BRISTOL MYERS SQUIBB CO
Form 10-Q
October 26, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010**

¨ **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: 1-1136

BRISTOL-MYERS SQUIBB COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**22-0790350**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

345 Park Avenue, New York, N.Y. 10154

(Address of principal executive offices) (Zip Code)

(212) 546-4000

(Registrant s telephone number, including area code)

(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 the filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

At September 30, 2010, there were 1,711,685,361 shares outstanding of the Registrant s $0.10 par value common stock.

Table of Contents

BRISTOL-MYERS SQUIBB COMPANY

INDEX TO FORM 10-Q

September 30, 2010

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BRISTOL-MYERS SQUIBB COMPANY

CONSOLIDATED STATEMENTS OF EARNINGS

Dollars and Shares in Millions, Except Per Share Data

(UNAUDITED)

EARNINGS	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net Sales	$ 4,798	$ 4,788	$ 14,373	$ 13,775
Cost of products sold	1,280	1,317	3,863	3,707
Marketing, selling and administrative	892	953	2,686	2,776
Advertising and product promotion	231	256	706	802
Research and development	824	820	2,556	2,539
Provision for restructuring	15	51	50	89
Litigation expense	22		22	132
Equity in net income of affiliates	(70)	(139)	(252)	(435)
Other (income)/expense	(10)	(35)	84	(117)
Total Expenses	3,184	3,223	9,715	9,493
Earnings from Continuing Operations Before Income Taxes	1,614	1,565	4,658	4,282
Provision for income taxes	312	366	987	994
Net Earnings from Continuing Operations	1,302	1,199	3,671	3,288
Discontinued Operations:				
Earnings, net of taxes		91		221
Gain on disposal, net of taxes				
Net Earnings from Discontinued Operations		91		221
Net Earnings	1,302	1,290	3,671	3,509
Net Earnings Attributable to Noncontrolling Interest	353	324	1,052	922
Net Earnings Attributable to Bristol-Myers Squibb Company	$ 949	$ 966	$ 2,619	$ 2,587
Amounts Attributable to Bristol-Myers Squibb Company:				
Net Earnings from Continuing Operations	$ 949	$ 892	$ 2,619	$ 2,421
Net Earnings from Discontinued Operations		74		166

Net Earnings Attributable to Bristol-Myers Squibb Company	$ 949	$ 966	$ 2,619	$ 2,587
Earnings per Common Share from Continuing Operations Attributable to Bristol-Myers Squibb Company:				
Basic	$ 0.55	$ 0.45	$ 1.52	$ 1.22
Diluted	$ 0.55	$ 0.45	$ 1.51	$ 1.21
Earnings per Common Share Attributable to Bristol-Myers Squibb Company:				
Basic	$ 0.55	$ 0.49	$ 1.52	$ 1.30
Diluted	$ 0.55	$ 0.48	$ 1.51	$ 1.30
Dividends declared per common share	$ 0.32	$ 0.31	$ 0.96	$ 0.93

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BRISTOL-MYERS SQUIBB COMPANY

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME AND RETAINED EARNINGS

Dollars in Millions

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
COMPREHENSIVE INCOME				
Net Earnings	$ 1,302	$ 1,290	$ 3,671	$ 3,509
Other Comprehensive Income/(Loss):				
Foreign currency translation	82	107	42	127
Foreign currency translation on hedge of a net investment	(79)	(61)	64	(63)
Derivatives qualifying as cash flow hedges, net of taxes of $30 and $20 for the three months ended September 30, 2010 and 2009, respectively; and $18 for the nine months ended September 30, 2009	(61)	(35)	8	(32)
Derivatives qualifying as cash flow hedges reclassified to net earnings, net of taxes of $6 and $1 for the three months ended September 30, 2010 and 2009, respectively; and $3 and $15 for the nine months ended September 30, 2010 and 2009, respectively	(15)	(7)	(9)	(48)
Pension and postretirement benefits, net of taxes of $4 and $(220) for the nine months ended September 30, 2010 and 2009, respectively			(12)	405
Pension and postretirement benefits reclassified to net earnings, net of taxes of $(12) and $(4) for the three months ended September 30, 2010 and 2009, respectively; and $(35) and $(41) for the nine months ended September 30, 2010 and 2009, respectively	14	12	57	77
Available for sale securities, net of taxes of $(2) for the three months ended September 30, 2009 and $(1) and $(3) for the nine months ended September 30, 2010 and 2009, respectively	25	21	57	35
Total Other Comprehensive Income/(Loss)	(34)	37	207	501
Comprehensive Income	1,268	1,327	3,878	4,010
Comprehensive Income Attributable to Noncontrolling Interest	353	326	1,052	929
Comprehensive Income Attributable to Bristol-Myers Squibb Company	$ 915	$ 1,001	$ 2,826	$ 3,081
RETAINED EARNINGS				
Retained Earnings at January 1			$ 30,760	$ 22,549
Net Earnings Attributable to Bristol-Myers Squibb Company			2,619	2,587
Cash dividends declared			(1,658)	(1,849)

Retained Earnings at September 30	$ 31,721	$ 23,287

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BRISTOL-MYERS SQUIBB COMPANY

CONSOLIDATED BALANCE SHEETS

Dollars in Millions, Except Share and Per Share Data

(UNAUDITED)

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,581	$ 7,683
Marketable securities	778	831
Receivables	3,285	3,164
Inventories	1,369	1,413
Deferred income taxes	1,071	611
Prepaid expenses	292	256
Total Current Assets	14,376	13,958
Property, plant and equipment	4,723	5,055
Goodwill	5,218	5,218
Other intangible assets, net	2,720	2,865
Deferred income taxes	1,079	1,636
Marketable securities	2,562	1,369
Other assets	1,207	907
Total Assets	$ 31,885	$ 31,008
LIABILITIES		
Current Liabilities:		
Short-term borrowings	$ 243	$ 231
Accounts payable	1,725	1,711
Accrued expenses	2,684	2,785
Deferred income	289	237
Accrued rebates and returns	741	622
U.S. and foreign income taxes payable	46	175
Dividends payable	556	552
Total Current Liabilities	6,284	6,313
Pension, postretirement and postemployment liabilities	1,209	1,658
Deferred income	893	949
U.S. and foreign income taxes payable	754	751
Other liabilities	409	422
Long-term debt	6,479	6,130
Total Liabilities	16,028	16,223

Commitments and contingencies (Note 17)		
EQUITY		
Bristol-Myers Squibb Company Shareholders Equity:		
Preferred stock, $2 convertible series, par value $1 per share: Authorized 10 million shares; issued and outstanding 5,279 in 2010 and 5,515 in 2009, liquidation value of $50 per share		
Common stock, par value of $0.10 per share: Authorized 4.5 billion shares; 2.2 billion issued in both 2010 and 2009	220	220
Capital in excess of par value of stock	3,661	3,768
Accumulated other comprehensive loss	(2,334)	(2,541)
Retained earnings	31,721	30,760
Less cost of treasury stock 494 million common shares in 2010 and 491 million in 2009	(17,298)	(17,364)
Total Bristol-Myers Squibb Company Shareholders Equity	15,970	14,843
Noncontrolling interest	(113)	(58)
Total Equity	15,857	14,785
Total Liabilities and Equity	$ 31,885	$ 31,008

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BRISTOL-MYERS SQUIBB COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in Millions

(UNAUDITED)

	Nine Months Ended September 30, 2010	2009
Cash Flows From Operating Activities:		
Net earnings	$ 3,671	$ 3,509
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net earnings attributable to noncontrolling interest	(1,052)	(922)
Depreciation	348	348
Amortization	198	177
Impairment of manufacturing operations	207	
Deferred income taxes	100	179
Stock-based compensation	143	130
Other gains	(34)	(113)
Changes in operating assets and liabilities:		
Receivables	(122)	77
Inventories	(37)	1
Deferred income	1	135
Accounts payable	77	228
U.S. and foreign income taxes payable	(187)	56
Changes in other operating assets and liabilities	(417)	(1,084)
Net Cash Provided by Operating Activities	2,896	2,721
Cash Flows From Investing Activities:		
Proceeds from sale and maturities of marketable securities	2,612	1,601
Purchases of marketable securities	(3,703)	(2,318)
Additions to property, plant and equipment and capitalized software	(299)	(534)
Proceeds from sale of businesses, property, plant and equipment and other investments	57	130
Purchase of Medarex, Inc., net of cash acquired		(2,232)
Net Cash Used in Investing Activities	(1,333)	(3,353)
Cash Flows From Financing Activities:		
Short-term debt borrowings/(repayments)	12	(1)
Long-term debt borrowings	6	
Long-term debt repayments		(132)
Interest rate swap termination	98	194
Dividends paid	(1,653)	(1,857)
Issuances of common stock and excess tax benefits from share-based arrangements	211	3
Common stock repurchases	(353)	
Proceeds from Mead Johnson initial public offering		782
Net Cash Used in Financing Activities	(1,679)	(1,011)

Effect of Exchange Rates on Cash and Cash Equivalents	14	34
Decrease in Cash and Cash Equivalents	(102)	(1,609)
Cash and Cash Equivalents at Beginning of Period	7,683	7,976
Cash and Cash Equivalents at End of Period	$ 7,581	$ 6,367

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Note 1. BASIS OF PRESENTATION AND NEW ACCOUNTING STANDARDS

Bristol-Myers Squibb Company (which may be referred to as Bristol-Myers Squibb, BMS or the Company) prepared these unaudited consolidated financial statements following the requirements of the Securities and Exchange Commission and United States (U.S.) generally accepted accounting principles (GAAP) for interim reporting. Under those rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. The Company is responsible for the consolidated financial statements included in this Form 10-Q. These consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position at September 30, 2010 and December 31, 2009, the results of operations for the three and nine months ended September 30, 2010 and 2009, and cash flows for the nine months ended September 30, 2010 and 2009. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated and disclosed through the report issuance date. These unaudited consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 included in the Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period presentation. Mead Johnson Nutrition Company (Mead Johnson) financial results, previously reported in the Mead Johnson segment, have been reported as discontinued operations for the three and nine months ended September 30, 2009.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited consolidated financial statements may not be indicative of full year operating results.

The preparation of financial statements requires the use of management estimates and assumptions, based on complex judgments that are considered reasonable, that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and contingent liabilities at the date of the financial statements. The most significant assumptions are employed in estimates used in determining the fair value of intangible assets, restructuring charges and accruals, sales rebate and return accruals, legal contingencies, tax assets and tax liabilities, stock-based compensation expense, pension and postretirement benefits (including the actuarial assumptions), fair value of financial instruments with no direct or observable market quotes, inventory obsolescence, potential impairment of long-lived assets, allowances for bad debt, as well as in estimates used in applying the revenue recognition policy. Actual results may differ from estimated results.

New accounting standards were adopted on January 1, 2010, none of which had an impact on the consolidated financial statements upon adoption. Among other items, these standards:

Provide clarifying criteria in determining when a transferor has surrendered control over transferred financial assets and removed the concept of a qualifying special-purpose entity.

Require an ongoing reassessment of the primary beneficiary in a variable interest entity; eliminate the quantitative approach previously required in determining the primary beneficiary; and provide guidance in determining the primary beneficiary as the entity that has both the power to direct the activities of a variable interest entity that most significantly impacts the entity s economic performance and has the obligation to absorb losses or the right to receive benefits for events significant to the variable interest entity.

The Company is currently evaluating the potential impact of an accounting standard that allows for the allocation of consideration received in a bundled revenue arrangement among the separate deliverables by introducing an estimated selling price method for valuing the elements if vendor-specific objective evidence or third-party evidence of a selling price is not available. The standard provides more flexibility in recognizing revenue for bundled arrangements and expands related disclosure requirements. It is effective either on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 or on a retrospective basis and early application is permitted.

Table of Contents

Note 2. ALLIANCES AND COLLABORATIONS

The Company maintains alliances and collaborations with various third parties for the development and commercialization of certain products. The following information summarizes the current operating trends of commercialized products. See the 2009 Annual Report on Form 10-K for a more complete description of the below agreements, including termination provisions, as well as disclosures of other alliances and collaborations.

sanofi

The Company has agreements with sanofi-aventis (sanofi) for the codevelopment and cocommercialization of AVAPRO*/AVALIDE* (irbesartan/irbesartan-hydrochlorothiazide), an angiotensin II receptor antagonist indicated for the treatment of hypertension and diabetic nephropathy, and PLAVIX* (clopidogrel bisulfate), a platelet aggregation inhibitor. The worldwide alliance operates under the framework of two geographic territories; one in the Americas (principally the U.S., Canada, Puerto Rico and Latin American countries) and Australia, and the other in Europe and Asia. The agreements expire on the later of (i) with respect to PLAVIX*, 2013 and, with respect to AVAPRO*/AVALIDE*, 2012 in the Americas and Australia and 2013 in Europe and Asia, and (ii) the expiration of all patents and other exclusivity rights relating to these products in the applicable territory.

The Company acts as the operating partner and owns a 50.1% majority controlling interest in the territory covering the Americas and Australia and consolidates all country partnership results for this territory with sanofi s 49.9% share of the results reflected as a noncontrolling interest. The Company recognizes net sales in this territory and in comarketing countries outside this territory (e.g., Germany, Italy for irbesartan only, Spain and Greece). Discovery royalties owed to sanofi are included in cost of products sold. Sanofi acts as the operating partner and owns a 50.1% majority controlling interest in the territory covering Europe and Asia. The Company s 49.9% ownership interest in this territory is accounted for under the equity method with its share of operating results recognized in equity in net income of affiliates. Distributions of profits relating to the joint ventures among the Company and sanofi are included within operating activities in the consolidated statements of cash flows.

The Company and sanofi have a separate partnership governing the copromotion of irbesartan in the U.S. The Company recognizes other income related to the amortization of deferred income associated with sanofi s $350 million payment to the Company for their acquisition of an interest in the irbesartan license for the U.S. upon formation of the alliance. Income attributed to certain supply activities and development and opt-out royalties with sanofi are reflected on a net basis in other income.

The following summarized financial information is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Territory covering the Americas and Australia:				
Net sales	$ 1,874	$ 1,754	$ 5,580	$ 5,085
Discovery royalty expense	337	305	998	881
Noncontrolling interest pre-tax	523	443	1,543	1,258
Profit distributions to sanofi	545	451	1,598	1,264
Territory covering Europe and Asia:				
Equity in net income of affiliates	73	141	261	442
Profit distributions to the Company	85	160	239	402
Other:				
Net sales in Europe comarketing countries and other	87	129	295	387
Other income irbesartan license fee	7	8	23	24
Other income supply activities and development and opt-out royalties	(3)	20	28	43

	September 30, 2010	December 31, 2009

Investment in affiliates	territory covering Europe and Asia	$ 32	$ 10
Deferred income	irbesartan license fee	68	91

Table of Contents

The following is summarized financial information for interests in the partnerships with sanofi for the territory covering Europe and Asia, which are not consolidated but are accounted for using the equity method:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net sales	$ 417	$ 732	$ 1,465	$ 2,259
Gross profit	174	357	662	1,124
Net income	141	279	528	863

Otsuka

The Company has a worldwide commercialization agreement (excluding certain countries) with Otsuka Pharmaceutical Co., Ltd. (Otsuka), to codevelop and copromote with Otsuka, ABILIFY* (aripiprazole), for the treatment of schizophrenia, bipolar mania disorder and major depressive disorder. In the U.S., Germany, France and Spain, where the product is invoiced to third-party customers by the Company on behalf of Otsuka, the Company recognizes alliance revenue for its contractual share of third-party net sales, which was reduced in the U.S. starting January 1, 2010 from 65% to 58% for 2010. Further reductions in the Company s U.S. contractual share of revenue in the U.S. will occur on January 1, 2011, January 1, 2012 and January 1, 2013 under the terms of the commercialization agreement. Beginning January 1, 2010, Otsuka reimburses the Company 30% of ABILIFY* related operating expenses in the U.S. Reimbursements are netted principally in advertising and product promotion and selling, general and administrative expenses. The Company continues to receive 65% of third-party net sales in France, Germany and Spain with no expense reimbursement. In certain countries where the Company is presently the exclusive distributor for the product or has an exclusive right to sell ABILIFY*, the Company recognizes 100% of the net sales and related cost of products sold and expenses.

The Company paid Otsuka $400 million in April 2009 for extending the term of the commercialization and manufacturing agreement in the U.S. through April 2015. This payment is included in other assets and is being amortized as a reduction of net sales through the extension period. Previously capitalized milestone payments totaling $60 million are included in intangible assets and amortized to cost of products sold.

The Company and Otsuka also have an oncology collaboration for SPRYCEL (dasatinib) and IXEMPRA (ixabepilone) (the Oncology Products) in the U.S., Japan and the EU (the Oncology Territory). Beginning January 1, 2010, the Company pays a collaboration fee to Otsuka equal to 30% of the first $400 million annual net sales of the Oncology Products in the Oncology Territory, 5% of annual net sales between $400 million and $600 million, and 3% of annual net sales between $600 million and $800 million with additional trailing percentages of annual net sales over $800 million. This fee is included in cost of products sold. Otsuka will contribute 20% of the first $175 million of certain commercial operational expenses relating to the Oncology Products in the Oncology Territory and 1% of such costs in excess of $175 million. Reimbursements are netted principally in selling, general and administrative and advertising and product promotion.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
ABILIFY* net sales, including amortization of extension payment	$ 608	$ 653	$ 1,858	$ 1,885
Oncology Products collaboration fees	30		92	
Otsuka s reimbursement operating expense	(26)		(74)	
Amortization expense extension payments	17	17	49	33
Amortization expense milestone payments	1	1	5	5

	September 30, 2010	December 31, 2009
Intangible assets:		
Extension payment	$ 302	$ 351

Milestone payments	12	17

Table of Contents

Lilly

The Company has a collaboration with Eli Lilly and Company (Lilly) for the codevelopment and promotion of ERBITUX* (cetuximab) in the U.S., pursuant to a commercialization agreement with Lilly s subsidiary, ImClone Systems Incorporated (ImClone), which expires as to ERBITUX* in September 2018. Lilly receives a distribution fee based on 39% of ERBITUX* net sales in North America, which is included in cost of products sold. In Japan, the Company shares rights to ERBITUX* under an agreement with Lilly and Merck KGaA and receives 50% of the pre-tax profit from Merck s net sales of ERBITUX* in Japan which is further shared equally with Lilly. The Company s 25% share of profits from commercialization in Japan is included in other income.

Previously capitalized milestone payments are being amortized through 2018 and are classified in costs of products sold.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net sales	$ 159	$ 179	$ 497	$ 516
Distribution fees	62	70	194	201
Amortization expense milestone payments	9	9	28	28
Other income Japan commercialization fee	11	8	30	18

	September 30, 2010	December 31, 2009
Intangible asset milestone payments	$ 295	$ 323

In January 2010, the Company and Lilly restructured the commercialization agreement described above as it relates to necitumumab (IMC-11F8), a novel targeted cancer therapy currently in Phase III development for non-small cell lung cancer. As restructured, both companies will share in the cost of developing and potentially commercializing necitumumab in the U.S., Canada and Japan. Lilly maintains exclusive rights to necitumumab in all other markets. The Company will fund 55% of development costs for studies that will be used only in the U.S. and will fund 27.5% for global studies. The Company and Lilly will share development costs in Japan equally. The Company will pay $250 million to Lilly as a milestone payment upon first approval in the U.S. In the U.S. and Canada, the Company will recognize sales and receive 55% of the profits for necitumumab. Lilly will provide 50% of the selling effort. In Japan, the Company and Lilly will share commercial costs and profits evenly. The agreement as it relates to necitumumab continues beyond patent expiration. It may be terminated at any time by the Company with 12 months advance notice (18 months if prior to launch), by either party for uncured material breach by the other or if both parties agree to terminate.

Gilead

The Company and Gilead Sciences, Inc. (Gilead) have a joint venture to develop and commercialize ATRIPLA* (efavirenz 600 mg/ emtricitabine 200 mg/ tenofovir disoproxil fumarate 300 mg), a once-daily single tablet three-drug regimen combining the Company s SUSTIVA (efavirenz) and Gilead s TRUVADA* (emtricitabine and tenofovir disoproxil fumarate), in the U.S., Canada and Europe. The Company accounts for its participation in the U.S. joint venture under the equity method of accounting and recognizes its share of the joint venture results in equity in net income of affiliates in the consolidated statements of earnings.

In the U.S., Canada and most European countries, the Company records revenue for the bulk efavirenz component of ATRIPLA* upon sales of that product to third-party customers. Revenue for the efavirenz component is determined by applying a percentage to ATRIPLA* revenue to approximate revenue for the SUSTIVA brand. In a limited number of EU countries, the Company recognizes revenue for ATRIPLA* since the product is purchased from Gilead and then distributed to third-party customers.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales	$ 264	$ 218	$ 769	$ 606
Equity in net loss of affiliates	(3)	(2)	(9)	(7)

Table of Contents

AstraZeneca

The Company maintains two worldwide codevelopment and cocommercialization agreements with AstraZeneca PLC (AstraZeneca), The first is for the worldwide codevelopment and cocommercialization (excluding Japan) of ONGLYZA (saxagliptin), a DPP-IV inhibitor (Saxagliptin Agreement) and the second is for the worldwide codevelopment and cocommercialization (including Japan) of dapagliflozin, a sodium-glucose cotransporter-2 (SGLT2) inhibitor (SGLT2 Agreement). Both compounds are being studied for the treatment of diabetes and were discovered by the Company. Under each agreement, the two companies are jointly developing the clinical and marketing strategy and share development and commercialization costs and profits and losses equally, except for Japan where AstraZeneca bears all the costs of dapagliflozin development under the current development plan. Net reimbursements for development costs from AstraZeneca are included in research and development. Net reimbursements for commercial costs are included principally in advertising and product promotion and selling, general and administrative expenses. AstraZeneca s share of profits is included in cost of goods sold.

Upfront licensing and milestone payments received for both compounds totaling $350 million, including $50 million received in the first quarter of 2010, are amortized over the useful life of the products into other income.

The Company and AstraZeneca launched ONGLYZA in the third quarter of 2009.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net sales	$ 47	$ 20	$ 85	$ 20
Amortization income milestone payments	7	4	20	10

	September 30, 2010	December 31, 2009
Deferred income milestone payments	$ 298	$ 268

Exelixis

In June 2010, the Company terminated its global codevelopment and cocommercialization arrangement for XL184 (a MET/VEG/RET inhibitor), an oral anti-cancer compound with all rights returning to Exelixis, Inc. (Exelixis). As a result of the termination, the Company paid $17 million, which has been included in research and development expense. In addition, the Company is no longer obligated for contingent development and regulatory milestone payments of $295 million and sales milestone payments of $150 million. The Company will continue its license arrangement with Exelixis for XL281 and other collaborations for small molecule candidates.

Table of Contents

Note 3. BUSINESS SEGMENT INFORMATION

The BioPharmaceuticals segment is engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of innovative medicines that help patients prevail over serious diseases. A global research and development organization and a global supply chain organization are utilized and responsible for the development and delivery of products to the market. Products are distributed and sold through five regional organizations that serve the United States; Europe; Latin America, Middle East and Africa; Japan, Asia Pacific and Canada; and Emerging Markets defined as Brazil, Russia, India, China and Turkey. The business is also supported by global corporate staff functions. The segment information presented below is consistent with the financial information regularly reviewed by the chief operating decision maker for purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting future periods.

Net sales of key products were as follows:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
PLAVIX*	$ 1,658	$ 1,554	$ 4,951	$ 4,528
AVAPRO*/AVALIDE*	303	329	924	944
REYATAZ	375	360	1,105	1,013
SUSTIVA Franchise (total revenue)	342	315	1,008	919
BARACLUDE	228	191	667	522
ERBITUX*	159	179	497	516
SPRYCEL	144	107	407	302
IXEMPRA	29	28	87	81
ABILIFY*	608	653	1,858	1,885
ORENCIA	184	162	531	434
ONGLYZA	47	20	85	20
Mature Brands and Other Products	721	890	2,253	2,611
Net sales	$ 4,798	$ 4,788	$ 14,373	$ 13,775

Segment income excludes the impact of significant items not indicative of current operating performance or ongoing results, and earnings attributed to sanofi and other noncontrolling interest. The reconciliation to earnings from continuing operations before income taxes was as follows:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
BioPharmaceuticals segment income	$ 1,186	$ 1,195	$ 3,599	$ 3,482
Reconciling items:				
Downsizing and streamlining of worldwide operations	(15)	(48)	(50)	(80)
Impairment and loss on sale of manufacturing operations	(10)		(225)	
Accelerated depreciation, asset impairment and other shutdown costs	(27)	(33)	(85)	(89)
Pension curtailment and settlement charges	(3)		(8)	(25)
Process standardization implementation costs	(8)	(20)	(27)	(65)
Gain on sale of product lines, businesses and assets		17		72
Litigation charges	(22)		(22)	(132)
Upfront licensing, milestone and other payments			(72)	(174)
Medarex acquisition		10		10
Debt buyback and swap terminations		(4)		7
Product liability charges	(13)		(13)	(3)
Noncontrolling interest	526	448	1,561	1,279

Earnings from continuing operations before income taxes	$ 1,614	$ 1,565	$ 4,658	$ 4,282

Table of Contents

Note 4. RESTRUCTURING

The productivity transformation initiative (PTI) was designed to fundamentally change the way the business is run to meet the challenges of a changing business environment and to take advantage of the diverse opportunities in the marketplace as the transformation into a next-generation biopharmaceutical company continues. In addition to the PTI, a strategic process designed to achieve a culture of continuous improvement to enhance efficiency, effectiveness and competitiveness and to continue to improve the cost base has been implemented.

The following PTI and other restructuring charges were recognized:

Dollars in Millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Employee termination benefits	$ 3	$ 48	$ 40	$ 80
Other exit costs	12	3	10	9
Provision for restructuring, net	15	51	50	89
Impairment and loss on sale of manufacturing operations	10		225	
Accelerated depreciation, asset impairment and other shutdown costs	27	30	85	80
Pension curtailment and settlement charges	3		8	25
Process standardization implementation costs	8	20	27	65
Total cost	63	101	395	259
Gain on sale of product lines, businesses and assets		(17)		(72)
Net charges	$ 63	$ 84	$ 395	$ 187

Most of the accelerated depreciation, asset impairment and other shutdown costs were included in cost of products sold and primarily relate to the rationalization of the manufacturing network in the BioPharmaceuticals segment. These assets continue to be depreciated until the facility closures are completed. The remaining charges were primarily attributed to process standardization activities or attributed to pension plan curtailment charges both of which are recognized as incurred.

Restructuring charges included termination benefits for workforce reduction of manufacturing, selling, administrative, and research and development personnel across all geographic regions of approximately 60 and 232 for the three months ended September 30, 2010 and 2009, respectively, and approximately 540 and 587 for the nine months ended September 30, 2010 and 2009, respectively.

The following table presents the detail of expenses incurred in connection with restructuring activities and related restructuring liability activity:

Dollars in Millions	Nine Months Ended September 30, 2010 Employee Termination Liability	Other Exit Costs Liability	Total	Nine Months Ended September 30, 2009 Employee Termination Liability	Other Exit Costs Liability	Total
Liability at January 1	$ 157	$ 16	$ 173	$ 188	$ 21	$ 209
Charges	40	15	55	78	9	87
Changes in estimates		(5)	(5)	2		2
Provision for restructuring, net	40	10	50	80	9	89
Charges in discontinued operations				12		12
Foreign currency translation	(4)		(4)		&n	