

BRISTOL MYERS SQUIBB CO  
Form 10-Q  
July 25, 2012  
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**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 JUNE 30, 2012**
- .. **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  
(State or other jurisdiction of  
incorporation or organization)

22-0790350  
(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  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 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 "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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

At June 30, 2012, there were 1,679,022,076 shares outstanding of the Registrant's \$0.10 par value common stock.

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**BRISTOL-MYERS SQUIBB COMPANY**

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**JUNE 30, 2012**

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Dollars and Shares in Millions, Except Per Share Data

(UNAUDITED)

<b>EARNINGS</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net Sales	\$ 4,443	\$ 5,434	\$ 9,694	\$ 10,445
Cost of products sold	1,245	1,481	2,548	2,824
Marketing, selling and administrative	1,004	1,040	2,006	1,968
Advertising and product promotion	224	253	418	467
Research and development	962	923	1,871	1,858
Provision for restructuring	20	40	42	84
Litigation expense/(recoveries)			(172)	
Equity in net income of affiliates	(53)	(62)	(110)	(144)
Other (income)/expense	(18)	(31)	5	(169)
Total Expenses	3,384	3,644	6,608	6,888
Earnings Before Income Taxes	1,059	1,790	3,086	3,557
Provision for income taxes	251	483	796	883
Net Earnings	808	1,307	2,290	2,674
Net Earnings Attributable to Noncontrolling Interest	163	405	544	786
Net Earnings Attributable to Bristol-Myers Squibb Company	\$ 645	\$ 902	\$ 1,746	\$ 1,888
Earnings per Common Share Attributable to Bristol-Myers Squibb Company				
Basic	\$ 0.38	\$ 0.53	\$ 1.04	\$ 1.11
Diluted	\$ 0.38	\$ 0.52	\$ 1.02	\$ 1.10
Dividends declared per common share	\$ 0.34	\$ 0.33	\$ 0.68	\$ 0.66

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

**Table of Contents****BRISTOL-MYERS SQUIBB COMPANY****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Dollars in Millions

(UNAUDITED)

COMPREHENSIVE INCOME	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Earnings	\$ 808	\$ 1,307	\$ 2,290	\$ 2,674
Other Comprehensive Income/(Loss):				
Foreign currency translation	(37)	16	(22)	28
Foreign currency translation on net investment hedges	41	(5)	29	(57)
Derivatives qualifying as cash flow hedges, net of taxes of \$(8) and \$15 for the three months ended June 30, 2012 and 2011, respectively; and \$(17) and \$26 for the six months ended June 30, 2012 and 2011, respectively	22	(31)	27	(57)
Derivatives qualifying as cash flow hedges reclassified to net earnings, net of taxes of \$4 and \$(6) for the three months ended June 30, 2012 and 2011, respectively; and \$6 and \$(7) for the six months ended June 30, 2012 and 2011, respectively	(9)	12	(15)	13
Pension and postretirement benefits, net of taxes \$(5) for the six months ended June 30, 2012			14	
Pension and postretirement benefits reclassified to net earnings, net of taxes of \$(11) for both the three months ended June 30, 2012 and 2011 and \$(23) and \$(19) for the six months ended June 30, 2012 and 2011, respectively	22	18	46	37
Available for sale securities, net of taxes of \$(8) for the three months ended June 30, 2011 and \$(1) and \$(3) for the six months ended June 30, 2012 and 2011, respectively	10	15	7	18
Available for sale securities reclassified to net earnings, net of taxes of \$2 for both the three and six months ended June 30, 2012	2		(8)	
Total Other Comprehensive Income/(Loss)	51	25	78	(18)
Comprehensive Income	859	1,332	2,368	2,656
Comprehensive Income Attributable to Noncontrolling Interest	163	405	544	786
Comprehensive Income Attributable to Bristol-Myers Squibb Company	\$ 696	\$ 927	\$ 1,824	\$ 1,870

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

**Table of Contents****BRISTOL-MYERS SQUIBB COMPANY****CONSOLIDATED BALANCE SHEETS**

Dollars in Millions, Except Share and Per Share Data

(UNAUDITED)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,801	\$ 5,776
Marketable securities	2,236	2,957
Receivables	2,825	3,743
Inventories	1,521	1,384
Deferred income taxes	1,175	1,200
Prepaid expenses and other	455	258
Total Current Assets	11,013	15,318
Property, plant and equipment	4,478	4,521
Goodwill	6,799	5,586
Other intangible assets	4,569	3,124
Deferred income taxes	201	688
Marketable securities	3,732	2,909
Other assets	875	824
Total Assets	\$ 31,667	\$ 32,970
<b>LIABILITIES</b>		
Current Liabilities:		
Short-term borrowings	\$ 236	\$ 115
Accounts payable	2,134	2,603
Accrued expenses	2,467	2,791
Deferred income	357	337
Accrued rebates and returns	1,061	1,170
U.S. and foreign income taxes payable	138	167
Dividends payable	598	597
Total Current Liabilities	6,991	7,780
Pension, postretirement and postemployment liabilities	1,543	2,017
Deferred income	805	866
U.S. and foreign income taxes payable	604	573
Other liabilities	703	491
Long-term debt	5,209	5,376
Total Liabilities	15,855	17,103

Commitments and contingencies (Note 16)

**EQUITY**

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### Bristol-Myers Squibb Company Shareholders' Equity:

Preferred stock, \$2 convertible series, par value \$1 per share: Authorized 10 million shares; issued and outstanding 5,238 in 2012 and 5,268 in 2011, 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 2012 and 2011		221	220
Capital in excess of par value of stock		2,783	3,114
Accumulated other comprehensive loss		(2,967)	(3,045)
Retained earnings		33,661	33,069
Less cost of treasury stock 530 million common shares in 2012 and 515 million in 2011		(17,600)	(17,402)
<b>Total Bristol-Myers Squibb Company Shareholders' Equity</b>		<b>16,098</b>	<b>15,956</b>
Noncontrolling interest		(286)	(89)
<b>Total Equity</b>		<b>15,812</b>	<b>15,867</b>
<b>Total Liabilities and Equity</b>		<b>\$ 31,667</b>	<b>\$ 32,970</b>

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

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**BRISTOL-MYERS SQUIBB COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Dollars in Millions**

**(UNAUDITED)**

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows From Operating Activities:</b>		
Net earnings	\$ 2,290	\$ 2,674
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net earnings attributable to noncontrolling interest	(544)	(786)
Depreciation	175	228
Amortization	203	168
Impairment charges	288	15
Deferred income tax expense	80	243
Stock-based compensation expense	82	81
Other	13	(113)
Changes in operating assets and liabilities:		
Receivables	544	(328)
Inventories	(170)	(246)
Accounts payable	(222)	412
Deferred income	(48)	(98)
U.S. and foreign income taxes payable	75	(117)
Other	(1,245)	(559)
<b>Net Cash Provided by Operating Activities</b>	<b>1,521</b>	<b>1,574</b>
<b>Cash Flows From Investing Activities:</b>		
Sale and maturities of marketable securities	3,337	2,445
Purchases of marketable securities	(3,426)	(4,187)
Additions to property, plant and equipment and capitalized software	(236)	(149)
Sale of businesses and other investing activities	15	122
Purchase of businesses, net of cash acquired	(2,491)	
<b>Net Cash Used in Investing Activities</b>	<b>(2,801)</b>	<b>(1,769)</b>
<b>Cash Flows From Financing Activities:</b>		
Short-term borrowings/(repayments)	121	70
Long-term debt repayments	(109)	(78)
Interest rate swap terminations	2	89
Stock option exercises	314	235
Common stock repurchases	(860)	(385)
Dividends paid	(1,154)	(1,130)
<b>Net Cash Used in Financing Activities</b>	<b>(1,686)</b>	<b>(1,199)</b>
Effect of Exchange Rates on Cash and Cash Equivalents	(9)	26
<b>(Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(2,975)</b>	<b>(1,368)</b>
Cash and Cash Equivalents at Beginning of Period	5,776	5,033



<b>Cash and Cash Equivalents at End of Period</b>	\$ 2,801	\$ 3,665
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Note 1. BASIS OF PRESENTATION AND NEW ACCOUNTING STANDARDS**

Bristol-Myers Squibb Company (which may be referred to as Bristol-Myers Squibb, BMS or the Company) prepared these unaudited consolidated financial statements following the requirements of the Securities and Exchange Commission (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. These consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position at June 30, 2012 and December 31, 2011, the results of operations for the three and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated and disclosed through the report issuance date. These unaudited consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 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, based on complex judgments that are considered reasonable, that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and contingent liabilities at the date of the financial statements. The most significant assumptions are employed in estimates used in determining the fair value of intangible assets, restructuring charges and accruals, sales rebate and return accruals including the annual pharmaceutical company fee, legal contingencies, tax assets and tax liabilities, pension and postretirement benefits, inventory obsolescence, potential impairment of long-lived assets, allowances for bad debt, as well as in estimates used in applying the revenue recognition policy. Actual results may differ from estimated results.

**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 a global supply chain organization are utilized and responsible for the development and delivery of products to the market. Products are distributed and sold through regional organizations that serve the United States; Europe; Latin America, Middle East and Africa; Japan, Asia Pacific and Canada; and Emerging Markets defined as Brazil, Russia, India, China and Turkey. The business is also supported by global corporate staff functions. Segment information is consistent with the financial information regularly reviewed by the chief operating decision maker, the chief executive officer, for purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting future periods.

Net sales of key products were as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<i>Plavix* (clopidogrel bisulfate)</i>	\$ 741	\$ 1,865	\$ 2,434	\$ 3,627
<i>Avapro*/Avalide* (irbesartan/irbesartan-hydrochlorothiazide)</i>	117	251	324	541
<i>Eliquis (apixaban)</i>	1		1	
<i>Abilify* (aripiprazole)</i>	711	706	1,332	1,330
<i>Reyataz (atazanavir sulfate)</i>	406	396	764	762
<i>Sustiva (efavirenz) Franchise</i>	388	371	774	714
<i>Baraclude (entecavir)</i>	357	292	682	567
<i>Erbix* (cetuximab)</i>	179	173	358	338
<i>Sprycel (dasatinib)</i>	244	193	475	365
<i>Yervoy (ipilimumab)</i>	162	95	316	95
<i>Orencia (abatacept)</i>	290	228	544	427
<i>Nulojix (belatacept)</i>	3	2	4	2
<i>Onglyza/Kombiglyze (saxagliptin/saxagliptin and metformin)</i>	172	112	333	193
Mature Products and All Other	672	750	1,353	1,484

Net Sales	\$ 4,443	\$ 5,434	\$ 9,694	\$ 10,445
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**Table of Contents****Note 3. ALLIANCES AND COLLABORATIONS**

BMS maintains alliances and collaborations with various third parties for the development and commercialization of certain products. Unless otherwise noted, operating results associated with the alliances and collaborations are generally treated as follows: product revenues from BMS sales are included in revenue; royalties, collaboration fees, profit sharing and distribution fees are included in cost of goods sold; post-approval milestone payments to partners are deferred and amortized over the useful life within cost of goods sold; cost sharing reimbursements offset the intended operating expense; payments to BMS attributed to upfront, milestone and other licensing payments are deferred and amortized over the estimated useful life within other income/expense; income and expenses attributed to a collaboration's non-core activities, such as supply and manufacturing arrangements and compensation for opting-out of commercialization in certain countries, are included in other income/expense; partnerships and joint ventures are either consolidated or accounted for under the equity method of accounting and related cash receipts and distributions are treated as operating cash flow.

See the 2011 Annual Report on Form 10-K for a more complete description of the below agreements, including termination provisions, as well as disclosures of other alliances and collaborations.

**Sanofi**

BMS has agreements with Sanofi for the codevelopment and cocommercialization of *Avapro*\*/*Avalide*\* and *Plavix*\*. The worldwide alliance operates under the framework of two geographic territories; one in the Americas (principally the U.S., Canada, Puerto Rico and Latin American countries) and Australia and the other in Europe and Asia. Accordingly, two territory partnerships were formed to manage central expenses, such as marketing, research and development and royalties, and to supply finished product to the individual countries. In general, at the country level, agreements either to copromote (whereby a partnership was formed between the parties to sell each brand) or to comarket (whereby the parties operate and sell their brands independently of each other) are in place. The agreements with Sanofi expire on the later of (i) with respect to *Plavix*\*, 2013 and, with respect to *Avapro*\*/*Avalide*\*, 2012 in the Americas and Australia and 2013 in Europe and Asia, and (ii) the expiration of all patents and other exclusivity rights relating to the products in the applicable territory.

BMS acts as the operating partner and owns a 50.1% majority controlling interest in the territory covering the Americas and Australia and consolidates all country partnership results for this territory with Sanofi's 49.9% share of the results reflected as a noncontrolling interest. BMS recognizes net sales in this territory and in comarketing countries outside this territory (e.g. Germany, Italy for irbesartan only, Spain and Greece). Sanofi acts as the operating partner and owns a 50.1% majority controlling interest in the territory covering Europe and Asia and BMS has a 49.9% ownership interest in this territory.

BMS and Sanofi have a separate partnership governing the copromotion of irbesartan in the U.S. Sanofi paid BMS \$350 million for their acquisition of an interest in the irbesartan license for the U.S. upon formation of the alliance.

Summarized financial information related to this alliance is as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Territory covering the Americas and Australia:</b>				
Net sales	\$ 778	\$ 2,045	\$ 2,595	\$ 4,023
Royalty expense	141	397	508	755
Noncontrolling interest - pre-tax	249	601	854	1,174
Profit distributions to Sanofi	(449)	(702)	(1,058)	(1,301)
<b>Territory covering Europe and Asia:</b>				
Equity in net income of affiliates	(58)	(65)	(118)	(151)
Profit distributions to BMS	62	67	129	127
<b>Other:</b>				
Net sales in Europe comarketing countries and other	80	71	163	145
Amortization (income)/expense - irbesartan license fee	(8)	(8)	(16)	(16)
Supply activities and development and opt-out royalty (income)/expense	(39)	1	(45)	15

Dollars in Millions

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	June 30, 2012	December 31, 2011
Investment in affiliates territory covering Europe and Asia	\$ 26	\$ 37
Deferred income irbesartan license fee	13	29

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

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 319	\$ 382	\$ 638	\$ 761
Gross profit	132	172	270	340
Net income	120	142	242	282

**Otsuka**

BMS has a worldwide commercialization agreement with Otsuka Pharmaceutical Co., Ltd. (Otsuka), to codevelop and copromote *Abilify\**, for the treatment of schizophrenia, bipolar mania disorder and major depressive disorder, excluding certain Asia Pacific countries. The U.S. portion of the amended commercialization and manufacturing agreement expires upon the expected loss of product exclusivity in April 2015. Beginning on January 1, 2012, the contractual share of revenue recognized by BMS in the U.S. was reduced from 53.5% in 2011 to 51.5% and will be further reduced in 2013.

In the UK, Germany, France and Spain, BMS receives 65% of third-party net sales. In these countries and the U.S., third-party customers are invoiced by BMS on behalf of Otsuka and alliance revenue is recognized when *Abilify\** is shipped and all risks and rewards of ownership have been transferred to third-party customers. In certain countries where BMS is presently the exclusive distributor for the product or has an exclusive right to sell *Abilify\**, BMS recognizes all of the net sales.

BMS purchases the product from Otsuka and performs finish manufacturing for sale to third-party customers by BMS or Otsuka. Under the terms of the amended agreement, BMS paid Otsuka \$400 million, which is amortized as a reduction of net sales through the expected loss of U.S. exclusivity in April 2015. The unamortized balance is included in other assets. Otsuka receives a royalty based on 1.5% of total U.S. net sales. Otsuka is responsible for 30% of the U.S. expenses related to the commercialization of *Abilify\** from 2010 through 2012. BMS also reimburses Otsuka for its contractual share of the annual pharmaceutical company fee related to *Abilify\**.

BMS and Otsuka also have an oncology collaboration for *Sprycel* and *Ixempra* (ixabepilone) (the Oncology Products) in the U.S., Japan and the top five markets in the EU. The Company pays a collaboration fee to Otsuka equal to 30% of the first \$400 million annual net sales of the Oncology Products in the Oncology Territory, 5% of annual net sales between \$400 million and \$600 million, and 3% of annual net sales between \$600 million and \$800 million with additional trailing percentages of annual net sales over \$800 million. Otsuka contributes 20% of the first \$175 million of certain commercial operational expenses relating to the Oncology Products in the Oncology Territory and 1% of such costs in excess of \$175 million.

Summarized financial information related to this alliance is as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<i>Abilify*</i> net sales, including amortization of extension payment	\$ 711	\$ 706	\$ 1,332	\$ 1,330
Oncology Products collaboration fee expense	35	37	67	70
Royalty expense	20	18	37	35
Commercialization expense reimbursement to/(from) Otsuka	(19)	(11)	(32)	(22)
Amortization (income)/expense extension payment	17	17	33	33
Amortization (income)/expense upfront, milestone and other licensing payments	2	2	4	4

Dollars in Millions	December	
	June 30, 2012	31, 2011
Other assets extension payment	\$ 186	\$ 219
Other intangible assets upfront, milestone and other licensing payments	1	5

**Lilly**

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BMS has an Epidermal Growth Factor Receptor (EGFR) commercialization agreement with Eli Lilly and Company (Lilly) through Lilly's November 2008 acquisition of ImClone Systems Incorporated (ImClone) for the codevelopment and promotion of *Erbix*\* and necitumumab (IMC-11F8) in the U.S. which expires as to *Erbix*\* in September 2018. BMS also has codevelopment and copromotion rights to both products in Canada and Japan. *Erbix*\* is indicated for use in the treatment of patients with metastatic colorectal cancer and for use in the treatment of squamous cell carcinoma of the head and neck. Under the EGFR agreement, with respect to *Erbix*\* sales in North America, Lilly receives a distribution fee based on a flat rate of 39% of net sales in North America plus reimbursement of certain royalties paid by Lilly.

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In Japan, BMS shares rights to *Erbix*\* under an agreement with Lilly and Merck KGaA and receives 50% of the pre-tax profit from Merck KGaA's net sales of *Erbix*\* in Japan which is further shared equally with Lilly.

With respect to necitumumab, the companies will share in the cost of developing and potentially commercializing necitumumab in the U.S., Canada and Japan. Lilly maintains exclusive rights to necitumumab in all other markets. BMS will fund 55% of development costs for studies that will be used only in the U.S., 50% for Japan studies and 27.5% for global studies.

BMS is amortizing \$500 million of license acquisition costs associated with the EGFR commercialization agreement through 2018.

Summarized financial information related to this alliance is as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 179	\$ 173	\$ 358	\$ 338
Distribution fees and royalty expense	75	71	149	140
Research and development expense reimbursement to Lilly - necitumumab	7	4	8	6
Amortization (income)/expense - upfront, milestone and other licensing payments	9	9	19	19
Commercialization expense reimbursements to/(from) Lilly	(6)	(2)	(10)	(3)
Japan commercialization profit sharing (income)/expense	(13)	(6)	(19)	(15)

Dollars in Millions	June	December
	30,	31,
	2012	2011
Other intangible assets - upfront, milestone and other licensing payments	\$ 230	\$ 249

**Gilead**

BMS and Gilead Sciences, Inc. (Gilead) have a joint venture to develop and commercialize *Atripla*\* (efavirenz 600 mg/ emtricitabine 200 mg/ tenofovir disoproxil fumarate 300 mg), a once-daily single tablet three-drug regimen for the treatment of human immunodeficiency virus (HIV) infection, combining *Sustiva*, a product of BMS, and *Truvada*\* (emtricitabine and tenofovir disoproxil fumarate), a product of Gilead, in the U.S., Canada and Europe.

Net sales of the bulk efavirenz component of *Atripla*\* are deferred until the combined product is sold to third-party customers. Net sales for the efavirenz component are based on the relative ratio of the average respective net selling prices of *Truvada*\* and *Sustiva*.

Summarized financial information related to this alliance is as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 323	\$ 298	\$ 645	\$ 569
Equity in net loss of affiliates	4	3	8	8

**AstraZeneca**

BMS maintains two worldwide codevelopment and cocommercialization agreements with AstraZeneca PLC (AstraZeneca) for *Onglyza*, *Kombiglyze* (excluding Japan), *Komboglyze* and *Forxiga* (dapagliflozin). *Onglyza*, *Kombiglyze* (saxagliptin and metformin hydrochloride extended-release) and *Komboglyze* (saxagliptin and metformin immediate-release marketed in the EU) are indicated for use in the treatment of diabetes. In this document unless specifically noted, we refer to both *Kombiglyze* and *Komboglyze* as *Kombiglyze*. *Forxiga* is currently being studied for the treatment of diabetes. *Onglyza* and *Forxiga* were discovered by BMS. *Kombiglyze* was codeveloped with AstraZeneca. Both companies jointly develop the clinical and marketing strategy and share commercialization expenses and profits and losses equally on a global basis and also share in development costs. BMS manufactures both products. BMS has opted to decline involvement in cocommercialization in certain countries not in the BMS global commercialization network and instead receive compensation based on net sales recorded by AstraZeneca in these countries. Opt-out compensation recorded by BMS was not material in the three and six months ended June 30, 2012.



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BMS received \$300 million in upfront, milestone and other licensing payments related to saxagliptin as of June 30, 2012 and \$170 million in upfront, milestone and other licensing payments related to dapagliflozin as of June 30, 2012.

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Summarized financial information related to this alliance is as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 172	\$ 112	\$ 333	\$ 193
Profit sharing expense	77	52	150	90
Commercialization expense reimbursements to/(from) AstraZeneca	(7)	(10)	(19)	(19)
Research and development expense reimbursements to/(from) AstraZeneca	6	15	10	29
Amortization (income)/expense upfront, milestone and other licensing payments	(11)	(10)	(21)	(18)

Dollars in Millions	December	
	June 30, 2012	31, 2011
Deferred income upfront, milestone and other licensing payments	\$ 217	\$ 230
Saxagliptin	134	142
Dapagliflozin		

Following the completion of BMS's planned acquisition of Amylin Pharmaceuticals, Inc. (Amylin) (see Note 4. Acquisitions for further information), BMS and AstraZeneca Pharmaceuticals LP, a wholly-owned subsidiary of AstraZeneca will enter into collaboration arrangements, based on the framework of the existing diabetes alliance agreements, regarding the development and commercialization of Amylin's portfolio of products and AstraZeneca will make a payment to Amylin, as a wholly-owned subsidiary of BMS, in the amount of approximately \$3.4 billion in cash. Profits and losses arising from the collaboration will be shared equally. In addition, AstraZeneca has the option, exercisable at its sole discretion following the closing of the acquisition, to establish equal governance rights over certain key strategic and financial decisions regarding the collaboration, upon the payment to BMS of an additional \$135 million.

**Pfizer**

BMS and Pfizer Inc. (Pfizer) maintain a worldwide codevelopment and cocommercialization agreement for *Eliquis*, an anticoagulant discovered by BMS for the prevention and treatment of atrial fibrillation and other arterial thrombotic conditions. Pfizer funds 60% of all development costs under the initial development plan effective January 1, 2007. The companies jointly develop the clinical and marketing strategy and share commercialization expenses and profits equally on a global basis. In certain countries not in the BMS global commercialization network, Pfizer will commercialize *Eliquis* alone and will pay a royalty to BMS. BMS manufactures the product globally.

BMS has received \$559 million in upfront, milestone and other licensing payments for *Eliquis* as of June 30, 2012.

Summarized financial information related to this alliance is as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 1	\$	\$ 1	\$
Commercialization expense reimbursement to/(from) Pfizer	(3)	(2)	(8)	(3)
Research and development reimbursements to/(from) Pfizer	9	(27)	11	(56)
Amortization (income)/expense upfront, milestone and other licensing payments	(9)	(8)	(19)	(16)

Dollars in Millions	December	
	June 30, 2012	31, 2011
Deferred income upfront, milestone and other licensing payments	\$ 415	\$ 434

**Table of Contents****Note 4. ACQUISITIONS***Amylin Pharmaceuticals, Inc. Acquisition*

On June 29, 2012, BMS entered into an agreement to acquire Amylin Pharmaceuticals, Inc. (Amylin) for \$31.00 per share in cash, pursuant to a cash tender offer and second step merger, or an aggregate purchase price of approximately \$5.3 billion. BMS will also be assuming Amylin's net debt and a contractual payment obligation to Eli Lilly & Company, together totaling approximately \$1.7 billion. The closing of the transaction is expected to occur during the third quarter of 2012 subject to, among other items, at least a majority of the outstanding shares of Amylin being tendered and customary regulatory approvals. See Note 3. Alliances and Collaborations for further information regarding the agreement to acquire Amylin.

Amylin is a biopharmaceutical company dedicated to the discovery, development and commercialization of innovative medicines for patients with diabetes and other metabolic diseases. Amylin's primary focus is on the research, development and commercialization of a franchise of GLP-1 agonists for the treatment of type 2 diabetes.

*Inhibitex, Inc. Acquisition*

On February 13, 2012, BMS completed its acquisition of the outstanding shares of Inhibitex, Inc. (Inhibitex), a clinical-stage biopharmaceutical company focused on developing products to prevent and treat serious infectious diseases. Acquisition costs of \$12 million were included in other expense. BMS obtained Inhibitex's lead asset, INX-189, an oral nucleotide polymerase (NS5B) inhibitor in Phase II development for the treatment of chronic hepatitis C infections. Goodwill generated from this acquisition was primarily attributed to the potential to offer a full portfolio of therapy choices for hepatitis infections as well as to provide additional levels of sustainability to BMS's virology pipeline.

The purchase price allocation was as follows:

<b>Purchase price:</b>	Dollars in Millions
Cash	\$ 2,539
<b>Identifiable net assets:</b>	
Cash	46
Marketable securities	17
In-process research and development (IPRD)	1,875
Accounts payable	(23)
Accrued expenses	(10)
Deferred income taxes	(579)
<b>Total identifiable net assets</b>	<b>1,326</b>
Goodwill	\$ 1,213

The fair value of the IPRD was estimated utilizing the income method which risk adjusted the expected future net cash flows estimated to be generated from the compounds based upon estimated probabilities of technical and regulatory success (PTRS). The unit of account for IPRD was a global view that considered all potential jurisdictions and indications. The cash flows were adjusted to present value utilizing a 12.0% discount rate reflecting the risk factors associated with the cash flow streams.

IPRD includes \$1.8 billion attributed to INX-189. INX-189 is expected to be most effective when used in combination therapy and it is assumed all market participants would inherently maintain franchise synergies attributed to maximizing the cash flows of their existing virology pipeline assets. The cash flows utilized to value INX-189 include such synergies and also assume initial positive cash flows to commence in 2017, shortly after the expected receipt of regulatory approvals, subject to trial results. The weighted-average PTRS utilized in the INX-189 valuation was 38%. Actual cash flows attributed to IPRD are likely to be different than those assumed.

The results of Inhibitex's operations are included in the consolidated financial statements from February 13, 2012. Pro forma supplemental financial information is not provided as the impact of the acquisition is not material to operating results. Goodwill, IPRD and all intangible assets valued in this acquisition are non-deductible for tax purposes.



**Table of Contents****Note 5. RESTRUCTURING**

The following is the provision for restructuring:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Employee termination benefits	\$ 16	\$ 25	\$ 35	\$ 68
Other exit costs	4	15	7	16
<b>Provision for restructuring</b>	<b>\$ 20</b>	<b>\$ 40</b>	<b>\$ 42</b>	<b>\$ 84</b>

Restructuring charges included termination benefits for workforce reductions of manufacturing, selling, administrative, and research and development personnel across all geographic regions of approximately 175 and 215 for the three months ended June 30, 2012 and 2011, respectively, and approximately 295 and 650 for the six months ended June 30, 2012 and 2011, respectively.

The following table represents the activity of employee termination and other exit cost liabilities:

Dollars in Millions	Six Months Ended June 30,	
	2012	2011
Liability at January 1	\$ 77	\$ 126
Charges	46	86
Changes in estimates	(4)	(2)
Provision for restructuring	42	84
Foreign currency translation		1
Spending	(45)	(83)
<b>Liability at June 30</b>	<b>\$ 74</b>	<b>\$ 128</b>

**Note 6. INCOME TAXES**

The effective income tax rate on earnings was 23.7% for the three months ended June 30, 2012 compared to 27.0% for the three months ended June 30, 2011 and 25.8% for the six months ended June 30, 2012 compared to 24.8% for the six months ended June 30, 2011. The effective tax rate is lower than the U.S. statutory rate of 35% primarily attributable to undistributed earnings of certain foreign subsidiaries that have been considered or are expected to be indefinitely reinvested offshore. If these earnings are repatriated to the U.S. in the future, or if it was determined that such earnings are to be remitted in the foreseeable future, additional tax provisions would be required. Reforms to U.S. tax laws related to foreign earnings have been proposed and if adopted, may increase taxes, which could reduce the results of operations and cash flows.

The decrease in the effective tax rate in the three months ended June 30, 2012 was due to:

Favorable earnings mix between high and low tax jurisdictions compared to the prior period.  
Partially offset by:

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An unfavorable impact on the current year rate from the research and development tax credit, which was not extended as of June 30, 2012.

The increase in the effective tax rate in the six months ended June 30, 2012 was due to:

Lower tax benefits from contingent tax matters primarily related to the effective settlements and remeasurements of uncertain tax positions (\$6 million charge in 2012 and \$79 million benefit in 2011); and

An unfavorable impact on the current year rate from the research and development tax credit, which was not extended as of June 30, 2012.

Partially offset by:

Favorable earnings mix between high and low tax jurisdictions compared to the prior period.

BMS is currently under examination by a number of tax authorities which have proposed adjustments to tax for issues such as transfer pricing, certain tax credits and the deductibility of certain expenses. BMS estimates that it is reasonably possible that the total amount of unrecognized tax benefits at June 30, 2012 could decrease in the range of approximately \$40 million to \$70 million in the next twelve months as a result of the settlement of certain tax audits and other events resulting in the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also reasonably possible that new issues will be raised by tax authorities which may require adjustments to the amount of unrecognized tax benefits; however, an estimate of such adjustments cannot reasonably be made at this time. BMS believes that it has adequately provided for all open tax years by tax jurisdiction.

**Table of Contents****Note 7. EARNINGS PER SHARE**

Amounts in Millions, Except Per Share Data	Three Months Ended June 30, Six Months Ended June 30,			
	2012	2011	2012	2011
Net Earnings Attributable to BMS	\$ 645	\$ 902	\$ 1,746	\$ 1,888
Earnings attributable to unvested restricted shares		(2)	(2)	(4)
<b>Net Earnings Attributable to BMS common shareholders</b>	<b>\$ 645</b>	<b>\$ 900</b>	<b>\$ 1,744</b>	<b>\$ 1,884</b>
Earnings per share basic	\$ 0.38	\$ 0.53	\$ 1.04	\$ 1.11
Weighted-average common shares outstanding basic	1,683	1,707	1,685	1,705
Contingently convertible debt common stock equivalents	1	1	1	1
Incremental shares attributable to share-based compensation plans	17	14	18	12
Weighted-average common shares outstanding diluted	1,701	1,722	1,704	1,718
Earnings per share diluted	\$ 0.38	\$ 0.52	\$ 1.02	\$ 1.10
Anti-dilutive weighted-average equivalent shares stock incentive plans		27	3	39

**Note 8. FINANCIAL INSTRUMENTS**

Financial instruments include cash and cash equivalents, marketable securities, accounts receivable and payable, debt instruments and derivatives. Due to their short-term maturity, the carrying amount of accounts receivables and payable approximate fair value. Cash equivalents primarily consist of highly liquid investments with original maturities of three months or less at the time of purchase and are recorded at cost, which approximates fair value.

BMS has exposure to market risk due to changes in currency exchange rates and interest rates. As a result, certain derivative financial instruments are used when available on a cost-effective basis to hedge the underlying economic exposure. These instruments qualify as cash flow, net investment and fair value hedges upon meeting certain criteria, including initial and periodic assessments of the effectiveness in offsetting hedged exposures. Changes in fair value of derivatives that do not qualify for hedge accounting are recognized in earnings as they occur. Derivative financial instruments are not used for trading purposes.

All financial instruments, including derivatives, are subject to counterparty credit risk which is considered as part of the overall fair value measurement. Counterparty credit risk is monitored on an ongoing basis and is mitigated by limiting amounts outstanding with any individual counterparty, utilizing conventional derivative financial instruments and only entering into agreements with counterparties that meet high credit quality standards. The consolidated financial statements would not be materially impacted if any counterparty failed to perform according to the terms of its agreement. Under the terms of the agreements, posting of collateral is not required by any party whether derivatives are in an asset or liability position.

*Fair Value Measurements* The fair values of financial instruments are classified into one of the following categories:

Level 1 inputs utilize quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. These instruments include U.S. treasury securities.

Level 2 inputs include observable prices for similar instruments, quoted prices for identical or similar instruments in markets that are not active, and other observable inputs that can be corroborated by market data for substantially the full term of the assets or liabilities. These instruments include corporate debt securities, commercial paper, Federal Deposit Insurance Corporation (FDIC) insured debt securities, certificates of

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deposit, money market funds, foreign currency forward contracts, interest rate swap contracts, equity funds and fixed income funds. Additionally, certain corporate debt securities utilize a third-party matrix-pricing model that uses significant inputs corroborated by market data for substantially the full term of the assets. Equity and fixed income funds are primarily invested in publicly traded securities and are valued at the respective net asset value of the underlying investments. There were no significant unfunded commitments or restrictions on redemptions related to equity and fixed income funds as of June 30, 2012. Level 2 derivative instruments are valued using London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) yield curves, less credit valuation adjustments, and observable forward foreign exchange rates at the reporting date. Valuations of derivative contracts may fluctuate considerably from period-to-period due to volatility in underlying foreign currencies and underlying interest rates, which are driven by market conditions and the duration of the contract. Credit adjustment volatility may have a significant impact on the valuation of interest rate swaps due to changes in counterparty credit ratings and credit default swap spreads.



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Level 3 unobservable inputs are used when little or no market data is available. Valuation models for the Auction Rate Security (ARS) and Floating Rate Securities (FRS) portfolio are based on expected cash flow streams and collateral values including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. The fair value of ARS was determined using an internally developed valuation which was based in part on indicative bids received on the underlying assets of the security and other evidence of fair value. The ARS is a private placement security rated BBB by Standard and Poor's and represents interests in insurance securitizations. Due to the current lack of an active market for FRS and the general lack of transparency into their underlying assets, other qualitative analysis is relied upon to value FRS including discussions with brokers and fund managers, default risk underlying the security and overall capital market liquidity.

*Available-For-Sale Securities and Cash Equivalents*

The following table summarizes available-for-sale securities at June 30, 2012 and December 31, 2011:

Dollars in Millions	Amortized Cost	Gross Unrealized Gain in Accumulated OCI	Gross Unrealized Loss in Accumulated OCI	Gain/(Loss) in Income	Fair Value	Level 1	Fair Value	
							Level 2	Level 3
<b>June 30, 2012</b>								
Marketable Securities								
Certificates of Deposit	\$ 621	\$	\$	\$	\$ 621	\$	\$ 621	\$
Corporate Debt Securities	4,405	69	(2)		4,472		4,472	
Commercial Paper	546				546		546	
U.S. Treasury Securities	150	1			151	151		
FDIC Insured Debt Securities	50				50		50	
Equity Funds	50			3	53		53	
Fixed Income Funds	45			1	46		46	
ARS	9	1			10			10
FRS	21		(2)		19			19
Total Marketable Securities	\$ 5,897	\$ 71	\$ (4)	\$ 4	\$ 5,968	\$ 151	\$ 5,788	\$ 29
<b>December 31, 2011</b>								
Marketable Securities								
Certificates of Deposit	\$ 1,051	\$	\$	\$	\$ 1,051	\$	\$ 1,051	\$
Corporate Debt Securities	2,908	60	(3)		2,965		2,965	
Commercial Paper	1,035				1,035		1,035	
U.S. Treasury Securities	400	2			402	402		
FDIC Insured Debt Securities	302	1			303		303	
ARS	80	12			92			92
FRS	21		(3)		18			18
Total Marketable Securities	\$ 5,797	\$ 75	\$ (6)	\$	\$ 5,866	\$ 402	\$ 5,354	\$ 110

The following table summarizes the classification of available for sale securities in the consolidated balance sheet:

Dollars in Millions	June 30, 2012	December 31, 2011
Current Marketable Securities	\$ 2,236	\$ 2,957
Non-current Marketable Securities	3,732	2,909

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Total Marketable Securities	\$	5,968	\$	5,866
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Money market funds and other securities aggregating \$2,512 million and \$5,469 million at June 30, 2012 and December 31, 2011, respectively, were included in cash and cash equivalents and valued using Level 2 inputs. At June 30, 2012, \$3,718 million of non-current available for sale corporate debt securities and FRS mature within five years.

The change in fair value for the investments in equity and fixed income funds are recognized in the results of operations and are designed to offset the changes in fair value of certain employee retirement benefits.

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The following table summarizes the activity for financial assets utilizing Level 3 fair value measurements:

	2012	2011
Fair value at January 1	\$ 110	\$ 110
Sales	(81)	
Fair value at June 30	\$ 29	\$ 110

**Qualifying Hedges**

The following table summarizes the fair value of outstanding derivatives:

Dollars in Millions	Balance Sheet Location	June 30, 2012		December 31, 2011	
		Notional	Fair Value (Level 2)	Notional	Fair Value (Level 2)
<i>Derivatives designated as hedging instruments:</i>					
Interest rate swap contracts	Other assets	\$ 573	\$ 150	\$ 579	\$ 135
Foreign currency forward contracts	Other assets	1,254	85	1,347	88
Foreign currency forward contracts	Accrued expenses	348	(5)	480	(29)

*Cash Flow Hedges* Foreign currency forward contracts are primarily utilized to hedge forecasted intercompany inventory purchase transactions in certain foreign currencies. These forward contracts are designated as cash flow hedges with the effective portion of changes in fair value being temporarily reported in accumulated other comprehensive income (OCI) and recognized in earnings when the hedged item affects earnings. As of June 30, 2012, significant outstanding foreign currency forward contracts were primarily attributed to Euro and Japanese yen foreign currency forward contracts in the notional amount of \$746 million and \$514 million, respectively.

The net gain on foreign currency forward contracts qualifying for cash flow hedge accounting is expected to be reclassified to cost of products sold within the next two years, including \$78 million of pre-tax gains to be reclassified within the next 12 months. Cash flow hedge accounting is discontinued when the forecasted transaction is no longer probable of occurring on the originally forecasted date, or 60 days thereafter, or when the hedge is no longer effective. Assessments to determine whether derivatives designated as qualifying hedges are highly effective in offsetting changes in the cash flows of hedged items are performed at inception and on a quarterly basis. Any ineffective portion of the change in fair value is included in current period earnings. The earnings impact related to discontinued cash flow hedges and hedge ineffectiveness was not significant during the three and six months ended June 30, 2012 and 2011.

*Net Investment Hedges* Non-U.S. dollar borrowings of 541 million (\$677 million) are designated to hedge the foreign currency exposures of the net investment in certain foreign affiliates. These borrowings are designated as net investment hedges and recognized in long-term debt. The effective portion of foreign exchange gains or losses on the remeasurement of the debt is recognized in the foreign currency translation component of accumulated OCI with the related offset in long-term debt.

*Fair Value Hedges* Fixed-to-floating interest rate swap contracts are designated as fair value hedges and are used as part of an interest rate risk management strategy to create an appropriate balance of fixed and floating rate debt. The swaps and underlying debt for the benchmark risk being hedged are recorded at fair value. When the underlying swap is terminated prior to maturity, the fair value basis adjustment to the underlying debt instrument is amortized into earnings as an adjustment to interest expense over the remaining term of the debt.

The adjustment to long-term debt from interest rate swaps that qualify as fair value hedges and other items was as follows:

Dollars in Millions	June 30, 2012	December 31, 2011
Principal Value	\$ 4,533	\$ 4,669

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Adjustments to Principal Value:

Fair value of interest rate swaps	150	135
Unamortized basis adjustment from swap terminations	547	594
Unamortized bond discounts	(21)	(22)

Total	\$	5,209	\$	5,376
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The fair value of long-term debt was \$6,294 million at June 30, 2012 and \$6,406 million at December 31, 2011 and was valued using Level 2 inputs. Interest payments were \$56 million and \$32 million for the three months ended June 30, 2012 and 2011, respectively, and \$89 million and \$63 million for the six months ended June 30, 2012 and 2011, respectively, net of amounts related to interest rate swap contracts.

During the second quarter of 2011, fixed-to-floating interest rate swap agreements of \$800 million notional amount and 75 million notional amount were terminated generating total proceeds of \$95 million (including accrued interest of \$12 million). The basis adjustment from the swap terminations is amortized as interest expense over the remaining life of the underlying debt.

Debt repurchase activity was as follows:

Dollars in Millions	Six Months Ended June 30,	
	2012	2011
Principal amount	\$ 80	\$ 71
Carrying value	90	88
Repurchase price	109	78
Notional amount of interest rate swaps terminated	6	34
Swap termination proceeds	2	6
Total (gain)/loss	19	(10)

**Note 9. RECEIVABLES**

Receivables include:

Dollars in Millions	June 30, 2012	December 31, 2011
Trade receivables	\$ 1,738	\$ 2,397
Less allowances	(115)	(147)
Net trade receivables	1,623	2,250
Alliance partners receivables	873	1,081
Prepaid and refundable income taxes	146	256
Miscellaneous receivables	183	156
Receivables	\$ 2,825	\$ 3,743

Receivables are netted with deferred income related to alliance partners until recognition of income. As a result, alliance partner receivables and deferred income were reduced by \$1,181 million and \$901 million at June 30, 2012 and December 31, 2011, respectively. For additional information regarding alliance partners, see Note 3. Alliances and Collaborations. Non-U.S. receivables sold on a nonrecourse basis were \$493 million and \$525 million for the six months ended June 30, 2012 and 2011, respectively. In the aggregate, receivables due from three pharmaceutical wholesalers in the U.S. represented 38% and 55% of total trade receivables at June 30, 2012 and December 31, 2011, respectively.

**Note 10. INVENTORIES**

Inventories include:

Dollars in Millions	June 30, 2012	December 31, 2011
Finished goods	\$ 503	\$ 478
Work in process	755	646

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Raw and packaging materials	263	260
Inventories	\$ 1,521	\$ 1,384

Inventories expected to remain on-hand beyond one year are included in non-current assets and were \$349 million (including \$35 million subject to regulatory approval prior to being sold) at June 30, 2012 and \$260 million at December 31, 2011. The status of the regulatory approval process and the probability of future sales were considered in assessing the recoverability of these costs.

**Table of Contents****Note 11. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment includes:

Dollars in Millions	June 30, 2012	December 31, 2011
Land	\$ 111	\$ 137
Buildings	4,543	4,545
Machinery, equipment and fixtures	3,421	3,437
Construction in progress	326	262
Gross property, plant and equipment	8,401	8,381
Less accumulated depreciation	(3,923)	(3,860)
Property, plant and equipment	\$ 4,478	\$ 4,521

**Note 12. GOODWILL**

Changes in the carrying amount of goodwill during the six months ended June 30, 2012 were as follows:

Dollars in Millions	
Balance at January 1, 2012	\$ 5,586
Inhibitex acquisition	1,213
Balance at June 30, 2012	\$ 6,799

Qualitative factors were assessed in the first quarter in determining whether it was more likely than not that the fair value of our aggregated geographic reporting units exceeded its carrying value. Examples of qualitative factors assessed included our share price, our financial performance compared to budgets, long-term financial plans, macroeconomic, industry and market conditions as well as the substantial excess of fair value over the carrying value of net assets from the annual impairment test performed in the prior year. Positive and negative influences of each relevant factor were assessed both individually and in the aggregate and as a result it was concluded that no additional quantitative testing was required.

**Note 13. EQUITY**

Dollars and Shares in Millions	Common Stock		Capital in Excess		Treasury Stock		Noncontrolling Interest
	Shares	Par Value	of Par Value of Stock	Retained Earnings	Shares	Cost	
Balance at January 1, 2011	2,205	\$ 220	\$ 3,682	\$ 31,636	501	\$ (17,454)	\$ (75)
Net earnings attributable to BMS				1,888			
Cash dividends declared				(1,132)			
Stock repurchase program					14	(386)	
Employee stock compensation plans			(361)		(15)	649	
Net earnings attributable to noncontrolling interest							1,186
Distributions							(1,319)
Balance at June 30, 2011	2,205	\$ 220	\$ 3,321	\$ 32,392	500	\$ (17,191)	\$ (208)

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Balance at January 1, 2012	2,205	\$ 220	\$ 3,114	\$ 33,069	515	\$ (17,402)	\$ (89)
Net earnings attributable to BMS				1,746			
Cash dividends declared				(1,154)			
Stock repurchase program					27	(875)	
Employee stock compensation plans	3	1	(331)		(12)	677	
Net earnings attributable to noncontrolling interest							859
Distributions							(1,056)
Balance at June 30, 2012	2,208	\$ 221	\$ 2,783	\$ 33,661	530	\$ (17,600)	\$ (286)

Treasury stock is recognized at the cost to reacquire the shares. Shares issued from treasury are recognized utilizing the first-in first-out method.



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In June 2012, the Board of Directors increased its authorization for the repurchase of common stock by \$3.0 billion, with \$3.3 billion of common stock repurchase capacity remaining as of June 30, 2012. Repurchases may be made either in the open market or through private transactions, including under repurchase plans established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. The stock repurchase program does not have an expiration date and is expected to take place over a couple of years. It may be suspended or discontinued at any time.

Noncontrolling interest is primarily related to the partnerships with Sanofi for the territory covering the Americas for net sales of *Plavix*\*. Net earnings attributable to noncontrolling interest are presented net of taxes of \$91 million and \$204 million for the three months ended June 30, 2012 and 2011, respectively, and \$320 million and \$400 million for the six months ended June 30, 2012 and 2011, respectively, in the consolidated statements of earnings with a corresponding increase to the provision for income taxes. Distribution of the partnership profits to Sanofi and Sanofi's funding of ongoing partnership operations occur on a routine basis. The above activity includes the pre-tax income and distributions related to these partnerships.

The accumulated balances related to each component of other comprehensive income/(loss) (OCI), net of taxes, were as follows:

Dollars in Millions	Foreign Currency Translation	Derivatives Qualifying as Effective Hedges	Pension and Other Postretirement Benefits	Available for Sale Securities	Accumulated Other Comprehensive Income/(Loss)
Balance at January 1, 2011	\$ (222)	\$ (20)	\$ (2,163)	\$ 34	\$ (2,371)
Other comprehensive income/(loss)	(29)	(44)	37	18	(18)
Balance at June 30, 2011	\$ (251)	\$ (64)	\$ (2,126)	\$ 52	\$ (2,389)
Balance at January 1, 2012	\$ (238)	\$ 36	\$ (2,905)	\$ 62	\$ (3,045)
Other comprehensive income/(loss)	7	12	60	(1)	78
Balance at June 30, 2012	\$ (231)	\$ 48	\$ (2,845)	\$ 61	\$ (2,967)

**Note 14. PENSION AND POSTRETIREMENT BENEFIT PLANS**

The net periodic benefit cost of defined benefit pension and postretirement benefit plans includes:

Dollars in Millions	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits 2012	Pension Benefits 2011	Other Benefits 2012	Other Benefits 2011	Pension Benefits 2012	Pension Benefits 2011	Other Benefits 2012	Other Benefits 2011
Service cost – benefits earned during the year	\$ 7	\$ 11	\$ 2	\$ 2	\$ 17	\$ 21	\$ 4	\$ 4
Interest cost on projected benefit obligation	79	86	5	6	158	170	11	13
Expected return on plan assets	(126)	(118)	(6)	(6)	(252)	(233)	(13)	(13)
Amortization of prior service cost/(benefit)	(1)				(1)		(1)	(1)
Amortization of net actuarial loss	32	29	2	1	65	57	6	3
Curtailments						(1)		
Settlements						(2)		
Total net periodic benefit cost	\$ (9)	\$ 8	\$ 3	\$ 3	\$ (13)	\$ 12	\$ 7	\$ 6

Contributions to the U.S. pension plans are expected to be approximately \$340 million during 2012, of which \$319 million was contributed in the six months ended June 30, 2012. Contributions to the international plans are expected to range from \$75 million to \$90 million in 2012, of which \$40 million was contributed in the six months ended June 30, 2012.

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The expense attributed to defined contribution plans in the U.S. was \$48 million and \$47 million for the three months ended June 30, 2012 and 2011, respectively and \$96 million and \$86 million for the six months ended June 30, 2012 and 2011, respectively.

**Table of Contents****Note 15. EMPLOYEE STOCK BENEFIT PLANS**

Stock-based compensation expense was as follows:

Dollars in Millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock options	\$ 2	\$ 7	\$ 5	\$ 13
Restricted stock	18	22	37	40
Market share units	7	5	13	11
Long-term performance awards	13	9	27	17
<b>Total stock-based compensation expense</b>	<b>\$ 40</b>	<b>\$ 43</b>	<b>\$ 82</b>	<b>\$ 81</b>
Deferred tax benefit related to stock-based compensation expense	\$ 14	\$ 15	\$ 28	\$ 28

In the six months ended June 30, 2012, 2.9 million restricted stock units, 1.1 million market share units and 1.7 million long-term performance share units were granted. The weighted-average grant date fair value for restricted stock units, market share units and long-term performance share units granted during the six months ended June 30, 2012 was \$32.65, \$31.85 and \$32.33, respectively.

Substantially all restricted stock units vest ratably over a four year period based on share price performance. Market share units vest ratably over a four year period based on share price performance. The fair value of market share units was estimated on the date of grant using a model applying multiple input variables that determine the probability of satisfying market conditions. Long-term performance share units are determined based on the achievement of annual performance goals, but are not vested until the end of the three year plan period.

Total compensation costs related to nonvested awards not yet recognized and the weighted-average period over which such awards are expected to be recognized at June 30, 2012 were as follows:

Dollars in Millions	Stock Options	Restricted Stock	Market Share Units	Long-Term Performance Awards
Unrecognized compensation cost	\$ 6	\$ 184	\$ 46	\$ 55
Expected weighted-average period in years of compensation cost to be recognized	0.7	2.9	3.1	1.5

**Note 16. LEGAL PROCEEDINGS AND CONTINGENCIES**

The Company and certain of its subsidiaries are involved in various lawsuits, claims, government investigations and other legal proceedings that arise in the ordinary course of business. The Company recognizes accruals for such contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. These matters involve patent infringement, antitrust, securities, pricing, sales and marketing practices, environmental, commercial, health and safety matters, consumer fraud, employment matters, product liability and insurance coverage. Legal proceedings that are material or that the Company believes could become material are described below.

Although the Company believes it has substantial defenses in these matters, there can be no assurance that there will not be an increase in the scope of pending matters or that any future lawsuits, claims, government investigations or other legal proceedings will not be material. Unless otherwise noted, the Company is unable to assess the outcome of the respective litigation nor is it able to provide an estimated range of potential loss. Furthermore, failure to enforce our patent rights would likely result in substantial decreases in the respective product sales from generic competition.

**INTELLECTUAL PROPERTY****Plavix\* Australia**

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As previously disclosed, Sanofi was notified that, in August 2007, GenRx Proprietary Limited (GenRx) obtained regulatory approval of an application for clopidogrel bisulfate 75mg tablets in Australia. GenRx, formerly a subsidiary of Apotex Inc. (Apotex), has since changed its name to Apotex. In August 2007, Apotex filed an application in the Federal Court of Australia (the Federal Court) seeking revocation of Sanofi's Australian Patent No. 597784 (Case No. NSD 1639 of 2007). Sanofi filed counterclaims of infringement and sought an injunction. On September 21, 2007, the Federal Court granted Sanofi's injunction. A subsidiary of the Company was subsequently added as a party to the proceedings. In February 2008, a second company, Spirit Pharmaceuticals Pty. Ltd., also filed a revocation suit against the same patent. This case was consolidated with the Apotex case and a trial occurred in April 2008. On August 12, 2008, the Federal Court of Australia held that claims of Patent No. 597784 covering clopidogrel bisulfate, hydrochloride,

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hydrobromide, and taurocholate salts were valid. The Federal Court also held that the process claims, pharmaceutical composition claims, and claim directed to clopidogrel and its pharmaceutically acceptable salts were invalid. The Company and Sanofi filed notices of appeal in the Full Court of the Federal Court of Australia (Full Court) appealing the holding of invalidity of the claim covering clopidogrel and its pharmaceutically acceptable salts, process claims, and pharmaceutical composition claims which have stayed the Federal Court's ruling. Apotex filed a notice of appeal appealing the holding of validity of the clopidogrel bisulfate, hydrochloride, hydrobromide, and taurocholate claims. A hearing on the appeals occurred in February 2009. On September 29, 2009, the Full Court held all of the claims of Patent No. 597784 invalid. In November 2009, the Company and Sanofi applied to the High Court of Australia (High Court) for special leave to appeal the judgment of the Full Court. In March 2010, the High Court denied the Company and Sanofi's request to hear the appeal of the Full Court decision. The case has been remanded to the Federal Court for further proceedings related to damages. It is expected the amount of damages will not be material to the Company.

### ***Plavix\** EU**

As previously disclosed, in 2007, YES Pharmaceutical Development Services GmbH (YES Pharmaceutical) filed an application for marketing authorization in Germany for an alternate salt form of clopidogrel. This application relied on data from studies that were originally conducted by Sanofi and BMS for *Plavix\** and were still the subject of data protection in the EU. Sanofi and BMS have filed an action against YES Pharmaceutical and its partners in the administrative court in Cologne objecting to the marketing authorization. This matter is currently pending, although these specific marketing authorizations now have been withdrawn from the market.

### ***Plavix\** Canada (Apotex, Inc.)**

On April 22, 2009, Apotex filed an impeachment action against Sanofi in the Federal Court of Canada alleging that Sanofi's Canadian Patent No. 1,336,777 (the 777 Patent) is invalid. On June 8, 2009, Sanofi filed its defense to the impeachment action and filed a suit against Apotex for infringement of the 777 Patent. The trial was completed in June 2011 and in December 2011, the Federal Court of Canada issued a decision that the 777 Patent is invalid. Sanofi is appealing this decision though generic companies have since entered the market.

## **OTHER INTELLECTUAL PROPERTY LITIGATION**

### ***Abilify\****

As previously disclosed, Otsuka has filed patent infringement actions against Teva, Barr Pharmaceuticals, Inc. (Barr), Sandoz Inc. (Sandoz), Synthron Laboratories, Inc (Synthon), Sun Pharmaceuticals (Sun), Zydus Pharmaceuticals USA, Inc. (Zydus), and Apotex relating to U.S. Patent No. 5,006,528, ( 528 Patent) which covers aripiprazole and expires in April 2015 (including the additional six-month pediatric exclusivity period). Aripiprazole is comarketed by the Company and Otsuka in the U.S. as *Abilify\**. A non-jury trial in the U.S. District Court for the District of New Jersey (NJ District Court) against Teva/Barr and Apotex was completed in August 2010. In November 2010, the NJ District Court upheld the validity and enforceability of the 528 Patent, maintaining the main patent protection for *Abilify\** in the U.S. until April 2015. The NJ District Court also ruled that the defendants' generic aripiprazole product infringed the 528 Patent and permanently enjoined them from engaging in any activity that infringes the 528 Patent, including marketing their generic product in the U.S. until after the patent (including the six-month pediatric extension) expires. Sandoz, Synthron, Sun and Zydus are also bound by the NJ District Court's decision. In December 2010, Teva/Barr and Apotex appealed this decision to the U.S. Court of Appeals for the Federal Circuit (Federal Circuit). In May 2012, the Federal Circuit affirmed the NJ District Court's decision. In June 2012, Apotex filed a petition for rehearing *en banc*. It is not possible at this time to determine the outcome of any further appeals of the NJ District Court's decision. If Otsuka were not to prevail in an appeal, generic competition would likely result in substantial decreases in the sales of *Abilify\** in the U.S., which would have a material adverse effect on the results of operations and cash flows and could be material to the Company's financial condition.

### ***Atripla\****

In April 2009, Teva filed an abbreviated New Drug Application (aNDA) to manufacture and market a generic version of *Atripla\**. *Atripla\** is a single tablet three-drug regimen combining the Company's *Sustiva* and Gilead's *Truvada\**. As of this time, the Company's U.S. patent rights covering *Sustiva*'s composition of matter and method of use have not been challenged. Teva sent Gilead a Paragraph IV certification letter challenging two of the fifteen Orange Book-listed patents for *Atripla\**. *Atripla\** is the product of a joint venture between the Company and Gilead. In May 2009, Gilead filed a patent infringement action against Teva in the U.S. District Court for the Southern District of New York (SDNY). In January 2010, the Company received a notice that Teva has amended its aNDA and is challenging eight additional Orange Book-listed patents for *Atripla\**. In March 2010, the Company and Merck, Sharp & Dohme Corp. (Merck) filed a patent infringement action against Teva also in the SDNY relating to two U.S. Patents which claim crystalline or polymorph forms of efavirenz. In March 2010, Gilead filed two patent infringement actions against Teva in the SDNY relating to six Orange Book-listed patents for *Atripla\**. Discovery in these

matters is ongoing. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on the Company.

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### ***Baraclude***

In August 2010, Teva filed an aNDA to manufacture and market generic versions of *Baraclude*. The Company received a Paragraph IV certification letter from Teva challenging the one Orange Book-listed patent for *Baraclude*, U.S. Patent No. 5,206,244, which expires in 2015. In September 2010, the Company filed a patent infringement lawsuit in the U.S. District Court for the District of Delaware against Teva for infringement of the listed patent covering *Baraclude*, which triggered an automatic 30-month stay of approval of Teva's aNDA. A trial is expected to take place in the fourth quarter of 2012. In June 2012, the Company filed a patent infringement lawsuit against Sandoz following the receipt of a Paragraph IV certification letter challenging the same Orange-Book listed patent. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on the Company.

### ***Sprycel***

In September 2010, Apotex filed an aNDA to manufacture and market generic versions of *Sprycel*. The Company received a Paragraph IV certification letter from Apotex challenging the four Orange Book listed patents for *Sprycel*, including the composition of matter patent. In November 2010, the Company filed a patent infringement lawsuit in the NJ District Court against Apotex for infringement of the four Orange Book listed patents covering *Sprycel*, which triggered an automatic 30-month stay of approval of Apotex's aNDA. In October 2011, the Company received a Paragraph IV notice letter from Apotex informing the Company that it is seeking approval of generic versions of the 80 mg and 140 mg dosage strengths of *Sprycel* and challenging the same four Orange Book listed patents. In November 2011, BMS filed a patent infringement suit against Apotex on the 80 mg and 140 mg dosage strengths in the NJ District Court. This case has been consolidated with the suit filed in November 2010. Discovery in this matter is ongoing. It is not possible at this time to reasonably assess the outcome of this lawsuit or its impact on the Company.

### ***Sustiva EU***

In January 2012, Teva obtained a European marketing authorization for Efavirenz Teva 600 mg tablets. In February 2012, the Company and Merck filed lawsuits and requests for injunctions against Teva in the Netherlands, Germany and the U.K. for infringement of Merck's European Patent No. 0582455 and Supplementary Protection Certificates expiring in November 2013. As of April 2012, requests for injunctions have been granted in the U.K. and denied in the Netherlands and Germany. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on the Company.

## **GENERAL COMMERCIAL LITIGATION**

### **Clayworth Litigation**

As previously disclosed, the Company, together with a number of other pharmaceutical manufacturers, was named as a defendant in an action filed in California Superior Court in Oakland, *James Clayworth et al. v. Bristol-Myers Squibb Company, et al.*, alleging that the defendants conspired to fix the prices of pharmaceuticals by agreeing to charge more for their drugs in the U.S. than they charge outside the U.S., particularly Canada, and asserting claims under California's Cartwright Act and unfair competition law. The plaintiffs sought trebled monetary damages, injunctive relief and other relief. In December 2006, the Court granted the Company and the other manufacturers' motion for summary judgment based on the pass-on defense, and judgment was then entered in favor of defendants. In July 2008, judgment in favor of defendants was affirmed by the California Court of Appeals. In July 2010, the California Supreme Court reversed the California Court of Appeal's judgment and the matter was remanded to the California Superior Court for further proceedings. In March 2011, the defendants' motion for summary judgment was granted and judgment was entered in favor of the defendants. The plaintiffs have appealed this decision and an oral argument occurred in June 2012. It is not possible at this time to determine the outcome of the appeal.

### **Remaining Apotex Matters Related to *Plavix*\***

As previously disclosed, in November 2008, Apotex filed a lawsuit in New Jersey Superior Court entitled, *Apotex Inc., et al. v. sanofi-aventis, et al.*, seeking payment of \$60 million, plus interest calculated at the rate of 1% per month from the date of the filing of the lawsuit, until paid, related to the break-up of a March 2006 proposed settlement agreement relating to the then pending *Plavix*\* patent litigation against Apotex. In April 2011, the New Jersey Superior Court granted the Company's cross-motion for summary judgment motion and denied Apotex's motion for summary judgment. Apotex has appealed these decisions. It is not possible at this time to determine the outcome of any appeal from the New Jersey Superior Court's decisions.

In January 2011, Apotex filed a lawsuit in Florida State Court, Broward County, alleging breach of contract relating to the May 2006 proposed settlement agreement with Apotex relating to the then pending *Plavix*\* patent litigation. Discovery is ongoing.





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### **PRICING, SALES AND PROMOTIONAL PRACTICES LITIGATION AND INVESTIGATIONS**

#### ***Abilify*\* Federal Subpoena**

In January 2012, the Company received a subpoena from the United States Attorney's Office for the Southern District of New York requesting information related to, among other things, the sales and marketing of *Abilify*\*. It is not possible at this time to assess the outcome of this matter or its potential impact on the Company.

#### ***Abilify*\* State Attorneys General Investigation**

In March 2009, the Company received a letter from the Delaware Attorney General's Office advising of a multi-state coalition investigating whether certain *Abilify*\* marketing practices violated those respective states' consumer protection statutes. It is not possible at this time to reasonably assess the outcome of this investigation or its potential impact on the Company.

#### ***Abilify*\* Co-Pay Assistance Litigation**

In March 2012, the Company and its partner Otsuka were named as co-defendants in a private class action lawsuit filed by union health and welfare funds in the SDNY. Plaintiffs are challenging the legality of the *Abilify*\* co-pay assistance program under the Federal Antitrust and the Racketeer Influenced and Corrupt Organizations laws, and seeking damages. It is not possible at this time to reasonably assess the outcome of this litigation or its potential impact on the Company.

#### **AWP Litigation**

As previously disclosed, the Company, together with a number of other pharmaceutical manufacturers, has been a defendant in a number of private class actions as well as suits brought by the attorneys general of various states. In these actions, plaintiffs allege that defendants caused the Average Wholesale Prices (AWPs) of their products to be inflated, thereby injuring government programs, entities and persons who reimbursed prescription drugs based on AWPs. The Company is a defendant in four state attorneys general suits pending in state courts around the country. Beginning in August 2010, the Company was the defendant in a trial in the Commonwealth Court of Pennsylvania (Commonwealth Court), brought by the Commonwealth of Pennsylvania. In September 2010, the jury issued a verdict for the Company, finding that the Company was not liable for fraudulent or negligent misrepresentation; however, the Commonwealth Court judge issued a decision on a Pennsylvania consumer protection claim that did not go to the jury, finding the Company liable for \$28 million and enjoining the Company from contributing to the provision of inflated AWPs. The Company has moved to vacate the decision and the Commonwealth has moved for a judgment notwithstanding the verdict, which the Commonwealth Court denied. The Company and the Commonwealth have appealed the decision to the Pennsylvania Supreme Court. The Company is currently scheduled to proceed to trial in Mississippi in mid-2013.

#### **Qui Tam Litigation**

In March 2011, the Company was served with an unsealed qui tam complaint filed by three former sales representatives in California Superior Court, County of Los Angeles. The California Department of Insurance has elected to intervene in the lawsuit. The complaint alleges the Company paid kickbacks to California providers and pharmacies in violation of California Insurance Frauds Prevention Act, Cal. Ins. Code § 1871.7. Discovery is ongoing. It is not possible at this time to reasonably assess the outcome of this lawsuit or its impact on the Company.

### **PRODUCT LIABILITY LITIGATION**

The Company is a party to various product liability lawsuits. As previously disclosed, in addition to lawsuits, the Company also faces unfiled claims involving its products.

#### ***Plavix*\***

As previously disclosed, the Company and certain affiliates of Sanofi are defendants in a number of individual lawsuits in various state and federal courts claiming personal injury damage allegedly sustained after using *Plavix*\*. Currently, more than 1,000 claims are filed in state and federal courts in various states including California, Illinois, New Jersey, New York, Ohio and Pennsylvania. The Company also executed a tolling agreement with respect to unfiled claims by potential additional plaintiffs. The defendants have exercised their right to terminate the tolling agreement effective September 1, 2012. It is not possible at this time to reasonably assess the outcome of these lawsuits or the potential impact on the Company.



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### ***Reglan\****

The Company is one of a number of defendants in numerous lawsuits, on behalf of approximately 2,500 plaintiffs, claiming personal injury allegedly sustained after using *Reglan\** or another brand of the generic drug metoclopramide, a product indicated for gastroesophageal reflux and certain other gastrointestinal disorders. The Company, through its generic subsidiary, Apothecon, Inc., distributed metoclopramide tablets manufactured by another party between 1996 and 2000. It is not possible at this time to reasonably assess the outcome of these lawsuits or the potential impact on the Company.

### **Hormone Replacement Therapy**

The Company is one of a number of defendants in a mass-tort litigation in which plaintiffs allege, among other things, that various hormone therapy products, including hormone therapy products formerly manufactured by the Company (*Estrace\**, Estradiol, *Delestrogen\** and *Ovcon\**) cause breast cancer, stroke, blood clots, cardiac and other injuries in women, that the defendants were aware of these risks and failed to warn consumers. The Company has agreed to resolve the claims of approximately 400 plaintiffs. As of June 30, 2012, the Company remains a defendant in approximately 36 actively pending lawsuits in federal and state courts throughout the U.S. All of the Company's hormone therapy products were sold to other companies between January 2000 and August 2001.

## **ENVIRONMENTAL PROCEEDINGS**

As previously reported, the Company is a party to several environmental proceedings and other matters, and is responsible under various state, federal and foreign laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), for certain costs of investigating and/or remediating contamination resulting from past industrial activity at the Company's current or former sites or at waste disposal or reprocessing facilities operated by third-parties.

### **CERCLA Matters**

With respect to CERCLA matters for which the Company is responsible under various state, federal and foreign laws, the Company typically estimates potential costs based on information obtained from the U.S. Environmental Protection Agency, or counterpart state or foreign agency and/or studies prepared by independent consultants, including the total estimated costs for the site and the expected cost-sharing, if any, with other potentially responsible parties, and the Company accrues liabilities when they are probable and reasonably estimable. The Company estimated its share of future costs for these sites to be \$70 million at June 30, 2012, which represents the sum of best estimates or, where no best estimate can reasonably be made, estimates of the minimal probable amount among a range of such costs (without taking into account any potential recoveries from other parties).

### **New Brunswick Facility Environmental & Personal Injury Lawsuits**

Since May 2008, over 250 lawsuits have been filed against the Company in New Jersey Superior Court by or on behalf of current and former residents of New Brunswick, New Jersey who live or have lived adjacent to the Company's New Brunswick facility. The complaints either allege various personal injuries damages resulting from alleged soil and groundwater contamination on their property stemming from historical operations at the New Brunswick facility, or are claims for medical monitoring. A portion of these complaints also assert claims for alleged property damage. In October 2008, the New Jersey Supreme Court granted Mass Tort status to these cases and transferred them to the New Jersey Superior Court in Atlantic County for centralized case management purposes. The Company intends to defend itself vigorously in this litigation. Discovery is ongoing. In October 2011 and May 2012, over 100 additional cases were filed in New Jersey Superior Court and removed by the Company to United States District Court, District of New Jersey. It is not possible at this time to reasonably assess the outcome of these lawsuits or the potential impact on the Company.

### **North Brunswick Township Board of Education**

As previously disclosed, in October 2003, the Company was contacted by counsel representing the North Brunswick, NJ Board of Education (BOE) regarding a site where waste materials from E.R. Squibb and Sons may have been disposed from the 1940's through the 1960's. Fill material containing industrial waste and heavy metals in excess of residential standards was discovered during an expansion project at the North Brunswick Township High School, as well as at a number of neighboring residential properties and adjacent public park areas. In January 2004, the New Jersey Department of Environmental Protection (NJDEP) sent the Company and others an information request letter about possible waste disposal at the site, to which the Company responded in March 2004. The BOE and the Township, as the current owners of the school property and the park, are conducting and jointly financing soil remediation work and ground water investigation work under a work plan approved by NJDEP, and have asked the Company to contribute to the cost. The Company is actively monitoring the clean-up project, including

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its costs. To date, neither the school board nor the Township has asserted any claim against the Company. Instead, the Company and the local entities have negotiated an agreement to attempt to resolve the matter by informal means, and avoid litigation. A central component of the agreement is the

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provision by the Company of interim funding to help defray cleanup costs and assure the work is not interrupted. The Company transmitted interim funding payments in December 2007 and November 2009. The parties commenced mediation in late 2008; however, those efforts were not successful and the parties moved to a binding allocation process. The parties are expected to conduct fact and expert discovery, followed by formal evidentiary hearings and written argument. Hearings likely will be scheduled for late 2012 or early 2013. In addition, in September 2009, the Township and BOE filed suits against several other parties alleged to have contributed waste materials to the site. The Company does not currently believe that it is responsible for any additional amounts beyond the two interim payments totaling \$4 million already transmitted. Any additional possible loss is not expected to be material.

## **OTHER PROCEEDINGS**

### **Italy Investigation**

In July 2011, the Public Prosecutor in Florence, Italy (Italian Prosecutor) initiated a criminal investigation against the Company's subsidiary in Italy (BMS Italy). The allegations against the Company relate to alleged activities of a former employee who left the Company in the 1990s. The Italian Prosecutor has requested as an interim measure that a judicial administrator be appointed to temporarily run the operations of BMS Italy. The Florence Court has not yet ruled on the Italian Prosecutor's request. It is not possible at this time to assess the outcome of this investigation or its potential impact on the Company.

### **SEC Germany Investigation**

In October 2006, the SEC informed the Company that it had begun a formal inquiry into the activities of certain of the Company's German pharmaceutical subsidiaries and its employees and/or agents. The SEC's inquiry encompasses matters formerly under investigation by the German prosecutor in Munich, Germany, which have since been resolved. The Company understands the inquiry concerns potential violations of the Foreign Corrupt Practices Act (FCPA). The Company is cooperating with the SEC.

### **FCPA Investigation**

In March, 2012, the Company received a subpoena from the SEC. The subpoena, issued in connection with an investigation under the FCPA, primarily relates to sales and marketing practices in various countries. The Company is cooperating with the government in its investigation of these matters.

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****EXECUTIVE SUMMARY**

Bristol-Myers Squibb Company (which may be referred to as Bristol-Myers Squibb, BMS, the Company, we, our or us) is a global biopharmaceutical company whose mission is to discover, develop and deliver innovative medicines that help patients prevail over serious diseases. We license, manufacture, market, distribute and sell pharmaceutical products on a global basis.

**Highlights**

The following table is a summary of our financial highlights:

Dollars in Millions, except per share data	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Sales	\$ 4,443	\$ 5,434	\$ 9,694	\$ 10,445
Total Expenses	3,384	3,644	6,608	6,888
Earnings before Income Taxes	1,059	1,790	3,086	3,557
Provision for Income Taxes	251	483	796	883
<i>Effective tax rate</i>	<i>23.7%</i>	<i>27.0%</i>	<i>25.8%</i>	<i>24.8%</i>
Net Earnings Attributable to BMS				
GAAP	645	902	1,746	1,888
Non-GAAP	808	971	1,902	1,971
Diluted Earnings Per Share				
GAAP	0.38	0.52	1.02	1.10
Non-GAAP	0.48	0.56	1.12	1.14

Cash, Cash Equivalents and Marketable Securities 8,769 10,404

Our non-GAAP financial measures, including non-GAAP earnings and related earnings per share (EPS) information, are adjusted to exclude specified items which represent certain costs, expenses, gains and losses and other items impacting the comparability of financial results. For a detailed listing of all specified items and further information and reconciliations of non-GAAP financial measures see Non-GAAP Financial Measures below.

**Strategy**

Over the past few years, we transformed our Company into a focused biopharmaceutical company. We continue to focus on sustaining our business and building a foundation for the future. We plan to achieve this foundation by growing our newer key marketed products, advancing our pipeline portfolio and managing our costs. We also plan to expand our presence in emerging markets, with a tailored approach to each market. We expect that our portfolio will become increasingly diversified across products and geographies over the next few years.

We face substantial exclusivity losses this year in *Plavix\** (clopidogrel bifsulfate) and *Avapro\*/Avalide\** (irbesartan/irbesartan-hydrochlorothiazide), which together had more than \$8 billion of net sales in 2011, and additional exclusivity losses in the coming years. We have been preparing for this for a number of years. As expected, we are experiencing a rapid, precipitous, and material decline in *Plavix\** and *Avapro\*/Avalide\** net sales and a reduction in net income and operating cash flow. Such events are the norm in the industry when companies experience the loss of exclusivity of a significant product. We also face significant challenges with an increasingly complex global and regulatory environment and global economic uncertainty, particularly in the EU. We believe our strategy to grow our newer marketed products and our robust research and development (R&D) pipeline, particularly within the therapeutic areas of immuno-oncology, cardiovascular/metabolic disease and virology, position us well for the future.

We continue to expand our biologics capabilities. We still rely significantly on small molecules as our strongest, most reliable starting point for discovering potential new medicines, but large molecules, or biologics, which are derived from recombinant DNA technologies, are becoming increasingly important. Currently, more than one in three of our pipeline compounds are biologics, as are four of our key marketed products, including *Yervoy* (ipilimumab).

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We also continue to support our pipeline with our licensing and acquisitions strategy, which we refer to as our string of pearls. In February 2012, we acquired Inhibitex, Inc. (Inhibitex), a clinical-stage biopharmaceutical company focused on developing products to treat serious infectious diseases, including the hepatitis C virus and in June 2012, we entered into an agreement to acquire Amylin

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Pharmaceuticals, Inc. (Amylin), a biopharmaceutical company dedicated to the discovery, development and commercialization of innovative medicines for patients with diabetes and other metabolic diseases. Following the expected completion of our acquisition of Amylin, we will enter into collaboration agreements with AstraZeneca Pharmaceuticals LP, a wholly-owned subsidiary of AstraZeneca PLC (AstraZeneca), which build upon our existing alliance, further expanding our collaboration strategy.

### **Product and Pipeline Developments**

We manage our R&D programs on a portfolio basis, investing resources in each stage from early discovery through late-stage development. We continually evaluate our portfolio of R&D assets to ensure that there is an appropriate balance of early-stage and late-stage programs to support future growth. We consider our R&D programs that have entered into Phase III development to be significant, as these programs constitute our late-stage development pipeline. These Phase III development programs include both investigational compounds in Phase III development for initial indications and marketed products that are in Phase III development for additional indications or formulations. Spending on these programs represents approximately 30-40% of our annual R&D expenses. No individual investigational compound or marketed product represented 10% or more of our R&D expenses in any of the last three years. While we do not expect all of our late-stage development programs to make it to market, our late-stage development programs are the R&D programs that could potentially have an impact on our revenue and earnings within the next few years. The following are the recent significant developments in our marketed products and our late-stage pipeline:

*Eliquis* (apixaban) an oral Factor Xa inhibitor indicated in the European Union (EU) for the prevention of venous thromboembolic events (VTE) in adult patients who have undergone elective hip or knee replacement surgery and in development for stroke prevention in patients with atrial fibrillation (AF) and the prevention and treatment of venous thromboembolic disorders that is part of our strategic alliance with Pfizer, Inc. (Pfizer)

In June 2012, the Company and Pfizer announced that the U.S. Food and Drug Administration (FDA) issued a Complete Response Letter (CRL) regarding the New Drug Application for *Eliquis* for the prevention of stroke and systemic embolism in patients with nonvalvular AF. The CRL requests additional information on data management and verification from the ARISTOTLE trial. The FDA has not requested that the companies complete any new studies.

*Forxiga* (dapagliflozin) an oral SGLT2 inhibitor for the treatment of diabetes that is part of our alliance with AstraZeneca

In June 2012 at the 72<sup>nd</sup> American Diabetes Association Scientific Sessions, the Company and AstraZeneca announced results from a Phase III clinical study that showed *Forxiga* 10 mg demonstrated significant reductions in blood sugar levels (glycosylated hemoglobin levels, or HbA1c) compared with placebo at 24 weeks when either agent was added to existing sitagliptin therapy (with or without metformin) in adult patients with type 2 diabetes. The results were maintained over a 24-week extension and similar results were observed when the data were stratified by background therapy. The study also demonstrated significant reductions in total body weight and fasting plasma glucose levels in patients taking *Forxiga* added to sitagliptin (with or without metformin), with results maintained throughout the duration of the study.

In April 2012, the Company received a positive opinion from the European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) for *Forxiga* for the treatment of type 2 diabetes, as an adjunct to diet and exercise, in combination with other glucose-lowering medicinal products including insulin, and as a monotherapy in metformin intolerant patients. The CHMP's positive opinion is under review by the European Commission which has the authority to approve medicines for the EU.

Brivanib an investigational anti-cancer agent

In July 2012, the Company announced that brivanib did not meet its primary overall survival objective based upon a non-inferiority statistical design in the Phase III BRISK-FL clinical trial of brivanib versus sorafenib as first-line treatment in patients with advanced hepatocellular carcinoma.



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In April 2012 at the European Association for the Study of the Liver meeting, the results of a Phase III study of brivanib vs. placebo in patients with advanced hepatocellular carcinoma who failed or were intolerant to sorafenib were presented. The primary endpoint of improving overall survival versus placebo was not met. There were improvements in time to progression, disease control rate and overall response rate indicating anti-tumor activity of brivanib. Brivanib had an acceptable safety profile.

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*Erbix\** (cetuximab) a monoclonal antibody designed to exclusively target and block the Epidermal Growth Factor Receptor, which is expressed on the surface of certain cancer cells in multiple tumor types as well as normal cells and is currently indicated for use against colorectal cancer and head and neck cancer. *Erbix\** is part of our alliance with Eli Lilly and Company (Lilly).

In July 2012, the FDA granted full approval of *Erbix\** in combination with the chemotherapy regimen FOLFIRI (irinotecan, 5-fluorouracil, leucovorin) for the first-line treatment of patients with KRAS mutation-negative epidermal growth factor receptor-expressing metastatic colorectal cancer as determined by FDA-approved tests for the use.

In April 2012, the FDA issued a CRL regarding the supplemental Biologics License Application (sBLA) in first-line non-small cell lung cancer which stated that, based on the current data package, the first-line indication for *Erbix\** in combination with vinorelbine and cisplatin is not approvable. Lilly and the Company do not plan to resubmit the filing.

*Onglyza/Kombiglyze* (saxagliptin/once daily combination of saxagliptin and metformin hydrochloride extended-release) a treatment for type 2 diabetes that is part of our strategic alliance with AstraZeneca

Marketing authorization for *Kombiglyze*, the twice daily, fixed dose combination of saxagliptin and immediate-release metformin, was granted by the European Commission in November 2011. However, due to a technical manufacturing issue, launch is now not expected until 2013.

*Orencia* (abatacept) a fusion protein indicated for rheumatoid arthritis (RA)

In July 2012, the Marketing Authorization Application for *Orencia* subcutaneous formulation received a positive opinion from the CHMP for use in treating patients with moderate to severe rheumatoid arthritis. The CHMP's positive opinion will now be reviewed by the European Commission, which has authority to approve medicines for the European Union.

In June 2012, at the European League Against Rheumatism Annual European Congress of Rheumatology, the Company announced that AMPLE, a head-to-head trial of 646 patients comparing the subcutaneous formulation of *Orencia* vs. *Humira\** (adalimumab), each on a background of methotrexate (MTX), in biologic naïve patients with moderate to severe RA met its primary endpoint (as measured by non-inferiority) demonstrating that *Orencia* plus MTX achieved comparable rates of efficacy for the American College of Rheumatology criteria of 20 percent response at 1 year of 64.8% vs. 63.4% *Humira\** plus MTX.

In May 2012, the Company announced that the FDA had approved the Company's biologics manufacturing facility in Devens, Massachusetts for commercial production of *Orencia*.

*Nulojix* (belatacept) a fusion protein with novel immunosuppressive activity for the prevention of kidney transplant rejection

In June 2012 at the 2012 American Transplant Congress, the Company announced new 4-year results from the long-term extensions (LTE) of the BENEFIT and BENEFIT-EXT clinical trials of *Nulojix*, the first T-cell costimulation blocker indicated for the prophylaxis of organ rejection in adult Epstein-Barr Virus seropositive patients receiving a kidney transplant, in combination with basiliximab induction, mycophenolate mofetil, and corticosteroids. Results showed that the safety profile of *Nulojix* through year 4 was consistent compared with results at year 3 with no new safety signals being identified, and that the renal function benefit versus cyclosporine was maintained through 4 years in patients enrolled in the LTE from both the BENEFIT and BENEFIT-EXT trials.

## **RESULTS OF OPERATIONS**

### **Net Sales**

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The composition of the change in net sales was as follows:

Dollars in Millions	Three Months Ended June 30, 2012 vs. 2011						Six Months Ended June 30, 2012 vs. 2011					
	Net Sales		Analysis of % Change				Net Sales		Analysis of % Change			
	2012	2011	Total Change	Volume	Price	Foreign Exchange	2012	2011	Total Change	Volume	Price	Foreign Exchange
United States	\$ 2,591	\$ 3,562	(27)%	(32)%	5%		\$ 6,044	\$ 6,812	(11)%	(18)%	7%	
Europe	865	954	(9)%	5%	(4)%	(10)%	1,748	1,822	(4)%	6%	(3)%	(7)%
Japan, Asia Pacific and Canada	430	462	(7)%	(3)%	(2)%	(2)%	843	911	(7)%	(5)%	(2)%	
Latin America, the Middle East and Africa	226	220	3%	6%	3%	(6)%	446	434	3%	4%	3%	(4)%
Emerging Markets	254	215	18%	24%		(6)%	456	421	8%	12%	(1)%	(3)%
Other	77	21	**	N/A	N/A		157	45	**	N/A	N/A	
<b>Total</b>	<b>\$ 4,443</b>	<b>\$ 5,434</b>	<b>(18)%</b>	<b>(19)%</b>	<b>3%</b>	<b>(2)%</b>	<b>\$ 9,694</b>	<b>\$ 10,445</b>	<b>(7)%</b>	<b>(10)%</b>	<b>5%</b>	<b>(2)%</b>

\*\* Change in excess of 100%

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Our total net sales decreased in 2012 primarily due to declines in sales of *Plavix*\* and *Avapro*\*/*Avalide*\* following the losses of exclusivity of these products in the U.S. and unfavorable foreign exchange, partially offset by higher average net selling prices and continued growth in most key products.

The change in U.S. net sales attributed to volume reflects the recent exclusivity loss of *Plavix*\* and *Avapro*\*/*Avalide*\*, partially offset by increased demand for most key products. The change in U.S. net sales attributed to price was a result of higher average net selling prices for *Abilify*\* (aripiprazole) and *Plavix*\*, partially offset by the reduction in our contractual share of *Abilify*\* net sales. See [Key Products](#) for further discussion of sales by key product.

Net sales in Europe decreased primarily due to unfavorable foreign exchange and lower sales of certain mature brands from divestitures and generic competition as well as generic competition for *Plavix*\* and *Avapro*\*/*Avalide*\* partially offset by sales growth of most key products. The change in net sales was negatively impacted by continuing fiscal challenges in many European countries as healthcare payers, including government agencies, have reduced and are expected to continue to reduce healthcare costs through actions that directly or indirectly impose additional price reductions. These measures include, but are not limited to, mandatory discounts, rebates, other price reductions and other restrictive measures.

Net sales in Japan, Asia Pacific and Canada decreased due to generic competition for *Plavix*\* and *Avapro*\*/*Avalide*\* in Canada as well as lower mature brand sales from generic competition and divestitures partially offset by higher demand for *Baraclude* (entecavir), *Sprycel* (dasatinib), which recently received first line indication in Japan, and *Orencia*, which was recently launched in Japan.

Other increased due to additional sales of bulk active pharmaceutical ingredient to our alliance partner as well as enhanced royalty-related revenue.

No single country outside the U.S. contributed more than 10% of total net sales during the three and six months ended June 30, 2012 and 2011.

In general, our business is not seasonal. For information on U.S. pharmaceutical prescriber demand, reference is made to the table within [Estimated End-User Demand](#) below, which sets forth a comparison of changes in net sales to the estimated total prescription growth (for both retail and mail order customers) for certain of our key products. U.S. and non-U.S. net sales are categorized based upon the location of the customer.

We recognize revenue net of gross-to-net adjustments that are further described in [Critical Accounting Policies](#) in the Company's 2011 Annual Report on Form 10-K. Our contractual share of *Abilify*\* and *Atripa*\* sales is reflected net of all gross-to-net sales adjustments in gross sales.

The reconciliation of our gross sales to net sales by each significant category of gross-to-net sales adjustments was as follows:

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**Table of Contents*****5.125% Senior Notes due 2022***

On July 1, 2014, we issued \$300.0 million of 5.125% Senior Notes due 2022. The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year.

***5.625% Senior Notes due 2023***

On February 11, 2015, we issued \$375.0 million of 5.625% Senior Notes due 2023. On September 21, 2015, we issued \$275.0 million of additional 5.625% Senior Notes. The additional notes formed a single class of debt securities with the 5.625% Senior Notes issued in February 2015. Giving effect to this issuance, we have outstanding an aggregate of \$650.0 million of 5.625% Senior Notes. The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year.

***6.500% Senior Notes due 2024***

On February 16, 2016, we issued \$390.0 million of 6.500% Senior Notes due 2024. The 6.500% Senior Notes mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016.

The indentures governing the Senior Notes contain covenants that, among other things, limit our ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of our assets; and (vii) create liens on assets.

The Senior Notes issued by us are guaranteed by each of our subsidiaries that guarantee our obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

We may redeem the Senior Notes at its option, in whole or part, at the dates and amounts set forth in the indentures.

***9.0% and 9.5% Revenue Bonds***

On November 11, 2012, in connection with the acquisition of Park Royal, we assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5%, respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5%

bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond-sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of March 31, 2017 and December 31, 2016, \$2.3 million was recorded within other assets on the condensed consolidated balance sheets related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund requirements. The bond premium amount of \$2.6 million is amortized as a reduction of interest expense over the life of the 9.0% and 9.5% Revenue Bonds using the effective interest method.

**Table of Contents****Contractual Obligations**

The following table presents a summary of contractual obligations as of March 31, 2017 (dollars in thousands):

	<b>Payments Due by Period</b>				<b>Total</b>
	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>	
Long-term debt (a)	\$ 192,393	\$ 383,549	\$ 1,269,251	\$ 2,405,415	\$ 4,250,608
Operating leases	64,461	112,720	96,088	770,542	1,043,811
Purchase and other obligations (b)	3,489	30,128	1,980	27,827	63,424
Total obligations and commitments	\$ 260,343	\$ 526,397	\$ 1,367,319	\$ 3,203,784	\$ 5,357,843

(a) Amounts include required principal and interest payments. The projected interest payments reflect the interest rates in place on our variable-rate debt based at of March 31, 2017.

(b) Amounts relate to purchase obligations, including capital lease payments.

**Off-Balance Sheet Arrangements**

As of March 31, 2017, we had standby letters of credit outstanding of \$6.6 million related to security for the payment of claims as required by our workers' compensation insurance program.

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

Our interest expense is sensitive to changes in market interest rates. Our long-term debt outstanding at March 31, 2017 was composed of \$1.5 billion of fixed-rate debt and \$1.8 billion of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates (which would equate to a 0.39% higher rate on our variable rate debt) would decrease our net income and cash flows by \$4.5 million on an annual basis based upon our borrowing level at March 31, 2017.

The functional currency for our U.K. facilities is the British pound or GBP. Our revenue and earnings are sensitive to changes in the GBP to USD exchange rate from the translation of our earnings into USD at exchange rates that may fluctuate. Based upon the level of our U.K. operations relative to the Company as a whole, a hypothetical 10% change in the exchange rate (which would equate to an increase or decrease in the exchange rate of 0.13) would cause a change in our net income of \$11.3 million on an annual basis. In May 2016, we entered into multiple cross currency swap agreements with an aggregate notional amount of \$650.0 million to manage foreign currency exchange risk

by effectively converting a portion of our fixed-rate USD denominated senior notes, including the semi-annual interest payments thereunder, to fixed-rate, GBP-denominated debt of £449.3 million. The cross currency swap agreements limit the impact of changes in the exchange rate on our cash flows and leverage. Following the Brexit vote, the GBP dropped to its lowest level against the USD in more than 30 years. If the exchange rate remains low, our results of operations will be negatively impacted in future periods.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, our management conducted an evaluation, with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)).

Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

We are, from time to time, subject to various claims and legal actions that arise in the ordinary course of our business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, we are not currently a party to any proceeding that would have a material adverse effect on our business, financial condition or results of operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The risks, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company's business, financial condition, operating results or cash flows.

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

During the three months ended March 31, 2017, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Be Purchased under the Plans or Programs</b>
January 1 - January 31		\$		
February 1 - February 28	58,081	42.43		
March 1 - March 31	57,138	42.27		
<b>Total</b>	<b>115,219</b>			

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
3.1	Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware, as amended by the Certificate of Amendment filed on March 3, 2016. (1)
3.2	Amended and Restated Bylaws of the Company. (2)
31.1*	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Labels Linkbase Document.
101.PRE**	XBRL Taxonomy Presentation Linkbase Document.

(1) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed March 3, 2016 (File No. 001-35331).

(2) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).

\* Filed herewith.

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\*\* The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

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**SIGNATURES**

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

Acadia Healthcare Company, Inc.

By: /s/ David M. Duckworth  
David M. Duckworth  
Chief Financial Officer

Dated: April 26, 2017

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