

BECTON DICKINSON & CO
Form 10-Q
August 06, 2015
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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, 2015

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
(State or other jurisdiction of
incorporation or organization)
1 Becton Drive, Franklin Lakes, New Jersey 07417-1880

22-0760120
(I.R.S. Employer
Identification No.)

(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

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.

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Class of Common Stock
Common stock, par value \$1.00

Shares Outstanding as of June 30, 2015
210,254,373

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BECTON, DICKINSON AND COMPANY

FORM 10-Q

For the quarterly period ended June 30, 2015

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ITEM 1. FINANCIAL STATEMENTS

BECTON, DICKINSON AND COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

Millions of dollars

| | June 30, 2015 (Unaudited) | September 30, 2014 |
|---|--|-------------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and equivalents | \$ 1,559 | \$ 1,861 |
| Short-term investments | 29 | 884 |
| Trade receivables, net | 1,645 | 1,187 |
| Current portion of net investment in sales-type leases | 130 | 5 |
| Inventories: | | |
| Materials | 393 | 248 |
| Work in process | 300 | 260 |
| Finished products | 1,326 | 987 |
| | 2,020 | 1,495 |
| Prepaid expenses, deferred taxes and other | 921 | 698 |
| Total Current Assets | 6,303 | 6,131 |
| Property, Plant and Equipment | 8,283 | 7,765 |
| Less allowances for depreciation and amortization | 4,236 | 4,160 |
| Property, Plant and Equipment, Net | 4,047 | 3,605 |
| Goodwill | 7,464 | 1,090 |
| Customer Relationships, Net | 3,313 | 8 |
| Developed Technology, Net | 2,962 | 513 |
| Other Intangibles, Net | 849 | 239 |
| Capitalized Software, Net | 385 | 365 |
| Net Investment in Sales-Type Leases, Less Current Portion | 1,082 | 9 |
| Other Assets | 674 | 488 |
| Total Assets | \$ 27,079 | \$ 12,447 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Short-term debt | \$ 1,804 | \$ 203 |
| Payables and accrued expenses | 2,713 | 2,031 |

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| | | |
|---|-----------|-----------|
| Total Current Liabilities | 4,517 | 2,235 |
| Long-Term Debt | 11,367 | 3,768 |
| Long-Term Employee Benefit Obligations | 1,007 | 1,009 |
| Deferred Income Taxes and Other | 2,936 | 383 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Common stock | 333 | 333 |
| Capital in excess of par value | 4,418 | 2,198 |
| Retained earnings | 12,260 | 12,105 |
| Deferred compensation | 19 | 19 |
| Common stock in treasury - at cost | (8,242) | (8,601) |
| Accumulated other comprehensive (loss) income | (1,535) | (1,001) |
| Total Shareholders' Equity | 7,253 | 5,053 |
| Total Liabilities and Shareholders' Equity | \$ 27,079 | \$ 12,447 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

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BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Millions of dollars, except per share data

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|--------------------|----------|-------------------|----------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$ 3,120 | \$ 2,157 | \$ 7,222 | \$ 6,244 |
| Cost of products sold | 1,932 | 1,046 | 3,943 | 3,045 |
| Selling and administrative expense | 764 | 528 | 1,820 | 1,584 |
| Research and development expense | 178 | 137 | 437 | 410 |
| Acquisition-related costs | 108 | | 244 | |
| Total Operating Costs and Expenses | 2,983 | 1,712 | 6,444 | 5,039 |
| Operating Income | 137 | 445 | 779 | 1,204 |
| Interest expense | (105) | (33) | (272) | (99) |
| Interest income | 2 | 12 | 20 | 36 |
| Other income (expense), net | 5 | (2) | 23 | 4 |
| Income Before Income Taxes | 39 | 423 | 549 | 1,145 |
| Income tax (benefit) provision | (23) | 97 | 35 | 261 |
| Net Income | 62 | 326 | 514 | 884 |
| Basic Earnings per Share | \$ 0.30 | \$ 1.69 | \$ 2.58 | \$ 4.57 |
| Diluted Earnings per Share | \$ 0.29 | \$ 1.65 | \$ 2.52 | \$ 4.47 |
| Dividends per Common Share | \$ 0.600 | \$ 0.545 | \$ 1.800 | \$ 1.635 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

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BECTON, DICKINSON AND COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Millions of dollars

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------|-------------------|--------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net Income | \$ 62 | \$ 326 | \$ 514 | \$ 884 |
| Other Comprehensive Income (Loss), Net of Tax | | | | |
| Foreign currency translation adjustments | 80 | (11) | (558) | 3 |
| Defined benefit pension and postretirement plans | 11 | 8 | 33 | 51 |
| Net unrealized (losses) gains on cash flow hedges, net of reclassifications | (2) | 1 | (8) | 4 |
| Other Comprehensive Income (Loss), Net of Tax | 88 | (2) | (533) | 58 |
| Comprehensive Income | \$ 150 | \$ 324 | \$ (19) | \$ 943 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

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BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions of dollars

(Unaudited)

| | Nine Months Ended June 30, | |
|---|---------------------------------------|--------------|
| | 2015 | 2014 |
| <u>Operating Activities</u> | | |
| Net income | \$ 514 | \$ 884 |
| Adjustments to net income to derive net cash provided by operating activities, net of amounts acquired: | | |
| Depreciation and amortization | 576 | 413 |
| Share-based compensation | 138 | 91 |
| Deferred income taxes | (137) | (53) |
| Change in operating assets and liabilities | (42) | (114) |
| Pension obligation | 17 | (41) |
| Other, net | (14) | 27 |
| Net Cash Provided by Operating Activities | 1,052 | 1,207 |
| <u>Investing Activities</u> | | |
| Capital expenditures | (387) | (339) |
| Capitalized software | (26) | (41) |
| Proceeds from (purchases of) investments, net | 837 | (244) |
| Acquisitions of businesses, net of cash acquired | (8,334) | (40) |
| Other, net | (92) | (66) |
| Net Cash Used for Investing Activities | (8,003) | (730) |
| <u>Financing Activities</u> | | |
| Change in short-term debt | 846 | (3) |
| Proceeds from long-term debt | 6,164 | |
| Payments of debt | (3) | |
| Repurchase of common stock | | (400) |
| Excess tax benefits from payments under share-based compensation plans | 48 | 26 |
| Dividends paid | (358) | (316) |
| Issuance of common stock and other, net | (30) | (7) |
| Net Cash Provided by (Used for) Financing Activities | 6,667 | (701) |

| | | |
|---|----------|----------|
| Effect of exchange rate changes on cash and equivalents | (17) | (5) |
| Net decrease in cash and equivalents | (302) | (229) |
| Opening Cash and Equivalents | 1,861 | 1,890 |
| Closing Cash and Equivalents | \$ 1,559 | \$ 1,661 |

Amounts may not add due to rounding.

See notes to condensed consolidated financial statements

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BECTON, DICKINSON AND COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

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 updated financial statements included in the Company's Current Report on Form 8-K dated March 13, 2015. 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 Principles Adopted

In June 2013, the Financial Accounting Standards Board (FASB) issued guidance that requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. In March 2013, the FASB issued amendments to resolve diversity in practice relating to the release of cumulative translation adjustments into earnings upon the occurrence of certain derecognition events involving a foreign entity. The Company prospectively adopted both accounting standard updates, which did not impact its consolidated financial statements, on October 1, 2014.

New Accounting Principle Not Yet Adopted

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

Table of Contents**Note 3 Accumulated Other Comprehensive (Loss) Income**

The components and changes of *Accumulated other comprehensive (loss) income* for the nine-month period ended June 30, 2015 were as follows:

| (Millions of dollars) | Total | Foreign Currency Translation Adjustments | Benefit Plans Adjustments | Unrealized Losses on Cash Flow Hedges |
|---|-----------|--|------------------------------|---|
| Balance at September 30, 2014 | \$(1,001) | \$ (270) | \$ (705) | \$ (26) |
| Other comprehensive income before reclassifications, net of taxes | (571) | (558) | | (12) |
| Amounts reclassified into income, net of taxes ^(A) | 38 | | 33 | 4 |
| Balance at June 30, 2015 | \$(1,535) | \$ (828) | \$ (672) | \$ (34) |

(A) The reclassification amount related to benefit plans for the three months ended June 30, 2015 was \$11 million. The reclassification amounts for the three and nine months ended June 30, 2014 were \$8 million and \$25 million, respectively. The benefit plan-related amounts were not reclassified into income in their entirety and these reclassifications were included in the computation of net periodic benefit plan costs. Additional details are provided in Note 8. The reclassification amount related to cash flow hedges for the three months ended June 30, 2015 was \$2 million. The reclassification amounts for the three and nine months ended June 30, 2014 were \$1 million and \$4 million, respectively. The cash flow hedge-related reclassification amounts for the three and nine months ended June 30, 2015 and 2014 were primarily recorded in *Interest expense* and additional details are provided in Note 12.

The loss in foreign currency translation adjustments for the nine months ended June 30, 2015 was primarily attributable to the weakening of the Euro, and of currencies in Latin America and Asia Pacific, against the U.S. dollar during the period.

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, 2015 and 2014 were \$6 million and \$4 million, respectively. 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 nine months ended June 30, 2015 and 2014 were \$17 million and \$13 million, respectively.

The income tax benefits recorded for losses recognized in other comprehensive income relating to cash flow hedges for the three and nine months ended June 30, 2015 were \$2 million and \$8 million, respectively. Additional disclosures regarding these losses are provided in Note 12. There were no amounts recognized in other comprehensive income relating to cash flow hedges for the three months or nine months ended June 30, 2014. The income taxes recorded for reclassification adjustments for realized amounts relating to cash flow hedges were immaterial for the three and nine months ended June 30, 2015 and 2014.

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, | |
| | 2015 | 2014 | 2015 | 2014 |
| Average common shares outstanding | 210,175 | 193,054 | 199,690 | 193,624 |
| Dilutive share equivalents from share-based plans | 4,753 | 3,951 | 4,546 | 4,189 |
| Average common and common equivalent shares outstanding assuming dilution | 214,928 | 197,005 | 204,236 | 197,813 |

Upon closing the acquisition of CareFusion Corporation (CareFusion) on March 17, 2015, the Company issued approximately 15.9 million of its common shares as part of the purchase consideration. Additional disclosures regarding this acquisition are provided in Note 9.

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, liability insurance. In the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on the Company's consolidated results of operations and consolidated cash flows.

In June 2007, Retractable Technologies, Inc. (RTI) filed a complaint against the Company under the caption Retractable Technologies, Inc. vs. Becton Dickinson and Company (Civil Action No. 2:07-cv-250, U.S. District Court, Eastern District of Texas). 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, which has been paid. On May 19, 2010, the court granted RTI's motion for a permanent injunction against the continued sale by the Company of its BD Integra products in their

current form, but stayed the injunction for the duration of the Company's appeal. At the same time, the court lifted a stay of RTI's non-patent claims. 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

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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, 2014, the Federal Circuit Court of Appeals denied BD's request for an en banc rehearing. On January 16, 2015, BD filed a petition for U.S. Supreme Court review of the Federal Circuit Court of Appeals decision leaving the damages award intact. On April 20, 2015, the U.S. Supreme Court denied BD's petition.

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 under the antitrust statute). The jury's verdict rejected RTI's monopolization claims in the markets for safety syringes, conventional syringes and safety IV catheters; its attempted monopolization claims in the markets for conventional syringes and safety IV catheters; and its claims for contractual restraint of trade and exclusive dealing in the markets for safety syringes, conventional syringes and safety IV catheters. In connection with the verdict, the Company recorded a pre-tax charge of approximately \$341 million in the fourth quarter of fiscal year 2013. On September 30, 2014, the Court issued a ruling denying BD's post-trial motion for judgment as a matter of law. On November 10, 2014, the Court issued a ruling denying RTI's request for disgorgement of BD profits for false advertising on the ground that any profit to which RTI is entitled is included within the amount of the antitrust damage award. The Court granted RTI's request that BD be ordered to issue certain corrective statements regarding its advertising and enjoined from making certain advertising claims. The Court denied RTI's request for injunctive relief relating to BD's contracting practices and BD's safety syringe advertising, finding that RTI failed to prove that BD's contracting practices violated the antitrust laws or that BD's safety syringe advertising is false. The Court concluded that RTI is entitled to certain categories of attorneys' fees that it requested, but that its total fee recovery should be reduced by 50%. On January 14, 2015, the Court granted in part and denied in part BD's motion for a stay of the injunction. The Court held that, pending appeal, BD would not be required to send the corrective advertising notices to end-user customers, but only to employees, distributors and Group Purchasing Organizations. The Court otherwise upheld its November 10, 2014 Order regarding the injunction. On January 15, 2015, the Court entered its Final Judgment in the case. In the Final Judgment, the Court ordered that RTI recovers \$341 million for its attempted monopolization claim and \$12 million for attorneys' fees, and awarded pre and post-judgment interest and costs. On February 3, 2015, the Court of Appeals for the Fifth Circuit denied BD's motion for a stay of the injunction pending the final appeal. On April 23, 2015, the Court granted BD's motion to eliminate the award of pre-judgment interest, and entered a new Final Judgment. BD has filed its appeal to the Court of Appeals challenging the entirety of the Final Judgment.

On November 4, 2013, the Secretariat of Foreign Trade 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, 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 from the United States and the United Kingdom of Great Britain and Northern Ireland and cooperated with the investigation. On April 30, 2015, Brazilian Foreign Trade Board (CAMEX) issued a decision determining the application of anti-dumping measures including, without limitation, the imposition of duties on such vacuum plastic tubes imported into Brazil of 45.3% for products from the United States of America and 71.5% for products from the United Kingdom of Great Britain and Northern Ireland. These anti-dumping measures, effective from April 30, 2015, will last for a minimum period of five years. Subsequent to

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the decision, CAMEX announced that it would initiate a proceeding to assess the duties from a public interest perspective. This proceeding could result in a suspension or modification of the CAMEX decision, although no assurance can be given in that regard. BD has also filed an administrative appeal. In any event, the Company does not believe that the CAMEX decision will materially affect its results of operations.

On October 5, 2014, CareFusion and the Company entered into an Agreement and Plan of Merger (which we refer to as the merger agreement) that provides for the acquisition of CareFusion by the Company. Under the terms of the merger agreement, a subsidiary of the Company (the merger subsidiary) merged with and into CareFusion on March 17, 2015, with CareFusion surviving the merger as a wholly owned subsidiary of the Company. Several putative class action lawsuits have been filed against CareFusion, its directors, the Company and the merger subsidiary in the Delaware Court of Chancery and in the Superior Court of California, San Diego County. These lawsuits generally allege that the members of the board of directors of CareFusion breached their fiduciary duties in connection with the merger by, among other things, carrying out a process that plaintiffs allege did not ensure adequate and fair consideration to CareFusion stockholders. The plaintiffs in these actions further allege that CareFusion and the Company aided and abetted the individual defendants' breaches of their fiduciary duties. The plaintiffs seek, among other things, equitable relief to enjoin consummation of the merger, rescission of the merger and/or rescissory damages, and attorneys' fees and costs.

On December 30, 2014, the parties to the actions filed in the Delaware Court of Chancery (the Delaware Actions) entered into an agreement in principle to settle the Delaware Actions on the basis of additional disclosures made in a CareFusion Schedule 14A, filed with the SEC on January 5, 2015. The settlement terms are reflected in a Memorandum of Understanding (MOU). On December 31, 2014, plaintiffs' counsel notified the Delaware Court of Chancery of the settlement and MOU. The parties to the Delaware Actions have entered into a stipulation and agreement of compromise, settlement and release and presented the matter to the Delaware Court of Chancery for approval. The Delaware Court of Chancery has scheduled a hearing for September 17, 2015 to consider the matter. The actions filed in the Superior Court of California are not part of the proposed settlement and are still pending.

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

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

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

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

Table of Contents**Note 6 Segment Data**

Effective October 1, 2014, the Company's organizational structure was realigned to better complement its customer-focused solutions strategy and is based upon two principal business segments: BD Medical (Medical) and BD Life Sciences (Life Sciences). The composition of the Medical segment did not change from its historical composition as a result of this realignment. The Life Sciences segment consists of the former BD Diagnostics and BD Biosciences segments. Beginning on October 1, 2014, decisions about resource allocation and performance assessment are made separately for the Medical and Life Sciences segments. Prior-period information presented for comparative purposes has been revised to reflect the new two-segment organizational structure. CareFusion, which was acquired on March 17, 2015, operates as part of the Company's Medical segment. The Company's two principal business segments are strategic businesses that are managed separately because each one develops, manufactures and markets distinct products and services. The Company evaluates performance of its business segments and allocates resources to them primarily based upon operating income. Segment operating income represents revenues reduced by product costs and operating expenses.

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

| (Millions of dollars) | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---------------------------------|--------------------------------|------------|-------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues (A) | | | | |
| Medical | \$ 2,199 (B) | \$ 1,201 | \$ 4,377 (B) | \$ 3,381 |
| Life Sciences | 921 | 956 | 2,845 | 2,863 |
| Total Revenues | \$ 3,120 | \$ 2,157 | \$ 7,222 | \$ 6,244 |
| Segment Operating Income | | | | |
| Medical | \$ 483 (C) | \$ 356 (D) | \$ 1,115 (C) | \$ 968 (D) |
| Life Sciences | 197 | 221 | 610 | 653 (E) |
| Total Segment Operating Income | 680 | 578 | 1,725 | 1,621 |
| Unallocated Items (F) | (641) (G) | (155) | (1,176) (H) | (476) (I) |
| Income Before Income Taxes | \$ 39 | \$ 423 | \$ 549 | \$ 1,145 |

(A) Intersegment revenues are not material.

(B) Includes \$13 million in amortization of the acquisition-date write-down of CareFusion's deferred revenue balance that was recorded to reflect a fair value measurement as of the acquisition date.

(C) Includes an increase of \$130 million in non-cash amortization expense relating to the identifiable intangible assets acquired in the CareFusion transaction as well as depreciation expense relating to the fixed assets acquired in the transaction. Additional disclosures regarding the assets acquired in this acquisition are provided in Note 9. Also includes a \$5 million adjustment to decrease the liability for employee termination costs recorded relative to certain workforce reduction actions taken in the fourth quarter of fiscal year 2014.

- (D) 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.
- (E) Includes an \$11 million charge that resulted from the early termination of a European distributor agreement as well as a \$20 million charge primarily resulting from the discontinuance of an instrument product development program. The development-related charge is largely attributable to capitalized product software, but also includes a lesser amount attributable to fixed assets.
- (F) Includes primarily interest, net; foreign exchange; corporate expenses; share-based compensation expense; and acquisition-related costs.
- (G) Includes financing, transaction, integration and restructuring costs associated with the CareFusion. Also includes \$281 million in recognition of the fair value step-up adjustment recorded relative to CareFusion's inventory on the acquisition date. Additional disclosures regarding this acquisition are provided in Note 9.
- (H) Includes financing, transaction, integration and restructuring costs associated with the CareFusion acquisition, as well as the recognition of the inventory step-up adjustment, as noted above. Also includes a \$12 million charge for RTI's attorneys' fees associated with the unfavorable verdict returned in the antitrust and false advertising lawsuit RTI filed against BD. For further discussion, refer to Note 5 in the notes to the financial statements. Additionally includes an acquisition-date accounting gain of \$9 million on the previously held investment in CRISI Medical Systems, Inc. (CRISI), which the Company fully acquired during the second quarter of 2015.
- (I) 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.

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Revenues by geographic areas were as follows:

| (Millions of dollars) | Three Months Ended | | Nine Months Ended | |
|-----------------------|--------------------|----------|-------------------|----------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | | | | |
| United States | \$ 1,693 | \$ 871 | \$ 3,437 | \$ 2,546 |
| International | 1,427 | 1,286 | 3,785 | 3,698 |
| Total Revenues | \$ 3,120 | \$ 2,157 | \$ 7,222 | \$ 6,244 |

Note 7 Share-Based Compensation

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

The fair values of stock appreciation rights granted during the annual share-based grants in November of 2014 and 2013, respectively, were estimated on the date of grant using a lattice-based binomial valuation model based on the following assumptions:

| | 2015 | 2014 |
|-------------------------|-----------|-----------|
| Risk-free interest rate | 2.20% | 2.31% |
| Expected volatility | 19.00% | 19.00% |
| Expected dividend yield | 1.78% | 2.00% |
| Expected life | 7.6 years | 7.8 years |
| Fair value derived | \$ 24.82 | \$ 19.90 |

The fair value of share-based payments is recognized as compensation expense in net income. For the three months ended June 30, 2015 and 2014, compensation expense charged to income was \$46 million and \$24 million, respectively. For the nine months ended June 30, 2015 and 2014, compensation expense charged to income was \$138 million and \$91 million, respectively. Certain pre-acquisition equity awards of CareFusion were converted into BD restricted stock awards or BD stock options with accelerated vesting terms at the acquisition date. In addition, as an incentive to encourage post-acquisition employee retention, certain pre-acquisition equity awards of CareFusion were converted into either BD restricted stock awards or BD stock options, as applicable, as of the acquisition date, with substantially the same terms and conditions as were applicable under such CareFusion awards immediately prior to the acquisition date. Compensation expense for the three and nine months ended June 30, 2015 included \$20 million and \$37 million, respectively, associated with these replacement awards and was recorded in *Acquisition-related costs*.

The amount of unrecognized compensation expense for all non-vested share-based awards as of June 30, 2015 was approximately \$205 million, which is expected to be recognized over a weighted-average remaining life of approximately 2.0 years. Included in the unrecognized compensation expense is \$52 million associated with the CareFusion replacement awards described above. As of June 30, 2015, there were approximately 2 million of such replacement awards outstanding.

Table of Contents**Note 8 Benefit Plans**

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

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

| (Millions of dollars) | Pension Plans | | Other Postretirement Benefits | |
|--------------------------------------|---------------|-------|-------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 20 | \$ 18 | \$ 1 | \$ 1 |
| Interest cost | 22 | 23 | 2 | 2 |
| Expected return on plan assets | (32) | (32) | | |
| Amortization of prior service credit | (4) | (4) | (1) | (1) |
| Amortization of loss | 18 | 12 | 1 | |
| Net pension and postretirement cost | \$ 24 | \$ 18 | \$ 2 | \$ 2 |

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

| (Millions of dollars) | Pension Plans | | Other Postretirement Benefits | |
|--------------------------------------|---------------|-------|-------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 58 | \$ 53 | \$ 2 | \$ 3 |
| Interest cost | 66 | 69 | 6 | 7 |
| Expected return on plan assets | (93) | (94) | | |
| Amortization of prior service credit | (12) | (11) | (4) | (3) |
| Amortization of loss | 52 | 36 | 2 | 2 |
| Net pension and postretirement cost | \$ 70 | \$ 53 | \$ 7 | \$ 8 |

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 \$10 million and \$12 million for the three-month periods ended June 30, 2015 and 2014, respectively. Postemployment benefit costs were \$31 million and \$35 million for the nine-month periods ended June 30, 2015 and 2014, respectively. During the fourth quarter of fiscal year 2014, the Company recognized a \$36 million charge associated with unusually broad and significant workforce reduction actions that were not contemplated when the postemployment benefit plan obligation was measured on September 30, 2013. As of June 30, 2015, the Company's remaining liability relating to these workforce reductions, reflecting payments and a change in estimate which decreased the liability by \$5 million, was \$9 million. During the three and nine months ended June 30, 2015, the Company recognized charges of \$53 million and \$87 million, respectively, for employee termination costs

in connection with its acquisition of CareFusion. Additional disclosures regarding the CareFusion acquisition are provided in Note 9 and additional disclosures regarding the Company's restructuring activities that relate to this acquisition are provided in Note 10.

Table of Contents**Note 9 Acquisitions*****CareFusion Corporation******Overview of Transaction and Consideration Transferred***

On March 17, 2015, pursuant to a definitive agreement announced on October 5, 2014, the Company acquired a 100% interest in CareFusion, a global medical technology company with a comprehensive portfolio of products in the areas of medication management, infection prevention, operating room and procedural effectiveness, and respiratory care, to create a global leader in medication management and patient safety solutions. Under the terms of the transaction, CareFusion shareholders received \$49.00 in cash and 0.0777 of a share of the Company for each share of CareFusion. The value of the total consideration transferred for accounting purposes was based on the closing share price of the Company's stock on the last trading day prior to the closing date of the transaction. The fair value of consideration transferred was \$12.538 billion and consisted of the components below.

| (Millions of dollars) | |
|---|------------------|
| Cash consideration | \$ 10,085 |
| Noncash consideration-fair value of shares issued | 2,269 |
| Noncash consideration-fair value of stock options and other equity awards | 184 |
| Total consideration transferred | \$ 12,538 |

The acquisition date fair value of the Company's ordinary shares issued to CareFusion shareholders was calculated per the following (shares in millions):

| (Millions of dollars, except per share data) | |
|--|-----------------|
| Total CareFusion shares outstanding | 205.3 |
| Conversion factor | 0.0777 |
| Number of the Company's shares issued | 15.9 |
| Closing price of the Company's stock on March 16, 2015 | \$ 142.29 |
| Fair value of the Company's issued shares | \$ 2,269 |

Additional disclosures regarding the financing arrangements the Company entered into to fund the cash portion of the consideration transferred relative to this acquisition are provided in Note 14.

Allocation of Consideration Transferred to Net Assets Acquired

The Company is in the process of finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed as of the acquisition date. The preliminary allocations of the purchase price below as of June 30, 2015 provide a reasonable basis for estimating the fair values of assets acquired and liabilities assumed. These estimates will be adjusted upon the availability of further information regarding events or circumstances which existed

at the acquisition date and such adjustments may be significant.

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All of the assets acquired and liabilities assumed in this acquisition have been allocated to the Company's Medical segment.

| (Millions of dollars) | |
|---|----------------|
| Cash and equivalents | \$ 1,903 |
| Trade receivables, net | 486 |
| Inventories | 828 |
| Net investment in sales-type leases | 1,208 |
| Property, plant and equipment | 503 |
| Customer relationships | 3,360 |
| Developed technology | 2,510 |
| Trademarks | 380 |
| Other intangible assets | 185 |
| Other assets | 435 |
| Total identifiable assets acquired | 11,798 |
| Long-term debt | (2,181) |
| Deferred tax liabilities | (2,648) |
| Other liabilities | (764) |
| Total liabilities assumed | (5,592) |
| Net identifiable assets acquired | 6,205 |
| Goodwill | 6,333 |
| Net assets acquired | \$ 12,538 |

Net Investment in Sales-Type Leases Acquired

The fair value of the net investment in sales-type leases acquired was based upon a determination that the interest rate implicit in the lease contract portfolio represented a market interest rate as well as a determination that the residual value of the overall lease contract portfolio represents fair market value.

Identifiable Intangible Assets Acquired

The customer relationships asset acquired represented CareFusion's contractual relationships with its customers. The fair value of these customer relationships was determined based on the present value of projected cash flows utilizing an income approach with a risk-adjusted discount rate of 11%. The amortization period of the customer relationships was determined to be 15 years and this period corresponds with the weighted average of lives determined for the product technology which underlies the customer contracts.

The developed technology assets acquired represented CareFusion's developed technologies in the areas of medication management, infection prevention, operating room and procedural effectiveness, and respiratory care. The

technologies' fair values were determined based on the present value of projected cash flows utilizing an income approach with a risk-adjusted discount rate of 11%. The technologies will be amortized over a weighted-average amortization period of 12 years, which is the weighted average period over which the technologies are expected to generate substantial cash flows.

The trademark assets acquired represented the value of registered trademarks protecting the intellectual property underlying CareFusion's product technologies. The fair value of the trademarks represents the present value of projected cash flows, specifically the estimated cost savings from not being required to pay royalties for use of these intellectual properties, utilizing an income approach with a risk-adjusted discount rate of 11%. The trademarks will be amortized over a weighted-average amortization period of 22 years, which is the weighted average period over which the trademarks are expected to generate substantial cash flows.

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Other intangible assets acquired included \$110 million relating to acquired in-process research and development assets representing development projects relating to various product technologies. The probability of success associated with the projects, based upon the applicable technological and commercial risk, was assumed to be 80% to 85%, depending upon the project. The projects' fair values were determined based on the present value of projected cash flows utilizing an income approach with a risk-adjusted discount rate of 12%. The launches of the various projects are expected to occur from 2016 to 2022.

Other Liabilities Assumed

The balance of other liabilities assumed included a \$36 million liability recorded due to a recall relating to AVEA[®] ventilators, which is one of CareFusion's respiratory solutions products. The liability represents the costs expected to be incurred in connection with voluntary field corrections for a portion of the installed base of ventilators.

Goodwill

Goodwill typically results through expected synergies from combining operations of an acquiree and an acquirer, as well as from intangible assets that do not qualify for separate recognition. The goodwill recognized as a result of this acquisition includes, among other things, the value of combining the complementary product portfolios of the Company and CareFusion to offer integrated medication management solutions and smart devices. Synergies are expected from combining the two companies' products to meet unmet needs in hospitals, hospital pharmacies and alternate sites of care to increase efficiencies, reduce medication administration errors and improve patient and healthcare worker safety. Synergies are also expected to result from solid positions in patient safety to maximize outcomes in infection prevention, respiratory care, and acute care procedural effectiveness. No portion of goodwill from this acquisition is currently expected to be deductible for tax purposes.

Financing, Transaction, Integration and Restructuring Costs

In connection with the acquisition, the Company incurred financing, transaction, integration and restructuring costs throughout the first nine months of fiscal year 2015. The financing costs totaled \$5 million and \$107 million for the three and nine months ended June 30, 2015, respectively, and were recorded as *Interest expense*. Transaction costs of \$9 million and \$52 million for the three and nine months ended June 30, 2015, respectively, were recorded as *Acquisition-related costs*, and consisted of legal, advisory and other costs.

Acquisition-related costs also included \$24 million and \$75 million of integration and restructuring costs, respectively, in the three months ended June 30, 2015 and \$55 million and \$136 million of integration and restructuring costs, respectively, for nine months ended June 30, 2015. See Note 10 for further discussion of restructuring activity relating to this acquisition. The Company is in the process of executing its integration plans to combine businesses, sales organizations, systems and locations and, as a result, the Company is expected to continue to incur fairly substantial integration costs through to fiscal year 2016.

Unaudited Pro Forma Information

The acquisition was accounted for under the acquisition method of accounting for business combinations. The operating activities from the acquisition date through March 31, 2015 were not material to the Company's consolidated results of operations. As such, CareFusion's operating results were included in the Company's consolidated results of operations beginning on April 1, 2015. *Revenues* and *Operating Income* for the three and nine-month periods ending June 30, 2015 include revenues and operating loss attributable to CareFusion of \$1 billion and \$261 million, respectively.

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The following table provides the pro forma results for the three and nine-month periods ended June 30, 2015 and 2014 as if CareFusion had been acquired as of October 1, 2013.

| (Millions of dollars, except per share data) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|----------|-------------------|----------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$ 3,133 | \$ 3,279 | \$ 9,301 | \$ 9,256 |
| Net Income | \$ 326 | \$ 361 | \$ 966 | \$ 919 |
| Diluted Earnings per Share | \$ 1.52 | \$ 1.69 | \$ 4.49 | \$ 4.28 |

The pro forma results above reflect the following adjustments, which were adjusted for the applicable tax impact to derive the net income amounts above:

Additional amortization expense related to the fair value of intangible assets acquired;

Additional depreciation expense related to the fair value of property, plant and equipment acquired;

Additional interest expense and financing costs associated with the Company's financing arrangements relating to this acquisition, as well as the adjustment to interest expense relating to the fair value of long-term debt assumed;

Elimination of one-time financing fees, transaction, integration and restructuring costs incurred relative to this acquisition;

Exclusion of the income statement effects of the fair value adjustments to inventory and deferred revenue obligations acquired as such adjustments are not recurring in nature.

The pro forma results do not include any anticipated cost savings or other effects of the planned integration of CareFusion. Accordingly, the pro forma results above are not necessarily indicative of the results that would have been if the acquisition had occurred on the dates indicated, nor are the pro forma results indicative of results which may occur in the future.

Other Transactions

During the first quarter of fiscal year 2015, the Company acquired GenCell Biosystems (GenCell), a privately-held Irish biotech company that has developed proprietary technologies that address key biological analysis protocols including library preparation of Next Generation Sequencing and genotyping applications. During the second quarter of fiscal year 2015, the Company acquired CRISI, a San Diego-based medical technology company dedicated to

improving the safety and delivery of IV injectable medications. During the third quarter of fiscal year 2015, the Company acquired the ARX group of companies, a leading pharmacy automation distributor in Western Europe.

Table of Contents**Note 10 Business Restructuring Charges**

In connection with the CareFusion acquisition, the Company incurred restructuring costs throughout fiscal year 2015, which were recorded as *Acquisition-related costs*. Restructuring accrual activity for the nine months ended June 30, 2015 was as follows:

| (Millions of dollars) | Total | Employee Termination | Share-based Compensation | Other |
|-------------------------------|-------|----------------------|--------------------------|-------|
| Balance at September 30, 2014 | \$ | \$ | \$ | \$ |
| Assumed liability | 19 | 19 | | |
| Charged to expense | 136 | 87 | 37 | 12 |
| Cash payments | (51) | (48) | | (3) |
| Non-cash settlements | (37) | | (37) | |
| Other adjustments | (18) | (9) | | (9) |
| Balance at June 30, 2015 | \$ 49 | \$ 49 | \$ | \$ |

Additional disclosures regarding these restructuring activities and the related costs are provided in Notes 7, 8 and 9.

Note 11 Intangible Assets

Intangible assets consisted of:

| (Millions of dollars) | June 30, 2015 | | September 30, 2014 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| <i>Amortized intangible assets</i> | | | | |
| Customer relationships | \$ 3,375 | \$ 62 | \$ 10 | 2 |
| Developed technology | 3,412 | 449 | 893 | 379 |
| Product rights | 130 | 34 | 148 | 31 |
| Trademarks | 405 | 22 | 27 | 19 |
| Patents and other | 331 | 189 | 232 | 163 |
| Amortized intangible assets | \$ 7,653 | \$ 756 | \$ 1,308 | \$ 594 |
| <i>Unamortized intangible assets</i> | | | | |
| Acquired in-process research and development | \$ 226 | | \$ 44 | |
| Trademarks | 2 | | 2 | |
| Unamortized intangible assets | \$ 228 | | \$ 46 | |

Additional information regarding the increases to the intangible asset classes detailed above as a result of the CareFusion acquisition is provided in Note 9. The increase to developed technology assets additionally included \$49 million of assets recognized upon the Company's acquisition of CRISI in the second quarter of fiscal year 2015. The increase in acquired in-process research and development project assets additionally included \$81 million of assets recognized upon the Company's acquisition of GenCell in the first quarter of fiscal year 2015. Intangible amortization expense for the three months ended June 30, 2015 and 2014 was \$151 million and \$21 million, respectively. Intangible amortization expense for the nine months ended June 30, 2015 and 2014 was \$192 million and \$63 million, respectively.

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The following is a reconciliation of goodwill by business segment:

| (Millions of dollars) | Medical | Life Sciences | Total |
|-----------------------------------|-----------|---------------|----------|
| Goodwill as of September 30, 2014 | \$ 482 | \$ 608 | \$ 1,090 |
| Acquisitions | 6,585 (A) | 64 (B) | 6,649 |
| Currency translation/other (C) | (263) | (12) | (275) |
| Goodwill as of June 30, 2015 | \$ 6,804 | \$ 659 | \$ 7,464 |

(A) Primarily represents goodwill recognized upon the Company's acquisition of CareFusion in the second quarter of fiscal year 2015. Additional disclosures regarding the CareFusion acquisition are provided in Note 9. Also includes \$22 million of goodwill associated with individually immaterial acquisitions, including the CRISI acquisition in the second quarter of fiscal year 2015.

(B) Represents goodwill recognized upon the Company's acquisition of GenCell in the first quarter of fiscal year 2015.

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

Note 12 Derivative Instruments and Hedging Activities

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

Foreign Currency Risks and Related Strategies

The Company has foreign currency exposures throughout Europe, Asia Pacific, Canada, Japan and Latin America. 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), net*.

The total notional amounts of the Company's outstanding foreign exchange contracts as of June 30, 2015 and September 30, 2014 were \$1.5 billion and \$1.8 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) are offset by amounts recorded

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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. 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, 2015 or as of September 30, 2014.

The total notional amount of the Company's outstanding interest rate swaps designated as fair value hedges was \$375 million at June 30, 2015 and September 30, 2014. The outstanding swaps represent fixed-to-floating interest rate swap agreements the Company entered into, in March and September 2014, to convert the interest payments on \$375 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 (loss) gain recorded on these fair value hedges, and the offsetting (gain) loss recorded on the underlying debt instruments, was \$(7) million and \$9 million for the three and nine months ended June 30, 2015, respectively.

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. In April 2015, the Company entered into cash-settled forward contracts to hedge approximately 13% of its expected global resin purchase volumes throughout fiscal years 2015 and 2016. These contracts were designated as cash flow hedges and the total notional amount of these contracts at June 30, 2015 was 61 million pounds (\$31 million). The Company had no outstanding commodity derivative contracts designated as cash flow hedges as of September 30, 2014.

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, 2015 | September 30, 2014 |
|---|----------------------|-------------------------------|
| Asset derivatives-designated for hedge accounting | | |
| Interest rate swaps | \$ 9 | \$ 3 |
| Asset derivatives-undesignated for hedge accounting | | |
| Forward exchange contracts | 8 | 20 |
| Total asset derivatives (A) | \$ 17 | \$ 23 |
| Liability derivatives-designated for hedge accounting | | |
| Commodity forward contracts | 6 | |

| | | | | |
|---|--|-------|----|----|
| Liability derivatives-undesignated for hedge accounting | | | | |
| Forward exchange contracts | | 13 | | 14 |
| Total liability derivatives (B) | | \$ 19 | \$ | 14 |

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

(B) All liability derivatives are included in *Payables and accrued expenses*.

Table of Contents**Effects on Consolidated Statements of Income***Cash flow hedges*

After-tax losses of \$4 million recognized in *Other comprehensive income (loss)* for the three months ended June 30, 2015 were attributable to the forward contracts entered into in April 2015 to hedge the risk associated with resin purchases. After-tax losses of \$12 million recognized in *Other comprehensive income (loss)* for the nine months ended June 30, 2015 included the \$4 million loss relating to the commodity forward contracts as well as \$8 million attributable to interest rate swaps with a total notional amount of \$2.3 billion that were entered into during the first quarter of fiscal year 2015 to partially hedge interest rate risk associated with the anticipated issuance of senior unsecured notes in connection with the Company's acquisition of CareFusion. These swaps were designated as hedges of the variability in interest payments attributable to changes in the benchmark interest rate during the period preceding the Company's issuance of the notes. The swaps were terminated at losses, concurrent with the pricing of notes issued in December 2014, and the realized losses will be amortized over the lives of the notes with an offset to *Interest expense*. There were no amounts recognized in other comprehensive income relating to cash flow hedges for the three and nine months ended June 30, 2014. Additional disclosures regarding amounts recognized in the consolidated statements of income for the three and nine months ended June 30, 2015 and 2014 relating to cash flow hedges are provided in Note 3. Additional disclosures regarding the acquisition of CareFusion are provided in Note 9 and additional disclosures regarding the Company's debt issuance during the first quarter of fiscal year 2015 are provided in Note 14.

The Company's designated derivative instruments are highly effective. As such, there are no gains or losses, related to hedge ineffectiveness or amounts excluded from hedge effectiveness testing, recognized immediately in income relative to derivative contracts outstanding in the periods presented.

Undesignated hedges

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

| Derivatives Not Designated as Hedging Instruments (Millions of dollars) | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives | | | |
|--|--|---|---------|-------------------|--------|
| | | Three Months Ended | | Nine Months Ended | |
| | | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Forward exchange contracts (A) | Other income (expense), net | \$ 50 | \$ (10) | \$ (46) | \$ (5) |

(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), net*.

Table of Contents**Note 13 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, 2015 and September 30, 2014 are classified in accordance with the fair value hierarchy in the following tables:

| (Millions of dollars) | Basis of Fair Value Measurement | | | |
|--|--|---|--|---|
| | Quoted Prices in Active Markets for Identical Assets June 30, 2015 Total | Significant Observable Inputs (Level 2) Assets (Level 2) Inputs (Level 2) | Significant Other Observable Inputs (Level 2) Inputs (Level 2) | Significant Unobservable Inputs (Level 3) Inputs (Level 3) |
| Assets | | | | |
| Institutional money market investments | \$ 217 | \$ 217 | \$ | \$ |
| Interest rate swaps | 9 | | 9 | |
| Forward exchange contracts | 8 | | 8 | |
| Total Assets | \$ 234 | \$ 217 | \$ 17 | \$ |
| Liabilities | | | | |
| Forward exchange contracts | \$ 13 | \$ | \$ 13 | \$ |
| Commodity forward contracts | 6 | | 6 | |
| Contingent consideration liabilities | 50 | | | 50 |
| Total Liabilities | \$ 69 | \$ | \$ 19 | \$ 50 |

| (Millions of dollars) | Basis of Fair Value Measurement | | | |
|--|--|---|--|---|
| | Quoted Prices in Active Markets for Identical Assets September 30, 2014 Total | Significant Observable Inputs (Level 2) Assets (Level 2) Inputs (Level 2) | Significant Other Observable Inputs (Level 2) Inputs (Level 2) | Significant Unobservable Inputs (Level 3) Inputs (Level 3) |
| Assets | | | | |
| Institutional money market investments | \$ 1,040 | \$ 1,040 | \$ | \$ |
| Interest rate swaps | 3 | | 3 | |
| Forward exchange contracts | 20 | | 20 | |
| Total Assets | \$ 1,063 | \$ 1,040 | \$ 23 | \$ |
| Liabilities | | | | |
| Forward exchange contracts | \$ 14 | \$ | \$ 14 | \$ |
| Contingent consideration liabilities | 14 | | | 14 |
| Total Liabilities | \$ 29 | \$ | \$ 14 | \$ 14 |

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 \$1.342 billion and \$821 million at June 30, 2015 and September 30, 2014, 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.

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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 \$11.509 billion and \$4.1 billion at June 30, 2015 and September 30, 2014, respectively. The fair value of \$750 million of floating rates due on June 15, 2016, that were reclassified from long-term debt to short-term debt during the third quarter of fiscal year 2015, was \$749 million at June 30, 2015.

The contingent consideration liabilities were recognized as part of the consideration transferred by the Company for certain acquisitions. 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 increase to the total contingent consideration liability in the nine months ended June 30, 2015 was mostly attributable to a contingent consideration liability of \$36 million recognized in connection with the Company's acquisition of GenCell in the first quarter of fiscal year 2015.

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, 2015 and 2014.

Note 14 Debt

As disclosed in Note 9, the Company acquired CareFusion on March 17, 2015. As part of its plan for financing the cash requirements relative to this acquisition, the Company issued senior unsecured notes in December 2014 with a total aggregate principal amount of \$6.2 billion. Details regarding this debt issuance were as follows:

| Interest Rate and Maturity | Aggregate Principal Amount (Millions of dollars) |
|--|---|
| Floating Rate Notes due June 15, 2016 | \$ 750 |
| 1.800% Notes due December 15, 2017 | 1,250 |
| 2.675% Notes due December 15, 2019 | 1,250 |
| 3.734% Notes due December 15, 2024 | 1,750 |
| 4.685% Notes due December 15, 2044 | 1,200 |
| Total long-term debt issued in connection with CareFusion acquisition | \$ 6,200 |

Also in December 2014, the Company entered into a 364-day term loan agreement that provides for a \$1 billion term loan facility, the proceeds under which could only be used to pay the cash consideration due pursuant to the CareFusion acquisition agreement, as well as to pay financing fees, other related fees and other expenses associated with the CareFusion acquisition. In April 2015, the Company made a \$650 million principal payment to reduce the

outstanding balance of this term loan facility. Borrowings of \$350 million were outstanding under this term loan facility at June 30, 2015. In July 2015, the Company made a \$250 million payment to further reduce the outstanding balance of this term loan facility.

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Concurrent with the execution of the agreement to acquire CareFusion, the Company secured \$9.1 billion of fully committed bridge financing to ensure its ability to fund the cash portion of consideration due under the agreement, as well as to pay fees and expenses related to the acquisition. This bridge credit agreement was terminated upon the closing of the CareFusion acquisition in March 2015.

In January 2015, in anticipation of the closing of the CareFusion acquisition, the Company entered into a commercial paper program under which it may issue up to \$1 billion in short-term, unsecured commercial paper notes. A former commercial paper program which had been in place to meet short-term financing needs was terminated in February 2015 and the outstanding borrowings of \$200 million under the former program were rolled into the new commercial paper program. Borrowings of \$700 million were outstanding under the current commercial paper program at June 30, 2015, of which \$500 million was used to finance the Company's acquisition of CareFusion and to pay related fees and expenses.

Upon the closing of the CareFusion acquisition in March 2015, the Company assumed the indebtedness of CareFusion, including senior unsecured notes with an aggregate principal amount of \$2 billion, which was recorded on the acquisition date at a fair value of \$2.174 billion. In March 2015, subsequent to closing the acquisition of CareFusion, the Company commenced offers to exchange all validly tendered and accepted notes issued by CareFusion for notes to be issued by the Company. This offer expired in April 2015 and the aggregate principal amounts below of each series of the CareFusion notes were validly tendered and exchanged for notes issued by the Company.

| Interest Rate and Maturity | Aggregate Principal Amount (Millions of dollars) | Percentage of Total Outstanding Principal Amount of such Series of Existing Notes |
|---|---|--|
| 1.450% senior notes due May 15, 2017 | \$ 293 | 97.64% |
| 6.375% senior notes due August 1, 2019 | 665 | 95.00% |
| 3.300% senior notes due March 1, 2023 | 294 | 97.95% |
| 3.875% senior notes due May 15, 2024 | 397 | 99.37% |
| 4.875% senior notes due May 15, 2044 | 300 | 99.96% |
| Total senior notes issued under exchange transaction | \$ 1,949 | |

This exchange transaction was accounted for as a modification of the original debt instruments. As such, no gain or loss was recognized in the Company's consolidated results of operations as a result of this exchange transaction. Following the exchange of the notes, the aggregate principal amount of CareFusion notes that remain outstanding across the five series is \$51 million.

Note 15 Financing Receivables

As disclosed in Note 9, the net assets acquired in the Company's acquisition of CareFusion included a \$1.208 billion net investment in sales-type leases which primarily arose from the leasing of dispensing equipment. The methodology

for determining the allowance for credit losses for these financing receivables is based on the collective population and is not stratified by class or portfolio segment. Allowances for credit losses on the entire portfolio are recorded based on historical experience loss rates and the potential impact of anticipated changes in business practices, market dynamics, and economic conditions. The net investment in sales-type

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leases is predominantly evaluated for impairment on a collective basis; however, some immaterial allowances for individual balances are recorded based on the evaluation of customers' specific circumstances. No interest is accrued on past due financing receivables, which are generally considered past due 30 days after the billing date. Amounts are written off against the allowance for credit losses when determined to be uncollectible. The allowance for credit losses on these financing receivables was immaterial at June 30, 2015.

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, the pharmaceutical industry and the general public. Effective October 1, 2014, BD's organizational structure was realigned to better complement its customer-focused solutions strategy and is now based upon two worldwide business segments, BD Medical (Medical) and BD Life Sciences (Life Sciences). The composition of the Medical segment was not changed by this realignment and the Life Sciences segment consists of the former BD Diagnostics and BD Biosciences segments. The commentary provided further below reflects this two-segment organizational structure and additional discussion regarding this organization realignment is provided in Note 6 in the Notes to Condensed Consolidated Financial Statements. CareFusion Corporation (CareFusion), which was acquired on March 17, 2015, operates as part of our Medical segment, as further discussed below.

BD's products are manufactured and sold worldwide. 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. 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. We are particularly focused on certain countries whose economic and healthcare sectors are growing rapidly, in particular: China, India, Brazil and Turkey.

Acquisition of CareFusion

On March 17, 2015, pursuant to a definitive agreement announced on October 5, 2014, BD acquired a 100% interest in CareFusion for total consideration of approximately \$12.5 billion to create a global leader in medication management and patient safety solutions. The operating activities of CareFusion from the acquisition date through March 31, 2015 were not material to BD's consolidated results of operations and as such, CareFusion's operating results were included in BD's consolidated results of operations beginning on April 1, 2015. CareFusion operates as part of our Medical segment, which now includes the following organizational units, in addition to the Diabetes Care and Pharmaceutical Systems units: Medication and Procedural Solutions, which encompasses BD's former Medical Surgical Systems unit; Medication Management Solutions; and Respiratory Solutions. Additional discussion regarding this acquisition is provided in Note 9 in the Notes to Condensed Consolidated Financial Statements and disclosures regarding BD's financing arrangements relating to this transaction are provided in Note 14 in the Notes to Condensed Consolidated Financial Statements.

Overview of Financial Results and Financial Condition

Third quarter revenues increased 44.6% to \$3.120 billion from the prior year's period. This increase reflected a favorable impact of 50.3% due to the inclusion of CareFusion's sales in the current quarter's results as well as

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volume increases of approximately 4.7%, partially offset by unfavorable foreign currency translation of approximately 10.4%. Pricing did not materially impact revenues for the quarter. The current-year period's total revenues also reflected solid growth in BD's legacy units' sales. Third quarter Medical segment revenue growth reflected strong growth in our Medication and Procedural Solutions unit's international sales of safety-engineered products, as well as the favorable timing of orders in the Pharmaceutical Systems unit. Medical segment revenue growth in the quarter was unfavorably impacted by lower U.S. sales growth in the Diabetes Care unit, as further discussed below, partially offset by solid sales in international markets. Revenue growth in the Life Sciences segment was primarily driven by strong sales in the Preanalytical Systems and Biosciences units. Growth in the Preanalytical Systems unit's sales was driven by sales of safety-engineered products and sales in emerging markets. The Biosciences unit's revenues reflected strong growth in sales of research instruments and reagents as well as the favorable timing of orders for Advanced Bioprocessing products in the United States. Third quarter sales in the United States of safety-engineered devices of \$427 million increased 40.4% compared with the prior year's quarter, primarily reflecting the inclusion of CareFusion's sales of safety-engineered products in the current quarter's results. Third quarter international sales of safety-engineered devices of \$304 million grew 14.7% over the prior year's period, including an estimated 18.5% unfavorable impact due to foreign currency translation. International safety-engineered device revenue growth reflected the inclusion of CareFusion's sales of safety-engineered products in the current period's results, as well as good performance in Western Europe.

We continue to invest in research and development, 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, including the integration of CareFusion. While the economic environment for the healthcare industry has stabilized, pricing pressures continue for some of our products. Healthcare utilization has stabilized and slightly improved in the United States; however, any destabilization in the future 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 primarily on government funding for healthcare systems.

Our financial position remains strong, with cash flows from operating activities totaling \$1.052 billion in the first nine months of fiscal year 2015. At June 30, 2015, we had \$1.6 billion in cash and equivalents and short-term investments. We continued to return value to our shareholders in the form of dividends. During the first nine months of fiscal year 2015, we paid cash dividends of \$358 million. No shares were repurchased during the first nine months of fiscal year 2015 and no share repurchases are planned for the remainder of fiscal year 2015 as our share repurchase program has been suspended in connection with the CareFusion acquisition.

Each reporting period, we face currency exposure 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. The ongoing strengthening of the U.S. dollar resulted in an unfavorable foreign currency translation impact to our revenue growth during the quarter, as discussed above. We evaluate our results of operations on both a reported and a foreign currency-neutral basis, which excludes the impact of fluctuations in foreign currency exchange rates. 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 12 in the Notes to Condensed Consolidated Financial Statements.

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Reflected in the financial results for the three and nine-month periods of fiscal years 2015 and 2014 are the following specified items:

| (Millions of dollars) | Three months ended June 30, Nine months ended June 30, | | | |
|--|--|-------------------|--------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Financing costs ^(A) | \$ 5 | \$ | \$ 107 | \$ |
| Transaction costs ^(A) | 9 | | 52 | |
| Integration costs ^(A) | 24 | | 55 | |
| Restructuring costs ^(A) | 75 | | 136 | |
| Purchase accounting adjustments | 439 ^(B) | 19 ^(D) | 466 ^(C) | 56 ^(D) |
| Employee termination cost-related amounts ^(E) | (5) | | (5) | |
| Research and development charges ^(F) | | 9 | | 29 |
| Litigation-related charge ^(G) | | | 12 | |
| Other specified items, net ^(H) | | | | 2 |
| Total specified items | 548 | 28 | 824 | 88 |
| Tax impact of specified items | 169 | 10 | 277 | 29 |
| After-tax impact of specified items | \$ 379 | \$ 19 | \$ 547 | \$ 59 |

- (A) Represents financing, transaction, integration and restructuring costs associated with the CareFusion acquisition. The financing costs were recorded in *Interest expense*. The transaction, integration and restructuring costs were recorded in *Acquisition-related costs*. For further discussion, refer to Note 9 in the Notes to Condensed Consolidated Financial Statements.
- (B) Represents non-cash amortization expense of \$148 million pre-tax associated with acquisition related identifiable intangible assets, including CareFusion, as well as the net amortization of purchase accounting adjustments of \$291 million pre-tax to reflect CareFusion's inventory, fixed assets, debt and deferred revenue balances at fair value as of the acquisition date. BD's amortization expense is primarily recorded in *Costs of products sold*.
- (C) Represents non-cash amortization expense of \$184 million pre-tax associated with acquisition related identifiable intangible assets, including CareFusion, as well as the net amortization of purchase accounting adjustments of \$291 million pre-tax to reflect CareFusion's inventory, fixed assets, debt and deferred revenue balances at fair value as of the acquisition date. The adjustment also reflected a pre-tax acquisition-date accounting gain of \$9 million on the previously held investment in CRISI Medical Systems, Inc., a company BD fully acquired in March 2015.
- (D) Includes the non-cash expense associated with the amortization of acquisition-related identifiable intangible assets.
- (E) Represents an adjustment to decrease the liability for employee termination costs recorded relative to workforce reduction actions taken in the fourth quarter of fiscal year 2014. For further discussion, refer to Note 8 in the Notes to Condensed Consolidated Financial Statements.
- (F) Includes a \$9 million charge associated with the decision to terminate a research and development program in the Medical segment; the charge relates to program asset write-offs and obligations. The amount for the nine months ended June 30, 2014 additionally includes a \$20 million charge recorded by our Life Sciences segment for asset

write-offs primarily resulting from the discontinuance of an instrument product development program. The asset write-offs were largely attributable to capitalized product software, but also included a lesser amount attributable to fixed assets.

- (G) Represents a charge for RTI's attorneys' fees, recorded in *Selling and administrative expense*, associated with the unfavorable verdict returned in the antitrust and false advertising lawsuit RTI filed against BD. For further discussion, refer to Note 5 in the Notes to Condensed Consolidated Financial Statements.
- (H) Includes an \$11 million charge recorded by our Life Sciences segment in *Selling and administrative expense* for contract termination costs that resulted from the early termination of a European distributor arrangement. Also includes a gain of \$8 million in *Other income (expense), net*, resulting from the sale of a company in which we held a small equity ownership interest.

Table of Contents**Results of Operations*****Revenues***

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

Medical Segment

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

| (Millions of dollars) | Three months ended June 30, | | | |
|--|-----------------------------|-----------------|--------------|---------------------|
| | 2015 | 2014 | Total Change | Estimated FX Impact |
| Medication and Procedural Solutions | \$ 848 | \$ 590 | 43.8% | (8.4)% |
| Medication Management Solutions | 554 | | NM | NM |
| Diabetes Care | 245 | 258 | (5.2)% | (8.6)% |
| Pharmaceutical Systems | 333 | 353 | (5.5)% | (13.5)% |
| Respiratory Solutions | 232 | | NM | NM |
| Deferred revenue adjustment ^(A) | (13) | | NM | NM |
| Total Medical Revenues | \$ 2,199 | \$ 1,201 | 83.1% | (12.4)% |

(A) Represents the amortization of the acquisition-date write-down of CareFusion's deferred revenue balance to reflect a fair value measurement as of the acquisition date. The write-down primarily related to software maintenance contracts in the United States. Revenues for these contracts is typically deferred and recognized over the term of the contracts.

Medical segment revenue growth in the current quarter largely reflected the inclusion of CareFusion's sales in the current period's results beginning on April 1, 2015. Segment revenue growth additionally reflected strong growth in international sales of flush and safety-engineered products in our Medication and Procedural Solutions unit, which includes our former Medical Surgical Systems unit. Revenue growth for the Diabetes Care unit was unfavorably impacted by lower sales growth in the United States due primarily to the slowing of the conversion from syringes to pen needles and the flattening of price trends. This unfavorable impact to the Diabetes Care unit's revenues in the quarter was partially offset by solid sales in international markets. The Pharmaceutical Systems unit's revenue growth reflected a favorable timing of orders during the quarter. Global sales of safety-engineered products were \$456 million, as compared with \$284 million in the prior year's quarter, reflecting the inclusion of CareFusion's sales in the current quarter's results. Global sales of safety-engineered products in the quarter also included an estimated \$27 million unfavorable impact due to foreign currency translation. Total Medical revenues for the nine-month period ended June 30, 2015 increased by 29.5% from the prior-year nine-month period, reflecting the inclusion of CareFusion's current quarter's sales in the current year-to-date period's results and an estimated 7.5% unfavorable impact from foreign currency translation. For the nine-month period ended June 30, 2015, global sales of safety-engineered products were \$1.033 billion, compared with \$832 million in the prior year's period, reflecting the inclusion of CareFusion's safety-engineered sales in the current quarter's results. Global sales of safety-engineered

products in the nine-month period also included an estimated \$47 million unfavorable impact due to foreign currency translation.

Medical operating income for the third quarter was \$483 million, or 22.0% of Medical revenues, compared with \$356 million, or 29.7% of segment revenues, in the prior year's quarter. Gross profit margin was lower in the current quarter as compared with the third quarter of 2014 due to the amortization of intangible assets acquired in the CareFusion transaction and the amortization of the acquisition-date write-down of CareFusion's deferred revenue balance, as previously discussed. These unfavorable impacts on gross margin were partially offset by

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lower manufacturing costs resulting from continuous improvement projects. Aggregate selling and administrative expense for the third quarter primarily reflected the inclusion of CareFusion's spending in the current quarter's results. Medical segment selling and administrative expense for the third quarter also included the depreciation of the fair value step-up adjustment recorded upon the acquisition date relative to CareFusion's fixed assets. Research and development expenses for the quarter increased \$38 million, or 70% above the prior year's period. This increase is primarily attributable to the inclusion of CareFusion's costs in the current period's results, partially offset by a favorable comparison to the prior year period which included a \$9 million charge associated with the decision to terminate a research and development program, as previously discussed. Segment operating income for the nine-month period was \$1.115 billion, or 25.5% of Medical revenues, compared with \$968 million, or 28.6%, in the prior year's period.

Life Sciences Segment

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

| (Millions of dollars) | Three months ended June 30, | | | |
|------------------------------|-----------------------------|--------|--------------|---------------------|
| | 2015 | 2014 | Total Change | Estimated FX Impact |
| Preanalytical Systems | \$ 349 | \$ 364 | (4.0)% | (8.1)% |
| Diagnostic Systems | 302 | 315 | (4.2)% | (7.9)% |
| Biosciences | 269 | 277 | (2.7)% | (7.8)% |
| Total Life Sciences Revenues | \$ 921 | \$ 956 | (3.7)% | (7.9)% |

Life Sciences segment revenue growth for the quarter was primarily driven by growth in the Preanalytical and Biosciences units. Revenue growth in the Diagnostic Systems unit reflected solid growth in sales of core microbiology platforms and double-digit growth in sales of the BD Max molecular platform, partially offset by the impact of guidelines providing for increased Pap smear testing intervals and continued pressure on sales of the BD ProbeTec ET and BD Viper platforms. The Preanalytical Systems unit's revenue growth was driven by sales of safety-engineered products and sales in emerging markets. Global sales of safety-engineered products in the Preanalytical Systems unit totaled \$275 million, compared with \$285 million in the prior year's quarter, and included an estimated \$23 million unfavorable impact due to foreign currency translation. The Biosciences unit's revenue growth reflected strong growth in sales of research instruments and reagents as well as the favorable timing of orders for Advanced Bioprocessing products in the United States. Total Life Sciences revenues for the nine-month period ended June 30, 2015 decreased by 0.6% from the prior-year nine-month period, including an estimated 5.7% unfavorable impact from foreign currency translation. For the nine-month period ended June 30, 2015, global sales of safety-engineered products in the Preanalytical Systems unit were \$822 million, compared with \$825 million in the prior year's period, and included an estimated \$46 million unfavorable impact due to foreign currency translation.

Life Sciences operating income for the third quarter was \$197 million, or 21.4% of Life Sciences revenues, compared with \$221 million, or 23.1% of segment revenues, in the prior year's quarter. Gross profit margin was lower in the third quarter of fiscal year 2015 compared with the third quarter of 2014 primarily due to unfavorable foreign currency translation, as well as other various immaterial items. Selling and administrative expense as a percentage of Life Sciences revenues in the third quarter of 2015 was slightly lower compared with the third quarter of 2014, due to various immaterial items. An increase in research and development expense in the third quarter of 2015 of \$5 million,

or 7.5%, primarily reflected the timing of project spending as well as increased investment in new products and platforms. Segment operating income for the nine-month period was \$610 million, or 21.4% of Life Sciences revenues, compared with \$653 million, or 22.8%, in the prior year's period.

Table of Contents**Geographic Revenues**

BD's worldwide third quarter revenues by geography were as follows:

| (Millions of dollars) | Three months ended June 30, | | | |
|-----------------------|-----------------------------|-----------------|--------------|---------------------|
| | 2015 | 2014 | Total Change | Estimated FX Impact |
| United States | \$ 1,693 | \$ 871 | 94.4% | |
| International | 1,427 | 1,286 | 10.9% | (17.5)% |
| Total Revenues | \$ 3,120 | \$ 2,157 | 44.6% | (10.4)% |

U.S. revenue growth in our Medical segment reflected the inclusion of CareFusion's sales in the current year's quarter. U.S. Medical segment growth was unfavorably impacted by weaker U.S. sales in the Diabetes Care unit and an unfavorable comparison to the prior-year period for the Pharmaceutical Systems unit due to relatively strong sales in the prior-year period. U.S. Life Sciences revenue growth reflected strong growth in sales of research instruments and reagents, as well as the favorable timing of orders for Advanced Bioprocessing products in the Biosciences unit. U.S. Life Sciences revenue growth also reflected continued growth in the Diagnostic Systems unit's sales of its core microbiology platforms and its BD Max™ molecular platform, partially offset by the impact of increased testing intervals, as previously discussed, and continued pressure on sales of the unit's BD Probe Tec™ ET and BD Viper™ platforms in the United States.

International revenue growth in the Medical segment reflected the inclusion of CareFusion's sales in the current year's quarter. International Medical growth also reflected strong performance in the Pharmaceutical Systems unit's international sales as well as in the Medication and Procedural Solutions unit's sales of its safety engineered products. The Diabetes Care unit's revenues reflected solid sales in international markets. International revenue growth in the Life Sciences segment reflected strong growth in the Preanalytical Systems and Diagnostic Systems units. Emerging market revenues for the third quarter of \$539 million represented an increase of 1.6% over the prior year's quarter, including a 9.4% unfavorable impact due to foreign currency translation. Revenue growth in emerging markets for the third quarter was driven by sales in Latin America and China.

Gross Profit Margin and Operating Expenses

A summary of gross profit margin, selling and administrative expense and research and development expense for the three and nine months ended June 30, 2015 and 2014 is as follows:

| (Millions of dollars) | Three months ended June 30, | | Nine months ended June 30, | |
|------------------------------------|-----------------------------|--------|----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Gross profit margin % | 38.1% | 51.5% | 45.4% | 51.2% |
| Selling and administrative expense | \$ 764 | \$ 528 | \$ 1,820 | \$ 1,584 |

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| | | | | |
|----------------------------------|--------|--------|--------|--------|
| <i>% of revenues</i> | 24.5% | 24.5% | 25.2% | 25.4% |
| Research and development expense | \$ 178 | \$ 137 | \$ 437 | \$ 410 |
| <i>% of revenues</i> | 5.7% | 6.4% | 6.0% | 6.6% |

Table of Contents**Gross profit margin**

The decrease in gross profit margin for the third quarter of fiscal year 2015 compared with the prior-year period in 2014 primarily reflected an unfavorable impact of 1,230 basis points due to the recognition of the fair value step-up adjustment recorded relative to CareFusion's inventory on the acquisition date as well as the amortization and depreciation of intangible and fixed assets, respectively, that were acquired in the CareFusion transaction. For further discussion regarding the inventory and intangible assets acquired in the CareFusion transaction, refer to Note 9 in the Notes to Condensed Consolidated Financial Statements. The decrease in gross profit margin for the third quarter of fiscal year 2015 also reflected an estimated unfavorable impact of 140 basis points relating to foreign currency translation. The favorable impact in the current year's quarter from operating performance of 30 basis points was primarily driven by lower manufacturing costs from continuous improvement projects and lower raw material costs, partially offset by higher pension costs.

The decrease in gross profit margin for the nine-month period reflected an unfavorable impact of 540 basis points due to the inventory step-up adjustment, intangible asset amortization and fixed asset depreciation impacts noted above. Gross margin for the current nine-month period also reflected an estimated unfavorable impact of 70 basis points relating to foreign currency translation and a favorable operating performance impact of approximately 30 basis points. Operating performance in the nine-month period reflected lower manufacturing costs from continuous improvement projects, favorable product mix and lower raw material costs, partially offset by higher pension costs and price decreases.

Selling and administrative expense

Aggregate expenses in the current year's period primarily reflected the inclusion of CareFusion's selling and administrative expenses in the current quarter's results, as well as depreciation of the fair value step-up adjustment recorded upon the acquisition date relative to CareFusion's fixed assets. Selling and administrative expense for the third quarter of fiscal year 2015 was favorably impacted by foreign currency translation of approximately \$46 million.

Aggregate expenses for the current nine-month period reflected the inclusion of CareFusion's selling and administrative expenses in the current quarter's results, as well as the depreciation of the fair value step-up adjustment, as noted above. Selling and administrative expense in the current year's nine-month period was favorably impacted by foreign currency translation of approximately \$88 million. Aggregate expenses for the current year's nine-month period also included increased spending of \$38 million relating to the expansion of our business in emerging markets and the global enterprise resource planning initiative to update our business information systems, as well as a \$12 million charge relating to the RTI litigation matter, as previously discussed. Aggregate expenses in the prior year's nine-month period included the \$11 million charge relating to the early termination of a distributor arrangement previously discussed as well as the favorable impact of a \$6 million reversal of bad debt expense that was recorded upon receiving a payment relating to outstanding receivables due from the Spanish government.

Research and development expense

The increase in research and development expense for the third quarter, compared with the prior year's period, reflected the inclusion of CareFusion's research and development expenses in the current quarter's results. BD's spending in the current year's quarter relative to its legacy units was slightly lower due to the timing of projects. Research and development expense in the prior period's quarter reflected a \$9 million charge associated with the decision to terminate a research and development program in the Medical segment, as previously discussed.

The increase in research and development expense for the nine-month period reflected the inclusion of CareFusion's current quarter's research and development expenses in the current quarter's results. Research

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and development expenses in the current nine-month period also reflected a favorable comparison to the prior-year period's expense, which included the program termination in the Medical segment, as noted above, as well as the \$20 million asset write-off charge recorded in the second quarter of fiscal year 2014 upon the discontinuance of a program in the Life Sciences segment, as previously discussed.

Acquisition-related costs

Acquisition-related costs were \$108 million in the third quarter of fiscal year 2015, which reflected transaction, integration and restructuring costs of \$9 million, \$24 million and \$75 million, respectively. Acquisition-related costs in the nine-month period ending June 30, 2015 were \$244 million which reflected transaction, integration and restructuring costs of \$52 million, \$55 million and \$136 million, respectively. The transaction and integration costs in both the three and nine-month periods reflected advisory, legal, and other costs incurred in connection with the CareFusion acquisition. The restructuring costs in the current quarter reflected employee termination costs, share-based compensation expense and other restructuring costs relating to the acquisition. For further discussion regarding these costs, refer to Notes 7, 8 and 9 in the Notes to Condensed Consolidated Financial Statements.

Net Interest Expense

The components of net interest expense were as follows:

| (Millions of dollars) | Three months ended June 30, Nine months ended June 30, | | | |
|-----------------------|--|---------|----------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest expense | \$ (105) | \$ (33) | \$ (272) | \$ (99) |
| Interest income | 2 | 12 | 20 | 36 |
| Net interest expense | \$ (103) | \$ (20) | \$ (252) | \$ (63) |

The increases in interest expense for the three and nine-month periods of fiscal year 2015 compared with the prior year periods primarily reflected increased financing costs associated with the CareFusion acquisition, including interest on \$6.2 billion of senior unsecured notes issued in December 2014, in anticipation of closing the CareFusion acquisition. Interest expense for the current year's periods also reflected \$8 million due to the favorable amortization of the acquisition-date fair value-step recorded on CareFusion's long-term debt, partially offset by \$5 million of costs associated with our April 2015 exchange of CareFusion notes assumed in the acquisition for BD notes. Interest expense in the current nine-month period additionally included commitment fees for a bridge loan facility entered into concurrently with the execution of the agreement to acquire CareFusion to ensure our ability to fund the cash portion of consideration due under the agreement. Additional disclosures regarding the debt issuance, exchange offer and bridge loan facility are provided in Note 14 in the Notes to Condensed Consolidated Financial Statements.

The decreases in interest income in the current year's three and nine-month periods compared with the prior year's periods primarily reflected lower cash levels outside of the United States as well as lower investment gains on assets related to our deferred compensation plans. The offsetting movements in the deferred compensation plan liability were recorded in *Selling and administrative expense*.

Income Taxes

The income tax rate was (60.0)% for the third quarter of fiscal year 2015 compared with 23.0% in the third quarter of fiscal year 2014. The effective income tax rate for the current year's quarter would have been higher by 8,480 basis points excluding the impact on BD's income mix of the previously discussed specified items. The tax benefits on these specified items were primarily incurred in higher tax jurisdictions. The nine-month tax rate was 6.4% compared with the prior year's rate of 22.8%. The effective income tax rate for the current

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year's nine-month period would have been higher by 1,630 basis points excluding the impact on BD's income mix of the third quarter specified items, which, as discussed above, were affected by higher tax benefits, as well as the impact of previously discussed specified items recorded in the first and second quarters of fiscal year 2015. The decrease in the income tax rate for the nine-month period of 2015 additionally reflected the extension of the U.S. research and development income tax credit, which was partially offset by the unfavorable impact of one-time discrete items.

Net Income and Diluted Earnings per Share

Net income and diluted earnings per share for the third quarter of 2015 were \$62 million and \$0.29, respectively. Net income and diluted earnings per share for the prior year's third quarter were \$326 million and \$1.65, respectively. The current quarter's earnings per share reflected an unfavorable impact of \$1.76 relating to the previously discussed specified items, as well as an estimated unfavorable impact due to foreign currency translation of \$0.29. Net income and diluted earnings per share for the nine-month period of 2015 were \$514 million and \$2.52, respectively, compared with \$884 million and \$4.47, respectively, in the prior year's period. The current year-to-date period's earnings per share reflected an unfavorable impact of \$2.68 relating to the previously discussed specified items, as well as an estimated unfavorable impact due to foreign currency translation of \$0.52. Additionally, diluted earnings per share for nine-month period of 2015 reflected a dilutive impact of \$0.02 from the shares BD issued, as part of the total consideration transferred upon the closing of the CareFusion acquisition, prior to the inclusion of CareFusion in our consolidated results of operations.

Liquidity and Capital Resources***Net Cash Flows from Operating Activities***

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 2015. Normal operating needs in fiscal year 2015 include working capital, capital expenditures, and cash dividends. Net cash provided by operating activities was \$1.052 billion during the first nine months of fiscal year 2015, compared with \$1.207 billion in the same period in 2014, reflecting a decrease in income from operations, as adjusted for depreciation and amortization. The current-period change in operating assets and liabilities was a net use of cash and primarily reflected higher levels of accounts receivables and prepayments and lower levels of accounts payable and accrued expenses, partially offset by lower levels of inventory. The lower levels of inventory reflected the impact of the third quarter fiscal year 2015 recognition of the acquisition fair value step-up adjustment recorded relative to CareFusion's inventory on the acquisition date. Net cash provided by operating activities in the first nine months of both fiscal years 2015 and 2014 was reduced by changes in the pension obligation resulting primarily from discretionary cash contributions of \$40 million and \$75 million in the first nine months of fiscal years 2015 and 2014, respectively.

Net Cash Flows from Investing Activities

Net cash used for investing activities for the first nine months of the current year was \$8.003 billion, compared with \$730 million in the prior-year period. Cash inflows from the sales of investments of \$837 million were attributable to the maturities of time deposits in Europe, Latin America and Asia Pacific. Cash outflows relating to acquisitions of \$8.3 billion were primarily attributable to the completion of the CareFusion acquisition in the second quarter of fiscal year 2015. Cash outflows relating to acquisitions in the current year's nine-month period also included cash payments relating to other acquisitions, including GenCell Biosystems, CRISI Medical Systems, Inc. and the ARX group of companies in the first, second and third quarters of fiscal year 2015, respectively. Cash outflows relating to acquisitions were \$40 million in the first nine months of the prior year as a result of the Company's acquisition of Alverix, Inc. in the second quarter of fiscal year 2014. Capital expenditures were \$387 million in the first nine months

of fiscal year 2015 compared with \$339 million in the prior-year period.

Table of Contents***Net Cash Flows from Financing Activities***

Net cash provided by financing activities for the first nine months of fiscal year 2015 was \$6.667 billion, compared with net cash used for financing activities of \$701 million in the prior-year period.

Debt-related Activities

Net cash provided by financing activities in the current period included the proceeds from \$6.2 billion of notes issued in December 2014 as well as \$850 million total proceeds from net borrowings under commercial paper programs and a term loan facility. These proceeds were used to finance the completion of our acquisition of CareFusion in March 2015. For additional information regarding these financing arrangements, refer to Note 14 in the Notes to Condensed Consolidated Financial Statements and for additional information regarding the CareFusion acquisition, refer to Note 9 in the Notes to Condensed Consolidated Financial Statements.

Certain measures relating to our total debt, which was \$13.2 billion at June 30, 2015 and \$4.0 billion at September 30, 2014, were as follows:

| | June 30, 2015 | September 30, 2014 |
|---|--------------------------|-------------------------------|
| Short-term debt as a percentage of total debt | 13.7% | 5.1% |
| Weighted average cost of total debt | 3.2% | 3.7% |
| Total debt as a percentage of total capital* | 58.3% | 43.4% |

* Represents shareholders' equity, net non-current deferred income tax liabilities, and debt.

The ratio of short-term debt as a percentage of total debt at June 30, 2015 reflected the reclassification, from long-term debt to short-term debt, of \$750 million of floating rate notes due on June 15, 2016.

Repurchase of Common Stock

There were no share repurchases during the first nine months of fiscal year 2015 as our share repurchase program has been suspended throughout fiscal year 2015 beginning with our announced agreement to acquire CareFusion. For the first nine months of fiscal year 2014, we repurchased approximately 3.6 million shares of our common stock for \$400 million. At June 30, 2015, a total of approximately 9.1 million common shares remained available for purchase under the Board of Directors' September 2013 repurchase authorization.

Cash and Short-term Investments

At June 30, 2015, total worldwide cash and short-term investments were approximately \$1.6 billion, of which \$849 million 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 such amounts to fund our international operations and their growth initiatives. In addition, if these amounts were repatriated from foreign jurisdictions to the United States, there could be adverse tax consequences.

Credit Facilities

In January 2015 and in connection with our agreement to acquire CareFusion, we entered into a commercial paper program which allows us to issue a maximum of \$1 billion in notes. A former commercial paper program which had been in place to meet short-term financing needs was terminated in February 2015 and the outstanding borrowings of \$200 million under the former program were rolled into the new commercial paper program. Also in connection with the CareFusion acquisition, we entered into a 364-day term loan agreement in December 2014 that provides for a \$1.0 billion term loan facility. Under the financial covenants of the term loan facility, BD is required to maintain an interest expense coverage ratio (ratio of earnings as defined under the agreement to interest expense) of not less than 5-to-1 as of the last day of any fiscal quarter. Additionally,

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BD is required to maintain a leverage ratio (ratio of debt to earnings as defined under the agreement) as of the last day of any fiscal quarter of no greater than 4.75-to-1. We were in compliance with these covenants as of June 30, 2015.

At June 30, 2015, subsequent to the completion of the CareFusion acquisition on March 17, 2015, borrowings outstanding under the current commercial paper program were \$700 million. At June 30, 2015, borrowings outstanding under the term loan agreement were \$350 million reflecting a \$650 million principal payment made in April 2015. In July 2015, we made a \$250 million principal payment to further reduce the outstanding balance on the term loan facility. The \$9.1 billion of fully committed bridge financing we secured in the first quarter of fiscal year 2015, concurrently with our execution of the agreement to acquire CareFusion, was terminated upon completion of the acquisition. Additional disclosures regarding BD's financing arrangements relating to the CareFusion acquisition are provided in Note 14 in the Notes to Condensed Consolidated Financial Statements.

We have available a \$1 billion syndicated credit facility with an expiration date of May 2018. This credit facility, under which there were no borrowings outstanding at June 30, 2015, provides backup support for our commercial paper programs 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. The credit facility includes a single financial covenant that requires BD to maintain an interest expense coverage ratio of not less than 5-to-1 for the most recent four consecutive fiscal quarters. We were in compliance with this covenant as of June 30, 2015. In addition to the U.S. credit facilities discussed above, we have informal lines of credit outside the United States.

CareFusion Debt Assumed

Upon the closing of the CareFusion acquisition in March 2015, BD assumed senior unsecured notes issued by CareFusion with an aggregate principal amount of \$2 billion. Subsequent to closing the acquisition, BD commenced offers to exchange these CareFusion notes for notes issued by BD and this exchange offer expired in April 2015. Additional disclosures regarding this exchange offer are provided in Note 14 in the Notes to Condensed Consolidated Financial Statements.

Access to Capital and Credit Ratings

Subsequent to BD's announcement regarding our acquisition of CareFusion, the two major corporate debt rating organizations, Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services (S&P), provided guidance that they expected to downgrade our debt ratings as a result of the anticipated increase in BD's net leverage. In December 2014, S&P downgraded BD's long-term debt and commercial paper ratings from A to BBB+ and from A-1 to A-2, respectively. Following our announced completion of the CareFusion acquisition on March 17, 2015, Moody's converted its provisional downgrade of BD's long-term debt rating, from A3 to Baa2, to a definitive downgrade. Concurrently with these downgrade actions, BD's ratings with both S&P and Moody's were removed from further review.

BD's credit ratings remain investment grade after these downgrades. As such, we do not expect these downgrades to have a significant impact on our liquidity or future flexibility to access additional liquidity given our strong balance sheet, our syndicated credit facility, and our commercial paper program. While such downgrades in our credit ratings may increase the costs associated with maintaining and borrowing under our existing credit arrangements, the downgrades do not affect our ability to draw on these credit facilities, nor do they result in an acceleration of the scheduled maturities of any outstanding debt. We believe that given our debt ratings, our financial management policies, our ability to generate cash flow and the non-cyclical, geographically diversified nature of our businesses, we would have access to additional short-term and long-term

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capital should the need arise. A rating reflects only the view of a rating agency and is not a recommendation to buy, sell or hold securities. Ratings can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

Concentrations of Credit Risk

We continually evaluate our accounts receivables for potential collection risks particularly those resulting from sales to government-owned or government-supported healthcare facilities in certain countries as payment may be dependent upon the financial stability and creditworthiness of those countries' national economies. Due to recent economic conditions and other factors in certain European countries, the average length of time it has taken us to collect government receivables in these countries has been longer than the payment patterns experienced in the United States and other international markets. We continually monitor these government receivables for potential collection risks associated with the availability of government funding and reimbursement practices. We believe the current reserves related to these government receivables are adequate and that this concentration of credit risk will not have a material adverse impact on our financial position or liquidity. Specifically relative to the recent economic developments in Greece, potential exposures to our revenues, accounts receivable and other assets are not material.

Update of Critical Accounting Policies

The preparation of the consolidated financial statements requires management to use estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Some of those judgments can be subjective and complex and, consequently, actual results could differ from those estimates. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For any given estimate or assumption made by management, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop different estimates. Actual results that differ from management's estimates could have an unfavorable effect on our consolidated financial statements. Upon our acquisition of CareFusion on March 17, 2015, we have implemented the following critical accounting policies. There have been no other material changes to our critical accounting policies since September 30, 2014.

Accounting for Sales-Type Leases

Our accounting for sales-type leases is based upon certain assumptions including the economic life of our leased products and the fair value of our leased products, which is used to determine the interest rate implicit to the lease. These assumptions affect that amount of gross investment in the lease, unearned income, and the sales price that is recognized relative to each sales-type lease transaction. Based upon our anticipation of future technological advances of our products or that of our competitors, the economic life of our leased products is five years as this is the estimated period during which the leased product is expected to be economically usable, without limitation by the lease term. Additionally, five years represents the most frequent contractual lease term for our leased products. Our product configurations are customized for each customer's specific specifications, and as such, there is no significant after-market for our used equipment. Residual values, if any, are established at lease inception using estimates of the fair value of reclaimable component parts of the products at the end of the lease term.

The fair value of our leased products is estimated on a quarterly basis, based upon transacted cash sales prices during the preceding twelve-month period, and represents normal selling price, reflecting any volume or trade discounts that may apply. Because our products are sold as part of customized systems to a diverse range of customers, many of

which are affiliated with a group purchasing organization or integrated delivery network,

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there is a wide range of negotiated cash selling prices for our products. Accordingly, we stratify our cash selling transactions based on product configuration and customer class to determine a best estimate of fair value for each product specific, within determined customer classes. Based upon this stratification, we calculate the weighted average selling price of each configured product using the interquartile range methodology and remove outliers from the population of normal cash selling prices, which narrows the range of selling prices within each stratified customer class. The resulting weighted average selling price is the single point estimate of fair value that we use as the normal selling price and this fair value estimate is used to determine the implicit interest rate for each product subject to a sales-type lease arrangement. The interest rate implicit to the lease is then used to determine the amount of revenue recognized at the inception of the lease and the revenue recognized over the life of the lease.

Approximately 15-25% of our lease transactions in a given year do not have corresponding cash selling transactions for the same product configuration and customer class. Therefore, for these transactions, the estimated fair value is determined by: (1) reviewing the estimated fair value of the same product line with the closest similar configuration sold to the same customer class and adjusting this fair value by the expected pricing impact of the difference in product configuration; or (2) reviewing the estimated fair value of the same product configuration sold to a different customer class and adjusting this fair value by the expected pricing impact of the difference in customer class.

Our net investment in sales-type leases primarily arises from the leasing of dispensing equipment and as such, the methodology for determining the relating allowance for credit losses is based on the collective population and is not stratified by class or portfolio segment. The allowance for credit losses is based on historical experience loss rates as well as on management's judgments regarding the potential impact of anticipated changes in business practices, market dynamics, and economic conditions. These assumptions are inherently subjective and it is possible that we will experience actual credit losses that are different from our current estimates.

Accounting for Software Products

We sell and lease products with embedded software and as such, we must evaluate these products to determine if industry-specific revenue recognition requirements apply to these sales transactions. This evaluation process is often complex and subject to significant judgment. If software is considered not essential to the non-software elements of a product but is considered more than incidental to a product as a whole, the product's software elements must be separated from its non-software elements under the requirements relating to multiple-element arrangements. The product's software elements must be accounted for under software industry-specific revenue recognition requirements and the application of these requirements may significantly affect the timing and amount of revenue recognized.

We have determined that the software embedded within our infusion products, when sold with safety software, patient identification products, and certain diagnostic equipment, as well as the software embedded within our research and clinical instruments sold by our Biosciences unit, is more than incidental to these product offerings as a whole. However, we have determined that the non-software elements and software elements in these product offerings work together to deliver the essential functionality of these products as a whole. As such, the accounting for these product offerings does not fall within the scope of software industry-specific accounting requirements. We have determined the embedded software within certain other products, primarily dispensing and respiratory products, is incidental to the products as a whole and therefore the accounting for these products also falls outside the scope of software-specific requirements. Generally, our standalone software application sales and any related post-contract support related to these sales are accounted for under the software industry-specific revenue recognition requirements.

Table of Contents***Accounting for Multiple-Element Arrangements***

Some of our sales transactions qualify as multiple-element arrangements which require us to identify separate units of accounting within the arrangement and allocate the transaction consideration across these separate accounting units. For arrangements that include software and non-software elements, the transaction consideration is allocated to the software elements as a group as well as to the individual non-software elements that have been separately identified. The identification of accounting units and the allocation of total transaction consideration for multiple-element arrangements may be subjective and requires a degree of management judgment. Management's judgments relative to multiple-element arrangements may significantly affect the timing of revenue recognition.

Transaction consideration for separately identified non-software units of accounting within an arrangement is recognized upon the completion of each deliverable based on its relative selling price. When applying the relative selling price method, the selling price of each deliverable is determined based upon the following hierarchy of evidence: vendor-specific objective evidence, which is generally based upon historical prices in stand-alone transactions; third-party evidence, which is generally based on market data on sales of similar products and services, if available; and management's best estimate of selling price. Management's best estimate of selling price is generally based upon the following considerations: stand-alone sales prices, established price lists, costs to produce, profit margins for similar products, market conditions, and customer stratification.

For software and software-related products, we use the relative fair value method to allocate transaction consideration to each unit of accounting; whereby the evidence used in the determination of fair value estimates are based solely on vendor-specific objective evidence. To the extent that vendor specific objective evidence does not exist for delivered elements of the transaction, we apply the residual method.

The revenue allocated to equipment or instruments in multiple-element arrangements is recognized upon transfer of title and risk of loss to the customer. The revenue allocated to extended warranty contracts and software maintenance contracts is deferred and recognized as these deliverables are performed under the arrangement. The majority of deferred revenue relating to extended warranty contracts is generally recognized within a few years whereas deferred revenue relating to software maintenance contracts is generally recognized over several years.

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, 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, developments 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

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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 2014 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, the 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.

Risks relating to our acquisition of CareFusion, including our ability to successfully combine and integrate the CareFusion operations in order to obtain the anticipated benefits and costs savings from the transaction, and the significant additional indebtedness we incurred in connection with the financing of the acquisition and the impact this increased indebtedness may have on our ability to operate the combined company.

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 our business.

Future healthcare reform in the countries in which we do business that may 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. For example, changes to guidelines providing for increased cervical cancer screening intervals has and may continue to negatively impact sales of our Women's Health and Cancer platform.

Changes in reimbursement practices of third-party payers.

Our ability to penetrate 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 and distribution networks. Our international operations also increase our compliance risks, including risks under the Foreign Corrupt Practices Act and other anti-corruption laws.

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

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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 components, 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. As a result of the CareFusion acquisition, we are operating under a consent decree with the FDA relating to our U.S. infusion pump business. The consent decree authorizes the FDA, in the event of any violations in the future, to order us to cease manufacturing and distributing products, recall products or take other actions, and we may be required to pay significant monetary damages if we fail to comply with any provision of the consent decree.

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

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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 sales volumes and pricing of many product types, some of which are more profitable than others.

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

Pending and potential future litigation or other proceedings adverse to BD, including antitrust, product liability, environmental and patent infringement, 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.

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.

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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, 2014.

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, 2015. 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. On March 17, 2015, BD completed the acquisition of CareFusion Corporation (CareFusion). BD has extended its oversight and monitoring processes that support our internal control over financial reporting, as well as its disclosure controls and procedures, to include CareFusion's operations. BD is continuing to integrate the acquired operations of CareFusion. There were no other changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2015 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.

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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 2014 Annual Report on Form 10-K and in Note 5 of the Notes to Condensed Consolidated Financial Statements in this report. Since March 31, 2015, the following developments have occurred with respect to the legal proceedings in which we are involved:

Brazil

BD has filed an administrative appeal relating to the Brazilian Foreign Trade Board's decision regarding anti-dumping measures.

CareFusion Shareholder Litigation

The parties to the action filed in the Delaware Court of Chancery have entered into a stipulation and agreement of compromise, settlement and release and presented the matter to the Delaware Court of Chancery for approval. The Delaware Court of Chancery has scheduled a hearing for September 17, 2015 to consider the matter.

Antitrust Class Action Complaint

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

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 ContentsItem 1A. Risk Factors

There were no material changes in the risk factors previously disclosed in Part I, Item 1A, of our 2014 Annual Report on Form 10-K during the period covered by this report.

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, 2015.

Issuer Purchases of Equity Securities

| | | Total Number of Shares Purchased as Part of Maximum Number Publicly of Shares that May Announced Plans Yet Be Purchased | Average Price Paid per Share | or Programs (2) | Under the Plans or Programs (2) |
|--|----------|---|------------------------------------|-----------------------|------------------------------------|
| For the three months ended June 30, 2015 | | (1) | (1) | (2) | (2) |
| April 1 | 30, 2015 | 1,957 | 141.77 | | 9,147,060 |
| May 1 | 31, 2015 | 817 | 143.85 | | 9,147,060 |
| June 1 | 30, 2015 | | | | 9,147,060 |
| Total | | 2,774 | 142.39 | | 9,147,060 |

- (1) Represents 2,774 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) These shares are available under 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.

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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 3 By-Laws, as amended as of July 28, 2015 (incorporated by reference to Exhibit 3.1 of the registrant's Current Report on Form 8-K filed on July 29, 2015).
- 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.

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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.

Dated: August 6, 2015

Becton, Dickinson and Company
(Registrant)

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

/s/ John Gallagher
John Gallagher
Vice President, Corporate Finance, Treasurer
and Controller
(Principal Accounting Officer)

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INDEX TO EXHIBITS

| Exhibit Number | Description of Exhibits |
|----------------|---|
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| 31 | Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to SEC Rule 13a - 14(a). |
| 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. |
| 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. |