

ABBOTT LABORATORIES  
Form 10-Q  
July 25, 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 June 30, 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.

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36-0698440

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 June 30, 2008, Abbott Laboratories had 1,541,546,885 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)

|   | Three Months Ended<br>June 30 |              | Six Months Ended<br>June 30 |               |
|---|-------------------------------|--------------|-----------------------------|---------------|
|   | 2008                          | 2007         | 2008                        | 2007          |
| Net Sales   | \$ 7,314,021                  | \$ 6,370,620 | \$ 14,079,624               | \$ 12,316,181 |
| Cost of products sold   | 3,119,700                     | 2,804,326    | 6,080,772                   | 5,396,337     |
| Research and development  | 656,863                       | 583,474      | 1,276,820                   | 1,202,530     |
| Acquired in-process research and development  | 78,556                        |              | 97,256                      |               |
| Selling, general and administrative   | 2,052,317                     | 1,796,456    | 4,070,350                   | 3,583,325     |
| Total Operating Cost and Expenses   | 5,907,436                     | 5,184,256    | 11,525,198                  | 10,182,192    |
| Operating Earnings  | 1,406,585                     | 1,186,364    | 2,554,426                   | 2,133,989     |
| Interest expense  | 137,769                       | 153,349      | 280,303                     | 300,891       |
| Interest (income)   | (54,448)                      | (28,533)     | (103,804)                   | (51,870)      |
| (Income) from TAP Pharmaceutical Products Inc. joint venture                              | (17,055)                      | (115,726)    | (118,997)                   | (262,358)     |
| Net foreign exchange loss (gain)  | 14,472                        | 6,248        | 20,693                      | 11,099        |
| Other (income) expense, net   | (310,471)                     | (81,612)     | (320,813)                   | 42,924        |
| Earnings Before Taxes   | 1,636,318                     | 1,252,638    | 2,797,044                   | 2,093,303     |
| Taxes on Earnings   | 314,304                       | 263,894      | 537,163                     | 407,022       |
| Net Earnings  | \$ 1,322,014                  | \$ 988,744   | \$ 2,259,881                | \$ 1,686,281  |
| Basic Earnings Per Common Share   | \$ 0.86                       | \$ 0.64      | \$ 1.47                     | \$ 1.09       |
| Diluted Earnings Per Common Share   | \$ 0.85                       | \$ 0.63      | \$ 1.45                     | \$ 1.08       |
| Cash Dividends Declared Per Common Share  | \$ 0.36                       | \$ 0.325     | \$ 0.72                     | \$ 0.65       |
| Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share      | 1,539,786                     | 1,541,717    | 1,541,909                   | 1,541,339     |
| Dilutive Common Stock Options and Awards  | 13,609                        | 18,950       | 15,076                      | 18,435        |
| Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options and Awards | 1,553,395                     | 1,560,667    | 1,556,985                   | 1,559,774     |
| Outstanding Common Stock Options Having No Dilutive Effect                                | 48,423                        | 4,639        | 6,399                       | 4,639         |

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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)

|   | Six Months Ended<br>June 30 |                    |
|---|-----------------------------|--------------------|
|   | 2008                        | 2007               |
| <b>Cash Flow From (Used in) Operating Activities:</b>                   |                             |                    |
| Net earnings  | \$ 2,259,881                | \$ 1,686,281       |
| Adjustments to reconcile earnings to net cash from operating activities |                             |                    |
| Depreciation  | 534,626                     | 463,724            |
| Amortization of intangible assets                                       | 383,088                     | 404,201            |
| Share-based compensation  | 219,793                     | 250,198            |
| Gain on dissolution of TAP Pharmaceutical Products Inc. Joint Venture   | (94,656)                    |                    |
| Acquired in-process research and development                            | 97,256                      |                    |
| Trade receivables   | (53,079)                    | 38,724             |
| Inventories   | (35,087)                    | 1,001              |
| Other, net  | (248,196)                   | (248,387)          |
| <b>Net Cash From Operating Activities</b>                               | <b>3,063,626</b>            | <b>2,595,742</b>   |
| <b>Cash Flow From (Used in) Investing Activities:</b>                   |                             |                    |
| Acquisitions of property and equipment                                  | (703,327)                   | (839,850)          |
| Proceeds from sales of Boston Scientific common stock                   | 318,645                     | 302,015            |
| (Purchases of) proceeds from sales of other investment securities, net  | (1,209,203)                 | (14,377)           |
| Other   | (87,322)                    | 2,573              |
| <b>Net Cash (Used in) Investing Activities</b>                          | <b>(1,681,207)</b>          | <b>(549,639)</b>   |
| <b>Cash Flow From (Used in) Financing Activities:</b>                   |                             |                    |
| Proceeds from issuance of short-term debt and other                     | 1,699,869                   | 212,721            |
| Payments of long-term debt  | (200,000)                   | (347,704)          |
| Purchases of common shares  | (1,071,435)                 | (863,470)          |
| Proceeds from stock options exercised, including tax benefit            | 463,169                     | 914,134            |
| Dividends paid  | (1,060,186)                 | (954,559)          |
| <b>Net Cash (Used in) Financing Activities</b>                          | <b>(168,583)</b>            | <b>(1,038,878)</b> |
| Effect of exchange rate changes on cash and cash equivalents            | 126,366                     | 10,514             |
| <b>Net Increase in Cash and Cash Equivalents</b>                        | <b>1,340,202</b>            | <b>1,017,739</b>   |
| Cash and Cash Equivalents, Beginning of Year                            | 2,456,384                   | 521,192            |
| Cash and Cash Equivalents, End of Period                                | \$ 3,796,586                | \$ 1,538,931       |

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)

|  | June 30<br>2008 | December 31<br>2007 |
|--|-----------------|---------------------|
| <b>Assets</b>  |                 |                     |
| Current Assets:  |                 |                     |
| Cash and cash equivalents  | \$ 3,796,586    | \$ 2,456,384        |
| Investments, including \$307,500 of investments measured at fair value at December 31, 2007              | 1,381,688       | 364,443             |
| Trade receivables, less allowances of \$276,637 in 2008 and \$258,288 in 2007                            | 5,189,052       | 4,946,876           |
| Inventories:   |                 |                     |
| Finished products  | 1,752,566       | 1,677,083           |
| Work in process  | 790,956         | 681,634             |
| Materials  | 617,682         | 592,725             |
| Total inventories  | 3,161,204       | 2,951,442           |
| Prepaid expenses, deferred income taxes, and other receivables   | 3,428,638       | 3,323,588           |
| Total Current Assets   | 16,957,168      | 14,042,733          |
| Investments  | 1,091,254       | 1,125,262           |
| Property and Equipment, at Cost  | 16,299,707      | 15,597,801          |
| Less: accumulated depreciation and amortization  | 8,507,823       | 8,079,652           |
| Net Property and Equipment   | 7,791,884       | 7,518,149           |
| Intangible Assets, net of amortization   | 6,009,853       | 5,720,478           |
| Goodwill   | 10,791,052      | 10,128,841          |
| Deferred Income Taxes and Other Assets   | 1,432,508       | 1,178,461           |
|  | \$ 44,073,719   | \$ 39,713,924       |
| <b>Liabilities and Shareholders Investment</b>   |                 |                     |
| Current Liabilities:   |                 |                     |
| Short-term borrowings  | \$ 3,706,123    | \$ 1,827,361        |
| Trade accounts payable   | 1,180,397       | 1,219,529           |
| Salaries, dividends payable, and other accruals  | 5,252,853       | 5,077,428           |
| Income taxes payable   | 156,177         | 80,406              |
| Current portion of long-term debt  | 1,721,000       | 898,554             |
| Total Current Liabilities  | 12,016,550      | 9,103,278           |
| Long-term Debt   | 8,458,584       | 9,487,789           |
| Post-employment Obligations and Other Long-term Liabilities  | 3,523,801       | 3,344,317           |
| Long-term Obligations in Connection With Conclusion of TAP Pharmaceutical Products Inc.<br>Joint Venture | 1,115,982       |                     |
| Commitments and Contingencies  |                 |                     |
| Shareholders Investment:   |                 |                     |
| Preferred shares, one dollar par value<br>Authorized 1,000,000 shares, none issued                       | 6,745,205       | 6,104,102           |

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|  |  |               |               |
|--|--|---------------|---------------|
| Common shares, without par value Authorized - 2,400,000,000 shares |  |               |               |
| Issued at stated capital amount -                                  |  |               |               |
| Shares: 2008: 1,590,469,383; 2007: 1,580,854,677                   |  |               |               |
| Common shares held in treasury, at cost -                          |  |               |               |
| Shares: 2008: 48,922,498; 2007: 30,944,537                         |  |               |               |
|  |  | (2,250,693)   | (1,213,134)   |
| Earnings employed in the business                                  |  | 11,963,641    | 10,805,809    |
| Accumulated other comprehensive income (loss)                      |  | 2,500,649     | 2,081,763     |
| Total Shareholders Investment                                      |  | 18,958,802    | 17,778,540    |
|  |  | \$ 44,073,719 | \$ 39,713,924 |

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

Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

June 30, 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 accounted for as discontinued operations for the six months ended June 30, 2007. Subsequently, a decision was made to retain the businesses. The results for the six months ended June 30, 2007 included depreciation and amortization through January 17, 2007. The amount of depreciation and amortization not recorded in the first six months of 2007 was \$99 million, which was recorded in the third quarter of 2007.

Note 2 Supplemental Financial Information

In connection with the dissolution of the TAP Pharmaceutical Products Inc. joint venture, Abbott recorded a gain of approximately \$95 million in the second quarter 2008, which is included in Other (income) expense, net. Other (income) expense, net for the second quarter and six months ended June 30, 2008 also includes a gain of approximately \$52 million on the sale of an equity investment accounted for as an available-for-sale investment. The remainder of Other (income) expense, net in 2008 relates primarily to contractual 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.

Other (income) expense, net for the second quarter of 2007 includes a \$48 million fair market value gain adjustment to Abbott's investment in Boston Scientific stock and a realized gain of \$37 million on the sales of Boston Scientific stock. Other (income) expense, net for the first six months of 2007 includes a \$101 million fair market value loss adjustment to Abbott's investment in Boston Scientific common stock and a realized gain of \$37 million on the sales of Boston Scientific stock.

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**Supplemental Cash Flow Information** In connection with the dissolution of the TAP Pharmaceutical Products Inc. joint venture, Abbott recorded intangible assets of approximately \$700 million, goodwill of approximately \$350 million, net deferred tax assets of approximately \$160 million and a contingent liability of approximately \$1.1 billion and derecognized its investment in the TAP Pharmaceutical Products Inc. joint venture of approximately \$280 million in the second quarter of 2008. 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. (Purchases of) proceeds from sales of other investment securities, net in 2008 reflects the acquisition of short-term investments with original maturities of over three months.

Investments at June 30, 2008 and December 31, 2007 consist of the following:

*(dollars in millions)*

|  | <b>June 30<br/>2008</b> | <b>December 31<br/>2007</b> |
|--|-------------------------|-----------------------------|
| <b>Current Investments:</b>                                      |                         |                             |
| Time deposits and certificates of deposit                        | \$ 1,382                | \$ 57                       |
| Boston Scientific common stock                                   |                         | 307                         |
| <b>Total</b>   | <b>\$ 1,382</b>         | <b>\$ 364</b>               |
| <b>Long-term Investments:</b>                                    |                         |                             |
| Equity securities  | \$ 163                  | \$ 229                      |
| Note receivable from Boston Scientific, 4% interest, due in 2011 | 857                     | 851                         |
| Other  | 71                      | 45                          |
| <b>Total</b>   | <b>\$ 1,091</b>         | <b>\$ 1,125</b>             |

Notes to Condensed Consolidated Financial Statements

June 30, 2008

(Unaudited), continued

Note 3 Conclusion of TAP Pharmaceutical Products Inc. Joint Venture

On April 30, 2008, Abbott and Takeda concluded their TAP Pharmaceutical Products Inc. (TAP) joint venture, evenly splitting the value and assets of the joint venture. Abbott exchanged its 50 percent 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 U.S. *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 \$182 million for the four months ended April 30, 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 are recorded by Abbott as Other (income) expense, net 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 was 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 resulted in the recording of net assets of approximately \$225 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 \$280 million.

For the acquired *Lupron* business, Abbott recorded 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 are being amortized over 15 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 were recorded as a liability at closing in the amount of approximately \$1.1 billion. Related deferred tax assets of approximately \$410 million were also recorded, resulting in an after-tax liability of approximately \$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 of approximately \$95 million, which is in addition to the amounts discussed in the second paragraph above. The valuation of the assets and liabilities is preliminary and is expected to be finalized in the third quarter.

The 50 percent-owned joint venture was accounted for under the equity method of accounting. Summarized financial information for TAP follows below (*in millions*). The results for 2008 include results through April 30.

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|                     | Three Months Ended June 30 |        | Six Months Ended June 30 |          |
|---------------------|----------------------------|--------|--------------------------|----------|
|                     | 2008                       | 2007   | 2008                     | 2007     |
| Net sales           | \$ 141                     | \$ 767 | \$ 853                   | \$ 1,516 |
| Cost of sales       | 46                         | 188    | 229                      | 368      |
| Income before taxes | 35                         | 365    | 356                      | 826      |
| Net earnings        | 34                         | 232    | 238                      | 525      |

Note 4 Acquired In-process Research and Development

In the first half of 2008, technology investments and acquired product rights resulted in charges to acquired in-process research and development of approximately \$97 million.

Note 5 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 in 2007 and the benefit of lower statutory tax rates and tax exemptions in several taxing jurisdictions. In the second quarter of 2008, Abbott's federal income tax returns for 2004 and 2005 were settled, resulting in a net reduction of income taxes of approximately \$30 million.

Notes to Condensed Consolidated Financial Statements

June 30, 2008

(Unaudited), continued

Note 6 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. There are several civil actions pending brought by private payers and others alleging antitrust claims in connection with the pricing of *Norvir*. Abbott is unable to estimate a range of loss, if any, and no loss reserves have been recorded.

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 \$155 million to \$345 million. The recorded reserve balance at June 30, 2008 for these proceedings and exposures was approximately \$195 million. These reserves represent management's best estimate of probable loss, as defined by Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

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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 paragraph and the patent case discussed in the second paragraph 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

June 30, 2008

(Unaudited), continued

Note 7 Post-Employment Benefits

(dollars in millions)

Retirement plans consist of defined benefit, defined contribution, and medical and dental plans. Net cost for the three and six months ended June 30 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   |       |                          |       |
|--|----------------------------|-------|--------------------------|--------|----------------------------|-------|--------------------------|-------|
|  | Three Months Ended June 30 |       | Six Months Ended June 30 |        | Three Months Ended June 30 |       | Six Months Ended June 30 |       |
|  | 2008                       | 2007  | 2008                     | 2007   | 2008                       | 2007  | 2008                     | 2007  |
| Service cost benefits earned during the period | \$ 55                      | \$ 61 | \$ 115                   | \$ 121 | \$ 11                      | \$ 15 | \$ 23                    | \$ 30 |
| Interest cost on projected benefit obligations | 84                         | 76    | 170                      | 151    | 22                         | 25    | 48                       | 49    |
| Expected return on plans assets                | (120)                      | (103) | (239)                    | (205)  | (8)                        | (6)   | (16)                     | (13)  |
| Net amortization                               | 5                          | 22    | 18                       | 44     | 1                          | 8     | 6                        | 17    |
| Net Cost                                       | \$ 24                      | \$ 56 | \$ 64                    | \$ 111 | \$ 26                      | \$ 42 | \$ 61                    | \$ 83 |

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 8 Comprehensive Income, net of tax

(dollars in millions)

|   | Three Months Ended June 30 |        | Six Months Ended June 30 |        |
|---|----------------------------|--------|--------------------------|--------|
|   | 2008                       | 2007   | 2008                     | 2007   |
| Foreign currency translation gain adjustments                             | \$ 242                     | \$ 247 | \$ 433                   | \$ 263 |
| Unrealized (losses) gains on marketable equity securities                 | (2)                        | (6)    | (27)                     | 1      |
| Amortization of net actuarial losses and prior service cost and credits   | 4                          | 20     | 16                       | 40     |
| Net adjustments for derivative instruments designated as cash flow hedges | 2                          | (15)   | (4)                      | (9)    |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Other comprehensive income, net of tax | 246      | 246      | 418      | 295      |
| Net Earnings                           | 1,322    | 989      | 2,260    | 1,686    |
| Comprehensive Income                   | \$ 1,568 | \$ 1,235 | \$ 2,678 | \$ 1,981 |

Supplemental Comprehensive Income

Information, net of tax:

|  |  |            |            |
|--|--|------------|------------|
| Cumulative foreign currency translation (gain) adjustments                         |  | \$ (3,381) | \$ (2,059) |
| Net actuarial losses and prior service cost and credits                            |  | 899        | 1,217      |
| Cumulative unrealized (gains) on marketable equity securities                      |  | (39)       | (14)       |
| Cumulative losses (gains) on derivative instruments designated as cash flow hedges |  | 21         | (12)       |

Notes to Condensed Consolidated Financial Statements

June 30, 2008

(Unaudited), continued

Note 9 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, vessel closure and other 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. 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.

| Net Sales to External Customers |      |               |      | Operating Earnings (Loss) |      |               |      |
|---------------------------------|------|---------------|------|---------------------------|------|---------------|------|
| Three Months                    |      | Six Months    |      | Three Months              |      | Six Months    |      |
| Ended June 30                   |      | Ended June 30 |      | Ended June 30             |      | Ended June 30 |      |
| 2008                            | 2007 | 2008          | 2007 | 2008                      | 2007 | 2008          | 2007 |

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|  |          |          |           |           |          |          |          |          |
|--|----------|----------|-----------|-----------|----------|----------|----------|----------|
| Pharmaceuticals  | \$ 4,123 | \$ 3,532 | \$ 7,978  | \$ 6,904  | \$ 1,541 | \$ 1,330 | \$ 2,886 | \$ 2,493 |
| Nutritionals (a)   | 1,235    | 1,097    | 2,344     | 2,099     | 193      | 229      | 376      | 410      |
| Diagnostics  | 936      | 799      | 1,768     | 1,509     | 102      | 68       | 155      | 94       |
| Vascular   | 489      | 423      | 941       | 844       | 47       | (29)     | 16       | (52)     |
| Total Reportable Segments                                  | 6,783    | 5,851    | 13,031    | 11,356    | 1,883    | 1,598    | 3,433    | 2,945    |
| Other  | 531      | 520      | 1,049     | 960       |          |          |          |          |
| Net Sales  | \$ 7,314 | \$ 6,371 | \$ 14,080 | \$ 12,316 |          |          |          |          |
| Corporate functions and benefit plans costs                |          |          |           |           | (97)     | (137)    | (210)    | (226)    |
| Non-reportable segments                                    |          |          |           |           | 41       | 114      | 113      | 178      |
| Net interest expense                                       |          |          |           |           | (83)     | (125)    | (176)    | (249)    |
| Acquired in-process research and development               |          |          |           |           | (79)     |          | (97)     |          |
| Income from TAP Pharmaceutical Products Inc. joint venture |          |          |           |           | 17       | 116      | 119      | 262      |
| Share-based compensation (b)                               |          |          |           |           | (68)     | (87)     | (220)    | (250)    |
| Other, net (c)   |          |          |           |           | 22       | (226)    | (165)    | (567)    |
| Consolidated Earnings Before Taxes                         |          |          |           |           | \$ 1,636 | \$ 1,253 | \$ 2,797 | \$ 2,093 |

- 
- (a) Operating earnings in 2008 for the Nutritional Products segment were impacted by higher commodity costs.
- (b) Approximately 40 to 45 percent of the annual cost of share-based awards will typically be recognized in the first quarter due to the timing of the granting of share-based awards.
- (c) Other, net for the three months and six months ended June 30, 2008, includes the gain from the closing of the TAP joint venture and contractual payments from TAP associated with the closing of the TAP Pharmaceutical Products Inc. joint venture. Other, net for the three months and six months ended June 30, 2007, includes acquisition integration expenses related to the acquisitions of Guidant's vascular intervention and endovascular solutions businesses and Kos Pharmaceuticals Inc. and the reversal of depreciation on property and equipment classified as held for sale that was recorded by the Diagnostics segment.

Notes to Condensed Consolidated Financial Statements

June 30, 2008

(Unaudited), continued

Note 10 Incentive Stock Programs

In the first six months of 2008, Abbott granted 20,069,002 stock options, 1,797,028 replacement stock options, 809,650 restricted stock awards and 541,874 restricted stock units under this program. At June 30, 2008, approximately 28 million shares were reserved for future grants. Information regarding the number of options outstanding and exercisable at June 30, 2008 is as follows:

|  | <b>Outstanding</b> | <b>Exercisable</b> |
|--|--------------------|--------------------|
| Number of shares                                 | 141,007,220        | 99,290,665         |
| Weighted average remaining life (years)          | 6.7                | 5.7                |
| Weighted average exercise price                  | \$ 48.66           | \$ 46.94           |
| Aggregate intrinsic value ( <i>in millions</i> ) | \$ 709             | \$ 640             |

The total unrecognized share-based compensation cost at June 30, 2008 amounted to approximately \$329 million which is expected to be recognized over the next three years.

Note 11 Goodwill and Intangible Assets

(dollars in millions)

In connection with the dissolution of the TAP Pharmaceutical Products Inc. joint venture, Abbott recorded approximately \$350 of goodwill. Foreign currency translation adjustments and other adjustments increased goodwill in the first six months of 2008 and 2007 by approximately \$312 and \$129, 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 June 30, 2008 was \$6,806 for the Pharmaceutical Products segment, \$206 for the Nutritional Products segment, \$262 for the Diagnostic Products segment and \$2,166 for the Vascular Products segment.

The gross amount of amortizable intangible assets, primarily product rights and technology was \$9,713 as of June 30, 2008 and \$9,043 as of December 31, 2007, and accumulated amortization was \$3,703 as of June 30, 2008 and \$3,323 as of December 31, 2007. The estimated annual amortization expense for intangible assets is approximately \$775 in 2008, \$785 in 2009 and approximately \$770 in 2010, 2011 and 2012. Intangible assets are amortized over 4 to 25 years (average 11 years).

Note 12 Restructuring Plans

(dollars in millions)

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In 2007, 2006 and 2005, Abbott management approved plans to realign its worldwide pharmaceutical manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs. Additional charges of \$44 and \$67 were subsequently recorded in the first six months of 2008 and 2007, respectively, relating to these restructurings, primarily for accelerated depreciation. In addition, Abbott implemented facilities restructuring plans in the second quarter of 2007 related to the acquired operations of Kos Pharmaceuticals Inc., which resulted in an increase to goodwill of approximately \$52. The following summarizes the activity for restructurings:

|                                | 2008 |      | 2007 |      |
|--------------------------------|------|------|------|------|
| Accrued balance at January 1   | \$   | 194  | \$   | 193  |
| Restructuring charges          |      | 11   |      | 59   |
| Payments and other adjustments |      | (59) |      | (63) |
| Accrued balance at June 30     | \$   | 146  | \$   | 189  |

## Notes to Condensed Consolidated Financial Statements

June 30, 2008

(Unaudited), continued

## Note 13 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:

|  | Basis of Fair Value Measurement |  |  |                                       |
|--|---------------------------------|--|--|---------------------------------------|
|  | Outstanding<br>Balances         | Quoted<br>Prices in<br>Active<br>Markets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |
| <b>June 30, 2008:</b>  |                                 |  |  |                                       |
| Marketable available-for-sale securities                       | \$ 219                          | \$ 163                                   | \$ 23  | \$ 33                                 |
| Foreign currency forward exchange contracts                    | 34                              |  | 34   |                                       |
| Financial assets relating to TAP employees' stock options      | 29                              |  |  | 29                                    |
| <b>Total Assets</b>  | <b>\$ 282</b>                   | <b>\$ 163</b>                            | <b>\$ 57</b>                                 | <b>\$ 62</b>                          |
| Fair value of hedged long-term debt                            | \$ 2,443                        | \$                                       | \$ 2,443                                     | \$                                    |
| Foreign currency forward exchange contracts                    | 20                              |  | 20   |                                       |
| Interest rate swap financial instruments                       | 57                              |  | 57   |                                       |
| Financial liabilities relating to TAP employees' stock options | 42                              |  |  | 42                                    |
| <b>Total Liabilities</b>                                       | <b>\$ 2,562</b>                 | <b>\$</b>                                | <b>\$ 2,520</b>                              | <b>\$ 42</b>                          |
| <b>December 31, 2007:</b>                                      |                                 |  |  |                                       |
| Trading securities   | \$ 308                          | \$ 308                                   | \$   | \$                                    |
| Marketable available-for-sale securities                       | 193                             | 193                                      |  |                                       |
| Foreign currency forward exchange contracts                    | 24                              |  | 24   |                                       |
| <b>Total Assets</b>  | <b>\$ 525</b>                   | <b>\$ 501</b>                            | <b>\$ 24</b>                                 | <b>\$</b>                             |
| Interest rate swap financial instruments                       | \$ 25                           | \$                                       | \$ 25  | \$                                    |
| Fair value of hedged long-term debt                            | 1,475                           |  | 1,475  |                                       |
| Foreign currency forward exchange contracts                    | 45                              |  | 45   |                                       |
| <b>Total Liabilities</b>                                       | <b>\$ 1,545</b>                 | <b>\$</b>                                | <b>\$ 1,545</b>                              | <b>\$</b>                             |

In connection with the conclusion of the TAP Pharmaceutical Products Inc. joint venture, Abbott recorded derivative financial assets and liabilities related to stock options previously granted to TAP's employees. The amounts of these assets and liabilities were calculated using both the Black-Scholes option pricing model and the intrinsic value of the options. From April 30, 2008 to June 30, 2008 both the assets and liabilities decreased by approximately \$11 million. The effect of the changes in these assets and liabilities offset each other. In addition, Abbott received investments that are valued using significant unobservable inputs. The recorded value of these investments did not change significantly during the quarter.

FINANCIAL REVIEWResults of Operations

The following table details sales by reportable segment for the three months and six months ended June 30. Percent changes are versus the prior year and are based on unrounded numbers.

(dollars in millions)

|                           | Three Months Ended June 30 |                |          |                | Six Months Ended June 30 |                |           |                |
|---------------------------|----------------------------|----------------|----------|----------------|--------------------------|----------------|-----------|----------------|
|                           | 2008                       | Percent Change | 2007     | Percent Change | 2008                     | Percent Change | 2007      | Percent Change |
| Pharmaceutical Products   | \$ 4,123                   | 16.7           | \$ 3,532 | 17.2           | \$ 7,978                 | 15.5           | \$ 6,904  | 16.9           |
| Nutritional Products      | 1,235                      | 12.6           | 1,097    | 4.6            | 2,344                    | 11.7           | 2,099     | (4.2)          |
| Diagnostic Products       | 936                        | 17.2           | 799      | 11.4           | 1,768                    | 17.1           | 1,509     | 10.8           |
| Vascular Products         | 489                        | 15.7           | 423      | 63.3           | 941                      | 11.6           | 844       | 146.6          |
| Total Reportable Segments | 6,783                      | 15.9           | 5,851    | 16.1           | 13,031                   | 14.8           | 11,356    | 15.9           |
| Other                     | 531                        | 2.2            | 520      | 12.2           | 1,049                    | 9.1            | 960       | 8.8            |
| Net Sales                 | \$ 7,314                   | 14.8           | \$ 6,371 | 15.8           | \$ 14,080                | 14.3           | \$ 12,316 | 15.3           |
| Total U.S.                | \$ 3,410                   | 5.7            | \$ 3,225 | 17.7           | \$ 6,452                 | 4.8            | \$ 6,158  | 13.8           |
| Total International       | \$ 3,904                   | 24.1           | \$ 3,146 | 13.9           | \$ 7,628                 | 23.9           | \$ 6,158  | 16.8           |

Worldwide sales for the second quarter and six months 2008 compared to 2007 reflects unit growth and the positive effect of the relatively weaker U.S. dollar. The relatively weaker U.S. dollar increased second quarter 2008 consolidated net sales by 5.9 percent, Total International sales by 12.0 percent, Pharmaceutical Products segment sales by 6.0 percent, Diagnostic Products segment sales by 9.2 percent and Vascular Products segment sales by 6.4 percent over the second quarter of 2007. The relatively weaker U.S. dollar also increased the first six months 2008 consolidated net sales by 5.7 percent, Total International sales by 11.5 percent, Pharmaceutical Products segment sales by 6.0 percent, Diagnostic Products segment sales by 8.7 percent and Vascular Products segment sales by 5.6 percent over the first six months of 2007. The relatively weaker U.S. dollar increased second quarter 2007 consolidated net sales by 2.7 percent, Total International sales by 5.3 percent, Pharmaceutical Products segment sales by 2.7 percent, Diagnostic Products segment sales by 3.8 percent and Vascular Products segment sales by 2.2 percent over the second quarter of 2006. The relatively weaker U.S. dollar also increased the first six months 2007 consolidated net sales by 2.7 percent, Total International sales by 5.4 percent, Pharmaceutical Products segment sales by 2.7 percent, Diagnostic Products segment sales by 3.9 percent and Vascular Products segment sales by 2.3 percent over the first six months of 2006. Sales growth in 2007 for the Nutritional Products segment was unfavorably impacted by the completion of the co-promotion of *Synagis* in 2006.

## FINANCIAL REVIEW

(continued)

A comparison of significant product group sales for the six months ended June 30 is as follows. Percent changes are versus the prior year and are based on unrounded numbers.

(dollars in millions)

|                                      | Six Months Ended June 30 |                |          |                |
|--------------------------------------|--------------------------|----------------|----------|----------------|
|                                      | 2008                     | Percent Change | 2007     | Percent Change |
| <b>Pharmaceutical Products</b>       |                          |                |          |                |
| U.S. Specialty                       | \$ 2,341                 | 19.5           | \$ 1,958 | 26.1           |
| U.S. Primary Care                    | 1,411                    | (8.1)          | 1,535    | 38.9           |
| International Pharmaceuticals        | 3,743                    | 27.0           | 2,948    | 12.9           |
| <b>Nutritional Products</b>          |                          |                |          |                |
| U.S. Pediatric Nutritionals          | 615                      | 5.7            | 582      | 6.1            |
| International Pediatric Nutritionals | 634                      | 22.9           | 516      | 18.6           |
| U.S. Adult Nutritionals              | 562                      | 3.3            | 544      | (0.8)          |
| International Adult Nutritionals     | 520                      | 18.9           | 437      | 12.3           |
| <b>Diagnostics</b>                   |                          |                |          |                |
| Immunochemistry                      | 1,411                    | 17.3           | 1,203    | 10.8           |

Increased sales of *HUMIRA* and *Depakote* and the addition of *Lupron* sales in 2008 accounted for the majority of the sales increases for U.S. Specialty products in both 2008 and 2007. U.S. sales of *HUMIRA* were \$927 million, \$696 million and \$501 million for the six months ended June 30, 2008, 2007 and 2006, respectively. U.S. Primary Care sales in 2008 were impacted by a significant decrease in 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 \$1.039 billion, \$611 million and \$382 million for the six months ended June 30, 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 57.3 percent for the second quarter 2008, compared to 56.0 percent for the second quarter 2007. First six months 2008 gross profit margin was 56.8 percent, compared to 56.2 percent for the first six months 2007. The increases in the gross profit margins in 2008 were due primarily to favorable product and business mix.

Research and development expenses increased 12.6 percent in the second quarter 2008 and 6.2 percent for the first six months 2008 over comparable 2007 periods. These increases reflect increased spending to support pipeline programs, including oncology, immunology, hepatitis C, neuroscience and drug eluting stents. The majority of research and development expenditures is concentrated on pharmaceutical products.

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Selling, general and administrative expenses for the second quarter and first six months 2008 increased 14.2 percent and 13.6 percent, respectively, over the comparable 2007 periods. These increases reflect increased selling and marketing support for new and existing products, including continued spending for *HUMIRA* and the U.S. launch of *Xience V*, as well as spending on other marketed pharmaceutical products.

FINANCIAL REVIEW

(continued)

Conclusion of TAP Pharmaceutical Products Inc. Joint Venture

On April 30, 2008, Abbott and Takeda concluded their TAP Pharmaceutical Products Inc. (TAP) joint venture, evenly splitting the value and assets of the joint venture. Abbott exchanged its 50 percent 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 U.S. *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 \$182 million for the four months ended April 30, 2008 and \$645 million for the full year 2007. Abbott expects to record U.S. sales of *Lupron* of approximately \$400 million in 2008. 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 are recorded by Abbott as Other (income) expense, net 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 was 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 resulted in the recording of net assets of approximately \$225 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 \$280 million.

For the acquired *Lupron* business, Abbott recorded 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 are being amortized over 15 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 were recorded as a liability at closing in the amount of approximately \$1.1 billion. Related deferred tax assets of approximately \$410 million were also recorded, resulting in an after-tax liability of approximately \$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 of approximately \$95 million, which is in addition to the amounts discussed in the second paragraph above. The valuation of the assets and liabilities is preliminary and is expected to be finalized in the third quarter.

The 50 percent-owned joint venture was accounted for under the equity method of accounting. Summarized financial information for TAP follows below (*in millions*). The results for 2008 include results through April 30.

| Three Months Ended June 30 |      | Six Months Ended June 30 |      |
|----------------------------|------|--------------------------|------|
| 2008                       | 2007 | 2008                     | 2007 |

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|                     |    |     |    |     |    |     |    |       |
|---------------------|----|-----|----|-----|----|-----|----|-------|
| Net sales           | \$ | 141 | \$ | 767 | \$ | 853 | \$ | 1,516 |
| Cost of sales       |    | 46  |    | 188 |    | 229 |    | 368   |
| Income before taxes |    | 35  |    | 365 |    | 356 |    | 826   |
| Net earnings        |    | 34  |    | 232 |    | 238 |    | 525   |

Restructurings

*(dollars in millions)*

In 2007, 2006 and 2005, Abbott management approved plans to realign its worldwide pharmaceutical manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs. Additional charges of \$44 and \$67 were subsequently recorded in the first six months of 2008 and 2007, respectively, relating to these restructurings, primarily for accelerated depreciation. In addition, Abbott implemented facilities restructuring plans in the second quarter of 2007 related to the acquired operations of Kos Pharmaceuticals Inc., which resulted in an increase to goodwill of approximately \$52. The following summarizes the activity for restructurings:

|                                |    | 2008 |    | 2007 |
|--------------------------------|----|------|----|------|
| Accrued balance at January 1   | \$ | 194  | \$ | 193  |
| Restructuring charges          |    | 11   |    | 59   |
| Payments and other adjustments |    | (59) |    | (63) |
| Accrued balance at June 30     | \$ | 146  | \$ | 189  |

FINANCIAL REVIEW

(continued)

Basis of Presentation

Abbott's core laboratory diagnostics business, including Point of Care, was accounted for as discontinued operations for the six months ended June 30, 2007. Subsequently, a decision was made to retain the businesses. The results for the six months ended June 30, 2007 included depreciation and amortization through January 17, 2007. The amount of depreciation and amortization not recorded in the first six months of 2007 was \$99 million, which was recorded in the third quarter of 2007.

Acquired In-process Research and Development

In the first half of 2008, technology investments and acquired product rights resulted in charges to acquired in-process research and development of approximately \$97 million.

Interest (Income)

Interest income increased in the second quarter and first six months of 2008 over 2007 primarily as the result of higher investment balances.

Other (income) expense, net

In connection with the dissolution of the TAP Pharmaceutical Products Inc. joint venture, Abbott recorded a gain of approximately \$95 million in the second quarter 2008, which is included in Other (income) expense, net. Other (income) expense, net for the second quarter and six months ended June 30, 2008 also includes a gain of approximately \$52 million on the sale of an equity investment accounted for as an available-for-sale investment. The remainder of Other (income) expense, net in 2008 relates primarily to contractual 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.

Other (income) expense, net for the second quarter of 2007 includes a \$48 million fair market value gain adjustment to Abbott's investment in Boston Scientific stock and a realized gain of \$37 million on the sales of Boston Scientific stock. Other (income) expense, net for the first six months of 2007 includes a \$101 million fair market value loss adjustment to Abbott's investment in Boston Scientific common stock and a realized gain of \$37 million on the sales of Boston Scientific 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 in 2007 and the benefit of lower statutory tax rates and tax exemptions in several taxing jurisdictions. In the second quarter of 2008, Abbott's federal income tax returns for 2004 and 2005 were settled, resulting in a net reduction of income taxes of approximately \$30 million.

FINANCIAL REVIEW

(continued)

Liquidity and Capital Resources at June 30, 2008 Compared with December 31, 2007

Net cash from operating activities for the first six months 2008 totaled approximately \$3.1 billion. Abbott expects annual cash flow from operating activities to continue to exceed Abbott's capital expenditures and cash dividends. Subsequent to June 30, 2008, Abbott paid \$250 million to Boston Scientific as a result of the FDA's approval to market the *Xience V* drug-eluting stent in the U.S. This payment will result in an increase in goodwill.

Working capital was \$4.9 billion at June 30, 2008 and December 31, 2007.

For the acquired *Lupron* business, Abbott recorded 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. Abbott also recorded a liability of approximately \$1.1 billion relating to an agreement to remit cash to TAP if certain research and development events are not achieved on the development assets retained by TAP. Related deferred tax assets of approximately \$410 million were also recorded, resulting in an after-tax liability of approximately \$700 million. If these payments are not required, the liability would be reduced and a gain would be recorded.

At June 30, 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 \$4.0 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 six months of 2008 and 2007, Abbott purchased approximately 19.0 million and 15.4 million, respectively, of its common shares at a cost of approximately \$1.1 billion 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

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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.

### 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 and procedures as of the end of the period covered by this report, and concluded that Abbott Laboratories' disclosure controls and procedures were effective to ensure that information Abbott is required to disclose in the reports that it files or submits with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed by Abbott in the reports that it files or submits under the Exchange Act is accumulated and communicated to Abbott's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting.* During the quarter ended June 30, 2008, there were no changes in Abbott's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, Abbott's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Abbott is involved in various claims, legal proceedings and investigations, including (as of June 30, 2008, except as otherwise indicated) those described below.

In April 2008, the case *Patrick Warren Proffitt, et. al.* was filed against Abbott in the Circuit Court for Cocke County, Tennessee alleging antitrust and consumer fraud claims in connection with the sale of fenofibrate formulations. The case has been brought as a purported class action on behalf of all Tennessee individuals who purchased Tricor® or a generic substitute during the period from 1998 through 2008. In May 2008, the case was removed to the United States District Court for the Eastern District of Tennessee.

In its 2007 Form 10-K, Abbott reported that a number of cases are pending that allege generally that Abbott and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable under Medicare and Medicaid and by private payors and that the federal cases have been consolidated in the United States District Court for the District of Massachusetts as *In re: Pharmaceutical Industry Average Wholesale Price Litigation, MDL 1456*. In June 2008, one of those consolidated cases, an action brought by the Utah Attorney General against Abbott and other manufacturers, was remanded to state court in Utah.

In its 2007 Form 10-K, Abbott reported that a purported derivative lawsuit was pending in the United States District Court for the Northern District of Illinois brought by Leonard Bronstein, an Abbott shareholder, on behalf of Abbott against Abbott and each member of its Board of Directors. In May 2008, the court dismissed this case.

In its 2007 Form 10-K, Abbott reported that litigation was pending in the United Kingdom in which Abbott was seeking a declaration that Abbott's original (as of 2006) and modified Multi-Link Vision® and Xience V coronary stent systems do not infringe Evysio's three patents and that Evysio's patents are invalid. Abbott also reported that Evysio had filed a counterclaim accusing Abbott's stents of infringement and seeking a declaration of validity. On April 21, 2008, the court in the United Kingdom issued a final judgment, not subject to appeal, holding that Abbott's modified design stents do not infringe any of the three Evysio patents, that two of the Evysio patents are invalid, and that Abbott's original design stents do not infringe Evysio's only valid patent.

In its 2007 Form 10-K and Form 10-Q for the quarter ended March 31, 2008, Abbott reported that it had filed lawsuits against several companies seeking injunctive relief in connection with their proposed generic versions of extended release Depakote®. In the second quarter, Abbott entered into confidential settlement agreements resolving each of these cases, except for the cases filed against Banner Pharmacaps Inc. and Sun Pharmaceutical Industries Ltd. The remaining cases are not material to Abbott.

In June 2008, Abbott received a subpoena from the United States Department of Justice, through the United States Attorney for the District of Massachusetts. The government is investigating the sales and marketing activities of Abbott's biliary stent products. The government is seeking to determine whether any of these activities violated civil and/or criminal laws, including the Federal False Claims Act, the Food and Drug Cosmetic Act and the Anti-Kickback Statute in connection with Medicare and/or Medicaid reimbursement paid to third parties.

While it is not feasible to predict with certainty the outcome of the pending claims, proceedings and investigations in which Abbott is involved, including those previously disclosed, management is of the opinion that their ultimate dispositions should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations, except for the case filed in April 2007 referred to in the second paragraph of Note 6 to Abbott's financial statements above and the cases described in the third paragraph of such note.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Abbott's 2007 Form 10-K, except for the following:

**The manufacture of many of Abbott's products is a highly exacting and complex process, and if Abbott or one of its suppliers encounters problems manufacturing products, Abbott's business could suffer.**

The manufacture of many of Abbott's products is a highly exacting and complex process, due in part to strict regulatory requirements. Problems may arise during manufacturing for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials, natural disasters and environmental factors. In addition, single suppliers are currently used for certain products and materials. If problems arise during the production of a batch of product, that batch of product may have to be discarded. This could, among other things, lead to increased costs, lost revenue, damage to customer relations, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products. If problems are not discovered before the product is released to the market, recall and product liability costs may also be incurred. To the extent Abbott or one of its suppliers experiences significant manufacturing problems, this could have a material adverse effect on Abbott's revenues and profitability.

**Other factors can have a material adverse effect on Abbott's future profitability and financial condition.**

Many other factors can affect Abbott's profitability and its financial condition, including:

- Differences between the fair value measurement of assets and liabilities and their actual value, particularly for pensions, retiree health care, stock compensation, intangibles and goodwill; and for contingent liabilities such as litigation, the absence of a recorded amount, or an amount recorded at the minimum, compared to the actual amount.
- Changes in or interpretations of laws and regulations including changes in accounting standards, taxation requirements and environmental laws in domestic or foreign jurisdictions.
- Changes in the rate of inflation (including the cost of raw materials, commodities and supplies), interest rates, market value of Abbott's equity investments, and the performance of investments held by Abbott or Abbott's employee benefit trusts.
- Changes in business and political conditions, including (i) war, political instability, terrorist attacks in the U.S. and other parts of the world, the threat of future terrorist activity in the U.S. and other parts of the world and

related military action, (ii) natural disasters, (iii) the cost and availability of insurance due to any of the foregoing events, (iv) labor disputes, strikes, slow-downs or other forms of labor or union activity, and (v) pressure from third-party interest groups.

- Changes in Abbott's business units and investments and changes in the relative and absolute contribution of each to earnings and cash flow resulting from evolving business strategies, changing product mix, changes in tax rates both in the U.S. and abroad and opportunities existing now or in the future.
- Changes in the buying patterns of a major distributor, retailer, or wholesale customer resulting from buyer purchasing decisions, pricing, seasonality, or other factors, or other problems with licensors, suppliers, distributors and business partners.
- Difficulties related to Abbott's information technology systems, any of which could adversely affect business operations, including any significant breakdown, invasion, destruction or interruption of these systems.
- In connection with Abbott's acquisition of the vascular intervention and endovascular solutions businesses of Guidant Corporation, Abbott loaned BSC International Holding, Limited (a wholly-owned subsidiary of Boston Scientific) \$900 million on a subordinated basis. As long as the loan is outstanding, Abbott will be a creditor of Boston Scientific with respect to the \$900 million loan and, as such, is subject to credit risk.
- Legal difficulties, any of which could preclude or delay commercialization of products or adversely affect profitability, including claims asserting statutory or regulatory violations, adverse litigation decisions, and issues regarding compliance with any governmental consent decree or corporate integrity agreement.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***(c) Issuer Purchases of Equity Securities*

| Period        |                | (a) Total<br>Number of<br>Shares (or<br>Units)<br>Purchased | (b) Average<br>Price Paid per<br>Share (or Unit) | (c) Total Number<br>of Shares (or<br>Units) Purchased<br>as Part of<br>Publicly<br>Announced Plans<br>or Programs | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares (or Units)<br>that May Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|---------------|----------------|---|--|---|---|
| April 1, 2008 | April 30, 2008 | 5,026,816(1)  | \$ 50.620  | 4,942,800   | \$ 430,351,656(2)   |
| May 1, 2008   | May 31, 2008   | 342,062(1)  | \$ 54.486  | 0   | \$ 0(2)   |
| June 1, 2008  | June 30, 2008  | 189,534(1)  | \$ 54.199  | 0   | \$ 0(2)   |
| Total         |                | 5,558,412(1)  | \$ 50.980  | 4,942,800   | \$ 430,351,656(2)   |

## 1. These shares include:

- (i) the shares deemed surrendered to Abbott to pay the exercise price in connection with the exercise of employee stock options 70,016 in April, 328,062 in May, and 175,534 in June; and
- (ii) the shares purchased on the open market for the benefit of participants in the Abbott Canada Stock Retirement Plan 14,000 in April, 14,000 in May, and 14,000 in June.

These shares do not include the shares surrendered to Abbott to satisfy tax withholding obligations in connection with the vesting of restricted stock or restricted stock units.

2. On October 18, 2006, Abbott announced that its board of directors approved the purchase of up to \$2.5 billion of its common shares.

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

Abbott Laboratories held its Annual Meeting of Shareholders on April 25, 2008. The following is a summary of the matters voted on at that meeting.

(a) **The shareholders elected Abbott's entire Board of Directors. The persons elected to Abbott's Board of Directors and the number of shares cast for and the number of shares withheld, with respect to each of these persons, were as follows:**

| Name                      | Votes For     | Votes Withheld |
|---------------------------|---------------|----------------|
| Roxanne S. Austin         | 1,339,585,799 | 22,401,501     |
| William M. Daley          | 1,336,548,642 | 25,438,658     |
| W. James Farrell          | 1,333,126,336 | 28,860,964     |
| H. Laurance Fuller        | 1,328,698,246 | 33,289,054     |
| William A. Osborn         | 1,327,779,120 | 34,208,180     |
| The Rt. Hon. Lord Owen CH | 1,330,196,285 | 31,791,015     |
| Boone Powell Jr.          | 1,328,263,922 | 33,723,378     |
| W. Ann Reynolds, Ph.D.    | 1,324,076,547 | 37,910,753     |
| Roy S. Roberts            | 1,338,960,890 | 23,026,410     |
| Samuel C. Scott III       | 1,275,653,145 | 86,334,155     |
| William D. Smithburg      | 1,264,060,988 | 97,926,312     |
| Glenn F. Tilton           | 1,335,624,305 | 26,362,995     |
| Miles D. White            | 1,329,172,835 | 32,814,465     |

(b) The shareholders ratified the appointment of Deloitte & Touche LLP as Abbott's auditors. The number of shares cast in favor of the ratification of Deloitte & Touche LLP, the number against, and the number abstaining were as follows:

| For           | Against   | Abstain    |
|---------------|-----------|------------|
| 1,346,517,731 | 3,480,415 | 11,989,154 |

(c) The shareholders rejected a shareholder proposal on access to medicines. The number of shares cast in favor of the shareholder proposal, the number against, the number abstaining, and the number of broker non-votes were as follows:

| For        | Against     | Abstain     | Broker Non-Vote |
|------------|-------------|-------------|-----------------|
| 43,283,767 | 979,028,778 | 177,639,726 | 162,035,029     |

(d) The shareholders rejected a shareholder proposal on advisory vote. The number of shares cast in favor of the shareholder proposal, the number against, the number abstaining, and the number of broker non-votes were as follows:

(a) The shareholders elected Abbott's entire Board of Directors. The persons elected to Abbott's Board of D

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| <b>For</b>  | <b>Against</b> | <b>Abstain</b> | <b>Broker Non-Vote</b> |
|-------------|----------------|----------------|------------------------|
| 429,308,494 | 729,675,093    | 40,969,494     | 162,034,219            |



**EXHIBIT INDEX**

| <b>Exhibit No.</b>  | <b>Exhibit</b>   |
|---|--|
| 12  | Statement re: computation of ratio of earnings to fixed charges.   |
| 31.1  | Certification of Chief Executive Officer Required by Rule 13a-14(a) (17 CFR 240.13a-14(a)).  |
| 31.2  | Certification of Chief Financial Officer Required by Rule 13a-14(a) (17 CFR 240.13a-14(a)).  |
| Exhibits 32.1 and 32.2 are furnished herewith and should not be deemed to be filed under the Securities Exchange Act of 1934. |  |
| 32.1  | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2  | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |