JOHNSON & JOHNSON
Form 10-Q
May 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended April 1, 2018
or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to
Commission file number 1-3215
(Exact name of registrant as specified in its charter)

NEW JERSEY	22-1024240
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Johnson & Johnson Plaza
New Brunswick, New Jersey 08933
(Address of principal executive offices)
Registrant’s telephone number, including area code (732) 524-0400
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. þ Yes o 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 þ	Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)
Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicated 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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.
On April 26, 2018, 2,682,149,964 shares of Common Stock, $1.00 par value, were outstanding.

JOHNSON & JOHNSON AND SUBSIDIARIES
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and Johnson & Johnson's other publicly available documents contain “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Management and representatives of Johnson & Johnson and its subsidiaries (the Company) also may from time to time make forward-looking statements. Forward-looking statements do not relate strictly to historical or current facts and reflect management’s assumptions, views, plans, objectives and projections about the future. Forward-looking statements may be identified by the use of words such as “plans,” “expects,” “will,” “anticipates,” “estimates,” and other words of similar meaning in conjunction with, among other things: discussions of future operations, expected operating results, financial performance; impact of planned acquisitions and dispositions; impact and timing of restructuring initiatives including associated cost savings and other benefits; the Company's strategy for growth; product development activities; regulatory approvals; market position and expenditures.
Because forward-looking statements are based on current beliefs, expectations and assumptions regarding future events, they are subject to uncertainties, risks and changes that are difficult to predict and many of which are outside of the Company's control. Investors should realize that if underlying assumptions prove inaccurate, or known or unknown risks or uncertainties materialize, the Company’s actual results and financial condition could vary materially from expectations and projections expressed or implied in its forward-looking statements. Investors are therefore cautioned not to rely on these forward-looking statements. Risks and uncertainties include, but are not limited to:
Risks Related to Product Development, Market Success and Competition

- Challenges and uncertainties inherent in innovation and development of new and improved products and technologies on which the Company’s continued growth and success depend, including uncertainty of clinical outcomes, obtaining regulatory approvals, health plan coverage and customer access, and initial and continued commercial success;
- Challenges to the Company’s ability to obtain and protect adequate patent and other intellectual property rights for new and existing products and technologies in the United States and other important markets;
- The impact of patent expirations, typically followed by the introduction of competing biosimilars and generics and resulting revenue and market share losses;
- Increasingly aggressive and frequent challenges to the Company’s patents by competitors and others seeking to launch competing generic, biosimilar or other products and increased receptivity of courts, the United States Patent and Trademark Office and other decision makers to such challenges, potentially resulting in loss of market exclusivity and rapid decline in sales for the relevant product sooner than expected;
- Competition in research and development of new and improved products, processes and technologies, which can result in product and process obsolescence;
- Competition to reach agreement with third parties for collaboration, licensing, development and marketing agreements for products and technologies;
- Competition on the basis of cost-effectiveness, product performance, technological advances and patents attained by competitors; and
- Allegations that the Company’s products infringe the patents and other intellectual property rights of third parties, which could adversely affect the Company’s ability to sell the products in question and require the payment of money damages and future royalties.

Risks Related to Product Liability, Litigation and Regulatory Activity

- Product efficacy or safety concerns, whether or not based on scientific evidence, potentially resulting in product withdrawals, recalls, regulatory action on the part of the United States Food and Drug Administration (or international counterparts), declining sales and reputational damage;
- Impact of significant litigation or government action adverse to the Company, including product liability claims and allegations related to pharmaceutical marketing practices and contracting strategies;
- Increased scrutiny of the health care industry by government agencies and state attorneys general resulting in investigations and prosecutions, which carry the risk of significant civil and criminal penalties, including, but not limited to, debarment from government business;
- Failure to meet compliance obligations in the McNEIL-PPC, Inc. Consent Decree or the Corporate Integrity Agreements of the Johnson & Johnson Pharmaceutical Affiliates, or any other compliance agreements with

governments or government agencies, which could result in significant sanctions;

- Potential changes to applicable laws and regulations affecting United States and international operations, including relating to: approval of new products; licensing and patent rights; sales and promotion of health care products; access to, and reimbursement and pricing for, health care products and services; environmental protection and sourcing of raw materials;
- Changes in tax laws and regulations, including changes related to The Tax Cuts and Jobs Act in the United States, increasing audit scrutiny by tax authorities around the world and exposures to additional tax liabilities potentially in excess of existing reserves; and
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board and regulations by the Securities and Exchange Commission.

Risks Related to the Company’s Strategic Initiatives and Health Care Market Trends

- Pricing pressures resulting from trends toward health care cost containment, including the continued consolidation among health care providers, trends toward managed care, the shift toward governments increasingly becoming the primary payers of health care expenses and significant new entrants to the health care markets seeking to reduce costs;
- Restricted spending patterns of individual, institutional and governmental purchasers of health care products and services due to economic hardship and budgetary constraints;
- Challenges to the Company’s ability to realize its strategy for growth including through externally sourced innovations, such as development collaborations, strategic acquisitions, licensing and marketing agreements, and the potential heightened costs of any such external arrangements due to competitive pressures;
- The potential that the expected strategic benefits and opportunities from any planned or completed acquisition or divestiture by the Company, including the integration of Actelion Ltd., may not be realized or may take longer to realize than expected; and
- The potential that the expected benefits and opportunities related to past and future restructuring actions may not be realized or may take longer to realize than expected, including due to any required consultation procedures relating to restructuring of workforce.

Risks Related to Economic Conditions, Financial Markets and Operating Internationally

- Impact of inflation and fluctuations in interest rates and currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;
- Potential changes in export/import and trade laws, regulations and policies of the United States and other countries, including any increased trade restrictions or tariffs and potential drug reimportation legislation;
- The impact on international operations from financial instability in international economies, sovereign risk, possible imposition of governmental controls and restrictive economic policies, and unstable international governments and legal systems;
- Changes to global climate, extreme weather and natural disasters that could affect demand for the Company's products and services, cause disruptions in manufacturing and distribution networks, alter the availability of goods and services within the supply chain, and affect the overall design and integrity of the Company's products and operations; and
- The impact of armed conflicts and terrorist attacks in the United States and other parts of the world including social and economic disruptions and instability of financial and other markets.

Risks Related to Supply Chain and Operations

- Difficulties and delays in manufacturing, internally or within the supply chain, that may lead to voluntary or involuntary business interruptions or shutdowns, product shortages, withdrawals or suspensions of products from the market, and potential regulatory action;
- Interruptions and breaches of the Company's information technology systems, and those of the Company's vendors, could result in reputational, competitive, operational or other business harm as well as financial costs and regulatory action;
- Reliance on global supply chains and production and distribution processes that are complex and subject to increasing regulatory requirements that may adversely affect supply, sourcing and pricing of materials used in the Company’s products; and
- The potential that the expected benefits and opportunities related to restructuring actions contemplated for the global supply chain may not be realized or may take longer to realize than expected, including due to any required consultation procedures relating to restructuring of workforce and any required approvals from applicable regulatory

authorities. Disruptions associated with the recently announced global supply chain actions may adversely affect supply and sourcing of materials used in the Company's products.

Investors also should carefully read the Risk Factors described in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, for a description of certain risks that could, among other things, cause the Company’s actual results to differ materially from those expressed in its forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider the risks described above to be a complete statement of all potential risks and uncertainties. The Company does not undertake to publicly update any forward-looking statement that may be made from time to time, whether as a result of new information or future events or developments.

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Part I — FINANCIAL INFORMATION

Item 1 — FINANCIAL STATEMENTS

JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; Dollars in Millions Except Share and Per Share Data)

	April 1, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$14,639	17,824
Marketable securities	565	472
Accounts receivable, trade, less allowances for doubtful accounts $281 (2017, $291)	14,166	13,490
Inventories (Note 2)	9,014	8,765
Prepaid expenses and other	2,641	2,537
Assets held for sale (Note 10)	1,743	—
Total current assets	42,768	43,088
Property, plant and equipment at cost	41,996	41,466
Less: accumulated depreciation	(24,956)	(24,461)
Property, plant and equipment, net	17,040	17,005
Intangible assets, net (Note 3)	52,365	53,228
Goodwill (Note 3)	31,149	31,906
Deferred taxes on income	8,785	7,105
Other assets	4,518	4,971
Total assets	$156,625	157,303
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans and notes payable	$2,696	3,906
Accounts payable	6,443	7,310
Accrued liabilities	6,535	7,304
Accrued rebates, returns and promotions	7,956	7,210
Accrued compensation and employee related obligations	1,892	2,953
Accrued taxes on income	1,559	1,854
Total current liabilities	27,081	30,537
Long-term debt (Note 4)	29,837	30,675
Deferred taxes on income	8,057	8,368
Employee related obligations	10,066	10,074
Long-term taxes payable	9,453	8,472
Other liabilities	8,876	9,017
Total liabilities	93,370	97,143
Shareholders' equity:		
Common stock — par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	$3,120	3,120
Accumulated other comprehensive income (loss) (Note 7)	(12,608)	(13,199)
Retained earnings	104,339	101,793
Less: common stock held in treasury, at cost (437,654,000 and 437,318,000 shares)	31,596	31,554
Total shareholders' equity	63,255	60,160

Total liabilities and shareholders' equity	$156,625	157,303

See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited; Dollars & Shares in Millions Except Per Share Amounts)

	Fiscal First Quarters Ended			
	April 1, 2018	Percent to Sales	April 2, 2017	Percent to Sales
Sales to customers (Note 9)	$20,009	100.0 %	$17,766	100.0 %
Cost of products sold	6,614	33.1	5,409	30.4
Gross profit	13,395	66.9	12,357	69.6
Selling, marketing and administrative expenses	5,263	26.3	4,763	26.8
Research and development expense	2,404	12.0	2,070	11.7
Interest income	(114)	(0.6)	(121)	(0.7)
Interest expense, net of portion capitalized	259	1.3	204	1.2
Other (income) expense, net	60	0.3	(219)	(1.3)
Restructuring (Note 12)	42	0.2	85	0.5
Earnings before provision for taxes on income	5,481	27.4	5,575	31.4
Provision for taxes on income (Note 5)	1,114	5.6	1,153	6.5
NET EARNINGS	$4,367	21.8 %	$4,422	24.9 %
NET EARNINGS PER SHARE (Note 8)				
Basic	$1.63		$1.63	
Diluted	$1.60		$1.61	
CASH DIVIDENDS PER SHARE	$0.84		$0.80	
AVG. SHARES OUTSTANDING				
Basic	2,682.2		2,706.6	
Diluted	2,731.9		2,754.5	

Prior year amounts have been reclassified to conform to current year presentation
See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; Dollars in Millions)

	Fiscal Three Months Ended	
	April 1, 2018	April 2, 2017
Net earnings	$4,367	4,422
Other comprehensive income (loss), net of tax		
Foreign currency translation	623	395
Securities:[1]		
Unrealized holding gain (loss) arising during period	—	89
Reclassifications to earnings	—	(179)
Net change	—	(90)
Employee benefit plans:		
Prior service cost amortization during period	(6)	(4)
Gain (loss) amortization during period	192	123
Net change	186	119
Derivatives & hedges:		
Unrealized gain (loss) arising during period	(164)	(224)
Reclassifications to earnings	178	179
Net change	14	(45)
Other comprehensive income (loss)	823	379
Comprehensive income	$5,190	4,801

[1] 2018 includes the impact from the adoption of ASU 2016-01. For further details see Note 1 to the Consolidated Financial Statements
See Notes to Consolidated Financial Statements

The tax effects in other comprehensive income for the fiscal first quarters were as follows for 2018 and 2017, respectively: Foreign Currency Translation: $163 million in 2018 due to the enactment of the U.S. Tax Cuts and Jobs Act; Securities: $0 million and $48 million; Employee Benefit Plans: $52 million and $60 million; Derivatives & Hedges: $4 million and $24 million.

JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in Millions)

	Fiscal Three Months Ended	
	April 1, 2018	April 2, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$4,367	4,422
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property and intangibles	1,746	912
Stock based compensation	268	229
Asset write-downs	—	37
Deferred tax provision	44	(27)
Accounts receivable allowances	(20)	(13)
Changes in assets and liabilities, net of effects from acquisitions and divestitures:		
Increase in accounts receivable	(479)	(96)
Increase in inventories	(322)	(368)
Decrease in accounts payable and accrued liabilities	(1,686)	(2,030)
Increase in other current and non-current assets	(907)	(424)
Increase in other current and non-current liabilities	595	271
NET CASH FLOWS FROM OPERATING ACTIVITIES	3,606	2,913
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(658)	(560)
Proceeds from the disposal of assets/businesses, net	20	31
Acquisitions, net of cash acquired	(82)	(4,852)
Purchases of investments	(548)	(4,550)
Sales of investments	341	8,994
Other	2	1
NET CASH USED BY INVESTING ACTIVITIES	(925)	(936)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends to shareholders	(2,253)	(2,171)
Repurchase of common stock	(1,444)	(3,342)
Proceeds from short-term debt	26	719
Retirement of short-term debt	(2,484)	(195)
Proceeds from long-term debt, net of issuance costs	2	4,464
Retirement of long-term debt	(8)	(2)
Proceeds from the exercise of stock options/employee withholding tax on stock awards, net	66	402
Other	125	(25)
NET CASH USED BY FINANCING ACTIVITIES	(5,970)	(150)
Effect of exchange rate changes on cash and cash equivalents	104	110
(Decrease)/Increase in cash and cash equivalents	(3,185)	1,937
Cash and Cash equivalents, beginning of period	17,824	18,972

CASH AND CASH EQUIVALENTS, END OF PERIOD	$14,639	20,909
Acquisitions		
Fair value of assets acquired	$119	5,250
Fair value of liabilities assumed and noncontrolling interests	(37)	(398)
Net cash paid for acquisitions	$82	4,852

Prior year amounts have been reclassified to conform to current year presentation
See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of Johnson & Johnson and its subsidiaries (the Company) and related notes as contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented.

New Accounting Standards
Recently Adopted Accounting Standards
ASU 2014-09: Revenue from Contracts with Customers
On January 1, 2018, the Company adopted the new accounting standard, ASC 606, Revenue from Contracts with Customers and all the related amendments (new revenue standard) to all contracts using the modified retrospective method. The cumulative effect of initially applying the new standard was recognized as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new revenue standard has not had a material impact to either reported Sales to customers or Net earnings. Additionally, the Company will continue to recognize revenue from product sales as goods are shipped or delivered to the customer, as control of goods occurs at the same time.

In accordance with the new standard requirements, the disclosure of the impact of adoption on the Company's Consolidated Statement of Earnings and Balance Sheet was as follows:
Statement of Earnings - For the fiscal three months ended April 1, 2018

(Dollars in millions)	As Reported	Effect of change	Balance without adoption of ASC 606
Sales to customers	$ 20,009	(29)	19,980
Net earnings	4,367	(25)	4,342

Balance Sheet - As of April 1, 2018

	As Reported	Effect of change	Balance without adoption of ASC 606
Assets	156,625	19	156,644
Liabilities	93,370	(3)	93,367
Equity	$ 63,255	22	63,277

The Company made a cumulative effect adjustment to the 2018 opening balance of retained earnings upon adoption of ASU 2014-09, which decreased beginning retained earnings by $47 million.
As part of the adoption of ASC 606 see Note 9 to the Consolidated Financial Statements for further disaggregation of revenue.

The Company recognizes revenue from product sales when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the goods to customers. The Company's global payment terms are typically between 30 to 90 days. Provisions for certain rebates, sales incentives, trade promotions, coupons, product returns and discounts to customers are accounted as variable consideration and recorded as a reduction in sales.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates, which include the Medicaid rebate provision, are estimated based on contractual terms, historical experience, patient outcomes, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third-party sell-through and market research data, as well as internally generated information.

Sales returns are estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals.

Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The sales returns reserve is based on historical return trends by product and by market as a percent to gross sales. In accordance with the Company's accounting policies, the Company generally issues credit to customers for returned goods. The Company's sales returns reserves are accounted for in accordance with the U.S. GAAP guidance for revenue recognition when right of return exists. Sales returns reserves are recorded at full sales value. Sales returns in the Consumer and Pharmaceutical segments are almost exclusively not resalable. Sales returns for certain franchises in the Medical Devices segment are typically resalable but are not material. The Company infrequently exchanges products from inventory for returned products. The sales returns reserve for the total Company has been approximately 1.0% of annual net trade sales during the fiscal reporting years 2017, 2016 and 2015.

Promotional programs, such as product listing allowances and cooperative advertising arrangements, are recorded in the same period as related sales. Continuing promotional programs include coupons and volume-based sales incentive programs. The redemption cost of consumer coupons is based on historical redemption experience by product and value. Volume-based incentive programs are based on the estimated sales volumes for the incentive period and are recorded as products are sold. The Company also earns service revenue for co-promotion of certain products, which is included in sales to customers. These arrangements are evaluated to determine the appropriate amounts to be deferred or recorded as a reduction of revenue.

ASU 2016-01: Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities

The Company adopted this standard as of the beginning of the fiscal year 2018 on a modified retrospective basis. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net earnings. The standard amends financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income.

The Company made a cumulative effect adjustment to the opening balance of retained earnings upon adoption of ASU 2016-01 that increased retained earnings by $232 million net of tax and decreased accumulated other comprehensive income for previously unrealized gains from equity investments. For additional details see Note 4 to the Consolidated Financial Statements.

ASU 2016-16: Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

The Company adopted this standard as of the beginning of the fiscal year 2018. This update removes the current exception in U.S. GAAP prohibiting entities from recognizing current and deferred income tax expenses or benefits related to transfer of assets, other than inventory, within the consolidated entity. The current exception to defer the recognition of any tax impact on the transfer of inventory within the consolidated entity until it is sold to a third party remains unaffected. The Company recorded net adjustments to deferred taxes of approximately $2.0 billion, a decrease to Other Assets of approximately $0.7 billion and an increase to retained earnings of approximately $1.3 billion. The Company does not expect the adoption of this standard to have a significant impact on the Company's 2018 financial results.

ASU 2017-01: Clarifying the Definition of a Business

The Company adopted this standard as of the beginning of the fiscal year 2018. This update narrows the definition of a business by providing a screen to determine when an integrated set of assets and activities is not a business. The screen specifies that an integrated set of assets and activities is not a business if substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single or a group of similar identifiable assets. This update was applied prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2017-07: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

The Company adopted this standard as of the beginning of the fiscal year 2018. This update requires that an employer disaggregate the service cost component from the other components of net periodic benefit cost ("NPBC"). In addition, only the service cost component will be eligible for capitalization. The amendments in this update are required to be applied retrospectively for the presentation of the service cost component and the other components of NPBC in the Consolidated Statement of Earnings and prospectively, on and after the adoption date, for the capitalization of the service cost component of NPBC in assets. As required by the transition provisions of this update, the Company made the following reclassifications to the 2017 fiscal first quarter Consolidated Statement of Earnings to retroactively apply classification of the service cost component and the other components of NPBC:

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(Dollars In millions)	Increase (Decrease) to Net Expense
Cost of products sold	$ 23
Selling, marketing and administrative expenses	26
Research and development expense	10
Other (income) expense, net	(59)
Earnings before provision for taxes on income	$ —

The following table summarizes the cumulative effect adjustments made to the 2018 opening balance of retained earnings upon adoption of the new accounting standards mentioned above:

(Dollars in Millions)	Cumulative Effect Adjustment Increase (Decrease) to Retained Earnings
ASU 2014-09 - Revenue from Contracts with Customers	$ (47)
ASU 2016-01 - Financial Instruments	232
ASU 2016-16 - Income Taxes: Intra-Entity Transfers	1,311
Total	$ 1,496

Recently Issued Accounting Standards
Not Adopted as of April 1, 2018
ASU 2018-02: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
This update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Job Act enacted in December 2017. This update will be effective for the Company for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements.

ASU 2017-12: Targeted Improvements to Accounting for Hedging Activities
This update makes more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. This update will be effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is planning to early adopt this standard in the fiscal second quarter of 2018 and does not expect the adoption to have a material impact on its financial statements.

ASU 2016-02: Leases
This update requires the recognition of lease assets and lease liabilities on the balance sheet for all lease obligations and disclosing key information about leasing arrangements. This update requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current generally accepted accounting principles. This update will be effective for the Company for all annual periods beginning after December 15, 2018,

including interim periods within those fiscal years. Early application is permitted. The Company anticipates that most of its operating leases will result in the recognition of additional assets and the corresponding liabilities on its Consolidated Balance Sheets, however it does not expect the standard to have a material impact on the financial position. The actual impact will depend on the Company's lease portfolio at the time of adoption. The Company continues to assess all implications of the standard and related financial disclosures.

NOTE 2 — INVENTORIES

(Dollars in Millions)	April 1, 2018	December 31, 2017
Raw materials and supplies	$ 1,200	1,140
Goods in process	2,339	2,317
Finished goods	5,475	5,308
Total inventories[1]	$ 9,014	8,765

[1] Net of approximately $0.1 billion classified as assets held for sale on the Consolidated Balance Sheet, related to the divestiture of the LifeScan business which was pending as of April 1, 2018

NOTE 3 — INTANGIBLE ASSETS AND GOODWILL

Intangible assets that have finite useful lives are amortized over their estimated useful lives. The latest annual impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2017. Future impairment tests for goodwill and indefinite lived intangible assets will be performed annually in the fiscal fourth quarter, or sooner, if warranted.

(Dollars in Millions)	April 1, 2018	December 31, 2017
Intangible assets with definite lives:		
Patents and trademarks — gross	$35,980	36,427
Less accumulated amortization	7,594	7,223
Patents and trademarks — net[1]	28,386	29,204
Customer relationships and other intangibles — gross	21,141	20,204
Less accumulated amortization	7,748	7,463
Customer relationships and other intangibles — net	13,393	12,741
Intangible assets with indefinite lives:		
Trademarks	7,113	7,082
Purchased in-process research and development	3,473	4,201
Total intangible assets with indefinite lives	10,586	11,283
Total intangible assets — net	$52,365	53,228

[1] Net of approximately $0.6 billion classified as assets held for sale on the Consolidated Balance Sheet. $0.5 billion is related to the divestiture of Valchlor and $0.1 billion is related to the divestiture of the LifeScan business, both of which were pending as of April 1, 2018.

Goodwill as of April 1, 2018 was allocated by segment of business as follows:

(Dollars in Millions)	Consumer	Pharm	Med Devices	&#