of business, including product liability and environmental matters as set forth in our 2013 Annual Report on Form 10-K and in Note 5 of the Notes to Condensed Consolidated Financial Statements in this report. Since March 31, 2014, the following developments have occurred with respect to the legal proceedings in which we are involved:

Patent Infringement Action

On July 7, 2014, the Federal Circuit Court of Appeals affirmed the November 9, 2009 District Court ruling that awarded Retractable Technologies, Inc. \$5 million in damages for patent infringement.

Summary

Given the uncertain nature of litigation generally, BD 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 BD is a party. In accordance with U.S. generally accepted accounting principles, BD 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 above, BD 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 BD's consolidated results of operations and consolidated cash flows.

**Table of Contents**Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Part 1, Item 1A, of our 2013 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth certain information regarding our purchases of common stock of BD during the quarter ended June 30, 2014.

Issuer Purchases of Equity Securities

|  |  | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid per<br>Share | Total Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum Number<br>of Shares that<br>May<br>Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs (2) |
|--|--|--|------------------------------------|--|---|
| For the three months ended June 30, 2014 |  | (1)                                    |                                    | (2)  |   |
| April 1 30, 2014                         |  | 2,209                                  | \$ 117.13                          |  | 10,750,550  |
| May 1 31, 2014                           |  | 1,218,581                              | \$ 115.94                          | 1,217,735  | 9,532,815   |
| June 1 30, 2014                          |  | 385,755                                | \$ 118.76                          | 385,755  | 9,147,060   |
| Total                                    |  | 1,606,545                              | \$ 116.62                          | 1,603,490  | 9,147,060   |

- (1) Includes 3,055 shares purchased during the quarter in open market transactions by the trust relating to BD's Deferred Compensation and Retirement Benefit Restoration Plan and 1996 Directors' Deferral Plan.
- (2) Repurchases of 750,550 were made pursuant to a repurchase program covering 18 million shares authorized by the Board of Directors on July 26, 2011, which program expired during the quarter. The remaining repurchases were made pursuant to a repurchase program covering 10 million additional shares authorized by the Board of Directors on September 24, 2013 (the 2013 Program). There is no expiration date for the 2013 Program.

**Table of Contents**

Item 3. Defaults Upon Senior Securities  
Not applicable.

Item 4. Mine Safety Disclosures  
Not applicable.

Item 5. Other Information  
Not applicable.

Item 6. Exhibits

- Exhibit 31 Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to SEC Rule 13a - 14(a).
- Exhibit 32 Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to Rule 13a - 14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code.
- Exhibit 101 The following materials from this report, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Becton, Dickinson and Company  
(Registrant)

Dated: August 4, 2014

/s/ Christopher Reidy  
Christopher Reidy  
Chief Financial Officer and Executive Vice President of  
Administration  
(Principal Financial Officer)

/s/ Joseph Mercurio  
Joseph Mercurio  
Vice President and Corporate Controller  
(Principal Accounting Officer)

**Table of Contents**

INDEX TO EXHIBITS

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