

ABBOTT LABORATORIES  
Form 10-Q  
May 02, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D. C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-2189

**ABBOTT LABORATORIES**

An Illinois Corporation

I.R.S. Employer Identification No.  
36-0698440

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100 Abbott Park Road

Abbott Park, Illinois 60064-6400

Telephone: (847) 937-6100

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of March 31, 2008, Abbott Laboratories had 1,543,296,270 common shares without par value outstanding.

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PART I. FINANCIAL INFORMATION

Abbott Laboratories and Subsidiaries

Condensed Consolidated Financial Statements

(Unaudited)



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Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Earnings

(Unaudited)

*(dollars and shares in thousands except per share data)*

|   | <b>Three Months Ended March 31</b> |              |
|---|------------------------------------|--------------|
|   | <b>2008</b>                        | <b>2007</b>  |
| Net Sales   | \$ 6,765,603                       | \$ 5,945,561 |
| Cost of products sold   | 2,961,072                          | 2,592,011    |
| Research and development  | 619,957                            | 619,056      |
| Acquired in-process research and development  | 18,700                             |              |
| Selling, general and administrative   | 2,018,033                          | 1,786,869    |
| Total Operating Cost and Expenses   | 5,617,762                          | 4,997,936    |
| Operating Earnings  | 1,147,841                          | 947,625      |
| Interest expense  | 142,534                            | 147,542      |
| Interest (income)   | (49,356)                           | (23,337)     |
| (Income) from TAP Pharmaceutical Products Inc. joint venture                              | (101,942)                          | (146,632)    |
| Net foreign exchange loss (gain)  | 6,221                              | 4,851        |
| Other (income) expense, net   | (10,342)                           | 124,536      |
| Earnings Before Taxes   | 1,160,726                          | 840,665      |
| Taxes on Earnings   | 222,859                            | 143,128      |
| Net Earnings  | \$ 937,867                         | \$ 697,537   |
| Basic Earnings Per Common Share   | \$ 0.61                            | \$ 0.45      |
| Diluted Earnings Per Common Share   | \$ 0.60                            | \$ 0.45      |
| Cash Dividends Declared Per Common Share  | \$ 0.36                            | \$ 0.325     |
| Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share      | 1,544,022                          | 1,540,315    |
| Dilutive Common Stock Options and Awards  | 16,545                             | 17,919       |
| Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options and Awards | 1,560,567                          | 1,558,234    |
| Outstanding Common Stock Options Having No Dilutive Effect                                | 6,399                              | 20,928       |

The accompanying notes to condensed consolidated financial statements are an integral part of this statement.



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Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(dollars in thousands)

|   | <b>Three Months Ended March 31</b> |                  |
|---|------------------------------------|------------------|
|   | <b>2008</b>                        | <b>2007</b>      |
| <b>Cash Flow From (Used in) Operating Activities:</b>                   |                                    |                  |
| Net earnings  | \$ 937,867                         | \$ 697,537       |
| Adjustments to reconcile earnings to net cash from operating activities |                                    |                  |
| Depreciation  | 265,808                            | 234,468          |
| Amortization of intangibles   | 186,046                            | 197,956          |
| Share-based compensation  | 151,922                            | 163,170          |
| Acquired in-process research and development                            | 18,700                             |                  |
| Trade receivables   | 43,998                             | 162,752          |
| Inventories   | (36,749)                           | (49,622)         |
| Other, net  | (262,441)                          | (349,974)        |
| <b>Net Cash From Operating Activities</b>                               | <b>1,305,151</b>                   | <b>1,056,287</b> |
| <b>Cash Flow From (Used in) Investing Activities:</b>                   |                                    |                  |
| Acquisitions of property and equipment                                  | (332,983)                          | (392,676)        |
| Sales of Boston Scientific common stock                                 | 318,645                            |                  |
| (Purchases of) proceeds from sales of other investment securities, net  | (860,623)                          | 2,927            |
| Other   | (18,204)                           | 769              |
| <b>Net Cash (Used in) Investing Activities</b>                          | <b>(893,165)</b>                   | <b>(388,980)</b> |
| <b>Cash Flow From (Used in) Financing Activities:</b>                   |                                    |                  |
| Proceeds from issuance of short-term debt and other                     | 989,946                            | 354,835          |
| Payment of long-term debt   | (200,000)                          | (260,618)        |
| Purchases of common shares  | (819,150)                          | (861,203)        |
| Proceeds from stock options exercised, including income tax benefit     | 307,488                            | 714,136          |
| Dividends paid  | (504,550)                          | (453,807)        |
| <b>Net Cash (Used in) Financing Activities</b>                          | <b>(226,266)</b>                   | <b>(506,657)</b> |
| Effect of exchange rate changes on cash and cash equivalents            | 67,847                             | 506              |
| <b>Net Increase in Cash and Cash Equivalents</b>                        | <b>253,567</b>                     | <b>161,156</b>   |
| Cash and Cash Equivalents, Beginning of Year                            | 2,456,384                          | 521,192          |
| Cash and Cash Equivalents, End of Period                                | \$ 2,709,951                       | \$ 682,348       |

The accompanying notes to condensed consolidated financial statements are an integral part of this statement.





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Abbott Laboratories and Subsidiaries

Condensed Consolidated Balance Sheet

(Unaudited)

(dollars in thousands)

|   | March 31<br>2008 | December 31<br>2007 |
|---|------------------|---------------------|
| <b>Assets</b>   |                  |                     |
| Current Assets:   |                  |                     |
| Cash and cash equivalents   | \$ 2,709,951     | \$ 2,456,384        |
| Investments, including \$307,500 of investments measured at fair value at December 31, 2007 | 926,648          | 364,443             |
| Trade receivables, less allowances of \$263,484 in 2008 and \$258,288 in 2007               | 4,998,280        | 4,946,876           |
| Inventories:  |                  |                     |
| Finished products   | 1,809,504        | 1,677,083           |
| Work in process   | 684,082          | 681,634             |
| Materials   | 582,050          | 592,725             |
| Total inventories   | 3,075,636        | 2,951,442           |
| Prepaid expenses, deferred income taxes, and other receivables                              | 3,401,225        | 3,323,588           |
| Total Current Assets  | 15,111,740       | 14,042,733          |
| Investments   | 1,084,132        | 1,125,262           |
| Property and Equipment, at Cost   | 15,923,027       | 15,597,801          |
| Less: accumulated depreciation and amortization   | 8,302,323        | 8,079,652           |
| Net Property and Equipment  | 7,620,704        | 7,518,149           |
| Intangible Assets, net of amortization  | 5,524,952        | 5,720,478           |
| Goodwill  | 10,293,626       | 10,128,841          |
| Deferred Income Taxes and Other Assets  | 1,542,418        | 1,178,461           |
|   | \$ 41,177,572    | \$ 39,713,924       |
| <b>Liabilities and Shareholders Investment</b>  |                  |                     |
| Current Liabilities:  |                  |                     |
| Short-term borrowings   | \$ 2,956,591     | \$ 1,827,361        |
| Trade accounts payable  | 1,228,243        | 1,219,529           |
| Salaries, dividends payable, and other accruals   | 5,232,601        | 5,077,428           |
| Income taxes payable  | 130,445          | 80,406              |
| Current portion of long-term debt   | 1,222,565        | 898,554             |
| Total Current Liabilities   | 10,770,445       | 9,103,278           |
| Long-term Debt  | 9,042,858        | 9,487,789           |
| Post-employment Obligations and Other Long-term Liabilities                                 | 3,384,725        | 3,344,317           |
| Commitments and Contingencies   |                  |                     |
| Shareholders Investment:  |                  |                     |
| Preferred shares, one dollar par value  |                  |                     |
| Authorized 1,000,000 shares, none issued  |                  |                     |
| Common shares, without par value Authorized - 2,400,000,000 shares                          |                  |                     |
| Issued at stated capital amount -   |                  |                     |
| Shares: 2008: 1,587,408,102; 2007: 1,580,854,677  | 6,526,510        | 6,104,102           |

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|   |               |               |
|---|---------------|---------------|
| Common shares held in treasury, at cost -<br>Shares: 2008: 44,111,832; 2007: 30,944,537 | (2,001,815)   | (1,213,134)   |
| Earnings employed in the business   | 11,200,647    | 10,805,809    |
| Accumulated other comprehensive income (loss)   | 2,254,202     | 2,081,763     |
| Total Shareholders Investment   | 17,979,544    | 17,778,540    |
|   | \$ 41,177,572 | \$ 39,713,924 |

The accompanying notes to condensed consolidated financial statements are an integral part of this statement.

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Abbott Laboratories and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited)

### Note 1 Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnote disclosures normally included in audited financial statements. However, in the opinion of management, all adjustments (which include only normal adjustments) necessary to present fairly the results of operations, financial position and cash flows have been made. It is suggested that these statements be read in conjunction with the financial statements included in Abbott's Annual Report on Form 10-K for the year ended December 31, 2007.

Abbott's core laboratory diagnostics business, including Point of Care, was presented as discontinued operations in the Consolidated Statement of Earnings and the Statement of Cash Flows and as net assets held for sale in the Consolidated Balance Sheet in the Form 10-Q for the three months ended March 31, 2007. Subsequently, a decision was made to retain the businesses and the 2007 results and net assets are presented as continuing in this Form 10-Q. The results for the three months ended March 31, 2007 included depreciation and amortization through January 17, 2007. The amount of depreciation and amortization not recorded in the first quarter of 2007 was \$38 million, which was recorded in a subsequent quarter in 2007.

### Note 2 Supplemental Financial Information

Other (income) expense, net, for the first quarter of 2007 includes a \$149 million fair market value loss adjustment to Abbott's investment in Boston Scientific common stock, partially offset by fair value gain adjustments of \$24 million to certain derivative financial instruments related to the investment in Boston Scientific common stock.

Supplemental Cash Flow Information Other, net in Net cash from operating activities for 2008 and 2007 includes the effects of contributions to the main domestic defined benefit plan of \$200 million in each period and to the post-employment medical and dental plans of \$65 million and \$75 million, respectively.

The components of investments as of March 31, 2008 and December 31, 2007 are as follows:

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(dollars in thousands)

|  | March 31<br>2008    | December 31<br>2007 |
|--|---------------------|---------------------|
| <b>Current Investments:</b>                                      |                     |                     |
| Time deposits and certificates of deposit                        | \$ 926,648          | \$ 56,943           |
| Boston Scientific common stock                                   |                     | 307,500             |
| <b>Total</b>   | <b>\$ 926,648</b>   | <b>\$ 364,443</b>   |
| <b>Long-term Investments:</b>                                    |                     |                     |
| Equity securities  | \$ 185,615          | \$ 229,518          |
| Note receivable from Boston Scientific, 4% interest, due in 2011 | 854,004             | 850,594             |
| Other  | 44,513              | 45,150              |
| <b>Total</b>   | <b>\$ 1,084,132</b> | <b>\$ 1,125,262</b> |

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### Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited), continued

#### Note 3 Taxes on Earnings

Taxes on earnings reflect the estimated annual effective rates and include charges for interest and penalties. The effective tax rates are less than the statutory U.S. federal income tax rate principally due to the domestic dividend exclusion and the benefit of lower statutory tax rates and tax exemptions in several taxing jurisdictions.

#### Note 4 Litigation and Environmental Matters

Abbott has been identified as a potentially responsible party for investigation and cleanup costs at a number of locations in the United States and Puerto Rico under federal and state remediation laws and is investigating potential contamination at a number of company-owned locations. Abbott has recorded an estimated cleanup cost for each site for which management believes Abbott has a probable loss exposure. No individual site cleanup exposure is expected to exceed \$3 million, and the aggregate cleanup exposure is not expected to exceed \$15 million.

There are a number of patent disputes with third parties who claim Abbott's products infringe their patents. In one of those disputes, filed in April 2007, Abbott is unable to estimate a range of possible loss, if any, and no reserve has been recorded. Abbott's acquisition of Kos Pharmaceuticals Inc. resulted in the assumption of various cases and investigations and Abbott has recorded reserves related to several of those cases and investigations.

There are several civil actions pending brought by individuals or entities that allege generally that Abbott and numerous pharmaceutical companies reported false or misleading pricing information relating to the average wholesale price of certain pharmaceutical products in connection with federal, state and private reimbursement. Civil actions have also been brought against Abbott, and in some cases other members of the pharmaceutical industry, by state attorneys general seeking to recover alleged damages on behalf of state Medicaid programs. In May 2006, Abbott was notified that the U.S. Department of Justice intervened in a civil whistle-blower lawsuit alleging that Abbott inflated prices for Medicaid and Medicare reimbursable drugs. Abbott has recorded reserves for its estimated losses in a few of the cases, however, Abbott is unable to estimate the range or amount of possible loss for the majority of the cases, and no loss reserves have been recorded for them. Many of the products involved in these cases are Hospira products. Hospira, Abbott's former hospital products business, was spun off to Abbott's shareholders in 2004. Abbott retained liability for losses that result from these cases and investigations to the extent any such losses both relate to the sale of Hospira's products prior to the spin-off of Hospira and relate to allegations that were made in such pending and future cases and investigations that were the same as allegations existing at the date of the spin-off.

There are several civil actions pending brought by state attorneys general and private entities alleging antitrust and unfair competition claims in connection with the sales of *TriCor*. Abbott licenses *TriCor* from a third party and the licensor has also been named as a defendant. Abbott is unable to estimate a range of loss, if any, and no loss reserves have been recorded.

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Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by Abbott. For its legal proceedings and environmental exposures, except as noted above, Abbott estimates the range of possible loss to be from approximately \$130 million to \$310 million. The recorded reserve balance at March 31, 2008 for these proceedings and exposures was approximately \$185 million. These reserves represent management's best estimate of probable loss, as defined by Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations, except for the cases and investigations discussed in the third and fourth paragraphs of this footnote, the resolution of which could be material to cash flows or results of operations for a quarter.

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Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited), continued

Note 5 Post-Employment Benefits

(dollars in millions)

Retirement plans consist of defined benefit, defined contribution, and medical and dental plans. Net cost for the three months ended March 31 for Abbott's major defined benefit plans and post-employment medical and dental benefit plans is as follows:

|  | Defined Benefit Plans |       | Medical and Dental Plans |       |
|--|-----------------------|-------|--------------------------|-------|
|  | 2008                  | 2007  | 2008                     | 2007  |
| Service cost - benefits earned during the period | \$ 60                 | \$ 61 | \$ 12                    | \$ 15 |
| Interest cost on projected benefit obligations   | 86                    | 76    | 26                       | 25    |
| Expected return on plans' assets                 | (119)                 | (103) | (8)                      | (6)   |
| Net amortization                                 | 13                    | 22    | 5                        | 8     |
| Net cost   | \$ 40                 | \$ 56 | \$ 35                    | \$ 42 |

Abbott funds its domestic defined benefit plans according to IRS funding limitations. In the first quarters of 2008 and 2007, \$200 was contributed to the main domestic defined benefit plan and \$65 and \$75, respectively, was contributed to the post-employment medical and dental benefit plans.

Note 6 Comprehensive Income, net of tax

(dollars in thousands)

|  | Three Months Ended<br>March 31 |                |
|--|--------------------------------|----------------|
|  | 2008                           | 2007           |
| Foreign currency translation gain adjustments                                      | \$ 190,956                     | \$ 15,982      |
| Unrealized (losses) gains on marketable equity securities                          | (25,196)                       | 6,962          |
| Amortization of net actuarial losses and prior service cost and credits            | 11,836                         | 20,178         |
| Net adjustments for derivative instruments designated as cash flow hedges          | (5,157)                        | 6,002          |
| Other comprehensive income, net of tax   | 172,439                        | 49,124         |
| Net Earnings   | 937,867                        | 697,537        |
| Comprehensive Income   | \$ 1,110,306                   | \$ 746,661     |
| Supplemental Comprehensive Income Information, net of tax:                         |                                |                |
| Cumulative foreign currency translation (gain) adjustments                         | \$ (3,139,308)                 | \$ (1,811,125) |
| Net actuarial losses and prior service cost and credits                            | 903,008                        | 1,237,390      |
| Cumulative unrealized (gains) on marketable equity securities                      | (41,207)                       | (19,522)       |
| Cumulative losses (gains) on derivative instruments designated as cash flow hedges | 23,305                         | (27,468)       |





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Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited), continued

## Note 7 Segment Information

(dollars in millions)

Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products. Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. Abbott's reportable segments are as follows:

*Pharmaceutical Products* Worldwide sales of a broad line of pharmaceuticals. For segment reporting purposes, two pharmaceutical divisions are aggregated and reported as the Pharmaceutical Products segment.

*Nutritional Products* Worldwide sales of a broad line of adult and pediatric nutritional products.

*Diagnostic Products* Worldwide sales of diagnostic systems and tests for blood banks, hospitals, commercial laboratories and alternate-care testing sites. For segment reporting purposes, three diagnostic divisions are aggregated and reported as the Diagnostic Products segment.

*Vascular Products* Worldwide sales of coronary, endovascular and vessel closure products.

Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. Intersegment transfers of inventory are recorded at standard cost and are not a measure of segment operating earnings. The cost of some corporate functions and the cost of certain employee benefits are charged to segments at predetermined rates that approximate cost. Remaining costs, if any, are not allocated to segments. Effective in 2007, the Diagnostic segment was reorganized. Prior years' segment information has been adjusted to reflect this change. For acquisitions prior to 2006, substantially all intangible assets and related amortization are not allocated to segments. The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and are not presented in accordance with generally accepted accounting principles applied to the consolidated financial statements.

|                         | Three Months Ended March 31        |          |                              |          |
|-------------------------|------------------------------------|----------|------------------------------|----------|
|                         | Net Sales to<br>External Customers |          | Operating<br>Earnings (Loss) |          |
|                         | 2008                               | 2007     | 2008                         | 2007     |
| Pharmaceutical Products | \$ 3,854                           | \$ 3,373 | \$ 1,345                     | \$ 1,162 |

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|  |          |          |          |        |
|--|----------|----------|----------|--------|
| Nutritional Products                                       | 1,110    | 1,002    | 184      | 180    |
| Diagnostic Products  | 832      | 710      | 52       | 26     |
| Vascular Products  | 452      | 420      | (31)     | (22)   |
| Total Reportable Segments                                  | 6,248    | 5,505    | 1,550    | 1,346  |
| Other  | 518      | 441      |          |        |
| Net Sales  | \$ 6,766 | \$ 5,946 |          |        |
| Corporate functions and benefit plans costs                |          |          | (113)    | (90)   |
| Non-reportable segments                                    |          |          | 72       | 64     |
| Net interest expense                                       |          |          | (93)     | (124)  |
| Income from TAP Pharmaceutical Products Inc. joint venture |          |          | 102      | 147    |
| Share-based compensation (a)                               |          |          | (152)    | (163)  |
| Other, net (b)   |          |          | (205)    | (339)  |
| Consolidated Earnings Before Taxes                         |          |          | \$ 1,161 | \$ 841 |

(a) Approximately 40 to 45 percent of the annual net cost of share-based awards will typically be recognized in the first quarter due to the timing of the granting of share-based awards.

(b) Other, net, for the three months ended March 31, 2007, includes net fair market value adjustments of Abbott's investment in Boston Scientific common stock and the related gain-sharing derivative liability and acquisition integration expenses related to the acquisitions of Guidant's vascular intervention and endovascular solutions businesses and Kos Pharmaceuticals Inc.

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Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited), continued

Note 8 Incentive Stock Program

In the first quarter of 2008, Abbott granted 19,336,869 stock options, 1,220,319 replacement stock options, 740,250 restricted stock awards and 476,700 restricted stock units under this program. At March 31, 2008, approximately 32 million shares were reserved for future grants. Information regarding the number of options outstanding and exercisable at March 31, 2008 is as follows:

|  | Outstanding | Exercisable |
|--|-------------|-------------|
| Number of shares                                 | 144,812,466 | 100,997,365 |
| Weighted average remaining life (years)          | 6.9         | 5.9         |
| Weighted average exercise price                  | \$ 48.50    | \$ 46.72    |
| Aggregate intrinsic value ( <i>in millions</i> ) | \$ 989      | \$ 863      |

The total unrecognized share-based compensation cost at March 31, 2008 amounted to approximately \$382 million which is expected to be recognized over the next three years.

Note 9 Equity Method Investment

(dollars in millions)

Abbott's 50 percent-owned joint venture, TAP Pharmaceutical Products Inc. (TAP), is accounted for under the equity method of accounting. Summarized financial information for TAP is as follows:

|                     | Three Months Ended March 31 |        |
|---------------------|-----------------------------|--------|
|                     | 2008                        | 2007   |
| Net sales           | \$ 711                      | \$ 749 |
| Cost of sales       | 183                         | 181    |
| Income before taxes | 321                         | 462    |
| Net income          | 204                         | 293    |

|                     | March 31 | December 31 |
|---------------------|----------|-------------|
|                     | 2008     | 2007        |
| Current assets      | \$ 1,443 | \$ 1,101    |
| Total assets        | 1,781    | 1,354       |
| Current liabilities | 1,140    | 914         |
| Total liabilities   | 1,262    | 1,037       |

As discussed in Note 14, Abbott and Takeda concluded the TAP joint venture on April 30, 2008.

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Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited), continued

Note 10 Fair Value Measures

(dollars in millions)

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a recurring basis in the balance sheet:

|   | Balance at<br>March 31<br>2008 | Basis of Fair Value Measurement                           |  |
|---|--------------------------------|---|--|
|   |                                | Quoted Prices in<br>Active Markets<br>for Identical Items | Significant Other<br>Observable Inputs |
| <b>Assets:</b>                                      |                                |   |  |
| Marketable available-for-sale securities            | \$ 149                         | \$ 149  | \$                                     |
| Interest rate swap derivative financial instruments | 31                             |   | 31                                     |
| Foreign currency forward exchange contracts         | 71                             |   | 71                                     |
|   | \$ 251                         | \$ 149  | \$ 102                                 |
| <b>Liabilities:</b>                                 |                                |   |  |
| Interest rate swap derivative financial instruments | \$ 7                           |   | \$ 7                                   |
| Fair value of hedged long-term debt                 | 2,524                          |   | 2,524                                  |
| Foreign currency forward exchange contracts         | 116                            |   | 116                                    |
|   | \$ 2,647                       | \$  | \$ 2,647                               |

|   | Balance at<br>December 31<br>2007 | Basis of Fair Value Measurement                           |  |
|---|-----------------------------------|---|--|
|   |                                   | Quoted Prices in<br>Active Markets<br>for Identical Items | Significant Other<br>Observable Inputs |
| <b>Assets:</b>                                      |                                   |   |  |
| Trading securities                                  | \$ 308                            | \$ 308  | \$                                     |
| Marketable available-for-sale securities            | 193                               | 193   |  |
| Foreign currency forward exchange contracts         | 24                                |   | 24                                     |
|   | \$ 525                            | \$ 501  | \$ 24                                  |
| <b>Liabilities:</b>                                 |                                   |   |  |
| Interest rate swap derivative financial instruments | \$ 25                             |   | \$ 25                                  |
| Fair value of hedged long-term debt                 | 1,475                             |   | 1,475                                  |
| Foreign currency forward exchange contracts         | 45                                |   | 45                                     |
|   | \$ 1,545                          | \$  | \$ 1,545                               |

The following table summarizes the activity for a gain sharing derivative financial instrument liability which was measured using significant unobservable inputs. The adjustment to record this liability at fair value was recorded in Other (income) expense, net for the three months ended March 31, 2007.

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|  |    |      |
|--|----|------|
| Balance at December 31, 2006             | \$ | (25) |
| Adjustments to record item at fair value |    | 24   |
| Balance at March 31, 2007                | \$ | (1)  |

Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited), continued

Note 11 Goodwill and Intangible Assets

*(dollars in millions)*

Foreign currency translation adjustments and other adjustments increased goodwill in the first quarter 2008 and 2007 by approximately \$165 and \$16, respectively. There were no reductions of goodwill relating to impairments or disposal of all or a portion of a business. The amount of goodwill related to reportable segments at March 31, 2008 was \$6,348 for the Pharmaceutical Products segment, \$206 for the Nutritional Products segment, \$262 for the Diagnostic Products segment and \$2,126 for the Vascular Products segment.

The gross amount of amortizable intangible assets, primarily product rights and technology, was \$9,033 as of March 31, 2008 and \$9,043 as of December 31, 2007, and accumulated amortization was \$3,508 as of March 31, 2008 and \$3,323 as of December 31, 2007. The estimated annual amortization expense for intangible assets is approximately \$740 in 2008 and 2009 and approximately \$730 in 2010, 2011 and 2012. Intangible assets are amortized over 4 to 25 years (average 11 years).

Note 12 Business Acquisition

In the first quarter of 2008, Abbott acquired a less than 20 percent interest in a molecular diagnostic company resulting in a charge to acquired in-process research and development of \$18.7 million.

Note 13 Restructuring Plans

*(dollars in millions)*

In 2007, 2006 and 2005, Abbott management approved plans to realign its worldwide pharmaceutical and vascular manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs. In addition, Abbott implemented facilities restructuring plans in 2007 related to the acquired operations of Kos Pharmaceuticals Inc. Additional charges of \$22 and \$14 were subsequently recorded in the first quarter of 2008 and 2007, respectively, relating to these restructurings, primarily for accelerated depreciation. The following summarizes the activity for restructurings:

2008

2007

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|                                |    |      |    |      |
|--------------------------------|----|------|----|------|
| Accrued balance at January 1   | \$ | 194  | \$ | 193  |
| Restructuring charges          |    | 11   |    | 6    |
| Payments and other adjustments |    | (48) |    | (33) |
| Accrued balance at March 31    | \$ | 157  | \$ | 166  |



Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited), continued

Note 14 Subsequent Event and Pro Forma Information

On April 30, 2008, Abbott and Takeda ended their TAP Pharmaceutical Products Inc. (TAP) joint venture, evenly splitting the value and assets of the joint venture. Abbott exchanged its equity interest in TAP for the assets, liabilities and employees related to TAP's *Lupron* business. The Internal Revenue Service has issued a private letter ruling that the transaction qualifies as tax-free for U.S. income tax purposes.

Beginning on May 1, 2008, Abbott began recording *Lupron* net sales and costs in its operating results and no longer records income from the TAP joint venture. TAP's sales of *Lupron* were \$147 million for the three months ended March 31, 2008 and \$645 million for the full year 2007. Abbott will also receive payments based on specified development, approval and commercial events being achieved with respect to products retained by TAP and payments from TAP based on sales of products retained by TAP, which will be recorded by Abbott as Other (income) expense as earned. Such payments, which will be subject to tax, are expected to approximate \$1.5 billion over a five-year period.

The exchange transaction will be accounted for as a sale of Abbott's equity interest in TAP and as an acquisition of TAP's *Lupron* business under SFAS No. 141 Business Combinations. The sale of Abbott's equity interest in TAP will result in the recording of net assets of approximately \$250 million related to the *Lupron* business, primarily cash, receivables, inventory and other assets, net of accounts payable and other accrued liabilities, offset by a credit to Abbott's investment in TAP in the amount of approximately \$250 million.

For the acquired *Lupron* business, Abbott will record intangible assets, primarily *Lupron* product rights, of approximately \$700 million, goodwill of approximately \$350 million and deferred tax liabilities related to the intangible assets of approximately \$250 million. The intangible assets will be amortized over fifteen years. Abbott has also agreed to remit cash to TAP if certain research and development events are not achieved on the development assets retained by TAP. These amounts will be recorded as a liability at closing in the amount of approximately \$1.1 billion. Related deferred tax assets of approximately \$400 million will also be recorded, resulting in an after-tax liability of up to \$700 million. If these payments are not required, the liability would be reduced and a gain would be recorded.

The exchange of Abbott's investment in TAP for TAP's *Lupron* business resulted in a gain at closing that is expected to be approximately \$100 million, which is in addition to the amounts discussed in the second paragraph above. Abbott expects the earnings impact of the transaction, including the amortization of the *Lupron* intangible product rights, but excluding the gain, to be neutral to net earnings and earnings per share in 2008 and neutral or better over the next five years.

FINANCIAL REVIEWResults of Operations

The following table details sales by reportable segment for the three months ended March 31. Percent changes are versus the prior year and are based on unrounded numbers.

(dollars in millions)

|                           | Net Sales to External Customers |                |          |                |
|---------------------------|---------------------------------|----------------|----------|----------------|
|                           | 2008                            | Percent Change | 2007     | Percent Change |
| Pharmaceutical Products   | \$ 3,854                        | 14.3           | \$ 3,373 | 16.6           |
| Nutritional Products      | 1,110                           | 10.8           | 1,002    | (12.3)         |
| Diagnostic Products       | 832                             | 17.1           | 710      | 10.2           |
| Vascular Products         | 452                             | 7.6            | 420      | 407.9          |
| Total Reportable Segments | 6,248                           | 13.5           | 5,505    | 15.5           |
| Other                     | 518                             | 17.3           | 441      | 5.2            |
| Net Sales                 | \$ 6,766                        | 13.8           | \$ 5,946 | 14.7           |
| Total U.S.                | \$ 3,043                        | 3.7            | \$ 2,933 | 9.7            |
| Total International       | \$ 3,723                        | 23.6           | \$ 3,013 | 20.1           |

The sales growth in 2008 and 2007 reflects unit growth and the positive effect of the relatively weaker U.S. dollar. The relatively weaker U.S. dollar increased first quarter 2008 consolidated net sales 5.5 percent, increased Total International sales 10.9 percent, increased Pharmaceutical Products segment sales by 5.9 percent, increased Nutritional Product segment sales by 3.0 percent, increased Diagnostic Products segment sales by 8.1 percent and increased Vascular Products segment sales by 4.9 percent over the first quarter of 2007. The relatively weaker U.S. dollar increased first quarter 2007 consolidated net sales 2.7 percent, increased Total International sales 5.5 percent, increased Pharmaceutical Products segment sales by 2.8 percent, increased Nutritional Product segment sales by 1.0 percent, increased Diagnostic Products segment sales by 3.9 percent and increased Vascular Products segment sales by 2.7 percent over the first quarter of 2006. The sales growth in 2007 for the Nutritional Products segment was impacted by the completion of the U.S. co-promotion of *Synagis* in 2006 and sales growth in 2007 for the Vascular Products segment was impacted by the acquisition of Guidant's vascular intervention and endovascular solutions businesses in the second quarter of 2006. Slower growth of U.S. sales in 2008 is primarily due to decreased sales of *Omnicef* due to generic competition.

## FINANCIAL REVIEW

(continued)

A comparison of significant product group sales for the three months ended March 31 is as follows. Percent changes are versus the prior year and are based on unrounded numbers.

(dollars in millions)

|                                      | Three Months Ended March 31 |                |        |                |
|--------------------------------------|-----------------------------|----------------|--------|----------------|
|                                      | 2008                        | Percent Change | 2007   | Percent Change |
| <b>Pharmaceutical Products</b>       |                             |                |        |                |
| U.S. Specialty                       | \$ 1,034                    | 19.9           | \$ 862 | 22.4           |
| U.S. Primary Care                    | 683                         | (12.2)         | 778    | 38.7           |
| International Pharmaceuticals        | 1,909                       | 26.0           | 1,515  | 19.4           |
| <b>Nutritional Products</b>          |                             |                |        |                |
| U.S. Pediatric Nutritionals          | 305                         | 4.5            | 292    | 7.1            |
| International Pediatric Nutritionals | 293                         | 24.5           | 235    | 17.9           |
| U.S. Adult Nutritionals              | 271                         | 3.9            | 261    | 2.8            |
| International Adult Nutritionals     | 234                         | 16.4           | 201    | 8.6            |
| <b>Diagnostics</b>                   |                             |                |        |                |
| Immunochemistry                      | 660                         | 17.8           | 560    | 9.7            |

Increased sales of *HUMIRA* and *Depakote* accounted for the majority of the sales increases for U.S. Specialty products in both 2008 and 2007. U.S. sales of *HUMIRA* were \$401 million, \$289 million and \$218 million for the three months ended March 31, 2008, 2007 and 2006, respectively. U.S. Primary Care sales in 2008 were impacted by decreased sales of *Omnicef* due to generic competition, partially offset by increased sales of *Niaspan* and *TriCor*. U.S. Primary Care sales in 2007 were favorably impacted by sales of *Niaspan*, a new product from the acquisition of Kos Pharmaceuticals Inc. in the fourth quarter of 2006, and *TriCor* and were unfavorably impacted by decreased sales of *Biaxin*. Increased sales of *HUMIRA* favorably impacted International Pharmaceutical sales in both 2008 and 2007. International sales of *HUMIRA* were \$476 million, \$282 million and \$174 million for the three months ended March 31, 2008, 2007 and 2006, respectively. International Pediatric Nutritionals sales increases in 2008 and 2007 were due primarily to volume growth in developing countries. The favorable effect of the relatively weaker U.S. dollar favorably impacted international product sales growth in both years.

The gross profit margin was 56.2 percent for the first quarter 2008, compared to 56.4 percent for the first quarter 2007. The decrease in the gross profit margin in 2008 was due, in part, to the impact of generic competition for *Omnicef* and to the unfavorable effect of exchange on the gross profit margin.

Research and development expenses increased 0.1 percent in the first quarter 2008 over the first quarter 2007. This increase reflects timing of spending in the first quarter of 2007 and increased spending to support pipeline programs, including *TriLipix/Crestor* fixed-dose combination for cholesterol, ABT-874, a biologic for psoriasis and Crohn's disease, controlled-release *Vicodin CR*, *Xience V*, as well as several Phase I and Phase II clinical programs in neuroscience and oncology. The majority of research and development expenditures are concentrated on pharmaceutical products.

Selling, general and administrative expenses for the first quarter 2008 increased 12.9 percent over the first quarter 2007. This increase reflects increased selling and marketing support for new and existing products, including increased spending to support two new indications for *HUMIRA*, the launch of *Simcor* and the upcoming U.S. launch of *Xience V*, as well as spending on other marketed pharmaceutical products.

## FINANCIAL REVIEW

(continued)

Basis of Presentation

Abbott's core laboratory diagnostics business, including Point of Care, was presented as discontinued operations in the Consolidated Statement of Earnings and the Statement of Cash Flows and as net assets held for sale in the Consolidated Balance Sheet in the Form 10-Q for the three months ended March 31, 2007. Subsequently, a decision was made to retain the businesses and the 2007 results and net assets are presented as continuing in this Form 10-Q. The results for the three months ended March 31, 2007 included depreciation and amortization through January 17, 2007. The amount of depreciation and amortization not recorded in the first quarter of 2007 was \$38 million, which was recorded in a subsequent quarter in 2007.

Business Acquisition

In the first quarter of 2008, Abbott acquired a less than 20 percent interest in a molecular diagnostic company resulting in a charge to acquired in-process research and development of \$18.7 million.

Restructurings*(dollars in millions)*

In 2007, 2006 and 2005, Abbott management approved plans to realign its worldwide pharmaceutical and vascular manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs. In addition, Abbott implemented facilities restructuring plans in 2007 related to the acquired operations of Kos Pharmaceuticals Inc. Additional charges of \$22 and \$14 were subsequently recorded in the first quarter of 2008 and 2007, respectively, relating to these restructurings, primarily for accelerated depreciation. The following summarizes the activity for restructurings:

|                                | 2008 |      | 2007 |      |
|--------------------------------|------|------|------|------|
| Accrued balance at January 1   | \$   | 194  | \$   | 193  |
| Restructuring charges          |      | 11   |      | 6    |
| Payments and other adjustments |      | (48) |      | (33) |
| Accrued balance at March 31    | \$   | 157  | \$   | 166  |

Interest (Income)

Interest income increased in the first quarter 2008 over 2007 primarily as the result of higher international investment balances.

(Income) from TAP Pharmaceutical Products Inc. Joint Venture

Abbott's income from the TAP Pharmaceutical Products Inc. joint venture is lower in 2008 compared to 2007 due primarily to a favorable outcome in a patent dispute recorded by TAP Pharmaceutical Products Inc. in the first quarter of 2007.

As discussed below, Abbott and Takeda concluded the TAP joint venture on April 30, 2008.

FINANCIAL REVIEW

(continued)

Other (Income) Expense, net

Other (income) expense, net for the first quarter of 2007 includes a \$149 million fair market value loss adjustment to Abbott's investment in Boston Scientific common stock, partially offset by fair value gain adjustments of \$24 million to certain derivative financial instruments related to the investment in Boston Scientific common stock.

Taxes on Earnings

Taxes on earnings reflect the estimated annual effective rates. The effective tax rates are less than the statutory U.S. federal income tax rate principally due to the domestic dividend exclusion and the benefit of lower statutory tax rates and tax exemptions in several taxing jurisdictions.

Subsequent Event and Pro Forma Information

On April 30, 2008, Abbott and Takeda ended their TAP Pharmaceutical Products Inc. (TAP) joint venture, evenly splitting the value and assets of the joint venture. Abbott exchanged its equity interest in TAP for the assets, liabilities and employees related to TAP's *Lupron* business. The Internal Revenue Service has issued a private letter ruling that the transaction qualifies as tax-free for U.S. income tax purposes.

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For the acquired *Lupron* business, Abbott will record intangible assets, primarily *Lupron* product rights, of approximately \$700 million, goodwill of approximately \$350 million and deferred tax liabilities related to the intangible assets of approximately \$250 million. The intangible assets will be amortized over fifteen years. Abbott has also agreed to remit cash to TAP if certain research and development events are not achieved on the development assets retained by TAP. These amounts will be recorded as a liability at closing in the amount of

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approximately \$1.1 billion. Related deferred tax assets of approximately \$400 million will also be recorded, resulting in an after-tax liability of up to \$700 million. If these payments are not required, the liability would be reduced and a gain would be recorded.

The exchange of Abbott's investment in TAP for TAP's *Lupron* business resulted in a gain at closing that is expected to be approximately \$100 million, which is in addition to the amounts discussed in the second paragraph above. Abbott expects the earnings impact of the transaction, including the amortization of the *Lupron* intangible product rights, but excluding the gain, to be neutral to net earnings and earnings per share in 2008 and neutral or better over the next five years.



FINANCIAL REVIEW

(continued)

Liquidity and Capital Resources at March 31, 2008 Compared with December 31, 2007

Net cash from operating activities for the first three months 2008 totaled approximately \$1.3 billion. Other, net in Net cash from operating activities for 2008 and 2007 includes the effects of contributions to the main domestic defined benefit plan of \$200 million each period and to the post-employment medical and dental plans of \$65 million and \$75 million, respectively. Abbott expects annual cash flow from operating activities to continue to exceed Abbott's capital expenditures and cash dividends.

Working capital was \$4.3 billion at March 31, 2008 and \$4.9 billion at December 31, 2007.

During the first quarter of 2008, Abbott paid off \$200 million of long-term notes that were due in March of 2008 using short-term borrowings.

At March 31, 2008, Abbott's long-term debt rating was AA by Standard & Poor's Corporation and A1 by Moody's Investors Service. Abbott has readily available financial resources, including unused lines of credit of \$3.0 billion that support commercial paper borrowing arrangements.

In 2006, the board of directors authorized the purchase of \$2.5 billion of Abbott's common shares from time to time. During the first three months of 2008 and 2007, Abbott purchased approximately 14.1 million and 15.4 million, respectively, of its common shares at a cost of approximately \$800 million and \$827 million, respectively.

Under a registration statement filed with the Securities and Exchange Commission in February 2006, Abbott may offer and sell from time to time debt securities in one or more offerings through February 2009.

Legislative Issues

Abbott's primary markets are highly competitive and subject to substantial government regulation throughout the world. Abbott expects debate to continue over the availability, method of delivery, and payment for health care products and services. Abbott believes that if legislation is enacted, it could have the effect of reducing access to health care products and services, or reducing prices or the rate of price increases for health care products and services. It is not possible to predict the extent to which Abbott or the health care industry in general might be adversely affected by these factors in the future. A more complete discussion of these factors is contained in Item 1, Business, and Item 1A, Risk Factors on Form 10-K for the year ended December 31, 2007.

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### Private Securities Litigation Reform Act of 1995 - A Caution Concerning Forward-Looking Statements

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Abbott cautions investors that any forward-looking statements or projections made by Abbott, including those made in this document, are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Item 1A, Risk Factors to the Annual Report on Form 10-K for the year ended December 31, 2007.

PART I. FINANCIAL INFORMATION

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* The Chief Executive Officer, Miles D. White, and Chief Financial Officer, Thomas C. Freyman, evaluated the effectiveness of Abbott Laboratories' disclosure controls a