

BAXTER INTERNATIONAL INC
Form 10-Q/A
March 31, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended September 30, 2004

.. 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)

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Delaware
(State of other jurisdiction of

36-0781620
(I.R.S. Employer

incorporation or organization)

Identification No.)

One Baxter Parkway, Deerfield, Illinois
(Address of principal executive offices)

60015-4633
(Zip Code)

847-948-2000

(Registrant's telephone number, including area code)

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 is an accelerated filer (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 March 28, 2005 was 619,758,508 shares.

EXPLANATORY NOTE

Baxter International Inc. is filing this Form 10-Q/A Amendment No. 1 for the quarter ended September 30, 2004 to reflect the restatement of its consolidated financial statements for the quarters ended September 30, 2004 and 2003. The restatement arises from the controls surrounding the income tax accounts. Specifically, current income taxes payable balances were not reconciled to expected tax payments due, and the company did not adequately review the difference between the income tax basis and the financial reporting basis of assets and liabilities, and reconcile the difference to recorded deferred income tax assets and liabilities. Refer to Note 1A for a complete description and quantification of the restatement.

The information in this Form 10-Q/A Amendment No. 1 has not been updated from the original Form 10-Q except as required to reflect the effects of the restatement. This restatement includes changes to Part I, Items 1, 2 and 4. Items included in the original Form 10-Q that are not included herein are not amended and remain in effect as of the date of the original filing. Additionally, this Form 10-Q/A Amendment No. 1 does not purport to provide an update or a discussion of any other developments at the company subsequent to the original filing.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Baxter International Inc. and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

(in millions, except per share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Net sales	\$2,320	\$2,216	\$6,908	\$6,373
Cost and expenses				
Cost of goods sold	1,357	1,247	4,113	3,555
Marketing and administrative expenses	462	440	1,460	1,320
Research and development expenses	124	137	389	412
Restructuring charges			543	337
Net interest expense	20	25	66	71
Other expense, net	11	6	74	46
Total costs and expenses	1,974	1,855	6,645	5,741
Income from continuing operations before income taxes and cumulative effect of accounting changes	346	361	263	632
Income tax expense (benefit)	87	86	(14)	96
Income before cumulative effect of accounting changes	259	275	277	536
Discontinued operations	17	(5)	5	(17)
Income from continuing operations before cumulative effect of accounting changes	276	270	282	519
Cumulative effect of accounting changes, net of income tax benefit of \$5		(17)		(17)
Net income	\$ 276	\$ 253	\$ 282	\$ 502
Earnings per basic common share				
Continuing operations	\$ 0.42	\$ 0.47	\$ 0.45	\$ 0.90
Discontinued operations	0.03	(0.01)	0.01	(0.02)
Cumulative effect of accounting changes		(0.03)		(0.03)
Net income	\$ 0.45	\$ 0.43	\$ 0.46	\$ 0.85
Earnings per diluted common share				
Continuing operations	\$ 0.42	\$ 0.46	\$ 0.45	\$ 0.89
Discontinued operations	0.03	(0.01)	0.01	(0.03)
Cumulative effect of accounting changes		(0.03)		(0.03)

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Net income	\$ 0.45	\$ 0.42	\$ 0.46	\$ 0.83
Weighted average number of common shares outstanding				
Basic	615	589	613	595
Diluted	619	592	617	604

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

Baxter International Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (unaudited)
(in millions, except shares)

	Restated	
	September 30, 2004	December 31, 2003
Current assets		
Cash and equivalents	\$ 822	\$ 925
Accounts and other current receivables	2,108	1,914
Inventories	2,106	2,104
Short-term deferred income taxes	405	140
Prepaid expenses and other	282	277
Total current assets	5,723	5,360
Property, plant and equipment		
At cost	7,840	7,791
Accumulated depreciation and amortization	(3,494)	(3,199)
Net property, plant and equipment	4,346	4,592
Other assets		
Goodwill	1,591	1,599
Other intangible assets	572	611
Other	1,535	1,545
Total other assets	3,698	3,755
Total assets	\$13,767	\$13,707
Current liabilities		
Short-term debt	\$ 178	\$ 153
Accounts payable and accrued liabilities	2,800	3,107
Income taxes payable	548	438
Total current liabilities	3,526	3,698
Long-term debt and lease obligations	4,411	4,421
Other long-term liabilities	2,036	2,206
Commitments and contingencies		
Stockholders' equity		
Common stock, \$1 par value, authorized 2,000,000,000 shares, 648,417,007 issued in 2004 and 648,574,109 in 2003	648	649
Common stock in treasury, at cost, 32,539,304 shares in 2004 and 37,273,424 shares in 2003	(1,613)	(1,863)

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Additional contributed capital	3,643	3,786
Retained earnings	2,512	2,230
Accumulated other comprehensive loss	(1,396)	(1,420)
	<u> </u>	<u> </u>
Total stockholders' equity	3,794	3,382
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$13,767	\$13,707
	<u> </u>	<u> </u>

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

Baxter International Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

(in millions)

(brackets denote cash outflows)

	Nine months ended September 30,	
	2004	2003
Cash flows from operations		
Income from continuing operations	\$ 277	\$ 536
Adjustments		
Depreciation and amortization	445	400
Deferred income taxes	(238)	(135)
Restructuring charges	543	337
Other	151	34
Changes in balance sheet items		
Accounts receivable	(155)	16
Inventories	(44)	(233)
Accounts payable and accrued liabilities	(270)	(171)
Restructuring payments	(136)	(38)
Other	(44)	(76)
Cash flows from continuing operations	529	670
Cash flows from discontinued operations	17	5
Cash flows from operations	546	675
Cash flows from investing activities		
Capital expenditures	(363)	(564)
Acquisitions (net of cash received) and investments in and advances to affiliates	(20)	(106)
Divestitures and other	31	
Cash flows from investing activities	(352)	(670)
Cash flows from financing activities		
Issuances of debt	519	654
Redemptions of financing obligations	(596)	(1,001)
Increase in debt with maturities of three months or less, net	64	335
Common stock cash dividends	(361)	(346)
Proceeds from stock issued under employee benefit plans	108	60
Issuance of stock		644
Purchases of treasury stock	(18)	(714)
Cash flows from financing activities	(284)	(368)
Effect of currency exchange rate changes on cash and equivalents	(13)	24
Decrease in cash and equivalents	(103)	(339)
Cash and equivalents at beginning of period	925	1,169

Cash and equivalents at end of period	<u>\$ 822</u>	<u>\$ 830</u>
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Baxter International Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of Baxter International Inc. and its subsidiaries (the company or Baxter) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the company's Form 10-K/A for the year ended December 31, 2003.

In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of the interim periods. All such adjustments, unless otherwise noted herein, are of a normal, recurring nature (refer to Note 2 for certain special charges recorded during the second quarter of 2004). The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year.

Certain reclassifications have been made to conform the 2003 financial statements and notes to the 2004 presentation.

Stock compensation plans

The company has a number of stock-based employee compensation plans, including stock option, stock purchase and restricted stock plans. The company applies the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for these plans. In accordance with this intrinsic value method, no compensation expense is recognized for the company's fixed stock options that have an exercise price equal to or greater than the market price on the date of grant, and employee stock purchase subscriptions. The following table illustrates the effect on net income and earnings per share (EPS) if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123, to all stock-based employee compensation.

	Three months ended		Nine months ended	
	September 30,		September 30,	
(in millions, except per share data)	2004	2003	2004	2003
Net income, as reported				