BRISTOL MYERS SQUIBB CO
Form 10-Q
October 27, 2016

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

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission file number: 1-1136

BRISTOL-MYERS SQUIBB COMPANY
(Exact name of registrant as specified in its charter)

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

345 Park Avenue, New York, N.Y. 10154
(Address of principal executive offices) (Zip Code)

(212) 546-4000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x
APPLICABLE ONLY TO CORPORATE ISSUERS:
At September 30, 2016, there were 1,671,229,946 shares outstanding of the Registrant's $0.10 par value common stock.

BRISTOL-MYERS SQUIBB COMPANY
INDEX TO FORM 10-Q
SEPTEMBER 30, 2016

PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
BRISTOL-MYERS SQUIBB COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS
Dollars in Millions, Except Per Share Data
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
EARNINGS	2016	2015	2016	2015
Net product sales	$4,492	$3,552	$12,888	$10,183
Alliance and other revenues	430	517	1,296	2,090
Total Revenues	4,922	4,069	14,184	12,273
Cost of products sold	1,305	1,097	3,563	2,957
Marketing, selling and administrative	1,144	1,176	3,450	3,340
Research and development	1,138	1,132	3,540	4,004
Other (income)/expense	(224)	(323)	(1,198)	(515)
Total Expenses	3,363	3,082	9,355	9,786
Earnings Before Income Taxes	1,559	987	4,829	2,487
Provision for Income Taxes	344	257	1,220	668
Net Earnings	1,215	730	3,609	1,819
Net Earnings Attributable to Noncontrolling Interest	13	24	46	57
Net Earnings Attributable to BMS	$1,202	$706	$3,563	$1,762
Earnings per Common Share				
Basic	$0.72	$0.42	$2.13	$1.06
Diluted	$0.72	$0.42	$2.12	$1.05
Cash dividends declared per common share	$0.38	$0.37	$1.14	$1.11

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Dollars in Millions
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
COMPREHENSIVE INCOME	2016	2015	2016	2015
Net Earnings	$1,215	$730	$3,609	$1,819
Other Comprehensive Income/(Loss), net of taxes and reclassifications to earnings:				
Derivatives qualifying as cash flow hedges	4	(46)	(126)	(49)
Pension and postretirement benefits	72	(131)	(213)	131
Available-for-sale securities	(8)	(16)	46	(22)
Foreign currency translation	1	(29)	26	(30)
Other Comprehensive Income/(Loss)	69	(222)	(267)	30

Comprehensive Income	1,284	508	3,342	1,849
Comprehensive Income Attributable to Noncontrolling Interest	13	24	46	57
Comprehensive Income Attributable to BMS	$1,271	$484	$3,296	$1,792

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

BRISTOL-MYERS SQUIBB COMPANY
CONSOLIDATED BALANCE SHEETS
Dollars in Millions, Except Share and Per Share Data(UNAUDITED)

ASSETS	September 30, 2016	December 31, 2015
Current Assets:		
Cash and cash equivalents	$ 3,432	$ 2,385
Marketable securities	2,128	1,885
Receivables	5,597	4,299
Inventories	1,482	1,221
Prepaid expenses and other	565	625
Total Current Assets	13,204	10,415
Property, plant and equipment	4,790	4,412
Goodwill	6,875	6,881
Other intangible assets	1,377	1,419
Deferred income taxes	3,528	2,844
Marketable securities	3,035	4,660
Other assets	918	1,117
Total Assets	$ 33,727	$ 31,748
LIABILITIES		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt	$ 990	$ 139
Accounts payable	1,407	1,565
Accrued liabilities	4,964	4,738
Deferred income	1,323	1,003
Income taxes payable	312	572
Total Current Liabilities	8,996	8,017
Deferred income	567	586
Income taxes payable	905	742
Pension and other liabilities	1,642	1,429
Long-term debt	5,836	6,550
Total Liabilities	17,946	17,324
Commitments and contingencies (Note 18)		
EQUITY		
Bristol-Myers Squibb Company Shareholders’ Equity:		
Preferred stock, $2 convertible series, par value $1 per share: Authorized 10 million shares; 4,161 issued and outstanding in both 2016 and 2015, liquidation value of $50 per share	—	—
Common stock, par value of $0.10 per share: Authorized 4.5 billion shares; 2.2 billion issued in both 2016 and 2015	221	221
Capital in excess of par value of stock	1,650	1,459
Accumulated other comprehensive loss	(2,735)	(2,468)
Retained earnings	33,272	31,613
Less cost of treasury stock – 537 million common shares in 2016 and 539 million in 2015	(16,795)	(16,559)
Total Bristol-Myers Squibb Company Shareholders’ Equity	15,613	14,266

Noncontrolling interest	168	158
Total Equity	15,781	14,424
Total Liabilities and Equity	$ 33,727	$ 31,748

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

BRISTOL-MYERS SQUIBB COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in Millions
(UNAUDITED)

	Nine Months Ended September 30, 2016	2015
Cash Flows From Operating Activities:		
Net earnings	$3,609	$1,819
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization, net	260	300
Deferred income taxes	(500)	51
Stock-based compensation	149	176
Impairment charges	75	24
Pension settlements and amortization	122	178
Divestiture gains and royalties	(1,082)	(565)
Asset acquisition charges	274	813
Other adjustments	(56)	(17)
Changes in operating assets and liabilities:		
Receivables	(896)	(586)
Inventories	(107)	231
Accounts payable	(142)	(1,218)
Deferred income	445	153
Income taxes payable	(262)	77
Other	(467)	(215)
Net Cash Provided by Operating Activities	1,422	1,221
Cash Flows From Investing Activities:		
Sale and maturities of marketable securities	3,674	2,449
Purchase of marketable securities	(2,248)	(2,283)
Capital expenditures	(844)	(535)
Divestiture and other proceeds	1,193	673
Acquisition and other payments	(311)	(892)
Net Cash Provided by/(Used in) Investing Activities	1,464	(588)
Cash Flows From Financing Activities:		
Short-term borrowings, net	102	54
Issuance of long-term debt	—	1,268
Repayment of long-term debt	—	(1,957)
Interest rate swap contract terminations	42	(2)
Issuance of common stock	144	231
Repurchase of common stock	(231)	—
Dividends	(1,912)	(1,859)
Net Cash Used in Financing Activities	(1,855)	(2,265)
Effect of Exchange Rates on Cash and Cash Equivalents	16	36
Increase/(Decrease) in Cash and Cash Equivalents	1,047	(1,596)
Cash and Cash Equivalents at Beginning of Period	2,385	5,571
Cash and Cash Equivalents at End of Period	$3,432	$3,975

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

Note 1. BASIS OF PRESENTATION AND RECENTLY ISSUED ACCOUNTING STANDARDS

Bristol-Myers Squibb Company (which may be referred to as Bristol-Myers Squibb, BMS or the Company) prepared these unaudited consolidated financial statements following the requirements of the Securities and Exchange Commission (SEC) and United States (U.S.) generally accepted accounting principles (GAAP) for interim reporting. Under those rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. The Company is responsible for the consolidated financial statements included in this Form 10-Q, which include all adjustments necessary for a fair presentation of the financial position at September 30, 2016 and December 31, 2015, the results of operations for the three and nine months ended September 30, 2016 and 2015, and cash flows for the nine months ended September 30, 2016 and 2015. All intercompany balances and transactions have been eliminated. These financial statements and the related notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 included in the Annual Report on Form 10-K.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited consolidated financial statements may not be indicative of full year operating results. The preparation of financial statements requires the use of management estimates and assumptions. The most significant assumptions are employed in estimates used in determining the fair value and potential impairment of intangible assets; sales rebate and return accruals; legal contingencies; income taxes; estimated selling prices used in multiple element arrangements; and pension and postretirement benefits. Actual results may differ from estimates.

Certain prior period amounts were reclassified to conform to the current period presentation. The reclassifications provide a more concise financial statement presentation and additional information is disclosed in the notes if material.

	Prior Presentation	Current Presentation
Consolidated Statements of Earnings	Advertising and product promotion	Included in Marketing, selling and administrative expenses
Consolidated Balance Sheets	Assets held-for-sale	Included in Prepaid expenses and other
	Accrued expenses Accrued rebates and returns Dividends payable	Combined as Accrued liabilities
	Pension, postretirement and postemployment liabilities Other liabilities	Combined as Pension and other liabilities
Consolidated Statements of Cash Flows	Net earnings attributable to noncontrolling interest	Included in Other adjustments
	Divestiture gains and royalties included in Other adjustments	Divestiture gains and royalties
	Asset acquisition charges included in Other adjustments	Asset acquisition charges

In October 2016, the Financial Accounting Standards Board (FASB) issued amended guidance on income tax accounting for intra-entity transfers of assets other than inventory. The amended guidance requires that the tax consequences of transfers of assets between members of a consolidated group be recognized in the period the transfer takes place (excluding inventory). The guidance is effective beginning with interim periods in 2018 with early adoption permitted in the first quarter of 2017 on a modified retrospective approach. The Company is assessing the potential impact of the new standard.

In June 2016, the FASB issued amended guidance for the measurement of credit losses on financial instruments. Entities will be required to use a forward-looking estimated loss model. Available-for-sale debt security credit losses will be recognized as allowances rather than a reduction in amortized cost. The guidance is effective beginning with interim periods in 2020 with early adoption permitted in 2019 on a modified retrospective approach. The Company is assessing the potential impact of the new standard.

In March 2016, the FASB issued amended guidance for share-based payment transactions. Excess tax benefits and deficiencies will be recognized in the consolidated statement of earnings rather than capital in excess of par value of stock on a prospective basis. A policy election will be available to account for forfeitures as they occur, with the cumulative effect of the change recognized as an adjustment to retained earnings at the date of adoption. Excess tax benefits within the consolidated statement of cash flows will be presented as an operating activity (prospective or retrospective application) and cash payments to tax authorities in connection with shares withheld for statutory tax withholding requirements will be presented as a financing activity (retrospective application). The guidance is effective beginning with interim periods in 2017 with early adoption permitted. The Company is assessing the potential impact of the new standard.

In February 2016, the FASB issued amended guidance on lease accounting. The amended guidance requires the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments for leases with a term longer than 12 months. The guidance is effective beginning with interim periods in 2019 with early adoption permitted on a modified retrospective approach. The Company is assessing the potential impact of the new standard.

In January 2016, the FASB issued amended guidance for the recognition, measurement, presentation and disclosures of financial instruments effective January 1, 2018 with early adoption not permitted. The new guidance requires that fair value adjustments for equity securities with readily determinable fair values currently classified as available-for-sale be reported through earnings. The new guidance also requires a qualitative impairment assessment for equity investments without a readily determinable fair value and a charge through earnings if an impairment exists. The Company is assessing the potential impact of the new standard.

In May 2014, the FASB issued a new standard related to revenue recognition, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will replace most of the existing revenue recognition standards in U.S. GAAP when it becomes effective on January 1, 2018. Early adoption is permitted no earlier than 2017. The new standard can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application in retained earnings. The Company is assessing the potential impact of the new standard and has not yet selected a transition method.

Note 2. BUSINESS SEGMENT INFORMATION

BMS operates in a single segment engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of innovative medicines that help patients prevail over serious diseases. A global research and development organization and supply chain organization are responsible for the discovery, development, manufacturing and supply of products. Regional commercial organizations market, distribute and sell the products. The business is also supported by global corporate staff functions. Segment information is consistent with the financial information regularly reviewed by the chief executive officer for purposes of evaluating performance, allocating resources, setting incentive compensation targets and planning and forecasting future periods.

Product revenues were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in Millions	2016	2015	2016	2015
Oncology				
Empliciti (elotuzumab)	$41	$—	$103	$—
Erbitux* (cetuximab)	—	167	—	501
Opdivo (nivolumab)	920	305	2,464	467
Sprycel (dasatinib)	472	411	1,330	1,191
Yervoy (ipilimumab)	285	240	789	861
Cardiovascular				
Eliquis (apixaban)	884	466	2,395	1,258
Immunoscience				
Orencia (abatacept)	572	484	1,640	1,345
Virology				
Baraclude (entecavir)	306	320	896	1,003
Hepatitis C Franchise	379	402	1,352	1,145
Reyataz (atazanavir sulfate) Franchise	238	270	706	867
Sustiva (efavirenz) Franchise	275	333	819	940
Neuroscience				
Abilify* (aripiprazole)	29	46	97	707
Mature Products and All Other	521	625	1,593	1,988
Total Revenues	$4,922	$4,069	$14,184	$12,273

* Indicates brand names of products which are trademarks not owned or wholly owned by BMS. Specific trademark ownership information is included at the end of this quarterly report on Form 10-Q.

The composition of total revenues was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in Millions	2016	2015	2016	2015
Net product sales	$4,492	$3,552	$12,888	$10,183
Alliance revenues	402	496	1,229	2,003
Other revenues	28	21	67	87
Total Revenues	$4,922	$4,069	$14,184	$12,273

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Note 3. ALLIANCES

BMS enters into collaboration arrangements with third parties for the development and commercialization of certain products. Although each of these arrangements is unique in nature, both parties are active participants in the operating activities of the collaboration and are exposed to significant risks and rewards depending on the commercial success of the activities. BMS may either in-license intellectual property owned by the other party or out-license its intellectual property to the other party. These arrangements also typically include research, development, manufacturing and/or commercial activities and can cover a single investigational compound or commercial product or multiple compounds and/or products in various life cycle stages. The rights and obligations of the parties can be global or limited to geographic regions. We refer to these collaborations as alliances and our partners as alliance partners. Products sold through alliance arrangements in certain markets include Empliciti, Erbitux*, Opdivo, Sprycel, Yervoy, Eliquis, Orencia, Sustiva (Atripla*), Abilify* and certain mature and other brands.

Selected financial information pertaining to our alliances was as follows, including net product sales when BMS is the principal in the third-party customer sale for products subject to the alliance. Expenses summarized below do not include all amounts attributed to the activities for the products in the alliance, but only the payments between the alliance partners or the related amortization if the payments were deferred or capitalized.

Dollars in Millions	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Revenues from alliances:				
Net product sales	$1,465	$981	$4,031	$3,203
Alliance revenues	402	496	1,229	2,003
Total Revenues	$1,867	$1,477	$5,260	$5,206
Payments to/(from) alliance partners:				
Cost of products sold	$572	$445	$1,543	$1,257
Marketing, selling and administrative	(3)	4	(10)	26
Research and development	(7)	89	23	277
Other (income)/expense	(160)	(173)	(864)	(622)
Noncontrolling interest, pre-tax	3	17	13	45

Selected Alliance Balance Sheet information:

Dollars in Millions	September 30, 2016	December 31, 2015
Receivables - from alliance partners	$ 1,085	$ 958
Accounts payable - to alliance partners	550	542
Deferred income from alliances	1,414	1,459

Specific information pertaining to each of our significant alliances is discussed in our 2015 Form 10-K, including their nature and purpose, the significant rights and obligations of the parties and specific