BRISTOL MYERS SQUIBB CO
Form 10-Q
July 25, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

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

**Commission file number: 1-1136**

# BRISTOL-MYERS SQUIBB COMPANY

**(Exact name of registrant as specified in its charter)**

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

**345 Park Avenue, New York, N.Y. 10154**

**(Address of principal executive offices) (Zip Code)**

**(212) 546-4000**

**(Registrant s telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

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**BRISTOL-MYERS SQUIBB COMPANY**

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**JUNE 30, 2012**

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**PART I FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**BRISTOL-MYERS SQUIBB COMPANY**

**CONSOLIDATED STATEMENTS OF EARNINGS**

**Dollars and Shares in Millions, Except Per Share Data**

**(UNAUDITED)**

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

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

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**BRISTOL-MYERS SQUIBB COMPANY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**Dollars in Millions**

**(UNAUDITED)**

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

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

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**BRISTOL-MYERS SQUIBB COMPANY**

**CONSOLIDATED BALANCE SHEETS**

**Dollars in Millions, Except Share and Per Share Data**

**(UNAUDITED)**

| **ASSETS** | **June 30, 2012** | **December 31, 2011** |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 2,801 | $ 5,776 |
| Marketable securities | 2,236 | 2,957 |
| Receivables | 2,825 | 3,743 |
| Inventories | 1,521 | 1,384 |
| Deferred income taxes | 1,175 | 1,200 |
| Prepaid expenses and other | 455 | 258 |
| Total Current Assets | 11,013 | 15,318 |
| Property, plant and equipment | 4,478 | 4,521 |
| Goodwill | 6,799 | 5,586 |
| Other intangible assets | 4,569 | 3,124 |
| Deferred income taxes | 201 | 688 |
| Marketable securities | 3,732 | 2,909 |
| Other assets | 875 | 824 |
| Total Assets | $ 31,667 | $ 32,970 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Short-term borrowings | $ 236 | $ 115 |
| Accounts payable | 2,134 | 2,603 |
| Accrued expenses | 2,467 | 2,791 |
| Deferred income | 357 | 337 |
| Accrued rebates and returns | 1,061 | 1,170 |
| U.S. and foreign income taxes payable | 138 | 167 |
| Dividends payable | 598 | 597 |
| Total Current Liabilities | 6,991 | 7,780 |
| Pension, postretirement and postemployment liabilities | 1,543 | 2,017 |
| Deferred income | 805 | 866 |
| U.S. and foreign income taxes payable | 604 | 573 |
| Other liabilities | 703 | 491 |
| Long-term debt | 5,209 | 5,376 |
| Total Liabilities | 15,855 | 17,103 |
| Commitments and contingencies (Note 16) | | |
| **EQUITY** | | |

| | | |
|---|---|---|
| Bristol-Myers Squibb Company Shareholders Equity: | | |
| Preferred stock, $2 convertible series, par value $1 per share: Authorized 10 million shares; issued and outstanding 5,238 in 2012 and 5,268 in 2011, liquidation value of $50 per share | | |
| Common stock, par value of $0.10 per share: Authorized 4.5 billion shares; 2.2 billion issued in both 2012 and 2011 | 221 | 220 |
| Capital in excess of par value of stock | 2,783 | 3,114 |
| Accumulated other comprehensive loss | (2,967) | (3,045) |
| Retained earnings | 33,661 | 33,069 |
| Less cost of treasury stock 530 million common shares in 2012 and 515 million in 2011 | (17,600) | (17,402) |
| Total Bristol-Myers Squibb Company Shareholders Equity | 16,098 | 15,956 |
| Noncontrolling interest | (286) | (89) |
| Total Equity | 15,812 | 15,867 |
| Total Liabilities and Equity | $ 31,667 | $ 32,970 |

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

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**BRISTOL-MYERS SQUIBB COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Dollars in Millions**

**(UNAUDITED)**

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

| | | |
|---|---|---|
| **Cash and Cash Equivalents at End of Period** | $ 2,801 | $ 3,665 |

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

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**Note 1. BASIS OF PRESENTATION AND NEW ACCOUNTING STANDARDS**

Bristol-Myers Squibb Company (which may be referred to as Bristol-Myers Squibb, BMS or the Company) prepared these unaudited consolidated financial statements following the requirements of the Securities and Exchange Commission (SEC) and United States (U.S.) generally accepted accounting principles (GAAP) for interim reporting. Under those rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. The Company is responsible for the consolidated financial statements included in this Form 10-Q. These consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position at June 30, 2012 and December 31, 2011, the results of operations for the three and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated and disclosed through the report issuance date. These unaudited consolidated financial statements and the related notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 included in the Annual Report on Form 10-K.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited consolidated financial statements may not be indicative of full year operating results.

The preparation of financial statements requires the use of management estimates and assumptions, based on complex judgments that are considered reasonable, that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and contingent liabilities at the date of the financial statements. The most significant assumptions are employed in estimates used in determining the fair value of intangible assets, restructuring charges and accruals, sales rebate and return accruals including the annual pharmaceutical company fee, legal contingencies, tax assets and tax liabilities, pension and postretirement benefits, inventory obsolescence, potential impairment of long-lived assets, allowances for bad debt, as well as in estimates used in applying the revenue recognition policy. Actual results may differ from estimated results.

**Note 2. BUSINESS SEGMENT INFORMATION**

BMS operates in a single segment engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of innovative medicines that help patients prevail over serious diseases. A global research and development organization and a global supply chain organization are utilized and responsible for the development and delivery of products to the market. Products are distributed and sold through regional organizations that serve the United States; Europe; Latin America, Middle East and Africa; Japan, Asia Pacific and Canada; and Emerging Markets defined as Brazil, Russia, India, China and Turkey. The business is also supported by global corporate staff functions. Segment information is consistent with the financial information regularly reviewed by the chief operating decision maker, the chief executive officer, for purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting future periods.

Net sales of key products were as follows:

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

| | | | | |
|---|---|---|---|---|
| Net Sales | $ 4,443 | $ 5,434 | $ 9,694 | $ 10,445 |

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**Note 3. ALLIANCES AND COLLABORATIONS**

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

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

**Sanofi**

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

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

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

Summarized financial information related to this alliance is as follows:

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

Dollars in Millions

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

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

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

**Otsuka**

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

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

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

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

Summarized financial information related to this alliance is as follows:

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

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

**Lilly**

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

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

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

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

Summarized financial information related to this alliance is as follows:

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

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

**Gilead**

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

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

Summarized financial information related to this alliance is as follows:

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

**AstraZeneca**

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

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

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Summarized financial information related to this alliance is as follows:

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

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

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

**Pfizer**

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

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

Summarized financial information related to this alliance is as follows:

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

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

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**Note 4. ACQUISITIONS**

*Amylin Pharmaceuticals, Inc. Acquisition*

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

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

*Inhibitex, Inc. Acquisition*

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

The purchase price allocation was as follows:

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

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

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

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

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**Note 5. RESTRUCTURING**

The following is the provision for restructuring:

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

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

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

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

**Note 6. INCOME TAXES**

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

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

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

Partially offset by:

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

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

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

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

Partially offset by:

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

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

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**Note 7. EARNINGS PER SHARE**

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

**Note 8. FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

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

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

*Available-For-Sale Securities and Cash Equivalents*

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

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

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

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

| | | |
|---|---|---|
| Total Marketable Securities | $ 5,968 | $ 5,866 |

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

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

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

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

*Qualifying Hedges*

The following table summarizes the fair value of outstanding derivatives:

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

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

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

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

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

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

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

| | | |
|---|---|---|
| Adjustments to Principal Value: | | |
| Fair value of interest rate swaps | 150 | 135 |
| Unamortized basis adjustment from swap terminations | 547 | 594 |
| Unamortized bond discounts | (21) | (22) |
| Total | $ 5,209 | $ 5,376 |

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

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

Debt repurchase activity was as follows:

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

**Note 9. RECEIVABLES**

Receivables include:

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

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

**Note 10. INVENTORIES**

Inventories include:

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

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

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

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**Note 11. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment includes:

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

**Note 12. GOODWILL**

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

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

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

**Note 13. EQUITY**

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

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

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

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

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

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

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

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

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

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

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

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

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**Note 15. EMPLOYEE STOCK BENEFIT PLANS**

Stock-based compensation expense was as follows:

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

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

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

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

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

**Note 16. LEGAL PROCEEDINGS AND CONTINGENCIES**

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

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

**INTELLECTUAL PROPERTY**

***Plavix**** **Australia**

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

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

***Plavix**** **EU**

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

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

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

**OTHER INTELLECTUAL PROPERTY LITIGATION**

***Abilify****

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

***Atripla****

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

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

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***Baraclude***

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

***Sprycel***

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

***Sustiva* EU**

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

**GENERAL COMMERCIAL LITIGATION**

**Clayworth Litigation**

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

**Remaining Apotex Matters Related to *Plavix**

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

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

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

***Abilify**** **Federal Subpoena**

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

***Abilify**** **State Attorneys General Investigation**

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

***Abilify**** **Co-Pay Assistance Litigation**

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

**AWP Litigation**

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

**Qui Tam Litigation**

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

**PRODUCT LIABILITY LITIGATION**

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

***Plavix**** 

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

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***Reglan****

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

**Hormone Replacement Therapy**

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

**ENVIRONMENTAL PROCEEDINGS**

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

**CERCLA Matters**

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

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

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

**North Brunswick Township Board of Education**

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

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

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

**OTHER PROCEEDINGS**

**Italy Investigation**

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

**SEC Germany Investigation**

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

**FCPA Investigation**

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

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**Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**EXECUTIVE SUMMARY**

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

**Highlights**

The following table is a summary of our financial highlights:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Dollars in Millions, except per share data | 2012 | 2011 | 2012 | 2011 |
| Net Sales | $ 4,443 | $ 5,434 | $ 9,694 | $ 10,445 |
| Total Expenses | 3,384 | 3,644 | 6,608 | 6,888 |
| Earnings before Income Taxes | 1,059 | 1,790 | 3,086 | 3,557 |
| Provision for Income Taxes | 251 | 483 | 796 | 883 |
| *Effective tax rate* | *23.7%* | *27.0%* | *25.8%* | *24.8%* |
| Net Earnings Attributable to BMS | | | | |
| GAAP | 645 | 902 | 1,746 | 1,888 |
| Non-GAAP | 808 | 971 | 1,902 | 1,971 |
| Diluted Earnings Per Share | | | | |
| GAAP | 0.38 | 0.52 | 1.02 | 1.10 |
| Non-GAAP | 0.48 | 0.56 | 1.12 | 1.14 |
| Cash, Cash Equivalents and Marketable Securities | | | 8,769 | 10,404 |

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

**Strategy**

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

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

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

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

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

**Product and Pipeline Developments**

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

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

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

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

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

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

Brivanib an investigational anti-cancer agent

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

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

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

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

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

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

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

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

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

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

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

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

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

**RESULTS OF OPERATIONS**

**Net Sales**

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

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

** Change in excess of 100%

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

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

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

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

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

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

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

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

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

| Dollars in Millions | Three Months Ended June 30, 2012 | 2011 | Six Months Ended June 30, 2012 | 2011 |
|---|---|---|---|---|
| **Gross Sales** | $ 5,024 | $ 6,081 | $ 10,902 | $ 11,680 |
| **Gross-to-Net Sales Adjustments** | | | | |
| Charge-Backs Related to Government Programs | (176) | (198) | (368) | (365) |
| Cash Discounts | (49) | (72) | (118) | (139) |
| Managed Healthcare Rebates and Other Contract Discounts | (18) | (161) | (84) | (281) |
| Medicaid Rebates | (100) | (132) | (203) | (267) |
| Sales Returns | (134) | 3 | (234) | (20) |
| Other Adjustments | (104) | (87) | (201) | (163) |
| **Total Gross-to-Net Sales Adjustments** | (581) | (647) | (1,208) | (1,235) |
| **Net Sales** | $ 4,443 | $ 5,434 | $ 9,694 | $ 10,445 |

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The activities and ending balances of each significant category of gross-to-net sales reserve adjustments were as follows:

| Dollars in Millions | Charge-Backs Related to Government Programs | Cash Discounts | Managed Healthcare Rebates and Other Contract Discounts | Medicaid Rebates | Sales Returns | Other Adjustments | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2012 | $ (51) | $ (28) | $ (417) | $ (411) | $ (161) | $ (181) | $ (1,249) |
| Provision related to sales made in current period | (368) | (118) | (141) | (240) | (237) | (209) | (1,313) |
| Provision related to sales made in prior periods | | | 57 | 37 | 3 | 8 | 105 |
| Returns and payments | 381 | 132 | 319 | 257 | 34 | 217 | 1,340 |
| Impact of foreign currency translation | | | | | 1 | 4 | 5 |
| Balance at June 30, 2012 | $ (38) | $ (14) | $ (182) | $ (357) | $ (360) | $ (161) | $ (1,112) |

Gross-to-net sales adjustments as a percentage of gross sales were 12% and 11% for the three months ended June 30, 2012 and 2011, respectively, and were 11% for both the six months ended June 30, 2012 and 2011. Such changes in rates are primarily a function of changes in sales mix and contractual and legislative discounts and rebates. Gross-to-net sales adjustments decreased due to:

Managed healthcare rebates and other contract discounts decreased due to a reduction in prior period rebate and discount accruals based upon actual invoices received, the nonrenewal of *Plavix** contract discounts in the Medicare Part D program as of January 1, 2012, and the decrease in sales of *Plavix** following the loss of exclusivity.

Medicaid rebates decreased primarily due to a reduction in prior period managed Medicaid accruals based upon actual invoices received.

The provision for sales returns increased as a result of the loss of exclusivity in the U.S. of *Plavix** in May 2012 and *Avapro*/Avalide** in March 2012. The sales return reserves for these products in the U.S. were $222 million at June 30, 2012 and were determined after considering several factors including estimated inventory levels in the distribution channels. In accordance with company policy, these products are only eligible to be returned between six months prior to and twelve months after product expiration. Adjustments to these reserves might be required in the future for revised estimates based on actual returns which are not expected to occur until 2014.

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Net sales of key products represent 85% and 84% of total net sales for the three months ended June 30, 2012 and 2011, respectively, and 86% of total net sales for both the six months ended June 30, 2012 and 2011. The following table presents U.S. and international net sales by key products, the percentage change from the prior period and the foreign exchange impact when compared to the prior period. Commentary detailing the reasons for significant variances for key products is provided below:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| Dollars in Millions | 2012 | 2011 | % Change | % Change Attributable to Foreign Exchange | 2012 | 2011 | % Change | % Change Attributable to Foreign Exchange |
| **Key Products** | | | | | | | | |
| *Plavix* (clopidogrel bisulfate)* | $ 741 | $ 1,865 | (60)% | | $ 2,434 | $ 3,627 | (33)% | |
| U.S. | 701 | 1,747 | (60)% | | 2,331 | 3,388 | (31)% | |
| Non-U.S. | 40 | 118 | (66)% | (2)% | 103 | 239 | (57)% | (1)% |
| *Avapro*/Avalide* (irbesartan/irbesartan-hydrochlorothiazide)* | 117 | 251 | (53)% | (2)% | 324 | 541 | (40)% | (1)% |
| U.S. | 20 | 133 | (85)% | | 120 | 293 | (59)% | |
| Non-U.S. | 97 | 118 | (18)% | (5)% | 204 | 248 | (18)% | (2)% |
| *Eliquis (apixaban)* | 1 | N/A | N/A | N/A | 1 | N/A | N/A | N/A |
| U.S. | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Non-U.S. | 1 | N/A | N/A | N/A | 1 | N/A | N/A | N/A |
| *Abilify* (aripiprazole)* | 711 | 706 | 1% | (3)% | 1,332 | 1,330 | | (2)% |
| U.S. | 530 | 517 | 3% | | 970 | 977 | (1)% | |
| Non-U.S. | 181 | 189 | (4)% | (11)% | 362 | 353 | 3% | (8)% |
| *Reyataz (atazanavir sulfate)* | 406 | 396 | 3% | (4)% | 764 | 762 | | (3)% |
| U.S. | 196 | 189 | 4% | | 383 | 370 | 4% | |
| Non-U.S. | 210 | 207 | 1% | (9)% | 381 | 392 | (3)% | (7)% |
| *Sustiva (efavirenz) Franchise* | 388 | 371 | 5% | (3)% | 774 | 714 | 8% | (3)% |
| U.S. | 256 | 228 | 12% | | 507 | 443 | 14% | |
| Non-U.S. | 132 | 143 | (8)% | (8)% | 267 | 271 | (1)% | (6)% |
| *Baraclude (entecavir)* | 357 | 292 | 22% | (3)% | 682 | 567 | 20% | (2)% |
| U.S. | 59 | 51 | 16% | | 114 | 99 | 15% | |
| Non-U.S. | 298 | 241 | 24% | (3)% | 568 | 468 | 21% | (2)% |
| *Erbitux* (cetuximab)* | 179 | 173 | 3% | (1)% | 358 | 338 | 6% | |
| U.S. | 173 | 167 | 4% | | 346 | 329 | 5% | |
| Non-U.S. | 6 | 6 | | (3)% | 12 | 9 | 33% | (2)% |
| *Sprycel (dasatinib)* | 244 | 193 | 26% | (6)% | 475 | 365 | 30% | (4)% |
| U.S. | 90 | 68 | 32% | | 183 | 129 | 42% | |
| Non-U.S. | 154 | 125 | 23% | (9)% | 292 | 236 | 24% | (6)% |
| *Yervoy (ipilimumab)* | 162 | 95 | 71% | (4)% | 316 | 95 | ** | (7)% |
| U.S. | 121 | 95 | 27% | | 238 | 95 | ** | |
| Non-U.S. | 41 | N/A | N/A | N/A | 78 | N/A | N/A | N/A |
| *Orencia (abatacept)* | 290 | 228 | 27% | (3)% | 544 | 427 | 27% | (2)% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| U.S. | 197 | 152 | 30% | | 366 | 290 | 26% | |
| Non-U.S. | 93 | 76 | 22% | (9)% | 178 | 137 | 30% | (5)% |
| | | | | | | | | |
| *Nulojix (belatacept)* | 3 | 2 | 27% | N/A | 4 | 2 | 92% | N/A |
| U.S. | 2 | 2 | | | 3 | 2 | 50% | |
| Non-U.S. | 1 | N/A | N/A | N/A | 1 | N/A | N/A | N/A |
| | | | | | | | | |
| *Onglyza/Kombiglyze* | | | | | | | | |
| *(saxagliptin/saxagliptin and metformin)* | 172 | 112 | 54% | (4)% | 333 | 193 | 73% | (3)% |
| U.S. | 123 | 80 | 54% | | 241 | 137 | 76% | |
| Non-U.S. | 49 | 32 | 53% | (15)% | 92 | 56 | 64% | (14)% |
| | | | | | | | | |
| **Mature Products and All Other** | 672 | 750 | (10)% | (5)% | 1,353 | 1,484 | (9)% | (3)% |
| U.S. | 123 | 133 | (8)% | | 242 | 260 | (7)% | |
| Non-U.S. | 549 | 617 | (11)% | (4)% | 1,111 | 1,224 | (9)% | (2)% |

** Change in excess of 100%.

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*Plavix** a platelet aggregation inhibitor that is part of our alliance with Sanofi

U.S. net sales decreased primarily due to the loss of exclusivity in May 2012. Estimated total U.S. prescription demand decreased 45% and 26% for the three and six months ended June 30, 2012, respectively. We expect the continued erosion of *Plavix** net sales in the U.S.

International net sales continue to be negatively impacted by generic clopidogrel products in the EU, Canada, and Australia. This has a continuing negative impact on both our net sales and our equity in net income of affiliates from our partnership with Sanofi in Europe and Asia.

*Avapro*/Avalide** (known in the EU as *Aprovel*/Karvea**) an angiotensin II receptor blocker for the treatment of hypertension and diabetic nephropathy that is also part of the Sanofi alliance

U.S. net sales decreased due to the exclusivity loss of *Avapro*/Avalide** in March 2012. Total estimated U.S. prescription demand decreased 82% and 55% for the three and six months ended June 30, 2012, respectively.

International net sales decreased due to lower demand including generic competition in certain EU markets and Canada.

*Eliquis* an oral Xa inhibitor for the prevention of VTE in adult patients who have undergone elective hip or knee replacement surgery and in development for the prevention and treatment of venous thromboembolic disorders and stroke prevention in patients with AF that is part of our strategic alliance with Pfizer

Eliquis has been approved in the EU and several other international countries for VTE prevention with launches continuing in many of those countries.

*Abilify** an antipsychotic agent for the treatment of schizophrenia, bipolar mania disorder and major depressive disorder that is part of our strategic alliance with Otsuka

U.S. net sales increased during the three months ended June 30, 2012 due to higher average net selling prices and partially offset by the reduction in our contractual share of net sales recognized from 53.5% in 2011 to 51.5% in 2012 and fluctuations in retail buying patterns. During the six months ended June 30, 2012, U.S. net sales decreased as fluctuations in retail buying patterns and the reduction in our contractual share of net sales recognized more than offset higher average net selling prices and increased prescription demand. Estimated total U.S. prescription demand was flat for the three months ended June 30, 2012 and increased 2% for the six months ended June 30, 2012.

International net sales increased primarily due to higher prescription demand partially offset by unfavorable foreign exchange.

*Reyataz* a protease inhibitor for the treatment of HIV

U.S. net sales increased due to higher average net selling prices. Estimated total U.S. prescription demand decreased 4% and 2% for the three and six months ended June 30, 2012, respectively.

International net sales increased in the three months ended June 30, 2012 as increased demand attributable to the timing of government purchases in Russia was partially offset by unfavorable foreign exchange. International net sales decreased slightly in the six months ended

June 30, 2012 due to unfavorable foreign exchange partially offset by increased demand.

*Sustiva* Franchise a non-nucleoside reverse transcriptase inhibitor for the treatment of HIV, which includes *Sustiva*, an antiretroviral drug, and bulk efavirenz, which is also included in the combination therapy, *Atripla** (efavirenz 600mg/emtricitabine 200 mg/tenofovir disoproxil fumarate 300 mg), a product sold through a joint venture with Gilead Sciences, Inc. (Gilead)

U.S. net sales increased due to higher demand in government channels and higher average net selling prices. Estimated total U.S. prescription demand decreased 2% for the three months ended June 30, 2012 and was flat for the six months ended June 30, 2012.

International net sales decreased in the three months ended June 30, 2012 as sales remained relatively flat and were negatively impacted by unfavorable foreign exchange. International net sales decreased in the six months ended June 30, 2012 as increased demand was more than offset by unfavorable foreign exchange.

*Baraclude* an oral antiviral agent for the treatment of chronic hepatitis B

Worldwide net sales increased primarily due to continued strong demand in international markets.

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

Sold by us almost exclusively in the U.S., net sales increased primarily due to higher demand, including demand from the approval of *Erbitux** for the first-line treatment of recurrent locally or regionally advanced metastatic squamous cell carcinoma of the head and neck.

*Sprycel* an oral inhibitor of multiple tyrosine kinases, for the treatment of adults with chronic, accelerated, or myeloid or lymphoid blast phase chronic myeloid leukemia with resistance or intolerance to prior therapy, including *Gleevec** (imatinib mesylate) and first-line treatment of adults. *Sprycel* is part of our strategic alliance with Otsuka.

U.S. net sales increased due to higher demand and higher average net selling prices. Estimated total U.S. demand increased 37% and 41% for the three and six months ended June 30, 2012, respectively.

International net sales increased due to higher demand partially offset by unfavorable foreign exchange.

*Yervoy* a monoclonal antibody for the treatment of patients with unresectable (inoperable) or metastatic melanoma

*Yervoy* was launched in the U.S. in the second quarter of 2011 and continues to be launched in a number of international countries since the second quarter of 2011.

*Orencia* a fusion protein indicated for adult patients with moderate to severe rheumatoid arthritis who have had an inadequate response to one or more currently available treatments, such as methotrexate or anti-tumor necrosis factor therapy

U.S. net sales increased due to demand for the subcutaneous formulation of *Orencia* launched in the fourth quarter of 2011.

International net sales increased primarily due to increases in demand partially offset by unfavorable foreign exchange.

*Nulojix* a fusion protein with novel immunosuppressive activity targeted at prevention of kidney transplant rejection

*Nulojix* was approved and launched in the U.S. and the EU during 2011.

*Onglyza/Kombiglyze* a once-daily oral tablet for the treatment of type 2 diabetes that is part of our strategic alliance with AstraZeneca

U.S. net sales increased primarily due to higher overall demand.

International net sales increased primarily due to higher overall demand partially offset by unfavorable foreign exchange.

Mature Products and All Other includes all other products, including those which have lost exclusivity in major markets, over-the-counter brands and royalty-related revenue

U.S. net sales decreased as the continued generic erosion of certain products was partially offset by higher average net selling prices.

International net sales decreased due to continued generic erosion of certain brands and unfavorable foreign exchange.

The estimated U.S. prescription change data provided throughout this report includes information only from the retail and mail order channels and does not reflect product demand within other channels such as hospitals, home health care, clinics, federal facilities including Veterans Administration hospitals, and long-term care, among others. The data is provided by Wolters Kluwer Health, except for *Sprycel* and *Orencia* subcutaneous formulation, and is based on the Source Prescription Audit. As of December 31, 2011, *Sprycel* and *Orencia* subcutaneous formulation demand is based upon information from the Next-Generation Prescription Service version 2.0 of the National Prescription Audit provided by IMS Health (IMS). The data is a product of each respective service providers own recordkeeping and projection processes and therefore subject to the inherent limitations of estimates based on sampling and may include a margin of error.

Prior to December 31, 2011, *Sprycel* demand was calculated based upon data obtained from the IMS National Sales Perspectives Audit. Since management believes information from the IMS National Prescription Audit more accurately reflects subscriber demands trends versus pill data from the IMS National Sales Perspectives Audit, all prior year *Sprycel* data has been restated to reflect information from the IMS National Prescription Audit.

We continuously seek to improve the quality of our estimates of prescription change amounts and ultimate patient/consumer demand by reviewing the calculation methodologies employed and analyzing internal and third-party data. We expect to continue to review and refine our methodologies and processes for calculation of these estimates and will monitor the quality of our own and third-party data used in such calculations.

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We calculated the estimated total U.S. prescription change on a weighted-average basis to reflect that mail order prescriptions include a greater volume of product supplied, compared to retail prescriptions. Mail order prescriptions typically reflect a 90-day prescription whereas retail prescriptions typically reflect a 30-day prescription. The calculation is derived by multiplying mail order prescription data by a factor of approximately three and adding to this the retail prescriptions. We believe that a calculation of estimated total U.S. prescription change based on this weighted-average approach provides a superior estimate of total prescription demand in retail and mail order channels. We use this methodology for our internal demand reporting.

Estimated End-User Demand

The following table sets forth each of our key products sold by the U.S. for the three and six months ended June 30, 2012 compared to the same period in the prior year: (i) change in reported U.S. net sales for each period; (ii) estimated total U.S. prescription change for the retail and mail order channels calculated by us based on third-party data on a weighted-average basis and (iii) months of inventory on hand in the wholesale distribution channel.

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | | At June 30, | |
|---|---|---|---|---|---|---|---|---|---|---|
| | % Change in U.S. Net Sales | | % Change in U.S. Total Prescriptions | | % Change in U.S. Net Sales | | % Change in U.S. Total Prescriptions | | Months on Hand | |
| Dollars in Millions | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| *Plavix** | (60)% | 17% | (45)% | (4)% | (31)% | 12% | (26)% | (4)% | 2.2 | 0.4 |
| *Avapro*/Avalide** | (85)% | (22)% | (82)% | (40)% | (59)% | (18)% | (55)% | (36)% | 1.0 | 0.5 |
| *Abilify** | 3% | 5% | | 6% | (1)% | 2% | 2% | 5% | 0.4 | 0.4 |
| *Reyataz* | 4% | 2% | (4)% | 2% | 4% | | (2)% | 2% | 0.4 | 0.5 |
| *Sustiva Franchise*[(a)] | 12% | 7% | (2)% | 8% | 14% | 4% | | 8% | 0.4 | 0.5 |
| *Baraclude* | 16% | 21% | 10% | 8% | 15% | 18% | 11% | 10% | 0.4 | 0.5 |
| *Erbitux**[(b)] | 4% | (1)% | N/A | N/A | 5% | (1)% | N/A | N/A | 0.5 | 0.5 |
| *Sprycel* | 32% | 62% | 37% | 23% | 42% | 61% | 41% | 22% | 0.6 | 0.6 |
| *Yervoy*[(b)(d)] | 27% | N/A | N/A | N/A | ** | N/A | N/A | N/A | 0.5 | 0.3 |
| *Orencia*[(c)] | 30% | 11% | N/A | N/A | 26% | 10% | N/A | N/A | 0.4 | 0.4 |
| *Nulojix*[(b)(d)] | | N/A | N/A | N/A | 50% | N/A | N/A | N/A | 1.1 | N/A |
| *Onglyza/Kombiglyze* | 54% | ** | 53% | ** | 76% | ** | 65% | ** | 0.4 | 0.4 |

(a) The *Sustiva* Franchise includes sales of *Sustiva*, as well as revenue of bulk efavirenz included in the combination therapy *Atripla**. The months on hand relates only to *Sustiva*.

(b) *Erbitux**, *Yervoy* and *Nulojix* are parenterally administered products and do not have prescription-level data as physicians do not write prescriptions for these products.

(c) *Orencia* intravenous formulation is a parenterally administered product and does not have prescription-level data as physicians do not write prescriptions for this product. The *Orencia* subcutaneous formulation is not parenterally administered and was launched in the U.S. in the fourth quarter of 2011.

(d) *Yervoy* and *Nulojix* were launched in the U.S. in the second quarter of 2011.

** Change in excess of 100%.

Pursuant to the Securities and Exchange Commission (SEC) Consent Order described in our 2011 Annual Report on Form 10-K, we monitor the level of inventory on hand in the U.S. wholesaler distribution channel and outside of the U.S. in the direct customer distribution channel. We are obligated to disclose products with levels of inventory in excess of one month on hand or expected demand, subject to a *de minimis* exception. Estimated levels of inventory in the distribution channel in excess of one month on hand for these products, other than *Plavix*,* were not material as of the dates indicated. Below are U.S. products that had estimated levels of inventory in the distribution channel in excess of one month at June 30, 2012, and international products that had estimated levels of inventory in the distribution channel in excess of one month on hand at March 31, 2012:

*Plavix** had 2.2 months of inventory on hand in the U.S. compared to 0.4 months of inventory on hand at March 31, 2012 due to the loss of exclusivity in May 2012. We expect a gradual decrease in inventory on hand of *Plavix** to occur over the next few years as product in the wholesale distribution channel begins to be worked down or returned following the rapid, precipitous, material decline in sales of *Plavix**. Levels of inventory on hand in the wholesale and retail distribution channels were considered in assessing the sales return reserves established as of June 30, 2012.

*Nulojix* had 1.1 months of inventory on hand in the U.S. compared to 1.3 months of inventory on hand at March 31, 2012 as the inventory has continued to be worked down post launch.

*Dafalgan*, an analgesic product sold principally in Europe, had approximately 1.1 months of inventory on hand at direct customers compared to approximately 1.0 month of inventory on hand at December 31, 2011. The level of inventory on hand was due to the ordering patterns of private pharmacists in France.

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*Luftal*, an antacid product, had approximately 1.4 months of inventory on hand at direct customers compared to approximately 1.9 months of inventory on hand at December 31, 2011. The level of inventory on hand decreased as inventory was worked down following the relaunch of an alternate form.

*Fervex*, a cold and flu product, had approximately 8.2 months of inventory on hand internationally at direct customers compared to approximately 5.3 months of inventory on hand at December 31, 2011. The level of inventory on hand was due to additional stocking in France and Russia for the peak flu season.

*Pentrexyl*, an antibiotic product sold principally in Mexico, had approximately 1.1 months of inventory on hand at direct customers compared to approximately 0.9 month of inventory on hand at December 31, 2011. The increased level of inventory on hand was due to ordering patterns of two customers, which are currently being worked down.

In the U.S., for all products sold exclusively through wholesalers or through distributors, we generally determined our months on hand estimates using inventory levels of product on hand and the amount of out-movement provided by our three largest wholesalers and our distributors. Our three largest wholesalers account for approximately 90% of total gross sales of U.S. products. Factors that may influence our estimates include generic competition, seasonality of products, wholesaler purchases in light of increases in wholesaler list prices, new product launches, new warehouse openings by wholesalers and new customer stockings by wholesalers. In addition, these estimates are calculated using third-party data, which may be impacted by their recordkeeping processes.

For our businesses outside of the U.S., we have significantly more direct customers. Limited information on direct customer product level inventory and corresponding out-movement information and the reliability of third-party demand information, where available, varies widely. In cases where direct customer product level inventory, ultimate patient/consumer demand or out-movement data does not exist or is otherwise not available, we have developed a variety of other methodologies to estimate such data, including using factors such as historical sales made to direct customers and third-party market research data related to prescription trends and end-user demand. Accordingly, we rely on a variety of methods to estimate direct customer product level inventory and to calculate months on hand. Factors that may affect our estimates include generic competition, seasonality of products, direct customer purchases in light of price increases, new product launches, new warehouse openings by direct customers, new customer stockings by direct customers and expected direct customer purchases for governmental bidding situations. As a result, all of the information required to estimate months on hand in the direct customer distribution channel for non-U.S. businesses for the quarter ended June 30, 2012 is not available prior to the filing of this quarterly report on Form 10-Q. We will disclose any product with levels of inventory in excess of one month on hand or expected demand for the current quarter, subject to a de minimis exception, in the next quarterly report on Form 10-Q.

**Expenses**

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| Dollars in Millions | 2012 | 2011 | % Change | 2012 | 2011 | % Change |
| Cost of products sold | $ 1,245 | $ 1,481 | (16)% | $ 2,548 | $ 2,824 | (10)% |
| Marketing, selling and administrative | 1,004 | 1,040 | (3)% | 2,006 | 1,968 | 2% |
| Advertising and product promotion | 224 | 253 | (11)% | 418 | 467 | (10)% |
| Research and development | 962 | 923 | 4% | 1,871 | 1,858 | 1% |
| Provision for restructuring | 20 | 40 | (50)% | 42 | 84 | (50)% |
| Litigation expense/(recoveries) | | | | (172) | | |
| Equity in net income of affiliates | (53) | (62) | (15)% | (110) | (144) | (24)% |
| Other (income)/expense | (18) | (31) | (42)% | 5 | (169) | ** |
| Total Expenses | $ 3,384 | $ 3,644 | (7)% | $ 6,608 | $ 6,888 | (4)% |

** Change in excess of 100%.

Cost of products sold decreased primarily due to lower sales volume of *Plavix** and *Avapro*/Avalide** following the loss of exclusivity which resulted in lower royalties in connection with our Sanofi alliance and favorable foreign exchange. Cost of products sold also included impairment charges of $147 million during the second quarter of 2012, of which $120 million was related to a partial write-down to fair value of developed technology costs related to a non-key product acquired in the acquisition of ZymoGenetics. The developed technology impairment

charge resulted from continued competitive pricing pressures and a reduction in the undiscounted projected cash flows to an amount less than the carrying value of the intangible asset at June 30, 2012. The impairment charge was calculated as the difference between the fair value of the asset based on the discounted value of the estimated future cash flows and the carrying value of the intangible asset. The remaining $27 million charge related to the abandonment of a manufacturing facility resulting from the outsourcing of a manufacturing process. Cost of products sold as a percentage of net sales was 28.0% and 27.3% in the three months ended June 30, 2012 and 2011, respectively, and 26.3% and 27.0% in the six months ended June 30, 2012 and 2011, respectively, and reflected the impairment charges recognized in the second quarter of 2012, lower manufacturing start-up costs at our Devens facility, and favorable foreign exchange in the first half of 2012.

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Marketing, selling and administrative expenses decreased in the second quarter of 2012 as the reduction in sales related activities for *Plavix** and *Avapro*/Avalide** more than offset increased spending to support the marketing of certain key products. Marketing, selling and administrative expenses increased in the first half of 2012 primarily due to increased spending to support the marketing of certain key products and higher information technology expenses in the first quarter of 2012, which were partially offset by a reduction in sales related activities for *Plavix** and *Avapro*/Avalide**. Marketing, selling and administrative expenses were also impacted by favorable foreign exchange.

Research and development expenses included impairment charges for in-process research and development (IPRD) projects previously acquired in the Medarex, Inc. (Medarex) acquisition ($58 million in the first quarter of 2012 and $15 million in the first quarter of 2011) and Inhibitex acquisition ($45 million in the second quarter of 2012 related to FV-100, a nucleoside inhibitor for the reduction of shingles-associated pain). The impairment charges resulted from unfavorable clinical trial results and decisions to cease further development. Research and development expenses also included an $88 million payment in the first half of 2011 associated with the amendment of an intellectual property license agreement for *Yervoy* prior to its FDA approval. Research and development expenses were also impacted by favorable foreign exchange.

Provision for restructuring decreased due to fewer employee termination benefits for certain workforce reductions taken.

Litigation recoveries were related to our share of the Apotex damages award related to *Plavix**.

Equity in net income of affiliates decreased due to the continued impact of generic competition on international *Plavix** net sales, the conversion of certain territories to opt-out markets and unfavorable foreign exchange.

Other (income)/expense includes:

| Dollars in Millions | Three Months Ended June 30, 2012 | 2011 | Six Months Ended June 30, 2012 | 2011 |
|---|---|---|---|---|
| Interest expense | $ 41 | $ 32 | $ 83 | $ 63 |
| Investment income | (22) | (25) | (58) | (46) |
| Intangible asset impairment | | | 38 | |
| Gain on sale of product lines, businesses and assets | (3) | (2) | (3) | (11) |
| Other income received from alliance partners, net | (83) | (41) | (129) | (63) |
| Pension curtailments and settlements | | | | (3) |
| Litigation charges/(recoveries) | 22 | (4) | 22 | (106) |
| Product liability charges | | | | 26 |
| Other | 27 | 9 | 52 | (29) |
| Other (income)/expense | $ (18) | $ (31) | $ 5 | $ (169) |

Interest expense increased due to the termination of interest rate swap contracts in 2011.

Investment income included a $10 million gain from the sale of auction rate securities in the first quarter of 2012.

Intangible asset impairment charges are related to out-licensed assets that were previously acquired in the Medarex and ZymoGenetics, Inc. acquisitions and resulted from unfavorable clinical trial results and/or the abandonment of the programs. Similar charges of $15 million were included in research and development in 2011.

Other income from alliance partners, net increased due to lower sales-based development royalties payable to Sanofi, a new supply agreement related to the Sanofi partnership and amortization of certain upfront, milestone and other licensing payments.

Product liability charges in 2011 were for additional reserves in connection with the breast implant settlement program.

**Non-GAAP Financial Measures**

Our non-GAAP financial measures, including non-GAAP earnings and related EPS information, are adjusted to exclude certain costs, expenses, gains and losses and other specified items that due to their significant and/or unusual nature, are evaluated on an individual basis. Similar charges or gains for some of these items have been recognized in prior periods and it is reasonably possible that they could reoccur in future periods. Non-GAAP information is intended to portray the results of our baseline performance which include the discovery, development, licensing, manufacturing, marketing, distribution and sale of pharmaceutical products on a global basis and to enhance an investor s overall understanding of our past financial performance and prospects for the future. For example, non-GAAP earnings and EPS information is an indication of our baseline performance before items that are considered by us not to be reflective of our ongoing results. In addition, this information is among the primary indicators we use as a basis for evaluating

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performance, allocating resources, setting incentive compensation targets, and planning and forecasting for future periods. This information is not intended to be considered in isolation or as a substitute for net earnings or diluted EPS prepared in accordance with GAAP.

Specified items were as follows:

| Dollars in Millions, except per share data | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **Cost of products sold*** | $ 147 | $ 18 | $ 147 | $ 41 |
| **Marketing, selling and administrative**** | 5 | 10 | 13 | 14 |
| Upfront, milestone and other licensing payments | | 50 | | 138 |
| IPRD impairment | 45 | | 103 | 15 |
| **Research and development** | 45 | 50 | 103 | 153 |
| **Provision for restructuring** | 20 | 40 | 42 | 84 |
| **Litigation expense/(recoveries)** | | | (172) | |
| Acquisition related items | 1 | | 13 | |
| Litigation charges/(recoveries) | 22 | | 22 | (102) |
| Product liability charges | | | | 26 |
| Intangible asset impairment | | | 38 | |
| Loss on debt repurchase | | | 19 | |
| **Other (income)/expense** | 23 | | 92 | (76) |
| **(Increase)/Decrease to pretax income** | 240 | 118 | 225 | 216 |
| Income tax on items above | (77) | (34) | (69) | (62) |
| Specified tax (benefit)/charge*** | | (15) | | (71) |
| **Income taxes** | (77) | (49) | (69) | (133) |
| **(Increase)/Decrease to net earnings** | $ 163 | $ 69 | $ 156 | $ 83 |

* Specified items in cost of products sold include accelerated depreciation, asset impairment and other shutdown costs.
** Specified items in marketing, selling and administrative include process standardization implementation costs.
*** The 2011 specified tax benefit relates to releases of tax reserves that were specified in prior periods.

The reconciliations from GAAP to Non-GAAP were as follows:

| Dollars in Millions, except per share data | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Net Earnings Attributable to BMS GAAP | $ 645 | $ 902 | $ 1,746 | $ 1,888 |
| Earnings attributable to unvested restricted shares | | (2) | (2) | (4) |
| Net Earnings used for Diluted EPS Calculation GAAP | $ 645 | $ 900 | $ 1,744 | $ 1,884 |
| Net Earnings GAAP | $ 645 | $ 902 | $ 1,746 | $ 1,888 |
| Less Specified Items | 163 | 69 | 156 | 83 |

| | | | | |
|---|---|---|---|---|
| Net Earnings Non-GAAP | 808 | 971 | 1,902 | 1,971 |
| Earnings attributable to unvested restricted shares | | (2) | (2) | (4) |
| Net Earnings used for Diluted EPS Calculation Non-GAAP | $ 808 | $ 969 | $ 1,900 | $ 1,967 |
| Average Common Shares Outstanding Diluted | 1,701 | 1,722 | 1,704 | 1,718 |
| Diluted EPS GAAP | $ 0.38 | $ 0.52 | $ 1.02 | $ 1.10 |
| Diluted EPS Attributable to Specified Items | 0.10 | 0.04 | 0.10 | 0.04 |
| Diluted EPS Non-GAAP | $ 0.48 | $ 0.56 | $ 1.12 | $ 1.14 |

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**Income Taxes**

The effective income tax rate on earnings before income taxes was 23.7% for the three months ended June 30, 2012 compared to 27.0% for the three months ended June 30, 2011 and 25.8% for the six months ended June 30, 2012 compared to 24.8% for the six months ended June 30, 2011. The effective tax rate is lower than the U.S. statutory rate of 35% due to our decision to indefinitely reinvest the earnings for certain of our manufacturing operations in Ireland and Puerto Rico. See Item 1. Financial Statements Note 6. Income Taxes for further discussion.

**Noncontrolling Interest**

Noncontrolling interest is primarily related to our partnerships with Sanofi for the territory covering the Americas related to *Plavix** and *Avapro*/Avalide** net sales. See Item 1. Financial Statements Note 3. Alliances and Collaborations. The decrease in noncontrolling interest resulted from the May 2012 exclusivity loss of *Plavix** in the U.S and the March 2012 exclusivity loss of *Avapro*/Avalide** in the U.S. A summary of noncontrolling interest is as follows:

| Dollars in Millions | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Sanofi partnerships | $ 249 | $ 601 | $ 854 | $ 1,174 |
| Other | 4 | 8 | 9 | 12 |
| Noncontrolling interest-pre-tax | 253 | 609 | 863 | 1,186 |
| Income taxes | 90 | 204 | 319 | 400 |
| Net earnings attributable to noncontrolling interest-net of taxes | $ 163 | $ 405 | $ 544 | $ 786 |

**FINANCIAL POSITION, LIQUIDITY, AND CAPITAL RESOURCES**

Our net cash position was as follows:

| Dollars in Millions | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Cash and cash equivalents | $ 2,801 | $ 5,776 |
| Marketable securities current | 2,236 | 2,957 |
| Marketable securities non-current | 3,732 | 2,909 |
| Total cash, cash equivalents and marketable securities | 8,769 | 11,642 |
| Short-term borrowings, including current portion of long-term debt | (236) | (115) |
| Long-term debt | (5,209) | (5,376) |
| Net cash position | $ 3,324 | $ 6,151 |

We maintain a significant level of working capital, which was approximately $4.0 billion at June 30, 2012 and $7.5 billion at December 31, 2011. In 2012 and future periods, we expect cash generated by our U.S. operations, together with existing cash, cash equivalents, marketable securities and borrowings from the capital markets, to be sufficient to cover cash needs for dividends, common stock repurchases, strategic alliances and acquisitions (including our agreement to acquire Amylin as discussed below), milestone payments, working capital and capital expenditures. Historically, we have not relied on short-term borrowings to meet our liquidity needs. However, we may use short-term borrowings following the completion of the planned Amylin acquisition.

In June 2012, BMS entered into an agreement to acquire Amylin for an aggregate purchase price of $5.3 billion. BMS will also assume Amylin s net debt and a contractual payment obligation to Eli Lilly & Company, together totaling approximately $1.7 billion. The acquisition is expected to be financed through the use of existing cash balances and borrowings, including from expansion of existing credit lines, money markets, and/or capital market transactions. Following completion of BMS s planned acquisition of Amylin, AstraZeneca Pharmaceuticals LP, a wholly-owned subsidiary of AstraZeneca, will make a payment to Amylin, as a wholly-owned subsidiary of BMS, in the amount of approximately $3.4 billion in cash to enter into collaboration arrangements based on the framework of the existing diabetes alliance agreements, regarding the development and commercialization of Amylin s portfolio of products. In addition, AstraZeneca has the option, exercisable at its sole discretion following the closing of the acquisition, to establish equal governance rights over certain key strategic and financial decisions regarding the collaboration, upon the payment to BMS of an additional $135 million.

Cash, cash equivalents and marketable securities held in the U.S. were approximately $5.1 billion at June 30, 2012. Most of the remaining $3.7 billion is held in low-tax jurisdictions and is attributable to earnings that are expected to be indefinitely reinvested offshore. Cash repatriations are subject to restrictions in certain jurisdictions and may be subject to withholding and additional U.S. income taxes.

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Our investment portfolio includes non-current marketable securities which are subject to changes in fair value as a result of interest rate fluctuations and other market factors, which may impact our results of operations. Our investment policy places limits on these investments and the amount and time to maturity of investments with any institution. The policy also requires that investments are only entered into with corporate and financial institutions that meet high credit quality standards. See Item 1. Financial Statements Note 8. Financial Instruments.

We have a $1.5 billion five-year revolving credit facility from a syndicate of lenders which contains customary terms and conditions and is extendable on any anniversary date with the consent of the lenders. There are no financial covenants under this facility. There were no borrowings outstanding under this revolving credit facility at June 30, 2012 and December 31, 2011.

As discussed in Strategy above, we lost exclusivity in the U.S. for our largest product, *Plavix**, in May 2012 which has resulted in a rapid, precipitous, material decline in operating cash flow. Additional regulations in the U.S. could be passed in the future which could further reduce our results of operations, operating cash flow, liquidity and financial flexibility. We also continue to monitor the potential impact of the economic conditions in certain European countries and the related impact on prescription trends, pricing discounts, creditworthiness of our customers, and our ability to collect outstanding receivables from our direct customers. Currently, we believe these economic conditions in the EU will not have a material impact on our liquidity, cash flow or financial flexibility.

Although not material, certain European government-backed entities with a higher risk of default were identified by monitoring economic factors including credit ratings, credit-default swap rates and debt-to-gross domestic product ratios in addition to entity specific factors. Our credit exposure to government-backed trade receivables in Greece, Portugal, Italy and Spain is limited by factoring receivables, deferring revenues until the collection of cash and accruing additional bad debt reserves. Our net receivables in these countries were approximately $225 million at June 30, 2012, of which approximately 75% was from government-backed entities. During 2012, counterparties in our factoring arrangements suspended factoring of receivables from Spanish government-backed entities and limited factoring of receivables from certain Italian government-backed entities. Sales of trade receivables in Italy, Portugal and Spain were $172 million in 2012 and $254 million in 2011. Our credit exposures in Europe may increase in the future due to further reductions in our factoring arrangements and the ongoing sovereign debt crisis. Sales of receivables in Japan were $321 million in 2012 and $271 million in 2011. Our sales agreements do not allow for recourse in the event of uncollectibility and we do not retain interest to the underlying asset once sold.

We continue to manage our operating cash flows with initiatives designed to improve working capital items that are most directly affected by changes in sales volume, such as receivables, inventories, and accounts payable. The following summarizes these components expressed as a percentage of trailing twelve months net sales:

| Dollars in Millions | June 30, 2012 | % of Trailing Twelve Month Net Sales | December 31, 2011 | % of Trailing Twelve Month Net Sales |
|---|---|---|---|---|
| Net trade receivables | $ 1,623 | 7.9% | $ 2,250 | 10.6% |
| Inventories | 1,521 | 7.4% | 1,384 | 6.5% |
| Accounts payable | (2,134) | (10.4)% | (2,603) | (12.2)% |
| Total | $ 1,010 | 4.9% | $ 1,031 | 4.9% |

*Credit Ratings*

Moody s Investors Service long-term and short-term credit ratings are currently A2 and Prime-1, respectively, and their long-term credit outlook remains stable. Standard & Poor s (S&P) long-term and short-term credit ratings are currently A+ and A-1+, respectively, and their long-term credit outlook remains stable. S&P upgraded our short-term credit rating from A-1 to A-1+ in May 2012. Fitch Ratings (Fitch) long-term and short-term credit ratings are currently A and F1, respectively, and their long-term credit outlook remains negative. Fitch lowered our long-term credit rating from A+ to A in July 2012. Our credit ratings are considered investment grade. These long-term ratings designate that we have a low default risk but are somewhat susceptible to adverse effects of changes in circumstances and economic conditions. These short-term ratings designate that we have the strongest capacity for timely repayment.

*Cash Flows*

The following is a discussion of cash flow activities:

| Dollars in Millions | Six Months Ended June 30, 2012 | 2011 |
|---|---|---|
| Cash flow provided by/(used in): | | |
| Operating activities | $ 1,521 | $ 1,574 |
| Investing activities | (2,801) | (1,769) |
| Financing activities | (1,686) | (1,199) |

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*Operating Activities*

Cash flow from operating activities represents the cash receipts and cash disbursements from all of our activities other than investing activities and financing activities. Operating cash flow is derived by adjusting net earnings for noncontrolling interest, non-cash operating items, gains and losses attributed to investing and financing activities and changes in operating assets and liabilities resulting from timing differences between the receipts and payments of cash and when the transactions are recognized in our results of operations. As a result, changes in cash from operating activities reflect the timing of cash collections from customers and alliance partners; payments to suppliers, alliance partners and employees; pension contributions and tax payments in the ordinary course of business. For example, most pension contributions and employee bonuses are paid in the first quarter of the year (approximately $700 million in both 2012 and 2011). Cash of $172 million related to the Apotex damage award was received in 2012.

*Investing Activities*

Cash was used to fund the acquisition of Inhibitex for $2.5 billion in 2012.

Net purchases of marketable securities were $89 million in 2012 and $1.7 billion in 2011 due to the timing of additional investments in time deposits and highly-rated corporate debt securities with maturities greater than 90 days.

Other investing activities included litigation recoveries of $102 million in 2011.

*Financing Activities*

Dividend payments were $1.2 billion in 2012 and $1.1 billion in 2011. Dividends declared per common share totaled $0.68 for the six months ended June 30, 2012 and $0.66 for the six months ended June 30, 2011. Dividend decisions are made on a quarterly basis by our Board of Directors.

In June 2012, the Board of Directors increased its authorization for the repurchase of common stock by $3.0 billion, with $3.3 billion of common stock repurchase capacity remaining as of June 30, 2012. Common stock was repurchased in the amount of $860 million in 2012 and $385 million in 2011.

Proceeds from stock option exercises were $314 million in 2012 and $235 million in 2011 and will vary from period to period based upon fluctuations in the market value of our stock relative to the exercise price of the stock options and other factors.

Management periodically evaluates potential opportunities to repurchase certain debt securities and terminate certain interest rate swap contracts prior to their maturity. Cash outflows related to the repurchase of debt were $109 million in 2012 and $78 million in 2011.

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**CRITICAL ACCOUNTING POLICIES**

For a discussion of our critical accounting policies, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2011 Annual Report on Form 10-K.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q (including documents incorporated by reference) and other written and oral statements we make from time to time contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the fact they use words such as should , expect , anticipate , estimate , target , may , project , guidance , intend , plan , believe and other words and terms of similar meaning a connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements are based on current expectations and involve inherent risks and uncertainties, including factors that could delay, divert or change any of them, and could cause actual outcomes to differ materially from current expectations. These statements are likely to relate to, among other things, our goals, plans and projections regarding our financial position, results of operations, cash flows, market position, product development, product approvals, sales efforts, expenses, performance or results of current and anticipated products and the outcome of contingencies such as legal proceedings and financial results, which are based on current expectations that involve inherent risks and uncertainties, including internal or external factors that could delay, divert or change any of them in the next several years. We have included important factors in the cautionary statements included in this report and in the 2011 Annual Report on Form 10-K, particularly under Item 1A. Risk Factors, that we believe could cause actual results to differ materially from any forward-looking statement.

Although we believe we have been prudent in our plans and assumptions, no assurance can be given that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of new information, future events or otherwise.

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**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For a discussion of our market risk, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2011 Annual Report on Form 10-K.

**Item 4. CONTROLS AND PROCEDURES**

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. Based on their evaluation, as of the end of the period covered by this Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

**PART II OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

Information pertaining to legal proceedings can be found in Item 1. Financial Statements Note 16. Legal Proceedings and Contingencies, to the interim consolidated financial statements, and is incorporated by reference herein.

**Item 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in the Company s 2011 Annual Report on Form 10-K.

**Item 2. ISSUER PURCHASES OF EQUITY SECURITIES**

The following table summarizes the surrenders of our equity securities during the six months ended June 30, 2012:

| Period<br>Dollars in Millions, Except Per Share Data | Total Number of Shares Purchased[a] | Average Price Paid per Share[a] | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[b] | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[b] |
|---|---|---|---|---|
| January 1 to 31, 2012 | 5,482,912 | $ 33.35 | 5,477,200 | $ 1,005 |
| February 1 to 29, 2012 | 4,372,415 | $ 32.22 | 4,360,900 | $ 864 |
| March 1 to 31, 2012 | 1,750,695 | $ 32.51 | | $ 864 |
| Three months ended March 31, 2012 | 11,606,022 | | 9,838,100 | |
| April 1 to 30, 2012 | 5,613,737 | $ 33.42 | 5,606,834 | $ 677 |
| May 1 to 31, 2012 | 5,876,829 | $ 33.14 | 5,858,755 | $ 483 |
| June 1 to 30, 2012 | 4,912,492 | $ 34.52 | 4,906,631 | $ 3,313 |
| Three months ended June 30, 2012 | 16,403,058 | | 16,372,220 | |
| Six months ended June 30, 2012 | 28,009,080 | | 26,210,320 | |

(a) The difference between total number of shares purchased and the total number of shares purchased as part of publicly announced programs is due to shares of common stock withheld by us from employee restricted stock awards in order to satisfy our applicable tax withholding obligations.

(b)

In June 2012, the Board of Directors increased its authorization for the repurchase of common stock by $3.0 billion, with $3.3 billion of common stock repurchase capacity remaining as of June 30, 2012. The repurchase program does not have an expiration date and is expected to take place over a couple of years.

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**Item 6. EXHIBITS**

Exhibits (listed by number corresponding to the Exhibit Table of Item 601 in Regulation S-K).

| Exhibit No. | Description |
|---|---|
| 10a. | Agreement and Plan of Merger, dated as of June 29, 2012, by and among Bristol-Myers Squibb Company, B&R Acquisition Company and Amylin Pharmaceuticals, Inc. (incorporated by reference herein to Exhibit 2.1 to the Form 8-K filed on July 2, 2012). |
| 10b. | Form of Corrective Amendment to Agreements between the Registrant and each of the named executive officers and certain other executives effective January 1, 2009. |
| 12. | Computation of Earnings to Fixed Charges. |
| 31a. | Section 302 Certification Letter. |
| 31b. | Section 302 Certification Letter. |
| 32a. | Section 906 Certification Letter. |
| 32b. | Section 906 Certification Letter. |
| 101. | The following financial statements from the Bristol-Myers Squibb Company Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) consolidated statements of earnings, (ii) consolidated statements of comprehensive income and retained earnings, (iii) consolidated balance sheets, (iv) consolidated statements of cash flows, and (v) the notes to the consolidated financial statements. |

* Indicates, in this Form 10-Q, brand names of products, which are registered trademarks not owned by the Company or its subsidiaries. *Erbitux* is a trademark of Eli Lilly and Company; *Avapro/Avalide* (known in the EU as *Aprovel/Karvea*) and *Plavix* are trademarks of Sanofi; *Abilify* is a trademark of Otsuka Pharmaceutical Co., Ltd.; *Truvada* is a trademark of Gilead Sciences, Inc.; *Gleevec* is a trademark of Novartis AG; *Atripla* is a trademark of Bristol-Myers Squibb and Gilead Sciences, LLC; *Estrace* and *Ovcon* are trademarks of Warner-Chilcott Company, LLC; *Reglan* is a trademark of Alaven Pharmaceutical LLC; *Humira* is a trademark of Abbott Laboratories; and *Delestrogen* is a trademark of JHP Pharmaceuticals, Inc.

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SIGNATURES

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

BRISTOL-MYERS SQUIBB COMPANY

(REGISTRANT)

Date: July 25, 2012

By: /s/ Lamberto Andreotti
Lamberto Andreotti
*Chief Executive Officer*

Date: July 25, 2012

By: /s/ Charles Bancroft
Charles Bancroft
*Executive Vice President and Chief Financial Officer*