CATHAY GENERAL BANCORP
Form 10-K
March 01, 2007
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

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

Commission file number 0-18630

Cathay General Bancorp

(Exact name of Registrant as specified in its charter)

Delaware	**95-4274680**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
777 North Broadway, Los Angeles, California	**90012**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code:

(213) 625-4700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value Preferred Stock Purchase Rights	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant s most recently completed second fiscal quarter (June 30, 2006) was $1,659,636,319. This value is estimated solely for the purposes of this cover page. The market value of shares held by Registrant s directors, executive officers, and Employee Stock Ownership Plan have been excluded because they may be considered to be affiliates of the Registrant.

As of February 15, 2007, there were 51,779,544 shares of common stock outstanding, par value $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant s definitive proxy statement relating to Registrant s 2007 Annual Meeting of Stockholders which will be filed within 120 days of the fiscal year ended December 31, 2006, are incorporated by reference into Part III.

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CATHAY GENERAL BANCORP

2006 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

In this Annual Report on Form 10-K, the term Bancorp refers to Cathay General Bancorp and the term Bank refers to Cathay Bank. The terms Company, we, us, and our refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management s beliefs, projections, and assumptions concerning future results and events. These forward-looking statements may include, but are not limited to, such words as believes, expects, anticipates, intends, plans, estimates, may, will, should, could, predicts, potential, continue, or the negative of such terms and other comparable terminology or similar expressions. Forward-looking statements are not guarantees. They involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Bancorp to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties and other factors include, but are not limited to adverse developments or conditions related to or arising from:

expansion into new market areas;

acquisitions of other banks, if any;

fluctuations in interest rates;

demographic changes;

earthquake or other natural disasters;

competitive pressures;

deterioration in asset or credit quality;

legislative and regulatory developments;

changes in business strategy, including the formation of a real estate investment trust;

general economic or business conditions in California and other regions where the Bank has operations; and

other factors discussed in Part I Item 1A Risk Factors of this Annual Report on Form 10-K.

Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, we caution readers not to place undue reliance on any forward-looking statements, which speak as of the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce the results of any revision of any forward-looking statement to reflect future developments or events.

PART I

Item 1. Business.

Business of Bancorp

Overview

Cathay General Bancorp is a corporation organized under the laws of the State of Delaware. We are the holding company of Cathay Bank, a California state-chartered commercial bank. Our principal current business activity is to hold all of the outstanding stock of Cathay Bank. In the future, we may become an operating company or acquire savings institutions, other banks, or companies engaged in bank-related activities and may engage in or acquire such other businesses, or activities as may be permitted by applicable law. Our only office, and our principal place of business, is located at the main office of our wholly owned subsidiary, Cathay Bank, at 777 North Broadway, Los Angeles, California 90012. Our telephone number is (213) 625-4700. Our common stock is traded on the NASDAQ Global Select Market and our trading symbol is CATY .

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We completed two acquisitions in 2006. In May 2006, we completed the acquisition of Great Eastern Bank for $56.3 million in cash and 1,181,164 shares of our common stock. In October 2006, we acquired New Asia Bancorp in a merger for $12.9 million in cash and 291,165 shares of our common stock.

Subsidiaries of Bancorp

In addition to its wholly-owned bank subsidiary, the Bancorp has the following subsidiaries:

Cathay Capital Trust I, Cathay Statutory Trust I and Cathay Capital Trust II. The Bancorp established Cathay Capital Trust I in June 2003, Cathay Statutory Trust I in September 2003, and Cathay Capital Trust II in December 2003 (collectively, the Trusts) as wholly owned subsidiaries. The Trusts are statutory business trusts. In separate transactions in 2003, the Trusts issued capital securities representing undivided preferred beneficial interests in the assets of the Trusts. The Trusts exist for the purpose of issuing the capital securities and investing the proceeds thereof, together with proceeds from the purchase of the common stock of the Trusts by the Bancorp, in Junior Subordinated Notes issued by the Bancorp. The Bancorp guarantees, on a limited basis, payments of distributions on the capital securities of the Trusts and payments on redemption of the capital securities of the Trusts. The Bancorp is the owner of all the beneficial interests represented by the common securities of the Trusts. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier 1 Capital for regulatory purposes in connection with the merger of GBC Bancorp (GBC merger) in 2003.

Because the Bancorp is not the primary beneficiary of the Trusts, the financial statements of the Trusts are not included in the consolidated financial statements of the Company. The capital securities of the Trusts are currently included in the Tier 1 capital of the Bancorp for regulatory capital purposes. On March 1, 2005, the Federal Reserve adopted a final rule that retains trust preferred securities in the Tier I capital of bank holding companies, but with stricter quantitative limits and clearer qualitative standards. Under the rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements will be limited to 25 percent of Tier I capital elements, net of goodwill, less any associated deferred tax liability. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier II capital, subject to restrictions. In the last five years before maturity, the outstanding amount must be excluded from Tier I capital and included in Tier II capital. Bank holding companies with significant international operations would generally be expected to limit trust preferred securities and certain other capital elements to 15% of Tier I capital elements, net of goodwill. We do not expect that this rule will have a materially adverse effect on our capital positions.

GBC Venture Capital, Inc. The business purpose of GBC Venture Capital, Inc. is to hold equity interests (such as options or warrants) received as part of business relationships and to make equity investments in companies and limited partnerships subject to applicable regulatory restrictions.

Competition

Our primary business is to act as the holding company for the Bank. Accordingly, we face the same competitive pressures as those expected by the Bank. For a discussion of those risks, see Business of the Bank *Competition* below under this Item 1.

Employees

Due to the limited nature of the Bancorp s activities, the Bancorp currently does not employ any persons other than Bancorp s management, which includes the Chief Executive Officer and President, the Chief Operating Officer, the Chief Financial Officer, Executive Vice Presidents, the Secretary, Assistant Secretary, and the General Counsel. See also Business of the Bank *Employees* below under this Item 1.

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Business of the Bank

General

Cathay Bank was incorporated under the laws of the State of California on August 22, 1961, and was licensed by the California Department of Financial Institutions (previously known as the California State Banking Department), and commenced operations as a California state-chartered bank on April 19, 1962. Cathay Bank is an insured bank under the Federal Deposit Insurance Act, but, like most state-chartered banks of similar size in California, it is not a member of the Federal Reserve System.

The Bank s main office is located in the Chinatown area of Los Angeles, at 777 North Broadway, Los Angeles, California 90012. In addition, as of December 31, 2006, the Bank had branch offices in Southern California (20 branches), Northern California (10 branches), New York (nine branches), Massachusetts (one branch), Texas (one branch), Washington (two branches), Illinois (three branches), one loan production office in Dallas, Texas, and representative offices in Hong Kong, Shanghai, and Taipei. Each branch office has loan approval rights subject to the branch manager s authorized lending limits. The Company has filed an application to convert its Hong Kong representative office into a full service branch which is expected to open in the first half of 2007. Current activities of the Hong Kong, Shanghai, and Taipei representative offices are limited to coordinating the transportation of documents to the Bank s head office and performing liaison services.

Our primary market area is defined by the Community Reinvestment Act delineation, which includes the contiguous areas surrounding each of the Bank s branch offices. It is the Bank s policy to reach out and actively offer services to low and moderate income groups in the delineated branch service areas. Many of the Bank s employees speak both English and one or more Chinese dialects or Vietnamese, and are thus able to serve the Bank s Chinese, Vietnamese, and English speaking customers.

As a commercial bank, Cathay Bank accepts checking, savings, and time deposits, and makes commercial, real estate, personal, home improvement, automobile, and other installment and term loans. From time to time, the Bank invests available funds in other interest-earning assets, such as U.S. Treasury securities, U.S. government agency securities, state and municipal securities, mortgage-backed securities, asset-backed securities, corporate bonds, and venture capital investments. The Bank also provides letters of credit, wire transfers, forward currency spot and forward contracts, traveler s checks, safe deposit, night deposit, Social Security payment deposit, collection, bank-by-mail, drive-up and walk-up windows, automatic teller machines (ATM), Internet banking services, and other customary bank services.

The Bank primarily services individuals, professionals, and small to medium-sized businesses in the local markets in which its branches are located and provides residential mortgage loans, commercial mortgage loans, construction loans, home equity lines of credit; commercial loans, trade financing loans, Small Business Administration (SBA) loans; and installment loans to individuals for automobile, household, and other consumer expenditures.

Through Cathay Wealth Management, Cathay Bank provides its customers the ability to trade stocks online and to purchase mutual funds, annuities, equities, bonds, and short-term money market instruments, through PrimeVest Financial Services.

Securities

The Bank s securities portfolio is managed in accordance with a written Investment Policy which addresses strategies, types, and levels of allowable investments, and which is reviewed and approved by our Board of Directors.

Our investment portfolio is managed to meet our liquidity needs through proceeds from scheduled maturities and is also utilized for pledging requirements for deposits of state and local subdivisions, securities sold under repurchase agreements, and Federal Home Loan Bank (FHLB) advances. The portfolio is

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comprised of U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations, obligations of states and political subdivisions, corporate debt instruments and equity securities. At December 31, 2006, the aggregate investment securities portfolio, with a carrying value of $1.52 billion, was classified as investment grade securities. We do not include federal funds sold and certain other short-term securities as investment securities. These other investments are included in cash and cash equivalents.

Information concerning the carrying value, maturity distribution, and yield analysis of the Company s securities available-for-sale portfolios as well as a summary of the amortized cost and estimated fair value of the Bank s securities by contractual maturity is included in this Annual Report on Form 10-K at Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 4 to the Consolidated Financial Statements.

Loans

Cathay Bank s Board of Directors and senior management establish, review, and modify Cathay Bank s lending policies. These policies include, but are not limited to a potential borrower s financial condition, ability to repay the loan, character, existence of secondary repayment source (such as guaranty), quality and availability of collateral, capital, leverage capacity of the borrower, market conditions for the borrower s business or project, and prevailing economic trends and conditions. For mortgage loans, our lending policies require an independent appraisal of the real property in accordance with applicable regulatory guidelines. Loan originations are obtained through a variety of sources, including existing customers, walk-in customers, referrals from brokers or existing customers, and advertising. While loan applications are accepted at all branches, the Bank s centralized document department supervises the application process including documentation of loans, review of appraisals, and credit reports.

Commercial Mortgage Loans. These loans are typically secured by first deeds of trust on commercial properties, including primarily commercial retail properties, shopping centers, and owner-occupied industrial facilities, and secondarily office buildings, multiple-unit apartments, and multi-tenanted industrial properties.

The Bank also makes medium-term commercial mortgage loans which are generally secured by commercial or industrial buildings where the borrower uses the property for business purposes or derives income from tenants.

Commercial Loans. The Bank provides financial services to diverse commercial and professional businesses in its market areas. Commercial loans consist primarily of short-term loans (normally with a maturity of up to one year) to support general business purposes, or to provide working capital to businesses in the form of lines of credit to finance trade-finance loans. The Bank continues to focus primarily on commercial lending to small-to-medium size businesses, within the Bank s geographic market areas. Commercial loan pricing is generally at a rate tied to the prime rate, as quoted in the Wall Street Journal, or the Bank s reference rate.

SBA Loans. The Bank originates SBA loans in California, under the preferred lender status. Preferred lender status is granted to a lender which has made a certain number of SBA loans and which, in the opinion of the SBA, has staff qualified and experienced in small business loans. As a preferred lender, the Bank s SBA Lending Group has the authority to issue, on behalf of the SBA, the SBA guaranty on loans under the 7(a) program which may result in shortening the time it takes to process a loan. In addition, under this program, the SBA delegates loan underwriting, closing, and most servicing and liquidation authority and responsibility to selected lenders.

The Bank utilizes both the 504 program, which is focused toward long-term financing of buildings and other long-term fixed assets, and the 7(a) program, which is the SBA s primary loan program and which can be used for financing of a variety of general business purposes such as acquisition of land and buildings, equipment, inventory and working capital needs of eligible businesses generally over a 5- to 25-year term. The collateral

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position in the SBA loans is enhanced by the SBA guaranty in the case of 7(a) loans, and by lower loan-to-value ratios under the 504 program. The Bank has sold and may, in the future, sell the guaranteed portion of certain of its SBA 7(a) loans in the secondary market. SBA loan pricing is generally at a rate tied to the prime rate, as quoted in the Wall Street Journal.

Residential Mortgage Loans. The Bank originates single-family-residential mortgage loans, and home equity lines of credit. The single-family-residential mortgage loans are comprised of conforming, nonconforming, and jumbo residential mortgage loans, and are secured by first and subordinate liens on single (one-to-four) family residential properties. The Bank s products include a fixed-rate residential mortgage loan, an adjustable-rate residential mortgage loan, and a variable-rate home equity line of credit loan. The pricing on our variable-rate home equity line of credit is generally at a rate tied to the prime rate, as quoted in The Wall Street Journal, or the Banks reference rate. Mortgage loans are underwritten in accordance with the Bank s guidelines, on the basis of the borrower s financial capabilities, historical loan quality, and other relevant qualifications. As of December 31, 2006, approximately 71% of the Bank s residential mortgages were for properties located in California.

Real Estate Construction. The Bank s real estate construction loan activity focuses on providing short-term loans to individuals and developers, primarily, for the construction of multi-unit projects. Residential real estate construction loans are typically secured by first deeds of trust and guarantees of the borrower. The economic viability of the projects, borrower s credit worthiness, and borrower s and contractor s experience are primary considerations in the loan underwriting decision. The Bank utilizes approved independent licensed appraisers and monitors projects during the construction phase through construction inspections and a disbursement program tied to the percentage of completion of each project. The Bank also occasionally makes unimproved property loans to borrowers who intend to construct a single-family-residence on their lots generally within twelve months. In addition, the Bank also makes commercial real estate construction loans to high net worth clients with adequate liquidity for construction of office and warehouse properties. Such loans are typically secured by first deeds of trust and are guaranteed by the borrower.

Installment Loans. Installment loans tend to be fixed rate and longer-term (one-to-six year maturities). These loans are funded primarily for the purpose of financing the purchase of automobiles and other personal uses of the borrower.

Distribution and Maturity of Loans. Information concerning loan type and mix, distribution of loans and maturity of loans is included in this Annual Report on Form 10-K at Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 5 to the Consolidated Financial Statements.

Asset Quality

The Bank s lending and credit policies require management to review regularly the Bank s loan portfolio so that the Bank can monitor the quality of its assets. If during the ordinary course of business, management becomes aware that a borrower may not be able to meet his or her contractual or payment obligations under a loan, then that loan is supervised more closely with consideration given to placing the loan on non-accrual status, the need for an additional allowance for loan losses, and (if appropriate) partial or full charge-off.

Under the Bank s current policy a loan will be placed on a non-accrual status if interest or principal is past due 90 days or more, or in cases where management deems the full collection of principal and interest unlikely. When a loan is placed on non-accrual status, any current year unpaid accrued interest is reversed against current income and any unpaid accrued interest from the prior year is reversed against the allowance for loan losses. Thereafter, any payment is generally first applied towards the principal balance. Depending on the circumstances, management may elect to continue the accrual of interest on certain past due loans if partial payment is received and/or the loan is well collateralized, and in the process

of collection. The loan is generally returned to accrual status when the borrower has brought the past due principal and interest payments current and, in the opinion of management, the borrower has demonstrated the ability to make future payments of

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principal and interest as scheduled. A non accrual loan may also be returned to accrual status if all principal and interest contractually due are reasonably assured of repayment within a reasonable period and there has been a sustained period of payment performance. Information concerning non-accrual, past due, and restructured loans is included in this Annual Report on Form 10-K at Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 5 to the Consolidated Financial Statements.

Non-performing Loans and Allowance for Loan Losses. Information concerning non-performing loans, allowance for loan losses, loans charged-off, loan recoveries, and other real estate owned is included in this Annual Report on Form 10-K at Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 5 and Note 6 to the Consolidated Financial Statements.

Deposits

The Bank offers a variety of deposit products in order to meet its customers needs. As of December 31, 2006, the Bank offered passbook accounts, checking accounts, money market deposit accounts, certificates of deposit, individual retirement accounts, college certificates of deposit, and public funds deposits. These products are priced in order to promote growth of deposits. From time to time, the Bank may offer special deposit promotions.

The Bank s deposits are generally obtained from residents within the Company s geographic market area. The Bank utilizes traditional marketing methods to attract new customers and deposits, by offering a wide variety of products and services and utilizing various forms of advertising media. Information concerning types of deposit accounts, average deposits and rates, and maturity of time deposits of $100,000 or more is included in this Annual Report on Form 10-K at Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Borrowings

Borrowings from time to time include securities sold under agreements to repurchase, the purchase of federal funds, funds obtained as advances from the FHLB of San Francisco, borrowing from other financial institutions, subordinated debt, and Junior Subordinated Notes. Information concerning the types, amounts, and maturity of our borrowings is included in Note 10 and Note 11 to the Consolidated Financial Statements.

Return on Equity and Assets

Information concerning the return on average assets, return on average stockholders equity, the average equity to assets ratio and the dividend payout ratio is included in Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Interest Rates and Differentials

Information concerning the interest-earning asset mix, average interest-earning assets, average interest-bearing liabilities and the yields on interest-earning assets and interest-bearing liabilities is included in Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Analysis of Changes in Net Interest Income

An analysis of changes in net interest income due to changes in rate and volume is included in Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Commitments and Letters of Credit

Information concerning the Bank s outstanding loan commitments and letters of credit is included in Note 14 to the Consolidated Financial Statements.

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Expansion

We continue to look for opportunities to expand the Bank s branch network by seeking new branch locations and/or by acquiring other financial institutions to diversify our customer base in order to compete for new deposits and loans, and to be able to serve our customers more effectively. In addition to the acquisitions of Great Eastern Bank and New Asia Bancorp (both of which were completed in 2006), on November 21, 2006, we entered into an agreement to acquire United Heritage Bank for approximately $9.4 million in cash subject to adjustments, if any. United Heritage Bank was formed in 1997 in Edison, New Jersey and has one branch office. As of December 31, 2006, total assets of United Heritage Bank were $57.5 million. We expect to convert our Hong Kong representative office into a full service branch in the first half of 2007.

Subsidiaries of Cathay Bank

Cathay Investment Company is a wholly-owned subsidiary of the Bank that was formed in 1984 to invest in real property. In 1987, Cathay Investment Company opened an office in Taipei, Taiwan, to promote Taiwanese real estate investments in Southern California. The office in Taipei is located at Sixth Floor, Suite 3, 146 Sung Chiang Road, Taipei, Taiwan.

Cathay Real Estate Investment Trust (CB REIT) is a real estate investment trust subsidiary of the Bank that was formed in February 2003 to provide the Bank with flexibility in raising capital. During 2003, the Bank contributed $1.13 billion in loans and securities to CB REIT in exchange for 100% of the common stock of CB REIT. CB REIT sold $4.4 million in 2003 and $4.2 million in 2004 of its 7.0% Series A Non-Cumulative preferred stock to accredited investors. During 2005, CB REIT repurchased $131,000 of its preferred stock. At December 31, 2006, total assets of CB REIT were consolidated with the Company and totaled approximately $1.42 billion. See discussion below in Part I Item 1A Risk Factors of this Annual Report on Form 10-K.

GBC Investment & Consulting Company, Inc. a wholly-owned subsidiary of the Bank, was incorporated to provide expertise in the areas of investment and consultation on an international and domestic basis. It is currently inactive.

GBC Real Estate Investments, Inc. is a wholly-owned subsidiary of the Bank. The purpose of this subsidiary is to engage in real estate investment activities. To date, there have been no transactions involving this subsidiary.

Cathay Trade Services, Asia Limited (Trade Services), is a wholly-owned subsidiary of the Bank. Trade Services is a Hong Kong based non-financial institution that serves as a vehicle to reissue, in Hong Kong, letters of credit for the account of its U.S. based import customers in favor of beneficiaries.

GB Capital Trust II (GB REIT) was incorporated in January 2002 to provide General Bank with flexibility in raising capital. As a result of the GBC merger, the Bank owns 100% of the voting common trust units issued by the GB REIT. At December 31, 2006, total assets of GB REIT were consolidated with the Company and were approximately $861 million.

Cathay Community Development Corporation (CCDC) is a wholly-owned subsidiary of the Bank and was incorporated on September 14, 2006. The primary mission of CCDC is to help in the development of low-income neighborhoods in the Bank s California and New York service areas by providing or facilitating the availability of capital to businesses and real estate developers working to renovate these neighborhoods. On October 6, 2006, CCDC formed a wholly-owned subsidiary, Cathay New Asia Community Development Corporation (CNACDC), to assume New Asia Bank s pre-existing New Markets Tax Credit activities in the greater Chicago area by providing or facilitating the availability of capital to businesses and real estate developers working to renovate these neighborhoods. Both CCDC and CNACDC will seek to obtain community development entity status and CNACDC will also seek to participate in the U.S. Treasury Department s New Markets Tax Credit program.

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Competition

The banking business in California and the other markets served by the Bank, is highly competitive. The Bank competes for deposits and loans with other commercial banks, savings and thrift institutions, brokerage houses, insurance companies, mortgage companies, credit unions, credit card companies and other financial and non-financial institutions and entities. The Bank also competes with other banks of similar size that are focused on servicing the same communities that are served by the Bank. In addition, the Bank competes with other entities (both governmental and private industry) that are seeking to raise capital through the issuance and sale of debt and equity securities. Many of these competitors have substantially greater financial, marketing, and administrative resources than the Bank and may also offer services that are not offered directly by the Bank, all of which results in greater and more intense competition for the Bank.

In addition, current federal legislation encourages increased competition between different types of financial institutions and has encouraged new entrants to enter the financial services market. Competitive conditions are expected to continue to intensify as legislation is enacted which will have the effect of, among other things, (i) eliminating historical barriers that limited participation by certain institutions in certain markets, (ii) increasing the cost of doing business for banks, and/or (iii) affecting the competitive balance between banks and other financial and non-financial institutions and entities. Technological factors, such as on-line banking and brokerage services, and economic factors are also expected to increase competitive conditions.

To compete with other financial institutions in its primary service areas, the Bank relies principally upon local promotional activities, personal contacts by its officers, directors, employees, and stockholders, extended hours on weekdays, Saturday banking, Sunday banking in certain locations, Internet banking, an Internet website (*www.cathaybank.com),* and certain other specialized services. The content of our website is not incorporated into and is not part of this Annual Report on Form 10-K.

If a proposed loan exceeds the Bank s internal lending limits, the Bank has, in the past, and may in the future, arrange such loans on a participation basis with correspondent banks. The Bank also assists customers requiring other services not offered by the Bank to obtain such services from its correspondent banks.

In California, at least two Chinese-American banks of comparable size compete for loans and deposits with the Bank and at least two super-regional banks compete with the Bank for deposits. In addition, there are many other Chinese-American banks in both Southern and Northern California. Banks from the Pacific Rim countries, such as Taiwan, Hong Kong, and China also continue to open branches in the Los Angeles area, thus increasing competition in the Bank s primary markets. See discussion below in Part I Item 1A Risk Factors of this Annual Report on Form 10-K.

Employees

As of December 31, 2006, the Bancorp and Bank (including subsidiaries) employed approximately 1,051 persons, including 332 banking officers. None of the employees are represented by a union. We believe that our relations with our employees are good.

Available Information

We invite you to visit us at our Web site at *www.cathaybank.com*, to access free of charge Bancorp s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, all of which are made available as soon as reasonably practicable after we electronically file such material with or furnish it to the Securities and Exchange Commission (the SEC). In addition, you can write to us to obtain a free copy of any of those reports at Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012, Attn: Investor Relations. These reports are also available through the SEC s Public Reference Room, located at 100 F Street NE, Washington, DC 20549 and online at the SEC s website, located at *www.sec.gov*. Investors can obtain information about the operation of the SEC s Public Reference Room by calling 800-SEC-0300.

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Regulation and Supervision

General

The Bancorp and the Bank are subject to significant regulation and restrictions by federal and state regulatory agencies. The following discussion of statutes and regulations is a summary and does not purport to be complete. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. No assurance can be given that these statutes and regulations will not change in the future.

Bank Holding Company Regulation

The Bancorp is a bank holding company within the meaning of the Bank Holding Company Act (BHCA) and is registered as such with the Federal Reserve Board. A bank holding company is required to file with the Federal Reserve Board annual reports and other information regarding its business operations and those of its nonbanking subsidiaries. It is also subject to supervision and examination by the Federal Reserve Board. Examinations are designed to inform the Federal Reserve Board of the financial condition and nature of the operations of the bank holding company and its subsidiaries and to monitor compliance with the BHCA and other laws affecting the operations of bank holding companies. To determine whether potential weaknesses in the condition or operations of bank holding companies might pose a risk to the safety and soundness of their subsidiary banks, examinations focus on whether a bank holding company has adequate systems and internal controls in place to manage the risks inherent in its business, including credit risk, interest rate risk, market risk (for example, from changes in value of portfolio instruments and foreign currency), liquidity risk, operational risk, legal risk, and reputation risk.

Bank holding companies may be subject to potential enforcement actions by the Federal Reserve Board for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the Federal Reserve Board or any written agreement with the Federal Reserve Board. Enforcement actions may include the issuance of cease and desist orders, the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against institution-affiliated parties.

Bank holding companies are subject to capital maintenance requirements on a consolidated basis that are parallel to those required for banks. See Capital Adequacy Requirements below. Further, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board s view that, in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company s failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the Federal Reserve Board s regulations, or both.

The source-of-strength doctrine most directly affects bank holding companies where a bank holding company s subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank s federal regulator to take prompt corrective action. The prompt corrective action regulatory framework is discussed below. See Prompt Corrective Action Provisions below. Under the prompt corrective action program, the subsidiary bank will be required to submit to its federal regulator a capital restoration plan and to comply with the plan. Each parent company that controls the subsidiary bank will be required to provide assurances of compliance by the bank with the capital restoration plan. However, the aggregate liability of such parent companies will not exceed the lesser of (i) 5% of the bank s total assets at the time it became undercapitalized and (ii) the amount necessary to bring the bank into compliance with the plan. Failure to restore capital under a

capital restoration plan can result in the bank s being placed into receivership if it becomes critically undercapitalized. A bank subject to prompt corrective action also may affect its parent bank holding company in other ways. These include possible restrictions or prohibitions on dividends to the parent bank holding company by the bank; subordinated debt payments to the parent; and other transactions between the

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bank and the holding company. In addition, the regulators may impose restrictions on the ability of the holding company itself to make distributions; require divestiture of holding company affiliates that pose a significant risk to the bank; and require divestiture of the undercapitalized subsidiary bank.

A bank holding company is generally required to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company s consolidated net worth.

A bank holding company is required to obtain Federal Reserve Board approval before acquiring, directly or indirectly, ownership or control of any voting shares of any bank if it would thereby directly or indirectly own or control more than 5% of the voting stock of that bank, unless it already owns a majority of the voting stock. Prior approval from the Federal Reserve is also required in connection with the acquisition of control of a bank or another bank holding company, or business combinations with another bank holding company.

The business activities and investments of bank holding companies are also regulated by the BHCA. Bank holding companies, as a general rule, are prohibited from acquiring direct or indirect control of more than 5% of the outstanding voting shares of any company that is not engaged in the business of banking or managing or controlling banks or furnishing services to or performing services for its subsidiary banks. However, subject to prior approval or notification to the Federal Reserve Board, bank holding companies are permitted to engage in activities that are so closely related to banking as to be deemed a proper incident thereto. As a general rule, such closely related activities do not include underwriting or dealing in securities or underwriting of insurance. More expansive non-banking activities are permitted for bank holding companies that qualify as financial holding companies under the BHCA, but the Bancorp has not sought this status even though it qualifies to do so. See section below entitled Financial Modernization Act.

The Bancorp is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, the Bancorp and any of its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Financial Institutions.

Financial Modernization Act

The Gramm-Leach-Bliley Financial Modernization Act became effective March 11, 2000 (the Financial Modernization Act). It repealed two provisions of the Glass-Steagall Act: Section 20, which restricted the affiliation of Federal Reserve member banks with firms engaged principally in specified securities activities; and Section 32, which restricted officer, director, or employee interlocks between a member bank and any company or person primarily engaged in specified securities activities. In addition, it also contained provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law is to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHCA framework to permit a holding company system to engage in a full range of financial activities through a bank holding company that qualifies as a financial holding company. Financial activities are broadly defined to include not only banking, insurance, and securities activities, but also merchant banking and additional activities that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

In order for the Bancorp to engage in expanded financial activities permissible under the Financial Modernization Act, it must elect to qualify as a financial holding company. The Bancorp currently meets the requirements to make this election, but its management has thus far decided not

to do so, as the Bancorp has no present intention to engage in the expanded range of financial activities permitted to financial holding companies.

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Bank Regulation

Federal law mandates frequent examinations of all banks, with the costs of examinations to be assessed against the bank being examined. The Bank s primary federal regulator is the Federal Deposit Insurance Corporation (FDIC). The FDIC has substantial enforcement powers over the banks that it regulates. Civil and criminal penalties may be imposed on such institutions and persons associated with those institutions for violations of laws or regulations.

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision and regular examination by the California Department of Financial Institutions and the FDIC, and must comply with applicable regulations of the Federal Reserve Board. The regulations of these agencies govern most aspects of the Bank s business, including the making of periodic reports, its activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions and numerous other areas. Supervision, legal action, and examination by these agencies is generally intended to protect depositors, creditors, borrowers and the deposit insurance fund and generally is not intended for the protection of stockholders. The activities of the Bank are also regulated by state law.

California law authorizes the Bank to engage in the commercial banking business, which generally encompasses lending, deposit-taking, and all other kinds of banking business in which banks, including national banks, customarily engage in the United States. In addition, California banks are authorized by state law to invest in subsidiaries that engage in real estate development and conduct certain real estate related activities (including property management and real estate appraisal) and in management consulting and data processing services for third parties. Such operating subsidiaries are not permitted by California law to engage in insurance activities. However, federal law prohibits the Bank and its subsidiaries from engaging in any banking activities in which a national bank (acting as principal rather than agent) cannot engage, unless the activity is found by the FDIC not to pose a significant risk to the deposit insurance fund. This prohibition does not extend to those activities in which the Bank (or a subsidiary of the Bank) is authorized under state law to engage as agent, advisor, custodian, administrator or trustee for its customer. The FDIC has found real estate development not to pose a significant risk to the deposit insurance fund if conducted within specified parameters.

In addition, under the Financial Modernization Act, the Bank can engage in expanded financial activities through specially qualified financial subsidiaries to the same extent as a national bank. In order to form a financial subsidiary, the Bank must be well-capitalized and would be subject to the same capital deduction, risk management and affiliate transaction rules as apply to national banks. Generally, a financial subsidiary is permitted to engage in activities that are financial in nature or incidental thereto, even though they are not permissible for the national bank to conduct directly within the bank. The definition of financial in nature includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance (other than credit life insurance), issue annuities, or engage in real estate development or investment or merchant banking. Presently, none of the Bank s subsidiaries are financial subsidiaries.

The Bank operates branches and/or loan production offices in New York, Illinois, Massachusetts, Texas, and Washington. While the California Department of Financial Institutions remains the Bank s primary state regulator, the Bank s operations in these jurisdictions are subject to examination and supervision by local bank regulators, and transactions with customers in those states are subject to local laws, including consumer protection laws.

The Bank also operates representative offices in Taipei, Shanghai, and Hong Kong. The operations of these offices (and limits on the scope of their activities) are subject to local law in those jurisdictions in addition to regulation and supervision by the California Department of Financial Institutions and the FDIC.

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Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. Previously, the FDIC administered two separate insurance funds, the Bank Insurance Fund (BIF), which generally insured commercial bank and state savings bank deposits, and the Savings Association Insurance Fund (SAIF), which generally insured savings association deposits. Under the Federal Deposit Insurance Reform Act of 2005 (the "FDI Reform Act"), which was signed into law in February 2006:

- the BIF and the SAIF were merged into a new combined fund, called the Deposit Insurance Fund (DIF), effective March 31, 2006;
- the current $100,000 deposit insurance coverage cap has been indexed for inflation (with adjustments every five years commencing January 1, 2011);
- deposit insurance coverage for retirement accounts has been increased to $250,000 per participant subject to adjustment for inflation; and
- a cap has been imposed on the level of the DIF, providing for the payment of dividends when the DIF grows beyond a specified threshold.

The FDIC has also been given greater latitude over management of the DIF s reserve ratio to help dampen sharp fluctuations in assessment rates. Pursuant to enabling regulations enacted in November of 2006, the FDIC has set the designated reserve ratio for 2007 at 1.25% of estimated insured deposits.

The FDI Reform Act has revised the prior risk-based system for assessing premiums, with the intention of more closely linking premiums to the risk posed by institutions to the DIF. The FDIC will evaluate risk to the DIF based on three primary factors: supervisory ratings for all institutions; financial ratios for most institutions; and long-term debt issuer ratings for large institutions that have such ratings. As a result of these rules, it is contemplated that the assessment rates that took effect at the beginning of 2007 for nearly all of the industry will vary between five and seven cents for every $100 of domestic deposits.

Banks in existence on December 31, 1996, that paid assessments prior to that date (or their successors) are entitled to a one-time credit against future assessments based on their past contributions to the BIF. As a result, most banks will have assessment credits that will initially offset all of their deposit premiums for 2007. The Bank anticipates that it will be able to offset its deposit insurance premium for 2007 with an estimated assessment credit of $ 4.0 million for premiums paid prior to 1996.

In addition, banks must pay a fluctuating amount towards the retirement of the Financing Corporation bonds (commonly referred to as FICO bonds) which had been issued in the 1980s to assist in the recovery of the savings and loan industry. The current FICO assessment rate as of January 1, 2007, for institutions insured by the Deposit Insurance Fund (DIF) is $0.0122 per $100 of assessable deposit. The FICO assessments are adjusted quarterly and do not vary depending on an institution s capitalization or supervisory evaluations. These assessments will continue until the Financing Corporation bonds mature in 2017.

Capital Adequacy Requirements

The Bank (as well as the Bancorp) is subject to capital adequacy regulations. Those regulations incorporate both risk-based and leverage capital requirements. These capital adequacy regulations define capital in terms of core capital elements, or Tier 1 capital, and supplemental capital elements, or Tier 2 capital. Tier 1 capital is generally defined as the sum of the core capital elements less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on available for sale investment securities carried at fair value. The following items are included as core capital elements: (i) common shareholders equity; (ii) qualifying non-cumulative perpetual preferred stock and related surplus, including trust preferred securities (but not in excess of 25% of Tier 1 capital); and (iii) minority interests in the equity accounts of consolidated subsidiaries.

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Supplementary capital elements include: (i) allowance for loan and lease losses (but not more than 1.25% of an institution s risk-weighted assets); (ii) perpetual preferred stock and related surplus not qualifying as core capital; (iii) hybrid capital instruments, perpetual debt and mandatory convertible debt instruments; and (iv) term subordinated debt and intermediate-term preferred stock and related surplus. The maximum amount of supplemental capital elements which qualifies as Tier 2 capital is limited to 100% of Tier 1 capital.

The minimum required ratio of qualifying total capital to total risk-weighted assets, or the total risk-based capital ratio, is 8.0%, at least one-half of which must be in the form of Tier 1 capital, and the minimum required ratio of Tier 1 capital to total risk-weighted assets, or the Tier 1 risk-based capital ratio, is 4.0%. Risk-based capital ratios are calculated to provide a measure of capital that reflects the degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items. Under the risk-based capital guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans. As of December 31, 2006, the Bank s total risk-based capital ratio was 10.99% and its Tier 1 risk-based capital ratio was 9.37%. As of December 31, 2006, the Bancorp s Total Risk-Based Capital ratio was 11.00% and its Tier 1 risk-based capital ratio was 9.40%

The risk-based capital requirements also take into account concentrations of credit (*i.e.*, relatively large proportions of loans involving one borrower, industry, location, collateral or loan type) and the risks of non-traditional activities (those that have not customarily been part of the banking business). The regulations require institutions with high or inordinate levels of risk to operate with higher minimum capital standards and authorize the regulators to review an institution s management of such risks in assessing an institution s capital adequacy.

The risk-based capital regulations also include exposure to interest rate risk as a factor that the regulators will consider in evaluating a bank s capital adequacy. Interest rate risk is the exposure of a bank s current and future earnings and equity capital arising from adverse movements in interest rates. While interest risk is inherent in a bank s role as financial intermediary, it introduces volatility to bank earnings and to the economic value of the institution.

Since 1997, the federal banking regulators have also required financial institutions with significant exposure to market risk to maintain adequate capital to support that exposure. In September of 2006, the federal banking agencies proposed revisions to the market risk capital rules to enhance the rules sensitivity to market risk and to require public disclosure of certain qualitative and quantitative market risk information. Financial institutions covered by this aspect of the capital rules are those with trading assets constituting 10% or more of total assets, or $1 billion or more, or such other institutions as the appropriate federal bank regulatory agency deems appropriate to include. Neither the Bancorp nor the Bank is currently subject to the market risk capital rules.

The Bancorp and the Bank are also required to maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and that are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets of at least 3%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3% minimum, for a minimum of 4% to 5%. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. Federal regulators may, however, set higher capital requirements when a bank s particular circumstances warrant. As of December 31, 2006, the Bank s leverage capital ratio was 8.95%, and the Bancorp s leverage capital ratio was 8.98%, both ratios exceeding regulatory minimums.

The federal regulatory authorities risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision (Basel I). In June 2004, the Basel Committee on Banking Supervision published a new capital accord, referred to as Basel II, for adoption by those countries adhering to

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the overall Basel framework. Basel II emphasizes internal assessment of credit, market and operational risk, supervisory assessment and market discipline in determining minimum capital requirements. Basel II will become mandatory for US banks with over $250 billion in assets or total on-balance-sheet foreign exposure of $10 billion or more. Other banks can elect to be governed by Basel II. Basel II would not apply to the Bancorp or the Bank, and management does not contemplate electing to calculate its risk-based capital based on the Basel II capital framework.

In October 2005, U.S. banking regulators issued an advance rulemaking notice that contemplated modifications to the Basel I risk-based capital framework applicable to domestic banking organizations that are not required (or do not elect) to adopt Basel II. This was followed by a rulemaking notice dated December 26, 2006, also proposing modifications to the Basel I framework. These proposed modifications to Basel I are referred to as Basel 1A. Basel 1A is designed to redress perceived competitive inequities between financial institutions using Basel II and those using Basel I. In principle, Basel 1A would (i) expand the number of risk-weight categories, (ii) allow the use of external credit ratings to risk weight certain exposures, (iii) expand the range of collateral and guarantors that qualify for a lower risk weight, (iv) use loan-to-value ratios to risk weight most residential mortgages, and (v) revise other provisions of the existing risk-based capital requirements to increase the risk sensitivity of the risk-based capital rules for those banks that will not use Basel II. If implemented, Basel 1A would likely apply to the Bancorp and the Bank.

Prompt Corrective Action Provisions

Federal law requires each federal banking agency to take prompt corrective action when a bank falls below one or more prescribed minimum capital ratios. The federal banking agencies have by regulation defined the following five capital categories: well capitalized (total risk-based capital ratio of 10%; Tier 1 risk-based capital ratio of 6%; and leverage capital ratio of 5%); adequately capitalized (total risk-based capital ratio of 8%; Tier 1 risk-based capital ratio of 4%; and leverage capital ratio of 4%) (or 3% if the institution receives the highest rating from its primary regulator); undercapitalized (total risk-based capital ratio of less than 8%; Tier 1 risk-based capital ratio of less than 4%; or leverage capital ratio of less than 4%) (or 3% if the institution receives the highest rating from its primary regulator); significantly undercapitalized (total risk-based capital ratio of less than 6%; Tier 1 risk-based capital ratio of less than 3%; or leverage capital ratio less than 3%); and critically undercapitalized (tangible equity to total assets less than 2%). A bank may be treated as though it were in the next lower capital category if after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice so warrants, but no bank may be treated as critically undercapitalized unless its actual capital ratio warrants such treatment. Undercapitalized banks are required to submit capital restoration plans and, during any period of capital inadequacy, may not pay dividends or make other capital distributions, are subject to asset growth and expansion restrictions and may not be able to accept brokered deposits. At each successively lower capital category, banks are subject to increased restrictions on operations.

Dividends

Holders of the Bancorp s common stock are entitled to receive dividends as and when declared by the board of directors out of funds legally available therefore under the laws of the State of Delaware. Delaware corporations such as the Bancorp may make distributions to their stockholders out of their surplus, or out of their net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. However, dividends may not be paid out of a corporation s net profits if, after the payment of the dividend, the corporation s capital would be less than the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

The Federal Reserve Board has advised bank holding companies that it believes that payment of cash dividends in excess of current earnings from operations is inappropriate and may be cause for supervisory action. As a result of this policy, banks and their holding companies may find it difficult to pay dividends out of retained

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earnings from historical periods prior to the most recent fiscal year or to take advantage of earnings generated by extraordinary items such as sales of buildings or other large assets in order to generate profits to enable payment of future dividends. Further, the Federal Reserve Board s position that holding companies are expected to provide a source of managerial and financial strength to their subsidiary banks potentially restricts a bank holding company s ability to pay dividends.

The Bank is a legal entity that is separate and distinct from its holding company. The Bancorp receives income through dividends paid by the Bank. Subject to the regulatory restrictions described below, future cash dividends by the Bank will depend upon management s assessment of future capital requirements, contractual restrictions, and other factors.

The powers of the board of directors of the Bank to declare a cash dividend to its holding company is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank s retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the California Department of Financial Institutions in an amount not exceeding the greatest of (1) retained earnings of the bank; (2) the net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year. The amount of retained earnings available for cash dividends to the Bancorp immediately after December 31, 2006, is restricted to approximately $211.3 million under this regulation.

Bank regulators also have authority to prohibit a bank from engaging in business practices considered to be unsafe or unsound. It is possible, depending upon the financial condition of a bank and other factors, that such regulators could assert that the payment of dividends or other payments might, under certain circumstances, be an unsafe or unsound practice, even if technically permissible.

Safety and Soundness Standards and Enforcement Actions

The federal banking agencies have adopted guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines set forth managerial and operational standards relating to (i) internal controls and information systems, (ii) internal audit systems, (iii) loan documentation, (iv) credit underwriting, (v), interest rate exposure, (vi) asset growth, (vii) asset quality, (viii) earnings and (ix) compensation and benefits. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet safety and soundness standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings if an acceptable compliance plan is not submitted or the deficiency is not corrected.

In addition to these measures and the prompt corrective action provisions, banks may be subject to potential actions by federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the issuance of cease and desist orders, termination of insurance of deposits, the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against institution-affiliated parties.

Guidance on Nontraditional Mortgage Products

On September 29, 2006, the federal banking agencies issued final guidance on residential mortgage products that allow borrowers to defer repayment of principal or interest, including interest only mortgage loans, and payment option adjustable rate mortgages where a borrower has

flexible payment options, including payments that have the potential for negative amortization. The guidance does not apply to home equity lines of credit. While acknowledging that innovations in mortgage lending can benefit some consumers, the federal banking agencies in their joint press release stated their concern that these and other practices described in the guidance

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can present unique risks that institutions must appropriately manage. The guidance states that management should (1) ensure that loan terms and underwriting standards are consistent with prudent lending practices, including consideration of a borrower s repayment capacity, (2) recognize that many nontraditional mortgages are untested in a stressed environment and warrant strong risk management standards as well as appropriate capital and loan loss reserves, and (3) ensure that borrowers have sufficient information to clearly understand loan terms and associated risks prior to making a product or payment choice. It is uncertain at this time what effect the final guidance may have on financial institutions originating such residential mortgage products. As of December 31, 2006, the Bank retained 873 loans with balance of $290.2 million under reduced documentation programs and one loan with balance of $83,000 under a simultaneous second-lien loan program. No nontraditional residential mortgages were sold by the Bank during 2006.

Guidance on Real Estate Concentrations

On December 6, 2006, the federal banking agencies issued a guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank s commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The FDIC and other bank regulatory agencies will be focusing their supervisory resources on institutions that may have significant commercial real estate loan concentration risk. A bank that has experienced rapid growth in commercial real estate lending, has notable exposure to a specific type of commercial real estate loan, or is approaching or exceeding the following supervisory criteria may be identified for further supervisory analysis with respect to real estate concentration risk:

Total reported loans for construction, land development and other land represent 100% or more of the bank s capital; or

Total commercial real estate loans (as defined in the Guidance) represent 300% or more of the bank s total capital and the outstanding balance of the bank s commercial real estate loan portfolio has increased 50% or more during the prior 36 months.

The strength of an institution s lending and risk management practices with respect to such concentrations will be taken into account in supervisory evaluation of capital adequacy. At December 31, 2006, total commercial real estate loans as defined in the Guidance were 514% of the Bank s total capital. It is uncertain at this time what effect this guidance may have on the Bank.

Transactions with Affiliates

Federal banking law imposes restrictions on extensions of credit by the Bank to the Bancorp or its nonbanking affiliates, the purchase by the Bank of assets of, or securities issued by, the Bancorp or its nonbanking affiliates, and the taking by the Bank of securities issued by the Bancorp as collateral for loans made by the Bank. Such restrictions prevent the Bancorp and its nonbanking affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, these secured loans and investments by the Bank to or in the Bancorp, or to or in any nonbanking affiliate, are limited, individually, to 10% of the Bank s capital and surplus, and these secured loans and investments are limited, in the aggregate, to 20% of the Bank s capital and surplus. California law also imposes certain restrictions with respect to transactions involving persons or entities controlling the Bank, such as the Bancorp, and requires that such transactions be approved in advance by the California Department of Financial Institutions. Additional restrictions on transactions with affiliates may be imposed on the Bank under the prompt corrective action provisions of federal law discussed above. See Prompt Corrective Action Provisions below.

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Loans-to-One-Borrower

With certain limited exceptions, the maximum amount that a California bank may lend to any borrower at any one time (including the obligations to the bank of certain related entities of the borrower) may not exceed 25% (and unsecured loans may not exceed 15%) of the bank s shareholder equity, allowance for loan losses, and any capital notes and debentures of the bank.

Extension of Credit to Insiders

Federal law place limitations and conditions on loans or extensions of credit to:

- a bank s or bank holding company s executive officers, directors, and principal shareholders (*i.e.*, in most cases, those persons who own, control or have power to vote more than 10% of any class of voting securities);
- any company controlled by any such executive officer, director, or shareholder, or any political or campaign committee controlled by such executive officer, director, or principal shareholder.

Loans and leases extended to any of the above persons must comply with California s loan-to-one-borrower limits (described above), require prior full board approval when aggregate extensions of credit to the person exceed specified amounts, must be made on substantially the same terms (including interest rates and collateral) as, and follow credit-underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with non-insiders, and must not involve more than the normal risk of repayment, or present other unfavorable features. A bank is also prohibited from paying an overdraft on an account of an executive officer or director, except pursuant to a written pre-authorized interest-bearing extension of credit plan that specifies a method of repayment or a written pre-authorized transfer of funds from another account of the executive officer or director at the Bank. In addition, the aggregate limit on extensions of credit to all insiders of a California bank as a group cannot exceed the bank s unimpaired capital and unimpaired surplus.

Community Reinvestment Act

The Bank is subject to certain requirements and reporting obligations involving the Community Reinvestment Act (CRA). The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low-and moderate-income neighborhoods. The CRA further requires the agencies to take into account a financial institution s record of meeting its community credit needs when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. In measuring a bank s compliance with its CRA obligations, the regulators utilize a performance-based evaluation system which bases CRA ratings on the bank s actual lending, service, and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities, or complies with other procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of outstanding, satisfactory, needs to improve or substantial noncompliance. In its most recently released public reports, from February 2004, the Bank received a satisfactory rating.

Other Consumer Protection Laws and Regulations

Examination and enforcement have become intense, and banks have been advised to monitor carefully compliance with various consumer protection laws and their implementing regulations. The federal Interagency Task Force on Fair Lending issued a policy statement on discrimination in home mortgage lending describing three methods that federal agencies will use to prove discrimination: overt evidence of discrimination, evidence of disparate treatment, and evidence of disparate impact. Due to heightened regulatory concern related to compliance with consumer protection laws and regulations generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in the local communities it serves.

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In addition to the other laws and regulations discussed herein, the Bank is subject to certain consumer and public interest laws and regulations that are designed to protect customers in transactions with banks. While the list set forth below is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, and the Right to Financial Privacy Act. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

The Americans with Disabilities Act, in conjunction with similar California legislation, has increased the cost of doing business for banks. The legislation requires employers with 15 or more employees and all businesses operating commercial facilities or public accommodations to accommodate disabled employees and customers. The Americans with Disabilities Act has two major objectives: (i) to prevent discrimination against disabled job applicants, job candidates and employees, and (ii) to provide disabled persons with ready access to commercial facilities and public accommodations. Commercial facilities, such as the Bank, must ensure that all new facilities are accessible to disabled persons, and in some instances may be required to adapt existing facilities to make them accessible.

Interstate Banking and Branching

Federal law regulates the interstate activities of banks and bank holding companies and establishes a framework for nationwide interstate banking and branching. Since June 1, 1997, a bank in one state has generally been permitted to merge with a bank in another state without the need for explicit state law authorization. However, states generally were given the ability to prohibit interstate mergers with banks in their own state by opting-out (enacting state legislation applying equality to all out-of-state banks prohibiting such mergers) prior to June 1, 1997.

Since 1995, adequately capitalized and managed bank holding companies have been permitted to acquire banks located in any state, subject to two exceptions: first, any state may still prohibit bank holding companies from acquiring a bank which is less than five years old; and second, no interstate acquisition can be completed by a bank holding company if the acquirer would control more than 10% of the deposits held by insured depository institutions nationwide or 30% or more of the deposits held by insured depository institutions in any state in which the target bank has branches.

A bank may establish and operate *de novo* branches in any state in which that bank does not maintain a branch if that state has enacted legislation to expressly permit all out-of-state banks to establish branches in that state.

Bank Secrecy Act and USA Patriot Act

The Bank Secrecy Act (BSA) is a disclosure law that forms the basis of the federal government s framework to prevent and detect money laundering and to deter other criminal enterprises. Under the BSA, financial institutions such as the Bank are required to maintain certain records and file certain reports regarding domestic currency transactions and cross-border transportations of currency. Among other requirements, the BSA requires financial institutions to report imports and exports of currency in the amount of $10,000 or more and, in general, all cash transactions of $10,000 or more. The Bank has established a BSA compliance policy under which, among other precautions, the Bank keeps currency transaction reports to document cash transactions in excess of $10,000 or in multiples totaling more than $10,000 during one business day, monitors certain potentially suspicious transactions such as the exchange of a large number of small denomination bills for

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large denomination bills, and scrutinizes electronic funds transfers for BSA compliance. The BSA also requires that financial institutions report to relevant law enforcement agencies any suspicious transactions potentially involving violations of law.

The terrorist attacks in September 2001 impacted the financial services industry and led to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act. Part of the USA Patriot Act is the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, or IMLAFATA. Pursuant to IMLAFATA, an additional purpose was added to the BSA: To assist in the conduct of intelligence or counter-intelligence activities, including analysis, to protect against international terrorism.

IMLAFATA also significantly expanded the role of financial institutions in combating money laundering. In particular, it required financial institutions to establish anti-money laundering programs, which, at a minimum, include internal policies, procedures, and controls designed to prevent the institution from being used for money laundering; the designation of a BSA compliance officer; ongoing employee training; and an independent audit program to test the effectiveness of the institution s anti-money laundering programs. The FDIC and the other federal banking agencies promptly adopted regulations requiring each financial institution to establish comprehensive anti-money laundering compliance programs designed to assure compliance with the BSA and otherwise meeting the statutory requirements for such programs set forth in IMLAFATA. In addition, these regulations required each financial institution to establish a customer identification program to be implemented as part of the institution s anti-money laundering compliance program.

IMLAFATA authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks, bank holding companies, and/or other financial institutions. These measures may include enhanced recordkeeping and reporting requirements for certain financial transactions that are of primary money laundering concern, due diligence requirements concerning the beneficial ownership of certain types of accounts, and restrictions or prohibitions on certain types of accounts with foreign financial institutions.

Among its other provisions, IMLAFATA requires each financial institution to (i) establish due diligence policies, procedures, and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks and (ii) avoid establishing, maintaining, administering, or managing correspondent accounts in the United States of America for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, IMLAFATA contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities, and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. IMLAFATA expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours. IMLAFATA also requires the federal banking agencies to consider the effectiveness of a financial institution s anti-money laundering activities when reviewing an application under the BHCA or in connection with a potential bank merger under the Bank Merger Act.

Customer Information Security

The federal bank regulatory agencies have adopted guidelines for safeguarding confidential, personal customer information. The guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access or use of such information that could result in substantial harm or inconvenience to any customer.

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Privacy

The Bank is required under federal law to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliate third parties. In general, the statute requires a financial institution to (i) provide notice to customers about its privacy policies and practices, (ii) describe the conditions under which the institution may disclose nonpublic personal information about consumers to nonaffiliated third parties, and (iii) provide a method for consumers to prevent the financial institution from disclosing that information to nonaffiliated third parties by opting out of that disclosure.

Securities Exchange Act of 1934

The Bancorp s common stock is publicly held and listed on NASDAQ, and the Bancorp is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the Securities and Exchange Commission promulgated hereunder and the listing requirements of NASDAQ.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 implemented legislative reforms applicable to companies with securities traded publicly in the United States of America. The Sarbanes-Oxley Act is intended to address corporate and accounting fraud and contains provisions dealing with corporate governance and management, disclosure, oversight of the accounting profession and auditor independence. Although the Bancorp has incurred and expects to continue to incur additional expenses in complying with the provisions of the Sarbanes-Oxley Act, it does not expect that compliance will have a material effect on its financial condition or results of operations.

Audit Requirements

The Bank is required to have an annual independent audit, alone or as a part of its bank holding company s audit, and to prepare all financial statements in accordance with U.S. generally accepted accounting principles. The Bank (or the Bancorp) is also required to have an audit committee comprised entirely of independent directors. As required by NASDAQ, the Bancorp has certified that its audit committee has adopted formal written charters and meets the requisite number of directors, independence, and qualification standards. In addition, because the Bank has more than $3 billion in total assets, it is subject to the FDIC requirements for audit committees of large institutions. As such, among other requirements, the Bancorp must maintain an audit committee which includes members with banking or related financial management expertise, has access to its own outside counsel, and does not include members who are large customers of the Bank.

The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters. Management and the Bancorp s independent registered public accounting firm are required to assess the effectiveness of the Bancorp s internal control over financial reporting as of December 31, 2006. These assessments are included in Item 9A, Controls and Procedures, below.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank ("FHLB") of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. Each member of the FHLB of San Francisco is required to own stock in an amount equal to the greater of (i) a membership stock requirement with an initial cap of $25 million (100% of membership asset value as defined), or (ii) an activity based stock requirement (based on percentage of outstanding advances).

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Impact of Monetary Policies

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or spread between the yield on its interest-earning assets and the rates paid on its deposits and other interest-bearing liabilities. As a result, the Bank s performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies. The Federal Reserve Board implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in U.S. Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rate applicable to borrowings by banks from the Federal Reserve Banks. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

Environmental Regulation

In the course of the Bank s business, the Bank may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. The Bank may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clear up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of any contaminated site, the Bank may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If the Bank ever becomes subject to significant environmental liabilities, its business, financial condition, liquidity and results of operations could be materially and adversely affected.

Other Pending and Proposed Legislation

Other legislative and regulatory initiatives which could affect the Bancorp and the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the U.S. Congress, the California legislature, and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject the Bancorp and the Bank to increased regulation, disclosure, and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Bancorp or the Bank would be affected thereby.

Item 1A. Risk Factors.

The allowance for loan losses is an estimate of probable loan losses. Actual loan losses in excess of the estimate could adversely affect our net income and capital.

The allowance for loan losses is based on management s estimate of the probable losses from our loan portfolio. If actual losses exceed the estimate, the excess losses could adversely affect our net income and capital. Such excess losses could also lead to larger allowances for loan

losses in future periods, which could in turn adversely affect net income and capital in those periods. If economic conditions differ substantially from the assumptions used in the estimate or adverse developments arise with respect to our loans, future losses may occur, and increases in the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of our allowance. These agencies may require us to establish additional allowances based on their judgment of the information available at the time of their examinations. No assurance can be given that we will not sustain loan losses in excess of present or future levels of the allowance for loan losses.

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Fluctuations in interest rates could reduce our net interest income and adversely affect our business.

The interest rate risk inherent in our lending, investing, and deposit taking activities is a significant market risk to us and our business. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by fluctuations in interest rates. The magnitude and duration of changes in interest rates, events over which we have no control, may have an adverse effect on net interest income. Prepayment and early withdrawal levels, which are also impacted by changes in interest rates, can significantly affect our assets and liabilities. Increases in interest rates may adversely affect the ability of our floating rate borrowers to meet their higher payment obligations, which could in turn lead to an increase in non-performing assets and net charge-offs.

Generally, the interest rates on interest-earning assets and interest-bearing liabilities of the Company do not change at the same rate, to the same extent, or on the same basis. Even assets and liabilities with similar maturities or periods of repricing may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in general market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in general market rates. Certain assets, such as fixed and adjustable rate mortgage loans, have features that limit changes in interest rates on a short-term basis and over the life of the asset.

We seek to minimize the adverse effects of changes in interest rates by structuring our asset-liability composition to obtain the maximum spread. We use interest rate sensitivity analysis and a simulation model to assist us in estimating the optimal asset-liability composition. However, such management tools have inherent limitations that impair their effectiveness. There can be no assurance that we will be successful in minimizing the adverse effects of changes in interest rates. See also the sections entitled Risks Elements of the Loan Portfolio under Item 7 and Market Risk under Item 7A of this Annual Report on the Form 10-K.

We have engaged in and may continue to engage in further expansion through mergers and acquisitions, which could negatively affect our business and earnings.

We have engaged in and may continue to engage in expansion through mergers and acquisitions. There are risks associated with such expansion. These risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular transaction, encountering greater than anticipated costs in integrating acquired businesses, facing resistance from customers or employees, and being unable to profitably deploy assets acquired in the transaction. Additional country- and region-specific risks are associated with transactions outside the United States, including in China. To the extent we issue capital stock in connection with additional transactions, these transactions and related stock issuances may have a dilutive effect on earnings per share and share ownership.

Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings.

Inflation and deflation may adversely affect our financial performance.

The consolidated financial statements and related financial data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation or deflation. The primary

impact of inflation on the operations of the Company is reflected in increased operating costs. Conversely, deflation will tend to erode collateral values and diminish loan quality. Virtually all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services.

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As we expand our business outside of California markets, we will encounter risks that could adversely affect us.

We primarily operate in California markets with a concentration of Chinese-American individuals and businesses; however, one of our strategies is to expand beyond California into other domestic markets that have concentrations of Chinese-American individuals and businesses. In the course of this expansion, we will encounter significant risks and uncertainties that could have a material adverse effect on our operations. These risks and uncertainties include increased operational difficulties arising from, among other things, our ability to attract sufficient business in new markets, to manage operations in noncontiguous market areas, and to anticipate events or differences in markets in which we have no current experience.

To the extent that we expand through acquisitions, such acquisitions may also adversely harm our business, if we fail to adequately address the financial and operational risks associated with such acquisitions. For example, risks can include difficulties in assimilating the operations, technology, and personnel of the acquired company; diversion of management s attention from other business concerns; inability to maintain uniform standards, controls, procedures and policies; potentially dilutive issuances of equity securities; incurrence of additional debt and contingent liabilities; use of cash resources; large write-offs; and amortization expenses related to other intangible assets with finite lives.

Our financial results could be adversely affected by changes in California tax law and changes in its interpretation relating to registered investment companies and real estate investment trusts.

Our effective income tax rate was lower in 2002 and 2001 than in subsequent years due in large part to income tax benefits derived from a registered investment company subsidiary of the Bank. We had relied on the California tax law related to registered investment companies and on an outside tax opinion in creating this subsidiary. In the fourth quarter of 2003, a change in that law was enacted by the California Legislature, which would deny such tax benefits from and after January 1, 2003. On December 31, 2003, the California Franchise Tax Board (FTB) announced its position that certain tax deductions related to regulated investment companies as well as real estate investment trusts prior to January 1, 2003 would also be disallowed.

In December, 2002, we decided to deregister the registered investment company and, in February, 2003, we completed such deregistration. In addition, in the fourth quarter of 2003, the Company reversed the net state tax benefits recorded in the first three quarters of 2003 relating to the real estate investment trust (REIT) that it formed as a subsidiary of the Bank during 2003. The Company did not record any tax benefits relating to the REIT in the fourth quarter of 2003 and did not record any such benefits in 2004, 2005, or 2006.

As previously disclosed, on December 31, 2003, the California Franchise Tax Board (FTB) announced its intent to list certain transactions that in its view constitute potentially abusive tax shelters. Included in the transactions subject to this listing were transactions utilizing regulated investment companies (RICs) and real estate investment trusts (REITs). As part of the notification indicating the listed transactions, the FTB also indicated its position that it intends to disallow tax benefits associated with these transactions. While the Company continues to believe that the tax benefits recorded in three prior years with respect to its regulated investment company were appropriate and fully defensible under California law, the Company has deemed it prudent to participate in Voluntary Compliance Initiative Option 2, requiring payment of all California taxes and interest on these disputed 2000 through 2002 tax benefits, and permitting the Company to claim a refund for these years while avoiding certain potential penalties. The Company retains potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position in addition to the risk of not being successful in its refund claims. As of December 31, 2006, the Company reflected a $12.1 million net state tax receivable for the years 2000, 2001, and 2002 after giving effect to reserves for loss contingencies on the refund claims, or an equivalent of $7.9 million after giving effect to Federal tax benefits. The FTB is currently in the process of reviewing and assessing our refund claims for taxes and interest for tax years 2000 through 2002. The Company does not expect that its refund claims related to its regulated investment company will more likely than not be realized and consequently, expects to include the $7.9 million after tax amount related to its refund claim in its

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cumulative effect adjustment for Interpretation No. 48 as an adjustment to the opening balance of retained earnings as of the January 1, 2007 effective date of Interpretation No. 48.

Adverse economic conditions in California and other regions where the Bank has operations could cause us to incur losses.

Our banking operations are concentrated primarily in Southern and Northern California, and secondarily in New York, Texas, Massachusetts, Washington, and Illinois. Adverse economic conditions in these regions could impair borrowers ability to service their loans, decrease the level and duration of deposits by customers, and erode the value of loan collateral. These events could increase the amount of our non-performing assets and have an adverse effect on our efforts to collect our non-performing loans or otherwise liquidate our non-performing assets (including other real estate owned) on terms favorable to us.

Real estate securing our lending activities is also principally located in Southern and Northern California, and to a lesser extent, in New York, Texas, Massachusetts, Washington, and Illinois. The value of such collateral depends upon conditions in the relevant real estate markets. These include general or local economic conditions and neighborhood characteristics, real estate tax rates, the cost of operating the properties, governmental regulations and fiscal policies, acts of nature including earthquakes, flood and hurricanes (which may result in uninsured losses), and other factors beyond our control.

The risks inherent in construction lending may adversely affect our net income.

The risks inherent in construction lending may adversely affect our net income. Such risks include, among other things, the possibility that contractors may fail to complete, or complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and lack of permanent take-out financing. Loans secured by such properties also involve additional risk because such properties have no operating history. In these loans, loan funds are advanced upon the security of the project under construction, which is of uncertain value prior to completion of construction, and the estimated operating cash flow to be generated by the completed project. There is no assurance that such properties will be sold or leased so as to generate the cash flow anticipated by the borrower. Such consideration can affect the borrowers ability to repay their obligations to us and the value of our security interest in collateral.

Our use of appraisals in deciding whether to make a loan on or secured by real property does not insure the value of the real property collateral.

In considering whether to make a loan on or secured by real property, we generally require an appraisal of such property. However, the appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property.

We face substantial competition from larger competitors.

We face substantial competition for deposits and loans, as well as other banking services, throughout our market area from the major banks and financial institutions that dominate the commercial banking industry. This may cause our cost of funds to exceed that of our competitors. Such banks and financial institutions have greater resources than us, including the ability to finance advertising campaigns and allocate their investment assets to regions of higher yield and demand. By virtue of their larger capital bases, such institutions have substantially greater lending limits than us and perform certain functions, including trust services, which are not presently offered by us. We also compete for loans and deposits, as well as other banking services, with savings and loan associations, finance companies, money market funds, brokerage houses, credit unions and non-financial institutions.

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Adverse effects of banking regulations or changes in banking regulations could adversely affect our business by increasing our expenses, limiting our activities, or altering the competitive balance.

We are regulated by significant federal and state regulation and supervision, which is primarily for the benefit and protection of our customers or which serve other public policies and not for the benefit of our stockholders. In the past, our business has been materially affected by such regulation and supervision. This trend is likely to continue in the future. Laws, regulations, or policies currently affecting us may change at any time. Regulatory authorities may also change their interpretation of existing laws and regulations. It is impossible to predict the competitive impact that any such changes would have on commercial banking in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions.

Adverse economic conditions in Asia could adversely affect our business.

A substantial number of our customers have economic and cultural ties to Asia and, as a result, we are likely to feel the effects of adverse economic and political conditions in Asia. U.S. and global economic policies, military tensions, and unfavorable global economic conditions may adversely impact the Asian economies. If economic conditions in Asia deteriorate, we could, among other things, be exposed to economic and transfer risk, and could experience an outflow of deposits by those of our customers with connections to Asia. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with or loans made to such entities. Adverse economic conditions in Asia, and in China or Taiwan in particular, may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

Statutory restrictions on dividends and other distributions from the Bank may adversely impact us by limiting the amount of distributions the Bancorp may receive.

A substantial portion of the Bancorp s cash flow comes from dividends that the Bank pays to us. Various statutory provisions restrict the amount of dividends that the Bank can pay without regulatory approval. In addition, if the Bank were to liquidate, the Bank s creditors would be entitled to receive distributions from the assets of the Bank to satisfy their claims against the Bank before Bancorp, as a holder of the equity interest in the Bank, would be entitled to receive any of the assets of the Bank.

Our need to continue to adapt to our information technology systems to allow us to provide new and expanded services could present operational issues and require significant capital spending.

As we continue to offer internet banking and other on-line services to our customers, and continue to expand our existing conventional banking services, we will need to adapt our information technology systems to handle these changes in a way that meets constantly changing industry and regulatory standards. This can be very expensive and may require significant capital expenditures. In addition, our success will depend, among other things, on our ability to provide secure and reliable services, anticipate changes in technology, and efficiently develop and introduce services that are accepted by our customers and cost effective for us to provide. Systems failures, delays, breaches of confidentiality and other problems could harm our reputation and business.

Certain provisions of our charter, bylaws, and rights agreement could make the acquisition of our Company more difficult.

Certain provisions of our Charter, Bylaws, and Rights Agreement between us and American Stock Transfer and Trust Company, as Rights Agent, could make the acquisition of our company more difficult. These provisions include authorized but unissued shares of preferred and common stock that may be issued without stockholder approval; three classes of directors serving staggered terms; preferred share purchase rights that generally become exercisable if a person or group acquires 15% or more of our common stock or announces a

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tender offer for 15% or more of our common stock; special requirements for stockholder proposals and nominations for director; and super-majority voting requirements in certain situations including certain types of business combinations.

Terrorist attacks could adversely affect us.

Any terrorist attacks and responses to such activities could adversely affect the Company in a number of ways, including, among others, an increase in delinquencies, bankruptcies or defaults that could result in a higher level of non-performing assets, net charge-offs, and provision for loan losses.

Item 1B. Unresolved Staff Comments.

The Company has not received written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days before the end of its 2006 fiscal year and that remain unresolved.

Item 2. Properties.

Cathay General Bancorp

The Bancorp currently neither owns nor leases any real or personal property. The Bancorp uses the premises, equipment, and furniture of the Bank in exchange for payment of a management fee to the Bank.

Cathay Bank

The Bank s main corporate office and headquarter branch is located in a 26,527 square foot building in the Chinatown area of Los Angeles. The Bank owns both the building and the land upon which the building is situated. Parking is provided on a lot adjacent to the Bank s building, which is owned by the Bank. In June 2006, the Bank acquired a seven story 102,548 square foot office building in South El Monte to serve as its future headquarters building. The building is currently partially occupied by a tenant under a lease that will expire on March 31, 2007. The Bank expects to relocate to its new headquarters in 2008 after the completion of extensive renovations to the office building.

The Bank owns its branch offices in Monterey Park, Alhambra, Westminster, San Gabriel, City of Industry, Cupertino, Artesia, New York City, Flushing (2 locations), and Chicago. In addition, the Bank has certain operating and administrative departments located at 4128 Temple City Boulevard, Rosemead, California, where it owns the building and land with approximately 27,600 square feet of space.

The Bank leases certain other premises. Expiration dates of the Bank s leases range from March 2007 to December 2016. The Bank s leased offices include the former headquarter of General Bank, located at 800 West 6th Street, Los Angeles, California 90017, consisting of approximately 41,501 square feet of rentable area which includes the ground floor and the second, fourteenth, and fifteenth floors of the building. The initial lease term will expire in the year 2009, and the Bank has two five-year options to renew the lease following the expiration date of the initial term. As of December 31, 2006, the monthly base rent for the facility was $117,000. The monthly base rent is subject to change on specified dates during the 15-year initial lease term.

The proposed branch in Hong Kong will be located at 28 Queen s Road Central Hong Kong. The lease for the 3,436 square feet office commenced on December 14, 2006 and has a term of three years. The representative office in Taipei of Cathay Bank is located at Sixth Floor, Suite 3, 146 Sung Chiang Road, Taipei, Taiwan, and consists of 1,806 square feet. The lease was renewed for one year from July 1, 2006 to June 30, 2007.

As of December 31, 2006, the Bank s investment in premises and equipment totaled $72.9 million. See also Note 8 and Note 14 to the Consolidated Financial Statements.

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Item 3. Legal Proceedings.

We are not currently aware of any material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Bank to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of 2006.

Executive Officers of Registrant.

The table below sets forth the names, ages, and positions at the Bancorp and the Bank of all executive officers of the Company as of February 15, 2007. See Part III, Item 10 Directors and Executive Officers and Corporate Governance, of this Annual Report on Form 10-K for further information regarding the executive officers of the Bancorp and the Bank.

Name	Age	Present Position and Principal Occupation During the Past Five Years
Dunson K. Cheng	62	Chairman of the Board of Directors of Bancorp and the Bank since 1994; Director and President (Chief Executive Officer) of Bancorp since 1990. President of the Bank since 1985 and Director of the Bank since 1982.
Peter Wu	58	Director, Executive Vice Chairman, and Chief Operating Officer of Bancorp and the Bank since October 20, 2003. Director of GBC Bancorp and General Bank from 1981 to October, 2003; Chairman of the Board of GBC Bancorp and General Bank from January, 2003 to October, 2003; President and Chief Executive Officer of GBC Bancorp and General Bank from January, 2001 to October, 2003.
Anthony M. Tang	53	Director of Bancorp since 1990; Executive Vice President of Bancorp since 1994; Chief Financial Officer and Treasurer of Bancorp from 1990 until June 2003. Chief Lending Officer of the Bank since 1985; Director of the Bank since 1986; Senior Executive Vice President of the Bank since December 1998.
Heng W. Chen	54	Executive Vice President and Chief Financial Officer of Bancorp since June 2003. Executive Vice President of the Bank since June 2003. Chief Financial Officer of the Bank since January 2004. Executive Vice President-Finance of City National Bank from March 2000 until June 2003.
Irwin Wong	58	Executive Vice President-Branch Administration for the Bank since 1999.
Kim R. Bingham	50	Executive Vice President Chief Credit Officer of the Bank since August 2004. First Vice President Private Banking of Mellon Bank from April 2003 to August 2004; Senior Vice President Credit Administration of City National Bank from 2002 to April 2003; Senior Vice President - Structured Finance Division of City National Bank from 2000 to 2002.
Perry P. Oei	44	Senior Vice President of Bancorp and the Bank since January 2004; General Counsel of Bancorp and the Bank since July 2001.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The Bancorp s common stock is listed on the NASDAQ Global Select Market under the symbol CATY. Prior to July 3, 2006, the Bancorp s common stock traded on the NASDAQ National Market. The closing price of the Company s common stock on February 15, 2007, was $35.52 per share, as reported by the NASDAQ Global Select Market. The Company does not represent that the outstanding shares may be either bought or sold at a certain price.

The following table sets forth the high and low closing prices as reported on the NASDAQ Global Select Market (and on the NASDAQ National Market prior to July 3, 2006) for the periods presented:

	Year Ended December 31,			
	2006		2005	
	High	Low	High	Low
First quarter	$ 38.24	$ 34.36	$ 37.99	$ 31.24
Second quarter	39.77	34.59	35.25	30.24
Third quarter	37.86	35.60	36.27	32.83
Fourth quarter	36.54	33.58	39.82	33.20

Holders

As of February 15, 2007, there were approximately 1,714 holders of record of the Bancorp s Common Stock.

Dividends

The cash dividends per share declared by quarter were as follows:

	Year Ended December 31,

	2006	2005
First quarter	$ 0.09	$ 0.09
Second quarter	$ 0.09	$ 0.09
Third quarter	$ 0.09	$ 0.09
Fourth quarter	$ 0.09	$ 0.09
Total	$ 0.36	$ 0.36

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Performance Graph

The graph and accompanying information furnished below compares the percentage change in the cumulative total stockholder return on the Company s common stock from December 31, 2001, through December 31, 2006, with the percentage change in the cumulative total return on the Standard & Poor s 500 Index (the S&P 500 Index) and the SNL Western Bank Index for the same period. The SNL Western Bank Index is a market-weighted index including every publicly traded bank and bank holding company located in Alaska, California, Hawaii, Montana, Oregon, and Washington. The Company will furnish, without charge, on the written request of any person who is a stockholder of record as of April 2, 2007, a list of the companies included in the SNL Western Bank Index. Requests for this information should be addressed to Michael M.Y. Chang, Secretary, Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012. This graph assumes the investment of $100 in the Company s common stock on December 31, 2001, and an investment of $100 in each of the S&P 500 Index and the SNL Western Bank Index on that date.

NOTE: The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, the future performance or returns of the Company s common stock. Such information furnished herewith shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Securities Exchange Act with the Securities and Exchange Commission except to the extent that the Company specifically requests that such information be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act or the Securities Exchange Act.

	Period Ending					
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
Cathay General Bancorp	100.00	120.47	179.94	243.17	235.55	228.42
SNL Western Bank Index *	100.00	109.41	148.21	168.43	175.36	197.86
S & P 500 **	100.00	77.90	100.24	111.15	116.61	135.03

* Source: SNL Financial LC, Charlottesville, VA © 2007
** Source: Research Data Group, Inc.

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Unregistered Sales of Equity Securities

There were no sales of any equity securities by the Company during the period covered by this Annual Report on Form 10-K that were not registered under the Securities Act.

Issuer Purchases of Equity Securities

In April 2001, the Board of Directors approved a stock repurchase program for the Company to buy back up to $15 million of our common stock. On May 2, 2005, the Company completed the April 2001 repurchase program and repurchased a total of 830,065 shares of our common stock for $15 million, or an average price of $18.07 per share, between April 2001 and May 2005.

On March 18, 2005, the Board of Directors approved a new stock repurchase program to buy back up to an aggregate of one million shares of the Company s common stock following the completion of April 2001 stock repurchase program. During 2005, the Company repurchased 548,297 shares under the March 2005 stock repurchase program for a total cost of $18.3 million, or an average price of $33.40 per share. No shares were repurchased in 2006. As of December 31, 2006, 451,703 shares remain under the Company s March 18, 2005 stock repurchase program.

In 2005, the Company repurchased 738,542 shares for $24.5 million, or $33.18 cost per share under both the April 2001 repurchase program and the March 2005 repurchase program. No shares were repurchased in 2006. In 2007, through February 27, 2007, the Company repurchased 275,826 shares under the March 2005 repurchase program for a total cost of $9.6 million, or an average price of $34.96 per share. As of February 27, 2007, 175,877 shares remain under the Company s March 18, 2005 stock repurchase program.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
(October 1, 2006 October 31, 2006)	None			451,703
(November 1, 2006 November 30, 2006)	None			451,703
(December 1, 2006 December 31, 2006)	None			451,703
Total	None			451,703

In connection with the Company s acquisitions in 2006, the Company issued 1,181,164 shares of Cathay General Bancorp common stock, par value $.01 per share in exchange for 765,214 shares of Great Eastern Bank common stock that had been tendered by its shareholders for the Company s common stock. Those shares were subsequently registered by a registration statement on Form S-3 filed with the Securities and Exchange Commission.

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Item 6. Selected Financial Data.

The following table presents selected historical consolidated financial data for the Bancorp, and is derived in part from the audited consolidated financial statements of the Company. The selected historical consolidated financial data should be read in conjunction with the Consolidated Financial Statements of Cathay General Bancorp and the Notes thereto, which are included in this Annual Report on Form 10-K as well as Management s Discussion and Analysis of Financial Condition and Results of Operations.

Selected Consolidated Financial Data

	Year Ended December 31,			
	2006	2005	2004	2003
	(Dollars in thousands, except share and per share data)			
atement				
come	$ 491,518	$ 350,661	$ 274,979	$ 167,267
pense	212,235	110,279	60,162	40,148
t income				
reversal) sses	279,283	240,382	214,817	127,119
reversal) sses	2,000	(500)		7,150

Gilead

The Company and Gilead Sciences, Inc. (Gilead) have a joint venture to develop and commercialize ATRIPLA* (efavirenz 600 mg/ emtricitabine 200 mg/ tenofovir disoproxil fumarate 300 mg), a once-daily single tablet three-drug regimen combining the Company s SUSTIVA (efavirenz) and Gilead s TRUVADA* (emtricitabine and tenofovir disoproxil fumarate), in the U.S., Canada and Europe. The Company accounts for its participation in the U.S. joint venture under the equity method of accounting and recognizes its share of the joint venture results in equity in net income of affiliates in the consolidated statements of earnings.

In the U.S., Canada and most European countries, the Company records revenue for the bulk efavirenz component of ATRIPLA* upon sales of that product to third-party customers. Revenue for the efavirenz component is determined by applying a percentage to ATRIPLA* revenue to approximate revenue for the SUSTIVA brand. In a limited number of EU countries, the Company recognizes revenue for ATRIPLA* since the product is purchased from Gilead and then distributed to third-party customers.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in Millions	2010	2009	2010	2009
Net sales	$ 255	$ 206	$ 505	$ 388
Equity in net loss of affiliates	(3)	(3)	(6)	(5)

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AstraZeneca

The Company maintains two worldwide codevelopment and cocommercialization agreements with AstraZeneca PLC (AstraZeneca), The first is for the worldwide codevelopment and cocommercialization (excluding Japan) of ONGLYZA (saxagliptin), a DPP-IV inhibitor (Saxagliptin Agreement) and the second is for the worldwide codevelopment and cocommercialization (including Japan) of dapagliflozin, a sodium-glucose cotransporter-2 (SGLT2) inhibitor (SGLT2 Agreement). Both compounds are being studied for the treatment of diabetes and were discovered by the Company. Under each agreement, the two companies are jointly developing the clinical and marketing sterategy and share development and commercialization costs and profits and losses equally. Net reimbursements for development costs from AstraZeneca are included in research and development. Net reimbursements for commercial costs are included principally in advertising and product promotion and selling, general and administrative expenses. AstraZeneca s share of profits is included in cost of goods sold.

Upfront licensing and milestone payments received for both compounds totaling $350 million, including $50 million received in the first quarter of 2010, are deferred and amortized over the useful life of the products into other income.

The Company and AstraZeneca launched ONGLYZA in the third quarter of 2009.

The following summarized financial information related to this alliance is reflected in the consolidated financial statements:

Dollars in Millions	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Net sales	$ 28	$	$ 38	$
Amortization income milestone payments	7	3	13	6

	June 30, 2010	December 31, 2009
Deferred income milestone payments	$ 305	$ 268

Exelixis

In June 2010, the Company terminated its global codevelopment and cocommercialization arrangement for XL184 (a MET/VEG/RET inhibitor), an oral anti-cancer compound with all rights returning to Exelixis, Inc. (Exelixis). As a result of the termination, the Company paid $17 million, which has been included in research and development expense. In addition, the Company is no longer obligated for contingent development and regulatory milestone payments of $295 million and sales milestone payments of $150 million. The Company will continue its license arrangement with Exelixis for XL281 and its other collaborations for three small molecule IND s for codevelopment and copromotion.

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Note 3. BUSINESS SEGMENT INFORMATION

The BioPharmaceuticals segment is 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 a global supply chain organization are utilized and responsible for the development and delivery of products to the market. Products are distributed and sold through five regional organizations that serve the United States; Europe; Latin America, Middle East and Africa; Japan, Asia Pacific and Canada; and Emerging Markets. The business is also supported by global corporate staff functions. The segment information presented below is consistent with the financial information regularly reviewed by the chief operating decision maker for purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting future periods.

Net sales of key products were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in Millions	2010	2009	2010	2009
PLAVIX*	$ 1,627	$ 1,539	$ 3,293	$ 2,974
AVAPRO*/AVALIDE*	307	313	621	615
REYATAZ	357	331	730	653
SUSTIVA Franchise (total revenue)	331	312	666	604
BARACLUDE	223	179	439	331
ERBITUX*	172	173	338	337
SPRYCEL	132	107	263	195
IXEMPRA	29	29	58	53
ABILIFY*	633	643	1,250	1,232
ORENCIA	178	148	347	272
ONGLYZA	28		38	
Other	751	891	1,532	1,721
Net sales	$ 4,768	$ 4,665	$ 9,575	$ 8,987

Segment income excludes the impact of significant items not indicative of current operating performance or ongoing results, and earnings attributed to sanofi and other noncontrolling interest. The reconciliation to earnings from continuing operations before income taxes was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in Millions	2010	2009	2010	2009
BioPharmaceuticals segment income	$ 1,180	$ 1,217	$ 2,413	$ 2,287
Reconciling items:				
Downsizing and streamlining of worldwide operations	(24)	(17)	(35)	(32)
Impairment of manufacturing operations	(15)		(215)	
Accelerated depreciation, asset impairment and other shutdown costs	(27)	(26)	(58)	(56)
Pension settlements/curtailments	(5)	(25)	(5)	(25)
Process standardization implementation costs	(6)	(25)	(19)	(45)
Gain on sale of product lines, businesses and assets		11		55
Litigation charges		(28)		(132)
Upfront licensing and milestone payments	(17)	(29)	(72)	(174)
Debt buyback and swap terminations		11		11
Product liability				(3)
Noncontrolling interest	506	433	1,035	831

Earnings from continuing operations before income taxes	$ 1,592	$ 1,522	$ 3,044	$ 2,717

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Note 4. RESTRUCTURING

The productivity transformation initiative (PTI) was designed to fundamentally change the way the business is run to meet the challenges of a changing business environment and to take advantage of the diverse opportunities in the marketplace as the transformation into a next-generation biopharmaceutical company continues. In addition to the PTI, a strategic process designed to achieve a culture of continuous improvement to enhance efficiency, effectiveness and competitiveness and to continue to improve the cost base has been implemented.

The following PTI and other restructuring charges were recognized:

Dollars in Millions	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Employee termination benefits	$ 27	$ 19	$ 37	$ 32
Other exit costs	(3)		(2)	6
Provision for restructuring, net	24	19	35	38
Impairment of manufacturing operations	15		215	
Accelerated depreciation, asset impairment and other shutdown costs	27	24	58	50
Pension plan curtailment charge	5	25	5	25
Process standardization implementation costs	6	25	19	45
Total cost	77	93	332	158
Gain on sale of product lines, businesses and assets		(11)		(55)
Net charges	$ 77	$ 82	$ 332	$ 103

Most of the accelerated depreciation, asset impairment and other shutdown costs were included in cost of products sold and primarily relate to the rationalization of the manufacturing network in the BioPharmaceuticals segment. These assets continue to be depreciated until the facility closures are completed. The remaining charges were primarily attributed to process standardization activities or attributed to pension plan curtailment charges both of which are recognized as incurred.

Restructuring charges included termination benefits for workforce reduction of manufacturing, selling, administrative, and research and development personnel across all geographic regions of approximately 260 and 140 for the three months ended June 30, 2010 and 2009, respectively, and approximately 480 and 355 for the six months ended June 30, 2010 and 2009, respectively.

The following table presents the detail of expenses incurred in connection with restructuring activities and related restructuring liability activity:

Dollars in Millions	Six Months Ended June 30, 2010 Employee Termination Liability	Other Exit Costs Liability	Total	Six Months Ended June 30, 2009 Employee Termination Liability	Other Exit Costs Liability	Total
Liability at January 1	$ 157	$ 16	$ 173	$ 188	$ 21	$ 209
Charges	31	3	34	32	6	38
Changes in estimates	6	(5)	1			

Provision for restructuring, net	37	(2)	35	32	6	38
Charges in discontinued operations				9		9
Foreign currency translation	(6)		(6)			
Spending	(62)	(7)	(69)	(75)	(4)	(79)
Liability at June 30	$ 126	$ 7	$ 133	$ 154	$ 23	$ 177

In connection with the continued optimization of the manufacturing network, the operations in Latina, Italy were sold to International Chemical Investors, SE (ICI) on May 31, 2010 resulting in a $215 million loss. The loss consisted of a $200 million impairment charge recorded in the first quarter of 2010 attributed to the write-down of assets to fair value less cost of sale when the assets met the held for sale criteria and $15 million of other working capital adjustments and transaction related fees recorded upon closing in the second quarter. An 18 million ($22 million) 6% subordinated promissory note payable in installments by May 2017 was received as consideration. Additional charges may be required pertaining to the Company s obligation to fund a portion of ICI s future restructuring costs up to 19 million ($23 million).

As part of the transaction, a one year supply agreement was entered into with ICI in which the Company will be the non-exclusive supplier of certain products to ICI. Also, a three year tolling and manufacturing agreement, which can be extended for an additional two years, was entered into with ICI in which the Company will supply certain raw material products to be processed and finished at the Latina facility and then distributed by the Company in various markets.

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Note 5. DISCONTINUED OPERATIONS

Mead Johnson Nutrition Company Split-off

In February 2009, Mead Johnson Nutrition Company (Mead Johnson) completed an initial public offering (IPO) in which the Company received $782 million and retained an 83.1% interest in Mead Johnson. On December 23, 2009, the split-off of the remaining interest in Mead Johnson was completed in exchange for 269 million shares of the Company s common stock. The results of the Mead Johnson business are included in discontinued operations for the three and six months ended June 30, 2009.

Dollars in Millions	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Net sales	$ 719	$ 1,412
Earnings before income taxes	$ 219	$ 408
Provision for income taxes[1]	90	278
Net earnings from discontinued operations	129	130
Less net earnings from discontinued operations attributable to noncontrolling interest	26	38
Net earnings from discontinued operations attributable to Bristol-Myers Squibb Company	$ 103	$ 92

(1) Provision for income taxes include $130 million for the six months ended June 30, 2009 of taxes incurred from the transfer of various international business units to Mead Johnson prior to the IPO.

Transitional Relationships with Discontinued Operations

Subsequent to the split-off, cash flows and income associated with the Mead Johnson business continued to be generated relating to activities that are transitional in nature and generally result from agreements that are intended to facilitate the orderly transfer of business operations. The agreements include, among others, services for accounting, customer service, distribution and manufacturing and generally expire no later than 18 months from the date of the split-off. The income generated from these transitional activities is included in other (income)/expense and is not expected to be material to the future results of operations or cash flows.

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Note 6. EARNINGS PER SHARE

Amounts in Millions, Except Per Share Data	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
EPS Numerator Basic:				
Income from Continuing Operations Attributable to BMS	$ 927	$ 880	$ 1,670	$ 1,529
Earnings attributable to unvested restricted shares	(3)	(5)	(7)	(8)
Income from Continuing Operations Attributable to BMS common shareholders	924	875	1,663	1,521
Net Earnings from Discontinued Operations Attributable to BMS[1]		102		91
EPS Numerator Basic	$ 924	$ 977	$ 1,663	$ 1,612
EPS Denominator Basic:				
Average Common Shares Outstanding	1,718	1,980	1,717	1,979
EPS Basic:				
Continuing Operations	$ 0.54	$ 0.44	$ 0.97	$ 0.77
Discontinued Operations		0.05		0.04
Net Earnings	$ 0.54	$ 0.49	$ 0.97	$ 0.81
EPS Numerator Diluted:				
Income from Continuing Operations Attributable to BMS	$ 927	$ 880	$ 1,670	$ 1,529
Earnings attributable to unvested restricted shares	(3)	(5)	(7)	(8)
Income from Continuing Operations Attributable to BMS common shareholders	924	875	1,663	1,521
Net Earnings from Discontinued Operations Attributable to BMS[1]		102		91
EPS Numerator Diluted	$ 924	$ 977	$ 1,663	$ 1,612
EPS Denominator Diluted:				
Average Common Shares Outstanding	1,718	1,980	1,717	1,979
Contingently convertible debt common stock equivalents	1	1	1	1
Incremental shares attributable to share-based compensation plans	9	2	9	2
Average Common Shares Outstanding and Common Share Equivalents	1,728	1,983	1,727	1,982
EPS Diluted:				
Continuing Operations	$ 0.53	$ 0.44	$ 0.96	$ 0.77
Discontinued Operations		0.05		0.04
Net Earnings	$ 0.53	$ 0.49	$ 0.96	$ 0.81

(1) Net Earnings from Discontinued Operations for EPS Calculation:				
Net Earnings from Discontinued Operations Attributable to BMS	$	$ 103	$	$ 92
Earnings attributable to unvested restricted shares		(1)		(1)
Net Earnings from Discontinued Operations Attributable to BMS for EPS Calculation	$	$ 102	$	$ 91
Anti-dilutive weighted-average equivalent shares:				
Stock incentive plans	64	138	66	132
Total anti-dilutive shares	64	138	66	132

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Note 7. INCOME TAXES

The effective income tax rate on earnings from continuing operations before income taxes was 20.4% and 22.2% for the three and six months ended June 30, 2010 compared to 23.2% and 23.1% for the three and six months ended June 30, 2009. The effective tax rate is lower than the U.S. statutory rate of 35% primarily due to the permanent reinvestment of offshore earnings from certain manufacturing operations.

The decrease in the effective income tax rate in the three months ended June 30, 2010, was due to:

- A $66 million tax benefit in the second quarter of 2010 for the re-measurement of a U.S. contingent tax matter related to 2004.

- An out-of-period tax adjustment of $59 million related to previously unrecognized net deferred tax assets primarily attributed to deferred profits for financial reporting purposes related to certain alliances as of December 31, 2009. This was partially offset by a reversal of a $17 million understatement of tax expense in the first quarter of 2010. These adjustments are not material to any current or prior periods nor are they expected to be material for the year ended December 31, 2010.

Partially offset by:

- A favorable impact on the prior year rate from the research and development tax credit and deferral of income under the controlled foreign corporation look-through rules both of which expired on December 31, 2009.

- A $40 million tax benefit in the second quarter of 2009 related to the final settlement of certain state audits.

In addition to the factors described above, the effective income tax rate in the six months ended June 30, 2010, included an unfavorable impact from a $21 million charge resulting from the reduction of deferred tax assets due to the enactment of healthcare reform. The deferred tax charge was required as a result of the elimination of the deductibility of retiree healthcare payments to the extent of tax-free Medicare Part D subsidies that are received. The change in deductibility is effective January 1, 2013.

U.S. income taxes have not been provided on undistributed earnings of foreign subsidiaries as these undistributed earnings have been invested or are expected to be permanently reinvested offshore. If, in the future, these earnings are repatriated to the U.S., or if such earnings are determined to be remitted in the foreseeable future, additional tax provisions would be required. Reforms to the international tax laws have been proposed that if adopted may increase taxes and reduce the results of operations and cash flows. Future income tax rates are also expected to be negatively impacted by healthcare reform including the enactment of an annual non-tax deductible pharmaceutical fee beginning in 2011 payable to the government.

The Company is currently under examination by a number of tax authorities which have proposed adjustments to tax for issues such as transfer pricing, certain tax credits and the deductibility of certain expenses. The Company estimates that it is reasonably possible that the total amount of unrecognized tax benefits at June 30, 2010 will decrease in the range of approximately $175 million to $205 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, primarily settlement related, will involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. The Company also anticipates that it is reasonably possible that new issues will be raised by tax authorities which may require increases to the balance of unrecognized tax benefits; however, an estimate of such increases cannot reasonably be made at this time. The Company believes that it has adequately provided for all open tax years by tax jurisdiction.

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Note 8. FAIR VALUE MEASUREMENT

The fair value of financial assets and liabilities are classified in one of the following three categories:

	June 30, 2010				December 31, 2009			
Dollars in Millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available for Sale:								
U.S. Treasury Bills	$ 653	$	$	$ 653	$	$	$	$
U.S. Government Agency Securities	602			602	225			225
Equity Securities	5			5	11			11
Prime Money Market Funds		4,089		4,089		5,807		5,807
Corporate Debt Securities		1,614		1,614		837		837
Commercial Paper		998		998		518		518
FDIC Insured Debt Securities		359		359		252		252
U.S. Treasury Money Market Funds		9		9		218		218
U.S. Government Agency Money Market Funds						24		24
Floating Rate Securities (FRS)			47	47			91	91
Auction Rate Securities (ARS)			90	90			88	88
Total available for sale assets	1,260	7,069	137	8,466	236	7,656	179	8,071
Derivatives:								
Interest Rate Swap Derivatives		392		392		165		165
Foreign Currency Forward Derivatives		110		110		21		21
Total derivative assets		502		502		186		186
Total assets at fair value	$ 1,260	$ 7,571	$ 137	$ 8,968	$ 236	$ 7,842	$ 179	$ 8,257
Derivatives:								
Foreign Currency Forward Derivatives	$	$ 15	$	$ 15	$	$ 31	$	$ 31
Natural Gas Contracts		2		2		1		1
Interest Rate Swap Derivatives						5		5
Total derivative liabilities		17		17		37		37
Total liabilities at fair value	$	$ 17	$	$ 17	$	$ 37	$	$ 37

For financial assets and liabilities that utilize Level 1 and Level 2 inputs, direct and indirect observable price quotes are utilized, including LIBOR and EURIBOR yield curves, foreign exchange forward prices, NYMEX futures pricing and

common stock price quotes. Below is a summary of valuation techniques for Level 1 and Level 2 financial assets and liabilities:

U.S. Treasury Bills, U.S. Government Agency Securities and U.S. Government Agency Money Market Funds valued at the quoted market price from observable pricing sources at the reporting date.

Equity Securities valued using quoted stock prices from New York Stock Exchange or National Association of Securities Dealers Automated Quotation System at the reporting date.

Prime Money Market Funds net asset value of $1 per share.

Corporate Debt Securities and Commercial Paper valued at the quoted market price from observable pricing sources at the reporting date.

FDIC Insured Debt Securities valued at the quoted market price from observable pricing sources at the reporting date.

U.S. Treasury Money Market Funds valued at the quoted market price from observable pricing sources at the reporting date.

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Interest rate swap derivative assets and liabilities valued using LIBOR and EURIBOR yield curves, less credit valuation adjustments, at the reporting date. Counterparties to these contracts are highly-rated financial institutions, none of which experienced any significant downgrades since January 1, 2010. Valuations may fluctuate considerably from period-to-period due to volatility in underlying interest rates, driven by market conditions and the duration of the swap. In addition, credit valuation adjustment volatility may have a significant impact on the valuation of interest rate swaps due to changes in counterparty credit ratings and credit default swap spreads.

Foreign currency forward derivative assets and liabilities valued using quoted forward foreign exchange prices at the reporting date. Counterparties to these contracts are highly-rated financial institutions, none of which experienced any significant downgrades since January 1, 2010. Valuations may fluctuate considerably from period-to-period due to volatility in the underlying foreign currencies. Short-term maturities of the foreign currency forward derivatives are less than two years; therefore, counterparty credit risk is not significant.

Valuation models are utilized that rely exclusively on Level 3 inputs due to the lack of observable market quotes for the ARS and FRS portfolio. These inputs are based on expected cash flow streams and collateral values including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. The fair value of ARS was determined using internally developed valuations that were based in part on indicative bids received on the underlying assets of the securities and other evidence of fair value. Due to the current lack of an active market for FRS and the general lack of transparency into their underlying assets, other qualitative analysis are relied upon to value FRS including discussion with brokers and fund managers, default risk underlying the security and overall capital market liquidity. During the six months ended June 30, 2010, $55 million principal at par was received for FRS.

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Note 9. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Cash and cash equivalents were $5,918 million at June 30, 2010 and $7,683 million at December 31, 2009 and consisted of prime money market funds, government agency securities and treasury securities. Cash equivalents primarily consist of highly liquid investments with original maturities of three months or less at the time of purchase and are recorded at cost, which approximates fair value.

The following table summarizes current and non-current marketable securities, accounted for as available for sale debt securities and equity securities:

	June 30, 2010				December 31, 2009			
Dollars in Millions	Amortized Cost Basis	Unrealized Gain in Accumulated OCI	Unrealized Loss in Accumulated OCI	Fair Value	Amortized Cost Basis	Unrealized Gain in Accumulated OCI	Unrealized Loss in Accumulated OCI	Fair Value
Current marketable securities:								
Certificates of deposit	$ 780	$	$	$ 780	$ 501	$	$	$ 501
Commercial Paper	185			185	205			205
U.S. Treasury Bills	250			250				
Corporate debt securities	266	4		270				
FDIC insured debt securities	51			51				
U.S. government agency securities					125			125
Total current	$ 1,532	$ 4	$	$ 1,536	$ 831	$	$	$ 831
Non-current marketable securities:								
Corporate debt securities	$ 1,335	$ 18	$ (9)	$ 1,344	$ 834	$ 5	$ (2)	$ 837
U.S. government agency securities	600	2		602	100			100
U.S. Treasury Bills	399	4		403				
FDIC insured debt securities	304	4		308	252			252
Auction rate securities	80	10		90	80	8		88
Floating rate securities[1]	58		(11)	47	113		(22)	91
Other	1			1	1			1
Total non-current	$ 2,777	$ 38	$ (20)	$ 2,795	$ 1,380	$ 13	$ (24)	$ 1,369
Other assets:								
Equity securities	$ 5	$	$	$ 5	$ 11	$	$	$ 11

(1) All FRS have been in an unrealized loss position for 12 months or more at June 30, 2010.

The contractual maturities of non-current available for sale debt securities at June 30, 2010 were as follows:

Dollars in Millions	1 to 5 Years	Over 10 Years	Total

Available for sale:			
Corporate debt securities	$ 1,344	$	$ 1,344
U.S. government agency securities	602		602
U.S. Treasury Bills	403		403
FDIC insured debt securities	308		308
Floating rate securities	47		47
Auction rate securities		90	90
Other	1		1
Total available for sale	$ 2,705	$ 90	$ 2,795

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Note 10. RECEIVABLES

Receivables include:

Dollars in Millions	June 30 2010	December 31, 2009
Trade receivables	$ 1,896	$ 2,000
Less allowances	91	103
Net trade receivables	1,805	1,897
Alliance partners receivables	950	870
Income tax refund claims	190	103
Miscellaneous receivables	227	294
Receivables	$ 3,172	$ 3,164

Receivables are netted with deferred income related to alliance partners until recognition of income. As a result, alliance partner receivables and deferred income were reduced by $1,029 million and $730 million at June 30, 2010 and December 31, 2009, respectively. For additional information regarding alliance partners, see Note 2. Alliances and Collaborations. Non-U.S. receivables sold on a nonrecourse basis were $447 million and $104 million for the six months ended June 30, 2010 and 2009, respectively. In the aggregate, receivables due from three pharmaceutical wholesalers in the U.S. represented 50% and 47% of total trade receivables at June 30, 2010 and December 31, 2009, respectively.

In the second quarter of 2010, the government of Greece announced that they intend to convert certain past due receivables from government run hospitals into non-interest bearing notes to be paid over one to three year periods. As a result, receivables of 41 million ($51 million) were reclassified to other long-term assets. A $9 million charge attributed to the imputed discount on the expected non-interest bearing loans over the expected collection period was recognized in the three months ended June 30, 2010 and has been included in other (income)/expense.

Note 11. INVENTORIES

Inventories include:

Dollars in Millions	June 30, 2010	December 31, 2009
Finished goods	$ 545	$ 580
Work in process	446	630
Raw and packaging materials	274	203
Inventories	$ 1,265	$ 1,413

Inventories expected to remain on-hand beyond one year were $242 million and $249 million at June 30, 2010 and December 31, 2009, respectively, and were included in non-current other assets. In addition, $148 million of these inventories (plus $37 million of additional purchase obligations) currently cannot be sold in the U.S. until the U.S. Food and Drug Administration (FDA) approves a manufacturing process change. Inventories also include capitalized costs related to production of products for programs in Phase III development subject to final FDA approval of $57 million and $49 million at June 30, 2010 and December 31, 2009, respectively. The status of the regulatory approval process and the probability of future sales were considered in assessing the recoverability of these costs.

Note 12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes:

Dollars in Millions	June 30, 2010	December 31, 2009
Land	$ 135	$ 142
Buildings	4,300	4,350
Machinery, equipment and fixtures	3,103	3,563
Construction in progress	690	840
Gross property, plant and equipment	8,228	8,895
Less accumulated depreciation	3,483	3,840
Property, plant and equipment	$ 4,745	$ 5,055

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Note 13. EQUITY

Changes in common shares, treasury stock and capital in excess of par value of stock were as follows:

Dollars and Shares in Millions	Common Shares Issued	Treasury Stock	Cost of Treasury Stock	Capital in Excess of Par Value of Stock
Balance at January 1, 2009	2,205	226	$ (10,566)	$ 2,757
Mead Johnson initial public offering				942
Employee stock compensation plans		(2)	58	4
Balance at June 30, 2009	2,205	224	$ (10,508)	$ 3,703
Balance at January 1, 2010	2,205	491	$ (17,364)	$ 3,768
Stock repurchase program		7	(173)	
Employee stock compensation plans		(7)	266	(71)
Balance at June 30, 2010	2,205	491	$ (17,271)	$ 3,697

The accumulated balances related to each component of other comprehensive income/(loss) (OCI), net of taxes, were as follows:

Dollars in Millions	Foreign Currency Translation	Derivatives Qualifying as Effective Hedges	Pension and Other Postretirement Benefits	Available for Sale Securities	Accumulated Other Comprehensive Income/(Loss)
Balance at January 1, 2009	$ (424)	$ 14	$ (2,258)	$ (51)	$ (2,719)
Other comprehensive income/(loss)	18	(38)	470	14	464
Balance at June 30, 2009	$ (406)	$ (24)	$ (1,788)	$ (37)	$ (2,255)
Balance at January 1, 2010	$ (343)	$ (30)	$ (2,158)	$ (10)	$ (2,541)
Other comprehensive income/(loss)	103	75	31	32	241
Balance at June 30, 2010	$ (240)	$ 45	$ (2,127)	$ 22	$ (2,300)

The reconciliation of noncontrolling interest was as follows:

Dollars in Millions	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Balance at beginning of period	$ (16)	$ (208)	$ (58)	$ (33)
Mead Johnson initial public offering				(160)
Net earnings attributable to noncontrolling interest	505	456	1,033	864
Other comprehensive income attributable to noncontrolling interest		2		5
Distributions	(583)	(410)	(1,069)	(836)

Balance at June 30	$ (94)	$ (160)	$ (94)	$ (160)

Noncontrolling interest is primarily related to the partnerships with sanofi for the territory covering the Americas for net sales of PLAVIX*. Net earnings attributable to noncontrolling interest are presented net of taxes of $165 million and $144 million for the three months ended June 30, 2010 and 2009, respectively, and $336 million and $271 million for the six months ended June 30, 2010 and 2009, respectively, in the consolidated statements of earnings with a corresponding increase to the provision for income taxes. Distribution of the partnership profits to sanofi and sanofi s funding of ongoing partnership operations occur on a routine basis and are included within operating activities in the consolidated statements of cash flows. The above activity includes the pre-tax income and distributions related to these partnerships. Net earnings attributable to noncontrolling interest included in discontinued operations was $26 million and $38 million in the three and six months ended June 30, 2009, respectively.

Treasury stock is recognized at the cost to reacquire the shares. Shares issued from treasury are recognized utilizing the first-in first-out method.

In May 2010, the Board of Directors authorized the repurchase of up to $3.0 billion of common stock. Repurchases may be made either in the open market or through private transactions, including under repurchase plans established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The stock repurchase program does not have an expiration date but is expected to take place over the next few years. It may be suspended or discontinued at any time. During the three months ended June 30, 2010, the Company repurchased 7.3 million shares at the average price of approximately $23.75 per share and an aggregate cost of $173 million.

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Note 14. PENSION, POSTRETIREMENT AND POSTEMPLOYMENT LIABILITIES

The net periodic benefit cost of defined benefit pension and postretirement benefit plans includes:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
Dollars in Millions	2010	2009	2010	2009	2010	2009	2010	2009
Service cost benefits earned during the period	$ 11	$ 48	$ 2	$ 2	$ 22	$ 107	$ 4	$ 3
Interest cost on projected benefit obligation	86	89	8	10	173	193	15	19
Expected return on plan assets	(112)	(107)	(6)	(5)	(225)	(233)	(12)	(10)
Amortization of prior service cost/(benefit)		1	(1)	(1)		4	(2)	(2)
Amortization of net actuarial loss	24	28	3	2	48	70	6	5
Net periodic benefit cost	9	59	6	8	18	141	11	15
Settlements	5				5			
Curtailments and special termination benefits	6	25			9	25		
Total net periodic benefit cost	$ 20	$ 84	$ 6	$ 8	$ 32	$ 166	$ 11	$ 15
Continuing operations	$ 20	$ 82	$ 6	$ 8	$ 32	$ 161	$ 11	$ 14
Discontinued operations		2				5		1
Total net periodic benefit cost	$ 20	$ 84	$ 6	$ 8	$ 32	$ 166	$ 11	$ 15

Contributions to the U.S. pension plans are expected to approximate $330 million during 2010, of which $315 million was contributed in the six months ended June 30, 2010. Contributions to the international plans are expected to range from $85 million to $100 million in 2010, of which $48 million was contributed in the six months ended June 30, 2010.

In connection with the amendments of the U.S. Retirement Income Plan and several other plans, the crediting of future benefits relating to service was eliminated effective December 31, 2009. In addition, actuarial gains and losses are amortized over the expected weighted-average remaining lives of the participants (32 years). Net periodic benefit costs are reduced as a result of these changes. Pension settlement charges resulting in an acceleration of previously deferred actuarial losses might be required in future periods if lump sum payments for individual plans exceed the sum of the related plan s service cost and interest cost.

Certain enhancements were made to the defined contribution plans in the U.S. and Puerto Rico allowing for increased matching and additional Company contributions effective January 1, 2010. The expense attributed to these plans was $44 million and $14 million for the three months ended June 30, 2010 and 2009, respectively, and $95 million and $27 million for the six months ended June 30, 2010 and 2009, respectively.

Note 15. EMPLOYEE STOCK BENEFIT PLANS

Stock-based compensation expense was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in Millions	2010	2009	2010	2009
Stock options	$ 14	$ 18	$ 27	$ 36
Restricted stock	23	19	46	35
Long-term performance awards	12	8	23	17

Total stock-based compensation expense	$ 49	$ 45	$ 96	$ 88
Continuing operations	$ 49	$ 42	$ 96	$ 82
Discontinued operations		3		6
Total stock-based compensation expense	$ 49	$ 45	$ 96	$ 88
Deferred tax benefit related to stock-based compensation expense:				
Continuing operations	$ 16	$ 14	$ 31	$ 27
Discontinued operations		1		2
Total deferred tax benefit related to stock-based compensation expense	$ 16	$ 15	$ 31	$ 29

In the six months ended June 30, 2010, 3.1 million restricted stock units, 1.4 million market share units and 1.7 million long-term performance share units were granted. The weighted-average grant date fair value for restricted stock units, market share units and long-term performance share units granted during the six months ended June 30, 2010 was $24.73, $24.69 and $23.65, respectively.

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Restricted stock units vest ratably over a four year period. Market share units vest ratably over a four year period based on share price performance. The fair value of market share units was estimated on the date of grant using a model applying multiple input variables that determine the probability of satisfying market conditions. Long-term performance share units are determined based on the achievement of annual performance goals, but are not vested until the end of the three year period.

Total compensation costs related to nonvested awards not yet recognized and the weighted-average period over which such awards are expected to be recognized at June 30, 2010 were as follows:

Dollars in Millions	Stock Options	Restricted Stock	Long-Term Performance Awards
Unrecognized compensation cost	$ 60	$ 209	$ 40
Expected weighted-average period of compensation cost to be recognized	2.1 years	2.1 years	1.5 years

Note 16. FINANCIAL INSTRUMENTS

Financial instruments include cash and cash equivalents, marketable securities, receivables, accounts payable, debt instruments and derivatives. Due to their short term maturity, the carrying amount of receivables and accounts payable approximate fair value. For further information about cash, cash equivalents and marketable securities, see Note 9. Cash, Cash Equivalents and Marketable Securities.

There is exposure to market risk due to changes in currency exchange rates and interest rates. As a result, certain derivative financial instruments are used when available on a cost-effective basis to hedge the underlying economic exposure. These instruments qualify as cash flow, net investment and fair value hedges upon meeting certain criteria, including effectiveness of offsetting hedged exposures. Changes in fair value of derivatives that do not qualify for hedge accounting are recognized in earnings as they occur. All financial instruments, including derivatives, are subject to counterparty credit risk which is considered as part of the overall fair value measurement. Derivative financial instruments are not used for trading purposes.

Foreign currency forward contracts are used to manage cash flow exposures. The primary net foreign currency exposures hedged are the Euro, Japanese yen, Canadian dollar, British pound, Australian dollar and Mexican peso. Fixed-to-floating interest rate swaps are used as part of the interest rate risk management strategy. These swaps generally qualify for fair-value hedge accounting treatment. Certain net asset changes due to foreign exchange volatility are generally hedged through non-U.S. dollar borrowings which qualify as a net investment hedge.

Qualifying Hedges

Cash Flow Hedges

Foreign Currency Forward Contracts Foreign currency forward contracts are utilized to hedge forecasted intercompany and other transactions for certain foreign currencies. These contracts are designated as foreign currency cash flow hedges when appropriate. The effective portion of changes in fair value for the designated foreign currency hedges is temporarily reported in accumulated OCI and recognized in earnings when the hedged item affects earnings. The net deferred gains on foreign currency forward contracts qualifying for cash flow hedge accounting are expected to be reclassified to earnings within the next two years.

Effectiveness is assessed at the inception of the hedge and on a quarterly basis. These assessments determine whether derivatives designated as qualifying hedges continue to be highly effective in offsetting changes in the cash flows of hedged items. Any ineffective portion of change in fair value is included in current period earnings. The impact of hedge ineffectiveness on earnings was not significant during the three and six months ended June 30, 2010. Cash flow hedge accounting is discontinued when the forecasted transaction is no longer probable of occurring on the originally forecasted date, or 60 days thereafter, or when the hedge is no longer effective. Discontinued foreign currency forward hedges resulted in a pre-tax gain of $9 million and $11 million during the three and six months ended June 30, 2010,

respectively, which was recognized in other (income)/expense.

Interest Rate Contracts Terminated swaps that qualify as cash flow hedges are recognized in accumulated OCI and amortized to earnings over the remaining life of the debt when the hedged debt remains outstanding.

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The impact on OCI and earnings from derivative instruments qualifying as cash flow hedges was as follows:

	Six Months Ended June 30,							
	Foreign Currency Forward Contracts		Natural Gas Contracts		Forward Starting Swaps		Total Impact	
Dollars in Millions	2010	2009	2010	2009	2010	2009	2010	2009
Net carrying amount at January 1	$ (11)	$ 35	$ (1)	$ (2)	$ (18)	$ (19)	$ (30)	$ 14
Cash flow hedges deferred in OCI	99	3		2			99	5
Cash flow hedges reclassified to cost of products sold/interest expense (effective portion)	9	(55)					9	(55)
Change in deferred taxes	(33)	13		(1)			(33)	12
Net carrying amount at June 30	$ 64	$ (4)	$ (1)	$ (1)	$ (18)	$ (19)	$ 45	$ (24)

Hedge of Net Investment

Non-U.S. dollar borrowings, primarily the 500 Million Notes due 2016 and 500 Million Notes due 2021, ($1.2 billion total), are used to hedge the foreign currency exposures of the net investment in certain foreign affiliates. These borrowings are designated as a hedge of a net investment. At June 30, 2010, 294 million ($363 million) of the Notes due 2016 have been dedesignated.

The impact on OCI and earnings from non-derivative debt designated net investment hedges was as follows:

	Six Months Ended June 30, Net Investment Hedges	
Dollars in Millions	2010	2009
Net carrying amount at January 1	$ (169)	$ (131)
Change in spot value of non-derivative debt designated as a hedge	202	(2)
Gain recognized in other (income)/expense, net (overhedged portion)	(59)	
Net carrying amount at June 30	$ (26)	$ (133)

Fair Value Hedges

Interest Rate Contracts Derivative instruments are used as part of an interest rate risk management strategy, principally fixed-to-floating interest rate swaps that are designated as fair-value hedges.

The swaps and underlying debt for the benchmark risk being hedged are recorded at fair value. Swaps are intended to create an appropriate balance of fixed and floating rate debt. The basis adjustment to debt with qualifying fair value hedging relationships is amortized to earnings as an adjustment to interest expense over the remaining life of the debt when the underlying swap is terminated prior to maturity.

In May 2010, fixed-to-floating interest rate swap agreements of $237 million notional amount and 500 million notional amount were terminated generating total proceeds of $116 million which included accrued interest of $18 million and a basis adjustment of $98 million which was deferred and will be amortized to interest expense over the remaining life of the underlying debt.

In January 2010, fixed-to-floating interest rate swaps were executed to convert $332 million of the 6.80% Debentures due 2026 and $147 million of the 7.15% Debentures due 2023 from fixed rate debt to variable rate debt. These swaps qualified as a fair value hedge for each debt instrument.

The impact on earnings from interest rate swaps that qualified as fair value hedges was as follows:

Dollars in Millions	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Recognized in interest expense	$ (33)	$ (29)	$ (72)	$ (53)
Amortization of basis adjustment from swap terminations recognized in interest expense	(8)	(7)	(15)	(12)
Total	$ (41)	$ (36)	$ (87)	$ (65)

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The impact on long-term debt from interest rate swaps that qualify as fair value hedges and other items were as follows:

Dollars in Millions	June 30, 2010	December 31, 2009
Principal value	$ 5,425	$ 5,622
Adjustments to Principal Value:		
Fair value of interest rate swaps	392	160
Unamortized basis adjustment from swap terminations	460	377
Unamortized bond discounts	(29)	(29)
Total	$ 6,248	$ 6,130

Total interest expense, including interest on long-term debt and interest rate swaps, amounted to $32 million and $42 million for the three months ended June 30, 2010 and 2009, respectively, and $65 million and $94 million for the six months ended June 30, 2010 and 2009, respectively.

Non-Qualifying Foreign Exchange Contracts

Foreign currency forward contracts are used to offset exposure to foreign currency-denominated monetary assets, liabilities and earnings. The primary objective of these contracts is to protect the U.S. dollar value of foreign currency-denominated monetary assets, liabilities and earnings from the effects of volatility in foreign exchange rates that might occur prior to their receipt or settlement in U.S. dollars. These contracts are not designated as hedges and are adjusted to fair value through other (income)/expense as they occur, and substantially offset the change in fair value of the underlying foreign currency denominated monetary asset, liability or earnings.

In the first quarter of 2010, foreign currency forward contracts were used to hedge anticipated earnings denominated in Australian and Canadian dollars throughout 2010. These contracts are not designated as qualifying hedges, and therefore, gains or losses on these derivatives will be recognized in earnings in other (income)/expense as they occur.

The effect of non-qualifying hedges was a $6 million gain and $3 million gain for the three and six months ended June 30, 2010, respectively, and was not significant for 2009.

The following table summarizes the fair value of outstanding derivatives:

Dollars in Millions	June 30, 2010		December 31, 2009		June 30, 2010		December 31, 2009	
	Balance Sheet Location	Notional	Fair Value	Notional	Fair Value	Balance Sheet Location	Notional	Fair Value	Notional	Fair Value
Derivatives designated as hedging instruments:										
Interest rate contracts	Other assets	$ 3,152	$ 392	$ 3,134	$ 165	Accrued expenses	$	$	$ 597	$ (5)
Foreign currency forward contracts	Other assets	807	106	780	21	Accrued expenses	424	(15)	731	(31)
Hedge of net investments						Long-term debt	874	(874)	1,256	(1,256)
Natural gas contracts						Accrued expenses	*	(2)	*	(1)

Subtotal		498	186		(891)	(1,293)
Derivatives not designated as hedging instruments:						
Foreign currency forward contracts	Other assets	114	4	Accrued expenses		
Total Derivatives		$ 502	$ 186		$ (891)	$ (1,293)

* The notional value of natural gas contracts was 1 million and 2 million decatherms at June 30, 2010 and December 31, 2009, respectively.

The derivative financial instruments present certain market and counterparty risks; however, concentration of counterparty risk is mitigated by using banks worldwide with Standard & Poor s and Moody s long-term debt ratings of A or higher. In addition, only conventional derivative financial instruments are utilized. The consolidated financial statements would not be materially impacted if any counterparties failed to perform according to the terms of its agreement. Currently, collateral or any other form of securitization is not required to be furnished by the counterparties to derivative financial instruments.

For a discussion on the fair value of financial instruments, see Note 8. Fair Value Measurement.

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Note 17. LEGAL PROCEEDINGS AND CONTINGENCIES

Various lawsuits, claims, government investigations and other legal proceedings are pending involving the Company and certain of its subsidiaries. The Company recognizes accruals for such contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. These matters involve, among other things, antitrust, securities, patent infringement, pricing, sales and marketing practices, environmental, commercial, health and safety matters, consumer fraud, employment matters, product liability and insurance coverage. The most significant of these matters are described below.

Although the Company believes it has substantial defenses in these matters, there can be no assurance that there will not be an increase in the scope of pending matters or that any future lawsuits, claims, government investigations or other legal proceedings will not be material.

INTELLECTUAL PROPERTY

PLAVIX* Litigation

PLAVIX* is currently the Company s largest product ranked by net sales. The PLAVIX* patents are subject to a number of challenges in the U.S., including the litigation with Apotex Inc. and Apotex Corp. (Apotex) described below, and in other less significant markets for the product. The Company and its product partner, sanofi, (the Companies) intend to vigorously pursue enforcement of their patent rights in PLAVIX*.

PLAVIX* Litigation U.S.

Patent Infringement Litigation against Apotex and Related Matters

As previously disclosed, the Company s U.S. territory partnership under its alliance with sanofi is a plaintiff in a pending patent infringement lawsuit instituted in the United States District Court for the Southern District of New York (District Court) entitled Sanofi-Synthelabo, Sanofi-Synthelabo, Inc. and Bristol-Myers Squibb Sanofi Pharmaceuticals Holding Partnership v. Apotex. The suit is based on U.S. Patent No. 4,847,265 (the 265 Patent), a composition of matter patent, which discloses and claims, among other things, the hydrogen sulfate salt of clopidogrel, a medicine made available in the U.S. by the Companies as PLAVIX*. Also, as previously reported, the District Court upheld the validity and enforceability of the 265 Patent, maintaining the main patent protection for PLAVIX* in the U.S. until November 2011. The District Court also ruled that Apotex s generic clopidogrel bisulfate product infringed the 265 Patent and permanently enjoined Apotex from engaging in any activity that infringes the 265 Patent, including marketing its generic product in the U.S. until after the patent expires.

Apotex appealed the District Court s decision and on December 12, 2008, the United States Court of Appeals for the Federal Circuit (Circuit Court) affirmed the District Court s ruling sustaining the validity of the 265 Patent. Apotex filed a petition with the Circuit Court for a rehearing *en banc*, and in March 2009, the Circuit Court denied Apotex s petition. The case has been remanded to the District Court for further proceedings relating to damages. In July 2009, Apotex filed a petition for writ of certiorari with the U.S. Supreme Court requesting the Supreme Court to review the Circuit Court s decision. In November 2009, the U.S. Supreme Court denied the petition, declining to review the Circuit Court s decision. In December 2009, the Company filed a motion in the District Court for summary judgment on damages, and in January 2010, Apotex filed a motion seeking a stay of the ongoing damages proceedings pending the outcome of the reexamination of the PLAVIX* patent by the U.S. Patent and Trademark Office (PTO) described below. In April 2010, the District Court denied Apotex s motion to stay the proceedings. The Company s summary judgment motion remains pending.

As previously disclosed, the Company s U.S. territory partnership under its alliance with sanofi is also a plaintiff in five additional patent infringement lawsuits against Dr. Reddy s Laboratories, Inc. and Dr. Reddy s Laboratories, LTD (Dr. Reddy s), Teva Pharmaceuticals USA, Inc. (Teva), Cobalt Pharmaceuticals Inc. (Cobalt), Watson Pharmaceuticals, Inc. and Watson Laboratories, Inc. (Watson) and Sun Pharmaceuticals (Sun). The lawsuits against Dr. Reddy s, Teva and Cobalt relate to the 265 Patent. In May 2009, Dr Reddy s signed a consent judgment in favor of sanofi and BMS conceding the validity and infringement of the 265 Patent. As previously reported, the patent infringement actions against Teva and Cobalt were stayed pending resolution of the Apotex litigation, and the parties to those actions agreed

to be bound by the outcome of the litigation against Apotex. Consequently, on July 12, 2007, the District Court entered judgments against Cobalt and Teva and permanently enjoined Cobalt and Teva from engaging in any activity that infringes the 265 Patent until after the Patent expires. Cobalt and Teva each filed an appeal. In July 2009, the Circuit Court issued a mandate in the Teva appeal binding Teva to the decision in the Apotex litigation. In August 2009, Cobalt consented to entry of judgment in its appeal agreeing to be bound by Circuit Court s decision in the Apotex litigation. The lawsuit against Watson, filed in October 2004, was based on U.S. Patent No. 6,429,210 (the 210 Patent), which discloses and claims a particular crystalline or polymorph form of the hydrogen sulfate salt of clopidogrel, which is marketed as PLAVIX*. In December 2005, the Court permitted Watson to pursue its declaratory judgment counterclaim with respect to U.S. Patent No. 6,504,030. In January 2006, the Court

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approved the parties stipulation to stay this case pending the outcome of the trial in the Apotex matter. On May 1, 2009, BMS and Watson entered into a stipulation to dismiss the case. In April 2007, Pharmastar filed a request for *inter partes* reexamination of the 210 Patent at the PTO. The PTO granted this request in July of 2007 and in July 2009, the PTO vacated the reexamination proceeding. The lawsuit against Sun, filed on July 11, 2008, is based on infringement of the 265 Patent and the 210 Patent. With respect to the 265 Patent, Sun has agreed to be bound by the outcome of the Apotex litigation. Each of Dr. Reddy s, Teva, Cobalt, Watson and Sun have filed an aNDA with the FDA, and, with respect to Dr. Reddy s, Teva, Cobalt and Watson all exclusivity periods and statutory stay periods under the Hatch-Waxman Act have expired. Accordingly, final approval by the FDA would provide each company authorization to distribute a generic clopidogrel bisulfate product in the U.S., subject to various legal remedies for which the Companies may apply including injunctive relief and damages.

On June 1, 2009, Apotex filed a request for *ex parte* reexamination of the 265 Patent at the PTO and in August 2009, the PTO agreed to reexamine the patent. In December 2009, the PTO issued a non-final office action rejecting several claims covering PLAVIX* including the claim that was previously upheld in the litigation against Apotex referred to above. Sanofi responded to the office action in February 2010. The PTO has issued an *ex parte* Reexamination Certificate withdrawing the rejections in the non-final office action and confirming patentability of all the claims of the 265 Patent. Apotex has filed a second request for *ex parte* reexamination of the 265 Patent and in June 2010, the PTO denied Apotex s request to reexamine the patent again.

It is not possible at this time reasonably to assess the outcome of the PLAVIX* patent litigations or the timing of any renewed generic competition for PLAVIX* from Apotex or additional generic competition for PLAVIX* from other third-party generic pharmaceutical companies. Loss of market exclusivity for PLAVIX* and/or sustained generic competition would be material to the Company s sales of PLAVIX*, results of operations and cash flows, and could be material to the Company s financial condition and liquidity. Additionally, it is not possible at this time reasonably to assess the amount of damages that could be recovered by the Company and Apotex s ability to pay such damages in the event the Company prevails in the patent litigation.

Additionally, on November 13, 2008, Apotex filed a lawsuit in New Jersey Superior Court entitled, *Apotex Inc., et al. v. sanofi-aventis, et al*., seeking payment of $60 million, plus interest, related to the break-up of the proposed settlement agreement.

PLAVIX* Litigation International

PLAVIX* Australia

As previously disclosed, sanofi was notified that, in August 2007, GenRx Proprietary Limited (GenRx) obtained regulatory approval of an application for clopidogrel bisulfate 75mg tablets in Australia. GenRx, formerly a subsidiary of Apotex, has since changed its name to Apotex. In August 2007, Apotex filed an application in the Federal Court of Australia seeking revocation of sanofi s Australian Patent No. 597784 (Case No. NSD 1639 of 2007). Sanofi filed counterclaims of infringement and sought an injunction. On September 21, 2007, the Australian court granted sanofi s injunction. A subsidiary of the Company was subsequently added as a party to the proceedings. In February 2008, a second company, Spirit Pharmaceuticals Pty. Ltd., also filed a revocation suit against the same patent. This case was consolidated with the Apotex case and a trial occurred in April 2008. On August 12, 2008, the Federal Court of Australia held that claims of Patent No. 597784 covering clopidogrel bisulfate, hydrochloride, hydrobromide, and taurocholate salts were valid. The Federal Court also held that the process claims, pharmaceutical composition claims, and claim directed to clopidogrel and its pharmaceutically acceptable salts were invalid. The Company and sanofi filed notices of appeal in the Full Court of the Federal Court of Australia (Full Court) appealing the holding of invalidity of the claim covering clopidogrel and its pharmaceutically acceptable salts, process claims, and pharmaceutical composition claims which have stayed the Federal Court s ruling. Apotex filed a notice of appeal appealing the holding of validity of the clopidogrel bisulfate, hydrochloride, hydrobromide, and taurocholate claims. A hearing on the appeals occurred in February 2009. On September 29, 2009, the Full Federal Court of Australia held all of the claims of Patent No. 597784 invalid. In November 2009, the Company and sanofi applied to the High Court of Australia (High Court) for special leave to appeal the judgment of the Full Court. In March 2010, the High Court denied the Company and sanofi s request to hear the appeal of the Full Court decision. The case has been remanded to the Federal Court for further proceedings related to damages. It is expected the amount of damages will not be material to the Company.

PLAVIX* EU

As previously disclosed, in 2007, YES Pharmaceutical Development Services GmbH (YES Pharmaceutical) filed an application for marketing authorization in Germany for an alternate salt form of clopidogrel. This application relied on data from studies that were originally conducted by sanofi and BMS for PLAVIX* and were still the subject of data protection in the EU. Sanofi and BMS have filed an action against YES Pharmaceutical and its partners in the administrative court in Cologne objecting to the mandatory authorization. This matter is currently pending.

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PLAVIX* Canada (Apotex, Inc.)

On April 22, 2009, Apotex filed an impeachment action against sanofi in the Federal Court of Canada alleging that sanofi s Canadian Patent No. 1,336,777 (the 777 Patent) is invalid. The 777 Patent covers clopidogrel bisulfate and was the patent at issue in the prohibition action in Canada previously disclosed in which the Canadian Federal Court of Ottawa rejected Apotex s challenge to the 777 Patent, held that the asserted claims are novel, not obvious and infringed, and granted sanofi s application for an order of prohibition against the Minister of Health and Apotex, precluding approval of Apotex s Abbreviated New Drug Submission until the patent expires in 2012, which decision was affirmed on appeal by both the Federal Court of Appeal and the Supreme Court of Canada. On June 8, 2009, sanofi filed its defense to the impeachment action and filed a suit against Apotex for infringement of the 777 Patent.

OTHER INTELLECTUAL PROPERTY LITIGATION

ABILIFY*

As previously disclosed, Otsuka has filed patent infringement actions against Teva, Barr Pharmaceuticals, Inc. (Barr), Sandoz Inc. (Sandoz), Synthon Laboratories, Inc (Synthon), Sun Pharmaceuticals (Sun), Zydus Pharmaceuticals USA, Inc., and Apotex relating to U.S. Patent No. 5,006,528, which covers aripiprazole and expires in April 2015 (including the additional six-month pediatric exclusivity period). Aripiprazole is comarketed by the Company and Otsuka in the U.S. as ABILIFY*. The lawsuits are currently pending in the U.S. District Court for the District of New Jersey and a trial is scheduled to begin in August 2010. The 30-month stay under the Hatch-Waxman Act is believed to expire in November 2010. Accordingly, final approval by the FDA would provide each generic company authorization to distribute a generic aripiprazole product in the U.S., subject to various legal remedies for which Otsuka may apply including injunctive relief and damages.

It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on the Company. If, however, a generic company were to launch at risk or if Otsuka were not to prevail in these lawsuits, generic competition would likely result in substantial decreases in the sales of ABILIFY* in the U.S., which would have a material adverse effect on the results of operations and cash flows and could be material to financial condition.

ATRIPLA*

In April 2009, Teva filed an aNDA to manufacture and market a generic version of ATRIPLA*. Teva sent Gilead a Paragraph IV certification letter challenging two of the fifteen Orange Book listed patents for ATRIPLA*. ATRIPLA* is the product of a joint venture between the Company and Gilead. In May 2009, Gilead filed a patent infringement action against Teva in the U.S. District Court for the Southern District of New York (SDNY). In January 2010, the Company received a notice that Teva amended its aNDA and is challenging eight additional Orange Book listed patents for ATRIPLA*. In March 2010, the Company and Merck, Sharp & Dohme Corp. filed a patent infringement action against Teva also in the SDNY relating to two U.S. Patents which claim crystalline or polymorph forms of efavirenz. In March 2010, Gilead filed two patent infringement actions against Teva in the SDNY relating to six Orange Book listed patents for ATRIPLA*. At this time, the Company s patent rights covering efavirenz composition of matter and method of use have not been challenged. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on the Company.

REYATAZ

Teva has filed aNDAs to manufacture and market generic versions of all four dosage forms REYATAZ (100, 150, 200 and 300 mg). The Company received a Paragraph IV certification letter from Teva challenging the two Orange Book listed patents for REYATAZ. In December 2009, the Company and Novartis Pharmaceutical Corporation (Novartis) filed a patent infringement lawsuit in the U.S. District Court for the District of Delaware (Delaware District Court) against Teva for infringement of the two listed patents covering REYATAZ, which we believe triggered an automatic 30-month stay of approval of Teva s aNDA. Subsequent patent infringement lawsuits were filed. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on the Company.

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GENERAL COMMERCIAL LITIGATION

Clayworth Litigation

As previously disclosed, the Company, together with a number of other pharmaceutical manufacturers, was named as a defendant in an action filed in California State Superior Court in Oakland, *James Clayworth et al. v. Bristol-Myers Squibb Company, et al*., alleging that the defendants conspired to fix the prices of pharmaceuticals by agreeing to charge more for their drugs in the U.S. than they charge outside the U.S., particularly Canada, and asserting claims under California s Cartwright Act and unfair competition law. The plaintiffs sought trebled monetary damages, injunctive relief and other relief. In December 2006, the Court granted the Company and the other manufacturers motion for summary judgment based on the pass-on defense, and judgment was then entered in favor of defendants. In July 2008, judgment in favor of defendants was affirmed by the California Court of Appeals. In July 2010, the California Supreme Court reversed the Court of Appeal s judgment and the matter will be remanded to the Superior Court for further proceedings. It is not possible at this time reasonably to assess the outcome of this lawsuit or its impact on the Company in the event plaintiffs are successful on appeal.

RxUSA Wholesale Litigation

As previously disclosed, in July 2006, a complaint was filed by drug wholesaler RxUSA Wholesale, Inc. in the U.S. District Court for the Eastern District of New York against the Company, 15 other drug manufacturers, five drug wholesalers, two officers of defendant McKesson and a wholesale distribution industry trade group, *RxUSA Wholesale, Inc. v. Alcon Labs., Inc., et al*. The complaint alleges violations of Federal and New York antitrust laws, as well as various other laws. Plaintiff claims that defendants allegedly engaged in anti-competitive acts that resulted in the exclusion of plaintiff from the relevant market and seeks $586 million in damages before any trebling, and other relief. In September 2009, the District Court granted the Company s and other defendants motions to dismiss. Plaintiff has appealed the District Court s decision to the U.S. Court of Appeals for the Second Circuit.

ANTITRUST LITIGATION

As previously disclosed, 18 lawsuits comprised of both individual suits and purported class actions have been filed against the Company in U.S. District Court, Southern District of Ohio, Western Division, by various plaintiffs, including pharmacy chains (individually and as assignees, in whole or in part, of certain wholesalers), various health and welfare benefit plans/funds and individual residents of various states. These lawsuits allege, among other things, that the purported settlement with Apotex of the patent infringement litigation violated the Sherman Act and related laws. Plaintiffs are seeking, among other things, permanent injunctive relief barring the Apotex settlement and/or monetary damages. The putative class actions filed on behalf of direct purchasers have been consolidated under the caption *In re: Plavix Direct Purchaser Antitrust Litigation*, and the putative class actions filed on behalf of indirect purchasers have been consolidated under the caption *In re: Plavix Indirect Purchaser Antitrust Litigation*. Amended complaints were filed on October 19, 2007. Defendants filed a consolidated motion to dismiss in December 2007. In March 2010, the District Court granted the defendants motion to dismiss with respect to all the direct purchaser claims. The motion to dismiss with respect to the indirect purchasers claims remains pending. In April 2010, the direct purchaser plaintiffs filed a motion for reconsideration with the District Court. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on the Company.

PRICING, SALES AND PROMOTIONAL PRACTICES LITIGATION AND INVESTIGATIONS

ABILIFY* State Attorneys General Investigation

In March 2009, the Company received a letter from the Delaware Attorney General s Office advising of a multi-state coalition investigating whether certain ABILIFY* marketing practices violated those states consumer protection statutes. It is not possible at this time to reasonably assess the outcome of this investigation or its potential impact on the Company.

AWP Litigation

As previously disclosed, the Company, together with a number of other pharmaceutical manufacturers, has been a defendant in a number of private class actions as well as suits brought by the attorneys general of various states. In these actions, plaintiffs allege that defendants caused the Average Wholesale Prices (AWPs) of their products to be inflated, thereby injuring government programs, entities and persons who reimbursed prescription drugs based on AWPs. The Company remains a defendant in four state attorneys general suits pending in state courts around the country. The Company is currently scheduled to go to trial in August 2010 in the Commonwealth Court of Pennsylvania.

As previously reported, one set of class actions were consolidated in the U.S. District Court for the District of Massachusetts (AWP MDL). In August 2009, the District Court granted preliminary approval of a proposed settlement of the AWP MDL plaintiffs claims against the Company for $19 million, plus half the costs of class notice up to a maximum payment of $1 million. A final approval hearing is currently scheduled to occur in July 2010.

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California 340B Litigation

As previously disclosed, in August 2005, the County of Santa Clara filed a purported class action against the Company and numerous other pharmaceutical manufacturers on behalf of itself and a putative class of other cities and counties in California, as well as the covered entities that purchased drugs pursuant to the 340B drug discount program, alleging that manufacturers did not provide proper discounts to covered entities. Discovery in this matter is ongoing. In May 2009, the U.S. District Court for the Northern District of California denied plaintiff s motion, without prejudice, to certify the class.

It is not possible at this time to reasonably assess the outcome of this lawsuit, or its potential impact on the Company.

PRODUCT LIABILITY LITIGATION

The Company is a party to various product liability lawsuits. As previously disclosed, in addition to lawsuits, the Company also faces unfiled claims involving its products.

PLAVIX*

As previously disclosed, the Company and certain affiliates of sanofi are defendants in a number of individual lawsuits claiming personal injury allegedly sustained after using PLAVIX*, most of which appear before the United States District Court for the District of New Jersey (NJ District Court). As of June 30, 2010, the companies were defendants in 23 actions before the NJ District Court and have executed tolling agreements with respect to unfiled claims by potential additional plaintiffs. It is not possible at this time to reasonably assess the outcomes of these lawsuits or their potential impact on the Company.

Hormone Replacement Therapy

The Company is one of a number of defendants in a mass-tort litigation in which plaintiffs allege, among other things, that various hormone therapy products, including hormone therapy products formerly manufactured by the Company (ESTRACE*, Estradiol, DELESTROGEN* and OVCON*) cause breast cancer, stroke, blood clots, cardiac and other injuries in women, that the defendants were aware of these risks and failed to warn consumers. As of June 30, 2010, the Company was a defendant in over 300 lawsuits filed on behalf of approximately 500 plaintiffs in federal and state courts throughout the U.S. All of the Company s hormone therapy products were sold to other companies between January 2000 and August 2001. It is not possible at this time reasonably to assess the outcome of the lawsuits in which the Company is a party or their impact on the Company.

ENVIRONMENTAL PROCEEDINGS

As previously reported, the Company is a party to several environmental proceedings and other matters, and is responsible under various state, federal and foreign laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), for certain costs of investigating and/or remediating contamination resulting from past industrial activity at the Company s current or former sites or at waste disposal or reprocessing facilities operated by third-parties.

CERCLA Matters

With respect to CERCLA matters for which the Company is responsible under various state, federal and foreign laws, the Company typically estimates potential costs based on information obtained from the U.S. Environmental Protection Agency, or counterpart state or foreign agency and/or studies prepared by independent consultants, including the total estimated costs for the site and the expected cost-sharing, if any, with other potentially responsible parties, and the Company accrues liabilities when they are probable and reasonably estimable. The Company estimated its share of future costs for these sites to be $65 million at June 30, 2010, which represents the sum of best estimates or, where no best estimate can reasonably be made, estimates of the minimal probable amount among a range of such costs (without taking into account any potential recoveries from other parties).

New Brunswick Facility Environmental & Personal Injury Lawsuits

As previously disclosed, in May 2008, over 100 lawsuits were filed against the Company in Superior Court, Middlesex County, NJ, by or on behalf of current and former residents of New Brunswick, NJ who live or have lived adjacent to the Company s New Brunswick facility. The complaints allege various personal injuries and property damage resulting from alleged soil and groundwater contamination on their property stemming from historical operations at the New Brunswick facility. In October 2008, the New Jersey Supreme Court granted Mass Tort status to these cases and transferred them to the New Jersey Superior Court in Atlantic County for centralized case management purposes. The Company intends to defend itself vigorously in this litigation. It is not possible at this time to reasonably assess the outcome of these lawsuits, or the potential impact on the Company.

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North Brunswick Township Board of Education

As previously disclosed, in October 2003, the Company was contacted by counsel representing the North Brunswick, NJ Board of Education (BOE) regarding a site where waste materials from E.R. Squibb and Sons may have been disposed from the 1940 s through the 1960 s. Fill material containing industrial waste and heavy metals in excess of residential standards was discovered during an expansion project at the North Brunswick Township High School, as well as at a number of neighboring residential properties and adjacent public park areas. In January 2004, the New Jersey Department of Environmental Protection (NJDEP) sent the Company and others an information request letter about possible waste disposal at the site, to which the Company responded in March 2004. The BOE and the Township, as the current owners of the school property and the park, are conducting and jointly financing soil remediation work and ground water investigation work under a work plan approved by NJDEP, and have asked the Company to contribute to the cost. The Company is actively monitoring the clean-up project, including its costs. To date, neither the school board nor the Township has asserted any claim against the Company. Instead, the Company and the local entities have negotiated an agreement to attempt to resolve the matter by informal means, including mediation and binding allocation as necessary. A central component of the agreement is the provision by the Company of interim funding to help defray cleanup costs and assure the work is not interrupted. The Company transmitted interim funding payments in December 2007 and November 2009. The parties commenced mediation in late 2008; however, those efforts were not successful and the parties have moved to a binding allocation process. In addition, in September 2009, the Township and BOE filed suits against several other parties alleged to have contributed waste materials to the site.

OTHER PROCEEDINGS

SEC Germany Investigation

As previously disclosed, in October 2004, the SEC notified the Company that it was conducting an informal inquiry into the activities of certain of the Company s German pharmaceutical subsidiaries and its employees and/or agents. In October 2006, the SEC informed the Company that its inquiry had become formal. The SEC s inquiry encompasses matters formerly under investigation by the German prosecutor in Munich, Germany, which have since been resolved. The Company understands the inquiry concerns potential violations of the Foreign Corrupt Practices Act. The Company is cooperating with the SEC.

Medarex Shareholder Litigation

On July 22, 2009, the Company and Medarex announced the signing of a merger agreement providing for the acquisition of Medarex by the Company, through a tender offer, for $16.00 per share in cash. Following that announcement, certain Medarex shareholders filed similar lawsuits in state and federal court relating to this transaction against Medarex, the members of Medarex s board of directors, and the Company.

Following the consolidation of the state court actions, on August 20, 2009, the parties entered into a memorandum of understanding (MOU), pursuant to which the parties reached an agreement in principle to settle all of the state and federal actions. Pursuant to the agreements in the MOU, among other things, Medarex made certain supplemental disclosures during the tender offer period. The parties also agreed to present to the Superior Court of New Jersey, Mercer County (NJ Superior Court) a Stipulation of Settlement and any other documentation as may be required in order to obtain approval by the court of the settlement and the dismissal of the actions upon the terms set forth in the MOU. In July 2010, the proposed settlement was approved by the NJ Superior Court and a Final Judgment was entered on July 16, 2010. An objector to the settlement has filed a motion asking the Court to reconsider its approval of the settlement.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

Bristol-Myers Squibb Company (which may be referred to as Bristol-Myers Squibb, BMS, the Company, we, our or us) is a global biopharmaceutical company, consisting of global pharmaceutical/biotechnology and international consumer medicines businesses, whose mission is to discover, develop and deliver innovative medicines that help patients prevail over serious diseases. We license, manufacture, market, distribute and sell pharmaceutical products on a global basis.

We completed the split-off of Mead Johnson Nutritional Company (Mead Johnson) in December 2009 in which we exchanged all of our shares of Mead Johnson for 269 million outstanding shares of our common stock. As such, the results of the Mead Johnson business for the three and six months ended June 30, 2009 are now included in net earnings from discontinued operations.

Healthcare Reform

U.S. Healthcare Reform Legislation

The Patient Protection and Affordable Care Act (HR 3590) and a reconciliation bill containing a package of changes to the healthcare bill were signed into law during March 2010. The new legislation makes extensive changes to the current system of healthcare insurance and benefits intended to broaden coverage and reduce costs. These bills significantly change how Americans receive healthcare coverage and how they pay for it. They also have a significant impact on companies, in particular those companies in the pharmaceutical industry and other healthcare related industries, including BMS.

We have experienced and will continue to experience additional financial costs and certain other changes to our business as the new healthcare law is implemented. The following are the most significant changes that will affect our Company:

Retroactive to January 1, 2010, minimum rebates on our Medicaid drug sales have increased from 15.1 percent to 23.1 percent. In addition, Medicaid rebates have also been extended to drugs used in risk-based Medicaid managed care plans beginning in March 2010.

Beginning later in 2010, we will extend discounts to certain critical access hospitals, cancer hospitals and other covered entities as required by the expansion of the 340B Drug Pricing Program under the Public Health Services Act.

Beginning in 2011, we will provide a 50 percent discount on our brand-name drugs to patients who fall within the Medicare Part D coverage gap, also referred to as the Donut Hole.

Beginning in 2011, we will pay an annual non-tax deductible fee to the federal government based on an allocation of our market share of branded prior year sales to certain government programs including Medicare, Medicaid, Department of Veterans Affairs, Department of Defense and TriCare. This fee is expected to be classified either as a reduction to net sales or as an operating expense pending further guidance from authoritative bodies.

The new healthcare law also provides clarity about the process for approval of generic biologic products in the U.S. Our biologic products will receive 12 years of data exclusivity, with a potential six-month pediatric extension, before a generic company can enter the market. After we have marketed a biologic product for 4 years, a generic manufacturer may challenge one or more of the patents for that product.

Higher rebates to Medicaid and Medicaid managed care plans reduced our net sales by $72 million and $128 million and pre-tax income by $55 million and $104 million in the three and six months ended June 30, 2010, respectively. Quarterly rebates are expected to increase substantially throughout 2010 as a result of additional discounts for the Medicaid managed care plans and 340B program. With the addition of the new Medicare Part D Donut Hole discounts and annual pharmaceutical company fee in 2011, we expect the negative impact of healthcare reform in 2011 to be approximately twice the impact expected in 2010. The aggregate financial impact of healthcare reform over the next few years depends on a number of factors, including but not limited to pending implementation guidance, potential changes in sales volume eligible for the new rebates, discounts or fees, and the impact of cost sharing arrangements with certain alliance partners. A positive impact on our net sales from the expected increase in the number of people with healthcare coverage could potentially occur in the future, but is not expected until 2014 at the earliest.

We also recognized a one-time tax charge of $21 million in the first quarter of 2010 due to the elimination of the tax deductibility of a portion of our retiree healthcare costs.

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Strategy

Over the past few years, we have transformed our Company into a focused biopharmaceutical company, a transformation that encompasses all areas of our business and operations. With the expected loss of exclusivity in the U.S. for our largest product, PLAVIX*, in less than two years, after which time we expect a rapid, precipitous decline in PLAVIX* net sales and a reduction in net income and operating cash flow, we are focused on building a foundation for the future. We plan to achieve this foundation by continuing to support and grow our currently marketed products, advancing our late-stage pipeline, managing our costs, and maintaining and improving our financial strength with a strong balance sheet. We are also focusing on emerging markets with the intent of developing and commercializing innovative products in key high-growth markets tailoring the approach to each market. We also remain focused on our acquisition and licensing strategy known as the string-of-pearls . We did not enter into any new licensing or acquisition transactions in the second quarter of 2010.

As part of our strategy to manage costs, we continue to execute our productivity transformation initiative (PTI), through which we expect to realize $2.5 billion in annual cost savings and cost avoidance by the end of 2012 based on previous strategic plans for future years. To achieve this, we are reducing general and administrative operations by simplifying, standardizing and outsourcing certain processes and services, rationalizing our mature brands portfolio, consolidating our global manufacturing network while eliminating complexity and enhancing profitability, simplifying our geographic footprint and implementing a more efficient go-to-market model. For instance, in the second quarter we divested our manufacturing operations in Latina, Italy. We expect to realize approximately 90% of the PTI cost savings and cost avoidance on an annualized run-rate basis by the end of 2010. Because the expected $2.5 billion of annual cost savings and avoidance is based on previous strategic plans for future years and because our progress is measured on an annualized run-rate basis, the amount of cost savings and avoidance does not correlate directly with our results of operations. Approximately 60% of the expected $2.5 billion in annual cost savings and cost avoidance relates to marketing, selling and administrative expenses, 20-25% relates to costs of products sold, and 15-20% relates to research and development expenses. In addition to the PTI, we are also moving towards a culture of continuous improvement to enhance efficiency, effectiveness and competitiveness.

Financial Highlights

The following table is a summary of operating activity:

Dollars in Millions, except per share data	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net Sales	$ 4,768	$ 4,665	$ 9,575	$ 8,987
Segment Income	1,180	1,217	2,413	2,287
Net Earnings from Continuing Operations Attributable to BMS	927	880	1,670	1,529
Net Earnings from Discontinued Operations Attributable to BMS		103		92
Net Earnings Attributable to BMS	927	983	1,670	1,621
Diluted Earnings Per Share from Continuing Operations Attributable to BMS	0.53	0.44	0.96	0.77
Non-GAAP Diluted Earnings Per Share from Continuing Operations Attributable to BMS	0.54	0.48	1.10	0.90
Cash, Cash Equivalents and Marketable Securities			10,249	9,103

Net sales increased 2% for the three months ended June 30, 2010 and increased 7% for the six months ended June 30, 2010 as increased U.S. sales of PLAVIX* and other key products were offset by decreases in mature brand sales and the impact of healthcare reform during both periods.

Segment income decreased 3% for the three months ended June 30, 2010 and increased 6% for the six months ended June 30, 2010. Both periods benefitted from increased sales as well as reduced advertising and product promotion spending, and were negatively impacted by increased noncontrolling interest due to higher profitability attributed to PLAVIX* in the U.S., reduced equity income of affiliates due to decreases in international PLAVIX* net sales from generic competition and increased investment to support our late stage pipeline, recent acquisitions and collaborations.

Net earnings from continuing operations attributable to BMS were impacted by segment results and specified items. Both the three and six months ended June 30, 2010 benefitted from a lower effective tax rate than prior periods.

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Diluted earnings per share (EPS) from continuing operations increased 20% and 25% for the three and six months ended June 30, 2010, respectively, primarily due to the reduction in the outstanding number of shares from the Mead Johnson split-off.

Our non-GAAP financial measures, including non-GAAP earnings from continuing operations and related EPS information, are adjusted to exclude certain costs, expenses, gains and losses and other specified items. Our non-GAAP diluted EPS from continuing operations increased 13% and 22% for the three and six months ended June 30, 2010, respectively, after adjusting for specified items of $17 million and $86 million during the three months ended June 30, 2010 and 2009, respectively, and $241 million and $266 million during the six months ended June 30, 2010 and 2009, respectively. For a detailed listing of all specified items and further information and reconciliations of non-GAAP financial measures, see Specified Items and Non-GAAP Financial Measures below.

Cash flows from operating activities amounted to $1.5 billion during the six months ended June 30, 2010. Primary nonoperating uses of cash, cash equivalents and marketable securities included dividend payments of $1.1 billion, common stock repurchases of $165 million and capital expenditures of $210 million.

Product and Pipeline Developments

The Company manages its research and development (R&D) programs on a portfolio basis, investing resources in each stage of research and development, from early discovery through late-stage development. Our late-stage development programs, which are our investigational compounds that are in Phase III clinical development and our marketed products that are in Phase III development for additional indications or formulations, represent approximately 30-40% of our annual R&D expenses. No individual investigational compound or marketed product represented 10% or more of our R&D expenses in any of the last three years. The following are the recent significant developments relating to our marketed products and our late-stage pipeline.

ONGLYZA a once-daily oral tablet for the treatment of type 2 diabetes that is part of our strategic alliance with AstraZeneca PLC (AstraZeneca)

In June 2010, the Company and AstraZeneca announced results from a 52-week Phase IIIb study in adults with type 2 diabetes who had inadequate glycemic control on metformin therapy plus diet and exercise. The study found that the addition of ONGLYZA 5 mg to existing metformin therapy achieved the primary objective of demonstrating non-inferiority compared to the addition of titrated glipizide (sulphonylurea) to existing metformin therapy in reducing glycosylated hemoglobin levels. The study also found that treatment with ONGLYZA 5 mg plus metformin resulted in a statistically significant lower proportion of subjects reporting hypoglycemic events and statistically significant weight loss compared to titrated glipizide plus metformin. ONGLYZA 5 mg plus metformin also resulted in a significantly smaller rise per week in HbA1c from week 24 to week 52 compared to titrated glipizide plus metformin.

In June 2010, the Company and AstraZeneca announced results from a 76-week Phase III study of ONGLYZA as initial combination therapy with metformin, which produced long-term glycemic improvements (as measured by HbA1c levels) in treatment-naïve adults with type 2 diabetes mellitus inadequately controlled on diet and exercise compared to treatment with an investigational 10 mg dose of ONGLYZA or metformin alone. The study also demonstrated that a higher number of patients were able to achieve the American Diabetes Association recommended glycosylated hemoglobin level target of less than 7% with ONGLYZA and metformin as initial combination therapy, compared to monotherapy of either treatment at week 76.

Dapagliflozin an oral compound in Phase III development for the treatment of diabetes that is part of our strategic alliance with AstraZeneca

In June 2010, findings from a 24-week Phase III clinical study were published that demonstrated that dapagliflozin, administered as monotherapy, achieved statistically significant mean reductions at 5 mg and 10 mg doses once daily in the primary endpoint of glycosylated hemoglobin levels in treatment-naïve adult patients with newly diagnosed type 2 diabetes, compared to placebo.

In June 2010, results from a 24-week Phase III clinical study were presented that demonstrated that the addition of dapagliflozin achieved reductions in the primary endpoint, glycosylated hemoglobin level, in inadequately controlled type 2 diabetes patients who were treated with insulin (with or without oral anti-diabetes medications (OADS)), compared to placebo plus insulin (with or without OADS). The study also demonstrated that dapagliflozin achieved reductions in the secondary endpoints that evaluated the change in total body weight from baseline, change in baseline from in mean daily insulin dose and change from baseline in fasting plasma glucose.

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ORENCIA a fusion protein indicated for rheumatoid arthritis

In July 2010, the European Commission approved a new indication for ORENCIA, in combination with methotrexate (MTX), for the treatment of moderate to severe rheumatoid arthritis in adult patients who have responded inadequately to previous therapy with one or more disease-modifying anti-rheumatic drugs including MTX or a TNF-alpha inhibitor.

SPRYCEL an oral inhibitor of multiple tyrosine kinases indicated for the treatment of adults with chronic, accelerated, or myeloid or lymphoid blast phase chronic myeloid leukemia with resistance or intolerance to prior therapy, including GLEEVEC* (imatinib meslylate), which is part of our strategic alliance with Otsuka Pharmaceutical Co., Ltd. (Otsuka).

In July 2010, the U.S. Food and Drug Administration (FDA) accepted for priority review the sNDA for SPRYCEL for the treatment of adult patients with newly diagnosed chronic myeloid leukemia in chronic phase. The Prescription Drug User Fee Act (PDUFA) date, the date by which action from the FDA is expected, is October 28, 2010.

In April 2010, the Type II Variation submission for SPRYCEL for the treatment of adult patients with newly diagnosed chronic myeloid leukemia in chronic phase was validated by the European Medicines Agency.

In June 2010, the Company and Otsuka announced Phase III study results in which SPRYCEL 100 mg once daily demonstrated a superior rate of confirmed complete cytogenetic response compared to GLEEVEC*. The study showed that 77 percent of SPRYCEL patients versus 66 percent of GLEEVEC* patients achieved confirmed complete cytogenetic response rates by 12 months.

In June 2010, the Company and Otsuka announced four year follow-up results from a Phase III randomized, open-label, dose-optimization study of SPRYCEL in chronic-phase chronic myeloid leukemia patients resistant or intolerant to GLEEVEC*. At four years, for all patients administered SPRYCEL 100 mg once daily, overall survival was 82% (95% CI: 76%-88%) and progression-free survival was 66% (95% CI: 57%-74%). The four-year safety data from this study are consistent with the previously reported safety profile of SPRYCEL 100 mg once daily.

Apixaban an oral Factor Xa inhibitor in Phase III development for the prevention of venous thromboembolic disorders, the treatment of acute coronary syndrome and stroke prevention in atrial fibrillation that is part of our strategic alliance with Pfizer, Inc. (Pfizer)

In June 2010, the Company and Pfizer announced that the Phase III AVERROES clinical trial of apixaban in patients with atrial fibrillation is closing early due to clear evidence of efficacy. An interim analysis by the Independent Data Monitoring Committee showed a clinically important reduction in stroke and systematic embolism in patients with atrial fibrillation considered intolerant of or unsuitable for warfarin therapy who received apixaban as compared to aspirin. This interim analysis also demonstrated an acceptable safety profile for apixaban compared to aspirin.

Belatacept a fusion protein with novel immunosuppressive activity targeted at prevention of solid organ transplant rejection. The FDA accepted for filing and review our submission of a biologic license application for belatacept in September 2009.

In May 2010, the FDA issued a complete response letter regarding the Biologics License Application for belatacept in kidney transplant. While no new clinical studies have been requested, the complete response letter requests 36 month data from the ongoing Phase III studies to further evaluate the long-term effects of belatacept. The Biologics License Application submitted for belatacept included 24 month data from the Phase III studies. Other requests raised in the letter primarily relate to information to support the manufacturing of belatacept and the proposed risk evaluation and mitigation strategy (REMS). We are working with the FDA to provide the data as soon as they are available and we expect to be able to provide a response to the FDA by the fourth quarter of this year.

In May 2010, belatacept was the subject of eight clinical presentations related to kidney transplantation at the American Transplant Congress.

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Ipilimumab a monoclonal antibody currently in Phase III development for the treatment of metastatic melanoma. It is also being studied for lung cancer as well as adjuvant melanoma and hormone-refractory prostate cancer.

In May 2010, the ipilimumab Marketing Authorization Application for metastatic melanoma in pre-treated patients was validated by the European Medicines Agency.

In June 2010, the Company announced positive results from a Phase III randomized double blind study of ipilimumab which demonstrated that overall survival was significantly extended in patients with previously-treated metastatic melanoma who received ipilimumab. The results were statistically significant for patients receiving ipilimumab alone or ipilimumab in combination with a gp100 peptide vaccine when compared to those patients who received the control therapy of gp100 alone. Forty-four to 46 percent of patients treated with ipilimumab were alive at one year compared to 25 percent of patients treated with the control arm. At two years, 22 to 24 percent of patients treated with ipilimumab were alive compared to 14 percent of patients treated with the control arm.

In May 2010, the Company announced positive results from a randomized Phase II study evaluating ipilimumab in combination with standard chemotherapy in previously untreated patients with advanced non-small cell lung cancer. The study, known as 041, met the predefined criteria for significant improvement (p-value of <0.1) in immune-related progression-free survival, the primary endpoint, over chemotherapy alone. An additional analysis of progression-free survival, assessed using the traditional modified World Health Organization criteria, also reached statistical significance in one of the two dosing schedules that combined ipilimumab with standard chemotherapy.

XL184 In June 2010, the Company terminated its development collaboration with Exelixis, Inc. (Exelixis) for the experimental cancer drug XL184 with all rights returning to Exelixis.

Three Months Results of Operations

Our results of continuing operations exclude the results of the Mead Johnson business prior to its split-off in December 2009. This business has been segregated from continuing operations and included in discontinued operations for the three months ended June 30, 2009, see Discontinued Operations below.

Our results of continuing operations were as follows:

	Three Months Ended June 30,		
Dollars in Millions	2010	2009	% Change
Net Sales	$ 4,768	$ 4,665	2%
Earnings from Continuing Operations before Income Taxes	$ 1,592	$ 1,522	5%
% of net sales	*33.4%*	*32.6%*	
Provision for Income Taxes	$ 324	$ 353	(8)%
Effective tax rate	*20.4%*	*23.2%*	
Net Earnings from Continuing Operations	$ 1,268	$ 1,169	8%
% of net sales	26.6%	25.1%	
Attributable to Noncontrolling Interest	$ 341	$ 289	18%
% of net sales	*7.2%*	*6.2%*	
Attributable to Bristol-Myers Squibb Company	$ 927	$ 880	5%
% of net sales	*19.4%*	*18.9%*	

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Net Sales

The composition of the change in net sales was as follows:

	Three Months Ended June 30, Net Sales			2010 vs. 2009 Analysis of % Change		
Dollars in Millions	2010	2009	Total Change	Volume	Price	Foreign Exchange
U.S.	$ 3,105	$ 2,974	4%	1%	3%	
Non-U.S.	1,663	1,691	(2)%		(3)%	1%
Total	$ 4,768	$ 4,665	2%	1%	1%	

Various key U.S. products contributed to the growth in net sales. PLAVIX* represented 48% of total U.S. net sales and contributed 79% of total growth in U.S. net sales.

International net sales decreased 2%, including a 1% favorable foreign exchange impact. Three months ended June 30, 2010 net sales were negatively impacted by mature brands divested in prior periods; a 10% reduction in PLAVIX* net sales (including a 5% favorable foreign exchange impact) due to generic competition in comarketing countries; and increased pricing pressures in certain European countries. Offsetting these decreases were increases in various key products, including BARACLUDE (29%), ABILIFY* (14%), the HIV portfolio (4%) (which includes REYATAZ and the SUSTIVA Franchise), SPRYCEL (22%) and ORENCIA (28%). Our reported international net sales do not include copromotion sales reported by our alliance partner sanofi-aventis (sanofi) for PLAVIX* and AVAPRO*/AVALIDE*.

In general, our business is not seasonal. For information on U.S. pharmaceutical prescriber demand, reference is made to the table within Estimated End-User Demand below, which sets forth a comparison of changes in net sales to the estimated total prescription growth (for both retail and mail order customers) for certain of our key pharmaceuticals and new products. The U.S. and non-U.S. net sales are categorized based upon the location of the customer.

We recognize revenue net of various sales adjustments to arrive at net sales as reported in the consolidated statements of earnings. These adjustments are referred to as gross-to-net sales adjustments. The reconciliation of our gross sales to net sales by each significant category of gross-to-net sales adjustments was as follows:

	Three Months Ended June 30,	
Dollars in Millions	2010	2009
Gross Sales	$ 5,287	$ 5,061
Gross-to-Net Sales Adjustments		
Prime Vendor Charge-Backs	(132)	(129)
Cash Discounts	(68)	(63)
Managed Healthcare Rebates and Other Contract Discounts	(124)	(114)
Medicaid Rebates	(118)	(35)
Sales Returns	(12)	(13)
Other Adjustments	(65)	(42)
Total Gross-to-Net Sales Adjustments	(519)	(396)
Net Sales	$ 4,768	$ 4,665

Gross-to-net sales adjustments as a percentage of gross sales were 9.8% in 2010 and 7.8% in 2009 and are typically correlated with gross sales trends, changes in sales mix and contractual and legislative discounts and rebates.

The enactment of healthcare reform in March 2010 impacted the Medicaid rebates adjustment for the three months ended June 30, 2010 due to the increase in the minimum Medicaid rebate on drug sales from 15.1% to 23.1% retroactive to January 1, 2010 and the extension of the Medicaid rebate rate to drugs sold to risk-based Medicaid managed care organizations. The 2009 Medicaid rebates were impacted by the Center for Medicare and Medicaid Services policy group s approval of the Company s revised calculations for determining Medicaid rebates for the three year period 2002 through 2004, resulting in a $34 million reduction in the Medicaid liability at June 30, 2009. Expected future increases to gross-to-net sales adjustments related to healthcare reform are further discussed in Executive Summary Healthcare Reform above.

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Net sales of key products represented 84% and 81% of total net sales in the second quarter of 2010 and 2009, respectively. The following table details U.S. and international net sales by key product, the percentage change from the prior period and the foreign exchange impact when compared to the prior period. Commentary detailing the reasons for significant variances is provided below:

	Three Months Ended June 30,			
				% Change
Dollars in Millions	2010	2009	% Change	Attributable to Foreign Exchange
Cardiovascular				
PLAVIX*				
U.S.	$ 1,496	$ 1,393	7%	
Non-U.S.	131	146	(10)%	5%
Total	1,627	1,539	6%	1%
AVAPRO*/AVALIDE*				
U.S.	170	179	(5)%	
Non-U.S.	137	134	2%	3%
Total	307	313	(2)%	1%
Virology				
REYATAZ				
U.S.	185	169	9%	
Non-U.S.	172	162	6%	(2)%
Total	357	331	8%	(1)%
SUSTIVA Franchise (total revenue)				
U.S.	213	194	10%	
Non-U.S.	118	118		(4)%
Total	331	312	6%	(1)%
BARACLUDE				
U.S.	42	39	8%	
Non-U.S.	181	140	29%	3%
Total	223	179	25%	2%
Oncology				
ERBITUX*				
U.S.	168	171	(2)%	
Non-U.S.	4	2	100%	9%
Total	172	173	(1)%	
SPRYCEL				
U.S.	42	33	27%	
Non-U.S.	90	74	22%	
Total	132	107	23%	
IXEMPRA				
U.S.	26	26		
Non-U.S.	3	3		4%
Total	29	29		
Neuroscience				
ABILIFY*				
U.S.	491	518	(5)%	
Non-U.S.	142	125	14%	(2)%
Total	633	643	(2)%	(1)%
Immunoscience				
ORENCIA				
U.S.	137	116	18%	
Non-U.S.	41	32	28%	
Total	178	148	20%	
Metabolics				

ONGLYZA			
U.S.	23	N/A	N/A
Non-U.S.	5	N/A	N/A
Total	28	N/A	N/A

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PLAVIX* a platelet aggregation inhibitor that is part of our alliance with sanofi

U.S. net sales increased primarily due to higher average net selling prices. Estimated total U.S. prescription demand decreased 1%.

International net sales continue to be negatively impacted by the launch of generic clopidogrel products in comarketing countries. The impact was partially offset by favorable foreign exchange. We expect continued erosion of PLAVIX* net sales in the EU, which will impact both our international net sales and our equity in net income of affiliates.

See Item 1. Financial Statements Note 17. Legal Proceedings and Contingencies PLAVIX* Litigation, for further discussion on PLAVIX* exclusivity litigation in both the U.S. and EU.

AVAPRO*/AVALIDE* (known in the EU as APROVEL*/KARVEA*) an angiotensin II receptor blocker for the treatment of hypertension and diabetic nephropathy that is also part of the sanofi alliance

U.S. net sales decreased primarily due to a 17% reduction in estimated total U.S. prescription demand partially offset by higher average net selling prices.

International net sales increased primarily due to favorable foreign exchange.

REYATAZ a protease inhibitor for the treatment of HIV

U.S. net sales increased primarily due to higher estimated total U.S. prescription demand of 6%.

International net sales increased primarily due to higher demand across most international markets.

SUSTIVA Franchise a non-nucleoside reverse transcriptase inhibitor for the treatment of HIV, which includes SUSTIVA (efavirenz), an antiretroviral drug, and bulk efavirenz, which is also included in the combination therapy, ATRIPLA* (efavirenz 600mg/emtricitabine 200 mg/tenofovir disoproxil fumarate 300 mg), a product sold through a joint venture with Gilead Sciences, Inc. (Gilead)

U.S. net sales increased primarily due to higher demand as well as higher average net selling prices. Estimated total U.S. prescription demand increased 10%.

BARACLUDE an oral antiviral agent for the treatment of chronic hepatitis B

Sold primarily in international markets, net sales increased mainly due to continued higher demand.

U.S. net sales increased primarily due to higher estimated U.S. prescription demand of 15%.

ERBITUX* a monoclonal antibody designed to exclusively target and block the Epidermal Growth Factor Receptor, which is expressed on the surface of certain cancer cells in multiple tumor types as well as normal cells and is currently

indicated for use against colorectal cancer and head and neck cancer. ERBITUX* is part of our strategic alliance with Lilly

Sold almost exclusively in the U.S., net sales remained relatively flat.

SPRYCEL an oral inhibitor of multiple tyrosine kinases, for the treatment of adults with chronic, accelerated, or myeloid or lymphoid blast phase chronic myeloid leukemia with resistance or intolerance to prior therapy, including GLEEVEC* (imatinib meslylate), which is part of our strategic alliance with Otsuka

U.S. net sales increased primarily due to increased demand and higher average net selling prices. Estimated total U.S. demand increased 7%.

International net sales increased primarily due to higher demand.

IXEMPRA a microtubule inhibitor for the treatment of patients with metastatic or locally advanced breast cancer and is part of our strategic alliance with Otsuka

Worldwide net sales remained flat.

ABILIFY* an antipsychotic agent for the treatment of schizophrenia, bipolar mania disorder and major depressive disorder and is part of the Company s strategic alliance with Otsuka

U.S. net sales decreased primarily due to the reduction in our contractual share of net sales recognized from 65% to 58% and increased Medicaid rebates from healthcare reform. The decrease was partially offset by higher average net selling prices and increased overall demand. Estimated total U.S. prescription demand increased 5%.

International net sales increased primarily due to increased prescription demand.

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ORENCIA a fusion protein indicated for rheumatoid arthritis

U.S. net sales increased due to demand and higher average selling prices.

International net sales increased primarily due to higher demand.

ONGLYZA a once-daily oral tablet for the treatment of type 2 diabetes

ONGLYZA was launched in various countries after the second quarter of 2009.

The estimated U.S. prescription change data provided throughout this report includes information only from the retail and mail order channels and does not reflect product demand within other channels such as hospitals, home health care, clinics, federal facilities including VA hospitals, and long-term care, among others. The data is provided by Wolters Kluwer Health (WK), except for SPRYCEL, and based on the Source Prescription Audit which is a product of WK's own recordkeeping and projection processes. As such, the data is subject to the inherent limitations of estimates based on sampling and may include a margin of error.

The change in SPRYCEL demand is calculated based upon tablets sold though retail and mail order channels based upon data obtained from the IMS Health (IMS) National Sales Perspectives Audit, which is a product of IMS s own recordkeeping and projection processes. As such, the data is subject to the inherent limitations of estimates based on sampling and may include a margin of error.

We continuously seek to improve the quality of our estimates of prescription change amounts and ultimate patient/consumer demand by reviewing the calculation methodologies employed, and analyzing internal and third-party data. We expect to continue to review and refine our methodologies and processes for calculation of these estimates and will monitor the quality of our own and third parties data used in such calculations.

We calculated the estimated total U.S. prescription change on a weighted-average basis to reflect the fact that mail order prescriptions include a higher average volume of product supplied per dispensed prescription, compared to retail prescriptions. Mail order prescriptions typically reflect a 90-day prescription whereas retail prescriptions typically reflect a 30-day prescription. The calculation is derived by multiplying mail order prescription data by a factor that approximates three and adding to this the retail prescriptions. We believe that a calculation of estimated total U.S. prescription change based on this weighted-average approach provides a superior estimate of total prescription demand, with respect to the retail and mail order channels. We use this methodology for our internal demand reporting.

Estimated End-User Demand

The following table sets forth for each of our key products sold in the U.S. for the three months ended June 30, 2010 compared to the same period in the prior year: (i) total U.S. net sales for the period; (ii) change in reported U.S. net sales for the period; (iii) estimated total U.S. prescription change for the retail and mail order channels calculated by us based on third-party data on a weighted-average basis and (iv) months of inventory on hand in the wholesale distribution channel.

	Three Months Ended June 30,						At June 30,	
	Total U.S. Net Sales		% Change in U.S. Net Sales		% Change in U.S. Total Prescriptions		Months on Hand	
Dollars in Millions	2010	2009	2010	2009	2010	2009	2010	2009
PLAVIX*	$ 1,496	$ 1,393	7%	15%	(1)%	3%	0.4	0.4
AVAPRO*/AVALIDE*	170	179	(5)%	(3)%	(17)%	(10)%	0.4	0.4
REYATAZ	185	169	9%	6%	6%	7%	0.4	0.5

SUSTIVA Franchise [a]	213	194	10%	13%	10%	9%	0.4	0.5
BARACLUDE	42	39	8%	11%	15%	12%	0.5	0.5
ERBITUX*[b]	168	171	(2)%	(11)%	N/A	N/A	0.4	0.4
SPRYCEL	42	33	27%	57%	7%	8%	0.7	0.8
IXEMPRA[b]	26	26			N/A	N/A	0.5	0.6
ABILIFY*	491	518	(5)%	29%	5%	29%	0.4	0.4
ORENCIA[b]	137	116	18%	33%	N/A	N/A	0.4	0.4
ONGLYZA[c]	23		N/A	N/A	N/A	N/A	0.4	

(a) The SUSTIVA Franchise (total revenue) includes sales of SUSTIVA, as well as revenue of bulk efavirenz included in the combination therapy ATRIPLA*.
(b) ERBITUX*, IXEMPRA and ORENCIA are parenterally administered products and do not have prescription-level data as physicians do not write prescriptions for these products.
(c) ONGLYZA was launched in the U.S. in August 2009.

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Pursuant to the U.S. Securities and Exchange Commission (SEC) Consent Order described in our 2009 Annual Report on Form 10-K, we monitor the level of inventory on hand in the U.S. wholesaler distribution channel and outside of the U.S. in the direct customer distribution channel. We disclose products with levels of inventory in excess of one month on hand or expected demand, subject to a *de minimis* exception. In the case of the Company s U.S. Pharmaceuticals products at June 30, 2010, there were no products to disclose. The following are international products that had estimated levels of inventory in the distribution channel in excess of one month on hand at March 31, 2010:

At March 31, 2010, VIDEX/VIDEX EC, an antiviral product, had approximately 1.8 months of inventory on hand internationally at direct customers compared to approximately 1.3 months of inventory on hand at December 31, 2009. The level of inventory on hand was primarily due to government purchasing patterns in Brazil.

At March 31, 2010, FERVEX, a cold and flu product had approximately 7.4 months of inventory on hand internationally at direct customers compared to approximately 3.9 months of inventory on hand at December 31, 2009. The increased level of inventory on hand was primarily due to lower demand attributed to a mild flu season.

At March 31, 2010, LUFTAL, an antacid product, had approximately 1.2 months of inventory on hand internationally at direct customers. The level of inventory on hand was due to the recent launch of LUFTAL in Mexico.

At March 31, 2010, PRINCIPEN, an antibiotic, had approximately 1.2 months of inventory on hand internationally at direct customers compared to approximately 0.8 months of inventory on hand at December 31, 2009. The increased level of inventory on hand was primarily due to a temporary build-up of inventory as a result of a distributor change in Mexico at month-end.

At March 31, 2010, PICOT, an antacid product, had approximately 1.3 months of inventory on hand internationally at direct customers compared to approximately 0.9 months of inventory on hand at December 31, 2009. The increased level of inventory on hand was primarily due to a temporary build-up of inventory as a result of a distributor change in Mexico at month-end.

At March 31, 2010, TEMPRA, an analgesic product, had approximately 1.1 months of inventory on hand internationally at direct customers compared to approximately 0.9 months of inventory on hand at December 31, 2009. The increased level of inventory on hand was primarily due to a temporary build-up of inventory as a result of a distributor change in Mexico at month-end.

In the U.S., for all products sold exclusively through wholesalers or through distributors, we determined our months on hand estimates using information with respect to inventory levels of product on hand and the amount of out-movement of products provided by our three largest wholesalers, which account for approximately 90% of total gross sales of U.S. products, and provided by some of our distributors. Factors that may influence our estimates include generic competition, seasonality of products, wholesaler purchases in light of increases in wholesaler list prices, new product launches, new warehouse openings by wholesalers and new customer stockings by wholesalers. In addition, these estimates are calculated using third-party data, which may be impacted by their record keeping processes.

For products in the U.S. that are not sold exclusively through wholesalers or distributors and for our business outside of the U.S., we have significantly more direct customers. Limited information on direct customer product level inventory and corresponding out-movement information and the reliability of third-party demand information, where available, varies widely. In cases where direct customer product level inventory, ultimate patient/consumer demand or out-movement data does not exist or is otherwise not available, we have developed a variety of other methodologies to calculate estimates of such data, including using such factors as historical sales made to direct customers and third-party market research data related to prescription trends and end-user demand. Accordingly, we rely on a variety of methods to estimate direct customer product level inventory and to calculate months on hand for these business units. Factors that may affect our estimates include generic competition, seasonality of products, direct customer purchases in light of price increases, new product or product presentation launches, new warehouse openings by direct customers, new customer stockings by direct customers and expected direct customer purchases for governmental bidding situations. As such, all of the information required to estimate months on hand in the direct customer distribution channel for non-U.S. businesses for the quarter ended June 30, 2010 is not available prior to the filing of this quarterly report on Form 10-Q. We will disclose any product with levels of inventory in excess of one month on hand or expected demand for the current quarter, subject to a *de minimis* exception, in the next quarterly report on Form 10-Q.

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Geographic Areas

In general, our products are available in most countries in the world. The largest markets are the U.S., France, Canada, Japan, Italy, Spain, Germany, China and the United Kingdom. Our net sales by geographic area, based on the location of the customer, were as follows:

	Three Months Ended June 30,				
	Net Sales			% of Total Net Sales	
Dollars in Millions	2010	2009	% Change	2010	2009
United States	$ 3,105	$ 2,974	4%	65%	64%
Europe	822	883	(7)%	17%	19%
Latin America, Middle East and Africa	199	215	(7)%	4%	4%
Japan, Asia Pacific and Canada	403	372	8%	9%	8%
Emerging Markets	201	174	16%	4%	4%
Other	38	47	(19)%	1%	1%
Total	$ 4,768	$ 4,665	2%	100%	100%

Net sales in the U.S. increased primarily due to items previously discussed in Net Sales above.

Net sales in Europe decreased primarily due to a 4% unfavorable foreign exchange impact due to the strengthening of the U.S. dollar against the Euro and the British pound. Increased net sales of ABILIFY*, the HIV portfolio, BARACLUDE, SPRYCEL and ORENCIA were partially offset by decreases in net sales of certain mature brands and increased generic competition for PLAVIX*. Due to the heightening financial challenges in European countries, healthcare payers continue to explore ways to reduce the cost of healthcare including actions that would directly or indirectly impose additional price reductions and support the expanded use of generic drugs. These measures include, but are not limited to, mandatory discounts, rebates and other price reductions on product sales.

Net sales in Latin America, Middle East and Africa decreased primarily due to decreased net sales of certain mature brands, partially offset by a 1% favorable foreign exchange impact.

Net sales in Japan, Asia Pacific and Canada were impacted by a 10% favorable foreign exchange impact. Excluding the impact of foreign exchange, increased sales of BARACLUDE and SPRYCEL were more than offset by decreased net sales of PLAVIX* and TAXOL attributed to increasing generic competition as well as decreased net sales of certain mature brands.

Emerging Markets include Brazil, Russia, India, China and Turkey. Net sales in Emerging Markets increased primarily due to a 6% favorable foreign exchange impact in addition to increased sales of BARACLUDE, REYATAZ and ABILIFY*.

No country outside the U.S. contributed more than 10% of our total net sales during the three months ended June 30, 2010 and 2009.

Expenses

	Three Months Ended June 30,				
	Expenses			% of Net Sales	
Dollars in Millions	2010	2009	% Change	2010	2009
Cost of products sold	$ 1,277	$ 1,225	4%	26.8%	26.3%
Marketing, selling and administrative	894	922	(3)%	18.8%	19.8%
Advertising and product promotion	263	298	(12)%	5.5%	6.4%
Research and development	822	811	1%	17.2%	17.4%

Provision for restructuring	24	19	26%	0.5%	0.4%
Litigation expense		28	(100)%		0.6%
Equity in net income of affiliates	(85)	(150)	(43)%	(1.8)%	(3.2)%
Other (income)/expense	(19)	(10)	90%	(0.4)%	(0.3)%
Total Expenses	$ 3,176	$ 3,143	1%	66.6%	67.4%

** Change in excess of 200%.

Cost of products sold

The increase in cost of products sold as a percentage of net sales was primarily attributed to the reduction in our share of ABILIFY* sales related to the extended commercialization and manufacturing agreement for ABILIFY*, the collaboration fee paid to Otsuka related to the SPRYCEL and IXEMPRA Oncology collaboration beginning in 2010 and higher manufacturing costs partially offset by a more favorable product mix.

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Beginning in the first quarter of 2010, our portion of ABILIFY* s U.S. net sales recognized decreased from 65% to 58%. In addition, we began to pay a collaboration fee to Otsuka, totaling $32 million for the three months ended June 30, 2010, under the Oncology collaboration for SPRYCEL and IXEMPRA. See Item 1. Financial Statements Note 2. Alliances and Collaborations for further discussion.

Marketing, selling and administrative

The decrease was primarily due to Otsuka s reimbursement of certain ABILIFY*, SPRYCEL and IXEMPRA operating expenses, beginning January 1, 2010, the reduction in our ABILIFY* sales force, as Otsuka established its own sales force for the promotion of the above products, and a reduction in sales related activities of certain key products to coincide with their respective life cycles, offset by increased spending for the ONGLYZA launch and other pipeline products. See Item 1. Financial Statements Note 2. Alliances and Collaborations for further discussion.

Advertising and product promotion

The decrease was attributed to reduced spending on the promotion of certain key products to coincide with their product life cycle and Otsuka s reimbursement of certain ABILIFY*, SPRYCEL and IXEMPRA advertising and product promotion expenses partially offset by increased spending for the ONGLYZA launch and other pipeline products.

Research and development

The increase was attributed to additional support of our maturing pipeline and compounds obtained from our string-of-pearls strategy and a $17 million payment to Exelixis to end our development collaboration for the experimental cancer drug XL184. Upfront licensing and milestone payments of $29 million were paid to ZymoGenetics and Albany Molecular in the second quarter of 2009. There were no upfront and milestone payments in the second quarter of 2010.

Provision for restructuring

The changes in provision for restructuring were primarily attributable to the timing of certain PTI and continuous improvement initiatives.

Litigation expense

The 2009 expense was primarily due to the establishment of an additional $25 million reserve related to securities litigation. For further details refer to Item 1. Financial Statements Note 17. Legal Proceedings and Contingencies.

Equity in net income of affiliates

The decrease was attributed to the continued impact of generic clopidogrel competition on international PLAVIX* net sales. This unfavorable trend is expected to continue in future periods. For additional information, see Item 1. Financial Statements Note 2. Alliances and Collaborations.

Other (income)/expense

Other (income)/expense includes:

	Three Months Ended June 30,	
Dollars in Millions	2010	2009
Interest expense	$ 32	$ 42
Interest income	(16)	(14)
Impairment and loss on sale of manufacturing operations	15	
Gain on debt buyback and termination of interest rate swap agreements		(11)

Net foreign exchange transaction (gains)/losses	(16)	17
Gain on sale of product lines, businesses and assets	(5)	(11)
Net royalty income and amortization of upfront licensing and milestone payments received from alliance partners	(44)	(34)
Pension curtailment and settlement charges	14	25
Other	1	(24)
Other (income)/expense	$ (19)	$ (10)

Interest expense decreased primarily due to lower interest rates.

Impairment and loss on sale of manufacturing operations was attributed to the disposal of our manufacturing operations in Latina, Italy. See Item 1. Financial Statements Note 4. Restructuring.

Net royalty and alliance partners activity includes income earned from the sanofi partnership and amortization of certain upfront licensing and milestone receipts related to our alliances.

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Specified Items

During the quarters ended June 30, 2010 and 2009, the following specified items affected the comparability of results of the periods presented herein. Specified items are excluded from segment income.

Three Months Ended June 30, 2010

Dollars in Millions	Cost of products sold	Marketing, selling and administrative	Research and development	Provision for restructuring	Litigation expense	Other (income)/ expense	Total
Restructuring Activity:							
Downsizing and streamlining of worldwide operations	$	$	$	$ 24	$	$	$ 24
Impairment and loss on sale of manufacturing operations						15	15
Accelerated depreciation, asset impairment and other shutdown costs	27						27
Pension settlements/curtailments						5	5
Process standardization implementation costs		6					6
Total Restructuring	27	6		24		20	77
Other:							
Upfront licensing, milestone and other payments			17				17
Total	$ 27	$ 6	$ 17	$ 24	$	$ 20	94
Income taxes on items above							(18)
Out-of-period tax adjustment							(59)
Decrease to Net Earnings from Continuing Operations							$ 17

Three Months Ended June 30, 2009

Dollars in Millions	Cost of products sold	Marketing, selling and administrative	Research and development	Provision for restructuring	Litigation expense	Other (income)/ expense	Total
Restructuring Activity:							
Downsizing and streamlining of worldwide operations	$	$	$	$ 17	$	$	$ 17
Accelerated depreciation, asset impairment and other shutdown costs	24			2			26
Pension settlements/curtailments						25	25
Process standardization implementation costs		25					25
Gain on sale of product lines, businesses and assets						(11)	(11)
Total Restructuring	24	25		19		14	82

Other:							
Litigation charges					28		28
Upfront licensing and milestone payments			29				29
Debt buyback and swap terminations						(11)	(11)
Total	$ 24	$ 25	$ 29	$ 19	$ 28	$ 3	128
Income taxes on items above							(42)
Decrease to Net Earnings from Continuing Operations							$ 86

Non-GAAP Financial Measures

Our non-GAAP financial measures, including non-GAAP earnings from continuing operations and related EPS information, are adjusted to exclude certain costs, expenses, gains and losses and other specified items that due to their substantive and unusual nature are evaluated on an individual basis. Non-GAAP information is intended to portray the results of our baseline performance which include the discovery, development, licensing, manufacturing, marketing, distribution and sale of pharmaceutical products on a global basis and to enhance an investor s overall understanding of our past financial performance and prospects for the future. For example, non-GAAP earnings and EPS information is an indication of our baseline performance before items that are considered by us to not be reflective of our ongoing results. In addition, this information is among the primary indicators we use as a basis for evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting for future periods. This information is not intended to be considered in isolation or as a substitute for net earnings or diluted EPS prepared in accordance with GAAP.

Among the items in GAAP measures but excluded for purposes of determining adjusted earnings and other adjusted measures are: charges related to implementation of the PTI; gains or losses from the purchase or sale of businesses, product lines or investments; discontinued operations; restructuring and other exit costs; accelerated depreciation charges; asset impairments; charges and

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recoveries relating to significant legal proceedings; upfront licensing and milestone payments for in-licensing of products that have not achieved regulatory approval, which are immediately expensed; special initiative funding to the Bristol-Myers Squibb Foundation; and significant tax events. For a detailed listing of items that are excluded from the non-GAAP earnings from continuing operations, see Specified Items above. Similar charges or gains for some of these items have been recognized in prior periods and it is reasonably possible that they will reoccur in future periods.

A reconciliation of GAAP to non-GAAP follows:

	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009		
Dollars in Millions, except per share data	GAAP	Specified Items	Non-GAAP	GAAP	Specified Items	Non-GAAP
Net Earnings from Continuing Operations Attributable to BMS	$ 927	$ 17	$ 944	$ 880	$ 86	$ 966
Earnings attributable to unvested restricted shares	(3)		(3)	(5)		(5)
Net Earnings from Continuing Operations Attributable to BMS used for Diluted EPS Calculation	$ 924	$ 17	$ 941	$ 875	$ 86	$ 961
Average Common Shares Outstanding Diluted	1,728		1,728	1,983		1,983
Diluted EPS from Continuing Operations Attributable to BMS	$ 0.53	$ 0.01	$ 0.54	$ 0.44	$ 0.04	$ 0.48

Income Taxes

The effective income tax rate on earnings from continuing operations before income taxes was 20.4% for the three months ended June 30, 2010 compared to 23.2% for the three months ended June 30, 2009. See Item 1. Financial Statements Note 7. Income Taxes for further discussion.

Discontinued Operations

As discussed in our 2009 Annual Report on Form 10-K, we completed the split-off of Mead Johnson in December 2009. The results of the Mead Johnson business are included in net earnings from discontinued operations for the three months ended June 30, 2009. See Item 1. Financial Statements Note 5. Discontinued Operations for further discussion.

Noncontrolling Interest

Noncontrolling interest is primarily related to our partnerships with sanofi for the territory covering the Americas related to PLAVIX* net sales. See Item 1. Financial Statements Note 2. Alliances and Collaborations for further discussion. The increase in noncontrolling interest corresponds to increased net sales of PLAVIX* in the U.S. Net earnings from discontinued operations attributable to noncontrolling interest primarily relates to the 16.9% of Mead Johnson owned by the public prior to the split-off. A summary of noncontrolling interest is as follows:

	Three Months Ended June 30,	
Dollars in Millions	2010	2009
sanofi partnerships	$ 500	$ 424
Other	6	9
Noncontrolling interest pre-tax	506	433
Income taxes	165	144

Net earnings from continuing operations attributable to noncontrolling interest net of taxes	341	289
Net earnings from discontinued operations attributable to noncontrolling interest net of taxes		26
Net earnings attributable to noncontrolling interest net of taxes	$ 341	$ 315

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Six Months Results of Operations

Our results of continuing operations exclude the results of the Mead Johnson business prior to its split-off in December 2009. This business has been segregated from continuing operations and included in discontinued operations for the six months ended June 30, 2009, see Discontinued Operations below.

Our results of continuing operations were as follows:

	Six Months Ended June 30,		
Dollars in Millions	2010	2009	% Change
Net Sales	$ 9,575	$ 8,987	7%
Earnings from Continuing Operations before Income Taxes	$ 3,044	$ 2,717	12%
% of net sales	*31.8%*	*30.2%*	
Provision for Income Taxes	$ 675	$ 628	7%
Effective tax rate	*22.2%*	*23.1%*	
Net Earnings from Continuing Operations	$ 2,369	$ 2,089	13%
% of net sales	*24.7%*	*23.2%*	
Attributable to Noncontrolling Interest	$ 699	$ 560	25%
% of net sales	*7.3%*	*6.2%*	
Attributable to Bristol-Myers Squibb Company	$ 1,670	$ 1,529	9%
% of net sales	*17.4%*	*17.0%*	

Net Sales

The composition of the change in net sales was as follows:

	Six Months Ended June 30, Net Sales		2010 vs. 2009 Analysis of % Change			
Dollars in Millions	2010	2009	Total Change	Volume	Price	Foreign Exchange
U.S.	$ 6,194	$ 5,740	8%	3%	5%	
Non-U.S.	3,381	3,247	4%	2%	(2)%	4%
Total	$ 9,575	$ 8,987	7%	3%	2%	2%

Most of the key U.S. products contributed to the growth in net sales. PLAVIX* represented 49% of total U.S. net sales and contributed 74% of total growth in U.S. net sales.

International net sales increased 4%, including a 4% favorable foreign exchange impact due to growth in various key products, including BARACLUDE (39%), ABILIFY* (24%), the HIV portfolio (13%), SPRYCEL (39%) and ORENCIA (47%). Offsetting these increases were a decrease in mature brand sales and a 7% reduction in PLAVIX* net sales (including an 8% favorable foreign exchange impact).

In general, our business is not seasonal. For information on U.S. pharmaceutical prescriber demand, reference is made to the table within Estimated End-User Demand below, which sets forth a comparison of changes in net sales to the estimated total prescription growth (for both retail and mail order customers) for certain of our key pharmaceuticals and new products. The U.S. and non-U.S. net sales are categorized based upon the location of the customer.

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The reconciliation of our gross sales to net sales by each significant category of gross-to-net sales adjustments was as follows:

Dollars in Millions	Six Months Ended June 30, 2010	2009
Gross Sales	$ 10,572	$ 9,800
Gross-to-Net Sales Adjustments		
Prime Vendor Charge-Backs	(268)	(245)
Cash Discounts	(134)	(123)
Managed Healthcare Rebates and Other Contract Discounts	(239)	(214)
Medicaid Rebates	(214)	(98)
Sales Returns	(11)	(38)
Other Adjustments	(131)	(95)
Total Gross-to-Net Sales Adjustments	(997)	(813)
Net Sales	$ 9,575	$ 8,987

Gross-to-net sales adjustments as a percentage of gross sales were 9.4% in 2010 and 8.3% in 2009 and are typically correlated with gross sales trends, changes in sales mix and contractual and legislative discounts and rebates.

The enactment of healthcare reform in March 2010 impacted the Medicaid rebates adjustment for the six months ended June 30, 2010 due to the increase in the minimum Medicaid rebate on drug sales from 15.1% to 23.1% retroactive to January 1, 2010 and the extension of the above rebate increase on drugs sold to risk-based Medicaid managed care organizations. Expected future increases to gross-to-net sales adjustments related to healthcare reform are further discussed in Executive Summary Healthcare Reform above.

Prime vendor charge-backs and managed healthcare rebates and other contract discounts increased primarily due to higher average PLAVIX* selling prices and increased sales. Sales returns decreased primarily due to reduced provisions from various mature brands and certain key brands including REYATAZ and ORENCIA based upon a reduction in historical returns for such products.

The activities and ending balances of each significant category of gross-to-net sales reserve adjustments were as follows:

Dollars in Millions	Prime Vendor Charge-Backs	Cash Discounts	Managed Healthcare Rebates and Other Contract Discounts	Medicaid Rebates	Sales Returns	Other Adjustments	Total
Balance at January 1, 2010	$ 42	$ 26	$ 199	$ 166	$ 169	$ 88	$ 690
Provision related to sales made in current period	269	134	238	215	31	133	1,020
Provision related to sales made in prior periods	(1)		1	(1)	(20)	(2)	(23)
Returns and payments	(273)	(134)	(218)	(152)	(40)	(126)	(943)
Impact of foreign currency translation			(1)		(2)	(7)	(10)
Balance at June 30, 2010	$ 37	$ 26	$ 219	$ 228	$ 138	$ 86	$ 734

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Net sales of key products represented 84% and 81% of total net sales in the first six months of 2010 and 2009, respectively. The following table details U.S. and international net sales by key product, the percentage change from the prior period and the foreign exchange impact when compared to the prior period. Commentary detailing the reasons for significant variances is provided below:

	Six Months Ended June 30,			
Dollars in Millions	2010	2009	% Change	% Change Attributable to Foreign Exchange
Cardiovascular				
PLAVIX*				
U.S.	$ 3,027	$ 2,689	13%	
Non-U.S.	266	285	(7)%	8%
Total	3,293	2,974	11%	1%
AVAPRO*/AVALIDE*				
U.S.	356	352	1%	
Non-U.S.	265	263	1%	7%
Total	621	615	1%	3%
Virology				
REYATAZ				
U.S.	371	345	8%	
Non-U.S.	359	308	17%	3%
Total	730	653	12%	1%
SUSTIVA Franchise (total revenue)				
U.S.	427	384	11%	
Non-U.S.	239	220	9%	2%
Total	666	604	10%	1%
BARACLUDE				
U.S.	84	75	12%	
Non-U.S.	355	256	39%	6%
Total	439	331	33%	4%
Oncology				
ERBITUX*				
U.S.	331	333	(1)%	
Non-U.S.	7	4	75%	9%
Total	338	337		
SPRYCEL				
U.S.	80	63	27%	
Non-U.S.	183	132	39%	6%
Total	263	195	35%	4%
IXEMPRA				
U.S.	51	48	6%	
Non-U.S.	7	5	40%	4%
Total	58	53	9%	
Neuroscience				
ABILIFY*				
U.S.	961	999	(4)%	
Non-U.S.	289	233	24%	3%
Total	1,250	1,232	1%	
Immunoscience				
ORENCIA				
U.S.	263	215	22%	
Non-U.S.	84	57	47%	6%
Total	347	272	28%	1%
Metabolics				

ONGLYZA			
U.S.	29	N/A	N/A
Non-U.S.	9	N/A	N/A
Total	38	N/A	N/A

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PLAVIX*

U.S. net sales increased primarily due to higher average net selling prices and, to a lesser extent, increased demand. Estimated total U.S. prescription demand increased 1%.

International net sales continue to be negatively impacted by the launch of generic clopidogrel products in comarketing countries. The impact was partially offset by favorable foreign exchange. We expect continued erosion of PLAVIX* net sales in the EU, which will impact both our international net sales and our equity in net income of affiliates.

See Item 1. Financial Statements Note 17. Legal Proceedings and Contingencies PLAVIX* Litigation, for further discussion on PLAVIX* exclusivity litigation in both the U.S. and EU.

AVAPRO*/AVALIDE*

U.S. net sales increased primarily due to higher average net selling prices partially offset by a 15% decrease in estimated total U.S. prescription demand.

International net sales increased primarily due to higher average selling prices partially offset by decreased prescription demand.

REYATAZ

U.S. net sales increased primarily due to higher estimated total U.S. prescription demand of 7%.

International net sales increased primarily due to higher demand across most international markets.

SUSTIVA Franchise

U.S. net sales increased primarily due to higher demand as well as higher average net selling prices. Estimated total U.S. prescription demand increased 10%.

International net sales increased primarily due to continued demand in the EU.

BARACLUDE

Sold primarily in international markets, net sales increased primarily due to higher demand.

U.S. net sales increased primarily due to higher estimated U.S. prescription demand of 14%.

ERBITUX*

Sold almost exclusively in the U.S., net sales remained relatively flat.

SPRYCEL

U.S. net sales increased primarily due to increased demand and higher average net selling prices. Estimated total U.S. demand increased 7%.

International net sales increased primarily due to higher demand.

IXEMPRA

Worldwide net sales increased primarily due to higher demand.

ABILIFY*

U.S. net sales decreased primarily due to the reduction in our contractual share of net sales recognized from 65% to 58% and increased Medicaid rebates from healthcare reform. The decrease was partially offset by increased overall demand and higher average net selling prices. Estimated total U.S. prescription demand increased 7%.

International net sales increased primarily due to increased prescription demand and a favorable foreign exchange impact.

ORENCIA

U.S. net sales increased due to demand and higher average selling prices.

International net sales increased primarily due to higher demand.

For an explanation of the U.S. prescription data presented above and the calculation of such data, see Three Months Results of Operations.

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Estimated End-User Demand

The following table sets forth for each of our key products sold by the U.S. for the six months ended June 30, 2010 compared to the same period in the prior year: (i) total U.S. net sales for the period; (ii) change in reported U.S. net sales for the period; (iii) estimated total U.S. prescription change for the retail and mail order channels calculated by us based on third-party data on a weighted-average basis and (iv) months of inventory on hand in the wholesale distribution channel.

	Six Months Ended June 30,					
	Total U.S. Net Sales		% Change in U.S. Net Sales		% Change in U.S. Total Prescriptions	
Dollars in Millions	2010	2009	2010	2009	2010	2009
PLAVIX*	$ 3,027	$ 2,689	13%	15%	1%	3%
AVAPRO*/AVALIDE*	356	352	1%	(2)%	(15)%	(9)%
REYATAZ	371	345	8%	8%	7%	7%
SUSTIVA Franchise [(a)]	427	384	11%	11%	10%	9%
BARACLUDE	84	75	12%	17%	14%	15%
ERBITUX*[(b)]	331	333	(1)%	(12)%	N/A	N/A
SPRYCEL	80	63	27%	54%	7%	5%
IXEMPRA[(b)]	51	48	6%	(6)%	N/A	N/A
ABILIFY*	961	999	(4)%	33%	7%	30%
ORENCIA[(b)]	263	215	22%	34%	N/A	N/A
ONGLYZA[(c)]	29		N/A		N/A	N/A

(a) The SUSTIVA Franchise (total revenue) includes sales of SUSTIVA, as well as revenue of bulk efavirenz included in the combination therapy ATRIPLA*.
(b) ERBITUX*, IXEMPRA and ORENCIA are parenterally administered products and do not have prescription-level data as physicians do not write prescriptions for these products.
(c) ONGLYZA was launched in the U.S. in August 2009.

For an explanation of the data presented above and the calculation of such data, see Three Months Results of Operations.

Geographic Areas

In general, our products are available in most countries in the world. The largest markets are the U.S., France, Canada, Italy, Japan, Spain, Germany, China and the United Kingdom. Our net sales by geographic area, based on the location of the customer, were as follows:

	Six Months Ended June 30,				
	Net Sales			% of Total Net Sales	
Dollars in Millions	2010	2009	% Change	2010	2009
United States	$ 6,194	$ 5,740	8%	65%	64%
Europe	1,708	1,710		18%	19%
Latin America, Middle East and Africa	424	411	3%	4%	4%
Japan, Asia Pacific and Canada	774	698	11%	8%	8%
Emerging Markets	404	340	19%	4%	4%
Other	71	88	(19)%	1%	1%
Total	$ 9,575	$ 8,987	7%	100%	100%

Net sales in the U.S. increased primarily due to items previously discussed in Net Sales above.

Net sales in Europe remained flat including a 1% favorable foreign exchange impact. Increased sales of ABILIFY*, the HIV portfolio, SPRYCEL, BARACLUDE and ORENCIA were offset by decreases in net sales of certain mature brands and increased generic competition for PLAVIX*. Due to the heightening financial challenges in European countries, healthcare payers continue to explore ways to reduce the cost of healthcare including actions that would directly or indirectly impose additional price reductions and support the expanded use of generic drugs. The negative impact of such measures to our business include, but is not limited to, mandatory discounts and other price reductions on product sales.

Net sales in Latin America, Middle East and Africa increased primarily due to a 4% favorable foreign exchange impact in addition to increased sales of SPRYCEL, BARACLUDE, REYATAZ and ORENCIA, partially offset by decreased net sales of certain mature brands.

Net sales in Japan, Asia Pacific and Canada were impacted by a 12% favorable foreign exchange impact. Excluding the impact of foreign exchange, increased sales of BARACLUDE, SPRYCEL, ABILIFY*, ORENCIA and REYATAZ were offset by decreased net sales of PLAVIX* and TAXOL attributed to increasing generic competition as well as decreased net sales of certain mature brands.

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Net sales in Emerging Markets increased primarily due to a 7% favorable foreign exchange impact in addition to increased sales of BARACLUDE, REYATAZ, SPRYCEL and ABILIFY*.

No country outside the U.S. contributed more than 10% of our total net sales during the six months ended June 30, 2010 and 2009.

Expenses

	Six Months Ended June 30,				
	Expenses			% of Net Sales	
Dollars in Millions	2010	2009	% Change	2010	2009
Cost of products sold	$ 2,583	$ 2,390	8%	27.0%	26.6%
Marketing, selling and administrative	1,794	1,823	(2)%	18.7%	20.3%
Advertising and product promotion	475	546	(13)%	5.0%	6.1%
Research and development	1,732	1,719	1%	18.1%	19.1%
Provision for restructuring	35	38	(8)%	0.4%	0.4%
Litigation expense		132	(100)%		1.5%
Equity in net income of affiliates	(182)	(296)	(39)%	(1.9)%	(3.3)%
Other (income)/expense	94	(82)	**	0.9%	(0.9)%
Total Expenses	$ 6,531	$ 6,270	4%	68.2%	69.8%

** Change in excess of 200%.

Cost of products sold

The increase in cost of products sold as a percentage of net sales was primarily attributed to the reduction in our share of ABILIFY* sales related to the extended commercialization and manufacturing agreement for ABILIFY*, and the collaboration fee paid to Otsuka under the SPRYCEL and IXEMPRA Oncology collaboration beginning in 2010 partially offset by higher average net selling prices and a more favorable product mix.

Marketing, selling and administrative

The decrease was primarily attributed to Otsuka s reimbursement of certain ABILIFY*, SPRYCEL and IXEMPRA operating expenses, beginning January 1, 2010, the reduction in our ABILIFY* sales force, as Otsuka established its own sales force for the promotion of the above products, and a reduction in sales related activities of certain key products to coincide with their respective life cycles, offset by increased spending for the ONGLYZA launch and other pipeline products.

Advertising and product promotion

The decrease was attributed to reduced spending on the promotion of certain key products to coincide with their product life cycle and Otsuka s reimbursement of certain ABILIFY*, SPRYCEL and IXEMPRA advertising and product promotion expenses partially offset by increased spending for the ONGLYZA launch and other pipeline products.

Research and development

The increase was attributed to additional support of our maturing pipeline and compounds obtained from our string-of-pearls strategy and a $17 million payment to Exelixis to end our development collaboration for the experimental cancer drug XL184 partially offset by decreased upfront licensing and milestone payments. Upfront licensing and milestone payments of $55 million were paid to Allergan and PDL BioPharma Inc. during the first six months of 2010 and $174 million were paid to ZymoGenetics, Nissan and Albany Molecular in the first six months of

2009.

Provision for restructuring

The changes in provision for restructuring were primarily attributable to the timing of the implementation of certain PTI and continuous improvement initiatives.

Litigation expense

The 2009 expense was primarily due to the establishment of a $125 million reserve related to securities litigation. For further details refer to Item 1. Financial Statements Note 17. Legal Proceedings and Contingencies.

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Equity in net income of affiliates

The decrease was attributed to the continued impact of generic clopidogrel competition on international PLAVIX* net sales.

Other (income)/expense

Other (income)/expense includes:

Dollars in Millions	Six Months Ended June 30, 2010	2009
Interest expense	$ 65	$ 94
Interest income	(31)	(27)
Impairment and loss on sale of manufacturing operations	215	
Gain on debt buyback and termination of interest rate swap agreements		(11)
Net foreign exchange transaction (gains)/losses	(32)	4
Gain on sale of product lines, businesses and assets	(15)	(55)
Net royalty income and amortization of upfront licensing and milestone payments received from alliance partners	(94)	(69)
Pension curtailment and settlement charges	14	25
Other	(28)	(43)
Other (income)/expense	$ 94	$ (82)

Interest expense decreased primarily due to lower interest rates.

Impairment and loss on sale of manufacturing operations was attributed to the disposal of our manufacturing operations in Latina, Italy. See Item 1. Financial Statements Note 4. Restructuring.

Gain on sale of product lines, businesses and assets were primarily related to the sale of mature brands, including the Pakistan business in 2009.

Net royalty and alliance partners activity includes income earned from the sanofi partnership and amortization of certain upfront licensing and milestone receipts related to our alliances.

Specified Items

During the six months ended June 30, 2010 and 2009, the following specified items affected the comparability of results of the periods presented herein. Specified items are excluded from segment income.

Six Months Ended June 30, 2010

Dollars in Millions	Cost of products sold	Marketing, selling and administrative	Research and development	Provision for restructuring	Litigation expense	Other (income)/ expense	Total

Restructuring Activity:												
Downsizing and streamlining of worldwide operations	$		$		$		$	35	$		$	35
Impairment and loss on sale of manufacturing operations										215		215
Accelerated depreciation, asset impairment and other shutdown costs		58										58
Pension settlements/curtailments										5		5
Process standardization implementation costs				19								19
Total Restructuring		58		19				35		220		332
Other:												
Upfront licensing, milestone and other payments						72						72
Total	$	58	$	19	$	72	$	35	$	220		404
Income taxes on items above												(104)
Out-of-period tax adjustment												(59)
Decrease to Net Earnings from Continuing Operations											$	241

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Six Months Ended June 30, 2009

Dollars in Millions	Cost of products sold	Marketing, selling and administrative	Research and development	Provision for restructuring	Litigation expense	Other (income)/ expense	Total
Restructuring Activity:							
Downsizing and streamlining of worldwide operations	$	$	$	$ 32	$	$	$ 32
Accelerated depreciation, asset impairment and other shutdown costs	50			6			56
Pension settlements/curtailments						25	25
Process standardization implementation costs		45					45
Gain on sale of product lines, businesses and assets						(55)	(55)
Total Restructuring	50	45		38		(30)	103
Other:							
Litigation charges					132		132
Upfront licensing and milestone payments			174				174
Debt buyback and swap terminations						(11)	(11)
Product liability	8					(5)	3
Total	$ 58	$ 45	$ 174	$ 38	$ 132	$ (46)	401
Income taxes on items above							(135)
Decrease to Net Earnings from Continuing Operations							$ 266

Non-GAAP Financial Measures

A reconciliation of GAAP to non-GAAP follows:

Dollars in Millions, except per share data	Six Months Ended June 30, 2010 GAAP	Specified Items	Non-GAAP	Six Months Ended June 30, 2009 GAAP	Specified Items	Non-GAAP
Net Earnings from Continuing Operations Attributable to BMS	$ 1,670	$ 241	$ 1,911	$ 1,529	$ 266	$ 1,795
Earnings attributable to unvested restricted shares	(7)		(7)	(9)		(9)
Net Earnings from Continuing Operations Attributable to BMS used for Diluted EPS Calculation	$ 1,663	$ 241	$ 1,904	$ 1,520	$ 266	$ 1,786
Average Common Shares Outstanding Diluted	1,727		1,727	1,982		1,982
Diluted EPS from Continuing Operations Attributable to BMS	$ 0.96	$ 0.14	$ 1.10	$ 0.77	$ 0.13	$ 0.90

For an explanation of the data presented above, see Three Months Results of Operations.

Income Taxes

The effective income tax rate on earnings from continuing operations before income taxes was 22.2% for the six months ended June 30, 2010 compared to 23.1% for the six months ended June 30, 2009. See Item 1. Financial Statements Note 7. Income Taxes for further discussion.

Discontinued Operations

As discussed in our 2009 Annual Report on Form 10-K, we completed the split-off of Mead Johnson in December 2009. The results of the Mead Johnson business are included in net earnings from discontinued operations for the six months ended June 30, 2009. See Item 1. Financial Statements Note 5. Discontinued Operations for further discussion.

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Noncontrolling Interest

Noncontrolling interest is primarily related to our partnerships with sanofi for the territory covering the Americas related to PLAVIX* net sales. See Item 1. Financial Statements Note 2. Alliances and Collaborations for further discussion. The increase in noncontrolling interest corresponds to increased net sales of PLAVIX* in the U.S. Net earnings from discontinued operations attributable to noncontrolling interest primarily relates to the 16.9% of Mead Johnson owned by the public prior to the split-off. A summary of noncontrolling interest is as follows:

Dollars in Millions	Six Months Ended June 30, 2010	2009
sanofi partnerships	$ 1,020	$ 815
Other	15	16
Noncontrolling interest pre-tax	1,035	831
Income taxes	336	271
Net earnings from continuing operations attributable to noncontrolling interest net of taxes	699	560
Net earnings from discontinued operations attributable to noncontrolling interest net of taxes		38
Net earnings attributable to noncontrolling interest net of taxes	$ 699	$ 598

Financial Position, Liquidity and Capital Resources

Net cash position was as follows:

Dollars in Millions	June 30, 2010	December 31, 2009
Cash and cash equivalents	$ 5,918	$ 7,683
Marketable securities current	1,536	831
Marketable securities non-current	2,795	1,369
Total	10,249	9,883
Short-term borrowings, including current portion of long-term debt	290	231
Long-term debt	6,248	6,130
Total debt	6,538	6,361
Net cash position	$ 3,711	$ 3,522

We maintain a significant level of working capital, which was approximately $7.1 billion at June 30, 2010 and $7.6 billion at December 31, 2009. In 2010 and future periods, we expect cash generated by our operations, together with existing cash, cash equivalents, marketable securities and borrowings from the capital markets, to be sufficient to cover cash needs for working capital, capital expenditures, strategic alliances and acquisitions, milestone payments, dividends paid in the U.S and common stock repurchases.

Beginning with the second quarter of 2009, we diversified our investment portfolio and acquired non-current marketable securities, including purchases of corporate debt securities. These investments are subject to changes in fair value as a result of interest rate fluctuations and other market factors, which may impact our results of operations. Our

investment policy places limits on these investments and the amount and time to maturity of investments with any institution. The policy also requires that investments are only made with highly rated corporate and financial institutions. See Item 1. Financial Statements Note 9. Cash, Cash Equivalents and Marketable Securities.

We continue to monitor the potential impact of the deteriorating economic conditions in certain European countries further discussed in Geographic Areas above and the related impact on prescription trends, pricing discounts, creditworthiness of our customers, and our ability to collect outstanding receivables from such countries. Currently, we believe these conditions will not have a material impact on our liquidity, cash flow, or financial flexibility.

We have a $2.0 billion five year revolving credit facility from a syndicate of lenders maturing in December 2011, which is extendable with the consent of the lenders. This facility contains customary terms and conditions, including a financial covenant whereby the ratio of consolidated net debt to consolidated capital cannot exceed 50% at the end of each quarter. We have been in compliance with this covenant since the inception of this facility. There were no borrowings outstanding under this revolving credit facility at June 30, 2010 and December 31, 2009.

As an additional source of liquidity, we sell trade accounts receivables, principally from non-U.S. governments and hospital customers primarily in Japan, Italy, Portugal and Spain, to third parties. The receivables are sold on a nonrecourse basis and approximated $447 million and $104 million during the six months ended June 30, 2010 and 2009, respectively. Our sales agreements do not allow for recourse in the event of uncollectibility and we do not retain interest to the underlying asset once sold.

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Cash, cash equivalents and marketable securities held outside the U.S. was approximately $6.2 billion at June 30, 2010 and $5.3 billion at December 31, 2009 which is either utilized to fund non-U.S. operations or repatriated back to the U.S. where taxes have been previously provided. Cash repatriations are subject to restrictions in certain jurisdictions and may be subject to withholding and other taxes.

Credit Ratings

Moody s Investors Service (Moody s) long-term and short-term credit ratings are currently A2 and Prime-1, respectively, and their long-term credit rating remains on stable outlook. Standard & Poor s (S&P) long-term and short-term credit ratings are currently A+ and A-1, respectively, and their long-term credit rating remains on stable outlook. Fitch Ratings (Fitch) long-term and short-term credit ratings are currently A+ and F1, respectively, and their long-term credit rating remains on stable outlook. Our credit ratings are considered investment grade. These ratings for long-term securities designate that we have a low default risk but are somewhat susceptible to adverse effects of changes in circumstances and economic conditions. These ratings for short-term obligations designate that we have the strongest capacity for timely repayment.

Cash Flows

The following is a discussion of cash flow activities:

Dollars in Millions	Six Months Ended June 30, 2010	2009
Cash flow provided by/(used in):		
Operating activities	$ 1,513	$ 1,248
Investing activities	(2,281)	(1,364)
Financing activities	(981)	(355)

Operating Activities

Cash flow from operating activities represents the cash receipts and cash disbursements related to all of our activities other than investing activities and financing activities. Operating cash flow is derived by adjusting net earnings for:

- Noncontrolling interest;
- Non-cash operating items such as depreciation and amortization, impairment charges and stock-based compensation charges;
- Gains and losses attributed to investing and financing activities such as gains and losses on the sale of product lines and businesses; and
- Changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in results of operations.

The net impact of the changes in operating assets and liabilities, which are discussed in more detail below, include the impact of changes in receivables, inventories, deferred income, accounts payable, income taxes receivable/payable and other operating assets and liabilities.

The net impact of the changes in operating assets and liabilities aggregated to a net cash outflow of $913 million and $839 million during the six months ended June 30, 2010 and 2009, respectively. These items included the impact of changes in receivables, inventories, deferred income, accounts payable, income taxes receivable/payable and other

operating assets and liabilities which are discussed in more detail below.

We continue to maximize our operating cash flows with our working capital initiative designed to continue to improve working capital items that are most directly affected by changes in sales volume, such as receivables, inventories and accounts payable. Those improvements are being driven by several actions including additional non-recourse factoring of non-US trade receivables, revised contractual payment terms with customers and vendors, enhanced collection processes and various supply chain initiatives designed to optimize inventory levels. Progress in this area is monitored each period and is a component of our annual incentive plan. The following summarizes certain working capital components expressed as a percentage of trailing twelve months net sales.

Dollars in Millions	June 30, 2010	% of Trailing Twelve Month Net Sales	December 31, 2009	% of Trailing Twelve Month Net Sales
Net trade receivables	$ 1,805	9.3%	$ 1,897	10.1%
Inventories	1,265	6.5%	1,413	7.5%
Accounts payable	(1,681)	(8.6)%	(1,711)	(9.1)%
Total	$ 1,389	7.2%	$ 1,599	8.5%

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During the first six months of 2010, changes in operating assets and liabilities resulted in a net cash outflow of $913 million which was impacted by:

- Cash outflows from other operating assets and liabilities ($739 million) primarily related to the pension funding in excess of current year expense ($331 million) and decreases in accrued bonuses and salaries due to the timing of payments ($226 million); and
- Cash outflows from U.S. and foreign income tax payable ($195 million) primarily attributed to timing of tax payment.

In the first six months of 2009, changes in operating assets and liabilities resulted in a net cash outflow of $839 million which was impacted by:

- Cash outflows from other operating assets and liabilities ($1.3 billion) primarily related to pension funding in excess of current year expense ($504 million), alliance payment to Otsuka which will be amortized as a reduction of net sales through the ABILIFY* extension period ($400 million) and decreases in accrued bonuses and salaries due to the timing of payments ($292 million); and
- Cash inflows from accounts payable ($266 million) primarily attributed to the timing of vendor and alliance payments, as well as the impact of the above noted working capital initiative.

Investing Activities

Net cash used in investing activities was $2.3 billion in the first six months of 2010 and included:

- Net purchases of marketable securities ($2.1 billion); and
- Capital expenditures ($210 million).

Net cash used in investing activities was $1.4 billion in the first six months of 2009 and included:

- Net purchases of marketable securities ($1.1 billion); and
- Capital expenditures ($365 million); and
- Proceeds from the divestiture of mature brand businesses ($68 million), including the Pakistan business ($32 million).

Financing Activities

Net cash used in financing activities was $981 million in the first six months of 2010 and included:

Dividend payments ($1.1 billion); and

Common stock repurchase ($165 million); partially offset by

Net proceeds from the exercise of stock options ($122 million); and

Net proceeds from the termination of interest rate swap agreements ($98 million).

Net cash used in financing activities was $355 million in the first six months of 2009 and included:

Dividend payments ($1.2 billion); and

Repurchase of 5.875% Notes due 2036 ($67 million); partially offset by

Net proceeds from the Mead Johnson initial public offering ($782 million); and

Net proceeds from the termination of interest rate swap agreements ($191 million).

Dividends declared per common share were $0.64 for the six months ended June 30, 2010 and $0.62 for the six months ended June 30, 2009. We paid $1.1 billion and $1.2 billion in dividends for the six months ended June 30, 2010 and June 30, 2009, respectively. The decrease in total dividends, despite the per share increase, is primarily attributed to the 269 million share reduction from the Mead Johnson split-off. Dividend decisions are made on a quarterly basis by our Board of Directors.

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Critical Accounting Policies

For a discussion of our critical accounting policies, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2009 Annual Report on Form 10-K.

The enactment of healthcare reform impacted certain judgments and estimates related to our accrued rebates and returns. See Executive Summary Healthcare Reform above for further detail.

Special Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q (including documents incorporated by reference) and other written and oral statements we make from time to time contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the fact they use words such as should , expect , anticipate , estimate , target , may , p guidance , intend , plan , believe and other words and terms of similar meaning and expression in connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements are based on current expectations and involve inherent risks and uncertainties, including factors that could delay, divert or change any of them, and could cause actual outcomes to differ materially from current expectations. These statements are likely to relate to, among other things, our goals, plans and projections regarding our financial position, results of operations, cash flows, market position, product development, product approvals, sales efforts, expenses, performance or results of current and anticipated products and the outcome of contingencies such as legal proceedings and financial results, which are based on current expectations that involve inherent risks and uncertainties, including internal or external factors that could delay, divert or change any of them in the next several years. We have included important factors in the cautionary statements included in our 2009 Annual Report on Form 10-K, particularly under Item 1A. Risk Factors, that we believe could cause actual results to differ materially from any forward-looking statement.

Although we believe we have been prudent in our plans and assumptions, no assurance can be given that any goal or plan set forth in forward-looking statements can be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of new information, future events or otherwise.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of our market risk, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2009 Annual Report on Form 10-K.

For information regarding executions of fixed-to-floating interest rate swaps and foreign currency forward contracts, see Item 1. Financial Statements Note 16. Financial Instruments.

Item 4. CONTROLS AND PROCEDURES

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. Based on their evaluation, as of the end of the period covered by this Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in Item 1. Financial Statements Note 17. Legal Proceedings and Contingencies, to the interim consolidated financial statements, and is incorporated by reference herein.

Item 2. ISSUER PURCHASES OF EQUITY SECURITIES

The following table summarizes the surrenders and repurchases of our equity securities during the six month period ended June 30, 2010:

Period Dollars in Millions, Except Per Share Data	Total Number of Shares Purchased[a]	Average Price Paid per Share[a]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[b]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[b]
January 1 to 31, 2010	4,280	$ 25.07		$ 2,220
February 1 to 28, 2010	4,589	$ 24.19		$ 2,220
March 1 to 31, 2010	1,492,277	$ 24.60		$ 2,220
Three months ended March 31, 2010	1,501,146			
April 1 to 30, 2010	9,065	$ 26.67		$ 2,220
May 1 to 31, 2010	4,742,159	$ 23.48	4,731,211	$ 2,889
June 1 to 30, 2010	2,556,972	$ 24.28	2,548,826	$ 2,827
Three months ended June 30, 2010	7,308,196		7,280,037	
Six months ended June 30, 2010	8,809,342		7,280,037	

(a) The difference between total number of shares purchased and the total number of shares purchased as part of publicly announced programs is due to shares of common stock withheld by us from employee restricted stock awards in order to satisfy our applicable tax withholding obligations.

(b) In May 2010, we announced that the Board of Directors authorized the purchase of up to $3 billion of our common stock. The repurchase program does not have an expiration date and is expected to take place over a few years. In May 2010, the Board of Directors also terminated the program previously announced in June 2001 pursuant to which up to $14 billion of common stock had been authorized to be purchased and approximately $2.2 billion remained yet to be repurchased.

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Item 6. EXHIBITS

Exhibits (listed by number corresponding to the Exhibit Table of Item 601 in Regulation S-K).

Exhibit No.	Description
3a.	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective as of May 7, 2010 (incorporated herein by reference to Exhibit 3a. to the Form 8-K dated May 4, 2010 and filed on May 10, 2010).
3b.	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective as of May 7, 2010 (incorporated herein by reference to Exhibit 3b. to the Form 8-K dated May 4, 2010 and filed on May 10, 2010).
3c.	Bylaws of Bristol-Myers Squibb Company, as amended effective May 4, 2010 (incorporated herein by reference to Exhibit 3c. to the Form 8-K dated May 4, 2010 and filed on May 10, 2010).
10a.	Bristol-Myers Squibb Company 2007 Senior Executive Performance Incentive Plan (as amended and restated effective June 8, 2010).
12.	Computation of Earnings to Fixed Charges.
31a.	Section 302 Certification Letter.
31b.	Section 302 Certification Letter.
32a.	Section 906 Certification Letter.
32b.	Section 906 Certification Letter.
101.	The following financial statements from the Bristol-Myers Squibb Company Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of earnings, (ii) consolidated statements of comprehensive income and retained earnings, (iii) consolidated balance sheets, (iv) consolidated statements of cash flows, and (v) the notes to the consolidated financial statements.

* Indicates, in this Form 10-Q, brand names of products, which are registered trademarks not owned by the Company or its subsidiaries. ERBITUX is a trademark of Eli Lilly; AVAPRO/AVALIDE (known in the EU as APROVEL/KARVEA), PLAVIX is a trademark of sanofi-aventis; ABILIFY is a trademark of Otsuka Pharmaceutical Co., Ltd.; TRUVADA is a trademark of Gilead Sciences, Inc.; GLEEVEC is a trademark of Novartis AG; ATRIPLA is a trademark of Bristol-Myers Squibb and Gilead Sciences, LLC; ESTRACE and OVCON are trademarks of Warner-Chilcott Company, LLC; and DELESTROGEN is a trademark of JHP Pharmaceuticals, Inc.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRISTOL-MYERS SQUIBB COMPANY

(REGISTRANT)

Date: July 22, 2010

By: /s/ Lamberto Andreotti
Lamberto Andreotti

Chief Executive Officer

Date: July 22, 2010

By: /s/ Charles Bancroft
Charles Bancroft

Chief Financial Officer