

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Three Months Ended June 30, 2014 and 2013
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
(unaudited)
(in millions, except per share and percentage data)

The company's GAAP results for the three months ended June 30, 2014 and 2013 included special items which impacted the GAAP measures as follows:

	Three Months Ended June 30,		Change
	2014	2013	
Gross Margin	\$2,041	\$1,939	5%
Intangible asset amortization expense ¹	47	25	
Business optimization items ²	(14)	(20)	
Product-related items ³	89	-	
Adjusted Gross Margin	\$2,163	\$1,944	11%
% of Net Sales	50.7%	53.0%	(2.3 pts)
Marketing and Administrative Expenses	\$998	\$838	19%
Gambro acquisition and integration items ⁴	(27)	(23)	
Separation-related costs ⁶	(22)	-	
Business optimization items ²	16	-	
Product-related items ³	(4)	-	
Adjusted Marketing and Administrative Expenses	\$961	\$815	18%
% of Net Sales	22.5%	22.2%	0.3 pts
Research and Development Expenses	\$325	\$273	19%
Business optimization items ²	2	(18)	
Business development items ⁵	(35)	-	
Adjusted Research and Development Expenses	\$292	\$255	15%
% of Net Sales	6.8%	7.0%	(0.2 pts)
Other Expense, Net	\$15	\$68	N/M
Reserve items and adjustments ⁷	(30)	-	
Gambro acquisition and integration items ⁴	(2)	(55)	
Adjusted Other (Income) Expense, Net	\$(17)	\$13	N/M
Pre-Tax Income	\$661	\$743	(11%)
Impact of special items	224	101	
Adjusted Pre-Tax Income	\$885	\$844	5%
Income Tax Expense	\$141	\$153	(8%)
Impact of special items	52	32	
Adjusted Income Tax Expense	\$193	\$185	4%
% of Adjusted Pre-Tax Income	21.8%	21.9%	(0.1 pts)
Net Income	\$520	\$590	(12%)
Impact of special items	172	69	
Adjusted Net Income	\$692	\$659	5%
Diluted EPS	\$0.95	\$1.07	(11%)
Impact of special items	0.31	0.13	
Adjusted Diluted EPS	\$1.26	\$1.20	5%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	548	549	

- ¹ Effective January 1, 2014, Baxter has updated its non-GAAP measures above to exclude intangible asset amortization expense. Prior period non-GAAP measures have been revised to reflect the updated measures. Intangible asset amortization expense totaled \$47 million (\$36 million, or \$0.07 per diluted share, on an after-tax basis) and \$25 million (\$20 million, or \$0.04 per diluted share, on an after-tax basis) in 2014 and 2013, respectively.
- ² The company's results in 2014 included a net benefit of \$32 million (\$18 million, or \$0.03 per diluted share, on an after-tax basis) primarily related to an adjustment to a previous business optimization reserve that is no longer probable of being utilized. The company's results in 2013 included a benefit of \$20 million (\$14 million, or \$0.03 per diluted share, on an after-tax basis) related to an adjustment to a previous business optimization reserve that is no longer probable of being utilized, which was partially offset by additional business optimization charges of \$18 million (\$14 million, or \$0.03 per diluted share, on an after-tax basis).
- ³ The company's results in 2014 included total charges of \$93 million (\$58 million, or \$0.10 per diluted share, on an after-tax basis) principally related to product remediation efforts for the SIGMA Spectrum Infusion Pump.
- ⁴ The company's results in 2014 included total charges of \$29 million (\$21 million, or \$0.04 per diluted share, on an after-tax basis) principally related to the acquisition and integration of Gambro AB (Gambro). The company's results in 2013 included total charges of \$78 million (\$49 million, or \$0.09 per diluted share, on an after-tax basis) primarily related to pre-acquisition costs for the planned acquisition of Gambro and losses on derivative instruments entered into during December 2012 and the first six months of 2013 to hedge the anticipated foreign currency cash outflows for the planned acquisition of Gambro.
- ⁵ The company's results in 2014 included a charge of \$35 million (\$30 million, or \$0.05 per diluted share, on an after-tax basis) primarily related to certain milestone payments associated with the company's collaboration arrangements.
- ⁶ The company's results in 2014 included separation-related costs of \$22 million (\$21 million, or \$0.04 per diluted share, on an after-tax basis) for the planned separation of Baxter's biopharmaceutical and medical products businesses.
- ⁷ The company's results in 2014 included a net expense of \$30 million (\$24 million, or \$0.04 per diluted share, on an after-tax basis) primarily due to an increase in the estimated fair value of acquisition-related contingent payment liabilities, partially offset by a third-party recovery on previous litigation reserves.

For more information on the company's use of non-GAAP financial measures in this press release, please see the company's Current Report on Form 8-K filed with the Securities and Exchange Commission on the date of this press release.