BRISTOL MYERS SQUIBB CO
Form 10-Q
April 25, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
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 1-1136

BRISTOL-MYERS SQUIBB COMPANY
(Exact name of registrant as specified in its charter)

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

430 E. 29th Street, 14FL, New York, N.Y. 10016
(Address of principal executive offices)
(212) 546-4000
(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	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 x

APPLICABLE ONLY TO CORPORATE ISSUERS:

At March 31, 2019, there were 1,635,705,782 shares outstanding of the Registrant's $0.10 par value common stock.

BRISTOL-MYERS SQUIBB COMPANY
INDEX TO FORM 10-Q
March 31, 2019

PART I—FINANCIAL INFORMATION

* Indicates brand names of products which are trademarks not owned by BMS. Specific trademark ownership information is included in the Exhibit Index at the end of this Quarterly Report on Form 10-Q.

PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
BRISTOL-MYERS SQUIBB COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS
Dollars in Millions, Except Per Share Data
(UNAUDITED)

	Three Months Ended March 31,	
EARNINGS	2019	2018
Net product sales	$5,713	$4,972
Alliance and other revenues	207	221
Total Revenues	5,920	5,193
Cost of products sold	1,844	1,584
Marketing, selling and administrative	1,006	980
Research and development	1,351	1,250
Other income (net)	(260)	(400)
Total Expenses	3,941	3,414
Earnings Before Income Taxes	1,979	1,779
Provision for Income Taxes	264	284
Net Earnings	1,715	1,495
Noncontrolling Interest	5	9
Net Earnings Attributable to BMS	$1,710	$1,486
Earnings per Common Share		
Basic	$1.05	$0.91
Diluted	1.04	0.91

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Dollars in Millions
(UNAUDITED)

	Three Months Ended March 31,	
COMPREHENSIVE INCOME	2019	2018
Net Earnings	$1,715	$1,495
Other Comprehensive Income/(Loss), net of taxes and reclassifications to earnings:		
Derivatives qualifying as cash flow hedges	14	(19)
Pension and postretirement benefits	49	129
Available-for-sale securities	26	(26)
Foreign currency translation	29	5
Other Comprehensive Income/(Loss)	118	89
Comprehensive Income	1,833	1,584

Comprehensive Income Attributable to Noncontrolling Interest	5	9
Comprehensive Income Attributable to BMS	$1,828	$1,575

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

BRISTOL-MYERS SQUIBB COMPANY
CONSOLIDATED BALANCE SHEETS
Dollars in Millions
(UNAUDITED)

ASSETS	March 31, 2019	December 31, 2018
Current Assets:		
Cash and cash equivalents	$ 7,335	$ 6,911
Marketable securities	1,429	1,973
Receivables	5,704	5,965
Inventories	1,283	1,195
Prepaid expenses and other	1,342	1,116
Total Current Assets	17,093	17,160
Property, plant and equipment	4,985	5,027
Goodwill	6,536	6,538
Other intangible assets	1,026	1,091
Deferred income taxes	1,380	1,371
Marketable securities	1,233	1,775
Other assets	2,581	2,024
Total Assets	$ 34,834	$ 34,986
LIABILITIES		
Current Liabilities:		
Short-term debt obligations	$ 381	$ 1,703
Accounts payable	1,976	1,892
Accrued liabilities	5,856	6,489
Deferred income	103	172
Income taxes payable	525	398
Total Current Liabilities	8,841	10,654
Deferred income	448	468
Income taxes payable	3,084	3,043
Pension and other liabilities	1,509	1,048
Long-term debt	5,635	5,646
Total Liabilities	19,517	20,859
Commitments and contingencies		
EQUITY		
Bristol-Myers Squibb Company Shareholders’ Equity:		
Preferred stock	—	—
Common stock	221	221
Capital in excess of par value of stock	2,103	2,081
Accumulated other comprehensive loss	(2,644)	(2,762)
Retained earnings	35,109	34,065
Less cost of treasury stock	(19,571)	(19,574)
Total Bristol-Myers Squibb Company Shareholders’ Equity	15,218	14,031
Noncontrolling interest	99	96
Total Equity	15,317	14,127

Total Liabilities and Equity	$ 34,834	$ 34,986

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

BRISTOL-MYERS SQUIBB COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in Millions
(UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
Cash Flows From Operating Activities:		
Net earnings	$1,715	$1,495
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization, net	170	143
Deferred income taxes	2	160
Stock-based compensation	53	55
Impairment charges	45	80
Pension settlements and amortization	66	50
Divestiture gains and royalties	(166)	(255)
Asset acquisition charges	—	60
Equity investment gains	(175)	(15)
Other adjustments	(6)	(14)
Changes in operating assets and liabilities:		
Receivables	236	219
Inventories	35	(4)
Accounts payable	136	(241)
Deferred income	15	23
Income taxes payable	196	114
Other	(932)	(695)
Net Cash Provided by Operating Activities	1,390	1,175
Cash Flows From Investing Activities:		
Sale and maturities of marketable securities	1,350	442
Purchase of marketable securities	(242)	(285)
Capital expenditures	(204)	(239)
Divestiture and other proceeds	171	375
Acquisition and other payments	(15)	(336)
Net Cash Provided by/(Used in) Investing Activities	1,060	(43)
Cash Flows From Financing Activities:		
Short-term debt obligations, net	(73)	(344)
Repayment of long-term debt	(1,250)	—
Repurchase of common stock	—	(167)
Dividends	(669)	(653)
Other	(37)	(58)
Net Cash Used in Financing Activities	(2,029)	(1,222)
Effect of Exchange Rates on Cash and Cash Equivalents	3	11
Net Increase/(Decrease) in Cash and Cash Equivalents	424	(79)
Cash and Cash Equivalents at Beginning of Period	6,911	5,421
Cash and Cash Equivalents at End of Period	$7,335	$5,342

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

Note 1. BASIS OF PRESENTATION AND RECENTLY ISSUED ACCOUNTING STANDARDS

Basis of Consolidation

Bristol-Myers Squibb Company prepared these unaudited consolidated financial statements following the requirements of the SEC and U.S. GAAP for interim reporting. Under those rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. The Company is responsible for the consolidated financial statements included in this Quarterly Report on Form 10-Q, which include all adjustments necessary for a fair presentation of the financial position at March 31, 2019 and December 31, 2018 and the results of operations and cash flows for the three months ended March 31, 2019 and 2018. All intercompany balances and transactions have been eliminated. These financial statements and the related notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 included in the 2018 Form 10-K. Refer to the Summary of Abbreviated Terms at the end of this Quarterly Report on Form 10-Q for terms used throughout the document.

Business Segment Information

The Company operates in a single segment engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of innovative medicines that help patients prevail over serious diseases. A global research and development organization and supply chain organization are responsible for the discovery, development, manufacturing and supply of products. Regional commercial organizations market, distribute and sell the products. The business is also supported by global corporate staff functions. The determination of a single segment is consistent with the financial information regularly reviewed by the chief executive officer for purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting future periods. For further information on product and regional revenue, see “—Note 2. Revenue.”

Use of Estimates and Judgments

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results and trends in these unaudited consolidated financial statements may not be indicative of full year operating results. The preparation of financial statements requires the use of management estimates, judgments and assumptions. The most significant assumptions are estimates used in determining sales rebate and return accruals; legal contingencies; income taxes; and pension and postretirement benefits. Actual results may differ from estimates.

Reclassification

Certain prior period amounts were reclassified to conform to the current period presentation. Equity investment gains previously presented in Other adjustments in the consolidated statements of cash flows is now presented separately.

Recently Adopted Accounting Standards

Leases

Amended guidance for lease accounting was adopted on January 1, 2019 using the modified retrospective method with the cumulative effect of the change recognized in retained earnings in the period of adoption. The new guidance requires an entity to recognize a right-of-use asset and a lease liability initially measured at the present value of future lease payments. The cumulative effect of the accounting change was not material. The Company elected the package of practical expedients upon adoption, and will apply the practical expedient not to separate lease and non-lease components for new and modified leases commencing after adoption. In addition, the Company applied the short-term lease recognition exemption for leases with terms at inception not greater than 12 months. The amended guidance does not materially impact the Company's results of operations other than recognition of the operating lease right-of-use asset and lease liability.

Goodwill Impairment Testing

Amended guidance that simplifies the recognition and measurement of a goodwill impairment loss by eliminating Step 2 of the quantitative goodwill impairment test was adopted prospectively in the first quarter of 2019. Under the amended guidance, a goodwill impairment loss is recognized for the amount by which the reporting units carrying amount, including goodwill, exceeds its fair value up to the amount of its allocated goodwill. The adoption of the amended guidance did not have an impact on the Company's results of operations.

Recently Issued Accounting Standards Not Yet Adopted

Financial Instruments - Measurement of Credit Losses

In June 2016, the FASB issued amended guidance for the measurement of credit losses on financial instruments. Entities will be required to use a forward-looking estimated loss model. Available-for-sale debt security credit losses will be recognized as allowances rather than a reduction in amortized cost. The guidance is effective January 1, 2020 with early adoption permitted in 2019 on a modified retrospective approach. The amended guidance is not expected to materially impact the Company's results of operations.

Note 2. REVENUE

The following table summarizes the disaggregation of revenue by nature:

	Three Months Ended March 31,	
Dollars in Millions	2019	2018
Net product sales	$5,713	$4,972
Alliance revenues	129	152
Other revenues	78	69
Total Revenues	$5,920	$5,193

The following table summarizes GTN adjustments:

	Three Months Ended March 31,	
Dollars in Millions	2019	2018
Gross product sales	$7,994	$6,701
GTN adjustments[(a)]		
Charge-backs and cash discounts	(774)	(583)
Medicaid and Medicare rebates	(800)	(557)
Other rebates, returns, discounts and adjustments	(707)	(589)
Total GTN adjustments	(2,281)	(1,729)
Net product sales	$5,713	$4,972

(a) Includes adjustments to provisions for product sales made in prior periods resulting from changes in estimates of $78 million and $50 million in the three months ended March 31, 2019 and 2018, respectively.

The following table summarizes the disaggregation of revenue by product and region:

	Three Months Ended March 31,	
Dollars in Millions	2019	2018
Prioritized Brands		
Opdivo	$1,801	$1,511
Eliquis	1,925	1,506
Orencia	640	593
Sprycel	459	438
Yervoy	384	249
Empliciti	83	55

Established Brands		
Baraclude	141	225
Other Brands	487	616
Total Revenues	$5,920	$5,193
United States	$3,449	$2,778
Europe	1,480	1,406
Rest of the World	874	873
Other[(a)]	117	136
Total Revenues	$5,920	$5,193

(a) Other revenues include royalties and alliance-related revenues for products not sold by the Company's regional commercial organizations.

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The following table summarizes contract assets as of March 31, 2019 and December 31, 2018:

Dollars in Millions	March 31, 2019	December 31, 2018
Prepaid expenses and other	$ 51	$ 35
Other assets	16	19
Total contract assets	$ 67	$ 54

Revenue recognized from performance obligations satisfied in prior periods was $147 million and $150 million for the three months ended March 31, 2019 and 2018, respectively, consisting primarily of royalties for out-licensing arrangements and revised estimates for gross-to-net adjustments related to prior period sales.

Note 3. ALLIANCES

BMS enters into collaboration arrangements with third parties for the research, development, manufacturing and/or commercialization of certain products. Although each of these arrangements is unique in nature, both parties are active participants in the operating activities of the collaboration and exposed to significant risks and rewards depending on the commercial success of the activities. BMS may either in-license intellectual property owned by the other party or out-license its intellectual property to the other party. These arrangements can cover a single investigational compound or commercial product or multiple compounds and/or products in various life cycle stages. The rights and obligations of the parties can be global or limited to geographic regions. BMS refers to these collaborations as alliances and its partners as alliance partners.

Selected financial information pertaining to BMS alliances was as follows, including net product sales when BMS is the principal in the third-party customer sale for products subject to the alliance. Expenses summarized below do not include all amounts attributed to the activities for the products in the alliance, but only the payments between the alliance partners or the related amortization if the payments were deferred or capitalized.

	Three Months Ended March 31,	
Dollars in Millions	2019	2018
Revenues from alliances:		
Net product sales	$2,378	$1,920
Alliance revenues	129	152
Total Revenues	$2,507	$2,072
Payments to/(from) alliance partners:		
Cost of products sold	$1,019	$799
Marketing, selling and administrative	(28)	(22)
Research and development	14	5
Other income (net)	(14)	(14)

Selected Alliance Balance Sheet information:

Dollars in Millions	March 31, 2019	December 31, 2018
Receivables - from alliance partners	$ 334	$ 395
Accounts payable - to alliance partners	1,004	904
Deferred income from alliances[(a)]	487	491

(a) Includes unamortized upfront and milestone payments.

The nature and purpose, significant rights and obligations of the parties and specific accounting policy elections for each of the Company's significant alliances are discussed in the Company's 2018 Form 10-K. There were no significant developments and updates related to alliances during 2019.

Note 4. DIVESTITURES AND OTHER ARRANGEMENTS

Divestitures

The following table summarizes proceeds, gains and royalty income resulting from divestitures. Revenue and pretax earnings related to all divestitures and assets held-for-sale were not material in all periods presented (excluding divestiture gains).

	Three Months Ended March 31,					
	Proceeds[a]		Divestiture Gains		Royalty Income	
Dollars in Millions	2019	2018	2019	2018	2019	2018
Diabetes Business	$164	$88	$ —	$ —	$(165)	$(162)
Erbitux* Business	5	59	—	—	—	(47)
Manufacturing Operations	2	158	—	—	—	—
Mature Brands and Other	—	70	—	(45)	(1)	(1)
Total	$171	$375	$ —	$ (45)	$(166)	$(210)

(a) Includes royalties received subsequent to the related sale of the asset or business.

Manufacturing Operations

In 2017, BMS sold its small molecule active pharmaceutical ingredient manufacturing operations in Swords, Ireland to SK Biotek for approximately $165 million, subject to certain adjustments. The transaction was accounted for as a sale of a business and initial proceeds of $158 million were received in the first quarter of 2018. SK Biotek will provide certain manufacturing services for BMS through 2022.

Assets Held-For-Sale

In 2018, BMS agreed to sell its UPSA consumer health business for $1.6 billion. The transaction is expected to close in July 2019 and will be accounted for as a sale of a business. Assets were reclassified to assets held-for-sale and included within Prepaid expenses and other and liabilities were reclassified to liabilities related to assets held-for-sale and included within Accrued liabilities. The following table summarizes the net assets held-for-sale as of March 31, 2019 and December 31, 2018.

Dollars in Millions	March 31, 2019	December 31, 2018
Receivables	$ 73	$ 79
Inventories	87	81
Property, plant and equipment	190	187
Goodwill	127	127
Others	6	5
Assets held-for-sale	$ 483	$ 479
Accounts payable	$ 38	$ 35
Accrued liabilities	59	78
Deferred income taxes	24	25
Other liabilities	23	14
Liabilities related to assets held-for-sale	$ 144	$ 152
Net assets held-for-sale	$ 339	$ 327

Note 5. OTHER INCOME (NET)

Dollars in Millions	Three Months Ended March 31, 2019	2018
Interest expense	$45	$46
Investment income	(56)	(36)
Equity investment gains	(175)	(15)
Provision for restructuring	12	20
Acquisition and integration expenses	187	—
Litigation and other settlements	1	—
Equity in net income of affiliates	—	(24)
Divestiture gains	—	(45)
Royalties and licensing income	(308)	(367)
Transition and other service fees	(2)	(4)
Pension and postretirement	44	(11)
Intangible asset impairment	—	64
Other	(8)	(28)
Other income (net)	$(260)	$(400)

Note 6. RESTRUCTURING

In October 2016, the Company announced a restructuring plan to evolve and streamline its operating model. The majority of the charges are expected to be incurred through 2020, range between $1.5 billion to $2.0 billion and consist of employee termination benefit costs, contract termination costs, plant and equipment accelerated depreciation and impairment charges and other shutdown costs associated with early manufacturing and R&D site exits. Cash outlays in connection with these actions are expected to be approximately 40% to 50% of the total charges. Charges of approximately $1.1 billion have been recognized for these actions since the announcement. Restructuring charges are recognized upon meeting certain criteria, including finalization of committed plans, reliable estimates and discussions with local works councils in certain markets.

Employee workforce reductions were approximately 50 and 100 for the three months ended March 31, 2019 and 2018, respectively.

The following tables summarize the charges and activity related to the restructuring actions:

Dollars in Millions	Three Months Ended March 31, 2019	2018
Employee termination costs	$4	$ 9
Other termination costs	8	11
Provision for restructuring	12	20
Accelerated depreciation	31	21
Asset impairments	1	10
Other shutdown costs	—	3
Total charges	$44	$ 54

Three
Months

	Ended March 31,	
Dollars in Millions	2019	2018
Cost of products sold	$12	$ 13
Marketing, selling and administrative	1	1
Research and development	19	20
Other income (net)	12	20
Total charges	$44	$ 54

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Dollars in Millions	Three Months Ended March 31, 2019	2018
Liability at December 31	$99	$186
Cease-use lease liability reclassification	(3)	—
Liability at January 1	96	186
Charges	15	20
Change in estimates	(3)	—
Provision for restructuring	12	20
Foreign currency translation	—	5
Payments	(45)	(75)
Liability at March 31	$63	$136

Note 7. INCOME TAXES

Dollars in Millions	Three Months Ended March 31, 2019	2018
Earnings Before Income Taxes	$1,979	$1,779
Provision for Income Taxes	264	284
Effective Tax Rate	13.3 %	16.0 %

The reduction in the effective tax rate was primarily due to the recognition of prior period tax credits in 2019. Jurisdictional tax rates and other tax impacts attributed to non-deductible R&D charges, equity investment fair value adjustments and other specified items decreased the effective tax rate by 1.2% in the three months ended March 31, 2019 and 2018. The tax impact of these discrete items are reflected immediately and are not considered in estimating the annual effective tax rate. Additional changes to the effective tax rate may occur in future periods due to various reasons including pretax earnings mix, tax reserves, cash repatriations and revised interpretations of the relevant tax code.

BMS is currently under examination by a number of tax authorities, which have proposed or are considering proposing material adjustments to tax positions for issues such as transfer pricing, certain tax credits and the deductibility of certain expenses. It is reasonably possible that new issues will be raised by tax authorities, which may require adjustments to the amount of unrecognized tax benefits; however, an estimate of such adjustments cannot reasonably be made at this time.

It is also reasonably possible that the total amount of unrecognized tax benefits at March 31, 2019 could decrease in the range of approximately $355 million to $395 million in the next twelve months as a result of the settlement of certain tax audits and other events. The expected change in unrecognized tax benefits may result in the payment of additional taxes, adjustment of certain deferred taxes and/or recognition of tax benefits. It is reasonably possible that new issues will be raised by tax authorities that may increase unrecognized tax benefits; however, an estimate of such increases cannot reasonably be made at this time. BMS believes that it has adequately provided for all open tax years by tax jurisdiction.

Note 8. EARNINGS PER SHARE

Three Months
Ended March

	31,	
Amounts in Millions, Except Per Share Data	2019	2018
Net Earnings Attributable to BMS used for Basic and Diluted EPS Calculation	$1,710	$1,486
Weighted-average common shares outstanding - basic	1,634	1,633
Incremental shares attributable to share-based compensation plans	3	7
Weighted-average common shares outstanding - diluted	1,637	1,640
Earnings per share - basic	$1.05	$0.91
Earnings per share - diluted	1.04	0.91

Note 9. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

Dollars in Millions	March 31, 2019 Level 1	March 31, 2019 Level 2	December 31, 2018 Level 1	December 31, 2018 Level 2
Cash and cash equivalents - money market and other investments	$—	$6,741	$—	$6,173
Marketable securities				
Certificates of deposit	—	658	—	971
Commercial paper	—	139	—	273
Corporate debt securities	—	1,865	—	2,379
Equity investments	—	—	—	125
Derivative assets	—	63	—	44
Equity investments	164	272	88	266
Derivative liabilities	—	(10)	—	(31)

As further described in "Item 8. Financial Statements and Supplementary Data—Note 9. Financial Instruments and Fair Value Measurements" in the Company's 2018 Form 10-K, the Company's fair value estimates use inputs that are either (1) quoted prices for identical assets or liabilities in active markets (Level 1 inputs); (2) observable prices for similar assets or liabilities in active markets or for identical or similar assets or liabilities in markets that are not active (Level 2 inputs); or (3) unobservable inputs (Level 3 inputs). There were no Level 3 financial assets or liabilities as of March 31, 2019 and December 31, 2018.

Available-for-sale Debt Securities and Equity Investments

Changes in fair value of equity investments are included in Other income (net). The following table summarizes the Company's debt and equity securities, classified as available-for-sale:

Dollars in Millions	March 31, 2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	December 31, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$658	$ —	$ —	$658	$971	$ —	$ —	$971
Commercial paper	139	—	—	139	273	—	—	273
Corporate debt securities	1,876	—	(11)	1,865	2,416	—	(37)	2,379
	$2,673	$ —	$ (11)	$2,662	$3,660	$ —	$ (37)	$3,623
Equity investments				436				479
Total				$3,098				$4,102

Dollars in Millions	March 31, 2019	December 31, 2018
Current marketable securities	$ 1,429	$ 1,973
Non-current marketable securities[(a)]	1,233	1,775
Other assets	436	354
Total	$ 3,098	$ 4,102

(a) All non-current marketable securities mature within five years as of March 31, 2019 and December 31, 2018.

Equity investments not measured at fair value and excluded from the above table were limited partnerships and other equity method investments of $126 million at March 31, 2019 and $114 million at December 31, 2018 and other equity investments without readily determinable fair values of $208 million at March 31, 2019 and $206 million at December 31, 2018. These amounts are included in Other assets.

The following table summarizes the net gain recorded for equity investments with readily determinable fair values held as of March 31, 2019 and 2018:

	Three Months Ended March 31,	
Dollars in Millions	2019	2018
Net gain/(loss) recognized	$95	$ 15
Less: Net gain/(loss) recognized for equity investments sold	14	—
Net unrealized gain/(loss) on equity investments held	$81	$ 15

Qualifying Hedges and Non-Qualifying Derivatives

Cash Flow Hedges — Foreign currency forward contracts are used to hedge certain forecasted intercompany inventory purchases and sales transactions and certain foreign currency transactions. The fair value for contracts designated as cash flow hedges is temporarily reported in Accumulated other comprehensive loss and included in earnings when the hedged item affects earnings. Upon adoption of the amended guidance for derivatives and hedging, the entire change in fair value of the hedging instrument included in the assessment of hedge effectiveness is recorded in the derivatives qualifying as cash flow hedges component of Other Comprehensive (Loss)/Income. The net gain or loss on foreign currency forward contracts is expected to be reclassified to net earnings (primarily included in Cost of products sold) within the next 12 months. The notional amount of outstanding foreign currency forward contracts was primarily attributed to the euro of $1.0 billion and Japanese yen of $508 million at March 31, 2019.

The earnings impact related to discontinued cash flow hedges and hedge ineffectiveness was not significant during all periods presented. Cash flow hedge accounting is discontinued when the forecasted transaction is no longer probable of occurring within 60 days after the originally forecasted date or when the hedge is no longer effective. Assessments to determine whether derivatives designated as qualifying hedges are highly effective in offsetting changes in the cash flows of hedged items are performed at inception and on a quarterly basis. Foreign currency forward contracts not designated as hedging instruments are used to offset exposures in certain foreign currency denominated assets, liabilities and earnings. Changes in the fair value of these derivatives are recognized in earnings as they occur.

Net Investment Hedges — Non-U.S. dollar borrowings of €950 million ($1.1 billion) at March 31, 2019 are designated to hedge euro currency exposures of the net investment in certain foreign affiliates. These borrowings are designated as net investment hedges and recognized in long-term debt. The effective portion of foreign exchange gain or loss on the remeasurement of euro debt was $8 million gain in 2019 and $46 million loss in 2018 and were recorded in the foreign currency translation component of Accumulated other comprehensive loss with the related offset in long-term debt.

In January 2018, BMS entered into $300 million of cross-currency interest rate swap contracts maturing in December 2022 designated to hedge Japanese yen currency exposures of the Company's net investment in its Japan subsidiary. Contract fair value changes are recorded in the foreign currency translation component of Other Comprehensive Income/(Loss) with a related offset in Other assets or Pension and other liabilities.

Fair Value Hedges — Fixed to floating interest rate swap contracts are designated as fair value hedges and used as an interest rate risk management strategy to create an appropriate balance of fixed and floating rate debt. The contracts and underlying debt for the hedged benchmark risk are recorded at fair value. The effective interest rate for the contracts is one-month LIBOR (2.5% as of March 31, 2019) plus an interest rate spread of 4.6%. Gains or losses resulting from changes in fair value of the underlying debt attributable to the hedged benchmark interest rate risk are recorded in interest expense with an associated offset to the carrying value of debt. Since the specific terms and notional amount of the swap are intended to match those of the debt being hedged, all changes in fair value of the swap are recorded in interest expense with an associated offset to the derivative asset or liability on the consolidated balance sheet. As a result, there was no net impact in earnings. When the underlying swap is terminated prior to maturity, the fair value adjustment to the underlying debt is amortized as a reduction to interest expense over the remaining term of the debt.

Following the announcement of our pending acquisition of Celgene, the Company entered into forward starting interest rate swap option contracts, with a total notional value of $7.6 billion, to hedge future interest rate risk associated with the anticipated issuance of long-term debt to fund the acquisition. A fair value loss adjustment of $35 million was recognized in the first quarter of 2019 and was included in Other income (net).

In April 2019, the Company entered into deal contingent forward starting interest rate swap contracts, with an aggregate notional principal amount of $10.4 billion, to hedge future interest rate risk associated with the anticipated issuance of long-term debt to fund the planned Celgene acquisition. The option contracts that the Company entered into following the announcement of the planned acquisition of Celgene were terminated contemporaneously with the Company's entry into the deal contingent contracts.

The following table summarizes the fair value of outstanding derivatives:

	March 31, 2019				December 31, 2018			
	Asset[(a)]		Liability[(b)]		Asset[(a)]		Liability[(b)]	
Dollars in Millions	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Derivatives designated as hedging instruments:								
Interest rate swap contracts	$—	$—	$255	$(3)	$—	$—	$755	$(10)
Cross-currency interest rate swap contracts	175	2	125	(1)	50	—	250	(5)
Foreign currency forward contracts	1,648	52	302	(4)	1,503	41	496	(10)
Derivatives not designated as hedging instruments:								
Foreign currency forward contracts	533	2	69	(2)	54	—	600	(6)
Forward starting interest rate swap options	7,600	—	—	—	—	—	—	—

(a) Included in prepaid expenses and other and other assets.
(b) Included in accrued liabilities and pension and other liabilities.

The following table summarizes the financial statement classification and amount of gain/(loss) recognized on hedging instruments:

	Three Months Ended March 31,			
	2019		2018	
Dollars in Millions	Cost of products sold	Other income (net)	Cost of products sold	Other income (net)
Interest rate swap contracts	$—	$ 5	$ —	$ 7
Cross-currency interest rate swap contracts	—	2	—	2
Foreign currency forward contracts	30	(9)	(20)	(9)
Forward starting interest rate swap options	—	(35)	—	—

The following table summarizes the effect of derivative and non-derivative instruments designated as hedging instruments in Other Comprehensive Income/(Loss):

	Three Months Ended March 31,	
Dollars in Millions	2019	2018
Derivatives qualifying as cash flow hedges		
Foreign currency forward contracts gain/(loss):		
Recognized in Other Comprehensive Income/(Loss)[(a)]	$45	$(38)
Reclassified to Cost of products sold	(30)	20
Derivatives qualifying as net investment hedges		
Cross-currency interest rate swap contracts gain/(loss):		
Recognized in Other Comprehensive Income/(Loss)	6	(16)
Non-derivatives qualifying as net investment hedges		

Non U.S. dollar borrowings gain/(loss):		
Recognized in Other Comprehensive Income/(Loss)	8	(46)

(a) The amount is expected to be reclassified into earnings in the next 12 months.

Debt Obligations

Short-term debt obligations include:

Dollars in Millions	March 31, 2019	December 31, 2018
Non-U.S. short-term borrowings	$ 321	$ 320
Current portion of long-term debt	—	1,249
Other	60	134
Total	$ 381	$ 1,703

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Long-term debt and the current portion of long-term debt include:

Dollars in Millions	March 31, 2019	December 31, 2018
Principal Value	$ 5,513	$ 6,776
Adjustments to Principal Value		
Fair value of interest rate swap contracts	(3)	(10)
Unamortized basis adjustment from swap terminations	194	201
Unamortized bond discounts and issuance costs	(69)	(72)
Total	$ 5,635	$ 6,895
Current portion of long-term debt	$ —	$ 1,249
Long-term debt	5,635	5,646

The fair value of long-term debt was $5.9 billion at March 31, 2019 and $7.1 billion at December 31, 2018 valued using Level 2 inputs. Interest payments were $57 million and $59 million for the three months ended March 31, 2019 and 2018, respectively, net of amounts related to interest rate swap contracts.

During the first quarter of 2019, the $750 million 1.600% Notes and the $500 million 1.750% Notes matured and were repaid.

As of March 31, 2019, the Company had four revolving credit facilities totaling $6.0 billion, which consisted of a 364-day $2.0 billion facility expiring in January 2020, two five-year $1.5 billion facilities that were extended to September 2022 and July 2023, respectively, and a $1.0 billion facility expiring in January 2022. All of these facilities provide for customary terms and conditions with no financial covenants and may be used to provide backup liquidity for the Company's commercial paper borrowings. The Company's $1.0 billion facility and the Company's two $1.5 billion revolving facilities are extendable annually by one year on the anniversary date with the consent of the lenders. No borrowings were outstanding under any revolving credit facility at March 31, 2019 or December 31, 2018.

In connection with the Company's pending acquisition of Celgene, in January 2019 the Company entered into a bridge commitment letter that provides for up to $33.5 billion in a 364-day senior unsecured bridge facility. The Company also entered into an $8.0 billion term loan credit agreement consisting of a $1.0 billion 364-day tranche, a $4.0 billion three-year tranche and a $3.0 billion five-year tranche. The term loan reduced the commitments under the bridge facility to $25.5 billion. If the Company obtains additional funding by issuing securities or obtaining other loans, the amount of the bridge facility will be correspondingly reduced. The bridge facility and the term loan are subject to customary terms and conditions and do not have any financial covenants. No amounts will be borrowed under either the bridge facility or the term loan prior to the closing of the pending acquisition of Celgene. If drawn upon, the proceeds under the bridge facility and the term loan will be used solely to fund a portion of the cash to be paid in the pending acquisition of Celgene, the anticipated refinancing of debt of Celgene and the payment of related fees and expenses.

Note 10. RECEIVABLES

Dollars in Millions	March 31, 2019	December 31, 2018
Trade receivables	$ 4,873	$ 4,914
Less charge-backs and cash discounts	(241)	(245)
Less bad debt allowances	(38)	(33)
Net trade receivables	4,594	4,636
Prepaid and refundable income taxes	158	218
Alliance, royalties, VAT and other	952	1,111

Receivables	$ 5,704	$ 5,965

Non-U.S. receivables sold on a nonrecourse basis were $174 million and $203 million for the three months ended March 31, 2019 and 2018, respectively. Receivables from the Company's three largest pharmaceutical wholesalers in the U.S. represented 70% of total trade receivables at March 31, 2019 and December 31, 2018.

Note 11. INVENTORIES

Dollars in Millions	March 31, 2019	December 31, 2018
Finished goods	$ 448	$ 396
Work in process	934	1,026
Raw and packaging materials	214	202
Total inventories	$ 1,596	$ 1,624
Inventories	$ 1,283	$ 1,195
Other assets	313	429

Other assets include inventory expected to remain on hand beyond one year in both periods.

Note 12. PROPERTY, PLANT AND EQUIPMENT

Dollars in Millions	March 31, 2019	December 31, 2018
Land	$ 105	$ 104
Buildings	5,286	5,231
Machinery, equipment and fixtures	3,043	2,962
Construction in progress	477	548
Gross property, plant and equipment	8,911	8,845
Less accumulated depreciation	(3,926)	(3,818)
Property, plant and equipment	$ 4,985	$ 5,027

Depreciation expense was $133 million and $113 million for the three months ended March 31, 2019 and 2018, respectively.

Note 13. LEASES

The Company leases facilities for office, research and development, and storage and distribution purposes, comprising approximately 90% of the total lease obligation. Lease terms vary based on the nature of operations and the market dynamics in each country; however, all leased facilities are classified as operating leases with remaining lease terms between one and 20 years. Most leases contain specific renewal options for periods ranging between one and 10 years where notice to renew must be provided in advance of lease expiration or automatic renewals where no advance notice is required. Periods covered by an option to extend the lease were included in the non-cancellable lease term when exercise of the option was determined to be reasonably certain. Certain leases also contain termination options that provide the flexibility to terminate the lease ahead of its expiration with sufficient advance notice. Periods covered by an option to terminate the lease were included in the non-cancellable lease term when exercise of the option was determined not to be reasonably certain. Judgment is required in assessing whether renewal and termination options are reasonably certain to be exercised. The Company considers factors such as contractual terms compared to current market rates, leasehold improvements expected to have significant value, costs to terminate a lease and the importance of the facility to the Company’s operations. Costs determined to be variable and not based on an index or rate were not included in the measurement of real estate lease liabilities. As most leases do not provide an implicit rate, the Company's incremental borrowing rate was applied on a portfolio approach to discount its real estate lease liabilities.

The remaining 10% of the Company’s total lease obligation is comprised of vehicles used primarily by the Company’s salesforce, and an R&D facility operated by a third party under BMS direction. Vehicle lease terms vary by country with terms generally between one and four years.

The following table summarizes the components of lease expense for the three months ended March 31, 2019:

Dollars in Millions	2019
Operating lease cost	$ 27
Variable lease cost	6
Short-term lease cost	5
Sublease income	—
Total operating lease expense	$ 38

Operating lease right-of-use assets and liabilities were as follows as of March 31, 2019 and January 1, 2019:

Dollars in Millions	March 31, 2019	January 1, 2019
Other assets	$ 527	$ 543
Accrued liabilities	40	40
Pension and other liabilities	529	548
Total liabilities	$ 569	$ 588

As of December 31, 2018, annual minimum rental commitments for non-cancellable operating leases were approximately $100 million in each of the next five years and an aggregate $200 million thereafter.

Future lease payments for non-cancellable operating leases as of March 31, 2019 were as follow:

Dollars in Millions	Operating Leases
2019 (excluding the three months ended March 31, 2019)	$ 35
2020	86
2021	76
2022	70
2023	62
Thereafter	395
Total future lease payments	724
Less imputed interest	155
Total lease liability	$ 569

Right-of-use assets obtained in exchange for new operating lease obligations were not material for the three months ended March 31, 2019. Other information related to operating leases for the three months ended March 31, 2019 was as follows:

Dollars in Millions, except lease term and discount rate		
Cash paid for amounts included in the measurement of operating lease liabilities	$29	
Weighted-average remaining lease term (in years)	11	
Weighted-average discount rate	4	%

Note 14. GOODWILL AND OTHER INTANGIBLE ASSETS

Dollars in Millions	Estimated Useful Lives	March 31, 2019		December 31, 2018	
Goodwill		$ 6,536		$ 6,538	
Other intangible assets:					
Licenses	5 – 15 years	$ 497		$ 510	
Developed technology rights	9 – 15 years	2,357		2,357	
Capitalized software	3 – 10 years	1,166		1,156	
IPRD		—		32	
Gross other intangible assets		4,020		4,055	
Less accumulated amortization		(2,994	)	(2,964	)
Other intangible assets		$ 1,026		$ 1,091	

Amortization expense was $53 million and $46 million for the three months ended March 31, 2019 and 2018, respectively.

In the first quarter of 2019, a $32 million IPRD impairment charge was recorded in Research and development following our decision to discontinue development of an investigational compound obtained in the acquisition of Medarex. In the first quarter of 2018, a $64 million impairment charge was recorded in Other income (net) for an out-licensed asset obtained in the 2010 acquisition of ZymoGenetics, Inc., which did not meet its primary endpoint in a Phase II clinical study.

Note 15. ACCRUED LIABILITIES

Dollars in Millions	March 31, 2019	December 31, 2018
Rebates and returns	$ 2,404	$ 2,417
Employee compensation and benefits	352	848
Research and development	861	805
Dividends	671	669
Royalties	300	391
Branded Prescription Drug Fee	214	188
Liabilities related to assets held-for-sale	144	152
Litigation and other settlements	79	118
Operating lease liabilities	40	—
Restructuring	53	85
Pension and postretirement benefit	35	35
Other	703	781
Accrued liabilities	$ 5,856	$ 6,489

Note 16. EQUITY

The following table summarizes changes in equity for the three months ended March 31, 2019:

Dollars and Shares in Millions	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value of Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock Shares	Treasury Stock Cost	Noncontrolling Interest
Balance at December 31, 2018	2,208	$ 221	$ 2,081	$ (2,762)	$34,065	576	$(19,574)	$ 96
Accounting change - cumulative effect[(a)]	—	—	—	—	5	—	—	—
Adjusted balance at January 1, 2019	2,208	221	2,081	(2,762)	34,070	576	(19,574)	96
Net earnings	—	—	—	—	1,710	—	—	5
Other Comprehensive Income/(Loss)	—	—	—	118	—	—	—	—
Cash dividends declared[(b)]	—	—	—	—	(671)	—	—	—
Stock compensation	—	—	22	—	—	(4)	3	—
Distributions	—	—	—	—	—	—	—	(2)
Balance at March 31, 2019	2,208	$ 221	$ 2,103	$ (2,644)	$35,109	572	$(19,571)	$ 99

(a) Refer to "—Note 1. Basis of Presentation and Recently Issued Accounting Standards" for additional information.
(b) Cash dividends declared per common share were $0.41 for the three months ended March 31, 2019.

The following table summarizes changes in equity for the three months ended March 31, 2018:

Dollars and Shares in Millions	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value of Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock Shares	Treasury Stock Cost	Noncontrolling Interest
Balance at December 31, 2017	2,208	$ 221	$ 1,898	$ (2,289)	$31,160	575	$(19,249)	$ 106
Accounting change - cumulative effect[(a)]	—	—	—	(34)	332	—	—	—

Adjusted balance at January 1, 2018	2,208	$ 221	$ 1,898	$ (2,323)	$ 31,492	575	$ (19,249)	$ 106
Net earnings	—	—	—	—	1,486	—	—	9
Other Comprehensive Income/(Loss)	—	—	—	89	—	—	—	—
Cash dividends declared[(b)]	—	—	—	—	(655)	—	—	—
Stock repurchase program	—	—	—	—	—	3	(166)	—
Stock compensation	—	—	18	—	—	(4)	(18)	—
Distributions	—	—	—	—	—	—	—	(2)
Balance at March 31, 2018	2,208	$ 221	$ 1,916	$ (2,234)	$ 32,323	574	$ (19,433)	$ 113

(a) Refer to "—Note 1. Accounting Policies and Recently Issued Accounting Standards" in the Company's 2018 Form 10-K for additional information.

(b) Cash dividends declared per common share were $0.40 for the three months ended March 31, 2018.

BMS has a stock repurchase program authorized by its Board of Directors allowing for repurchases in the open market or through private transactions, including plans established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act). The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time. Treasury stock is recognized at the cost to reacquire the shares. Shares issued from treasury are recognized utilizing the first-in first-out method.

The components of Other Comprehensive Income/(Loss) were as follows in the three months ended March 31:

	2019			2018		
Dollars in Millions	Pretax	Tax	After tax	Pretax	Tax	After tax