ABBOTT LABORATORIES
Form 10-Q
May 07, 2007

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 March 31, 2007

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer 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 March 31, 2007, Abbott Laboratories had 1,540,359,678 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 March 31 2007	2006
Net Sales	$ 5,290,284	$ 4,580,465
Cost of products sold	2,176,695	1,759,583
Research and development	578,374	438,579
Selling, general and administrative	1,657,030	1,339,542
Total Operating Cost and Expenses	4,412,099	3,537,704
Operating Earnings	878,185	1,042,761
Interest expense	147,385	72,789
Interest (income)	(22,895)	(37,841)
(Income) from TAP Pharmaceutical Products Inc. joint venture	(146,632)	(101,311)
Net foreign exchange loss (gain)	4,875	(610)
Other (income) expense, net	124,461	(3,635)
Earnings from Continuing Operations Before Taxes	770,991	1,113,369
Taxes on Earnings from Continuing Operations	129,542	264,809
Earnings from Continuing Operations	641,449	848,560
Earnings from Discontinued Operations, net of taxes	56,088	16,323
Net Earnings	$ 697,537	$ 864,883
Basic Earnings Per Common Share		
Continuing Operations	$ 0.41	$ 0.56
Discontinued Operations	0.04	0.01
Net Earnings	$ 0.45	$ 0.57
Diluted Earnings Per Common Share		
Continuing Operations	$ 0.41	$ 0.55
Discontinued Operations	0.04	0.01
Net Earnings	$ 0.45	$ 0.56
Cash Dividends Declared Per Common Share	$ 0.325	$ 0.295
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,540,315	1,529,862
Dilutive Common Stock Options and Awards	17,919	7,833
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options and Awards	1,558,234	1,537,695
Outstanding Common Stock Options Having No Dilutive Effect	20,928	86,456

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)

	Three Months Ended March 31 2007	2006
Cash Flow From (Used in) Operating Activities of Continuing Operations:		
Net earnings	$ 697,537	$ 864,883
Less: Earnings from discontinued operations, net of taxes	56,088	16,323
Earnings from continuing operations	641,449	848,560
Adjustments to reconcile earnings from continuing operations to net cash from operating activities of continuing operations -		
Depreciation	204,970	194,690
Amortization of intangibles	195,794	118,493
Share-based compensation	153,701	123,322
Trade receivables	161,673	239,727
Inventories	(37,827)	173,946
Other, net	(374,133)	(614,297)
Net Cash From Operating Activities of Continuing Operations	945,627	1,084,441
Cash Flow From (Used in) Investing Activities of Continuing Operations:		
Acquisitions of property and equipment	(329,119)	(228,360)
Investment securities transactions	2,927	2,419
Other	769	1,503
Net Cash (Used in) Investing Activities of Continuing Operations	(325,423)	(224,438)
Cash Flow From (Used in) Financing Activities of Continuing Operations:		
Proceeds from commercial paper, net	353,000	
Payment of long-term debt	(260,618)	(425,000)
Other borrowing transactions, net	1,835	59,176
Purchases of common shares	(861,203)	(754,502)
Proceeds from stock options exercised, including income tax benefit	714,136	93,479
Dividends paid	(453,807)	(423,551)
Net Cash (Used in) Financing Activities of Continuing Operations	(506,657)	(1,450,398)
Effect of exchange rate changes on cash and cash equivalents	506	9,018
Discontinued Operations:		
Net cash provided by operating activities of discontinued operations	110,660	98,678
Investing activities of discontinued operations	(63,557)	(67,892)
Net cash provided by discontinued operations	47,103	30,786
Net Increase (Decrease) in Cash and Cash Equivalents	161,156	(550,591)
Cash and Cash Equivalents, Beginning of Year	521,192	2,893,687
Cash and Cash Equivalents, End of Period	$ 682,348	$ 2,343,096

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

Abbott Laboratories and Subsidiaries

Condensed Consolidated Balance Sheet

(Unaudited)

(dollars in thousands)

	March 31 2007	December 31 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 682,348	$ 521,192
Investments	959,531	852,243
Trade receivables, less allowances of $186,427 in 2007 and $215,443 in 2006	3,278,283	4,231,142
Inventories:		
Finished products	1,159,146	1,338,349
Work in process	439,269	686,425
Materials	575,610	781,647
Total inventories	2,174,025	2,806,421
Prepaid expenses, deferred income taxes, and other receivables	2,855,530	2,870,885
Assets held for sale	1,554,500	
Total Current Assets	11,504,217	11,281,883
Investments	993,636	1,229,873
Property and Equipment, at Cost	11,535,486	14,401,939
Less: accumulated depreciation and amortization	5,839,291	7,455,504
Net Property and Equipment	5,696,195	6,946,435
Intangible Assets, net of amortization	5,999,777	6,403,619
Goodwill	9,234,655	9,449,281
Deferred Income Taxes and Other Assets	1,015,563	867,081
Assets Held for Sale	1,842,074	
	$ 36,286,117	$ 36,178,172
Liabilities and Shareholders Investment		
Current Liabilities:		
Short-term borrowings	$ 5,642,009	$ 5,305,985
Trade accounts payable	987,514	1,175,590
Salaries, dividends payable, and other accruals	4,580,195	5,112,000
Income taxes payable	336,175	262,344
Current portion of long-term debt	293,463	95,276
Liabilities of operations held for sale	465,750	
Total Current Liabilities	12,305,106	11,951,195
Post-employment Obligations and Other Long-term Liabilities	2,968,883	3,163,127
Long-term Debt	6,541,169	7,009,664
Liabilities of Operations Held for Sale	151,818	
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: 2007: 1,568,039,489; 2006: 1,550,590,438	5,195,018	4,290,929
Common shares held in treasury, at cost - Shares: 2007: 27,679,811; 2006: 13,347,272	(1,029,556)	(195,237)
Earnings employed in the business	9,532,954	9,568,728
Accumulated other comprehensive income (loss)	620,725	389,766
Total Shareholders Investment	14,319,141	14,054,186
	$ 36,286,117	$ 36,178,172

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

March 31, 2007

(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, 2006.

Note 2 Discontinued Operations

On January 18, 2007, Abbott announced that it had agreed to sell its core laboratory diagnostics business, including Abbott Point of Care, to GE for $8.13 billion in cash. These businesses were included in the Diagnostic Products segment. The sale is expected to close no later than the third quarter 2007 and is subject to customary closing conditions, including regulatory approvals. The sale of these businesses is estimated to result in an after-tax gain of approximately $3.5 billion. The income and cash flows of the operations to be disposed of have been presented as discontinued operations in the Condensed Consolidated Statement of Earnings and Statement of Cash Flows. The assets of the operations held for sale and the liabilities to be assumed in the sale have been classified as held for sale in the Condensed Consolidated Balance Sheet as of March 31, 2007. Prior years balance sheets have not been adjusted. Summarized financial information for discontinued operations, including direct transaction costs, is as follows: *(dollars in thousands)*

	Three Months Ended March 31	
	2007	**2006**
Net sales	$ 655,277	$ 602,994
Earnings before taxes	69,674	21,648
Taxes on earnings	13,586	5,325
Net earnings	56,088	16,323

Effective on the date that Abbott agreed to sell its core laboratory diagnostics businesses to GE, depreciation of property and equipment and amortization of intangible assets was discontinued. Accordingly, the results for the three months ended March 31, 2006, include three months of depreciation and amortization and the results for the three months ended March 31, 2007, include depreciation and amortization through January 17, 2007. The assets of the operations held for sale and the liabilities to be assumed in the sale as of March 31, 2007, consist of the following: *(dollars in thousands)*

Trade accounts receivable, net	$ 790,170
Inventories	690,918
Other current assets	73,412
Property and equipment, net	1,353,351
Other long-term assets	488,723
Assets of discontinued operations held for sale	$ 3,396,574
Accounts payable	$ 109,465
Accrued liabilities	356,285
Long-term liabilities	151,818
Liabilities of discontinued operations to be assumed in the sale	$ 617,568

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Notes to Condensed Consolidated Financial Statements
March 31, 2007
(Unaudited), continued

Note 3 Adoption of New Accounting Standards

Effective January 1, 2007, Abbott adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. Adoption of these Standards and Interpretation did not have a material impact on Abbott s financial position.

SFAS No. 157 applies to all fair measurements not otherwise specified in an existing standard, it clarifies how to measure fair value, and it expands fair value disclosures. For Abbott, SFAS No. 157 does not significantly change the valuation of assets versus previous practice. However, for liabilities, SFAS No. 157 requires that a fair value measurement be the amount that a company would pay to transfer a liability to a third party. Under previous practices, liabilities were valued under a number of different methods.

SFAS No. 159 allows companies to measure specific financial assets and liabilities at fair value, such as debt or equity investments. The fair value option for the investment in Boston Scientific common stock was applied effective January 1, 2007. Abbott applied the fair value option to its investment in Boston Scientific stock under SFAS No. 159 because, unlike its other equity investments, the Boston Scientific stock is not a strategic investment and Abbott is required to dispose of the stock no later than October 2008. Abbott remains subject to a limitation on the amount of shares it may sell in any one month through October 2007 and Abbott will not reacquire the Boston Scientific shares it sells. Accordingly, since realized gains or losses are expected in the near future, the fair value option better represents the near-term expected earnings impact from sales of the stock. Under the fair value option, any cumulative unrealized gains or losses on an equity investment previously accounted for as an available-for-sale security is recorded as a cumulative effect adjustment to retained earnings as of the date of adoption of the standard. The pretax and after tax adjustment to Earnings employed in the business upon adoption was $297 million and $189 million, respectively, and the fair value and carrying amount of the investment before and after adoption was $1.0 billion. The pretax and after tax adjustment to Accumulated other comprehensive income was $303 million and $182 million, respectively. The affect of the adoption on deferred income taxes was not significant.

FASB Interpretation No. 48 requires that a recorded tax benefit must be more likely than not of being sustained upon examination by tax authorities based upon its technical merits. The amount of benefit recorded is the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Note 4 Business Acquisitions

In December 2006, Abbott acquired Kos Pharmaceuticals Inc. for cash of approximately $3.8 billion, net of cash held by Kos Pharmaceuticals Inc. The valuation of the assets and liabilities related to the acquisition of Kos Pharmaceuticals Inc. is preliminary.

Note 5 Supplemental Financial Information

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

Notes to Condensed Consolidated Financial Statements
March 31, 2007
(Unaudited), continued

Supplemental Cash Flow Information   Other, net in Net cash from operating activities of continuing operations for 2007 and 2006 includes the effects of contributions to the main domestic defined benefit plan of $200 million each period and to the post-employment medical and dental plans of $75 million and $40 million, respectively, and changes in income taxes, primarily income tax payments in 2006.

	March 31 2007	**December 31 2006**
	(dollars in thousands)	
Current Investments:		
Time deposits and certificates of deposit	$ 79,081	$ 76,994
Boston Scientific common stock	880,450	775,249
Total	$ 959,531	$ 852,243
Long-term Investments:		
Boston Scientific common stock	$	$ 248,049
Other equity securities	138,851	129,830
Note receivable from Boston Scientific, 4% interest	840,476	837,260
Other	14,309	14,734
Total	$ 993,636	$ 1,229,873

Note 6   Taxes on Earnings

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

Unrecognized tax benefits as of the adoption of FASB Interpretation No. 48 on January 1, 2007 were approximately $579 million, which if recognized, would decrease taxes on earnings. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate in 2007 totaled approximately $56 million. Abbott does not expect the total amount of unrecognized tax benefits as of March 31, 2007, to change significantly within the next twelve months. Reserves for interest and penalties are not significant. In the U.S., Abbott s federal income tax returns through 2003 are settled, and the income tax returns for years after 2003 are open. There are numerous other income tax jurisdictions for which tax returns are not yet settled, none of which are individually significant.

Note 7   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 two patent disputes with third parties who claim Abbott s products infringe their patents. In the first dispute, which Abbott assumed as part of the Guidant acquisition, reserves equal to the expected resolution have been recorded. In the second dispute, filed in April 2007, Abbott is unable to estimate a range of possible loss, if any, and no reserve has been recorded.

Notes to Condensed Consolidated Financial Statements
March 31, 2007
(Unaudited), continued

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. The outcome of these investigations and litigation could include the imposition of fines or penalties. Abbott is unable to estimate the amount of possible loss, and no loss reserves have been recorded for these exposures. 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.

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 in the second and third paragraphs of this footnote, Abbott estimates the range of possible loss to be from approximately $200 million to $300 million. The recorded reserve balance at March 31, 2007 for these proceedings and exposures was approximately $225 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 of this footnote, the resolution of which could be material to cash flows or results of operations for a quarter.

Note 8 Post-Employment Benefits
(dollars in millions)

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

	Defined Benefit Plans		**Medical and Dental Plans**	
	2007	**2006**	**2007**	**2006**
Service cost benefits earned during the period	$ 60.5	$ 54.7	$ 14.8	$ 13.1
Interest cost on projected benefit obligations	75.6	69.5	24.5	19.5
Expected return on plans assets	(102.6)	(93.9)	(6.3)	(3.9)
Net amortization	22.1	20.6	8.5	5.3
Net cost	$ 55.6	$ 50.9	$ 41.5	$ 34.0

Abbott funds its domestic defined benefit plans according to IRS funding limitations. In the first quarters of 2007 and 2006, $200 was contributed to the main domestic defined benefit plan and $75 and $40, respectively, was contributed to the post-employment medical and dental benefit plans.

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Notes to Condensed Consolidated Financial Statements
March 31, 2007
(Unaudited), continued

Note 9 Comprehensive Income, net of tax

(dollars in thousands)

	Three Months Ended March 31 2007	2006
Foreign currency translation gain (loss) adjustments	$ 15,982	$ 97,726
Unrealized gains on marketable equity securities	6,962	2,547
Amortization of net actuarial losses and prior service cost and credits	20,178	
Net adjustments for derivative instruments designated as cash flow hedges	6,002	16,756
Other comprehensive income, net of tax	49,124	117,029
Net Earnings	697,537	864,883
Comprehensive Income	$ 746,661	$ 981,912
Supplemental Comprehensive Income Information, net of tax:		
Cumulative foreign currency translation (gain) adjustments	$ (1,811,125)	$ (858,901)
Net actuarial losses and prior service cost and credits, net	1,237,390	
Minimum pension liability adjustments		8,931
Cumulative unrealized (gains) on marketable equity securities	(19,522)	(10,994)
Cumulative (gains) on derivative instruments designated as cash flow hedges	(27,468)	(1,563)

Note 10 Segment Information

(dollars in millions)

Revenue Segments 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. On January 18, 2007, Abbott announced that it had agreed to sell its core laboratory diagnostics business, including Abbott Point of Care, to GE. These businesses were included in the Diagnostic Products segment. The segment information below has been adjusted to reflect the discontinued operations. 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.

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

Abbott s underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. Intersegment transfers of inventory are recorded at standard cost and are not a measure of segment operating earnings. The cost of some corporate functions and the cost of certain employee benefits are charged to segments at predetermined rates that approximate cost. Remaining costs, if any, are not allocated to segments. 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.

Notes to Condensed Consolidated Financial Statements
March 31, 2007
(Unaudited), continued

	Three Months Ended March 31			
	Net Sales to External Customers		**Operating Earnings (Loss)**	
	2007	**2006**	**2007**	**2006**
Pharmaceutical Products	$ 3,373	$ 2,892	$ 1,166	$ 1,017
Nutritional Products (a)	1,002	1,142	180	388
Vascular Products (b)	420	83	(22)	(38)
Total Reportable Segments	4,795	4,117	1,324	1,367
Other	495	463		
Net Sales	$ 5,290	$ 4,580		
Corporate functions and benefit plans costs			(96)	(79)
Non-reportable segments			37	31
Net interest expense			(124)	(35)
Income from TAP Pharmaceutical Products Inc. joint venture			147	101
Share-based compensation (c)			(154)	(123)
Other, net (d)			(363)	(149)
Consolidated Earnings from Continuing Operations Before Taxes				