ABBOTT LABORATORIES
Form 10-Q
November 03, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

o **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

100 Abbott Park Road

Abbott Park, Illinois 60064-6400

Telephone: **(847) 937-6l00**

Indicate by check mark whether the registrant: (l) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of l934 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 x No o

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 x	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of September 30, 2008, Abbott Laboratories had 1,551,582,176 common shares without par value outstanding.

PART I. FINANCIAL INFORMATION

Abbott Laboratories and Subsidiaries

Condensed Consolidated Financial Statements

(Unaudited)

Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Earnings

(Unaudited)

(dollars and shares in thousands except per share data)

	Three Months Ended September 30 2008	Three Months Ended September 30 2007	Nine Months Ended September 30 2008	Nine Months Ended September 30 2007
Net Sales	$ 7,497,660	$ 6,376,706	$ 21,577,284	$ 18,692,887
Cost of products sold	3,352,869	2,864,030	9,433,641	8,260,366
Research and development	680,360	640,718	1,957,180	1,843,248
Acquired in-process research and development			97,256	
Selling, general and administrative	2,067,914	1,945,404	6,138,264	5,528,729
Total Operating Cost and Expenses	6,101,143	5,450,152	17,626,341	15,632,343
Operating Earnings	1,396,517	926,554	3,950,943	3,060,544
Interest expense	125,014	146,657	405,317	447,548
Interest (income)	(55,313)	(40,433)	(159,117)	(92,303)
(Income) from TAP Pharmaceutical Products Inc. joint venture		(114,084)	(118,997)	(376,442)
Net foreign exchange loss (gain)	17,156	4,959	37,849	16,058
Other (income) expense, net	(63,376)	36,036	(384,189)	78,960
Earnings Before Taxes	1,373,036	893,419	4,170,080	2,986,723
Taxes on Earnings	288,424	176,414	825,587	583,436
Net Earnings	$ 1,084,612	$ 717,005	$ 3,344,493	$ 2,403,287
Basic Earnings Per Common Share	$ 0.70	$ 0.46	$ 2.17	$ 1.56
Diluted Earnings Per Common Share	$ 0.69	$ 0.46	$ 2.14	$ 1.54
Cash Dividends Declared Per Common Share	$ 0.36	$ 0.325	$ 1.08	$ 0.975
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,545,639	1,543,544	1,543,605	1,542,046
Dilutive Common Stock Options and Awards	18,091	14,214	16,081	17,028
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options and Awards	1,563,730	1,557,758	1,559,686	1,559,074
Outstanding Common Stock Options Having No Dilutive Effect	3,720	30,267	3,720	4,639

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

Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(dollars in thousands)

	Nine Months Ended September 30 2008	2007
Cash Flow From (Used in) Operating Activities:		
Net earnings	$ 3,344,493	$ 2,403,287
Adjustments to reconcile earnings to net cash from operating activities		
Depreciation	830,844	773,066
Amortization of intangible assets	585,430	598,628
Share-based compensation	286,191	354,156
Gain on dissolution of TAP Pharmaceutical Products Inc. joint venture	(94,248)	
Acquired in-process research and development	97,256	
Trade receivables	(3,396)	94,663
Inventories	(116,950)	(34,494)
Other, net	832,417	(55,554)
Net Cash From Operating Activities	5,762,037	4,133,752
Cash Flow From (Used in) Investing Activities:		
Contingent consideration paid relating to a prior business acquisition	(250,000)	
Acquisitions of property and equipment	(1,023,132)	(1,227,428)
Proceeds from sales of Boston Scientific common stock	318,645	348,061
Purchases of other investment securities, net	(755,450)	(12,353)
Other	(25,369)	(16,195)
Net Cash (Used in) Investing Activities	(1,735,306)	(907,915)
Cash Flow From (Used in) Financing Activities:		
Repayments of short-term debt and other	(1,379,968)	(22,165)
Repayments of long-term debt	(400,000)	(346,005)
Purchases of common shares	(1,073,127)	(1,058,606)
Proceeds from stock options exercised, including tax benefit	935,061	1,026,777
Dividends paid	(1,615,743)	(1,456,853)
Net Cash (Used in) Financing Activities	(3,533,777)	(1,856,852)
Effect of exchange rate changes on cash and cash equivalents	(138,995)	20,654
Net Increase in Cash and Cash Equivalents	353,959	1,389,639
Cash and Cash Equivalents, Beginning of Year	2,456,384	521,192
Cash and Cash Equivalents, End of Period	$ 2,810,343	$ 1,910,831

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)

	September 30 2008	December 31 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,810,343	$ 2,456,384
Investments, including $307,500 of investments measured at fair value at December 31, 2007	956,127	364,443
Trade receivables, less allowances of $268,352 in 2008 and $258,288 in 2007	4,994,075	4,946,876
Inventories:		
Finished products	1,793,142	1,677,083
Work in process	702,609	681,634
Materials	604,371	592,725
Total inventories	3,100,122	2,951,442
Prepaid expenses, deferred income taxes, and other receivables	3,366,066	3,323,588
Total Current Assets	15,226,733	14,042,733
Investments	1,081,999	1,125,262
Property and Equipment, at Cost	16,123,416	15,597,801
Less: accumulated depreciation and amortization	8,482,695	8,079,652
Net Property and Equipment	7,640,721	7,518,149
Intangible Assets, net of amortization	5,683,311	5,720,478
Goodwill	10,730,692	10,128,841
Deferred Income Taxes and Other Assets	1,389,556	1,178,461
	$ 41,753,012	$ 39,713,924
Liabilities and Shareholders Investment		
Current Liabilities:		
Short-term borrowings	$ 595,218	$ 1,827,361
Trade accounts payable	1,223,848	1,219,529
Salaries, dividends payable, and other accruals	5,689,270	5,077,428
Income taxes payable	231,007	80,406
Obligation in connection with conclusion of TAP Pharmaceutical Products Inc. joint venture	318,852	
Current portion of long-term debt	1,501,244	898,554
Total Current Liabilities	9,559,439	9,103,278
Long-term Debt	8,468,033	9,487,789
Post-employment Obligations and Other Long-term Liabilities	3,582,575	3,344,317
Long-term Obligation in Connection With Conclusion of TAP Pharmaceutical Products Inc. Joint Venture	797,130	
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: 1,600,301,101; 2007: 1,580,854,677	7,309,276	6,104,102
Common shares held in treasury, at cost -		
Shares: 2008: 48,718,925; 2007: 30,944,537	(2,240,285)	(1,213,134)
Earnings employed in the business	12,453,610	10,805,809
Accumulated other comprehensive income (loss)	1,823,234	2,081,763
Total Shareholders Investment	19,345,835	17,778,540
	$ 41,753,012	$ 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

September 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. Depreciation and amortization that was discontinued in the amount of approximately $99 million was recorded in the third quarter of 2007.

In the third quarter of 2008, Abbott announced that it had reached an agreement to sell Abbott s spine business for $360 million in cash. The transaction closed in October 2008 and a pretax gain of approximately $150 million will be recorded in the fourth quarter of 2008. The operations and financial position of the spine business are not presented as discontinued operations because the effects would not be significant.

Note 2 Supplemental Financial Information

As described in Note 3, Abbott recorded a gain of approximately $94 million in connection with the dissolution of the TAP Pharmaceutical Products Inc. joint venture in the second quarter of 2008, which is included in Other (income) expense, net. Other (income) expense, net for the nine months ended September 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. Other (income) expense, net for the third quarter of 2008 and the remainder of Other (income) expense, net for the nine months ended September 30, 2008 relates primarily to contractual payments based on specified development, approval and commercial events being achieved with respect to products retained by Takeda and payments from Takeda based on sales of products retained by Takeda.

Other (income) expense, net for the third quarter of 2007 includes a $35 million fair market value loss adjustment to Abbott s investment in Boston Scientific common stock. Other (income) expense, net for the first nine months of 2007 includes a $136 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.

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 $150 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. The increase in Other, net in Net cash from operating activities from 2007 to 2008 reflects primarily increased accruals for cost improvement initiatives and payroll related obligations. Purchases of other investment securities, net in 2008 reflects the acquisition of short-term investments with original maturities of over three months.

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

(dollars in millions)

		September 30 2008		**December 31 2007**
Current Investments:				
Time deposits and certificates of deposit	$	956	$	57
Boston Scientific common stock				307
Total	$	956	$	364

Notes to Condensed Consolidated Financial Statements

September 30, 2008

(Unaudited), continued

		September 30 2008		December 31 2007
Long-term Investments:				
Equity securities	$	151	$	229
Note receivable from Boston Scientific, 4% interest, due in 2011		861		851
Other		70		45
Total	$	1,082	$	1,125

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. Subsequent to the conclusion of the joint venture, TAP was merged into two Takeda entities. The exchange of Abbott s investment in TAP for TAP s *Lupron* business resulted in a gain at closing of approximately $94 million. 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 also receives payments based on specified development, approval and commercial events being achieved with respect to products retained by Takeda and payments from Takeda based on sales of products retained by Takeda, which are recorded by Abbott as Other (income) expense, net as earned. Such payments, which are subject to tax, are expected to approximate $1.4 billion over the five-year period beginning on May 1, 2008.

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 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 primarily to the intangible assets of approximately $260 million. The intangible assets are being amortized over 15 years. Abbott has also agreed to remit cash to Takeda if certain research and development events are not achieved on the development assets retained by Takeda. 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. Of the $1.1 billion, Abbott will make tax-deductible payments of $200 million in the fourth quarter of 2008 and approximately $120 million in 2009. If the remaining payments are not required, the liability would be reduced and a gain would be recorded.

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 September 30, 2007	Nine Months Ended September 30 2008	Nine Months Ended September 30 2007
Net sales	$ 741	$ 853	$ 2,257
Cost of sales	169	229	538
Income before taxes	359	356	1,186
Net earnings	228	238	753

Note 4 Acquired In-process Research and Development

During 2008, technology investments and acquired product rights resulted in charges to acquired in-process research and development of approximately $97 million.

Notes to Condensed Consolidated Financial Statements

September 30, 2008

(Unaudited), continued

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.

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

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 $145 million to $355 million. The recorded reserve balance at September 30, 2008 for these proceedings and exposures was approximately $205 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 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.

Notes to Condensed Consolidated Financial Statements

September 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 nine months ended September 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 September 30		**Nine Months Ended September 30**		**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Service cost benefits earned during the period	$ 55	$ 55	$ 170	$ 176	$ 10	$ 14	$ 33	$ 44
Interest cost on projected benefit obligations	86	73	256	224	21	24	69	73
Expected return on plans assets	(120)	(102)	(359					