

AbbVie Inc.
Form 10-Q
November 12, 2013
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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 September 30, 2013

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. 001-35565

ABBVIE INC.

A Delaware Corporation

I.R.S. Employer Identification No.
32-0375147

1 North Waukegan Road
North Chicago, Illinois 60064

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Telephone: (847) 932-7900

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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.

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 September 30, 2013, AbbVie Inc. had 1,590,861,812 shares of common stock at \$0.01 par value outstanding.

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AbbVie Inc. and Subsidiaries

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Table of Contents**PART I. Financial Information****Item 1. Financial Statements and Supplementary Data****AbbVie Inc. and Subsidiaries****Condensed Consolidated Statements of Earnings (unaudited)**

(in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net sales	\$4,658	\$4,508	\$13,679	\$13,174
Cost of products sold	1,092	1,014	3,299	3,243
Selling, general and administrative	1,261	1,085	3,904	3,578
Research and development	714	813	2,057	2,097
Acquired in-process research and development	220		290	260
Total operating costs and expenses	3,287	2,912	9,550	9,178
Operating earnings	1,371	1,596	4,129	3,996
Interest expense (income), net	69	(1)	210	(4)
Net foreign exchange loss	11	6	40	27
Other expense (income), net	5	(13)	(14)	(39)
Earnings before income tax expense	1,286	1,604	3,893	4,012
Income tax expense	322	19	893	277
Net earnings	\$964	\$1,585	\$3,000	\$3,735
Basic earnings per share	\$0.60	\$1.01	\$1.88	\$2.37
Diluted earnings per share	\$0.60	\$1.01	\$1.86	\$2.37
Cash dividends declared per common share	\$0.40	n/a	\$1.60	n/a
Weighted-average basic shares outstanding (a)	1,590	1,577	1,588	1,577
Weighted-average diluted shares outstanding (a)	1,605	1,577	1,602	1,577

The accompanying notes are an integral part of these condensed consolidated financial statements.

(a) On January 1, 2013, Abbott Laboratories distributed 1,577 million shares of AbbVie common stock. The computation of basic and diluted earnings per common share for all periods through December 31, 2012 is calculated using the shares distributed on January 1, 2013. Refer to Note 3 for information regarding the calculation of basic and diluted earnings per common share for the three and nine months ended September 30, 2013.

Table of Contents**AbbVie Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (unaudited)**

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net earnings	\$964	\$1,585	\$3,000	\$3,735
Foreign currency translation gain (loss) adjustments	205	305	23	(3)
Pension and post-employment benefits, net of tax expense of \$ and \$1 for the three months ended September 30, 2013 and 2012, respectively, and \$18 and \$1 for the nine months ended September 30, 2013 and 2012, respectively	42	1	77	2
Unrealized gains (losses) on marketable equity securities, net of tax (benefits) of \$ and \$(13) for the three months ended September 30, 2013 and 2012, respectively, and \$ and \$(9) for the nine months ended September 30, 2013 and 2012, respectively	1	(21)		(15)
Hedging activities, net of tax (benefits) of \$(2) and \$(3) for the three months ended September 30, 2013 and 2012, respectively, and \$ and \$(2) for the nine months ended September 30, 2013 and 2012, respectively	(60)	(4)	(49)	(3)
Other comprehensive income (loss)	188	281	51	(19)
Comprehensive income	\$1,152	\$1,866	\$3,051	\$3,716

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**AbbVie Inc. and Subsidiaries**
Condensed Consolidated Statements of Cash Flows (unaudited)

	Nine months ended September 30,	
(in millions) (brackets denote cash outflows)	2013	2012
Cash flows from operating activities		
Net earnings	\$3,000	\$3,735
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	289	352
Amortization of intangible assets	408	489
Stock-based compensation	175	156
Acquired in-process research and development	290	260
Other, net	28	38
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and other receivables	654	713
Inventories	(86)	(99)
Prepaid expenses and other assets	37	(6)
Accounts payable and other liabilities	227	(234)
Cash flows from operating activities	5,022	5,404
Cash flows from investing activities		
Acquisitions and investments, net of cash acquired	(358)	(780)
Acquisitions of property and equipment	(340)	(238)
Purchases of investment securities	(631)	(1,825)
Sales of investment securities	2,085	630
Other		1
Cash flows from investing activities	756	(2,212)
Cash flows from financing activities		
Net change in short-term borrowings	(603)	
Dividends paid	(1,914)	
Purchases of treasury stock	(119)	
Proceeds from the exercise of stock options	244	
Net transactions with Abbott Laboratories, excluding noncash items	(227)	(446)
Other, net	(76)	(12)
Cash flows from financing activities	(2,695)	(458)
Effect of exchange rate changes on cash and equivalents	(9)	
Net increase in cash and equivalents	3,074	2,734
Cash and equivalents, beginning of period	5,901	27
Cash and equivalents, end of period	\$8,975	\$2,761

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**AbbVie Inc. and Subsidiaries**
Condensed Consolidated Balance Sheets

(in millions, except share data)	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets		
Cash and equivalents	\$8,975	\$5,901
Short-term investments	621	2,075
Accounts and other receivables, net	3,798	4,298
Inventories, net	1,172	1,091
Deferred income taxes	1,419	1,446
Prepaid expenses and other	558	543
Total current assets	16,543	15,354
Investments	123	119
Property and equipment, net	2,244	2,247
Intangible assets, net of amortization	1,993	2,323
Goodwill	6,199	6,130
Other assets	1,150	835
Total assets	\$28,252	\$27,008
Liabilities and Equity		
Current liabilities		
Short-term borrowings	\$411	\$1,020
Current maturities of long-term debt and lease obligations	23	22
Accounts payable and accrued liabilities	6,441	5,734
Total current liabilities	6,875	6,776
Long-term liabilities	3,425	2,239
Long-term debt and lease obligations	14,375	14,630
Commitments and contingencies		
Equity		
Net parent company investment in AbbVie Inc., prior to separation		3,713
Stockholders' equity		
Common stock, issued 1,590,861,812 shares in 2013	16	
Common stock held in treasury, 3,100,129 shares in 2013	(119)	
Additional paid-in-capital	3,580	
Retained earnings	1,081	
Accumulated other comprehensive loss	(981)	(350)
Total stockholders' equity	3,577	(350)
Total equity	3,577	3,363
Total liabilities and equity	\$28,252	\$27,008

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**AbbVie Inc. and Subsidiaries****Condensed Consolidated Statement of Equity**

(in millions)	Common shares outstanding	Common stock \$	Treasury stock \$	Additional paid-in capital \$	Accumulated other comprehensive (loss) \$	Retained earnings \$	Net parent company investment \$	Total
Balance at December 31, 2012					(\$350)		\$3,713	\$3,363
Separation-related adjustments				(1,258)	(682)		707	(\$1,233)
Reclassification of parent company net investment in connection with separation				4,420			(4,420)	\$
Issuance of common stock at separation	1,577	16		(16)				\$
Net earnings						3,000		\$3,000
Other comprehensive income, net of tax					51			\$51
Dividends declared						(1,919)		(\$1,919)
Stock issued (purchased) under incentive stock programs and other	11		(119)	434				\$315
Balance at September 30, 2013 (unaudited)	1,588	\$16	(\$119)	\$3,580	(\$981)	\$1,081	\$	\$3,577

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AbbVie Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1

Background and Basis of Presentation

Background

The principal business of AbbVie Inc. (AbbVie or the company) is the discovery, development, manufacture and sale of a broad line of proprietary pharmaceutical products. Substantially all of AbbVie's sales in the United States (U.S.) are to three wholesalers. Outside the U.S., products are sold primarily to health care providers or through distributors, depending on the market served.

On January 1, 2013, AbbVie became an independent, publicly-traded company as a result of the distribution by Abbott Laboratories (Abbott) of 100 percent of the outstanding common stock of AbbVie to Abbott's shareholders (the separation). AbbVie was incorporated in Delaware on April 10, 2012. Abbott's Board of Directors approved the distribution of its shares of AbbVie on November 28, 2012. AbbVie's registration statement on Form 10 was declared effective by the U.S. Securities and Exchange Commission (SEC) on December 7, 2012. On January 1, 2013, Abbott's shareholders of record as of the close of business on December 12, 2012 received one share of AbbVie common stock for every one share of Abbott common stock held as of the record date. AbbVie's common stock began trading regular-way under the ticker symbol ABBV on the New York Stock Exchange on January 2, 2013.

During the nine months ended September 30, 2013, separation-related adjustments totaling \$1.2 billion were recorded in stockholders' equity. Separation-related adjustments to additional paid-in capital principally reflected dividends to AbbVie shareholders that were declared from pre-separation earnings during the first quarter, the transfer of certain pension plan liabilities and assets from Abbott to AbbVie upon the legal split of those plans in the first quarter, and the subsequent correction of an error in the third quarter related to long-term deferred tax assets transferred to the company in connection with the separation of the pension plans. The correction of this error, which did not impact the company's Annual Report on Form 10-K for the year ended December 31, 2012 and prior years, resulted in a \$582 million reduction to stockholders' equity and long-term deferred tax assets, classified in other assets, in the company's condensed consolidated balance sheet in the third quarter. In addition, because the historical financial statements were derived from Abbott's records, separation-related adjustments also included an adjustment to accumulated other comprehensive loss to reflect the appropriate opening balances associated with currency translation adjustments related to AbbVie's legal entities at the separation date. Additional separation-related adjustments to stockholders' equity could be recorded in the future as the separation is finalized. Refer to Note 9 for further information regarding the separation of the pension plans.

In connection with the separation, AbbVie and Abbott entered into transition services agreements covering certain corporate support and back office services that AbbVie has historically received from Abbott. Such services include information technology,

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accounts payable, payroll, receivables collection, treasury and other financial functions, as well as order entry, warehousing, engineering support, quality assurance support and other administrative services. These agreements facilitate the separation by allowing AbbVie to operate independently prior to establishing stand-alone back office systems across its organization. Transition services may be provided for up to 24 months, with an option for a one-year extension.

During the three and nine months ended September 30, 2013, AbbVie incurred \$51 million and \$151 million of separation-related expenses, including legal, information technology and regulatory fees, which were principally classified in selling, general and administrative expenses (SG&A).

Basis of Presentation

The unaudited interim condensed consolidated financial statements of AbbVie have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the United States have been omitted. These unaudited interim condensed consolidated financial statements should be read in conjunction with the company's audited combined financial statements and notes included in the company's Annual Report on Form 10-K for the year ended December 31, 2012.

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It is management's opinion that these financial statements include all normal and recurring adjustments necessary for a fair presentation of the company's financial position and operating results. Net sales and net earnings for any interim period are not necessarily indicative of future or annual results.

For a certain portion of AbbVie's operations, the legal transfer of AbbVie's assets (net of liabilities) did not occur with the separation of AbbVie on January 1, 2013 due to the time required to transfer marketing authorizations and satisfy other regulatory requirements in certain countries. Under the terms of the separation agreement with Abbott, AbbVie is responsible for the business activities conducted by Abbott on its behalf, and is subject to the risks and entitled to the benefits generated by these operations and assets. As a result, the related assets and liabilities and results of operations have been reported in AbbVie's condensed consolidated financial statements as of and for the nine months ended September 30, 2013. Net sales related to these operations for the three and nine months ended September 30, 2013 totaled approximately \$192 million and \$635 million, respectively. At September 30, 2013, the assets and liabilities consisted primarily of inventories of \$84 million, trade accounts receivable of \$214 million, other assets of \$100 million, and accounts payable and other accrued liabilities of \$232 million. The majority of these operations are expected to be transferred to AbbVie by the end of 2014.

Prior to the separation on January 1, 2013, the historical financial statements of AbbVie were prepared on a stand-alone basis and were derived from Abbott's consolidated financial statements and accounting records as if the former research-based pharmaceutical business of Abbott had been part of AbbVie for all periods presented. Accordingly, AbbVie's financial statements for periods prior to January 1, 2013 are presented on a combined basis and reflect AbbVie's financial position, results of operations and cash flows as its business was operated as part of Abbott prior to the separation, in conformity with U.S. GAAP. The historical combined financial statements also reflect an allocation of expenses related to certain Abbott corporate functions, including senior management, legal, human resources, finance, information technology and quality assurance. These expenses were allocated to AbbVie based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenues, headcount, square footage, number of transactions or other measures. AbbVie considers the expense allocation methodology and results to be reasonable. However, the allocations may not be indicative of the actual expenses that would have been incurred had AbbVie operated as an independent, publicly-traded company for the periods presented. These allocations totaled \$197 million and \$599 million for the three and nine months ended September 30, 2012.

Note 2

Supplemental Financial Information

Inventories

(in millions)	September 30, 2013	December 31, 2012
Finished goods	\$478	\$547
Work-in-process	439	286
Raw materials	255	258
Inventories, net	\$1,172	\$1,091

Property and Equipment, Net

(in millions)	September 30, 2013	December 31, 2012
Property and equipment, gross	\$6,790	\$6,542
Less accumulated depreciation	(4,546)	(4,295)
Property and equipment, net	\$2,244	\$2,247

Depreciation expense was \$97 million and \$93 million for the three months ended September 30, 2013 and 2012, respectively, and \$289 million and \$352 million for the nine months ended September 30, 2013 and 2012, respectively.

Interest Expense (Income), Net

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest expense	\$75	\$10	\$225	\$10
Interest income	(6)	(11)	(15)	(14)
Interest expense (income), net	\$69	(\$1)	\$210	(\$4)

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Note 3

Earnings Per Share

AbbVie calculates basic earnings per share (EPS) pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. AbbVie's restricted stock units (RSUs) and restricted stock awards (RSAs) participate in dividends on the same basis as common shares and such dividends are nonforfeitable to the holder once declared. As a result, these RSUs and RSAs meet the definition of a participating security.

The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock or the two-class method. For the three and nine months ended September 30, 2013, the two-class method was more dilutive. As such, the dilutive effect of outstanding RSUs and RSAs of approximately 5 million for both the three and nine months ended September 30, 2013 was excluded from the denominator for the calculation of diluted EPS. Additionally, all earnings (distributed and undistributed) allocable to participating securities was excluded from the numerator for the calculation of basic and diluted earnings per share. Earnings allocable to participating securities for the three and nine months ended September 30, 2013 were \$6 million and \$17 million, respectively.

For the three and nine months ended September 30, 2013, approximately 1 million of common shares issuable under stock-based compensation plans were excluded from the computation of earnings per common share assuming dilution because the effect would have been antidilutive.

Note 4

Acquisitions, Collaborations and Other Arrangements

In the first nine months of 2013 and 2012, cash outflows related to collaborations, the acquisition of product rights and other arrangements totaled \$358 million and \$780 million, respectively. The company recorded acquired in-process research and development (IPR&D) charges of \$220 million and \$290 million for the three and nine months ended September 30, 2013, respectively. IPR&D charges totaled \$260 million for the nine months ended September 30, 2012 and were recorded during the first half of 2012. Significant arrangements impacting the first nine months of 2013 and 2012 included the following.

Ablynx NV

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In September 2013, AbbVie entered into a global collaboration agreement with Ablynx NV to develop and commercialize the anti-IL-6R Nanobody, ALX-0061, to treat inflammatory diseases including rheumatoid arthritis and systemic lupus erythematosus, resulting in a charge to IPR&D of \$175 million. Upon the achievement of certain development, regulatory and commercial milestones, AbbVie could make additional payments of up to \$665 million, as well as royalties on net sales.

Galapagos NV

In September 2013, AbbVie recorded a charge to IPR&D of \$45 million as a result of entering into a global collaboration with Galapagos NV (Galapagos) to discover, develop and commercialize cystic fibrosis therapies. Upon the achievement of certain development, regulatory and commercial milestones, AbbVie could make additional payments of up to \$360 million, as well as royalties on net sales.

In February 2012, AbbVie recorded a charge to IPR&D of \$150 million as a result of entering into a global collaboration with Galapagos to develop and commercialize a next-generation, oral Janus Kinase 1 (JAK1) inhibitor in Phase II development with the potential to treat multiple autoimmune diseases. Additional payments of approximately \$1.3 billion could be required for the achievement of certain development, regulatory and commercial milestones under this agreement.

Alvine Pharmaceuticals, Inc.

In May 2013, AbbVie entered into a global collaboration with Alvine Pharmaceuticals, Inc. (Alvine) to develop ALV003, a novel oral treatment for patients with celiac disease. As part of the agreement, AbbVie made an initial upfront payment of \$70 million, which

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was expensed to IPR&D in the second quarter of 2013. AbbVie could make additional payments totaling up to \$275 million pursuant to this arrangement.

Action Pharma A/S

In May 2012, AbbVie recorded a charge to IPR&D of \$110 million as a result of the acquisition of ABT-719 (previously referred to as AP214), a drug under development for the prevention of acute kidney injury associated with major cardiac surgery in patients at increased risk.

Reata Pharmaceuticals, Inc.

In the fourth quarter of 2011, AbbVie entered into a collaboration with Reata Pharmaceuticals (Reata) for the joint development and commercialization of second-generation oral antioxidant inflammation modulators resulting in a charge to IPR&D of \$400 million, which was paid in the first quarter of 2012.

Note 5

Goodwill and Intangible Assets

Goodwill

The following table summarizes changes in the carrying amount of AbbVie's goodwill.

(in millions)	
Balance at December 31, 2012	\$6,130
Additions	25
Currency translation and other adjustments	44
Balance at September 30, 2013	\$6,199

Goodwill additions for the nine months ended September 30, 2013, related to product rights acquired during the second quarter. The latest impairment assessment of goodwill was completed in the third quarter of 2013. As of September 30, 2013, there were no accumulated goodwill impairment losses. Future impairment tests for goodwill will be performed annually in the third quarter, or earlier if indicators of impairment exist.

Other Intangible Assets, Net

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The following table summarizes AbbVie's intangible assets.

(in millions)	September 30, 2013			December 31, 2012		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets						
Developed product rights	\$4,737	(\$3,416)	\$1,321	\$4,699	(\$3,031)	\$1,668
License agreements	997	(771)	226	969	(734)	235
Total definite-lived intangible assets	5,734	(4,187)	1,547	5,668	(3,765)	1,903
Indefinite-lived research and development	446		446	420		420
Total intangible assets	\$6,180	(\$4,187)	\$1,993	\$6,088	(\$3,765)	\$2,323

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Amortization expense was \$137 million and \$134 million for the three months ended September 30, 2013 and 2012, respectively, and \$408 million and \$489 million for the nine months ended September 30, 2013 and 2012, respectively. Additions related to the acquisition of amortizable intangible assets in the second quarter of 2013 with an average amortization period of 5 years.

The indefinite-lived intangible assets as of December 31, 2012 relate to IPR&D acquired in a business combination. Additions related to the acquisition of IPR&D in the second quarter of 2013. The latest impairment assessment of intangible assets not subject to amortization was completed in the third quarter of 2013. There were no impairment charges recorded in the nine months ended September 30, 2013 and 2012. Future impairment tests for indefinite-lived intangible assets will be performed annually in the third quarter, or earlier if indicators of impairment exist.

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Note 6

Restructuring Plans

In 2013 and prior years, AbbVie management approved plans to realign its worldwide manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs. In the second quarter of 2013, the company approved plans to restructure certain commercial operations in conjunction with the loss and expected loss of exclusivity of certain products.

Restructuring charges were \$11 million and \$75 million for the three and nine months ended September 30, 2013, respectively, and were primarily recorded within SG&A in the condensed consolidated statements of earnings, with the remainder recorded within research and development and cost of products sold. Included in the charges were cash costs of \$8 million and \$68 million for the three and nine months ended September 30, 2013, respectively, which mainly related to employee severance and contractual obligations.

For the three and nine months ended September 30, 2012, AbbVie incurred restructuring charges of \$176 million and \$206 million, respectively. The charge recorded in the third quarter of 2012 included cash costs of approximately \$150 million for employee severance and contractual obligations, primarily related to the exit from a research and development facility, of which approximately \$142 million was recorded within research and development and approximately \$8 million within SG&A in the condensed consolidated statements of earnings. The charge for the nine months ended September 30, 2012 also included \$56 million of additional charges, primarily for accelerated depreciation, asset impairments and product transfer costs, of which \$26 million was recorded in the third quarter of 2012.

The following summarizes the cash activity in the restructuring reserves for the nine months ended September 30, 2013.

(in millions)	
Accrued balance at December 31, 2012	\$193
2013 restructuring charges	68
Payments and other adjustments	(83)
Accrued balance at September 30, 2013	\$178

Included in payments and other adjustments for the nine months ended September 30, 2013 was a \$23 million reversal in the first quarter of a previously recorded restructuring reserve due to the company's re-evaluation of a prior year decision to exit a manufacturing facility.

Note 7

Financial Instruments and Fair Value Measures

Risk Management Policy

The company is exposed to foreign currency exchange rate and interest rate risks related to its business operations. The company's hedging policy attempts to manage these risks to an acceptable level based on the company's judgment of the appropriate trade-off between risk, opportunity and costs. The company uses derivative instruments to reduce its exposure to foreign currency exchange rates. The company is also exposed to the risk that its earnings and cash flows could be adversely impacted by fluctuations in interest rates. The company periodically enters into interest rate swaps, based on judgment, to manage interest costs in which the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount. Derivative instruments are not used for trading purposes or to manage exposure to changes in interest rates for investment securities, and none of the company's outstanding derivative instruments contain credit risk related contingent features; collateral is generally not required.

Financial Instruments

Various AbbVie foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany transactions denominated in a currency other than the functional currency of the local entity. These contracts, with notional amounts totaling \$1.7 billion and \$1.0 billion at September 30, 2013 and December 31, 2012, respectively, are designated as cash flow hedges and are recorded at fair value. Accumulated gains and losses

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as of September 30, 2013 will be included in cost of products sold at the time the products are sold, generally through the next twelve months.

The company enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated trade payables and receivables and intercompany loans. The contracts are marked-to-market, and resulting gains or losses are reflected in income and are generally offset by losses or gains on the foreign currency exposure being managed. At September 30, 2013 and December 31, 2012, AbbVie held notional amounts of \$4.2 billion and \$4.3 billion, respectively, of such foreign currency forward exchange contracts.

AbbVie was a party to interest rate hedge contracts, designated as fair value hedges, totaling \$8.0 billion at both September 30, 2013 and December 31, 2012. The effect of the hedge is to change a fixed-rate interest obligation to a floating rate for that portion of the debt. AbbVie recorded the contracts at fair value and adjusted the carrying amount of the fixed-rate debt by an offsetting amount.

The following table summarizes the amounts and location of AbbVie's derivative instruments as of September 30, 2013.

(in millions)	Derivatives in asset position		Derivatives in liability position	
	Fair value	Balance sheet caption	Fair value	Balance sheet caption
Interest rate swaps designated as fair value hedges	\$	n/a	\$349	Long-term liabilities
Foreign currency forward exchange contracts				
Hedging instruments		Prepaid expenses and other	57	Accounts payable and accrued liabilities
Others not designated as hedges	25	Prepaid expenses and other	26	Accounts payable and accrued liabilities
Total	\$25		\$432	

The following table summarizes the amounts and location of AbbVie's derivative instruments as of December 31, 2012.

(in millions)	Derivatives in asset position		Derivatives in liability position	
	Fair value	Balance sheet caption	Fair value	Balance sheet caption
Interest rate swaps designated as fair value hedges	\$	n/a	\$81	Long-term liabilities
Foreign currency forward exchange contracts				
Hedging instruments	1	Prepaid expenses and other	10	Accounts payable and accrued liabilities
Others not designated as hedges	14	Prepaid expenses and other	15	Accounts payable and accrued liabilities
Total	\$15		\$106	

While certain derivatives are subject to netting arrangements with the company's counterparties, the company does not offset derivative assets and liabilities within the condensed consolidated balance sheets.

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The following table summarizes the activity for derivative instruments and the amounts and location of income (expense) and gain (loss) reclassified into income and for certain other derivative instruments for the three months ended September 30, 2013 and 2012, respectively. The amount of hedge ineffectiveness was not significant for the three months ended September 30, 2013 or 2012.

(in millions)	(Loss) gain recognized in other comprehensive (loss) income		Income (expense) and gain (loss) reclassified into income		Income statement caption
	2013	2012	2013	2012	
Foreign currency forward exchange contracts					
Designated as cash flow hedges	(\$62)	(\$1)	(\$2)	\$7	Cost of products sold
Not designated as hedges	n/a	n/a	9	4	Net foreign exchange loss
Interest rate swaps designated as fair value hedges	n/a	n/a	47	n/a	Interest expense, net

The gain of \$47 million related to fair value hedges recognized in net interest expense for the three months ended September 30, 2013 was offset by \$47 million in losses on the underlying hedged item, the fixed-rate debt.

The following table summarizes the activity for derivative instruments and the amounts and location of income (expense) and gain (loss) reclassified into income and for certain other derivative instruments for the nine months ended September 30, 2013 and 2012, respectively. The amount of hedge ineffectiveness was not significant for the nine months ended September 30, 2013 or 2012.

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(in millions)	(Loss) gain recognized in other comprehensive (loss) income		Income (expense) and gain (loss) reclassified into income		Income statement caption
	2013	2012	2013	2012	
Foreign currency forward exchange contracts					
Designated as cash flow hedges	(\$53)	(\$3)	(\$4)	\$16	Cost of products sold
Not designated as hedges	n/a	n/a	49	(17)	Net foreign exchange loss
Interest rate swaps designated as fair value hedges	n/a	n/a	(268)	n/a	Interest expense, net

The loss of \$268 million related to fair value hedges recognized in net interest expense for the first nine months of 2013 was offset by \$268 million in gains on the underlying hedged item, the fixed-rate debt.

Fair Value Measures

The fair value hierarchy under the accounting standard for fair value measurements consists of the following three levels.

- Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets that the company has the ability to access;
- Level 2 Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market; and
- Level 3 Valuations using significant inputs that are unobservable in the market and include the use of judgment by the company's management about the assumptions market participants would use in pricing the asset or liability.

The following table summarizes the bases used to measure certain assets and liabilities that are carried at fair value on a recurring basis in the condensed consolidated balance sheets as of September 30, 2013.

(in millions)	Balance at September 30, 2013	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Cash and equivalents	\$8,975	\$533	\$8,442	\$
Certificates of deposit	621		621	
Equity securities	9	9		

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Foreign currency contracts	25		25	
Total assets	\$9,630	\$542	\$9,088	\$
Liabilities				
Interest rate hedges	\$349	\$	\$349	\$
Foreign currency contracts	83		83	
Contingent consideration	160			160
Total liabilities	\$592	\$	\$432	\$160

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The following table summarizes the bases used to measure certain assets and liabilities that are carried at fair value on a recurring basis in the combined balance sheet as of December 31, 2012.

(in millions)	Balance at December 31, 2012	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Cash and equivalents	\$5,901	\$675	\$5,226	\$
Certificates of deposit	1,775		1,775	
U.S. Treasury securities	300	300		
Equity securities	12	12		
Foreign currency contracts	15		15	
Total assets	\$8,003	\$987	\$7,016	\$
Liabilities				
Interest rate hedges	\$81	\$	\$81	\$
Foreign currency contracts	25		25	
Contingent consideration	251			251
Total liabilities	\$357	\$	\$106	\$251

Available-for-sale equity securities consist of investments for which the fair value is determined by using the published market price per unit multiplied by the number of units held, without consideration of transaction costs. The derivatives entered into by the company are valued using publicized spot and forward prices for foreign currency hedges and publicized swap curves for interest rate hedges. The contingent payments are valued using a discounted cash flow technique that reflects management's expectations about probability and timing of payment.

Gross unrealized holding gains on available-for-sale equity securities totaled \$2 million and \$1 million at September 30, 2013 and December 31, 2012, respectively.

There have been no transfers of assets or liabilities between the fair value measurement levels. The following table is a reconciliation of the fair value measurements that use significant unobservable inputs (Level 3), which consist of contingent payments related to acquisitions and investments.

(in millions)	
Fair value as of December 31, 2012	\$251
Payments	(131)
Additions	28
Other	
Loss recognized in earnings	12
Fair value as of September 30, 2013	\$160

In connection with the acquisition of Solvay's U.S. pharmaceuticals business in 2010, the achievement of a certain sales milestone resulted in a payment of approximately \$131 million in the first quarter of 2013 for which a liability was previously established. Additions of \$28 million related to the acquisition of product rights during the second quarter.

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In addition to the financial instruments that the company is required to recognize at fair value on the condensed consolidated balance sheets, the company has certain financial instruments that are recognized at historical cost or some basis other than fair value. The carrying values and fair values of certain financial instruments as of September 30, 2013 and December 31, 2012 are shown in the table below.

(in millions)	Book values		Approximate fair values	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Assets				
Investments	\$114	\$107	\$125	\$104
Liabilities				
Short-term borrowings	411	1,020	411	1,020
Current maturities of long-term debt and lease obligations	23	22	23	22
Long-term debt	14,375	14,630	14,224	15,066

The following table summarizes the bases used to measure the approximate fair values of the financial instruments as of September 30, 2013.

(in millions)	Fair value at September 30, 2013	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments	\$125	\$	\$32	\$93
Total assets	\$125	\$	\$32	\$93
Liabilities				
Short-term borrowings	\$411	\$	\$411	\$
Current maturities of long-term debt and lease obligations	23		23	
Long-term debt and lease obligations	14,224		14,224	
Total liabilities	\$14,658	\$	\$14,658	\$

The following table summarizes the bases used to measure the approximate fair values of the financial instruments as of December 31, 2012.

(in millions)	Fair value at December 31, 2012	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments	\$104	\$	\$32	\$72
Total assets	\$104	\$	\$32	\$72
Liabilities				
Short-term borrowings	\$1,020	\$	\$1,020	\$
Current maturities of long-term debt and lease obligations	22		22	
Long-term debt and lease obligations	15,066		15,066	
Total liabilities	\$16,108	\$	\$16,108	\$

Investments consist of cost method investments and held-to-maturity debt securities. In determining the fair value of cost method investments, the company takes into consideration recent transactions, as well as the financial information of the investee, which represents a Level 3 basis of fair value measurement. The fair value of held-to-maturity debt securities and long-term debt was estimated based upon the quoted market prices for the same or similar debt instruments. The fair values of short-term and current borrowings approximate the carrying values due to the short maturities of these instruments. The counterparties to financial instruments consist of select major international financial institutions.

Concentrations of Risk

The company invests excess cash in time deposits, money market funds and U.S. Treasury securities and diversifies the concentration of cash among different financial institutions. The company monitors concentrations of credit risk associated with deposits with financial institutions. Credit exposure limits have been established to limit a concentration with any single issuer or institution.

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Three U.S. wholesalers accounted for 39 percent and 48 percent of total net accounts receivables as of September 30, 2013 and December 31, 2012, respectively, and substantially all of AbbVie's U.S. sales are to these three wholesalers. In addition, net governmental receivables outstanding in Greece, Portugal, Italy and Spain totaled \$804 million at September 30, 2013 and \$725 million at December 31, 2012.

Short-Term Borrowings

During the nine months ended September 30, 2013, the company issued and redeemed commercial paper, of which \$400 million was outstanding as of September 30, 2013, with a weighted-average interest rate of 0.3 percent for the nine months ended September 30, 2013. There were no borrowings outstanding under the company's credit facility as of September 30, 2013.

Note 8**Accumulated Other Comprehensive Loss**

The following table summarizes the changes in balances of each component of accumulated other comprehensive loss, net of tax as of September 30, 2013.

(in millions) (brackets denote losses)	Foreign currency translation adjustments	Pension and post- employment benefits	Unrealized gains (losses) on marketable equity securities	Gains (losses) on hedging activities	Total
Balance as of December 31, 2012	\$181	(\$511)	\$1	(\$21)	(\$350)
Other comprehensive income before reclassifications	23	20		(53)	(\$10)
Amounts reclassified from accumulated other comprehensive income		57		4	\$61
Net current-period other comprehensive income	23	77		(49)	\$51
Separation-related adjustments	241	(934)		11	(\$682)
Balance as of September 30, 2013	\$445	(\$1,368)	\$1	(\$59)	(\$981)

The table below presents the significant amounts reclassified out of each component of accumulated other comprehensive loss for the three and nine months ended September 30, 2013.

Type of reclassification (in millions)	Three months ended September 30, 2013	Nine months ended September 30, 2013
Pension and post-employee benefits		
Amortization of actuarial losses and other	\$30	\$83
Less tax expense	(8)	(26)
Total reclassification, net of tax	\$22	\$57

Note 9

Post-Employment Benefits

Prior to separation, AbbVie employees participated in certain U.S. and international defined benefit pension and other post-employment (OPEB) plans sponsored by Abbott. These plans included participants of Abbott's other businesses and were accounted for as multi-employer plans in AbbVie's combined financial statements. As a result, no asset or liability was recorded by AbbVie in the historical balance sheets through December 31, 2012 to recognize the funded status of these plans. In connection with the separation of AbbVie from Abbott on January 1, 2013, these plans were separated. As a result, AbbVie assumed obligations previously provided by Abbott and a portion of certain plans owned by AbbVie at December 31, 2012 were transferred to Abbott.

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The amounts shown in the table below reflect the amount of AbbVie's assumption of the net obligations for pension and other post-employment benefits.

(in millions)	Defined benefit plans	Other post-employment plans
Accumulated benefit obligation	\$2,423	\$192
Deferred losses	(1,434)	(2)
Projected benefit obligations	2,910	192
Fair value of assets	2,216	
Net liability	\$694	\$192

The net liabilities assumed increased \$72 million for defined benefit plans and decreased \$78 million for OPEB plans during the third quarter of 2013 as a result of the finalization of the legal split of these plans.

Net Periodic Benefit Cost

The following is a summary of net periodic benefit cost relating to the company's pension and other post-employment benefit (OPEB) plans.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Defined benefit plans				
Service cost	\$39	\$5	\$133	\$13
Interest cost	46	8	142	25
Expected return on plan assets	(63)	(7)	(195)	(17)
Amortization of actuarial losses and prior service costs	30	2	83	3
Net periodic pension benefit cost	\$52	\$8	\$163	\$24
Other post-employment plans				
Service cost	\$5	\$	\$17	\$
Interest cost	2		14	
Expected return on plan assets				
Amortization of actuarial losses and prior service costs				
Net periodic pension benefit cost	\$7	\$	\$31	\$

In the first quarter of 2013, AbbVie made a voluntary contribution of \$145 million to its main domestic defined benefit pension plan.

Note 10

Stock-Based Compensation

Stock-based compensation expense was \$41 million and \$30 million for the three months ended September 30, 2013 and 2012, respectively, and \$175 million and \$156 million for the nine months ended September 30, 2013 and 2012, respectively. Stock-based compensation expense for the three and nine months ended September 30, 2012 was allocated to AbbVie based on the portion of Abbott's incentive stock program in which AbbVie employees participated.

Prior to separation, AbbVie employees participated in Abbott's incentive stock program. Adopted after the separation, the AbbVie Incentive Stock Program provides for the assumption of certain awards granted under Abbott's incentive stock program and authorizes the grant of several different forms of benefits, including nonqualified stock options, RSAs, and RSUs.

In connection with the separation, employee stock options, RSAs and RSUs were adjusted and converted into new equity awards using a formula designed to preserve the intrinsic value and fair value of the awards immediately prior to the separation. Upon the separation on January 1, 2013, holders of Abbott stock options, RSAs and RSUs generally received one AbbVie stock-based award for each Abbott stock-based award outstanding. Converted awards retained the vesting schedule and expiration date of the original awards.

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Stock Options

The expense related to stock options granted during the nine months ended September 30, 2013 was primarily based on the assumptions shown in the table below. There were no significant stock options granted in the three months ended September 30, 2013.

Risk-free interest rate	1.1%
Average life of options (years)	6.0
Volatility	32.63%
Dividend yield	4.3%
Fair value per stock option	\$6.87

The following table summarizes AbbVie stock option activity for both AbbVie and Abbott employees for the nine months ended September 30, 2013.

(options in thousands, aggregate intrinsic value in millions)	Options	Weighted-average exercise price	Weighted-average remaining life (in years)	Aggregate intrinsic value
Outstanding at December 31, 2012		\$		
Options converted on January 1, 2013	47,718	27.00		
Granted	3,128	37.91		
Exercised	(11,041)	27.47		
Lapsed	(221)	27.71		
Outstanding at September 30, 2013	39,584	\$27.73	3.7	\$677
Exercisable at September 30, 2013	36,007	\$27.28	3.3	\$632

The aggregate intrinsic value in the table above represents the difference between the exercise price and the company's closing stock price on the last day of trading for the period ended September 30, 2013. The total intrinsic value of options exercised in the three and nine months ended September 30, 2013 was \$41 million and \$157 million, respectively.

As of September 30, 2013, \$3 million of unrecognized compensation cost related to stock options is expected to be recognized as expense over approximately the next two years.

RSAs & RSUs

The following table summarizes AbbVie RSA and RSU balances for both AbbVie and Abbott employees for the nine months ended September 30, 2013.

(share units in thousands)	Share units	Weighted-average grant date fair value
Outstanding at December 31, 2012		\$
Awards converted on January 1, 2013	15,394	27.55

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Granted	7,387	36.18
Vested	(7,483)	27.30
Lapsed	(423)	30.39
Outstanding at September 30, 2013	14,875	\$31.89
Unvested shares at September 30, 2013	14,719	\$31.90

The fair value of restricted stock awards and units is determined based on the quoted price of the company's common stock on the date of the grant. The fair market value of restricted stock awards and units vested in the three and nine months ended September 30, 2013 was \$5 million and \$282 million, respectively. As of September 30, 2013, \$198 million of unrecognized compensation cost related to RSAs and RSUs is expected to be recognized as expense over approximately the next two years.

Note 11

Income Taxes

In AbbVie's historical financial statements prior to the separation, income tax expense and deferred tax balances were calculated on a separate tax return basis although AbbVie's operations had historically been included in the tax returns filed by the respective

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Abbott entities of which the AbbVie business was a part. Subsequent to the separation, AbbVie files tax returns on its own behalf and its income tax expense and deferred income tax balances have been recorded in accordance with AbbVie's stand-alone income tax positions. AbbVie and Abbott entered into a tax sharing agreement effective on the date of separation. For tax contingencies prior to the separation, Abbott will indemnify and hold AbbVie harmless if the tax positions are settled for amounts in excess of recorded liabilities, and AbbVie will not benefit if prior tax positions are resolved more favorably than recorded amounts.

The effective income tax rate was 25.0 percent and 22.9 percent for the three and nine months ended September 30, 2013 and 1.2 percent and 7.0 percent for the three and nine months ended September 30, 2012, respectively. The effective tax rates in each period were less than the statutory federal income tax rate of 35 percent principally due to the benefit of lower statutory tax rates and tax exemptions in certain foreign jurisdictions. The increase in the effective tax rates for the three and nine months ended September 30, 2013 over the prior year periods was principally due to income tax expense relating to certain 2013 earnings outside the United States that are not deemed indefinitely reinvested, as well as the impact of \$190 million of tax benefits recognized in the third quarter of 2012 as a result of the favorable resolution of various tax positions pertaining to a prior year. AbbVie will continue to evaluate whether to indefinitely reinvest certain future earnings in foreign jurisdictions as it analyzes its future global liquidity and financial structure.

Note 12

Litigation

AbbVie is involved in various claims, legal proceedings and investigations. The recorded accrual balance for litigation at September 30, 2013 was not significant. Within the next year, other legal proceedings may occur that may result in a change in the estimated loss accrued by AbbVie. While it is not feasible to predict the outcome of all other proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on AbbVie's consolidated financial position, cash flows, or results of operations.

The U.S. Department of Justice, through the U.S. Attorney for the Western District of Virginia, and various state Attorneys General investigated AbbVie's sales and marketing activities for Depakote. The government sought to determine whether any of these activities violated civil and/or criminal laws, including the Federal False Claims Act, the Food, Drug and Cosmetic Act, and the Anti-Kickback Statute in connection with Medicare and/or Medicaid reimbursement to third parties. The state Attorneys General offices sought to determine whether any of these activities violated various state laws, including state consumer fraud/protection statutes. AbbVie recorded charges of \$1.5 billion in the third quarter of 2011 and \$100 million in the first quarter of 2012 related to civil and criminal claims arising from this matter. In May 2012, AbbVie reached resolution of all Depakote-related federal claims, Medicaid-related claims with 49 states and the District of Columbia, and consumer protection claims with 45 states and the District of Columbia. In 2012, AbbVie paid approximately \$1.6 billion for the settlement. The payments were material to AbbVie's cash flows in 2012.

Table of Contents**Note 13****Segment Information**

AbbVie operates in one business segment pharmaceutical products. Substantially all of AbbVie's U.S. sales are to three wholesalers. Outside the United States, products are sold primarily to health care providers or through distributors, depending on the market served. Worldwide net sales of key products were as follows.

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
HUMIRA	\$2,770	\$2,326	\$7,620	\$6,585
AndroGel	248	279	746	787
Kaletra	237	267	734	763
Niaspan	201	232	619	634
Lupron	196	189	576	589
Synthroid	161	131	433	383
Sevoflurane	138	135	412	444
Creon	101	92	297	248
Zemplar	100	91	288	276
Synagis	98	96	513	506
Duodopa	46	37	129	108
TriCor/TRILIPIX	39	332	274	897
All other	323	301	1,038	954
Net sales	\$4,658	\$4,508	\$13,679	\$13,174

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of the financial condition of AbbVie Inc. (AbbVie or the company) and the results of operations as of and for the third quarter and first nine months ended September 30, 2013. This commentary should be read in conjunction with the condensed consolidated financial statements and accompanying notes appearing under Item 1. Financial Statements and Supplementary Data.

EXECUTIVE OVERVIEW

AbbVie is a global, research-based biopharmaceutical company. AbbVie develops and markets advanced therapies that address some of the world's most complex and serious diseases. AbbVie products are used to treat rheumatoid arthritis, psoriasis, Crohn's disease, HIV, cystic fibrosis complications, low testosterone, thyroid disease, Parkinson's disease, ulcerative colitis, and complications associated with chronic kidney disease, among other indications. AbbVie also has a pipeline of promising new medicines, including more than 20 compounds or indications in Phase II or Phase III development across such important medical specialties as immunology, renal care, hepatitis C virus (HCV), women's health, oncology, and neuroscience, including multiple sclerosis and Alzheimer's disease. AbbVie has approximately 21,500 employees and its products are sold in over 170 countries. AbbVie operates in one business segment—pharmaceutical products.

AbbVie's products include a broad line of adult and pediatric pharmaceuticals manufactured, marketed, and sold worldwide and are generally sold directly to wholesalers, distributors, government agencies, health care facilities, specialty pharmacies, and independent retailers from distribution centers and public warehouses. Outside the United States, sales are made either directly to customers or through distributors, depending on the market served. Certain products are co-marketed or co-promoted with other companies.

Research and Development

Research and development (R&D) innovation and scientific productivity continue to be key strategic priorities for AbbVie. AbbVie's long-term success depends to a great extent on its ability to continue to discover and develop innovative pharmaceutical products and acquire or collaborate on compounds currently in development at other biotechnology or pharmaceutical companies. R&D is focused on therapeutic areas that include virology, renal disease, neuroscience, oncology, immunology, and women's health, among others.

AbbVie continues to execute on its long-term strategy of advancing its new product pipeline and maximizing its existing portfolio through new indications and formulations. Significant developments in R&D during the first nine months of 2013 included the following:

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- AbbVie continues to dedicate R&D efforts to expanding indications for HUMIRA, including in the fields of rheumatology, ophthalmology and dermatology. Additionally, during the second quarter of 2013, the company secured approval for two new gastroenterology indications in Japan – intestinal Behcet's and ulcerative colitis. As of September 30, 2013, HUMIRA's list of uses totals ten indications in major geographies, including nine approved in Europe and seven in the United States.
- The company released positive Phase IIb results from a study examining interferon-free therapies for the treatment of chronic HCV infection. The data showed patients achieved sustained virologic response rates regardless of baseline characteristics that have been associated with a lower response to interferon-based therapies. The company completed enrollment in a comprehensive Phase III program for genotype 1 HCV that involves combinations of ABT-450, a protease inhibitor for HCV infection; ABT-333, a polymerase inhibitor; and ABT-267, a NS5A inhibitor with and without ribavirin.
- AbbVie initiated a Phase III study to assess the effects of the investigational compound atrasentan, when added to standard of care, on progression of kidney disease in patients with stage 2 to 4 chronic kidney disease and type 2 diabetes.
- The company received U.S. Food and Drug Administration (FDA) approval for Creon 36,000 lipase-unit capsules for patients with exocrine pancreatic insufficiency. Creon 36,000 is the highest dose of pancreatic therapy currently available for patients.

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- The company's registration submission for Duopa, our levodopa and carbidopa intestinal gel for the treatment of Parkinson's disease, was filed with the FDA.
- The company recently started a second Phase III pivotal trial to evaluate elagolix, an oral gonadotropin-releasing hormone antagonist for the treatment of endometriosis-related pain.

For a more comprehensive discussion of AbbVie's products and pipeline, refer to the company's Annual Report on Form 10-K for the year ended December 31, 2012.

Separation from Abbott Laboratories

On January 1, 2013, AbbVie became an independent, publicly-traded company as a result of the distribution by Abbott Laboratories (Abbott) of 100 percent of the outstanding common stock of AbbVie to Abbott's shareholders (the separation). Each Abbott shareholder of record as of the close of business on December 12, 2012 received one share of AbbVie common stock for each Abbott common share held as of the record date. AbbVie was incorporated in Delaware on April 10, 2012 and is comprised of Abbott's former research-based proprietary pharmaceuticals business. AbbVie's registration statement on Form 10 was declared effective by the U.S. Securities and Exchange Commission on December 7, 2012. AbbVie's common stock began trading regular-way under the ticker symbol ABBV on the New York Stock Exchange on January 2, 2013. Refer to the Basis of Presentation below for further information.

Basis of Presentation

Prior to the separation, the historical financial statements were prepared on a stand-alone basis and were derived from Abbott's consolidated financial statements and accounting records as if the former research-based pharmaceutical business of Abbott had been part of AbbVie for all periods presented. Accordingly, AbbVie's financial statements for periods prior to January 1, 2013 are presented on a combined basis and reflect AbbVie's financial position, results of operations and cash flows as its business was operated as part of Abbott prior to the separation, in conformity with U.S. GAAP. The historical combined financial statements also reflect an allocation of expenses related to certain Abbott corporate functions, including senior management, legal, human resources, finance, information technology and quality assurance. These expenses were allocated to AbbVie based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenues, headcount, square footage, number of transactions or other measures. AbbVie considers the expense allocation methodology and results to be reasonable. However, the allocations may not be indicative of the actual expenses that would have been incurred had AbbVie operated as an independent, stand-alone, publicly-traded company for the periods presented.

The historical combined financial statements reflected the operating results and financial position of AbbVie as it was operated by Abbott, rather than as an independent company. AbbVie will incur additional ongoing operating expenses to operate as an independent company. These costs will include the cost of various corporate headquarters functions, incremental information technology-related costs, and incremental costs to operate a stand-alone back office infrastructure outside the United States. In order to establish these stand-alone functions, AbbVie will also incur non-recurring expenses and capital expenditures.

It is not practicable to estimate the costs that would have been incurred in each of the periods presented in the historical financial statements for the functions described above. Actual costs that would have been incurred if AbbVie operated as a stand-alone company during these periods would have depended on various factors, including organizational design, outsourcing and other strategic decisions related to corporate functions, information technology, and international back office infrastructure.

Table of Contents**RESULTS OF OPERATIONS****Net Sales**

(in millions)	Three months ended September 30,		Percent change		Nine months ended September 30,		Percent change	
			At actual currency rates	At constant currency rates			At actual currency rates	At constant currency rates
	2013	2012	2013	2013	2013	2012	2013	2013
United States	\$2,616	\$2,665	(2)%	(2)%	\$7,363	\$7,362	%	%
International	2,042	1,843	11%	12%	6,316	5,812	9%	10%
Net sales	\$4,658	\$4,508	3%	4%	\$13,679	\$13,174	4%	5%

Sales growth in the third quarter and first nine months of 2013 was driven by the continued strength of HUMIRA, both in the United States and internationally. Total company sales growth was also driven by sales of key products including Synthroid, Creon, Zemplar and Duodopa. Sales increased in the third quarter and first nine months of 2013 despite the loss of exclusivity for TriCor in November 2012, for TRILIPIX in July 2013, and Niaspan in mid-September 2013, as well as unfavorable foreign exchange rate fluctuations.

The following table details the sales of key products.

(in millions)	Three months ended September 30,		Percent change		Nine months ended September 30,		Percent change	
			At actual currency rates	At constant currency rates			At actual currency rates	At constant currency rates
	2013	2012	2013	2013	2013	2012	2013	2013
HUMIRA								
United States	\$1,389	\$1,136	22%	22%	\$3,569	\$2,964	20%	20%
International	1,381	1,190	16%	16%	4,051	3,621	12%	13%
Total	\$2,770	\$2,326	19%	19%	\$7,620	\$6,585	16%	16%
AndroGel								
United States	\$248	\$279	(11)%	(11)%	\$746	\$787	(5)%	(5)%
Kaletra								
United States	\$63	\$71	(11)%	(11)%	\$181	\$196	(8)%	(8)%
International	174	196	(11)%	(11)%	553	567	(3)%	(1)%
Total	\$237	\$267	(11)%	(11)%	\$734	\$763	(4)%	(3)%
Niaspan								
United States	\$201	\$232	(13)%	(13)%	\$619	\$634	(2)%	(2)%
Lupron								
United States	\$141	\$132	7%	7%	\$410	\$414	(1)%	(1)%
International	55	57	(4)%	(2)%	166	175	(5)%	(4)%
Total	\$196	\$189	4%	4%	\$576	\$589	(2)%	(2)%
Synthroid								
United States	\$161	\$131	23%	23%	\$433	\$383	13%	13%
Sevoflurane								
United States	\$19	\$20	(5)%	(5)%	\$54	\$53	2%	2%
International	119	115	4%	6%	358	391	(8)%	(6)%
Total	\$138	\$135	2%	4%	\$412	\$444	(7)%	(5)%
Creon								
United States	\$101	\$92	10%	10%	\$297	\$248	20%	20%

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Zemplar								
United States	\$57	\$52	10%	10%	\$161	\$161	%	%
International	43	39	10%	8%	127	115	10%	10%
Total	\$100	\$91	10%	9%	\$288	\$276	4%	4%
Synagis								
International	\$98	\$96	2%	16%	\$513	\$506	1%	10%
Duodopa								
International	\$46	\$37	24%	19%	\$129	\$108	19%	17%
TriCor/TRILIPIX								
United States	\$39	\$332	(88)%	(88)%	\$274	\$897	(70)%	(70)%
Other	\$323	\$301	10%	10%	\$1,038	\$954		