

BAXTER INTERNATIONAL INC
Form 10-Q
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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 1-4448

BAXTER INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware	36-0781620
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
One Baxter Parkway, Deerfield, Illinois	60015
(Address of principal executive offices)	(Zip Code)

224-948-2000
(Registrant's telephone number, including area code)

Edgar Filing: BAXTER INTERNATIONAL INC - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

The number of shares of the registrant’s Common Stock, par value \$1.00 per share, outstanding as of July 28, 2017 was 544,870,914 shares.

BAXTER INTERNATIONAL INC.

FORM 10-Q

For the quarterly period ended June 30, 2017

TABLE OF CONTENTS

	Page Number
PART I. <u>FINANCIAL INFORMATION</u>	2
Item 1. <u>Financial Statements (unaudited)</u>	2
<u>Condensed Consolidated Statements of Income</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	38
<u>Review by Independent Registered Public Accounting Firm</u>	39
<u>Report of Independent Registered Public Accounting Firm</u>	40
PART II. <u>OTHER INFORMATION</u>	41
Item 1. <u>Legal Proceedings</u>	41
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 6. <u>Exhibits</u>	42
<u>Signature</u>	43

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Baxter International Inc.

Condensed Consolidated Statements of Income (unaudited)

(in millions, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net sales	\$2,605	\$2,585	\$5,080	\$4,960
Cost of sales	1,475	1,613	2,908	3,023
Gross margin	1,130	972	2,172	1,937
Marketing and administrative expenses	635	709	1,205	1,350
Research and development expenses	156	195	284	331
Operating income	339	68	683	256
Net interest expense	13	11	27	39
Other expense (income), net	20	(1,161)	22	(4,330)
Income from continuing operations before income taxes	306	1,218	634	4,547
Income tax expense (benefit)	42	6	97	(52)
Income from continuing operations	264	1,212	537	4,599
Income (loss) from discontinued operations, net of tax	1	—	—	(7)
Net income	\$265	\$1,212	\$537	\$4,592
Income from continuing operations per common share				
Basic	\$0.49	\$2.21	\$0.99	\$8.39
Diluted	\$0.48	\$2.19	\$0.97	\$8.33
Loss from discontinued operations per common share				
Basic	\$—	\$—	\$—	\$(0.01)
Diluted	\$—	\$—	\$—	\$(0.01)
Net income per common share				
Basic	\$0.49	\$2.21	\$0.99	\$8.38
Diluted	\$0.48	\$2.19	\$0.97	\$8.32
Weighted-average number of common shares outstanding				
Basic	544	548	542	548
Diluted	555	553	553	552
Cash dividends declared per common share	\$0.160	\$0.130	\$0.290	\$0.245

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

Baxter International Inc.

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	\$265	\$1,212	\$537	\$4,592
Other comprehensive income (loss), net of tax:				
Currency translation adjustments, net of tax expense (benefit) of \$28 and (\$24) for the three months ended June 30, 2017 and 2016, respectively, and \$48 and (\$10) for the six months ended June 30, 2017 and 2016, respectively	227	(118)	349	(26)
Pension and other employee benefits, net of tax expense of \$10 and \$10 for the three months ended June 30, 2017 and 2016, respectively, and \$20 and \$21 for the six months ended June 30, 2017 and 2016, respectively	17	19	38	40
Hedging activities, net of tax benefit of (\$1) and (\$2) for the three months ended June 30, 2017 and 2016, respectively, and (\$5) and (\$5) for the six months ended June 30, 2017 and 2016, respectively	(3)	(5)	(10)	(11)
Available-for-sale securities, net of tax expense of \$1 and zero for the three and six months ended June 30, 2017 and 2016, respectively	1	(1,065)	3	(4,431)
Total other comprehensive income (loss), net of tax	242	(1,169)	380	(4,428)
Comprehensive income	\$507	\$43	\$917	\$164

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

Baxter International Inc.

Condensed Consolidated Balance Sheets (unaudited)

(in millions, except shares)

		June 30,	December
		2017	31, 2016
Current assets	Cash and equivalents	\$3,817	\$ 2,801
	Accounts and other current receivables, net	1,721	1,691
	Inventories	1,525	1,430
	Prepaid expenses and other	619	602
	Current assets held for disposition	22	50
	Total current assets	7,704	6,574
Property, plant and equipment, net		4,337	4,289
Other assets	Goodwill	2,746	2,595
	Other intangible assets, net	1,109	1,111
	Other	1,067	977
	Total other assets	4,922	4,683
Total assets		\$16,963	\$ 15,546
Current liabilities	Current maturities of long-term debt and lease obligations	\$3	\$ 3
	Accounts payable and accrued liabilities	2,471	2,612
	Current income taxes payable		