

BAXTER INTERNATIONAL INC
Form 10-Q/A
August 09, 2004

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 March 31, 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 or 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 July 31, 2004 was 614,790,270 shares.

EXPLANATORY NOTE

Baxter International Inc. is filing this Form 10-Q/A for the quarter ended March 31, 2004 to reflect the restatement of its consolidated financial statements for the quarters ended March 31, 2004 and 2003. The restatement principally pertains to the inappropriate application of accounting principles for revenue recognition and inadequate provisions for bad debts in Brazil during the period. Refer to Note 1A to the consolidated financial statements for a complete description and quantification of the restatement.

This Form 10-Q/A has not been updated 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 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)

	Restated	
	Three months ended March 31,	
	2004	2003
Net sales	\$ 2,209	\$ 1,995
Costs and expenses		
Cost of goods sold	1,316	1,117
Marketing and administrative expenses	466	414
Research and development expenses	136	136
Net interest expense	21	19
Other expense, net	21	26
Total costs and expenses	1,960	1,712
Income from continuing operations before income taxes	249	283
Income tax expense	62	68
Income from continuing operations	187	215
Discontinued operations	(11)	(1)
Net income	\$ 176	\$ 214
Earnings per basic common share		
Continuing operations	\$ 0.31	\$ 0.36
Discontinued operations	(0.02)	
Net income	\$ 0.29	\$ 0.36
Earnings per diluted common share		
Continuing operations	\$ 0.30	\$ 0.36
Discontinued operations	(0.02)	(0.01)
Net income	\$ 0.28	\$ 0.35
Weighted average number of common shares outstanding		
Basic	612	598

Diluted	<u>616</u>	<u>611</u>
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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	
	March 31, 2004	December 31, 2003
Current assets		
Cash and equivalents	\$ 646	\$ 925
Accounts and other current receivables	2,029	1,914
Inventories	2,168	2,104
Short-term deferred income taxes	209	140
Prepaid expenses and other	268	277
Total current assets	5,320	5,360
Property, plant and equipment		
At cost	7,825	7,791
Accumulated depreciation and amortization	(3,265)	(3,199)
Net property, plant and equipment	4,560	4,592
Other assets		
Goodwill	1,648	1,648
Other intangible assets	605	611
Other	1,523	1,498
Total other assets	3,776	3,757
Total assets	\$13,656	\$13,709
Current liabilities		
Short-term debt	\$ 177	\$ 153
Accounts payable and accrued liabilities	2,533	3,107
Income taxes payable	543	538
Total current liabilities	3,253	3,798
Long-term debt and lease obligations	4,630	4,421
Other long-term liabilities	2,289	2,216
Commitments and contingencies		
Stockholders' equity		
Common stock, \$1 par value, authorized 2,000,000,000 shares, issued 648,574,109 shares in 2004 and 2003	649	649
Common stock in treasury, at cost, 36,110,243 shares in 2004 and 37,273,424 shares in 2003	(1,799)	(1,863)
Additional contributed capital	3,728	3,773
Retained earnings	2,321	2,145

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Accumulated other comprehensive loss	(1,415)	(1,430)
Total stockholders' equity	3,484	3,274
Total liabilities and stockholders' equity	\$13,656	\$13,709

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)

	<u>Restated</u>	
	<u>Three months ended</u>	
	<u>March 31,</u>	
	<u>2004</u>	<u>2003</u>
(brackets denote cash outflows)		
Cash flows from operations		
Income from continuing operations	\$ 187	\$ 215
Adjustments		
Depreciation and amortization	149	128
Deferred income taxes	10	(70)
Other	23	8
Changes in balance sheet items		
Accounts receivable	(96)	(53)
Inventories	(66)	(134)
Accounts payable and accrued liabilities	(198)	(79)
Restructuring payments	(37)	(7)
Contributions to pension trust	(54)	
Other	29	(30)
	<u>(53)</u>	<u>(22)</u>
Cash flows from continuing operations	(53)	(22)
Cash flows from discontinued operations	(1)	(6)
	<u>(54)</u>	<u>(28)</u>
Cash flows from operations	(54)	(28)
Cash flows from investing activities		
Capital expenditures	(90)	(175)
Acquisitions (net of cash received) and investments in and advances to affiliates	(14)	(71)
Divestitures and other	26	
	<u>(78)</u>	<u>(246)</u>
Cash flows from investing activities	(78)	(246)
Cash flows from financing activities		
Issuances of debt	87	610
Redemptions of debt and lease obligations	(33)	(119)
Increase in debt with maturities of three months or less, net	137	527
Common stock cash dividends	(361)	(346)
Proceeds from stock issued under employee benefit plans	31	16
Purchases of treasury stock	(11)	(153)
	<u>(150)</u>	<u>535</u>
Cash flows from financing activities	(150)	535
Effect of currency exchange rate changes on cash and equivalents	3	(22)
	<u>(279)</u>	<u>239</u>
Increase (decrease) in cash and equivalents	(279)	239

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Cash and equivalents at beginning of period	<u>925</u>	<u>1,169</u>
Cash and equivalents at end of period	<u>\$ 646</u>	<u>\$ 1,408</u>

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 2003 Annual Report to Stockholders (2003 Annual Report).

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. 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 option plans and employee stock purchase plans. 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, to all stock-based employee compensation.

	Restated	
	Three months ended March 31,	
(in millions, except per share data)	2004	2003
Net income, as reported	\$ 176	\$ 214
Add: Stock-based employee compensation expense included in reported net income, net of tax		
Deduct: Total stock-based employee compensation expense determined under the fair value method, net of tax	28	37
Pro forma net income	\$ 148	\$ 177
Earnings per basic share		

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As reported	\$ 0.29	\$ 0.36
Pro forma	\$ 0.25	\$ 0.30
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Earnings per diluted share		
As reported	\$ 0.28	\$ 0.35
Pro forma	\$ 0.23	\$ 0.29
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Changes in accounting principles

Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46) was adopted July 1, 2003. Refer to the 2003 Annual Report for further information. In December 2003 the FASB revised and reissued FIN 46 (FIN 46-R). The provisions of FIN 46-R were required to be adopted no later than March 31, 2004. Baxter adopted FIN 46-R on March 31, 2004, and adoption of the revised standard did not have a material impact on the company's consolidated financial statements.

1A. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The company has restated its previously issued financial statements for 2001 through 2003 and the first quarter of 2004, primarily the result of the inappropriate application of accounting principles for revenue recognition and inadequate provisions for bad debts in Brazil during the period. Specifically, the company has restated previously issued financial information for 2001 through 2003 contained in its previously filed Form 10-Ks for the years ended December 31, 2003, 2002 and 2001 by filing a Form 10-K/A for the year ended December 31, 2003. The company's previously reported quarterly information in its Form 10-Qs for the quarters ended March 31, 2004, September 30, 2003, June 30, 2003 and March 31, 2003 have also been restated by filing a Form 10-Q for the quarter ended June 30, 2004 and Form 10-Q/As for the quarters ended March 31, 2004 and September 30, 2003. As a result of the restatement, in aggregate, net sales decreased \$37 million (0.2% of the originally reported amount) and net income decreased \$33 million (1.5% of the originally reported amount) over the three-year period ended December 31, 2003.

The following is a summary of the impact of the restatement on the previously issued consolidated income statements and consolidated balance sheets included in this filing. For the first quarter of 2004, net sales were unchanged as a result of the restatement and net income decreased \$2 million (1.1% of the originally reported amount). For the first quarter of 2003, net sales decreased \$2 million (0.1% of the originally reported amount) and net income decreased \$2 million (0.9% of the originally reported amount).

Consolidated Statements of Income for the Three Months Ended March 31, 2004 and 2003

	Three months ended March 31,			
	2004		2003	
	As originally reported	As restated	As originally reported	As restated
(in millions, except per share data)				
Net sales	\$2,209	\$2,209	\$1,997	\$1,995
Costs and expenses				
Cost of goods sold	1,315	1,316	1,117	1,117
Marketing and administrative expenses	464	466	413	414
Research and development expenses	136	136	136	136
Net interest expense	21	21	19	19
Other expense, net	21	21	26	26