BECTON DICKINSON & CO
Form 10-Q
August 02, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-4802

Becton, Dickinson and Company
(Exact name of registrant as specified in its charter)

New Jersey	22-0760120
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Becton Drive, Franklin Lakes, New Jersey 07417-1880
(Address of principal executive offices) (Zip Code)

(201) 847-6800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ..

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

There were 267,563,574 shares of Common Stock, $1.00 par value, outstanding at June 30, 2018.

BECTON, DICKINSON AND COMPANY
FORM 10-Q
For the quarterly period ended June 30, 2018
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ITEM 1. FINANCIAL STATEMENTS
BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Millions of dollars

	June 30, 2018	September 30, 2017
Assets	(Unaudited)	
Current Assets:		
Cash and equivalents	$ 1,384	$ 14,179
Restricted cash	125	—
Short-term investments	15	21
Trade receivables, net	2,243	1,744
Inventories:		
Materials	514	313
Work in process	330	271
Finished products	1,718	1,234
	2,562	1,818
Prepaid expenses and other	1,196	871
Total Current Assets	7,525	18,633
Property, Plant and Equipment	10,384	9,389
Less allowances for depreciation and amortization	5,063	4,752
Property, Plant and Equipment, Net	5,321	4,638
Goodwill	23,505	7,563
Developed Technology, Net	12,301	2,478
Customer Relationships, Net	3,804	2,830
Other Intangibles, Net	537	585
Other Assets	984	1,007
Total Assets	$ 53,977	$ 37,734
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term debt	$ 1,900	$ 203
Payables and accrued expenses	4,207	3,139
Total Current Liabilities	6,106	3,342
Long-Term Debt	20,350	18,667
Long-Term Employee Benefit Obligations	1,075	1,168
Deferred Income Taxes and Other	5,088	1,609
Commitments and Contingencies (See Note 5)		
Shareholders' Equity		
Preferred stock	2	2
Common stock	347	347
Capital in excess of par value	16,193	9,619
Retained earnings	12,971	13,111
Deferred compensation	22	19
Common stock in treasury - at cost	(6,275)	(8,427)
Accumulated other comprehensive loss	(1,902)	(1,723)
Total Shareholders' Equity	21,357	12,948
Total Liabilities and Shareholders' Equity	$ 53,977	$ 37,734

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

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BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
Millions of dollars, except per share data
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$4,278	$3,035	$11,581	$8,927
Cost of products sold	2,262	1,532	6,410	4,539
Selling and administrative expense	1,081	719	2,912	2,151
Research and development expense	277	186	728	554
Acquisitions and other restructurings	146	81	604	243
Other operating expense, net	—	741	—	405
Total Operating Costs and Expenses	3,766	3,258	10,655	7,892
Operating Income (Loss)	513	(223)	926	1,035
Interest expense	(182)	(184)	(525)	(364)
Interest income	8	19	55	31
Other income (expense), net	308	(16)	302	(51)
Income (Loss) Before Income Taxes	647	(404)	759	650
Income tax provision (benefit)	53	(271)	313	(123)
Net Income (Loss)	594	(132)	446	773
Preferred stock dividends	(38)	(32)	(114)	(32)
Net income (loss) applicable to common shareholders	$556	$(165)	$332	$741
Basic Earnings (Loss) per Share	$2.08	$(0.75)	$1.30	$3.43
Diluted Earnings (Loss) per Share	$2.03	$(0.75)	$1.27	$3.36
Dividends per Common Share	$0.75	$0.73	$2.25	$2.19

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Millions of dollars
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net Income (Loss)	$594	$(132)	$446	$773
Other Comprehensive (Loss) Income, Net of Tax				
Foreign currency translation adjustments	(214)	87	(122)	(52)
Defined benefit pension and postretirement plans	16	15	(57)	44
Cash flow hedges	1	(15)	—	15
Other Comprehensive (Loss) Income, Net of Tax	(197)	86	(179)	7
Comprehensive Income (Loss)	$397	$(46)	$267	$780

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Millions of dollars
(Unaudited)

	Nine Months Ended June 30,	
	2018	2017
Operating Activities		
Net income	$446	$773
Adjustments to net income to derive net cash provided by operating activities:		
Depreciation and amortization	1,412	802
Share-based compensation	261	138
Deferred income taxes	(472)	(339)
Change in operating assets and liabilities	430	(665)
Pension obligation	(228)	56
Excess tax benefits from payments under share-based compensation plans	63	60
Lease contract modification-related charge	—	741
Gain on sale of Vyaire interest	(308)	—
Other, net	(45)	(142)
Net Cash Provided by Operating Activities	1,559	1,424
Investing Activities		
Capital expenditures	(588)	(467)
Proceeds from sale of investments, net	13	17
Acquisitions of businesses, net of cash acquired	(15,111)	(158)
Proceeds from divestitures, net	534	165
Other, net	(145)	(94)
Net Cash Used for Investing Activities	(15,298)	(536)
Financing Activities		
Change in credit facility borrowings	200	50
Proceeds from long-term debt	4,335	11,462
Payments of debt	(2,723)	(3,980)
Proceeds from issuance of equity securities	—	4,827
Repurchase of common stock	—	(220)
Dividends paid	(687)	(478)
Other, net	(176)	(229)
Net Cash Provided by Financing Activities	949	11,433
Effect of exchange rate changes on cash and equivalents	(5)	(11)
Net (decrease) increase in cash and equivalents	(12,795)	12,310
Opening Cash and Equivalents	14,179	1,541
Closing Cash and Equivalents	$1,384	$13,852
Non-Cash Investing Activities		
Fair value of shares issued as acquisition consideration (See Note 8)	$8,004	$—
Fair value of equity awards issued as acquisition consideration (See Note 8)	$613	$—

Amounts may not add due to rounding.
See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of the management of Becton, Dickinson and Company (the "Company"), include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position and the results of operations and cash flows for the periods presented. However, the financial statements do not include all information and accompanying notes required for a presentation in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2017 Annual Report on Form 10-K. Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Note 2 – Accounting Changes

New Accounting Principle Adopted

In the second quarter of its fiscal year 2018, the Company prospectively adopted an accounting standard update issued by the Financial Accounting Standards Board ("FASB") relating to the stranded income tax effects on items within Accumulated other comprehensive income (loss) resulting from the enactment of new U.S. tax legislation, which legislation is further discussed in Note 15. Additional disclosures regarding this accounting standard adoption are provided in Note 3.

New Accounting Principles Not Yet Adopted

In February 2016, the FASB issued a new lease accounting standard which requires lessees to recognize lease assets and lease liabilities on the balance sheet. The new standard also requires expanded disclosures regarding leasing arrangements. The Company will adopt the standard on October 1, 2019 and has commenced its initial assessment of the impact on its consolidated financial statements.

In May 2014, the FASB issued a new revenue recognition standard. Under this standard, revenue will be recognized upon the transfer of goods or services to customers and the amount of revenue recognized will reflect the consideration to which a reporting entity expects to be entitled in exchange for those goods or services. The Company will adopt the standard on October 1, 2018 and currently plans to use the modified retrospective method. The Company has completed an initial assessment to identify the potential areas of impact that this new revenue recognition standard will have on its consolidated financial statements. As part of the initial assessment, the Company reviewed a representative sample of its contracts across its various businesses and geographies to identify potential differences that could result from applying the requirements of the new standard. The analysis included identifying whether there may be differences in timing of revenue recognition under the new standard as well as assessing performance obligations, variable consideration, and contract costs. The Company has not yet estimated the impact of the new standard on the timing and pattern of its revenue recognition. The Company has apprised its audit committee of the project status regularly.

Note 3 – Accumulated Other Comprehensive Income (Loss)

The components and changes of Accumulated other comprehensive income (loss) for the nine-month period ended June 30, 2018 were as follows:

(Millions of dollars)	Total	Foreign Currency Translation	Benefit Plans	Cash Flow Hedges
Balance at September 30, 2017	$(1,723)	$ (1,001)	$ (703)	$ (18)
Other comprehensive (loss) income before reclassifications, net of taxes	(118)	(122)	4	—
Amounts reclassified into income, net of taxes	42	—	38	4

Tax effects reclassified to retained earnings	(103)	—	(99)	(4)
Balance at June 30, 2018	$(1,902)	$ (1,123)	$ (760)	$ (18)

The amount of foreign currency translation recognized in other comprehensive income during the nine months ended June 30, 2018 included net gains relating to net investment hedges, as further discussed in Note 12. As permitted under recently issued

U.S. GAAP guidance, the Company reclassified stranded income tax effects on items within Accumulated other comprehensive income (loss) resulting from the enactment of new U.S. tax legislation, which legislation is further discussed in Note 15, to Retained earnings during the second quarter of fiscal year 2018. As further discussed in Note 15, the Company has not completed its accounting for the tax effects of the new legislation and as the Company continues to analyze the impact of the legislation on its existing deferred tax balances, the provisional amounts that have been recorded will be updated as required. The reclassified tax effects related to prior service credits and net actuarial losses relating to benefit plans, as well as to terminated cash flow hedges. The tax effects relating to these items are generally recognized as such amounts are amortized into earnings.

Note 4 – Earnings per Share

The weighted average common shares used in the computations of basic and diluted earnings per share (shares in thousands) were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Average common shares outstanding	267,836	220,807	254,934	215,817
Dilutive share equivalents from share-based plans	6,089	—	5,926	4,589
Average common and common equivalent shares outstanding – assuming dilution	273,925	220,807	260,860	220,406
Share equivalents excluded from the diluted shares outstanding calculation because the result would have been antidilutive:				
Mandatory convertible preferred stock	11,685	6,273	11,685	2,091
Share-based plans	—	4,313	—	—

Note 5 – Contingencies

Given the uncertain nature of litigation generally, the Company is not able, in all cases, to estimate the amount or range of loss that could result from an unfavorable outcome of the litigation to which the Company is a party. In accordance with U.S. generally accepted accounting principles, the Company establishes accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). With respect to putative class action lawsuits in the United States and certain of the Canadian lawsuits described below relating to product liability matters, the Company is unable to estimate a range of reasonably possible losses for the following reasons: (i) all or certain of the proceedings are in early stages; (ii) the Company has not received and reviewed complete information regarding all or certain of the plaintiffs and their medical conditions; and/or (iii) there are significant factual issues to be resolved. In addition, there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class. With respect to the investigative subpoena issued by the Department of Defense Inspector General and the Department of Health and Human Services and the civil investigative demand served by the Department of Justice, as discussed below, the Company is unable to estimate a range of reasonably possible losses for the following reasons: (i) all or certain of the proceedings are in early stages; and/or (ii) there are significant factual and legal issues to be resolved.

In view of the uncertainties discussed below, the Company could incur charges in excess of any currently established accruals and, to the extent available, liability insurance. In the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on the Company’s consolidated results of operations and consolidated cash flows.

Product Liability Matters

As is further discussed in Note 8, the Company completed its acquisition of C.R. Bard, Inc. ("Bard") on December 29, 2017 and the following matters include Bard-related legal proceedings and claims that the Company assumed on the acquisition date. The Company believes that certain settlements and judgments, as well as some legal defense costs, relating to product liability matters are or may be covered in whole or in part under its product liability insurance policies with a limited number of insurance carriers, or, in some circumstances, indemnification obligations to the

Company from other parties, which if disputed, the Company intends to vigorously contest. Amounts recovered under the Company's product liability insurance policies or indemnification arrangements may be less than the stated coverage limits or less than otherwise expected and may not be adequate to cover damages and/or costs relating to claims. In addition, there is no guarantee that insurers or other parties will pay claims or that coverage or indemnity will be otherwise available.

Hernia Product Claims

As of June 30, 2018, the Company is defending approximately 2,299 product liability claims involving Bard's line of hernia repair devices (collectively, the "Hernia Product Claims"). The majority of those claims are currently pending in a coordinated proceeding in Rhode Island State Court, but claims are also pending in other state and/or federal court jurisdictions. In addition, those claims include multiple putative class actions in Canada. Generally, the Hernia Product Claims seek damages for personal injury allegedly resulting from use of the products. From time to time, the Company engages in resolution discussions with plaintiffs' law firms regarding certain of the Hernia Product Claims, but the Company also intends to vigorously defend Hernia Product Claims that do not settle, including through litigation. Trials are scheduled throughout 2019 in various state and federal courts. The Company expects additional trials of Hernia Product Claims to take place over the next 12 months. On April 11, 2018, plaintiffs' attorneys filed a request for the creation of a new hernia multi-district litigation ("MDL") in either the Southern District of Ohio or the Western District of Missouri, and a hearing was scheduled on July 26, 2018 to address the creation and location of that MDL. The Company cannot give any assurances that the resolution of the Hernia Product Claims that have not settled, including asserted and unasserted claims and the putative class action lawsuits, will not have a material adverse effect on the Company's business, results of operations, financial condition and/or liquidity.

Women's Health Product Claims

As of June 30, 2018, the Company is defending approximately 1,522 product liability claims involving Bard's line of pelvic mesh devices. The majority of those claims are currently pending in a federal MDL in the United States District Court for the Southern District of West Virginia, but claims are also pending in other state and/or federal court jurisdictions, including a coordinated proceeding in New Jersey State Court. In addition, those claims include putative class actions filed in the United States. Not included in the figures above are approximately 1,063 filed and unfiled claims that have been asserted or threatened against Bard but lack sufficient information to determine whether a Bard pelvic mesh device is actually at issue. The claims identified above also include products manufactured by both Bard and two subsidiaries of Medtronic plc (as successor in interest to Covidien plc) ("Medtronic"), each a supplier of Bard. Medtronic has an obligation to defend and indemnify Bard with respect to any product defect liability relating to products its subsidiaries had manufactured. As described below, in July 2015 the Company reached an agreement with Medtronic (which was amended in June 2017) regarding certain aspects of Medtronic's indemnification obligation. The foregoing lawsuits, unfiled claims, putative class actions, and other claims, together with claims that have settled or are the subject of agreements or agreements in principle to settle, are referred to collectively as the "Women's Health Product Claims." The Women's Health Product Claims generally seek damages for personal injury allegedly resulting from use of the products.

As of June 30, 2018, the Company has reached agreements or agreements in principle with various plaintiffs' law firms to settle their respective inventories of cases totaling approximately 14,944 of the Women's Health Product Claims. The Company believes that these Women's Health Product Claims are not the subject of Medtronic's indemnification obligation. These settlement agreements and agreements in principle include unfiled and previously unknown claims held by various plaintiffs' law firms, which are not included in the approximate number of lawsuits set forth in the first paragraph of this section. Each agreement is subject to certain conditions, including requirements for participation in the proposed settlements by a certain minimum number of plaintiffs. The Company continues to engage in discussions with other plaintiffs' law firms regarding potential resolution of unsettled Women's Health Product Claims, which may include additional inventory settlements.

Starting in 2014 in the MDL, the court entered certain pre-trial orders requiring trial work up and remand of a significant number of Women's Health Product Claims, including an order entered in the MDL on January 30, 2018, that requires the work up and remand of all remaining unsettled cases (the "WHP Pre-Trial Orders"). The WHP Pre-Trial Orders may result in material additional costs or trial verdicts in future periods in defending Women's Health Product Claims. Trials are anticipated in 2018 and throughout 2019 in state courts. A trial in the New Jersey coordinated proceeding began in March 2018, and in April 2018 a jury entered a verdict against the Company in the total amount of $68 million ($33 million compensatory; $35 million punitive). The Company is in the process of challenging that verdict. The Company expects additional trials of Women's Health Product Claims to take place over the next 12 months.

In July 2015, as part of the agreement with Medtronic noted above, Medtronic agreed to take responsibility for pursuing settlement of certain of the Women's Health Product Claims that relate to products distributed by Bard under supply agreements with Medtronic, and Bard has paid Medtronic $121 million towards these potential settlements. In June 2017, Bard amended the agreement with Medtronic to transfer responsibility for settlement of additional Women's Health Product Claims to Medtronic on terms similar to the July 2015 agreement, including with respect to the obligation to make payments to Medtronic towards these potential settlements. Bard also may, in its sole discretion, transfer responsibility for settlement of additional Women's Health Product Claims to Medtronic on similar terms. The agreements do not resolve the dispute between Bard and Medtronic with respect to Women's Health Product Claims that do not settle, if any.

During the course of engaging in settlement discussions with plaintiffs' law firms, the Company has learned, and may in future periods learn, additional information regarding these and other unfiled claims, or other lawsuits, which could materially impact the Company's estimate of the number of claims or lawsuits against the Company.

Filter Product Claims

As of June 30, 2018, the Company is defending approximately 4,192 product liability claims involving Bard's line of inferior vena cava filters (collectively, the "Filter Product Claims"). The majority of those claims are currently pending in an MDL in the United States District Court for the District of Arizona, but claims are also pending in other state and/or federal court jurisdictions, including a coordinated proceeding in Arizona State Court. In addition, those claims include putative class actions filed in the United States and Canada. The Filter Product Claims generally seek damages for personal injury allegedly resulting from use of the products. The Company has limited information regarding the nature and quantity of certain of the Filter Product Claims. The Company continues to receive claims and lawsuits and may in future periods learn additional information regarding other unfiled or unknown claims, or other lawsuits, which could materially impact the Company's estimate of the number of claims or lawsuits against the Company.

Trials are scheduled throughout 2018 in the MDL and state courts. On March 30, 2018, a jury in the first MDL trial found the Company liable for negligent failure to warn and entered a verdict in favor of plaintiffs. The jury found the Company was not liable for (a) strict liability design defect; (b) strict liability failure to warn; and (c) negligent design. The Company intends to challenge that verdict. On June 1, 2018, a jury in the second MDL trial unanimously found in favor of the Company on all claims. The Company expects additional trials of Filter Product Claims may take place over the next 12 months.

In most product liability litigations (like those described above), plaintiffs allege a wide variety of claims, ranging from allegations of serious injury caused by the products to efforts to obtain compensation notwithstanding the absence of any injury. In many of these cases, the Company has not yet received and reviewed complete information regarding the plaintiffs and their medical conditions and, consequently, is unable to fully evaluate the claims. The Company expects that it will receive and review additional information regarding any remaining unsettled product liability matters.

In January 2017, the Company reached an agreement to resolve litigation filed in the Southern District of New York by its insurance carriers in connection with Women's Health Product Claims and Filter Product Claims. The agreement requires the insurance carriers to reimburse the Company for certain future costs incurred in connection with Filter Product Claims up to an agreed amount. For certain product liability claims or lawsuits, the Company does not maintain or has limited remaining insurance coverage.

Other Legal Matters

In June 2007, Retractable Technologies, Inc. ("RTI") filed a complaint against the Company under the caption Retractable Technologies, Inc. vs. Becton Dickinson and Company (Civil Action No. 2:07-cv-250, U.S. District Court, Eastern District of Texas) alleging that the BD Integra™ syringes infringe patents licensed exclusively to RTI. Included in its complaint, RTI also alleged that the Company engaged in false advertising with respect to certain of the Company's safety-engineered products in violation of the Lanham Act; acted to exclude RTI from various product markets and to maintain its market share through, among other things, exclusionary contracts in violation of state and federal antitrust laws; and engaged in unfair competition. In January 2008, the Court severed the patent and non-patent claims into separate cases. BD paid a $5 million award following an adverse infringement verdict at the district court and the Company's unsuccessful appeal.

On September 19, 2013, a jury returned a verdict against BD with respect to RTI's Lanham Act claim and claim for attempted monopolization based on deception in the safety syringe market. The jury awarded RTI $113.5 million for its attempted monopolization claim (which would be trebled under the antitrust statute). Upon issuance of a Court of Appeals decision reversing the attempted monopolization claim, the Company recorded a $336 million reversal of reserves associated with the initial judgment, in Other operating (income) expense, net, in the first quarter of fiscal year 2017. The Court of Appeals affirmed the judgment for Lanham Act liability, and remanded the case to the district court to consider whether and if so how much profit should be disgorged by BD on that claim. The Court of Appeals also vacated and remanded the injunction ordered by the district court. On January 31, 2017, RTI filed a petition for a writ of certiorari with the U.S. Supreme Court. On March 20, 2017, the U.S. Supreme Court denied certiorari, and the

district court thereafter heard RTI's request for disgorgement. On August 17, 2017, the district court entered judgment in favor of BD and ruled that RTI is not entitled to any award of money damages. RTI has appealed this ruling to the Fifth Circuit Court of Appeals.

Since early 2013, Bard has received subpoenas or Civil Investigative Demands from a number of State Attorneys General seeking information related to the sales and marketing of certain of the Company's products that are the subject of the Hernia Product Claims and the Women's Health Product Claims. The Company is cooperating with these requests. Although the Company has had and continues to have discussions with the State Attorneys General with respect to overall potential resolution of this matter, there can be no assurance that a resolution will be reached or what the terms of any such resolution may be.

In November 2015, the Department of Defense Inspector General issued an investigative subpoena to Bard. The Department of Health and Human Services is also participating in this investigation. The subpoena seeks documents related to the Company's sales and marketing of certain filter products, drug coated balloon catheters, and peripheral arterial disease detection products. In July 2017, a separate civil investigative demand was served by the Department of Justice seeking documents and information relating to an investigation into possible violations of the False Claims Act in connection with the sales and marketing of FloChec® and QuantaFlo™ devices. The Company is cooperating with these requests. Since it is not feasible to predict the outcome of these matters, the Company cannot give any assurances that the resolution of these matters will not have a material adverse effect on the Company's business, results of operations, financial condition and/or liquidity.

The Company is a potentially responsible party to a number of federal administrative proceedings in the United States brought under the Comprehensive Environment Response, Compensation and Liability Act, also known as "Superfund," and similar state laws. The affected sites are in varying stages of development. In some instances, the remedy has been completed, while in others, environmental studies are underway or commencing. For several sites, there are other potentially responsible parties that may be jointly or severally liable to pay all or part of cleanup costs. While it is not feasible to predict the outcome of these proceedings, based upon the Company's experience, current information and applicable law, the Company does not expect these proceedings to have a material adverse effect on its financial condition and/or liquidity. However, one or more of the proceedings could be material to the Company's business and/or results of operations.

The Company is also involved both as a plaintiff and a defendant in other legal proceedings and claims that arise in the ordinary course of business. The Company believes that it has meritorious defenses to these suits pending against the Company and is engaged in a vigorous defense of each of these matters.

Litigation Reserves

Accruals for Bard-related product liability, legal defense costs and other legal matters amounted to approximately $2.0 billion at June 30, 2018. Such amounts include provisional estimates which have been recorded with respect to the acquired liabilities. These amounts may be adjusted upon the availability of new or additional information regarding facts or circumstances which existed at the acquisition date. As of June 30, 2018, the Company has $124 million in Bard-related qualified settlement funds ("QSFs"), subject to certain settlement conditions, for certain product liability matters. Payments to QSFs are recorded as a component of Restricted cash.

The Company's expected recoveries related to Bard-related product liability matters were approximately $294 million at June 30, 2018. A substantial amount of these expected recoveries at June 30, 2018 relate to the Company's agreements with Medtronic related to certain Women's Health Product Claims. The terms of the Company's agreements with Medtronic are substantially consistent with the assumptions underlying, and the manner in which, the Company has recorded expected recoveries related to the indemnification obligation. The expected recoveries at June 30, 2018 related to the indemnification obligation are not in dispute with respect to claims that Medtronic settles pursuant to the agreements. As described above, the agreements do not resolve the dispute between the Company and Medtronic with respect to Women's Health Product Claims that do not settle, if any, and the Company also may, in its sole discretion, transfer responsibility for settlement of additional Women's Health Product Claims to Medtronic on similar terms.

Note 6 – Segment Data

Beginning in the second quarter of fiscal year 2018, the Company's organizational structure was based upon three principal business segments: BD Medical (“Medical”), BD Life Sciences (“Life Sciences”) and BD Interventional ("Interventional"). As is further discussed in Note 8, the Company completed its acquisition of Bard on December 29, 2017. Beginning in the second quarter of fiscal year 2018, the Interventional segment includes the majority of Bard’s product offerings and certain product offerings, as further detailed below, which were previously reported in the Medical segment. Certain of Bard's product offerings are included under the Company's Medical segment, specifically within the new Medication Delivery Solutions unit, which was formerly the Medical segment's Medication and Procedural Solutions unit. In addition to the majority of products reported by the former Medication and Procedural Solutions unit, the new Medication Delivery Solutions unit of the Medical segment includes the following Bard products: peripherally inserted central catheters ("PICCs"), midlines, central venous catheters ("CVCs"), acute dialysis, and ultrasonic imaging.

The Interventional segment consists of the following organizational units:

Organizational Unit	Principal Product Lines
Surgery	Bard products include hernia and soft tissue repair; biological grafts; biosurgery; and other surgical products. Products formerly reported in the Medical segment's former Medication and Procedural Solutions unit that are now reported by the Surgery unit include BD ChloraPrep™ surgical, certain infection prevention products, and V. Mueller™.
Peripheral Intervention	Bard products include catheters; ports; chronic dialysis; feeding; vascular grafts; endovascular radiology; biopsy; drug coated balloons; stents; and other interventional products. Drainage products, which were formerly reported in the Medical segment's former Medication and Procedural Solutions unit, are now reported by the Peripheral Intervention unit.
Urology and Critical Care	Bard products include catheters; continence; urological specialties; cancer diagnostics and therapy; and other products.

The Company's segments are strategic businesses that are managed separately because each one develops, manufactures and markets distinct products and services. Segment disclosures are on a performance basis consistent with internal management reporting. The Company evaluates performance of its business segments and allocates resources to them primarily based upon operating income, which represents revenues reduced by product costs and operating expenses. Beginning with its first quarter fiscal year 2018, the Company changed its management reporting approach so that certain general and administrative costs, which were previously allocated to the segments, are now excluded from the segments' operating expenses. The Medical and Life Sciences segments' operating income for the three months ended June 30, 2017 included allocated general corporate costs of $44 million and $29 million, respectively. The Medical and Life Sciences segments' operating income for the nine months ended June 30, 2017 included allocated general corporate costs of $124 million and $83 million, respectively. No such allocations were made in the three and nine months ended June 30, 2018.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Revenues (a)				
Medical (b)	$2,246	$1,871	$6,270	$5,477
Life Sciences	1,079	997	3,222	2,937
Interventional (b)	954	167	2,089	513
Total Revenues	$4,278	$3,035	$11,581	$8,927
Income (Loss) Before Income Taxes				
Medical (b) (c)	$732	$491	$1,943	$1,451
Life Sciences (d)	241	199	893	574
Interventional (b) (c)	175	61	102	187
Total Segment Operating Income	1,148	751	2,938	2,212
Acquisitions and other restructurings	(146)	(81)	(604)	(243)
Net interest expense	(174)	(165)	(470)	(334)
Other unallocated items (e)	(180)	(909)	(1,106)	(985)
Income (Loss) Before Income Taxes	$647	$(404)	$759	$650

(a) The Company has no material intersegment revenues.

(b) Prior-year amounts have been reclassified to reflect the movement of certain product offerings previously reported in the Medical segment and which are now reported in the Interventional segment, as further discussed above.

Revenues associated with these products were $167 million and $513 million in the three and nine month-periods ended June 30, 2017, respectively. Segment operating income associated with these products were $61 million and $187 million in the three and nine month-periods ended June 30, 2017, respectively.

(c) The amounts in 2018 included expense related to the recognition of a $478 million fair value step-up adjustment related to Bard's inventory on the acquisition date. The step-up adjustments recognized by the Medical and Interventional segments for the three months ended June 30, 2018 were $7 million and $49 million, respectively, and the adjustments recognized by the Medical and Interventional segments for the nine months ended June 30, 2018 were $60 million and $418 million, respectively.

(d) The amounts in 2018 included charges recorded to write down the carrying value of certain intangible and other assets in the Biosciences unit.

(e) Primarily comprised of foreign exchange, certain general and administrative expenses and share-based compensation expense. The amounts for the three and nine months ended June 30, 2017 also included a $741 million non-cash charge resulting from a modification to the Company's dispensing equipment lease contracts with customers. The amount for the nine months ended June 30, 2017 also included income resulting from the reversal of certain litigation reserves as further discussed in Note 5.

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Revenues by geographic areas were as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Revenues				
United States	$2,338	$1,603	$6,319	$4,859
International	1,941	1,433	5,261	4,068
Total Revenues	$4,278	$3,035	$11,581	$8,927

Note 7 – Benefit Plans

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Service cost	$43	$27	$107	$79
Interest cost	29	18	70	53
Expected return on plan assets	(52)	(34)	(125)	(97)
Amortization of prior service credit	(3)	(4)	(10)	(12)
Amortization of loss	20	28	59	80
Settlements	4	—	6	—
Net pension cost	$39	$36	$107	$103

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

Note 8 – Acquisition

Bard

On December 29, 2017, the Company completed its acquisition of Bard, to create a medical technology company which is uniquely positioned to improve both the treatment of disease for patients and the process of care for health care providers. Under the terms of the transaction, Bard common shareholders received approximately $222.93 in cash and 0.5077 shares of BD stock per Bard share. The Company financed the cash portion of total consideration transferred with available cash, which included net proceeds raised in the third quarter of fiscal year 2017 through registered public offerings of equity securities and debt transactions of approximately $4.8 billion and $9.6 billion, respectively. The operating activities of Bard from the acquisition date through December 31, 2017 were not material to the Company's consolidated results of operations. As such, Bard's operating results were included in the Company's consolidated results of operations beginning on January 1, 2018.

The acquisition-date fair value of consideration transferred consisted of the components below. The fair value of the shares and equity awards issued as consideration was recognized as a $6.5 billion increase to Capital in excess of par value and a $2.1 billion decrease to Common stock in treasury.

(Millions of dollars)	
Cash consideration	$16,400
Non-cash consideration-fair value of shares issued	8,004
Non-cash consideration-fair value of equity awards issued	613
Total consideration transferred	$25,017

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

(Millions of dollars, except per share data)	
Total Bard shares outstanding	73.359
Conversion factor	0.5077
Conversion of Bard shares outstanding	37.243
Conversion of pre-acquisition equity awards	0.104
Total number of the Company's share issued	37.347
Closing price of the Company's stock	$214.32
Fair value of the Company's issued shares	$8,004

Allocation of Consideration Transferred to Net Assets Acquired

As discussed in Note 6, the majority of Bard's product offerings are reported, beginning with the second quarter of fiscal year 2018, under the new Interventional segment and Bard's remaining product offerings are reported under the Company's Medical segment. The acquisition was accounted for under the acquisition method of accounting for business combinations. The Company is in the process of finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed.

The preliminary allocations of the purchase price below provide a reasonable basis for estimating the fair values of assets acquired and liabilities assumed. These provisional estimates will be adjusted upon the availability of further information regarding events or circumstances which existed at the acquisition date and such adjustments may be significant. The assets acquired and liabilities assumed in this acquisition, as recorded in the Company's consolidated balance sheet at June 30, 2018, were largely allocated to the Company's new Interventional segment.

(Millions of dollars)		
Cash and equivalents	$	1,467
Trade receivables	491	
Inventories	972	
Property, plant and equipment	554	
Developed technology	10,469	
Customer relationships	1,146	
Other assets	548	
Total identifiable assets acquired	15,647	
Payables, accrued expenses and other liabilities	1,198	
Short term and long-term debt	1,692	
Product liability and other legal reserves	1,919	
Deferred tax liabilities	1,749	
Total liabilities assumed	6,559	
Net identifiable assets acquired	9,089	
Goodwill	15,928	
Net assets acquired	$	25,017

Identifiable Intangible Assets Acquired

The developed technology assets acquired represented Bard’s developed technologies in the fields of vascular, urology, oncology, and surgical specialties. The technologies’ fair values were determined based on the present value of projected cash flows utilizing an income approach with a risk-adjusted discount rate of 8%. The technologies will be amortized over an estimated weighted-average amortization period of 14 years, which is the weighted average period over which the technologies are expected to generate substantial cash flows.

The customer relationships assets acquired represented Bard’s contractual relationships with its customers. The fair value of these customer relationships was determined based on the present value of projected cash flows utilizing an income approach with a risk-adjusted discount rate of 8%. The estimated weighted-average amortization period of the customer relationships was determined to be 13 years and this period corresponds with the weighted average of lives determined for the product technology which underlies the customer contracts.

Goodwill

Goodwill typically results through expected synergies from combining operations of the acquiree and the acquirer, as well as from intangible assets that do not qualify for separate recognition. The goodwill recognized as a result of this acquisition includes, among other things, the value of combining the Company's leadership in medication management and infection prevention with an expanded offering of solutions across the care continuum. Additionally, Bard's strong product portfolio and innovation pipeline are expected to increase the Company's opportunities in fast-growing clinical areas. Revenue synergies are also expected to result from enhanced growth opportunities for the combined company in non-U.S. markets. No portion of goodwill from this acquisition was deductible for tax purposes.

Amounts Related to Bard's Legal Proceedings and Claims

Accruals for Bard-related product liability and other legal matters represented approximately $1.9 billion of the liabilities assumed. Cash and equivalents include a restricted cash balance acquired which largely represents funds that are restricted for

certain product liability matters assumed. Additional disclosures regarding Bard's legal proceedings and claims are provided in Note 5.

The Tax Cuts and Job Act Transition Tax

The net assets acquired included approximately $220 million of transition tax payable based on the Company’s best estimate of its transition tax liability under new U.S. tax legislation which is further discussed in Note 15.

Transaction Costs

Transaction costs related to this acquisition incurred during the three and nine months ended June 30, 2018 were approximately $5 million and $56 million, respectively. These transaction costs were recorded as Acquisitions and other restructurings and consisted of legal, advisory and other costs. See Note 10 for discussion regarding restructuring costs incurred relative to the Bard acquisition in the nine months ended June 30, 2018.

Unaudited Pro Forma Information

As noted above, Bard's operating activities from the acquisition date through December 31, 2017 were not material and the Company included Bard in its consolidated results of operations beginning on January 1, 2018. Revenues for the three and nine months ended June 30, 2018 attributable to Bard were $1 billion and $2 billion, respectively. Net Income (Loss) for the three and nine months ended June 30, 2018 included income (loss) attributable to Bard of $134 million and $(68) million, respectively. The following table provides the pro forma results for the three and nine months ended June 30, 2018 and 2017 as if Bard had been acquired as of October 1, 2016.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Millions of dollars, except per share data)	2018	2017	2018	2017
Revenues	$4,278	$3,968	$12,545	$11,675
Net Income (Loss)	$640	$(102)	$525	$805
Diluted Earnings (Loss) per Share	$2.20	$(0.61)	$1.58	$2.98

The pro forma results above include the impact of the following adjustments, as necessary: additional amortization and depreciation expense relating to assets acquired; interest and other financing costs relating to the acquisition transaction; and the elimination of one-time or nonrecurring items. The one-time or nonrecurring items eliminated for the three and nine months ended June 30, 2018 were primarily comprised of fair value step-up adjustments of $56 million and $478 million, respectively, recorded relative to Bard's inventory on the acquisition date, the transaction costs discussed above, as well as certain Bard-related restructuring costs disclosed in Note 10. In addition, amounts previously reported by Bard as revenues related to a royalty income stream have been reclassified to Other income (expense), net to reflect the Company's current and future reporting classification.

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

Other Transactions

During the fourth quarter of fiscal year 2018, the Company acquired TVA Medical, Inc., a company that develops minimally invasive vascular access solutions for patients with chronic kidney disease requiring hemodialysis. The Company has completed various other acquisitions during fiscal year 2018 which were not material individually or in the aggregate.

Note 9 – Divestiture

Vyaire Medical

In April 2018, the Company completed the sale of its 49.9% non-controlling interest in Vyaire Medical, a venture formed in the Company's fiscal year 2017 upon its sale of a 50.1% controlling financial interest in its former Respiratory Solutions business. The Company received gross cash proceeds of approximately $435 million, subject to

post-closing adjustments, and recognized a pre-tax gain on the sale of approximately $308 million.

Note 10 – Business Restructuring Charges

In connection with the Company's acquisition of Bard, the 2015 acquisition of CareFusion and other portfolio rationalization initiatives, the Company incurred restructuring costs during the nine months ended June 30, 2018, which were recorded as Acquisitions and other restructurings. Restructuring liability activity for the nine months ended June 30, 2018 was as follows:

(Millions of dollars)	Employee Termination		Other		Total	
	Bard	CareFusion/Other Initiatives	Bard (a)	CareFusion/Other Initiatives	Bard	CareFusion/Other Initiatives
Balance at September 30, 2017	$—	$ 49	$—	$ 6	$—	$ 55
Charged to expense	126	30	118	14	244	44
Cash payments	(60)	(49)	—	(14)	(60)	(63)
Non-cash settlements	—	—	(118)	—	(118)	—
Balance at June 30, 2018	$66	$ 30	—	$ 6	$66	$ 36

(a) Represents the cost associated with the conversion of certain pre-acquisition equity awards of Bard to BD equity awards as well as costs relating to Bard's pension plan, partially offset by a gain on the sale of the Company's soft tissue core needle biopsy product line which was recorded in the second quarter of fiscal year 2018.

Note 11 – Intangible Assets

Intangible assets consisted of:

(Millions of dollars)	June 30, 2018		September 30, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Developed technology	$13,937	$ 1,636	$3,508	$ 1,029
Customer relationships	4,585	781	3,393	564
Product rights	121	56	131	54
Trademarks	407	79	408	65
Patents and other	388	283	370	274
Amortized intangible assets	$19,439	$ 2,836	$7,811	$ 1,986
Unamortized intangible assets				
Acquired in-process research and development	$37		$67	
Trademarks	2		2	
Unamortized intangible assets	$39		$69	

Additional disclosures regarding the increases to the developed technology assets and customer relationships as a result of the Bard acquisition are provided in Note 8. Intangible amortization expense for the three months ended June 30, 2018 and 2017 was $375 million and $132 million, respectively. Intangible amortization expense for the nine months ended June 30, 2018 and 2017 was $879 million and $400 million, respectively.

The following is a reconciliation of goodwill by business segment:

(Millions of dollars)	Medical	Life Sciences	Interventional	Total
Goodwill as of September 30, 2017	$6,802	$ 761	$ —	$7,563
Acquisitions (a)	4,389	76	10,674	15,139
Divestitures	—	—	(55)	(55)
Reallocation of goodwill for change in segment and reporting unit composition (b)	(877)	—	877	—
Purchase accounting adjustments (c)	216	—	661	878
Currency translation	(19)	(1)	—	(20)
Goodwill as of June 30, 2018	$10,511	$ 836	$ 12,157	$23,505

(a) Represents goodwill primarily recognized upon the Company's acquisition of Bard, which is further discussed in Note 8. Also includes goodwill recognized relative to certain acquisitions which were not material individually or in the aggregate.

(b) Represents the reassignment of goodwill, determined based upon a relative fair value allocation approach, associated with the movement of certain product offerings which were previously reported in the Medical segment and which are now reported in the Interventional segment as further discussed in Note 6.

(c) The purchase accounting adjustments increasing goodwill were primarily driven by the valuation of Bard developed technology assets, the associated deferred tax liability changes, increases to legal reserves and the alignment of the combined organization's accounting policies with respect to accrued liabilities and other accounts.

Note 12 – Derivative Instruments and Hedging Activities

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

Foreign Currency Risks and Related Strategies

The Company has foreign currency exposures throughout Europe, Greater Asia, Canada and Latin America. Transactional currency exposures that arise from entering into transactions, generally on an intercompany basis, in non-hyperinflationary countries that are denominated in currencies other than the functional currency are mitigated primarily through the use of forward contracts and currency options. Hedges of the transactional foreign exchange exposures resulting primarily from intercompany payables and receivables are undesignated hedges. As such, the gains or losses on these instruments are recognized immediately in income. These gains and losses are largely offset by gains and losses on the underlying hedged items, as well as the hedging costs associated with the derivative instruments. The net amounts recognized in Other income (expense), net, during the three and nine months ended June 30, 2018 and 2017 were immaterial to the Company's consolidated financial results. The total notional amounts of the Company’s outstanding foreign exchange contracts as of June 30, 2018 and September 30, 2017 were $1.5 billion and $2.5 billion, respectively.

In order to mitigate foreign currency exposure relating to its investments in certain foreign subsidiaries, the Company has designated $2.7 billion of Euro-denominated debt and $330 million of British Pound-denominated debt as net investment hedges. Accordingly, net gains or losses relating to this debt, which are attributable to changes in the foreign currencies to U.S. dollar spot exchange rates, are recorded as accumulated foreign currency translation in Other comprehensive income (loss). The Company has recorded net gains relating to these net investment hedges of $53 million to Accumulated other comprehensive income (loss) during the nine months ended June 30, 2018.

Interest Rate Risks and Related Strategies

The Company’s primary interest rate exposure results from changes in U.S. dollar interest rates. The Company’s policy is to manage interest cost using a mix of fixed and variable rate debt. The Company periodically uses interest rate swaps to manage such exposures. Under these interest rate swaps, the Company exchanges, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated as either fair value or cash flow hedges.

For interest rate swaps designated as fair value hedges (i.e., hedges against the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), changes in the fair value

of the interest rate swaps offset changes in the fair value of the fixed rate debt due to changes in market interest rates.

Changes in the fair value of the interest rate swaps designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk) are offset by amounts recorded in Other comprehensive income (loss). If interest rate derivatives designated as cash flow hedges are terminated, the balance in Accumulated other comprehensive income (loss) attributable to those derivatives is reclassified into earnings over the remaining life of the hedged debt. The net realized loss related to terminated interest rate swaps expected to be reclassified and recorded in Interest expense within the next 12 months is $5 million, net of tax.
The total notional amount of the Company’s outstanding interest rate swaps designated as fair value hedges was $1.2 billion and $375 million at June 30, 2018 and September 30, 2017, respectively. The outstanding swaps represent fixed-to-floating interest rate swap agreements the Company entered into to convert the interest payments on certain long-term notes from the fixed rate to a floating interest rate based on LIBOR. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt. The amounts recorded during the three and nine months ended June 30, 2018 and 2017 for changes in the fair value of these hedges were immaterial to the Company's consolidated financial results.

Effects on Consolidated Balance Sheets
The fair values of derivative instruments outstanding at June 30, 2018 and September 30, 2017 were not material to the Company's consolidated balance sheets.

Effects on Consolidated Statements of Income
Cash flow hedges
The amounts recognized from other comprehensive income during the three and nine months ended June 30, 2018 and 2017 were not material to the Company's consolidated financial results.

Note 13 – Financial Instruments and Fair Value Measurements
The Company’s institutional money market accounts permit daily redemption and the fair values of these investments are based upon the quoted prices in active markets provided by the holding financial institutions, which are considered Level 1 inputs in the fair value hierarchy. The fair values of these accounts were $258 million and $2.026 billion at June 30, 2018 and September 30, 2017, respectively. The Company’s remaining cash and equivalents, excluding restricted cash, were $1.126 billion and $12.153 billion at June 30, 2018 and September 30, 2017, respectively. Short-term investments are held to their maturities and are carried at cost, which approximates fair value. The cash equivalents consist of liquid investments with a maturity of three months or less and the short-term investments consist of instruments with maturities greater than three months and less than one year.
Long-term debt is recorded at amortized cost. The fair value of long-term debt is measured based upon quoted prices in active markets for similar instruments, which are considered Level 2 inputs in the fair value hierarchy. The fair value of long-term debt was $20.1 billion and $19.2 billion at June 30, 2018 and September 30, 2017, respectively. The fair value of the current portion of long-term debt was $1.901 billion and $206 million at June 30, 2018 and September 30, 2017, respectively.
All other instruments measured by the Company at fair value, including derivatives and contingent consideration liabilities, are immaterial to the Company's consolidated balance sheets.
Note 14 – Debt
Credit Facilities
In connection with the Company's agreement to acquire Bard, the Company entered into a three-year senior unsecured term loan facility of $2.25 billion during the third quarter of fiscal year 2017. During the first quarter of fiscal year 2018, the proceeds from this facility were used to fund a portion of the cash consideration for the Bard acquisition, as well as the fees and expenses incurred in connection with the acquisition. Borrowings outstanding under the term loan facility were $1.23 billion at June 30, 2018. The Company also entered into a five-year senior unsecured revolving credit facility in the third quarter of fiscal year 2017 which became effective upon the closing of the Bard acquisition and which provides borrowing of up to $2.25 billion. This facility will expire in December 2022 and replaced the $1.5

billion syndicated credit facility the Company previously had in place for general corporate purposes. Borrowings outstanding under the revolving credit facility were $200 million at June 30, 2018.

Exchange of Bard Notes

Also in connection with the Company's acquisition of Bard, the Company exchanged certain outstanding notes issued by Bard for a like-amount of new notes issued by the Company. The exchange offers, which were conditioned upon the closing of the Bard acquisition, expired on December 29, 2017. The aggregate principal amounts of Bard notes which were validly tendered for notes issued by the Company are provided below.

(Millions of dollars)

Interest Rate and Maturity	Aggregate Principal Amount	Principal Amount Accepted for Exchange
4.400% Notes due January 15, 2021	$ 500	$ 432
3.000% Notes due May 15, 2026	500	470
6.700% Notes due December 1, 2026	150	137
Total	$ 1,150	$ 1,039

This exchange transaction was accounted for as a modification of the assumed debt instruments. As such, no gain or loss was recognized in the Company’s consolidated results of operations as a result of this exchange transaction. Following the exchange of the notes, the aggregate principal amount of Bard notes that remained outstanding after settlement of the exchange transaction was $111 million.

Repurchase and Redemption Offers

In January 2018, the Company commenced an offer to repurchase any and all of the outstanding 3.000% Notes due May 15, 2026 that were issued as a result of the exchange transaction discussed above. Under the terms of the repurchase offer, holders were entitled to receive cash equal to 101% of the principal amount of notes validly tendered, plus accrued and unpaid interest, if any, to the date of purchase. The offer to repurchase the 3.000% Notes expired on March 1, 2018 and a total of $461 million aggregate principal amount of notes were validly tendered at a market price of $465 million. Based upon the carrying value of $452 million, the Company recorded a loss relating to this debt extinguishment in the second quarter of fiscal year 2018 of $13 million as Other income (expense), net, on its consolidated statements of income.

In June 2018, the Company redeemed all of the 4.400% Notes due January 15, 2021 and 3.000% Notes due May 15, 2026 which were issued by Bard and that remained outstanding after the exchange offer discussed further above. Also in June 2018, the Company redeemed all of the 4.400% Notes due January 15, 2021 which were issued by the Company upon the exchange offer, as well as all of the 3.000% Notes due May 15, 2026 issued by the Company which remained outstanding after the repurchase offer also discussed above. The total aggregate principal amount of notes redeemed was $539 million. Based upon the $556 million carrying value of these notes and the $559 million the Company paid to redeem the aggregate principal amount of the notes, the Company recorded a loss on these debt extinguishment transactions in the third quarter of fiscal year 2018 of $3 million as Other income (expense), net, on its consolidated statements of income.

Fiscal Year 2018 Debt Issuances

During the second quarter of fiscal year 2018, the Company issued Euro-denominated debt consisting of 300 million Euros ($370 million) of 0.368% notes due June 6, 2019 under an indenture pursuant to which the Company previously issued, in the third quarter of fiscal year 2017, 0.368% notes due June 6, 2019. Also in the second quarter of fiscal year 2018, the Company issued $1 billion of floating rate senior unsecured U.S. notes due December 29, 2020. The Company used the net proceeds from these long-term debt offerings to repay portions of the balances outstanding on its term loan and revolving credit facilities, which are discussed above, as well as accrued interest, related premiums, fees and expenses related to these repaid amounts.

During the third quarter of fiscal year 2018, the Company issued Euro-denominated debt consisting of 300 million Euros ($354 million) of 1.401% notes due May 24, 2023. Also in the third quarter of fiscal year 2018, the Company issued British Pound-denominated debt of 250 million British Pounds ($337.5 million) of 3.02% notes due May 24, 2025. The Company used the net proceeds from these long-term debt offerings to redeem certain notes in the third

quarter, as further discussed above, and to repay a portion of the balance outstanding on its term loan, as well as accrued interest, related premiums, fees and expenses related to this repaid amount.

Note 15 – Income Taxes

New U.S. tax legislation, which is commonly referred to as the Tax Cuts and Job Act ("the Act") and which was enacted on December 22, 2017, reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign-sourced earnings. Under U.S. generally accepted accounting principles, companies must account for the effects of

changes in income tax rates and laws in the period in which the legislation is enacted. However, the U.S. Securities and Exchange Commission (the "SEC") has provided guidance which allows companies to report financial results including provisional amounts that have been recorded for the income tax effects of the Act based upon a reasonable estimate of those effects once the necessary information to determine such an estimate is available. The SEC expects that accounting for the Act should be completed by companies by no later than one year from the enactment date of the Act.

As of June 30, 2018, the Company has not completed its accounting for the tax effects of enactment of the Act; however, the Company has made what it believes is a reasonable estimate of the effects on its existing deferred tax balances and the one-time transition tax. As a result of these estimates, the Company recognized a provisional expense in the amount of $275 million, which is reflected in the Company's consolidated statement of income within Income tax provision. The Company will continue to make and adjust its calculations as additional analysis is completed and as it gains a more thorough understanding of the tax law.

The Company is currently in the process of evaluating the new Global Intangible Low-Taxed Income's ("GILTI") provisions and has not yet elected an accounting policy with respect to whether to reflect GILTI in its deferred tax calculations or not. Therefore, the Company has not made any adjustments related to the GILTI tax in its financial statements. Under the SEC guidance noted above, the Company will continue to analyze and assess the effects of the GILTI provisions of the Act.

Provisional Amounts

The Company believes that all provisional amounts reflected in its financial statements are based on the best estimates that can be made at this time. The Company will continue to analyze all impacts of the Act and will update provisional amounts as required.

Deferred tax assets and liabilities

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, the Company is still analyzing certain aspects of the Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the re-measurement of the Company's deferred tax balance was a tax benefit of $285 million.

Foreign tax effects

The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P") that the Company previously deferred from U.S. income taxes. The Company recorded a provisional amount for its one-time transition tax liability for all of its foreign subsidiaries, resulting in an increase in income tax expense of $561 million. However, the Company has not yet completed its calculation of the total post-1986 E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the Company finalizes the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. As discussed in Note 8, the Company completed its acquisition of Bard on December 29, 2017. The net assets acquired included approximately $220 million of transition tax payable based on the Company's best estimate of its transition tax liability. The combined company's transition tax liability, 8% of which is payable per year over the next five years with the balance payable over the following three years, is approximately $781 million. The anticipated payment of this tax is expected to begin on January 15, 2019.

No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining undistributed foreign earnings not subject to the transition tax and additional outside basis difference in these entities (i.e., basis difference in excess of that subject to the one-time transition tax) is not practicable.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following commentary should be read in conjunction with the condensed consolidated financial statements and accompanying notes presented in this report. Within the tables presented throughout this discussion, certain columns may not add due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts.

Company Overview

Becton, Dickinson and Company (“BD”) is a global medical technology company engaged in the development, manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by healthcare institutions, life science researchers, clinical laboratories, the pharmaceutical industry and the general public. The Company's organizational structure is based upon three principal business segments, BD Medical (“Medical”), BD Life Sciences (“Life Sciences”) and the new BD Interventional (“Interventional”), as further discussed below.

BD’s products are manufactured and sold worldwide. Our products are marketed in the United States and internationally through independent distribution channels and directly to end-users by BD and independent sales representatives. We organize our operations outside the United States as follows: Europe; EMA (which includes the Commonwealth of Independent States, the Middle East and Africa); Greater Asia (which includes Japan and Asia Pacific); Latin America (which includes Mexico, Central America, the Caribbean, and South America); and Canada. We continue to pursue growth opportunities in emerging markets, which include the following geographic regions: Eastern Europe, the Middle East, Africa, Latin America and certain countries within Asia Pacific. We are primarily focused on certain countries whose healthcare systems are expanding.

Recent Developments

On December 29, 2017, BD completed its acquisition of C. R. Bard, Inc. ("Bard") for total consideration transferred, including cash and stock, of approximately $25 billion. The combination creates a medical technology company that is uniquely positioned to improve both the treatment of disease for patients and the process of care for health care providers. The operating activities of the acquired businesses were included in our consolidated results of operations beginning on January 1, 2018. BD reports the results associated with the majority of Bard's product offerings within a new BD Interventional segment. Bard's remaining product offerings are reported under the Medical segment. For further discussions regarding the reporting of Bard products within BD's segments and the Bard acquisition, refer to Notes 6 and 8, respectively, in the Notes to Condensed Consolidated Financial Statements.

On December 22, 2017, new U.S. tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Act") was enacted. The new tax legislation, which became effective January 1, 2018, reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign-sourced earnings. As of June 30, 2018, we have not completed our accounting for the tax effects of the Act; however, based upon reasonable estimates of these effects, we recognized a provisional expense of $275 million for the nine months ended June 30, 2018, which is reflected in our consolidated statement of income within Income tax provision. We will continue to make and refine our calculations as additional analysis is completed and as we gain a more thorough understanding of the tax law. Additional disclosures regarding our accounting for the Act are provided in Note 15 in the Notes to Condensed Consolidated Financial Statements.

Overview of Financial Results and Financial Condition

For the three months ended June 30, 2018, worldwide revenues of $4.278 billion increased 41.0% from the prior-year period, which reflected an impact of approximately 32.4% resulting from the acquisition of Bard. Third quarter revenue growth also reflected volume growth of over 5.5%, a favorable impact from foreign currency translation of approximately 3.4% and an unfavorable impact of price of approximately 0.4%. Volume growth in the third quarter of fiscal year 2018 attributable to the Medical and Life Sciences segments was as follows:

- Medical segment volume growth in the third quarter was largely driven by sales in the Medication Delivery Solutions and Medication Management Solutions units.
- Life Sciences segment volume growth in the third quarter was driven by growth in all three of its organizational units.

We continue to invest in research and development, geographic expansion, and new product promotions to drive further revenue and profit growth. Our ability to sustain our long-term growth will depend on a number of factors, including our ability to expand our core business (including geographical expansion), develop innovative new products, and continue to improve operating efficiency and organizational effectiveness. While the economic environment for the healthcare industry and healthcare utilization in the United States is generally stable, destabilization in the future could adversely impact our businesses. Additionally, macroeconomic challenges in Europe continue to constrain healthcare utilization, although we currently view the

environment as stable. In emerging markets, the Company’s growth is dependent primarily on government funding for healthcare systems. In addition, pricing pressure exists for certain geographies and could adversely impact our businesses.

Cash flows from operating activities were $1.559 billion in the first nine months of fiscal year 2018. At June 30, 2018, we had $1.5 billion in cash and equivalents and short-term investments, including restricted cash. We continued to return value to our shareholders in the form of dividends. During the first nine months of fiscal year 2018, we paid cash dividends of $687 million.

Each reporting period, we face currency exposure that arises from translating the results of our worldwide operations to the U.S. dollar at exchange rates that fluctuate from the beginning of such period. A weaker U.S. dollar, compared to the prior-year period, resulted in a favorable foreign currency translation impact to our revenue and earnings during the third quarter of fiscal year 2018. We evaluate our results of operations on both a reported and a foreign currency-neutral basis, which excludes the impact of fluctuations in foreign currency exchange rates. As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of results on a foreign currency-neutral basis in addition to reported results helps improve investors’ ability to understand our operating results and evaluate our performance in comparison to prior periods. Foreign currency-neutral ("FXN") information compares results between periods as if exchange rates had remained constant period-over-period. We use results on a foreign currency-neutral basis as one measure to evaluate our performance. We calculate foreign currency-neutral percentages by converting our current-period local currency financial results using the prior-period foreign currency exchange rates and comparing these adjusted amounts to our current-period results. These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. generally accepted accounting principles ("GAAP"). Results on a foreign currency-neutral basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with U.S. GAAP.

Results of Operations

Medical Segment

The following summarizes third quarter Medical revenues by organizational unit:

	Three months ended June 30,							
(Millions of dollars)	2018	2017	Total Change		Estimated FX Impact		FXN Change	
Medication Delivery Solutions (a)	$977	$702	39.0	%	3.2	%	35.8	%
Medication Management Solutions	610	556	9.8	%	1.5	%	8.3	%
Diabetes Care	276	263	5.1	%	2.7	%	2.4	%
Pharmaceutical Systems	383	350	9.3	%	5.5	%	3.8	%
Total Medical Revenues	$2,246	$1,871	20.0	%	3.1	%	16.9	%

(a)The presentation of prior-period amounts reflects a reclassification of $167 million of certain product revenues from the Medical segment to the Interventional segment as further discussed in Note 6 in the Notes to Condensed Consolidated Financial Statements.

Third quarter Medical segment growth was favorably impacted by the inclusion of revenues associated with certain Bard products within the Medication Delivery Solutions unit, beginning on January 1, 2018. The Medical segment's underlying revenue growth was largely driven by sales of the Medication Delivery Solutions unit's vascular access and vascular care products as well as by the Medication Management Solutions unit's installations of dispensing and infusion systems. Strength of U.S. pen needle sales in the Diabetes Care unit was partially offset by an unfavorable impact relating to tender timing in emerging markets to earlier in the fiscal year. Growth in sales of the Pharmaceutical Systems unit's safety-engineered products was unfavorably impacted by the timing of orders.

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Medical segment total revenues for the nine-month period were as follows:

	Nine months ended June 30,				
(Millions of dollars)	2018	2017	Total Change	Estimated FX Impact	FXN Change
Total Medical Revenues (a)	$6,270	$5,477	14.5 %	3.1 %	11.4 %

(a)The presentation of prior-period amounts reflects a reclassification of $513 million of certain product revenues from the Medical segment to the Interventional segment as further discussed in Note 6 in the Notes to Condensed Consolidated Financial Statements.

Medical segment operating income for the three and nine-month periods was as follows:

	Three months ended June 30,		Nine months ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Medical segment operating income	$732	$491	$1,943	$1,451
Segment operating income as % of Medical revenues	32.6 %	26.3 %	31.0 %	26.5 %

The Medical segment's operating income was driven by its performance with respect to gross profit margin and operating expenses. Gross profit margin was higher in the third quarter of 2018 as compared with the third quarter of 2017 primarily due to lower manufacturing costs resulting from continuous improvement projects which enhanced the efficiency of our operations, favorable product mix impact relating to the Bard products reported within the segment and favorable foreign currency translation. These favorable impacts to the Medical segment's gross margin were partially offset by amortization of intangible assets acquired in the Bard transaction, expense related to the recognition of a fair value step-up adjustment relating to Bard's inventory on the acquisition date and higher raw material costs. Selling and administrative expense as a percentage of revenues in the third quarter of 2018 was lower compared with the prior-year period, which primarily reflected a reduction in the general and administrative costs allocated to the segment, as is further discussed in Note 6 in the Notes to Condensed Consolidated Financial Statements. Research and development expense as a percentage of revenues was higher in the third quarter of 2018 as compared with the third quarter of 2017 due to increased investment in new products and platforms.

Life Sciences Segment

The following summarizes third quarter Life Sciences revenues by organizational unit:

	Three months ended June 30,				
(Millions of dollars)	2018	2017	Total Change	Estimated FX Impact	FXN Change
Preanalytical Systems	$404	$376	7.4 %	2.2 %	5.2 %
Diagnostic Systems	362	335	7.9 %	2.9 %	5.0 %
Biosciences	314	286	9.7 %	2.9 %	6.8 %
Total Life Sciences Revenues	$1,079	$997	8.2 %	2.6 %	5.6 %

The Life Sciences segment's revenue growth in the third quarter was driven by growth in all three of its organizational units. Growth in the Preanalytical Systems unit reflected global sales of core products and the Diagnostic Systems unit's revenues were primarily driven by sales of core microbiology products as well as continued strength in sales of the unit's BD MAX™ molecular platform. The segment's third quarter revenue growth was also driven by the Biosciences unit's sales of research reagents, advanced bioprocessing products and newly launched instruments.

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Life Sciences segment total revenues for the nine-month period were as follows:

	Nine months ended June 30,				
(Millions of dollars)	2018	2017	Total Change	Estimated FX Impact	FXN Change
Total Life Sciences Revenues	$3,222	$2,937	9.7 %	3.0 %	6.7 %

Life Sciences segment operating income for the three and nine-month periods was as follows:

	Three months ended June 30,		Nine months ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Life Sciences segment operating income	$241	$199	$893	$574
Segment operating income as % of Life Sciences revenues	22.4 %	19.9 %	27.7 %	19.6 %

The Life Sciences segment's operating income was driven by its performance with respect to gross profit margin and operating expenses. Gross profit margin in the third quarter of fiscal year 2018 was lower compared with the third quarter of 2017 primarily due to expense related to the Biosciences unit's write-down of certain intangible and other assets, which was partially offset by lower manufacturing costs resulting from continuous improvement projects which enhanced the efficiency of our operations and favorable foreign currency translation. Selling and administrative expense as a percentage of revenues in the third quarter of 2018 was lower compared with the prior-year period, primarily due to a reduction in the general and administrative costs allocated to the segment, as noted above. Research and development expense as a percentage of revenues was higher in the third quarter of 2018 as compared with the third quarter of 2017 primarily due to write-downs in the Biosciences unit, as noted above.

Interventional Segment

The following summarizes third quarter Interventional revenues by organizational unit:

	Three months ended June 30,		
(Millions of dollars)	2018	2017	Total Change
Surgery (a)	$336	$163	NM
Peripheral Intervention (a)	353	5	NM
Urology and Critical Care	265	—	NM
Total Interventional Revenues	$954	$167	NM

(a)The presentation of prior-period amounts reflects a reclassification of $167 million of certain product revenues from the Medical segment to the Interventional segment as further discussed in Note 6 in the Notes to Condensed Consolidated Financial Statements.

Interventional segment total revenues for the nine-month period were as follows:

	Nine months ended June 30,		
(Millions of dollars)	2018	2017	Total Change
Total Interventional Revenues (a)	$2,089	$513	NM

(a)The presentation of prior-period amounts reflects a reclassification of $513 million of certain product revenues from the Medical segment to the Interventional segment as further discussed in Note 6 in the Notes to Condensed Consolidated Financial Statements.

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Interventional segment operating income for the three and nine-month periods was as follows:

	Three months ended June 30,		Nine months ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Interventional segment operating income	$175	$61	$102	$187
Segment operating income as % of Interventional revenues	18.3 %	36.7%	4.9 %	36.5 %

The Interventional segment's operating income is driven by its performance with respect to gross profit margin and operating expenses. The Interventional segment's operating income in the current-year periods reflected expense related to the recognition of a fair value step-up adjustment relating to Bard's inventory on the acquisition date. The fair value adjustment was a required non-cash adjustment to the value of acquired inventory and was expensed over a four-month period, consistent with an estimate of the period of time to sell the acquired inventory.

Geographic Revenues

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

	Three months ended June 30,				
(Millions of dollars)	2018	2017	Total Change	Estimated FX Impact	FXN Change
United States	$2,338	$1,603	45.9 %	— %	45.9 %
International	1,941	1,433	35.4 %	7.2 %	28.2 %
Total Revenues	$4,278	$3,035	41.0 %	3.4 %	37.6 %

Third quarter U.S. revenue growth benefited from the inclusion of revenues associated with Bard products in our financial results beginning on January 1, 2018. Underlying third quarter revenue growth in the United States was driven by revenues in the Medical segment's Medication Delivery Solutions and Medication Management Solutions units, as well as by revenues in the Life Sciences segment's Biosciences unit.

Third quarter international revenue growth benefited from the inclusion of revenues associated with Bard products in our financial results. International third quarter revenues also reflected increased sales in the Medical segment's Medication Delivery Solutions and Medication Management Solutions units, as well as growth attributable to sales in all three of the Life Sciences segment's organizational units.

Emerging market revenues for the third quarter were $689 million, compared with $503 million in the prior year’s quarter. Emerging market revenues in the current-year period also included an estimated $14 million favorable impact due to foreign currency translation. Third quarter revenue growth in emerging markets benefited from the inclusion of revenues associated with Bard products in our financial results. Underlying growth was particularly driven by sales in China and Latin America.

Specified Items

Reflected in the financial results for the three and nine-month periods of fiscal years 2018 and 2017 were the following specified items:

	Three months ended June 30,		Nine months ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Integration costs (a)	$103	$50	$255	$159
Restructuring costs (a)	33	8	288	54
Transaction costs (a)	11	23	61	37
Financing impacts (b)	—	87	49	87
Purchase accounting adjustments (c)	433	106	1,358	361
Hurricane recovery costs (d)	3	—	15	—
Losses on debt extinguishment (e)	3	31	16	73
Net impact of gain on sale of investment and asset impairments (f)	(214)	—	(214)	—
Litigation-related item (g)	—	—	—	(336)
Lease contract modification-related charge (h)	—	741	—	741
Total specified items	372	1,046	1,830	1,176
Less: tax impact of specified items and tax reform (i)	130	377	133	404
After-tax impact of specified items	$242	$669	$1,697	$772

(a) Represents integration, restructuring and transaction costs, recorded in Acquisitions and other restructurings, which are further discussed below.

(b) Represents financing impacts associated with the Bard acquisition, which were recorded in Interest income and Interest expense.

(c) Primarily represents non-cash amortization expense associated with acquisition-related identifiable intangible assets. BD’s amortization expense is primarily recorded in Cost of products sold. The amounts for the three and nine-month periods of fiscal years 2018 also included fair value step-up adjustments of $56 million and $478 million, respectively, relating to Bard's inventory on the acquisition date.

(d) Represents costs incurred as a result of hurricane-related damage to production facilities in Puerto Rico.

(e) Represents losses recognized in Other income (expense), net upon our extinguishment of certain long-term senior notes.

(f) Represents the net amount recognized in the period within Other income (expense), net related to BD's sale of its non-controlling interest in Vyaire Medical, as further discussed below, partially offset by $81 million of charges recorded to write down the carrying value of certain intangible and other assets in the Biosciences unit.

(g) Represents the reversal of certain reserves related to an appellate court decision recorded related to RTI in Other operating expense, net.

(h) Represents a non-cash charge, which was recorded in Other operating expense, net resulting from a modification to our dispensing equipment lease contracts with customers, as further discussed below.

(i) The amount in the nine-month period of fiscal year 2018 includes additional tax expense, net, of $275 million relating to new U.S. tax legislation, as discussed above. An estimated one-time transition tax payable of $561 million, payable over an eight year period with 8% due in each of the first five years, was offset by a tax benefit of $285 million related to the remeasurement of deferred tax balances due to the lower corporate tax rate at which they are expected to reverse in the future.

Gross Profit Margin

Gross profit margin for the three and nine-month periods of fiscal year 2018 compared with the prior-year periods in 2017 reflected the following impacts:

	Three-month period	Nine-month period
June 30, 2017 gross profit margin %	49.5 %	49.2 %
Impact of purchase accounting adjustments and asset write-downs	(6.7)%	(7.7)%
Operating performance	3.4 %	2.4 %
Foreign currency translation	0.9 %	0.7 %
June 30, 2018 gross profit margin %	47.1 %	44.6 %

Further discussion regarding write-downs of certain intangible and other assets in the Biosciences unit is provided above. Operating performance in the current-year periods reflected the favorable impact of Bard on product mix and lower manufacturing costs resulting from the continuous operations improvement projects discussed above, partially offset by various unfavorable impacts including higher raw material costs and price decreases.

Operating Expenses

A summary of operating expenses for the three and nine-month periods of fiscal years 2018 and 2017 is as follows:

	Three months ended June 30,		Increase (decrease) in basis points	Nine months ended June 30,		Increase (decrease) in basis points
	2018	2017		2018	2017	
(Millions of dollars)						
Selling and administrative expense	$1,081	$719		$2,912	$2,151	
% of revenues	25.3 %	23.7 %	160	25.1 %	24.1 %	100
Research and development expense	$277	$186		$728	$554	
% of revenues	6.5 %	6.1 %	40	6.3 %	6.2 %	10
Acquisitions and other restructurings	$146	$81		$604	$243	
Other operating expense, net	$—	$741		$—	$405	

Selling and administrative expense

The increases in selling and administrative expense as a percentage of revenues in the current three-month and nine-month periods compared with the prior-year periods was primarily attributable to higher selling and general administrative costs, largely driven by the inclusion of Bard in the current-year results.

Research and development expense

The increases in research and development expense as a percentage of revenues in the current three-month and nine-month periods compared with the prior-year periods reflected our continued commitment to invest in new products and platforms as well as the recognition of certain write-down charges in the Biosciences unit, as further discussed above.

Acquisitions and other restructurings

Costs relating to acquisitions and other restructurings in the current year's three and nine-month periods primarily represented restructuring and transaction costs incurred due to our acquisition of Bard, and to a lesser extent, restructuring costs related to our fiscal year 2015 acquisition of CareFusion and other portfolio rationalization initiatives. Integration costs incurred in the current three and nine-month periods were attributable to both the Bard and CareFusion acquisitions. Transaction costs incurred the prior year's three and nine-month periods primarily represented transaction costs incurred due to our acquisition of Bard. Substantially all of the integration and restructuring costs in the prior-year's three and nine-month period were attributable to the CareFusion acquisition and other portfolio rationalization initiatives. For further disclosures regarding the Bard acquisition and restructuring costs, refer to Notes 8 and 10 in the Notes to Condensed Consolidated Financial Statements.

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Other operating expense, net

Other operating expense in the prior year's three and nine-month period included a $741 million charge resulting from a modification to our dispensing equipment lease contracts with customers. Other operating expense in the prior year's nine-month period also included the $336 million reversal of certain reserves related to an appellate court decision which, among other things, reversed an unfavorable antitrust judgment in the RTI case. Additional disclosures regarding this legal matter are provided in Note 5 in the Notes to Condensed Consolidated Financial Statements.

Nonoperating Income

Net interest expense

The components for the three and nine-month periods of fiscal years 2018 and 2017 were as follows:

	Three months ended June 30,		Nine months ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Interest expense	$(182)	$(184)	$(525)	$(364)
Interest income	8	19	55	31
Net interest expense	$(174)	$(165)	$(470)	$(334)

Interest expense for the current three-month period was relatively flat compared with the prior-year period as the unfavorable impact of higher levels of debt in the current-year period was offset by the unfavorable impact in the prior-year period of bridge financing commitment fees incurred relating to the Bard transaction. The increase in interest expense for the nine-month period of fiscal year 2018 compared with the prior year's period reflected higher levels of debt during the current-year period, primarily due to our issuances of senior unsecured U.S. notes during the third quarter of 2017. The decrease in interest income for the three-month period of fiscal year 2018 compared with the prior year’s period reflected lower cash levels in the current-year quarter, subsequent to the closing of the Bard acquisition in the first quarter of 2018. The increase in interest income for the current year's nine-month period of fiscal year 2018 reflected higher levels of cash held through to the end of the first quarter of fiscal year 2018, in anticipation of closing the Bard acquisition.

Other income (expense), net

The components for the three and nine-month periods of fiscal years 2018 and 2017 were as follows:

	Three months ended June 30,		Nine months ended June 30,	
(Millions of dollars)	2018	2017	2018	2017
Losses on debt extinguishment (a)	$(3)	$(31)	$(16)	$(73)
Vyaire Medical-related amounts (b)	302	(5)	293	—
Other equity investment income	1	2	3	5
Losses on undesignated foreign exchange derivatives, net	(7)	(5)	(10)	(7)
Royalty income (c)	15	—	32	—
Gain on previously held investment (d)	—	23	—	23
Other	—	—	—	2
Other income (expense), net	$308	$(16)	$302	$(51)

(a) Represents losses recognized upon our repurchase and extinguishment of certain senior notes.

(b) Represents the gain on BD's sale of its non-controlling interest in Vyaire Medical and transition services agreement income, net of BD's share of the venture's results. Additional disclosures regarding BD's sale of its remaining interest in the Vyaire Medical venture are provided in Note 9 in the Notes to Condensed Consolidated Financial Statements.

(c) Represents the royalty income stream acquired in the Bard transaction, net of non-cash purchase accounting amortization. The royalty income stream was previously reported by Bard as revenues.

(d)

Represents an acquisition-date accounting gain related to a previously-held equity method investment in an entity we acquired.

Income Taxes

The income tax rates for the three and nine-month periods of fiscal years 2018 and 2017 are provided below.

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Effective income tax rate	8.2 %	67.2 %	41.2 %	(18.9)%
Impact, in basis points, from specified items	(980)	5,070	2,400	(3,430)

The decrease in the effective tax rate for the three-month period of fiscal year 2018 reflected the favorable benefit from specified items in the current-year period. The increase in the effective income tax rate for the nine-month period of fiscal year 2018 reflected a less favorable benefit from specified items in the current-year period, as well as certain effects of new U.S. tax legislation that was enacted in December 2017. As previously discussed above, we recognized additional year-to-date tax expense of $275 million based upon our reasonable estimates of the effects of the new legislation.

Net Income (Loss) and Diluted Earnings (Loss) per Share

Net Income (Loss) and Diluted Earnings (Loss) per Share for the three and nine-month periods of fiscal years 2018 and 2017 were as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Net Income (Loss) (Millions of dollars)	$594	$(132)	$446	$773
Diluted Earnings (Loss) per Share	$2.03	$(0.75)	$1.27	$3.36
Unfavorable impact-specified items	$(0.88)	$(3.03)	$(6.51)	$(3.50)
Dilutive impact of BD shares	$—	$(0.18)	$(0.31)	$(0.22)
Favorable impact-foreign currency translation	$0.16		$0.38	

The dilutive impacts for the three-month period of fiscal year 2017 and nine-month periods of fiscal years 2018 and 2017 represents the unfavorable impact of BD shares issued through public offerings of equity securities in the third quarter of fiscal year 2017, in anticipation of the Bard acquisition, and of BD shares issued as consideration transferred in the first quarter of fiscal year 2018 for the Bard acquisition as is further discussed in Note 8 in the Notes to Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

The following table summarizes our condensed consolidated statement of cash flows:

	Nine months ended June 30,	
(Millions of dollars)	2018	2017
Net cash provided by (used for)		
Operating activities	$1,559	$1,424
Investing activities	$(15,298)	$(536)
Financing activities	$949	$11,433

Net Cash Flows from Operating Activities

Cash generated from operations, along with available cash and cash equivalents, is expected to be sufficient to fund our normal operating needs for the remainder of fiscal year 2018. Normal operating needs in fiscal year 2018 include working capital, capital expenditures, and cash dividends. The change in cash flows from operating activities reflected a change to deferred tax asset and liability balances which were remeasured under the recently enacted tax legislation, as previously discussed above. The change in cash flows from operating activities in the current-year period also reflected a $308 million gain on the sale of our remaining interest in the Vyaire Medical venture, as well as discretionary cash contributions of $287 million to fund our pension obligation. The current period change in

operating assets and liabilities was a net source of cash and primarily reflected

higher levels of accounts payable and accrued expenses, primarily due to an increase in income taxes payable, and lower levels of inventory. Net cash provided by operating activities in the prior-year period reflected the non-cash charge resulting from the modification to our dispensing equipment lease contracts with customers, as previously discussed. As noted above, both the current and prior-year periods reflected losses recorded upon our extinguishment of certain long-term notes which are included within Other, net.

Net Cash Flows from Investing Activities

Our investments in capital expenditures are focused on projects that enhance our cost structure and manufacturing capabilities, and support our strategy of geographic expansion with select investments in growing markets. Capital expenditure-related cash outflows were $588 million in the first nine months of fiscal year 2018, compared with $467 million in the prior-year period. The current-year period's net cash flows transferred for acquisitions of $15.111 billion primarily related to our acquisition of Bard. Cash provided by investing activities in the first nine months of fiscal years 2018 and 2017 included $534 million and $165 million of proceeds from divestitures, respectively.

Net Cash Flows from Financing Activities

Net cash from financing activities in the first nine months of fiscal years 2018 and 2017 included the following significant cash flows:

	Nine months ended June 30,	
(Millions of dollars)	2018	2017
Cash inflow (outflow)		
Change in credit facility borrowings	$200	$50
Proceeds from long-term debt	$4,335	$11,462
Payments of debt	$(2,723)	$(3,980)
Proceeds from issuance of equity securities	$—	$4,827
Share repurchases under accelerated share repurchase agreement	$—	$(220)
Dividends paid	$(687)	$(478)

Certain measures relating to our total debt were as follows:

(Millions of dollars)	June 30, 2018	September 30, 2017
Total debt	$22,249	$18,870
Short-term debt as a percentage of total debt	8.5 %	1.1 %
Weighted average cost of total debt	3.3 %	3.3 %
Total debt as a percentage of total capital*	48.5 %	57.5 %

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

Additional disclosures regarding debt-related financing activities are provided in Note 14. The increase in the ratio of short-term debt as a percentage of total debt at June 30, 2018 was primarily driven by the reclassification of certain notes from long-term to short-term.

Cash and Short-term Investments

At June 30, 2018, total worldwide cash and short-term investments, including restricted cash, were approximately $1.5 billion, which was primarily held in jurisdictions outside of the United States. We regularly review the amount of cash and short-term investments held outside the United States and currently intend to use such amounts to fund our international operations and their growth initiatives.

Financing Facilities

In May 2017, we entered into a three-year $2.25 billion senior unsecured term loan facility. We used the $2.25 billion of proceeds drawn from this facility in December 2017 to fund a portion of the cash consideration for the Bard acquisition, as well as the fees and expenses incurred in connection with the acquisition. Borrowings outstanding under the term loan facility were $1.23 billion at June 30, 2018.

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Also in May 2017, we entered into a five-year senior unsecured revolving credit facility which became effective upon the closing of the Bard acquisition and which provides borrowing of up to $2.25 billion. This facility will expire in December 2022 and replaced the $1.5 billion syndicated credit facility we previously had in place with an expiration date of January 2022. We will be able to issue up to $100 million in letters of credit under this new revolving credit facility and it also includes a provision that enables BD, subject to additional commitments made by the lenders, to access up to an additional $500 million in financing through the facility for a maximum aggregate commitment of $2.75 billion. We used proceeds from this facility to redeem or repurchase certain of Bard's outstanding senior unsecured notes that were assumed upon the closing of the acquisition and we will also use proceeds from this facility to fund general corporate needs. Borrowings outstanding under the revolving credit facility were $200 million at June 30, 2018.

The agreements for both the new term loan and revolving credit facility contained the following financial covenants. We were in compliance with these covenants as of June 30, 2018.

- We are required to maintain an interest expense coverage ratio of not less than 4-to-1 as of the last day of each fiscal quarter.
- We are required to have a leverage coverage ratio of no more than:

6-to-1 from the closing date of the Bard acquisition until and including the first fiscal quarter-end thereafter;
5.75-to-1 for the subsequent four fiscal quarters thereafter;
5.25-to-1 for the subsequent four fiscal quarters thereafter;
4.5-to-1 for the subsequent four fiscal quarters thereafter;
4-to-1 for the subsequent four fiscal quarters thereafter;
3.75-to-1 thereafter.

We also have informal lines of credit outside the United States. The Company had no commercial paper borrowings outstanding as of June 30, 2018. We may, from time to time, sell certain trade receivable assets to third parties as we manage working capital over the normal course of our business activities.

Debt ratings

Our corporate credit ratings with the rating agencies Standard & Poor's Ratings Services ("S&P"), Moody's Investor Service ("Moody's") and Fitch Ratings ("Fitch") were as follows at June 30, 2018:

	S&P	Moody’s	Fitch
Ratings:			
Senior Unsecured Debt	BBB	Ba1	BBB-
Commercial Paper	A-2	NP	
Outlook	Stable	Stable	Stable

Upon our closing the Bard acquisition in the first quarter of fiscal year 2018, S&P lowered our corporate credit rating from the previous rating of BBB+. Also upon the acquisition's closing, Moody's downgraded our corporate credit and commercial paper ratings from the previous ratings of Baa2 and P-2, respectively. The rating assigned to our corporate debt by Fitch was unchanged by the closing of the acquisition.

Lower corporate debt ratings and further downgrades of our corporate credit ratings or other credit ratings may increase our cost of borrowing. We believe that given our debt ratings, our financial management policies, our ability to generate cash flow and the non-cyclical, geographically diversified nature of our businesses, we would have access to additional short-term and long-term capital should the need arise. A rating reflects only the view of a rating agency and is not a recommendation to buy, sell or hold securities. Ratings can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

Concentrations of Credit Risk

We continually evaluate our accounts receivables for potential collection risks, particularly those resulting from sales to government-owned or government-supported healthcare facilities in certain countries, as payment may be dependent upon the financial stability and creditworthiness of those countries’ national economies. We continually

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

Regulatory Matters

In May 2017, the United States Food and Drug Administration ("FDA") conducted inspections at BD's Preanalytical Systems ("PAS") facility in Franklin Lakes, New Jersey. In July 2017, the FDA issued a Form 483 to BD PAS in connection with these inspections that contained observations of non-conformance relating to quality system regulations and medical device reporting relating to certain of our BD Vacutainer™ EDTA blood collection tubes. BD PAS submitted responses to the FDA Form 483 on July 27, 2017, September 15, 2017, November 14, 2017 and January 5, 2018. On January 11, 2018, BD received a Warning Letter from the FDA, citing certain alleged violations of quality system regulations and of law. The Warning Letter states that, until BD resolves the outstanding issues covered by the Warning Letter, the FDA will not clear or approve any premarket submissions for Class III devices to which the non-conformances are reasonably related or grant requests for certificates to foreign governments. We submitted our response to the Warning Letter on January 31, 2018. BD PAS is working closely with the FDA and intends to fully implement corrective actions to address the concerns identified in the Warning Letter. The products to which the Warning Letter relate remain available for sale. However, BD cannot give any assurances that the FDA will be satisfied with its response to the Warning Letter or as to the expected date of resolution of matters included in the Warning Letter. While BD does not believe that the issues identified in the Warning Letter will have a material impact on BD's operation, no assurances can be given that the resolution of these matters will not have a material adverse effect on BD's business, results of operations, financial conditions and/or liquidity.

Cautionary Statement Regarding Forward-Looking Statements

BD and its representatives may from time to time make certain forward-looking statements in publicly released materials, both written and oral, including statements contained in filings with the Securities and Exchange Commission, press releases, and our reports to shareholders. Forward-looking statements may be identified by the use of words such as "plan," "expect," "believe," "intend," "will,", "may", "anticipate," "estimate" and other words of similar mea conjunction with, among other things, discussions of future operations and financial performance (including volume growth, sales and earnings per share growth, and cash flows) and statements regarding our strategy for growth, future product development, regulatory approvals, competitive position and expenditures. All statements that address our future operating performance or events or developments that we expect or anticipate will occur in the future are forward-looking statements.

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

The following are some important factors that could cause our actual results to differ from our expectations in any forward-looking statements. For further discussion of certain of these factors, see Item 1A. Risk Factors in our 2017 Annual Report on Form 10-K.

- Weakness in the global economy and financial markets, which could increase the cost of operating our business, weaken demand for our products and services, negatively impact the prices we can charge for our products and services, or impair our ability to produce our products.
- Competitive factors that could adversely affect our operations, including new product introductions and technologies (for example, new forms of drug delivery) by our current or future competitors, consolidation or strategic alliances among healthcare companies, distributors and/or payers of healthcare to improve their competitive position or develop new models for the delivery of healthcare, increased pricing pressure due to the impact of low-cost manufacturers, patents attained by competitors (particularly as patents on our products expire), and new entrants into our markets.
- Risks relating to our acquisition of Bard, including our ability to successfully combine and integrate the Bard operations in order to obtain the anticipated benefits and costs savings from the transaction, and the significant

additional indebtedness we incurred in connection with the financing of the acquisition and the impact this increased indebtedness may have on our ability to operate the combined company.

- The impact resulting from the recent U.S. tax reform, commonly referred to as the Tax Cuts and Job Act (the "Act"), which, among other things, reduces the U.S. federal corporate tax rate, imposes a one-time tax on earnings of certain foreign subsidiaries that were previously tax deferred, and imposes a new minimum tax on foreign earnings. While BD has previously recognized a provisional expense based on what it believes is a reasonable estimate of the income tax effects of the Act, this expense could change materially as BD refines its analysis.
- The adverse financial impact resulting from unfavorable changes in foreign currency exchange rates.

- Regional, national and foreign economic factors, including inflation, deflation, and fluctuations in interest rates, and their potential effect on our operating performance.
- Our ability to achieve our projected level or mix of product sales, as our earnings forecasts are based on projected sales volumes and pricing of many product types, some of which are more profitable than others.
- Changes in reimbursement practices of third-party payers or adverse decisions relating to our products by such payers, which could reduce demand for our products or the price we can charge for such products.
- The impact of the medical device excise tax under the Patient Protection and Affordable Care Act in the United States. While this tax has been suspended through December 31, 2019, it is uncertain whether the suspension will be extended beyond that date.
- Healthcare reform in the U.S. or in other countries in which we do business that may involve changes in government pricing and reimbursement policies or other cost containment reforms.
- Changes in the domestic and foreign healthcare industry or in medical practices that result in a reduction in procedures using our products or increased pricing pressures, including the continued consolidation among healthcare providers and trends toward managed care and healthcare cost containment.
- The impact of changes in U.S. federal laws and policy that could affect fiscal and tax policies, healthcare, and international trade, including import and export regulation and international trade agreements. Recently, the U.S., China and other countries have imposed tariffs on certain products imported into their respective countries. While we currently do not anticipate that these tariffs will have a material impact on our business, additional tariffs or other trade barriers imposed by the U.S., China or other countries could adversely impact our supply chain costs or otherwise adversely impact our results of operations.
- Fluctuations in the cost and availability of oil-based resins and other raw materials, as well as certain components, used in our products, the ability to maintain favorable supplier arrangements and relationships (particularly with respect to sole-source suppliers), and the potential adverse effects of any disruption in the availability of such items.
- Security breaches of our information technology systems or our products, which could impair our ability to conduct business, result in the loss of BD trade secrets or otherwise compromise sensitive information of BD or its customers, suppliers and other business partners, or of customers' patients, or result in product efficacy or safety concerns for certain of our products.
- Difficulties inherent in product development, including the potential inability to successfully continue technological innovation, successfully complete clinical trials, obtain regulatory approvals in the United States and abroad, obtain intellectual property protection for our products, obtain coverage and adequate reimbursement for new products, or gain and maintain market approval of products, as well as the possibility of infringement claims by competitors with respect to patents or other intellectual property rights, all of which can preclude or delay commercialization of a product. Delays in obtaining necessary approvals or clearances from United States Food and Drug Administration (“FDA”) or other regulatory agencies or changes in the regulatory process may also delay product launches and increase development costs.
- The impact of business combinations, including any volatility in earnings relating to acquisition-related costs, and our ability to successfully integrate any business we may acquire.
- Our ability to penetrate or expand our operations in emerging markets, which depends on local economic and political conditions, and how well we are able to acquire or form strategic business alliances with local companies and make necessary infrastructure enhancements to production facilities and distribution networks. Our international operations also increase our compliance risks, including risks under the Foreign Corrupt Practices Act and other anti-corruption laws, as well as privacy laws.
- Conditions in international markets, including social and political conditions, civil unrest, terrorist activity, governmental changes, trade barriers, restrictions on the ability to transfer capital across borders, difficulties in protecting and enforcing our intellectual property rights and governmental expropriation of assets. This includes the possible impact of the June 2016 advisory referendum by British voters to exit the European Union, which has created uncertainties affecting business operations in the United Kingdom and the EU.
- Deficit reduction efforts or other actions that reduce the availability of government funding for healthcare and research, which could weaken demand for our products and result in additional pricing pressures, as well as create

potential collection risks associated with such sales.

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

- Fluctuations in the demand for products we sell to pharmaceutical companies that are used to manufacture, or are sold with, the products of such companies, as a result of funding constraints, consolidation or otherwise.
- The effects of events that adversely impact our ability to manufacture our products (particularly where production of a product line is concentrated in one or more plants) or our ability to source materials or components from suppliers (including sole-source suppliers) that are needed for such manufacturing.
- Pending and potential future litigation or other proceedings asserting, and/or subpoenas seeking information with respect to, alleged violations of law (including in connection with federal and/or state healthcare programs (such as Medicare or Medicaid) and/or sales and marketing practices (such as the civil investigative demands received by BD)), antitrust claims, product liability (which may involve lawsuits seeking class action status or seeking to establish multi-district litigation proceedings, including claims relating to our hernia repair implant products, surgical continence products for women and vena cava filter products), claims with respect to environmental matters, and patent infringement, and the availability or collectability of insurance relating to any such claims.
- New or changing laws and regulations affecting our domestic and foreign operations, or changes in enforcement practices, including laws relating to trade, monetary and fiscal policies, taxation (including tax reforms that could adversely impact multinational corporations), sales practices, environmental protection, price controls, and licensing and regulatory requirements for new products and products in the postmarketing phase. In particular, the U.S. and other countries may impose new requirements regarding registration, labeling or prohibited materials that may require us to re-register products already on the market or otherwise impact our ability to market our products. Environmental laws, particularly with respect to the emission of greenhouse gases, are also becoming more stringent throughout the world, which may increase our costs of operations or necessitate changes in our manufacturing plants or processes or those of our suppliers, or result in liability to BD.
- Product efficacy or safety concerns regarding our products resulting in product holds or recalls, regulatory action on the part of the FDA or foreign counterparts (including restrictions on future product clearances and civil penalties), declining sales and product liability claims, and damage to our reputation. As a result of the CareFusion acquisition, we are operating under a consent decree with the FDA relating to our U.S. infusion pump business. The consent decree authorizes the FDA, in the event of any violations in the future, to order us to cease manufacturing and distributing products, recall products or take other actions, and we may be required to pay significant monetary damages if we fail to comply with any provision of the consent decree.
- Risks relating to our acquisition of CareFusion, including our ability to continue to successfully combine and integrate the CareFusion operations in order to fully obtain the anticipated benefits and costs savings from the transaction.
- The effect of adverse media exposure or other publicity regarding BD's business or operations, including the effect on BD's reputation or demand for its products.
- The effect of market fluctuations on the value of assets in BD's pension plans and on actuarial interest rate and asset return assumptions, which could require BD to make additional contributions to the plans or increase our pension plan expense.
- Our ability to obtain the anticipated benefits of restructuring programs, if any, that we may undertake.
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board or the Securities and Exchange Commission.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in information reported since the end of the fiscal year ended September 30, 2017.

Item 4. Controls and Procedures

An evaluation was carried out by BD's management, with the participation of BD's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of BD's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2018. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were, as of the end of the period covered by this report, effective and designed to ensure that material information relating to BD and its consolidated subsidiaries would be made known to them by others within these entities.

On December 29, 2017, BD completed the acquisition of Bard. While BD has extended its oversight and monitoring processes that support our internal control over financial reporting, as well as its disclosure controls and procedures, we continue to integrate the acquired operations of Bard. There were no changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2018 identified in connection with the above-referenced evaluation that have materially affected, or are reasonably likely to materially affect, BD's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved, both as a plaintiff and a defendant, in various legal proceedings which arise in the ordinary course of business, including product liability and environmental matters as set forth in our 2017 Annual Report on Form 10-K and in Note 5 of the Notes to Condensed Consolidated Financial Statements in this report. Since March 31, 2018, there have been no material developments with respect to the legal proceedings in which we are involved, except as provided below.

Hernia Product Claims

On April 11, 2018, plaintiffs' attorneys filed a request for the creation of a new hernia multi-district litigation ("MDL") in either the Southern District of Ohio or the Western District of Missouri, and a hearing was scheduled on July 26, 2018 to address the creation and location of that MDL.

Filter Product Claims

On June 1, 2018, a jury in the second MDL trial unanimously found in favor of BD on all claims.

Given the uncertain nature of litigation generally, BD is not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome of the litigation to which BD is a party. In accordance with U.S. generally accepted accounting principles, BD establishes accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). In view of the uncertainties discussed above, BD could incur charges in excess of any currently established accruals and, to the extent available, excess liability insurance. In the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on BD's consolidated results of operations and consolidated cash flows.

Item 1A. Risk Factors

There were no material changes during the period covered by this report in the risk factors previously disclosed in Part I, Item 1A, of our 2017 Annual Report on Form 10-K.

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

The table below sets forth certain information regarding our purchases of common stock of BD during the quarter ended June 30, 2018.

Issuer Purchases of Equity Securities

For the three months ended June 30, 2018	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1 – 30, 2018	—	$ —	—	7,857,742
May 1 – 31, 2018	2,227	224.14	—	7,857,742
June 1 – 30, 2018	—	—	—	7,857,742
Total	2,227	$ 224.14	—	7,857,742

(1) Consists of 2,227 shares purchased during the quarter in open market transactions by the trust relating to BD's Deferred Compensation and Retirement Benefit Restoration Plan and 1996 Directors' Deferral Plan.

(2) Represents shares available under a repurchase program authorized by the Board of Directors on September 24, 2013 for 10 million shares, for which there is no expiration date.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit 4.1	Form of 1.401% Note due May 24, 2023 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed by the registrant on May 24, 2018).
Exhibit 4.2	Form of 3.02% Note due May 24, 2025 (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed by the registrant on May 24, 2018).
Exhibit 31	Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to SEC Rule 13a - 14(a).
Exhibit 32	Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to Rule 13a - 14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code.
Exhibit 101	The following materials from this report, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

Becton, Dickinson and Company
(Registrant)

Dated: August 2, 2018

/s/ Christopher Reidy
Christopher Reidy
Executive Vice President, Chief Financial Officer and Chief Administrative Officer
(Principal Financial Officer)

/s/ Charles Bodner
Charles Bodner
Senior Vice President, Corporate Finance, and Chief Accounting Officer
(Principal Accounting Officer)

INDEX TO EXHIBITS

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