

BECTON DICKINSON & CO
Form 10-Q
May 09, 2007

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

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31,
2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-4802

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

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-0760120
(I.R.S. Employer Identification No.)

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

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

N/A
(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 such filing requirements for the past 90 days. Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer

in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

| Class of Common Stock | Shares Outstanding as of March 31, 2007 |
|--------------------------------|---|
| Common stock, par value \$1.00 | 244,985,725 |

BECTON, DICKINSON AND COMPANY
FORM 10-Q

For the quarterly period ended March 31, 2007

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ITEM 1. FINANCIAL STATEMENTS
 BECTON, DICKINSON AND COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 Thousands of dollars

| <u>Assets</u> | March 31, 2007 (Unaudited) | September 30, 2006 |
|---|----------------------------------|-----------------------|
| Current Assets: | | |
| Cash and equivalents | \$ 409,655 | \$ 1,000,289 |
| Short-term investments | 170,357 | 106,386 |
| Trade receivables, net | 974,074 | 885,748 |
| Inventories: | | |
| Materials | 127,731 | 121,598 |
| Work in process | 194,836 | 156,957 |
| Finished products | 653,015 | 597,183 |
| | 975,582 | 875,738 |
| Prepaid expenses, deferred taxes and other | 320,932 | 317,092 |
| Total Current Assets | 2,850,600 | 3,185,253 |
| Property, plant and equipment | 5,007,592 | 4,742,957 |
| Less allowances for depreciation and amortization | 2,741,365 | 2,609,409 |
| | 2,266,227 | 2,133,548 |
| Goodwill | 615,898 | 565,146 |
| Core and Developed Technology, Net | 367,570 | 244,811 |
| Other Intangibles, Net | 82,733 | 91,501 |
| Capitalized Software, Net | 166,293 | 189,355 |
| Other | 602,501 | 414,911 |
| Total Assets | \$ 6,951,822 | \$ 6,824,525 |
| <u>Liabilities and Shareholders' Equity</u> | | |
| Current Liabilities: | | |
| Short-term debt | \$ 208,454 | \$ 427,218 |
| Payables and accrued expenses | 1,138,420 | 1,149,111 |
| Total Current Liabilities | 1,346,874 | 1,576,329 |
| Long-Term Debt | 956,135 | 956,971 |
| Long-Term Employee Benefit Obligations | 274,469 | 270,495 |
| Deferred Income Taxes and Other | 244,856 | 184,526 |
| Commitments and Contingencies | - | - |
| Shareholders' Equity: | | |
| Common stock | 332,662 | 332,662 |
| Capital in excess of par value | 1,014,973 | 873,535 |
| Retained earnings | 5,610,948 | 5,345,697 |
| Deferred compensation | 11,622 | 11,134 |
| Common shares in treasury at cost | (2,898,381) | (2,698,016) |
| Accumulated other comprehensive income (loss) | 57,664 | (28,808) |
| Total Shareholders' Equity | 4,129,488 | 3,836,204 |
| Total Liabilities and Shareholders' Equity | \$ 6,951,822 | \$ 6,824,525 |

See notes to condensed consolidated financial statements

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

| | Three Months Ended March 31, | | Six Months Ended March 31 | |
|--|---------------------------------|--------------|------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$ 1,575,922 | \$ 1,424,209 | \$ 3,077,449 | \$ 2,818,054 |
| Cost of products sold | 764,540 | 698,766 | 1,473,474 | 1,364,712 |
| Selling and administrative | 406,631 | 346,322 | 790,715 | 695,349 |
| Research and development | 86,687 | 127,715 | 281,366 | 196,074 |
| Total Operating Costs and Expenses | 1,257,858 | 1,172,803 | 2,545,555 | 2,256,135 |
| Operating Income | 318,064 | 251,406 | 531,894 | 561,919 |
| Interest expense | (11,686) | (19,805) | (24,555) | (36,565) |
| Interest income | 9,086 | 16,991 | 25,200 | 31,662 |
| Other income (expense), net | 5,872 | (451) | 3,505 | (1,614) |
| Income From Continuing Operations Before Income Taxes | 321,336 | 248,141 | 536,044 | 555,402 |
| Income tax provision | 85,797 | 84,683 | 169,454 | 168,242 |
| Income From Continuing Operations | 235,539 | 163,458 | 366,590 | 387,160 |
| Income (loss) from Discontinued Operations, net | 6,994 | (9,390) | 18,822 | (15,232) |
| Net Income | \$ 242,533 | \$ 154,068 | \$ 385,412 | \$ 371,928 |
| <u>Basic Earnings per Share:</u> | | | | |
| Income from Continuing Operations | \$ 0.96 | \$ 0.66 | \$ 1.49 | \$ 1.56 |
| Income (loss) from Discontinued Operations | 0.03 | (0.04) | 0.08 | (0.06) |
| Basic Earnings per Share | \$ 0.99 | \$ 0.62 | \$ 1.57 | \$ 1.50 |
| <u>Diluted Earnings per Share:</u> | | | | |
| Income from Continuing Operations | \$ 0.92 | \$ 0.63 | \$ 1.44 | \$ 1.51 |
| Income (loss) from Discontinued Operations | 0.03 | (0.04) | 0.07 | (0.06) |
| Diluted Earnings per Share (A) | \$ 0.95 | \$ 0.60 | \$ 1.51 | \$ 1.45 |
| Dividends per Common Share | \$ 0.245 | \$ 0.215 | \$ 0.49 | \$ 0.43 |

(A) Total per share amounts may not add due to rounding.

See notes to condensed consolidated financial statements

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

| | Six Months Ended March 31, | |
|---|-------------------------------|------------|
| | 2007 | 2006 |
| <u>Operating Activities</u> | | |
| Net income | \$ 385,412 | \$ 371,928 |
| (Income) loss from discontinued operations, net | (18,822) | 15,232 |
| Income from continuing operations | 366,590 | 387,160 |
| Adjustments to income from continuing operations to derive net cash provided by continuing operating activities, net of amounts acquired: | | |
| Depreciation and amortization | 211,028 | 197,030 |
| Share-based compensation | 60,661 | 58,447 |
| Deferred income taxes | (43,598) | (15,137) |
| Acquired in-process research and development | 114,739 | 53,300 |
| Change in working capital | (154,963) | (216,774) |
| Pension obligation | (54,967) | (104,762) |
| Other, net | 12,057 | 24,950 |
| Net Cash Provided by Continuing Operating Activities | 511,547 | 384,214 |
| <u>Investing Activities</u> | | |
| Capital expenditures | (235,237) | (149,929) |
| Capitalized software | (10,198) | (10,085) |
| Purchases of investments, net | (57,003) | (5,170) |
| Acquisitions of businesses, net of cash acquired | (339,528) | (230,433) |
| Proceeds from discontinued operations | 19,971 | - |
| Other, net | (37,288) | (33,631) |
| Net Cash Used for Continuing Investing Activities | (659,283) | (429,248) |
| <u>Financing Activities</u> | | |
| Change in short-term debt | (119,778) | (640) |
| Payments of debt | (100,258) | (326) |
| Repurchase of common stock | (224,835) | (224,995) |
| Issuance of common stock from treasury | 74,758 | 94,671 |
| Excess tax benefits from payments under share-based plans | 32,052 | 35,554 |
| Dividends paid | (120,140) | (106,728) |
| Net Cash Used for Continuing Financing Activities | (458,201) | (202,464) |
| <u>Discontinued Operations</u> | | |
| Net cash provided by (used for) operating activities | 10,929 | (17,930) |
| Net cash used for investing activities | - | (1,076) |
| Net Cash Provided by (Used for) Discontinued Operations | 10,929 | (19,006) |
| Effect of exchange rate changes on cash and equivalents | 4,374 | 148 |
| Net decrease in cash and equivalents | (590,634) | (266,356) |
| Opening Cash and Equivalents | 1,000,289 | 1,042,890 |
| Closing Cash and Equivalents | \$ 409,655 | \$ 776,534 |

See notes to condensed consolidated financial statements

BECTON, DICKINSON AND COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 Dollar and share amounts in thousands, except per share data
 March 31, 2007

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of the management of the Company, include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position and the results of operations and cash flows for the periods presented. However, the financial statements do not include all information and footnotes required for a presentation in accordance with U.S. generally accepted accounting principles. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included or incorporated by reference in the Company's 2006 Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

Note 2 □ Comprehensive Income

Comprehensive income was comprised of the following:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|------------------|------------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net Income | \$ 242,533 | \$ 154,068 | \$ 385,412 | \$ 371,928 |
| Other Comprehensive Income (Loss), Net of Tax | | | | |
| Foreign currency translation adjustments | 22,822 | 24,686 | 98,299 | (2,919) |
| Unrealized losses on investments, net of amounts reclassified | (277) | (808) | (10,674) | (2,587) |
| Unrealized gains (losses) on cash flow hedges, net of amounts realized | 573 | (1,647) | (1,153) | 1,087 |
| | 23,118 | 22,231 | 86,472 | (4,419) |
| Comprehensive Income | \$ 265,651 | \$ 176,299 | \$ 471,884 | \$ 367,509 |

The amount of unrealized losses or gains on investments and cash flow hedges in comprehensive income has been adjusted to reflect any realized gains and recognized losses included in net income during the three and six months ended March 31, 2007 and 2006. The change in foreign currency translation adjustments is primarily attributable to stronger European currencies versus the U.S. dollar for the six months ended March 31, 2007, compared with the six months ended March 31, 2006.

Note 3 - Earnings per Share

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|---------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Average common shares outstanding | 245,418 | 248,088 | 245,484 | 248,067 |
| Dilutive share equivalents from share-based plans | 9,322 | 10,211 | 9,694 | 9,078 |
| Average common and common equivalent shares outstanding \square assuming dilution | 254,740 | 258,299 | 255,178 | 257,145 |

Note 4 - Contingencies

The Company is involved, both as a plaintiff and a defendant, in various legal proceedings and claims which arise in the ordinary course of business as set forth in the Company's 2006 Annual Report on Form 10-K. The following discussion represents new matters that have occurred in 2007 and any recent developments related to previously described matters.

Antitrust Class Action Suits

Two additional purported class action antitrust cases have been filed against the Company, as follows:

- The Hebrew Home for the Aged at Riverdale v. Becton Dickinson and Company was filed on March 28, 2007 in federal court in the Southern District of New York (Case No. 07-CV-2544).
- International Multiple Sclerosis Management Practice v. Becton Dickinson & Company was filed on April 5, 2007 in federal court in the District of New Jersey (Case No. 2:07-cv-10602).

These purported class action cases have been brought on behalf of alleged indirect purchasers of the Company's products. In each case, the plaintiff seeks treble damages, attorney's fees and injunctive relief. Including the above actions, 10 purported antitrust class action lawsuits have been brought against the Company by direct and indirect purchasers of the Company's products. The Company anticipates that these two new antitrust class action lawsuits will be consolidated for pre-trial purposes with the other eight actions in the Multi-District Litigation currently pending in federal court in New Jersey. As directed by the court, the direct and indirect purchaser plaintiffs in the Multi-District Litigation have filed consolidated complaints with the court. The Company has filed motions to dismiss each of the consolidated complaints. With respect to the actions, class certification motions are scheduled to be briefed by the end of 2007, and oral arguments on class certification are expected to be held in early 2008.

The Company believes it has meritorious defenses to these claims and continues to vigorously defend these lawsuits.

bioMérieux

bioMérieux SA has initiated an arbitration proceeding with the International Chamber of Commerce International Court of Arbitration in Paris, France, against GeneOhm Sciences Canada ("GeneOhm"), a subsidiary of the Company. The arbitration relates to a sublicense agreement under which bioMérieux granted certain patent rights to GeneOhm relating to a method for the detection of methicillin-resistant Staphylococcus aureus (MRSA). In the arbitration, bioMérieux alleges, among other things, that GeneOhm fraudulently induced bioMérieux into entering into the sublicense and assigned its rights in violation of the sublicense. bioMérieux is seeking monetary damages and to terminate the patent rights granted to GeneOhm under the sublicense agreement. The arbitration clause of the sublicense agreement provides that the arbitration will be held before a sole arbitrator, whose decision will be binding on both GeneOhm and bioMérieux. The loss of GeneOhm's rights under the sublicense with bioMérieux may adversely affect the Company's ability to market its MRSA detection products. However, the Company believes that there is no basis for bioMérieux to terminate the sublicense agreement and the Company intends to vigorously defend its position in the arbitration proceedings.

Separately, the Company received a letter from bioMérieux invoking the dispute resolution clause of a separate license agreement between the Company and bioMérieux, under which bioMérieux grants patent rights to the Company for certain licensed fields relating to the Company's BACTEC products. In the letter, bioMérieux alleges that sales of the Company's BACTEC products have been made in non-licensed fields and that such sales constitute a material breach of the license agreement. bioMérieux requests compensation for any non-licensed sales, as well as cessation of all future sales in non-licensed fields. The Company believes there has been no material breach of the agreement and intends to follow the dispute resolution provisions to resolve the matter, while vigorously defending its position with respect to the alleged material breach.

Other

As was previously reported, in August 2004, the Company was served with an administrative subpoena issued by the United States Attorney's Office in Dallas, Texas (the "U.S. Attorney") in connection with an investigation the U.S. Attorney is conducting of transactions between another company and certain of its suppliers, including the Company. The Company has fully responded to the subpoena. Recently, the U.S. Attorney requested that the Company inform the U.S. Attorney as to the availability of a small number of the Company's employees for interviews. The Company was advised that the U.S. Attorney was making similar requests of other suppliers who had dealings with the company.

As previously reported, the Company has received a subpoena issued by the Connecticut Attorney General and a subpoena issued by the Illinois Attorney General, each seeking documents and information relating to the Company's participation as a member of Healthcare Research & Development Institute, LLC ("HRDI"), a healthcare trade organization. In January 2007, it was reported that HRDI entered into a settlement with the Attorneys General of Connecticut and Florida with respect to

the investigation being conducted by the Connecticut Attorney General, although the Connecticut Attorney General is still investigating certain corporate members of HRDI. The investigation of the Illinois Attorney General is ongoing. The Company believes that its participation in HRDI complied fully with the law and has responded to these subpoenas. The Company has not received any communication with respect to either investigation since completing its document production.

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

Note 5 □ Segment Data

The Company's organizational structure is based upon its three principal business segments: BD Medical (□Medical□), BD Diagnostics (□Diagnostics□), and BD Biosciences (□Biosciences□). The Company evaluates segment performance based upon operating income. Segment operating income represents revenues reduced by product costs and operating expenses. Financial information for the Company's segments was as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|--------------|-------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| <u>Revenues (A)</u> | | | | |
| Medical | \$ 844,144 | \$ 770,230 | \$ 1,670,391 | \$ 1,520,714 |
| Diagnostics | 473,230 | 425,167 | 915,631 | 859,285 |
| Biosciences | 258,548 | 228,812 | 491,427 | 438,055 |
| | \$ 1,575,922 | \$ 1,424,209 | \$ 3,077,449 | \$ 2,818,054 |
| <u>Segment Operating Income</u> | | | | |
| Medical | \$ 234,132 | \$ 206,034 | \$ 480,274 | \$ 429,664 |
| Diagnostics | 109,374 | 57,849 (B) | 109,029 (C) | 177,095 (B) |
| Biosciences | 67,910 | 55,898 | 124,145 | 105,221 |
| Total Segment Operating Income | 411,416 | 319,781 | 713,448 | 711,980 |
| Unallocated Items (D) | (90,080) | (71,640) | (177,404) | (156,578) |
| Income from Continuing Operations Before Income Taxes | \$ 321,336 | \$ 248,141 | \$ 536,044 | \$ 555,402 |

(A) *Intersegment revenues are not material.*

(B) *Includes the in-process research and development charge related to the GeneOhm acquisition.*

(C) *Includes the in-process research and development charge related to the TriPath acquisition. See Note 8 for additional information.*

(D) *Includes primarily share-based compensation expense; interest, net; foreign exchange; corporate expenses; and proceeds from insurance settlements received in 2006 in connection with the Company's previously owned latex glove business.*

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| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|--------------|-------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| <u>Revenues by Organizational Units</u> | | | | |
| <u>BD Medical</u> | | | | |
| Medical Surgical Systems | \$ 447,340 | \$ 424,581 | \$ 915,092 | \$ 852,744 |
| Diabetes Care | 171,191 | 163,186 | 339,877 | 326,666 |
| Pharmaceutical Systems | 208,812 | 167,109 | 381,752 | 310,872 |
| Ophthalmic Systems | 16,801 | 15,354 | 33,670 | 30,432 |
| | \$ 844,144 | \$ 770,230 | \$ 1,670,391 | \$ 1,520,714 |
| <u>BD Diagnostics</u> | | | | |
| Preanalytical Systems | \$ 244,746 | \$ 226,861 | \$ 484,819 | \$ 449,024 |
| Diagnostic Systems | 228,484 | 198,306 | 430,812 | 410,261 |
| | \$ 473,230 | \$ 425,167 | \$ 915,631 | \$ 859,285 |
| <u>BD Biosciences</u> | | | | |
| Immunocytometry Systems | \$ 144,602 | \$ 123,574 | \$ 274,202 | \$ 236,426 |
| Pharming | 43,611 | 41,597 | 83,001 | 78,543 |
| Discovery Labware | 70,335 | 63,641 | 134,224 | 123,086 |
| | \$ 258,548 | \$ 228,812 | \$ 491,427 | \$ 438,055 |
| | \$ 1,575,922 | \$ 1,424,209 | \$ 3,077,449 | \$ 2,818,054 |

Note 6 □ Share-Based Compensation

The Company grants share-based awards under the 2004 Employee and Director Equity-Based Compensation Plan (the "2004 Plan"), which provide for long-term incentive compensation to employees and directors. The Company believes such awards align the interests of its employees and directors with those of its shareholders.

The fair value of share-based payments is recognized as compensation expense in net income. For the three months ended March 31, 2007 and 2006, compensation expense charged to income was \$26,050 and \$23,804, respectively. For the six months ended March 31, 2007 and 2006, compensation expense was \$60,661 and \$58,447, respectively.

The amount of unrecognized compensation expense for all non-vested share-based awards as of March 31, 2007 was approximately \$159,269, which is expected to be recognized over a weighted-average remaining life of approximately 2.2 years.

The fair values of stock appreciation rights granted during the annual share-based grants in November of 2006 and 2005, respectively, were estimated on the date of grant using a lattice-based binomial valuation model based on the following assumptions: risk-free interest rates of 4.56% and 4.48%, respectively; expected volatility of 28% for both periods; expected dividend yield of 1.37% and 1.46%, respectively; and expected life of 6.5 years for both periods.

Note 7 □ Benefit Plans

The Company has defined benefit pension plans covering substantially all of its employees in the United States and certain foreign locations. The Company also provides certain postretirement healthcare and life insurance benefits to qualifying domestic retirees. Other postretirement benefit plans in foreign countries are not material.

Net pension and postretirement cost included the following components for the three months ended March 31:

| | Pension Plans | | Other Postretirement Benefits | |
|-------------------------------------|---------------|-----------|-------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 17,562 | \$ 18,860 | \$ 1,412 | \$ 1,017 |
| Interest cost | 19,240 | 18,106 | 3,983 | 3,716 |
| Expected return on plan assets | (22,529) | (20,150) | - | - |
| Amortization of prior service cost | 49 | 50 | (1,250) | (1,558) |
| Amortization of loss | 4,388 | 6,876 | 1,162 | 1,769 |
| Net pension and postretirement cost | \$ 18,710 | \$ 23,742 | \$ 5,307 | \$ 4,944 |

Net pension and postretirement cost included the following components for the six months ended March 31:

| | Pension Plans | | Other Postretirement Benefits | |
|-------------------------------------|---------------|-----------|-------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 31,366 | \$ 36,495 | \$ 2,501 | \$ 2,034 |
| Interest cost | 34,364 | 35,355 | 7,627 | 7,432 |
| Expected return on plan assets | (40,239) | (39,293) | - | - |
| Amortization of prior service cost | 88 | 95 | (2,782) | (3,116) |
| Amortization of loss | 7,838 | 13,672 | 2,328 | 3,538 |
| Net pension and postretirement cost | \$ 33,417 | \$ 46,324 | \$ 9,674 | \$ 9,888 |

Note 8 □ Acquisition and Divestiture*Acquisition*

On December 20, 2006, the Company acquired the outstanding shares (approximately 93.8%) of TriPath Imaging, Inc. (□TriPath□) which it did not previously own. TriPath develops, manufactures, markets and sells innovative solutions to improve the clinical management of cancer, including detection, diagnosis, staging and treatment. The acquisition advances the Company's position in cancer diagnostics. The acquisition was accounted for as a business combination and the results of operations of TriPath were included in the Diagnostics Segment's results as of the acquisition date. Pro forma information was not provided as the acquisition did not have a material effect on the Company's consolidated results. The purchase price was \$361,883 in cash, including transaction costs and other consideration. The purchase price was allocated based upon the fair values of the assets and liabilities

acquired. The allocation of the purchase price resulted in deferred tax assets of \$74,221 primarily consisting of net operating loss carry-forwards and credits; core and developed technology of \$135,097; deferred tax liabilities of \$52,662 primarily associated with other intangible assets; and other net assets of

\$51,857 consisting primarily of cash and trade receivables. Core and developed technology will be amortized on a straight-line basis over its estimated useful life of approximately 15 years. The excess of the purchase price over the fair value of the assets acquired of \$38,631 was recorded as goodwill.

In connection with the acquisition, the Company also incurred a non-deductible charge of \$114,739 for acquired in-process research and development. This charge, based on fair value, is associated with three projects: molecular Pap test, breast staging, and ovarian cancer detection. These projects had not yet reached technological feasibility and did not have alternative future use at the acquisition date. The portion of the charge allocated to each of these projects was \$75,992, \$18,764 and \$19,983, respectively. The charge was recorded as Research and development expense.

The molecular Pap test uses proprietary molecular biomarkers and reagents that are intended to allow for the primary screening of cervical cancer. The diagnostic assay is being developed to test slides prepared using TriPath's SurePath® liquid-based Pap test and to permit concurrent evaluation of morphologic features and measurement of the over-expression of molecular biomarkers that are associated with biopsy-proven moderate to severe cervical disease and cancer. Clinical trials have been initiated for this project.

The breast staging project uses proprietary molecular biomarkers and reagents that are intended to predict the risk of disease recurrence and to aid in treatment selection in patients with early stage breast cancer. The diagnostic assay is being developed for use with commercially available detection kits and staining platforms and will utilize TriPath's interactive histology imaging system to quantify biomarker over-expression in tissue samples collected at the time of initial diagnosis of breast cancer. Clinical trials have been initiated for this project.

The ovarian cancer detection project is intended to allow for serum-based screening and monitoring assays for ovarian cancer based upon the detection of multiple biomarkers using a proprietary panel of biomarkers and assay algorithms. In addition, multiplex testing platforms are being evaluated to allow for the simultaneous testing of multiple markers from a small volume of serum. The detection assays being developed will utilize certain technologies from the Biosciences segment. Clinical trials have not been initiated for this project.

The fair values of these projects were determined based upon the present value of projected cash flows utilizing an income approach reflecting the appropriate risk-adjusted discount rate based on the applicable technological and commercial risk of each project. These cash flows also took into account the income and expenses associated with the further development and commercialization of the underlying products. The range of discount rates assigned to the projects was 22 to 30 percent and gave consideration to the underlying risk relative to the developed technology, the overall commercial and technical risk, and the probabilities of success for each of the projects. The ongoing activity associated with each of these projects is not expected to be material to the Company's Research and development expense.

Divestiture

On September 28, 2006, the Company announced a plan to exit the blood glucose monitoring (BGM) market. The decision to exit the BGM market was made following an evaluation of

the future outlook for the product line. The Company recorded a pre-tax charge of \$63,414, which was included in the Medical segment, in connection with its decision to exit the BGM product line. At September 30, 2006, an accrual of \$32,408, which primarily consisted of inventory related purchase commitments and severance, was reported in current liabilities. At March 31, 2007, the remaining accrual was \$3,283, after reflecting the reversal of \$4,160 of these costs, including \$972 reversed during the second quarter of 2007.

During the first quarter of 2007, the Company received an unsolicited offer for the purchase of the BGM product line. On December 11, 2006, the Company sold the product line for \$19,971 and recognized a pre-tax gain on sale of \$15,226. During the second quarter of 2007, the Company recognized adjustments, thereby increasing the gain on sale by \$6,093. These adjustments constitute revisions to estimated sales return accruals, primarily related to obligations that ceased to exist in the second quarter pursuant to the sale terms. Additionally, during the second quarter of 2007, adjustments of \$2,236 were made to reduce other accruals related to obligations that remained with the Company upon divestiture of the product line. Following the sale, the Company's prior period Condensed Consolidated Statements of Income and Cash Flows and related disclosures have been restated to separately present the results of the BGM product line as discontinued operations. The September 30, 2006 Condensed Consolidated Balance Sheet has not been restated.

Results of discontinued operations were as follows:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------|------------------|-------------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$ 1,113 | \$ 25,108 | \$ 22,851 | \$ 45,324 |
| Income (loss) from discontinued operations before income taxes | 11,216 | (15,103) (A) | 30,184 | (24,494) |
| Income tax (provision) benefit | (4,222) | 5,713 | (11,362) | 9,262 |
| Income (loss) from discontinued operations, net | \$ 6,994 | \$ (9,390) | \$ 18,822 | \$ (15,232) |

(A) Includes a post-closing adjustment related to the divestiture of Clontech of \$3,500 (\$2,170 after taxes).

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

Company Overview

Becton, Dickinson and Company ("BD" or the "Company") is a medical technology company engaged principally in the manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by healthcare institutions, life science researchers, clinical laboratories, industry and the general public. Our business consists of three worldwide business segments - BD Medical ("Medical"), BD Diagnostics ("Diagnostics") and BD Biosciences ("Biosciences"). Our products are marketed in the United States and internationally through independent distribution channels, directly to end-users and by independent sales representatives.

Financial Results

BD reported second quarter revenues of \$1.576 billion, an increase of 11% from the same period a year ago, and reflected volume increases of approximately 8% and favorable foreign currency translation of approximately 3%. Sales in the United States of safety-engineered devices grew 8% to \$238 million in the second quarter of 2007, compared with the prior year's period. International sales of safety-engineered devices grew 20% to \$93 million in the second quarter of 2007, compared with the prior year's period. Overall, international revenue growth of 10% for the three-month period included a 5% favorable impact of foreign currency translation. As further discussed in our 2006 Annual Report on Form 10-K, we face currency exposure that arises from translating the results of our worldwide operations to the U.S. dollar at exchange rates that fluctuate from the beginning of the period. We purchase option and forward contracts to partially protect against adverse foreign exchange rate movements.

Our balance sheet remains strong, with net cash provided by continuing operations at approximately \$513 million for the six months ended March 31, 2007, and our debt-to-capitalization ratio decreasing to 21.2% at March 31, 2007 from 25.8% at September 30, 2006.

Recent Developments

On December 20, 2006, we acquired the 93.8% of the outstanding stock of TriPath Imaging, Inc. ("TriPath") which we did not previously own, for a cash purchase price of \$9.25 per share, or approximately \$362 million. TriPath develops, manufactures, markets and sells innovative solutions to improve the clinical management of cancer, including detection, diagnosis, staging and treatment. In connection with the acquisition, BD incurred a charge of \$115 million for acquired in-process research and development. See Note 8 of the Condensed Consolidated Financial Statements for additional discussion.

During the first quarter of 2007, we received an unsolicited offer for the purchase of the BGM product line. On December 11, 2006, we sold the product line for \$20 million and recognized a pre-tax gain on sale of \$15 million. During the second quarter of 2007, the Company recognized post-closing adjustments, thereby increasing the gain on sale by \$6 million. Following the sale, prior period Condensed Consolidated Statements of Income and Cash Flows and related discussions have been restated to separately present the results of the BGM product line as

discontinued operations. See Note 8 of the Condensed Consolidated Financial Statements for additional discussion.

BD purchases supplies of resins, which are oil-based components used in the manufacture of certain products. During the second quarter of 2007, we incurred slightly higher resin purchase costs than the prior year's quarter, primarily due to increases in world oil prices during the late summer 2006. While the impact of further increases, if any, in resin purchase costs is not expected to be significant on our fiscal 2007 operating results, such increases could impact future operating results. We are mitigating any such impact through continued improvement in our profit margins resulting from increased sales of products with higher margins, cost reduction programs, productivity improvements and, to a lesser extent, periodic price increases and adjustments.

Results of Operations

Revenues

Refer to Note 5 in the Notes to Condensed Consolidated Financial Statements for segment financial data.

Medical Segment

Second quarter revenues of \$844 million represented an increase of \$74 million, or 10%, from the prior year's quarter, including an estimated \$25 million, or 3%, favorable impact due to foreign currency translation. Strong sales of Pharmaceutical Systems products and safety-engineered devices contributed to this growth. Global sales of safety-engineered products were \$157 million, as compared with \$146 million in the prior year's quarter. For the six-month period ended March 31, 2007, global sales of safety-engineered products were \$331 million, as compared with \$299 million in the prior year's period. Total BD Medical segment revenues increased by 10% from the prior year six-month period.

Diagnostics Segment

Second quarter revenues of \$473 million represented an increase of \$48 million, or 11%, over the prior year quarter, including an estimated \$9 million, or 2%, favorable impact due to foreign currency translation. The Preanalytical Systems unit of the segment reported revenue growth of 8% over the prior year's quarter. Global sales of safety-engineered products totaled \$174 million, compared with \$152 million in the prior year's quarter due, in large part, to strong sales of *BD Vacutainer* Push Button Blood Collection Sets in the current year's quarter. Revenues in the Diagnostic Systems unit of the segment increased 15%, which includes \$27 million of revenues from the TriPath acquisition and reflects growth from the *BD ProbeTec* ET and *BD Phoenix* instruments. During the second quarter, we experienced a decline in sales of flu testing products. Contributing to these slower sales of flu tests in the second quarter was a relatively mild flu season in Japan and the United States in 2007 and the transition in Japan to an internally-sourced flu test that has not received widespread market acceptance. For the six-month period ended March 31, 2007, global sales of safety-engineered products were \$343 million, as compared with \$300 million in the prior year's period. Total BD Diagnostics segment revenues increased by 7% from the prior year six-month period, which includes \$32 million of revenues from TriPath.

Biosciences Segment

Second quarter revenues of \$259 million represented an increase of \$30 million, or 13%, over the prior year's quarter, including an estimated \$7 million, or 3%, favorable impact due to foreign currency translation. Flow cytometry instrument and reagent sales, as well as sales of advanced bioprocessing products contributed to growth. For the six-month period ended March 31, 2007, total BD Biosciences segment revenues increased by 12% from the prior year period.

Segment Operating Income

Medical Segment

Segment operating income for the second quarter was \$234 million, or 27.7% of Medical revenues, compared with \$206 million, or 26.7%, in the prior year's quarter. Gross profit margin increased moderately due to an improved product mix of sales, combined with increased manufacturing productivity. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Medical revenues in the second quarter of 2007 was slightly lower than the second quarter of 2006, due to tight spending controls. Research and development expenses for the quarter increased \$3.2 million, or 14%, reflecting increased investment in new products and platforms. Segment operating income for the six-month period was \$480 million, or 28.8% of Medical revenues, compared to \$430 million, or 28.3%, in the prior year's period.

Diagnostics Segment

Segment operating income for the second quarter was \$109 million, or 23.1% of Diagnostics revenues, compared with \$58 million, or 13.6%, in the prior year's quarter. The increase in operating income is primarily due to the absence of the in-process research and development charge of \$53 million recorded in the prior year's quarter associated with the GeneOhm acquisition. Gross profit margin was higher than the second quarter of 2006, primarily due to a favorable sales mix of products with higher margins, as well as productivity gains. See further discussion on gross profit margin below. Selling and administrative expense as a percentage of Diagnostics revenues in the second quarter of 2007 was higher than the comparable amount in the second quarter of 2006, largely due to the impact of TriPath and GeneOhm. Research and development expenses in the second quarter of 2007 decreased \$44 million, primarily due to the in-process research and development charge for GeneOhm recorded in the prior year's quarter. Research and development expenses also reflect investment in new products and incremental TriPath and GeneOhm expenses. Segment operating income for the six-month period was \$109 million, or 11.9% of Diagnostics revenues, compared to \$177 million, or 20.6%, in the prior year's period and reflects the impact of the in-process research and development charges for TriPath in 2007 and GeneOhm in 2006.

Biosciences Segment

Segment operating income for the second quarter was \$68 million, or 26.3%, of Biosciences revenues, compared with \$56 million, or 24.4%, in the prior year's quarter. The increase in operating income as a percentage of revenues reflected improved production efficiencies, as well as increased sales of products with higher margins. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Biosciences

revenues for the quarter decreased compared with the prior year's quarter, as a result of continued tight spending controls. Research and development expenses in the quarter increased \$0.6 million, or 3%, reflecting increased spending on new product development. Segment operating income for the

six-month period was \$124 million, or 25.3% of Biosciences revenues, compared to \$105 million, or 24.0%, in the prior year's period.

Gross Profit Margin

Gross profit margin was 51.5% for the second quarter and 52.1% for the six-month period, compared with 50.9% and 51.6%, respectively, for the comparable prior year periods. Gross profit margin in the second quarter of 2007 as compared with the prior period reflected an estimated 0.8% net improvement relating to increased sales of products with relatively higher margins and improvement associated primarily with productivity gains. These improvements were partially offset by an estimated 0.2% impact from foreign currency translation. Gross profit margin in the six-month period of 2007 as compared with the prior period reflected an estimated 0.8% net improvement relating to increased sales of products with relatively higher margins and improvement associated primarily with productivity gains. These improvements were partially offset by an estimated 0.3% impact from foreign currency translation. We expect gross profit margin to improve, on a reported basis, by about 70 basis points in fiscal 2007, with TriPath operations accounting for 10 basis points.

Selling and Administrative Expense

Selling and administrative expense was 25.8% of revenues for the second quarter and 25.7% for the six-month period, compared with 24.3% and 24.7%, respectively, for the prior year's periods. Aggregate expenses for the current period reflect increases in base spending of \$27 million and in expenses associated with the GeneOhm and TriPath operations of \$15 million. Increases in selling and administrative expense also reflect the absence of proceeds from insurance settlements of \$10 million received in the prior year's quarter in connection with the Company's previously owned latex glove business, as well as an unfavorable foreign exchange impact of \$9 million. Aggregate expenses in the six-month period reflect increases in base spending of \$37 million and in expenses associated with the GeneOhm and TriPath operations of \$24 million. Increases in selling and administrative expense for the six-month period also reflect the absence of proceeds from insurance settlements of \$17 million, as further discussed above, as well as an unfavorable foreign exchange impact of \$15 million. Selling and administrative expense as a percentage of revenues is expected to increase, on a reported basis, by about 40 basis points in 2007, with 20 basis points attributable to TriPath's operations.

Research and Development Expense

Research and development expense was \$87 million, or 5.5% of revenues for the second quarter, compared with the prior year's amount of \$128 million, or 9.0% of revenues. Research and development expense was \$281 million, 9.1% of revenues for the six-month period in the current year, compared with the prior year's amount of \$196 million, or 7.0% of revenues. The in-process research and development charge of \$115 million, or 3.7% of revenues, associated with the TriPath acquisition was included in the six-month period of 2007. The in-process research and development charge of \$53 million, or 3.7% and 1.9% of second quarter and six-month revenues, respectively, associated with the GeneOhm acquisition was included in Research and development expense. Research and development expenditures also reflect increased spending for new programs in each of our segments for the three and six-month periods of 2007. We anticipate Research and development expense to increase, on a reported basis, about 35% for 2007, with approximately 15% due to the impact of the in-process research and development charges for TriPath in 2007 and

GeneOhm in 2006 and 6% due to the impact of TriPath's operations in 2007.

Non-Operating Expense and Income

Interest expense was \$12 million in the second quarter and \$25 million in the six-month period, compared with \$20 million and \$37 million, respectively, in the prior year's periods, which reflect lower debt levels. Interest income was \$9 million in the second quarter and \$25 million in the six-month period, compared with \$17 million and \$32 million, respectively, in the prior year's periods, and reflected lower cash balances.

Income Taxes

The income tax rate was 26.7% for the second quarter. The six-month tax rate was 31.6% compared with the prior year's rate of 30.3%. The increase is principally due to the non-deductibility of the acquired in-process research and development charge associated with the TriPath acquisition, partially offset by the impact of approximately 0.8% resulting from the retroactive reinstatement of the research and experimentation tax credit. The prior year's six-month rate reflected the non-deductibility of the acquired in-process research and development charge associated with the GeneOhm acquisition, as well as the impact relating to the proceeds received from insurance settlements of approximately 0.3%. The Company expects the reported tax rate for the full year to be approximately 29%.

Income from Continuing Operations and Diluted Earnings Per Share from Continuing Operations

Income from continuing operations and diluted earnings per share from continuing operations for the second quarter of 2007 were \$236 million and 92 cents, respectively. Income from continuing operations and diluted earnings per share from continuing operations for the prior year's second quarter were \$163 million and 63 cents, respectively. The in-process research and development charge associated with the GeneOhm acquisition reduced income from continuing operations for the prior year's quarter by \$53 million and diluted earnings per share from continuing operations by 21 cents. Proceeds from insurance settlements increased income from continuing operations in the prior year's quarter by \$6 million and diluted earnings per share from continuing operations by 2 cents. For the six-month periods, income from continuing operations and diluted earnings per share from continuing operations were \$367 million and \$1.44, respectively, in 2007, and \$387 million and \$1.51, respectively, in 2006. The in-process research and development charge associated with the TriPath acquisition reduced income from continuing operations for the current year's six-month period by \$115 million and diluted earnings per share from continuing operations by 45 cents. The prior year's six-month period reflected the in-process research and development charge associated with GeneOhm. Proceeds from insurance settlements increased income from continuing operations in the prior year's six-month period by \$11 million and diluted earnings per share from continuing operations by 4 cents.

Liquidity and Capital Resources

Net cash provided by continuing operating activities, which continues to be our primary source of funds to finance operating needs and capital expenditures, was \$512 million during the first six months of 2007, compared with \$384 million in the same period in 2006. Change in working capital was \$155 million in the first six months of 2007, as compared with the prior year's period of \$217 million, and reflects an increase in accounts payable and accrued expenses, and income tax payable, partially offset by increases in inventories. Net cash provided by continuing operations in the first six months of the current and prior year was

reduced by changes in the

pension obligation, resulting primarily from discretionary cash contributions of \$75 million and \$150 million, respectively.

Net cash used for continuing investing activities for the first six months of the current year was \$659 million, compared with \$429 million in the prior year period. The current year amount reflects the payment of \$340 million of net cash for the TriPath acquisition, and the prior year amount reflects the payment of \$230 million for the GeneOhm acquisition. Net cash used for purchases of investments in the current year was \$57 million, which reflected higher levels of money market instruments. Capital expenditures were \$235 million in the first six months of 2007 and \$150 million in the same period in 2006. We expect capital spending for 2007 to be in the \$600 to \$650 million range.

Net cash used for continuing financing activities for the first six months of the current year was \$458 million, compared with \$202 million in the prior year period. As of March 31, 2007, total debt of \$1.2 billion represented 21.2% of total capital (shareholders' equity, net non-current deferred income tax liabilities, and debt), versus 25.8% at September 30, 2006. Short-term debt decreased to 18% of total debt at the end of the six-month period, from 31% at September 30, 2006.

For the first six months of both the current and prior year, the Company repurchased \$225 million of its common stock. At March 31, 2007, authorization to repurchase an additional 4.0 million common shares remained. Stock repurchases were offset, in part, by the issuance of common stock from treasury upon the exercise of stock options by employees.

We have in place a commercial paper borrowing program that is available to meet our short-term financing needs, including working capital requirements. Borrowings outstanding under this program were \$200 million at March 31, 2007. During the first six-months of 2007, we amended our syndicated credit facility to increase the amount available from \$900 million to \$1 billion and extend the expiration date from August 2009 to December 2011. This credit facility, under which there were no borrowings outstanding at March 31, 2007, provides backup support for our commercial paper program and can also be used for other general corporate purposes. This credit facility includes a single financial covenant that requires BD to maintain an interest expense coverage ratio (ratio of earnings before income taxes, depreciation and amortization to interest expense) of not less than 5-to-1 for the most recent four consecutive fiscal quarters. On the last eight measurement dates, this ratio has ranged from 17-to-1 to 21-to-1. In addition, we have informal lines of credit outside the United States.

BD's ability to generate cash flow from operations, issue debt, enter into other financing arrangements and attract long-term capital on acceptable terms could be adversely affected in the event there was a material decline in the demand for BD's products, deterioration in BD's key financial ratios or credit ratings or other significantly unfavorable changes in conditions. While a deterioration in the Company's credit ratings would increase the costs associated with maintaining and borrowing under its existing credit arrangements, such a downgrade would not affect the Company's ability to draw on these credit facilities, nor would it result in an acceleration of the scheduled maturities of any outstanding debt.

Adoption of New Accounting Standards

In July 2006, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes guidance for recognition, measurement, and disclosure of uncertain tax positions recognized in financial statements in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes". The provisions of this interpretation will be applied to all tax positions upon its initial adoption. The Company is required to adopt this interpretation in fiscal year 2008 and the cumulative effect, if any, of applying this interpretation will be reported as an adjustment to the opening balance of retained earnings for such fiscal year. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS No. 158"). This statement requires the Company to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheet and to recognize changes in the funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the funded status of a plan to be measured as of the balance sheet date and provides for additional disclosure requirements. As required, the Company will adopt the recognition and disclosure provision of this statement at the end of fiscal year 2007. Based on the underfunded status of the plans as of September 30, 2006, this provision could be material to the Company's shareholder's equity. The Company expects no impact to the measurement date of its plans, as the plans are currently measured at its fiscal year-end.

Cautionary Statement Pursuant to Private Securities Litigation Reform Act of 1995 -- "Safe Harbor" for Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of BD. BD and its representatives may from time to time make certain forward-looking statements, both written and oral, including statements contained in this report and filings with the Securities and Exchange Commission ("SEC") and in our other reports to shareholders. Forward-looking statements may be identified by the use of words like "plan," "expect," "believe," "intend," "will," "anticipate," "estimate," or other words of similar meaning in conjunction with, among other things, discussions of future operations and financial performance, as well as our strategy for growth, product development, regulatory approvals, market position and expenditures. All statements which address operating performance or events or developments that we expect or anticipate will occur in the future -- including statements relating to volume growth, sales and earnings per share growth, gross profit margins, various expenditures and statements expressing views about future operating results -- are forward-looking statements within the meaning of the Act.

Forward-looking statements are based on current expectations of future events. The forward-looking statements are and will be based on management's then-current views and assumptions regarding future events and operating performance, and speak only as of their dates. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from our expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, we undertake no obligation to update or revise

any forward-looking statements whether as a result of new information, future events and developments or otherwise.

The following are some important factors that could cause our actual results to differ from our expectations in any forward-looking statements:

- Regional, national and foreign economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins.
- We operate in a highly competitive environment. New product introductions by our current or future competitors could adversely affect our ability to compete in the global market. For example, new forms of inhaled or other methods of insulin delivery, such as the new inhaled form of insulin approved by the U.S. Food and Drug Administration (FDA) and European authorities, could adversely impact sales of our insulin injection devices. Patents attained by competitors, particularly as patents on our products expire, may also adversely impact our competitive position.
- Changes in domestic and foreign healthcare industry practices and regulations resulting in increased pricing pressures, including the continued consolidation among healthcare providers; trends toward managed care and healthcare cost containment and government laws and regulations relating to sales and promotion, reimbursement and pricing generally.
- The effects, if any, of governmental and media activities regarding the business practices of group purchasing organizations, which negotiate product prices on behalf of their member hospitals with BD and other suppliers.
- Fluctuations in the cost and availability of raw materials and the ability to maintain favorable supplier arrangements and relationships (particularly with respect to sole-source suppliers) and the potential adverse effects of any disruption in the availability of such raw materials.
- Our ability to obtain the anticipated benefits of any restructuring programs, if any, that we may undertake.
- Adoption of or changes in government laws and regulations affecting domestic and foreign operations, including those relating to trade, monetary and fiscal policies, taxation, environmental matters, sales practices, price controls, licensing and regulatory approval of new products, or changes in enforcement practices with respect to any such laws and regulations. In particular, environmental laws, particularly with respect to the emission of greenhouse gases, are becoming more stringent throughout the world, which may increase our costs of operations or necessitate changes in our manufacturing plants or processes.
- Fluctuations in U.S. and international governmental funding and policies for life science research.
- Difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and abroad, or gain and maintain market approval of products, as well as the possibility of encountering infringement claims by competitors with respect to patent or other intellectual property rights, all of which can preclude or delay commercialization of a product.

- Pending and potential litigation or other proceedings adverse to BD, including antitrust claims, product liability claims, and patent infringement claims, as well as other risks and uncertainties detailed from time to time in our SEC filings.
- The effects, if any, of adverse media exposure or other publicity regarding BD's business or operations.
- Our ability to achieve earnings forecasts, which are generated based on projected volumes and sales of many product types, some of which are more profitable than others. There can be no assurance that we will achieve the projected level or mix of product sales.
- The effect of market fluctuations on the value of assets in BD's pension plans and the possibility that BD may need to make additional contributions to the plans as a result of any decline in the value of such assets.
- Our ability to effect infrastructure enhancements and incorporate new systems technologies into our operations.
- Product efficacy or safety concerns resulting in product recalls, regulatory action on the part of the FDA (or foreign counterparts) or declining sales.
- Economic and political conditions in international markets, including civil unrest, terrorist activity, governmental changes and restrictions on the ability to transfer capital across borders.
- The effects of natural disasters, including hurricanes or pandemic diseases, on our ability to manufacture our products, particularly where production of a product line is concentrated in one or more plants, or on our ability to source components from suppliers that are needed for such manufacturing.
- Our ability to penetrate developing and emerging markets, which also depends on economic and political conditions, and how well we are able to acquire or form strategic business alliances with local companies and make necessary infrastructure enhancements to production facilities, distribution networks, sales equipment and technology.
- The impact of business combinations, including acquisitions and divestitures, both internally for BD and externally, in the healthcare industry.
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board or the SEC.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in information reported since the end of the fiscal year ended September 30, 2006.

Item 4. Controls and Procedures

An evaluation was carried out by BD's management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of BD's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2007. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were, as of the end of the period covered by this report, adequate and effective to ensure that material information relating to BD and its consolidated subsidiaries would be made known to them by others within these entities. There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2007 identified in connection with the above-referenced evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved, both as a plaintiff and a defendant, in various legal proceedings which arise in the ordinary course of business, including product liability and environmental matters as set forth in our 2006 Annual Report on Form 10-K.

Since December 31, 2006, the following developments have occurred with respect to the legal proceedings in which we are involved:

Antitrust Class Action Suits

Two additional purported class action antitrust cases have been filed against BD, as follows:

- The Hebrew Home for the Aged at Riverdale v. Becton Dickinson and Company was filed on March 28, 2007 in federal court in the Southern District of New York (Case No. 07-CV-2544).
- International Multiple Sclerosis Management Practice v. Becton Dickinson & Company was filed on April 5, 2007 in federal court in the District of New Jersey (Case No. 2:07-cv-10602).

These purported class action cases have been brought on behalf of alleged indirect purchasers of BD products. In each case, the plaintiff seeks treble damages, attorney's fees and injunctive relief. Including the above actions, 10 purported antitrust class action lawsuits have been brought against BD by direct and indirect purchasers of BD's products. BD anticipates that these two new antitrust class action lawsuits will be consolidated for pre-trial purposes with the other eight actions in the Multi-District Litigation currently pending in federal court in New Jersey. As directed by the court, the direct and indirect purchaser plaintiffs in the Multi-District Litigation have filed consolidated complaints with the court. BD has filed motions to dismiss each of the consolidated complaints. With respect to the actions, class certification motions are scheduled to be briefed by the end of 2007, and oral arguments on class certification are expected to be held in early 2008.

BD believes it has meritorious defenses to these claims and continues to vigorously defend these lawsuits.

bioMérieux

bioMérieux SA has initiated an arbitration proceeding with the International Chamber of Commerce International Court of Arbitration in Paris, France, against GeneOhm Sciences Canada ("GeneOhm"), a subsidiary of BD. The arbitration relates to a sublicense agreement under which bioMérieux granted certain patent

rights to GeneOhm relating to a method for the detection of methicillin-resistant Staphylococcus aureus (MRSA). In the arbitration, bioMérieux alleges, among other things, that GeneOhm fraudulently induced bioMérieux into entering into the sublicense and assigned its rights in violation of the sublicense. bioMérieux is seeking monetary damages and to terminate the patent rights granted to GeneOhm under the sublicense agreement. The arbitration clause of the sublicense agreement provides that the arbitration will be held before a sole arbitrator, whose decision will be binding on both GeneOhm and bioMérieux. The loss of GeneOhm's rights under the sublicense with bioMérieux may adversely affect our ability to market our MRSA detection products. However, BD believes that there is no basis for bioMérieux to terminate the sublicense agreement and we intend to vigorously defend our position in the arbitration proceedings.

Separately, BD received a letter from bioMérieux invoking the dispute resolution clause of a separate license agreement between BD and bioMérieux, under which bioMérieux grants patent rights to BD for certain licensed fields relating to BD's BACTEC products. In the letter, bioMérieux alleges that sales of BD's BACTEC products have been made in non-licensed fields and that such sales constitute a material breach of the license agreement. bioMérieux requests compensation for any non-licensed sales, as well as cessation of all future sales in non-licensed fields. BD believes there has been no material breach of the agreement and intends to follow the dispute resolution provisions to resolve the matter, while vigorously defending its position with respect to the alleged material breach.

Other

As was previously reported, in August 2004, we were served with an administrative subpoena issued by the United States Attorney's Office in Dallas, Texas (the "U.S. Attorney") in connection with an investigation the U.S. Attorney is conducting of transactions between another company and certain of its suppliers, including BD. We have fully responded to the subpoena. Recently, the U.S. Attorney requested that BD inform the U.S. Attorney as to the availability of a small number of BD employees for interviews. We were advised that the U.S. Attorney was making similar requests of other suppliers who had dealings with the company.

Summary

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

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the 2006 fiscal year.

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

The table below sets forth certain information regarding our purchases of common stock of BD during the quarter ended March 31, 2007.

Issuer Purchases of Equity Securities

| For the three months ended March 31, 2007 | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|--|--|------------------------------------|---|--|
| January 1 □ 31, 2007 | 257,044 | \$75.83 | 250,000 | 5,253,814 |
| February 1 □ 28, 2007 | 904,917 | \$77.39 | 900,000 | 4,353,814 |
| March 1 □ 31, 2007 | 318,161 | \$75.12 | 318,000 | 4,035,814 |
| Total | 1,480,122 | \$76.63 | 1,468,000 | 4,035,814 |

- (1) Includes 6,202 shares purchased during the quarter in open market transactions by the trustee under BD's Deferred Compensation Plan and 1996 Directors' Deferral Plan, and 5,920 shares delivered to BD in connection with stock option exercises.
- (2) These repurchases were made pursuant to a repurchase program covering 10 million shares authorized by the Board of Directors of BD on November 22, 2005 (the "2005 Program"). There is no expiration date for the 2005 Program.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Shareholders was held on January 30, 2007, at which the following matters were voted upon:

- i.) A management proposal for the election of five directors for the terms indicated below was voted upon as follows:

| <u>Nominee</u> | <u>Term</u> | <u>For</u> | <u>Votes</u> <u>Withheld</u> |
|--------------------------|-------------|-------------|---------------------------------|
| Claire M. Fraser-Liggett | 2 Years | 221,040,823 | 3,017,370 |
| Henry P. Becton, Jr. | 3 Years | 219,133,338 | 4,924,855 |
| Edward F. DeGraan | 3 Years | 214,048,405 | 10,009,788 |
| Adel A. F. Mahmoud | 3 Years | 221,372,532 | 2,685,661 |
| James F. Orr | 3 Years | 220,025,639 | 4,032,554 |

The directors whose term of office as a director continued after the meeting are: Basil L. Anderson, Edward J. Ludwig, Gary A. Mecklenburg, Willard J. Overlock, Jr., James E. Perrella, Bertram L. Scott and Alfred Sommer.

- ii.) A management proposal to ratify the selection of Ernst & Young, LLP as independent registered public accounting firm for the fiscal year ending September 30, 2007 was voted upon. 220,918,988 shares were voted for the proposal, 1,649,598 shares were voted against, and 1,489,607 shares abstained.
- iii.) A management proposal to amend the 2004 Employee and Director Equity-Based Compensation Plan was voted upon. 183,174,467 shares were voted for the proposal, 18,429,334 shares were voted against, 1,914,459 shares abstained, and there were 20,539,933 broker non-votes.
- iv.) A shareholder proposal requesting that the Board of Directors take the necessary steps to provide for cumulative voting in the election of directors was voted upon. 84,694,869 shares were voted for the proposal, 116,625,302 shares were voted against, 2,196,731 shares abstained, and there were 20,541,291 broker non-votes.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

| | |
|------------------|--|
| Exhibit 10(d)(i) | Deferred Compensation Plan, as amended and restated as of March 27, 2007. |
| Exhibit 10(f)(i) | Retirement Benefit Restoration Plan, as amended and restated as of March 27, 2007. |
| Exhibit 31 | Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to SEC Rule 13a - 14(a). |
| Exhibit 32 | Certifications of Chief Executive Officer and Chief Financial Officer, pursuant to Rule 13a - 14(b) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code. |

SIGNATURES

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

Becton, Dickinson and Company
(Registrant)

Dated: May 9, 2007

/s/ John R. Considine
John R. Considine
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ William A. Tozzi
William A. Tozzi
Vice President and Controller
(Chief Accounting Officer)

INDEX TO EXHIBITS

| <u>Exhibit Number</u> | <u>Description of Exhibits</u> |
|-----------------------|--|
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