Company Overview

Becton, Dickinson and Company ("BD") is a medical technology company engaged principally in the development, 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 and directly to end-users by BD and independent sales representatives. References to years throughout this discussion relate to our fiscal years, which end on September 30.

BD management operates the business consistent with the following core strategies:

- To increase revenue growth by focusing on products that deliver greater benefits to patients, healthcare workers and researchers;
- To improve operating effectiveness and balance sheet productivity; and,
- To strengthen organizational and associate capabilities in the ever-changing healthcare environment.

Our efforts to increase revenues are focused on four specific areas of healthcare:

- Reducing the spread of infection
- Advancing global health
- Enhancing therapy
- Improving disease management

In assessing the outcomes of these strategies and BD's financial condition and operating performance, management generally reviews quarterly forecast data, monthly actual results, segment sales and other similar information. We also consider trends related to certain key financial data, including gross profit margin, selling and administrative expense, investment in research and development, return on invested capital, and cash flows.

The results of our strategies are reflected in our fiscal 2008 financial and operational performance. Worldwide revenues in 2008 of $7.2 billion increased 13% from the prior year and reflected volume increases of approximately 7%, an estimated increase due to favorable foreign currency translation of 6%, and price decreases of less than 1%. U.S. revenues increased 5% to $3.2 billion. International revenues increased 19% to $4.0 billion with an estimated 11 percentage points of such growth coming from the favorable impact of foreign currency translation. Recently, worldwide currency markets have experienced extreme volatility. Our financial projections for 2009 discussed below are based on the foreign exchange rates in early November 2008 when we established our fiscal year budget. Fluctuations in these rates during 2009 may affect these projections. For a discussion of the financial impact of exchange rate fluctuations and the ways and extent to which we attempt to mitigate such impact, see "Financial Instrument Market Risk" below.

Consistent with our strategy to provide products that deliver greater benefits to healthcare workers, and recognizing the issues surrounding sharps-related injuries, BD has developed a wide array of safety-engineered devices that are designed to reduce the incidence of needlestick injuries and exposure to bloodborne pathogens. These products are offered through our Medical and Diagnostics segments. Sales in the United States of safety-engineered devices grew 5% to $1.036 billion in 2008, from $987 million in 2007. International sales of safety-engineered devices grew 29% to $534 million in 2008 from $414 million in 2007, with an estimated 11 percentage points of such growth coming from the favorable impact of foreign currency translation. In 2009, we expect sales of safety-engineered devices to increase about 5 to 6% in the United States, and 11 to 12% internationally, after taking into account an estimated unfavorable foreign exchange impact of about 9%.

Our anticipated revenue growth over the next three years is expected to come from business growth and expansion among all segments and regions of the world, and the development in each business segment of new products and services that provide increased benefits to patients, healthcare workers and researchers. Our ability to sustain our long-term growth will depend on a number of factors, including our ability to expand our core business (including geographical expansion), develop innovative new products with higher gross profit margins across our business segments, and continue to improve operating efficiency and organizational effectiveness. Numerous factors can affect our ability to achieve these goals including, without limitation, economic conditions in the United States and elsewhere, increased competition and healthcare cost containment initiatives. In this regard, we note that President-elect Barack Obama made healthcare reform a central part of his presidential campaign. However, no predictions can be made as to what, if any, reforms may be instituted or their potential effect on BD.

We believe several important factors relating to our business tend to limit the impact on BD of potential economic or political events in countries in which we do business, including the effects of possible healthcare system reforms. For example, since many of our products are used in essential medical care, demand for such products has historically tended not to be significantly affected by economic fluctuations.

The international nature of our business and our ability to meet the needs of the worldwide healthcare industry with cost-effective and innovative products has also historically served to limit the impact of economic downturns in particular regions. However, world financial markets have recently experienced extreme disruption and economic conditions in the United States and abroad have significantly worsened. Accordingly, no assurance can be given that the current worldwide economic downturn (or future economic downturns) will not have a material adverse effect on our access to credit markets or the demand for our products and services or otherwise adversely affect our business.

Results of Continuing Operations

Medical Segment

Medical revenues in 2008 of $3.8 billion increased $380 million, or 11%, over 2007, which includes an estimated impact of favorable foreign currency translation of 6 percentage points.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2008	2007	Total Change	Estimated Foreign Exchange Impact
Medical Surgical Systems	**$2,005**	$1,864	8%	4%
Pharmaceutical Systems	**942**	792	19%	10%
Diabetes Care	**775**	696	11%	5%
Ophthalmic Systems	**79**	69	15%	7%
Total Revenues	**$3,801**	$3,421	11%	6%

Medical revenues reflected the growth of the Pharmaceutical Systems and Diabetes Care units, primarily outside of the United States, and the continued global conversion to safety-engineered products. The Pharmaceutical Systems unit grew by 19%, driven by growth in Europe and Asia-Pacific offset by lower growth in the United States when compared to fiscal 2007, which reflected very high growth to support customer product launches. Revenue growth in the Diabetes Care unit of 11% was driven primarily by double-digit growth in all regions outside of the United States. Revenue in the Medical Surgical Systems unit was primarily driven by growth in safety-engineered products and prefilled flush syringes. Sales of safety-engineered products increased 3% in the United States and 38% internationally. For 2009, we expect the full-year revenue growth for the Medical Segment to be flat to 1%, after taking into account an estimated unfavorable foreign exchange impact of about 5%.

Medical operating income was $1.1 billion, or 28.1% of Medical revenues, in 2008, as compared with $1.0 billion, or 28.4%, of revenues in 2007. Operating income as a percentage of revenues reflects declines in gross margin from increased costs of raw materials, inventory write-offs and declines in sales of products that have higher overall gross profit margins. These items more than offset favorable manufacturing efficiencies and controls on selling and administrative expenses. Selling and administrative expense as a percent of Medical revenues in 2008 declined to 17.9% of revenues from 18.9% of revenues in 2007, primarily due to tight spending controls. Research and development expenses in 2008 increased $8.0 million, or 7%, reflecting continued investment in the development of new products and platforms.

Diagnostics Segment

Diagnostics revenues in 2008 of $2.2 billion increased $255 million, or 13%, over 2007, which reflected an estimated favorable impact of foreign currency translation of about 5 percentage points.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2008	2007	Total Change	Estimated Foreign Exchange Impact
Preanalytical Systems	**$1,124**	$1,007	12%	5%
Diagnostic Systems	**1,036**	898	15%	4%
Total Revenues	**$2,160**	$1,905	13%	5%

Revenue growth in the Preanalytical Systems unit was driven by the continued conversion to safety-engineered products. Sales of safety-engineered products reflected growth of 7% in the United States, driven by *BD Vacutainer* Push Button Blood Collection Set conversion activity, and 25% internationally. The Diagnostics Systems unit experienced growth in worldwide sales of its automated diagnostic platforms, including the molecular *BD ProbeTec, BD Viper* and *BD Affirm* systems, along with solid growth of its *BD BACTEC* blood culture and TB systems and the *BD Phoenix* ID/AST platform. In addition, revenues from TriPath grew $31 million to $119 million and from GeneOhm grew $21 million to $42 million in 2008. For 2009, we expect full year revenue growth for the Diagnostics Segment to be about 2 to 3%, after taking into account an estimated unfavorable foreign exchange impact of about 4%.

Diagnostics operating income was $526 million, or 24.3% of Diagnostics revenues in 2008, compared with $343 million, or 18.0% of revenues in 2007. Segment operating income reflects the in-process research and development charges of $115 million in 2007 related to the TriPath acquisition. The Diagnostics Segment experienced a slight improvement in gross profit margin from sales growth of products that have higher overall gross profit margins, in particular, safety-engineered products and the *BD ProbeTec* and *BD Viper* systems, and favorable foreign exchange. These improvements were slightly offset by manufacturing start-up costs and increases in raw material costs. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Diagnostics revenues in 2008 was 22.0% compared with 22.4% in 2007 primarily due to tight spending controls. Research and development expense increased $16 million, or 14%, reflecting continued investment in the development of new products and platforms with particular emphasis on our molecular platforms.

Biosciences Segment

Biosciences revenues in 2008 of $1.2 billion increased $161 million, or 16%, over 2007, which reflected an estimated impact of favorable foreign currency translation of 6 percentage points.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2008	2007	Total Change	Estimated Foreign Exchange Impact
Cell Analysis	$ 901	$ 756	19%	6%
Discovery Labware	295	278	6%	5%
Total Revenues *	$1,195	$1,034	16%	6%

* Amounts may not add due to rounding.

Revenue growth in the Cell Analysis unit reflected strong sales of instruments and flow cytometry reagents, driven by increased demand for research instruments and clinical reagents. Revenue growth in the Discovery Labware unit reflects reduced sales to a major bionutrients customer compared with 2007. For 2009, we expect the full year revenue growth for the Biosciences Segment to be about 3 to 4%, after taking into account an estimated unfavorable foreign exchange impact of about 5%.

Biosciences operating income was $334 million, or 27.9% of Biosciences revenues in 2008, compared with $259 million, or 25.0% in 2007. Segment operating income in 2007 included an in-process research and development charge of $7 million relating to the Plasso acquisition. The increase in operating income, as a percentage of revenues, reflects gross profit improvement from relatively higher sales growth of products that have higher overall gross profit margins and the favorable impact of foreign currency translation. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Biosciences revenues in 2008 was 23.0% as compared with 24.0% in 2007, primarily due to tight spending controls. Research and development expense in 2008 increased $11 million, or 15%, reflecting spending on new product development and advanced technology.

Geographic Revenues

Revenues in the United States in 2008 of $3.2 billion increased 5%. U.S. sales of safety-engineered devices grew 5% to $1.036 billion in 2008. Overall, growth was also led by increased sales of immunocytometry instruments and reagents, diabetes care products and infectious disease testing systems.

Revenues outside the United States in 2008 increased 19% to $4.0 billion, reflecting an estimated impact of favorable foreign currency translation of 11 percentage points. Growth was led by solid sales in Europe and certain Asia-Pacific countries in 2008. International sales of safety-engineered devices were approximately $534 million in 2008, compared with $414 million in 2007.

Gross Profit Margin

Gross profit margin decreased to 51.2% in 2008, from 51.7% in 2007. Gross profit margin in the current year as compared with the prior year reflected an estimated 0.7% unfavorable impact resulting from increased costs of raw materials (primarily resins) and manufacturing start-up costs, and an estimated 0.1% favorable impact of foreign currency translation. Increased sales of products with relatively higher margins and productivity gains were partially offset by, among other things, asset write-offs, resulting in an estimated net favorable impact of 0.1%. We expect gross profit margin in 2009 to increase by about 40 to 60 basis points compared with 2008, reflecting an expected increase in sales of products with higher overall gross profit margins, productivity gains and the impact of select price increases, partially offset by continued start-up costs and the expected costs associated with a long-term manufacturing cost reduction program we anticipate initiating in 2009.

Operating Expenses

Selling and administrative expense was $1.7 billion, or 24.0% of revenues, in 2008 compared with $1.6 billion, or 25.2% of revenues in 2007. The increase in aggregate expenses for 2008 reflect an unfavorable foreign exchange impact of $80 million, increases in base spending of $24 million, and expenses of $9 million associated with TriPath, which was acquired in December 2006. Selling and administrative expense as a percentage of revenues is expected to decrease by about 80 to 100 basis points for 2009.

Research and development ("R&D") expense in 2008 was $396 million, or 5.5% of revenues, compared with $360 million, or 5.7% of revenues, in 2007. The increase in R&D expenditures includes spending for new programs in each of our segments, as previously discussed. R&D expense is expected to increase about 9 to 10%, or about 50 basis points as a percentage of revenues, for 2009.

Operating Income

Operating margin in 2008 was 21.7% of revenues, compared with 18.9% in 2007. Operating income of $1.2 billion in 2007 reflected $122 million of acquired in-process R&D charges, as further discussed above, which lowered 2007 operating margin by 190 basis points. We expect operating margin to increase about 100 basis points in 2009.

Non-Operating Expense and Income

Interest expense was $36 million in 2008, compared with $46 million in 2007, reflecting a decline in interest rates. Interest income was $39 million in 2008, compared with $46 million in 2007. The favorable impact of higher investment levels was more than offset by investment losses in assets we hold to offset liabilities related to our deferred compensation plan. The related reduction in the deferred compensation liability was recorded as a reduction in selling and administrative expenses.

Income Taxes

The effective tax rate in 2008 was 27.4% compared with the 2007 rate of 28.9%. The 2007 rate reflected the non-deductibility of the acquired in-process R&D charges of $122 million, which was partially offset by the impact of approximately 0.3% resulting from the retroactive reinstatement of the research and experimentation tax credit. In 2009, we expect our effective tax rate to be about 27.5%.

Income and Diluted Earnings per Share from Continuing Operations

Income from continuing operations and diluted earnings per share from continuing operations in 2008 were $1.1 billion and $4.46, respectively. Income from continuing operations and diluted earnings per share from continuing operations in 2007 were $856 million and $3.36, respectively. The acquired in-process R&D charges decreased income from continuing operations and diluted earnings per share from continuing operations in 2007 by $122 million and by $.48, respectively.

Financial Instrument Market Risk

We selectively use financial instruments to manage the impact of foreign exchange rate and interest rate fluctuations on earnings. The counterparties to these contracts are highly rated financial institutions. We do not enter into financial instruments for trading or speculative purposes.

We have foreign currency exposures throughout Europe, Asia-Pacific, Canada, Japan and Latin America. We face transactional currency exposures that arise when we enter into transactions in non-hyperinflationary countries, generally on an intercompany basis, that are denominated in currencies other than our functional currency. We hedge substantially all such foreign exchange exposures primarily through the use of forward contracts and currency options. We also face currency exposure that arises from translating the results of our worldwide operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of a reporting period. To partially protect against adverse foreign exchange rate movements, we purchase option and forward contracts to hedge certain forecasted sales that are denominated in foreign currencies. Gains or losses on our derivative instruments are largely offset by the gains or losses on the underlying hedged transactions. For foreign currency derivative instruments, market risk is determined by calculating the impact on fair value of an assumed change in foreign exchange rates relative to the U.S. dollar. Fair values were estimated based on market prices, when available, or dealer quotes. The reduction in fair value of our purchased option contracts is limited to the option's fair value. With respect to the derivative instruments outstanding at September 30, 2008, a 10% appreciation of the U.S. dollar over a one-year period would increase pre-tax earnings by $91 million, while a 10% depreciation of the U.S. dollar would decrease pre-tax earnings by $91 million.

Comparatively, considering our derivative instruments outstanding at September 30, 2007, a 10% appreciation of the U.S. dollar over a one-year period would have increased pre-tax earnings by $52 million, while a 10% depreciation of the U.S. dollar would have decreased pre-tax earnings by $10 million. These calculations do not reflect the impact of exchange gains or losses on the underlying positions that would substantially offset the results of the derivative instruments.

Our primary interest rate exposure results from changes in short-term U.S. dollar interest rates. Our debt and interest-bearing investments at September 30, 2008, are substantially all U.S. dollar-denominated. Therefore, transaction and translation exposure relating to such instruments is minimal. When managing interest rate exposures, we strive to achieve an appropriate balance between fixed and floating rate instruments. We may enter into interest rate swaps to help maintain this balance and manage debt and interest-bearing investments in tandem, since these items have an offsetting impact on interest rate exposure. For interest rate derivative instruments, market risk is determined by calculating the impact to fair value of an assumed change in interest rates across all maturities. Fair values are estimated based on dealer quotes. A change in interest rates on short-term debt and interest-bearing investments is assumed to impact earnings and cash flow, but not fair value because of the short maturities of these instruments. A change in interest rates on long-term debt is assumed to impact fair value but not earnings or cash flow because the interest on such obligations is fixed. Based on our overall interest rate exposure at September 30, 2008 and 2007, a change of 10% in interest rates would not have a material effect on our earnings or cash flows over a one-year period. An increase of 10% in interest rates would decrease the fair value of our long-term debt and interest rate swaps at September 30, 2008 and 2007 by approximately $35 million and $37 million, respectively. A 10% decrease in interest rates would increase the fair value of our long-term debt and interest rate swaps at September 30, 2008 and 2007 by approximately $39 million and $41 million, respectively.

Liquidity and Capital Resources

Cash generated from operations, along with available cash and cash equivalents, is expected to be sufficient to fund our normal operating needs, including capital expenditures, cash dividends and common stock repurchases in 2009. In the latter portion of 2008, particularly in the fourth quarter, global financial markets were characterized by extreme volatility and illiquidity. Despite these adverse conditions, we were able to reissue $200 million of commercial paper that was outstanding during this period. BD believes that it will continue to have access to the U.S. commercial paper market, which should be adequate to fund any short-term borrowing requirements. As discussed further below, we also have a $1 billion unused committed bank credit facility that provides backup support for our commercial paper program and could be drawn down if necessary.

Net Cash Flows from Continuing Operating Activities

Net cash provided by continuing operating activities in 2008 of $1.7 billion increased $452 million over 2007. The increase in cash provided by changes in operating assets and liabilities reflects improvements in accounts receivable and inventory. Net cash provided by continuing operating activities was reduced by a $75 million discretionary cash contribution to the U.S. pension plan in September 2008. An additional discretionary cash contribution of $75 million was made to the U.S. pension plan in October 2008. We expect to generate about $1.8 billion of net cash provided by continuing operating activities in 2009.

Net Cash Flows from Continuing Investing Activities

Net cash used for continuing investing activities in 2008 was $783 million, compared with $1.0 billion in 2007. Acquisitions of businesses represented the net cash paid for the Cytopeia acquisition in 2008 and for the TriPath acquisition in 2007. See Note 3 for further discussion on acquisitions. Capital expenditures were $602 million in 2008, compared with $556 million in 2007. Medical capital spending of $379 million and Diagnostics capital spending of $124 million in 2008 related primarily to various capacity expansions. Biosciences capital spending of $83 million in 2008 included spending on manufacturing capacity expansions. In 2009, capital expenditures are expected to be about $650 million, reflecting investments in various manufacturing capacity and facility expansions.

Net Cash Flows from Continuing Financing Activities

Net cash used for financing activities was $586 million in 2008, as compared with $726 million in 2007, and included the repurchase of shares of our common stock for approximately $450 million in both years. At September 30, 2008, approximately 5.9 million common shares remained available for purchase under a July 2007 Board of Directors' (the "Board") authorization to repurchase up to 10 million common shares. The Board authorized an additional repurchase program for 10 million shares in November 2008. We currently expect that cash used to repurchase common shares in 2009 will be about $450 million. Total debt was $1.2 billion at both September 30, 2008 and 2007. Short-term debt decreased to 17% of total debt at year-end, from 18% at the end of 2007. Floating rate debt was 35% of total debt at the end of 2008 and 36% at the end of 2007. Our weighted average cost of total debt at the end of 2008 was 4.9%, down from 5.7% at the end of 2007. Debt-to-capitalization at year-end improved to 18.8% from 20.9% last year. Issuance of common stock is net of cash outflows resulting from share repurchases to satisfy minimum tax withholding on share-based compensation vested or exercised.

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 September 30, 2008. During the first quarter of 2008, we amended our syndicated credit facility to extend the expiration date from December 2011 to December 2012. This credit facility 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 had ranged from 17-to-1 to 31-to-1. There were no borrowings outstanding under this facility at September 30, 2008. In addition, we have informal lines of credit outside the United States.

In July 2008, Standard and Poor's upgraded our long-term debt rating to "AA-" from "A+" and our commercial paper rating to "A-1+" from "A-1." At September 30, 2008, our Moody's long-term debt rating is "A2" and our commercial paper rating was "P-1." The outlook from both agencies was "stable." Given the availability of the various credit facilities and our strong credit ratings, we continue to have confidence in our ability to refinance maturing short-term and long-term debt, as well as to incur substantial additional debt, if required.

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. The Company believes that given its strong debt ratings, its conservative financial management policies, its ability to generate strong cash flow and the non-cyclical, geographically diversified nature of its businesses, the Company would have access to additional short-term and long-term capital should the need arise.

Contractual Obligations

In the normal course of business, we enter into contracts and commitments that obligate us to make payments in the future. The table below sets forth BD's significant contractual obligations and related scheduled payments:

(millions of dollars)	Total	2009	2010 to 2011	2012 to 2013	2014 and Thereafter
Short-term debt	$ 201	$201	$ —	$ —	$ —
Long-term debt[A]	1,536	52	288	288	908
Operating leases	190	49	68	46	27
Purchase obligations[B]	505	315	184	6	—
Income tax audit settlements[D]	70	13	—	—	57
Total[C]	$2,502	$630	$540	$340	$992

(A) Long-term debt obligations include expected principal and interest obligations, including interest rate swaps. The interest rate forward curve at September 30, 2008 was used to compute the amount of the contractual obligation for variable rate debt instruments and swaps.

(B) Purchase obligations are for purchases made in the normal course of business to meet operational and capital requirements.

(C) Required funding obligations for 2009 relating to pension and other postretirement benefit plans are not expected to be material.

(D) Other than amounts anticipated to be settled in 2009, we cannot accurately forecast the timing of payments related to our FIN 48 liabilities. Accordingly, the remaining amount of $57 million is reflected as payable in 2014 and thereafter.

2007 Compared With 2006

Worldwide revenues in 2007 of $6.4 billion increased 11% from the prior year and reflected volume increases of approximately 8%, an estimated increase due to favorable foreign currency translation of 3%, and price increases of less than 1%.

Medical Segment

Medical revenues in 2007 of $3.4 billion increased $314 million, or 10%, over 2006, which includes an estimated impact of favorable foreign currency translation of 3 percentage points.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2007	2006	Total Change	Estimated Foreign Exchange Impact
Medical Surgical Systems	$1,864	$1,749	7%	2%
Diabetes Care	696	657	6%	2%
Pharmaceutical Systems	792	640	24%	6%
Ophthalmic Systems	69	62	11%	4%
Total Revenues *	$3,421	$3,107	10%	3%

* Amounts may not add due to rounding.

Medical revenues reflect the growth of the Pharmaceutical Systems unit and the continued global conversion to safety-engineered products. The Pharmaceutical Systems unit grew by 24% in 2007, reflecting the increased use of prefillable syringes by pharmaceutical companies to market new vaccines and bio-tech drugs, especially in the United States. Revenue growth in the Medical Surgical Systems unit in 2007 was primarily driven by the growth in safety-engineered products and prefilled flush syringes. Sales of safety-engineered products increased 6% in the United States and 29% internationally.

Medical operating income was $972 million, or 28.4% of Medical revenues, in 2007, as compared with $864 million, or 27.8% in 2006. The increase in operating income as a percentage of revenues reflects gross margin improvement from increased sales of products that have higher overall gross profit margins, in particular, safety-engineered products and pen needles, as well as favorable manufacturing efficiencies associated with higher volumes and increased leverage on selling and administrative expenses. These improvements were slightly offset by manufacturing start-up costs. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Medical revenues in 2007 declined to 18.9% of revenues from 19.6% of revenues in 2006, primarily due to tight expense controls over base spending.

Research and development expenses in 2007 increased $16 million, or 17%, reflecting continued investment in the development of new products and platforms, and included investments in additional resources to enhance our product development process.

Diagnostics Segment

Diagnostics revenues in 2007 of $1.9 billion increased $190 million, or 11%, over 2006, which reflected an estimated favorable impact of foreign currency translation of about 2 percentage points.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2007	2006	Total Change	Estimated Foreign Exchange Impact
Preanalytical Systems	$1,007	$ 928	9%	3%
Diagnostic Systems	898	787	14%	2%
Total Revenues	$1,905	$1,715	11%	2%

Revenue growth in the Preanalytical Systems unit in 2007 was driven by the continued conversion to safety-engineered products, which accounted for sales of $718 million as compared with $627 million in the prior year. Sales of safety-engineered products in 2007 reflected growth of 9% in the United States, which benefited from *BD Vacutainer* Push Button Blood Collection Set conversion activity, and 25% internationally. The Diagnostics Systems unit experienced solid worldwide sales of its automated diagnostic platforms, including the molecular *BD ProbeTec* and *BD Viper* systems, along with solid growth of its *BD BACTEC* blood culture and TB systems and the *BD Phoenix* ID/AST platform. In addition, the Diagnostic Systems revenue growth includes $88 million of revenues from TriPath and $13 million of incremental revenues from GeneOhm. Sales of flu diagnostic tests declined $36 million in fiscal 2007 compared with 2006, primarily due to relatively mild flu seasons in both the United States and Japan and the termination of our supply arrangement with our Japanese supplier.

Diagnostics operating income was $343 million, or 18.0% of Diagnostics revenues in 2007, compared with $390 million, or 22.8% in 2006. Segment operating income reflects the in-process research and development charges of $115 million in 2007 related to the TriPath acquisition and $53 million in 2006 related to the GeneOhm acquisition. The Diagnostics Segment experienced a slight improvement in gross profit margin from sales growth of products that have higher overall gross profit margins, in particular, safety-engineered products and the *BD ProbeTec* system. These improvements were slightly offset by manufacturing start-up costs. See further discussion on gross profit margin below. Selling and administrative expense as a percent of Diagnostics revenues in 2007 was higher than the comparable amount in 2006 primarily due to the impact of TriPath and GeneOhm. Research and development expense increased $33 million, or 39%, reflecting new spending associated with these two acquisitions and overall increased investment in new product development.

Biosciences Segment

Biosciences revenues in 2007 of $1.0 billion increased $118 million, or 13%, over 2006, which reflected an estimated impact of favorable foreign currency translation of 3 percentage points.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2007	2006	Total Change	Estimated Foreign Exchange Impact
Immunocytometry Systems	$ 588	$503	17%	3%
Discovery Labware	278	256	9%	2%
Pharmingen	168	157	7%	2%
Total Revenues	$1,034	$916	13%	3%

Revenue growth in the Immunocytometry Systems unit in 2007 reflects strong sales of instruments and flow cytometry reagents, driven by increased demand for research analyzers and clinical reagents. Revenue growth in the Discovery Labware unit in 2007 reflects strong sales of bionutrients and overall market growth.

Biosciences operating income was $259 million, or 25.0% of Biosciences revenues in 2007, compared with $222 million, or 24.2%, in 2006. Segment operating income includes an in-process research and development charge of $7 million in 2007. The increase in operating income, as a percentage of revenues, reflects gross profit improvement from relatively higher sales growth of products that have higher overall gross profit margins and the favorable impact of foreign currency translation. These improvements were offset by manufacturing start-up costs. See further discussion on gross profit margin below. Selling and administrative expense as a percentage of Biosciences revenues was 24.0% versus 25.3% in 2006. Higher sales and continued tight expense control were the key contributors to the increased expense leverage. Research and development expense in 2007 increased $7 million, or 9.0%, reflecting spending on new product development and advanced technology, particularly in the Immunocytometry Systems unit.

Geographic Revenues

Revenues in the United States in 2007 of $3.0 billion increased 11%. U.S. sales of safety-engineered devices were approximately $987 million in 2007, compared with $920 million in 2006. Growth was also led by strong sales of prefilled flush syringes, prefillable syringes and immunocytometry instruments and reagents. U.S. revenue growth also included $88 million of revenues from TriPath.

Revenues outside the United States in 2007 increased 11% to $3.3 billion, reflecting an estimated impact of favorable foreign currency translation of 5 percentage points. Growth was led by solid sales in our European, Asia-Pacific and Canadian regions in 2007. International sales of safety-engineered devices were approximately $414 million in 2007, compared with $329 million in 2006.

Gross Profit Margin

Gross profit margin was 51.7% in 2007, compared with 51.3% in 2006. Gross profit margin in 2007 as compared with 2006 reflected an estimated 0.6% improvement relating to increased sales of products with relatively higher margins as well as productivity gains. These improvements were partially offset by an estimated 0.2% impact from manufacturing start-up costs.

Operating Expenses

Selling and administrative expense was $1.6 billion in 2007 compared with $1.4 billion in 2006, or 25.2% of revenues in both years. Aggregate expenses for 2007 reflect base spending increases of $62 million and expenses of $40 million associated with the GeneOhm and TriPath operations. Increases in selling and administrative expense in 2007 also reflected the absence of proceeds from insurance settlements of $17 million received in 2006 in connection with our previously-owned latex glove business, as well as an unfavorable foreign exchange impact of $35 million.

Research and development expense in 2007 was $360 million, or 5.7% of revenues, compared with $302 million, or 5.3% of revenues, in 2006. The increase in R&D expenditures includes spending for new programs in each of our segments, as previously discussed.

Non-Operating Expense and Income

Interest expense was $46 million in 2007, compared with $66 million in 2006. The decrease reflected lower debt and higher levels of capitalized interest. Interest income was $46 million in 2007, compared with $59 million in 2006, resulting from lower cash balances.

Income Taxes

The effective tax rate in 2007 was 28.9% compared with the 2006 rate of 27.6%. The 2007 rate reflected the non-deductibility of the acquired in-process R&D charges of $122 million, which were partially offset by the impact of approximately 0.3% resulting from the retroactive reinstatement of the research and experimentation tax credit. The 2006 rate reflected the non-deductibility of the acquired in-process R&D charge of $53 million, as well as the impact relating to the proceeds received from insurance settlements of approximately 0.2%.

Income and Diluted Earnings per Share from Continuing Operations

Income from continuing operations and diluted earnings per share from continuing operations in 2007 were $856 million and $3.36, respectively. The acquired in-process R&D charges decreased income from continuing operations and diluted earnings per share from continuing operations in the aggregate by $122 million and by $.48, respectively, in 2007. Income from continuing operations and diluted earnings per share from continuing operations in 2006 were $815 million and $3.18, respectively. The acquired in-process R&D charge decreased income from continuing operations and diluted earnings per share from continuing operations by $53 million and by $.21, respectively, in 2006.

Discontinued Operations

In September 2006, the Company announced a plan to exit the blood glucose monitoring market. The Company recorded a pre-tax charge of $63 million in connection with its decision to exit the BGM product line. During the first quarter of 2007, the Company received an unsolicited offer for the purchase of the BGM product line. In December 2006, the Company sold the product line for $20 million. Following the sale, prior period Consolidated Statements of Income and Cash Flows were restated to separately present the results of the BGM product line as discontinued operations. See Note 3 of the Notes to Consolidated Financial Statements for additional discussion.

Liquidity and Capital Resources

Net Cash Flows from Continuing Operating Activities

Net cash provided by continuing operating activities was $1.2 billion in 2007, compared with $1.1 billion in 2006.

Net Cash Flows from Continuing Investing Activities

Net cash used for continuing investing activities in 2007 was $1.0 billion, compared with $784 million in 2006. Acquisitions of businesses of $340 million in 2007 represented the net cash paid for the TriPath acquisition. Capital expenditures were $556 million in 2007, compared with $457 million in 2006. Medical capital spending of $353 million and Diagnostics capital spending of $114 million in 2007 related primarily to various capacity expansions. Biosciences capital spending of $73 million in 2007 included spending on manufacturing capacity expansions.

Net Cash Flows from Continuing Financing Activities

Net cash used for financing activities was $726 million in 2007, as compared with $342 million in 2006, and included the repurchase of shares of our common stock for approximately $450 million, compared with approximately $449 million in 2006. Total debt at September 30, 2007, was $1.2 billion compared with $1.4 billion at September 30, 2006. Short-term debt decreased to 18% of total debt at year-end, from 31% at the end of 2006. Floating rate debt was 36% of total debt at the end of 2007 and 46% at the end of 2006. Our weighted average cost of total debt at the end of 2007 was 5.7%, up from 5.5% at the end of 2006. Debt-to-capitalization at year-end improved to 20.9% from 25.8% last year.

Critical Accounting Policies

The preparation of the consolidated financial statements requires management to use estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Some of those judgments can be subjective and complex and, consequently, actual results could differ from those estimates. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For any given estimate or assumption made by management, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop different estimates. Actual results that differ from management's estimates could have an unfavorable effect on our consolidated financial statements. Management believes the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

Revenue from product sales is recognized when title and risk of loss pass to the customer. We recognize revenue for certain instruments sold from the Biosciences segment upon installation at a customer's site, as installation of these instruments is considered a significant post-delivery obligation. For certain sales arrangements, primarily in the U.S., with multiple deliverables, revenue and cost of products sold are recognized at the completion of each deliverable: shipment, installation and training, in accordance with Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." These sales agreements are divided into separate units of accounting. Revenue is recognized upon the completion of each deliverable based on the relative fair values of items delivered. Fair values are generally determined based on sales of the individual deliverables to other third parties.

BD's domestic businesses sell products primarily to distributors who resell the products to end-user customers. We provide rebates to distributors that sell to end-user customers at prices determined under a contract between BD and the end-user customer. Provisions for rebates, as well as sales discounts and returns, are accounted for as a reduction of revenues when revenue is recognized.

Impairment of Assets

Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite-lived intangible assets are subject to impairment reviews at least annually, or whenever indicators of impairment arise. Intangible assets other than goodwill and indefinite-lived intangible assets and other long-lived assets are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Impairment reviews are based on a cash flow approach that requires significant management judgment with respect to future volume, revenue and expense growth rates, changes in working capital use, appropriate discount rates and other assumptions and estimates. The estimates and assumptions used are consistent with BD's business plans. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of the asset, and potentially result in different impacts to BD's results of operations. Actual results may differ from management's estimates.

Investments

We hold equity interests in companies having operations or technology in areas within or adjacent to BD's strategic focus. For some of these companies that are publicly traded, market prices are available. However, for those companies that are not publicly traded, fair value is difficult to determine. We write down an investment when management believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of the underlying investments could result in an inability to recover the carrying value of the investments, thereby possibly requiring impairment charges in the future.

Tax Valuation Allowances

BD maintains valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, management evaluates factors such as prior earnings history, expected future earnings, carry back and carry forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

Contingencies

We are involved, both as a plaintiff and a defendant, in various legal proceedings that arise in the ordinary course of business, including, without limitation, product liability, antitrust and environmental matters, as further discussed in Note 12 of the Notes to Consolidated Financial Statements. We assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. In accordance with U.S. generally accepted accounting principles, we establish accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). A determination of the amount of accruals, if any, for these contingencies is made after careful analysis of each individual issue and, when appropriate, is developed after consultation with outside counsel. The accruals may change in the future due to new developments in each matter or changes in our strategy in dealing with these matters.

Given the uncertain nature of litigation generally, we are 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 we are a party. In view of these uncertainties, we could incur charges in excess of any currently established accruals and, to the extent available, excess liability insurance. Accordingly, 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 net cash flows.

Benefit Plans

We have significant net pension and other postretirement benefit costs that are measured using actuarial valuations. Pension benefit costs include assumptions for the discount rate and expected return on plan assets. Other postretirement benefit plan costs include assumptions for the discount rate and healthcare cost trend rates. These assumptions have a significant effect on the amounts reported. In addition to the analysis below, see Note 5 of the Notes to Consolidated Financial Statements for additional discussion.

The discount rate is selected each year based on investment grade bonds and other factors as of the measurement date (September 30). For the U.S. pension plan, we used a discount rate of 8.00% as of September 30, 2008, which was based on an actuarially-determined, company-specific yield curve. The rate selected is used to measure liabilities as of the measurement date and for calculating the following year's pension expense. The expected long-term rate of return on plan assets assumption, although reviewed each year, is changed less frequently due to the long-term nature of the assumption. This assumption does not impact the measurement of assets or liabilities as of the measurement date; rather, it is used only in the calculation of pension expense. To determine the expected long-term rate of return on pension plan assets, we consider many factors, including our historical assumptions compared with actual results; benchmark data; expected returns on various plan asset classes, as well as current and expected asset allocations. At September 30, 2008, we used a long-term expected rate of return on plan assets assumption of 8.00% for the U.S. pension plan. We believe our discount rate and expected long-term rate of return on plan assets assumptions are appropriate based upon the above factors.

Sensitivity to changes in key assumptions for our U.S. pension and other postretirement plans are as follows:

- Discount rate – A change of plus (minus) 25 basis points, with other assumptions held constant, would have an estimated $5 million favorable (unfavorable) impact on the total U.S. net pension and other postretirement benefit plan cost.
- Expected return on plan assets – A change of plus (minus) 25 basis points, with other assumptions held constant, would have an estimated $2 million favorable (unfavorable) impact on U.S. pension plan cost.

Share-Based Compensation

Compensation cost relating to share-based payment transactions is recognized in net income using a fair value measurement method, in accordance with SFAS No. 123(R). SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations as compensation expense (based on their fair values) over the vesting period of the awards. We determine the fair value of certain share-based awards using a lattice-based binomial option valuation model that incorporates certain assumptions, such as the risk-free interest rate, expected volatility, expected dividend yield and expected life of the options. See Note 13 of the Notes to Consolidated Financial Statements for additional discussion.

Cautionary Statement Regarding Forward-Looking Statements

BD and its representatives may from time-to-time make certain forward-looking statements in publicly released materials, both written and oral, including statements contained in this report and filings with the Securities and Exchange Commission and in our other reports to shareholders. Forward-looking statements may be identified by the use of words such as "plan," "expect," "believe," "intend," "will," "anticipate," "estimate" and 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 that 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, cash flows or uses, and statements expressing views about future operating results – are forward-looking statements.

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.

We are in the midst of a global economic slowdown and, although we do not currently anticipate any significant weakening of demand for our products, this could change depending on the severity and duration of the slowdown. In addition, 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, deflation and fluctuations in interest rates and foreign currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins, as well as competition in certain markets.
- Instability in the global financial markets and the potential adverse effect on liquidity and capital resources for BD or its customers and suppliers, the cost of operating our business, or the demand for our products and services.
- Fluctuations in the cost and availability of oil-based resins and other raw materials, as well as certain sub-assemblies and finished goods, 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 items.
- We operate in a highly competitive environment. New product introductions by our current or future competitors (for example, new forms of drug delivery) could adversely affect our ability to compete in the global market. Patents attained by competitors, particularly as patents on our products expire, may also adversely impact our competitive position. Certain competitors have established manufacturing sites or have contracted with suppliers in low-cost manufacturing locations as a means to lower their costs. New entrants may also appear.
- We sell certain products to pharmaceutical companies that are used to manufacture, or are sold with, products by such companies. As a result, fluctuations in demand for the products of these pharmaceutical companies could adversely affect our operating results.
- 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.
- Our ability to obtain the anticipated benefits of restructuring programs, if any, that we may undertake.
- Our ability to implement the upgrade of our enterprise resource planning system. Any delays or deficiencies in the design and implementation of our upgrade could adversely affect our business.

- 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, regulatory requirements for products in the postmarketing phase, 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 sciences 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, obtain coverage and adequate reimbursement for new products, 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, patent infringement claims and the availability or collectibility of insurance relating to such claims.
- The effects, if any, of adverse media exposure or other publicity regarding BD's business or operations.
- Our ability to achieve the projected level or mix of product sales. Our earnings forecasts are generated based on such projected volumes and sales of many product types, some of which are more profitable than others.
- 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 U.S. Food and Drug Administration (or foreign counterparts) or declining sales.
- Economic and political conditions in international markets, including civil unrest, terrorist activity, governmental changes, restrictions on the ability to transfer capital across borders and expropriation of assets by a government.
- 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 on BD and externally on the healthcare industry.
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board or the Securities and Exchange Commission.

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.