BRISTOL MYERS SQUIBB CO
Form 10-Q
October 27, 2011
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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 SEPTEMBER 30, 2011**

¨ **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 September 30, 2011, there were 1,694,531,520 shares outstanding of the Registrant s $0.10 par value common stock.

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BRISTOL-MYERS SQUIBB COMPANY

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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 September 30,		Nine Months Ended September 30,	
EARNINGS	**2011**	**2010**	**2011**	**2010**
Net Sales	$ 5,345	$ 4,798	$ 15,790	$ 14,373
Cost of products sold	1,407	1,280	4,231	3,863
Marketing, selling and administrative	1,019	892	2,987	2,686
Advertising and product promotion	205	231	672	706
Research and development	973	824	2,831	2,556
Provision for restructuring	8	15	92	50
Litigation expense, net		22		22
Equity in net income of affiliates	(71)	(70)	(215)	(252)
Other (income)/expense	(26)	(10)	(195)	84
Total Expenses	3,515	3,184	10,403	9,715
Earnings Before Income Taxes	1,830	1,614	5,387	4,658
Provision for income taxes	475	312	1,358	987
Net Earnings	1,355	1,302	4,029	3,671
Net Earnings Attributable to Noncontrolling Interest	386	353	1,172	1,052
Net Earnings Attributable to Bristol-Myers Squibb Company	$ 969	$ 949	$ 2,857	$ 2,619
Earnings per Common Share Attributable to Bristol-Myers Squibb Company				
Basic	$ 0.57	$ 0.55	$ 1.67	$ 1.52
Diluted	$ 0.56	$ 0.55	$ 1.66	$ 1.51
Dividends declared per common share	$ 0.33	$ 0.32	$ 0.99	$ 0.96

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
COMPREHENSIVE INCOME				
Net Earnings	$ 1,355	$ 1,302	$ 4,029	$ 3,671
Other Comprehensive Income/(Loss):				
Foreign currency translation	(40)	82	(12)	42
Foreign currency translation on net investment hedges	44	(79)	(13)	64
Derivatives qualifying as cash flow hedges, net of taxes of $(23) and $30 for the three months ended September 30, 2011 and 2010, respectively; and $3 for the nine months ended September 30, 2011	60	(61)	3	8
Derivatives qualifying as cash flow hedges reclassified to net earnings, net of taxes of $(9) and $6 for the three months ended September 30, 2011 and 2010, respectively; and $(16) and $3 for the nine months ended September 30, 2011 and 2010, respectively	18	(15)	31	(9)
Pension and postretirement benefits, net of taxes of $4 for the nine months ended September 30, 2010				(12)
Pension and postretirement benefits reclassified to net earnings, net of taxes of $(11) and $(12) for the three months ended September 30, 2011 and 2010, respectively; and $(30) and $(35) for the nine months ended September 30, 2011 and 2010, respectively	19	14	56	57
Available for sale securities, net of taxes of $(3) for the three months ended September 30, 2011; and $(6) and $(1) for the nine months ended September 30, 2011 and 2010, respectively	6	25	24	57
Total Other Comprehensive Income/(Loss)	107	(34)	89	207
Comprehensive Income	1,462	1,268	4,118	3,878
Comprehensive Income Attributable to Noncontrolling Interest	386	353	1,172	1,052
Comprehensive Income Attributable to Bristol-Myers Squibb Company	$ 1,076	$ 915	$ 2,946	$ 2,826

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)

	September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,471	$ 5,033
Marketable securities	3,722	2,268
Receivables	3,687	3,480
Inventories	1,357	1,204
Deferred income taxes	1,276	1,036
Prepaid expenses and other	356	252
Total Current Assets	14,869	13,273
Property, plant and equipment	4,492	4,664
Goodwill	5,564	5,233
Other intangible assets	3,196	3,370
Deferred income taxes	333	850
Marketable securities	2,819	2,681
Other assets	741	1,005
Total Assets	$ 32,014	$ 31,076
LIABILITIES		
Current Liabilities:		
Short-term borrowings	$ 182	$ 117
Accounts payable	2,292	1,983
Accrued expenses	2,699	2,740
Deferred income	321	402
Accrued rebates and returns	1,058	857
U.S. and foreign income taxes payable	183	65
Dividends payable	578	575
Total Current Liabilities	7,313	6,739
Pension, postretirement and postemployment liabilities	811	1,297
Deferred income	860	895
U.S. and foreign income taxes payable	690	755
Other liabilities	467	424
Long-term debt	5,437	5,328
Total Liabilities	15,578	15,438
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 5,268 in 2011 and 5,269 in 2010, 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 2011 and 2010	220	220
Capital in excess of par value of stock	3,226	3,682
Accumulated other comprehensive loss	(2,282)	(2,371)
Retained earnings	32,797	31,636
Less cost of treasury stock 511 million common shares in 2011 and 501 million in 2010	(17,389)	(17,454)
Total Bristol-Myers Squibb Company Shareholders Equity	16,572	15,713
Noncontrolling interest	(136)	(75)
Total Equity	16,436	15,638
Total Liabilities and Equity	$ 32,014	$ 31,076

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)

	Nine Months Ended September 30,	
	2011	**2010**
Cash Flows From Operating Activities:		
Net earnings	$ 4,029	$ 3,671
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net earnings attributable to noncontrolling interest	(1,172)	(1,052)
Depreciation	333	348
Amortization	261	198
Impairment charges	28	207
Deferred income tax expense	273	100
Stock-based compensation expense	120	143
Other	(138)	(34)
Changes in operating assets and liabilities:		
Receivables	(152)	(122)
Inventories	(150)	(37)
Accounts payable	309	77
Deferred income	(119)	1
U.S. and foreign income taxes payable	(20)	(187)
Other	(330)	(417)
Net Cash Provided by Operating Activities	3,272	2,896
Cash Flows From Investing Activities:		
Proceeds from sales and maturities of marketable securities	3,808	2,612
Purchases of marketable securities	(5,344)	(3,703)
Additions to property, plant and equipment and capitalized software	(233)	(299)
Proceeds from sale of businesses and other investing activities	147	57
Purchase of Amira Pharmaceuticals, Inc., net of cash acquired	(310)	
Net Cash Used in Investing Activities	(1,932)	(1,333)
Cash Flows From Financing Activities:		
Short-term borrowings/(repayments)	67	54
Long-term debt borrowings		6
Long-term debt repayments	(78)	(42)
Interest rate swap terminations	296	98
Issuances of common stock	365	211
Common stock repurchases	(859)	(353)
Dividends paid	(1,694)	(1,653)
Net Cash Used in Financing Activities	(1,903)	(1,679)
Effect of Exchange Rates on Cash and Cash Equivalents	1	14
(Decrease)/Increase in Cash and Cash Equivalents	(562)	(102)
Cash and Cash Equivalents at Beginning of Period	5,033	7,683

Cash and Cash Equivalents at End of Period	$ 4,471	$ 7,581

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 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 September 30, 2011 and December 31, 2010, the results of operations for the three and nine months ended September 30, 2011 and 2010, and cash flows for the nine months ended September 30, 2011 and 2010. 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, 2010 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, stock-based compensation expense, pension and postretirement benefits, fair value of financial instruments with no direct or observable market quotes, 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.

On January 1, 2011, a new revenue recognition standard was adopted for new or materially modified revenue arrangements with upfront licensing fees and contingent milestones relating to research and development deliverables. The guidance provides principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. The adoption of this standard did not impact the consolidated financial statements.

In June 2011, the Financial Accounting Standard Board (FASB) issued an update to an existing standard for comprehensive income to make the presentation of items within other comprehensive income (OCI) more prominent. This standard is effective for interim and annual periods beginning in 2012. The impact on the presentation of the consolidated financial statements is currently being evaluated.

In September 2011, the FASB amended its guidance for goodwill impairment testing. The amendment allows for entities to first assess qualitative factors in determining whether or not the fair value of a reporting unit exceeds its carrying value. If an entity concludes from this qualitative assessment that it is more likely than not that the fair value of a reporting unit exceeds its carrying value, then performing a two-step impairment test is unnecessary. This standard is effective for fiscal years beginning after December 15, 2011. The adoption of this standard is not expected to have an impact on the consolidated financial statements.

Note 2. ALLIANCES AND COLLABORATIONS

The Company maintains alliances and collaborations with various third parties for the development and commercialization of certain products. See the 2010 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

The Company has agreements with Sanofi for the codevelopment and cocommercialization of AVAPRO*/AVALIDE* (irbesartan/irbesartan-hydrochlorothiazide) and PLAVIX* (clopidogrel bisulfate). 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. The agreements 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 in the applicable territory.

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The Company 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. The Company recognizes net sales in this territory and in comarketing countries outside this territory (e.g., Germany, Italy for irbesartan only, Spain and Greece). Discovery royalties owed to Sanofi are included in cost of products sold. Sanofi acts as the operating partner and owns a 50.1% majority controlling interest in the territory covering Europe and Asia. The Company s ownership interest in this territory is 49.9%. The Company does not consolidate the partnership entities in this territory but accounts for them under the equity method and reflects its share of the results recognized in equity in net income of affiliates. Distributions of partnership profits relating to the joint ventures among the Company and Sanofi are recognized in other operating activities in the consolidated statements of cash flows.

The Company and Sanofi have a separate partnership governing the copromotion of irbesartan in the U.S. The Company recognizes other income related to the amortization of deferred income associated with Sanofi s $350 million payment to the Company for their acquisition of an interest in the irbesartan license for the U.S. upon formation of the alliance. Deferred income will continue to be amortized through 2012, which is the expected expiration of market exclusivity. Certain supply activities and development and opt-out royalties with Sanofi are reflected on a net basis in other (income)/expense.

The Company and Sanofi are currently negotiating certain contractual matters. It is not possible at this time to reasonably assess the outcome of these matters. We do not expect the impact on the Company s results of operations or financial condition to be material.

The following summarized financial information is reflected in the consolidated financial statements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in Millions	2011	2010	2011	2010
Territory covering the Americas and Australia:				
Net sales	$ 1,936	$ 1,874	$ 5,959	$ 5,580
Discovery royalty expense	368	337	1,123	998
Noncontrolling interest pre-tax	590	523	1,764	1,543
Profit distributions to Sanofi	(523)	(545)	(1,824)	(1,598)
Territory covering Europe and Asia:				
Equity in net income of affiliates	(75)	(73)	(226)	(261)
Profit distributions to the Company	97	85	224	239
Other:				
Net sales in Europe comarketing countries and other	68	87	213	295
Amortization (income)/expense irbesartan license fee	(7)	(7)	(23)	(23)
Supply activities and development and opt-out royalty (income)/expense	6	3	21	(28)

Dollars in Millions	September 30, 2011	December 31, 2010
Investment in affiliates territory covering Europe and Asia	$ 24	$ 22
Deferred income irbesartan license fee	37	60

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in Millions	2011	2010	2011	2010
Net sales	$ 364	$ 417	$ 1,125	$ 1,465
Gross profit	161	174	501	662
Net income	131	141	413	528

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Otsuka

The Company has a worldwide commercialization agreement with Otsuka Pharmaceutical Co., Ltd. (Otsuka), to codevelop and copromote with Otsuka, ABILIFY* (aripiprazole), excluding certain Asia Pacific countries. Under the terms of the agreement, the Company purchases the product from Otsuka and performs finish manufacturing for sale to third-party customers by the Company or Otsuka. In the U.S., United Kingdom (UK), Germany, France and Spain, where the product is copromoted and invoiced to third-party customers by the Company on behalf of Otsuka, the Company recognizes alliance revenue for its contractual share of third-party net sales and recognizes this alliance revenue when ABILIFY* is shipped and all risks and rewards of ownership have transferred to third-party customers. In the U.S. starting January 1, 2011, the Company s contractual share of revenue was reduced from 58% to 53.5% and will be further reduced to 51.5% in 2012. Further reductions in the Company s contractual share of revenue in the U.S. will occur on January 1, 2013 under the terms of the commercialization agreement. Otsuka reimburses the Company 30% of ABILIFY* related operating expenses in the U.S. Reimbursements are netted principally in advertising and product promotion and marketing, selling and administrative expenses. In France, Germany, Spain and, beginning on January 1, 2011, the UK, the Company receives 65% of third-party net sales with no expense reimbursement. In certain countries where the Company is presently the exclusive distributor for the product or has an exclusive right to sell ABILIFY*, the Company recognizes all of the net sales and related cost of products sold and expenses.

The Company paid Otsuka $400 million in April 2009 for extending the term of the U.S. portion of the commercialization and manufacturing agreement through April 2015. This payment is included in other assets and is being amortized as a reduction of net sales through the extension period. Previously capitalized milestone payments totaling $60 million are included in intangible assets and amortized to cost of products sold over the remaining life of the agreement in the U.S.

The Company and Otsuka also have an oncology collaboration for SPRYCEL (dasatinib) and IXEMPRA (ixabepilone) (the Oncology Products) in the U.S., Japan and the EU (the Oncology Territory). 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. This fee is included in cost of products sold. 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. Reimbursements are netted principally in marketing, selling and administrative expense and advertising and product promotion expense.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
ABILIFY* net sales, including amortization of extension payment	$ 691	$ 608	$ 2,021	$ 1,858
Oncology Products collaboration fee expense	30	30	100	92
Reimbursement of operating expenses to/(from) Otsuka	(23)	(26)	(68)	(74)
Amortization (income)/expense extension payment	16	17	49	49
Amortization (income)/expense upfront, milestone and other licensing payments	1	1	5	5

Dollars in Millions	September 30, 2011	December 31, 2010
Other assets extension payment	$ 236	$ 285
Other intangible assets upfront, milestone and other licensing payments	6	11

Lilly

The Company has an Epidermal Growth Factor Receptor (EGFR) collaboration 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* (cetuximab) and necitumumab (IMC-11F8) in North America and Japan. The EGFR agreement expires as to ERBITUX* in September 2018 and as to necitumumab when both parties agree to terminate.

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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, which is included in cost of products sold. In Japan, the Company shares rights to ERBITUX* under an agreement with Lilly and Merck KGaA and receives 50% of the pre-tax profit from Merck s net sales of ERBITUX* in Japan which is further shared equally with Lilly. The Company s share of profits from commercialization in Japan is included in other income. 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. The Company will fund 55% of development costs for U.S. studies, 50% for Japan studies, and 27.5% for global studies. All reimbursements to Lilly are recognized in research and development expense.

Previously capitalized milestone payments are being amortized through 2018, the remaining term of the agreement. The amortization is classified in cost of products sold.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Net sales	$ 172	$ 159	$ 510	$ 497
Distribution fees and royalty expense	72	62	212	194
Research and development expense reimbursement to Lilly necitumumab	4	4	10	9
Amortization (income)/expense upfront, milestone and other licensing payments	9	9	28	28
Japan commercialization fee (income)/expense	(9)	(11)	(24)	(30)

Dollars in Millions	September 30, 2011	December 31, 2010
Other intangible assets upfront, milestone and other licensing payments	$ 258	$ 286

Gilead

The Company 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 combining the Company s SUSTIVA (efavirenz) and Gilead s TRUVADA* (emtricitabine and tenofovir disoproxil fumarate), in the U.S., Canada and Europe. The Company accounts for its participation in the U.S. joint venture under the equity method of accounting and recognizes its share of the joint venture results in equity in net income of affiliates in the consolidated statements of earnings.

The Company records revenue for the bulk efavirenz component of ATRIPLA* upon sales of that product to third-party customers. Revenue for the efavirenz component is determined by applying a percentage to ATRIPLA* revenue to approximate revenue for the SUSTIVA brand.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Net sales	$ 289	$ 264	$ 858	$ 769
Equity in net loss of affiliates	3	3	11	9

AstraZeneca

The Company maintains two worldwide codevelopment and cocommercialization agreements with AstraZeneca PLC (AstraZeneca). The first agreement (Saxagliptin Agreement) is for the worldwide codevelopment and cocommercialization (excluding Japan) of ONGLYZA (saxagliptin). The second agreement (SGLT2 Agreement) is for the worldwide (including Japan) codevelopment and cocommercialization of

dapagliflozin. KOMBIGLYZE (saxagliptin and metformin) was codeveloped with AstraZeneca under the Saxagliptin Agreement and is pending regulatory approval in the EU under the tradename KOMBOGLYZE. Under each agreement, the two companies will jointly develop the clinical and marketing strategy and share development expenses, commercialization expenses, and profits and losses equally on a global basis (excluding, in the case of saxagliptin, Japan). The Company will manufacture both products. Under each agreement, the Company has the option to decline involvement in cocommercialization in a given country and instead receive compensation which is tiered based on net sales. Net reimbursements for commercial costs are included principally in advertising and product promotion and selling, general and administrative expenses. AstraZeneca s share of profits is included in cost of products sold.

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Upfront, milestone and other licensing payments received for both compounds totaling $470 million, including $120 million received during the nine months ended September 30, 2011, are deferred and amortized over the useful life of the products into other income.

The majority of development costs under the initial development plans were paid by AstraZeneca (with AstraZeneca bearing all costs of the initial agreed upon development plan for dapagliflozin in Japan). Additional development costs will be shared equally. The net reimbursements to/(from) AstraZeneca for development costs related to saxagliptin and dapagliflozin are netted in research and development.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in Millions	2011	2010	2011	2010
Net sales	$			